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EUROPE'S ENERGY DILEMMA:



competitiveness,
security and
decarbonization



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Introduction

The June 2026 edition of EU in Focus by TRENDS Belgium Virtual Office examines the growing importance of energy security for Europe under the overarching theme: “Europe’s energy dilemma: competitiveness, security and decarbonization.”



Europe’s energy debate has entered a new phase. The war in Ukraine exposed the risks associated with excessive dependence on a single energy supplier and forced the European Union to rapidly reduce its reliance on Russian fossil fuels. The crisis in the Strait of Hormuz has delivered a second wake-up call. It has demonstrated that even a more diversified energy system remains vulnerable to geopolitical shocks, disruptions to global shipping routes and price volatility in international fossil-fuel markets.

These crises have reinforced the close relationship between energy policy, economic competitiveness and geopolitical security. Persistently high energy prices place European industry at a disadvantage compared with competitors in the United States and China, particularly in energy-intensive sectors such as chemicals, steel, fertilizers and metals. At the same time, Europe’s continued dependence on imported fossil fuels leaves households and businesses exposed to developments far beyond the continent’s borders.

This edition explores how the EU is seeking to balance the need for immediate crisis management with the longer-term transformation of its energy system. It first examines the structural weaknesses of Europe’s energy market, including fragmented national policies, insufficient cross-border infrastructure and the uneven distribution of the costs and benefits of greater energy integration. It then assesses how the war in Ukraine and the disruption of shipping through the Strait of Hormuz have reshaped the energy-security debate, highlighting the changing nature of Europe’s external dependencies.

The report also considers the implications of these pressures for the EU's climate agenda. While domestically produced renewable and low-carbon energy can reduce Europe's exposure to volatile fossil-fuel prices, the transition is becoming increasingly politically contested. The review of the EU Emissions Trading System, the postponement of ETS2, the implementation of the Carbon Border Adjustment Mechanism and the debate over vehicle-emissions rules all illustrate the difficult balance between maintaining ambitious climate targets and preserving industrial competitiveness and public support.

Finally, the report outlines the key policy files that will shape Europe's energy strategy in the coming years, including the revision of the EU energy-security framework, the reform of Energy Union governance rules, the development of a new Energy Union package for the next decade and the long-delayed revision of the Energy Taxation Directive.



I. Energy as a competitiveness issue: the unfinished single market

Energy security is one of the key challenges affecting Europe's competitiveness. Mario Draghi's report on the future of European competitiveness makes this point quite clearly. Even after energy prices had declined from the peaks of the 2022 crisis, European companies continued to face electricity prices two to three times higher than those in the United States, while natural gas prices were four to five times higher.¹ The gap reflects Europe's relative lack of domestic fossil-fuel resources, but also structural weaknesses in the common energy market.

Energy-intensive sectors such as chemicals, fertilizers, steel, metals, glass and ceramics are particularly exposed, as energy represents a significant share of their production costs. Persistent price differentials therefore risk accelerating the loss of industrial capacity and weakening Europe's competitiveness in sectors that are essential to its economic resilience.

Europe's position is further complicated by fragmented markets, regulatory complexity and limited access to venture capital. Competitors of European companies in the United States and China benefit from larger domestic markets and stronger industrial ecosystems.

¹ European Commission. (2024, September). The future of European competitiveness, Part A: A competitiveness strategy for Europe. https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en



The automotive sector illustrates the scale of the challenge. Many European manufacturers are under increasing pressure as the industry shifts towards electric mobility. Chinese companies have built an increasingly integrated ecosystem encompassing battery manufacturing, critical raw-material processing, electric vehicles and charging infrastructure. European manufacturers, by contrast, are struggling to catch up in a market that is evolving rapidly. Combined with sluggish economic growth, weak productivity gains and high energy costs, these structural disadvantages are placing growing pressure on Europe's industrial base.

The challenge is further exacerbated by the fact that key competences in energy policy remain vested in European capitals rather than in the European Commission, limiting the scope for a rapid, coordinated, and robust response to an energy emergency. Member States continue to determine their own energy mixes, taxation frameworks and many of the support mechanisms available to consumers and industry, hindering the creation of a genuine European energy single market.

Differences among Member States reflect legitimate country-specific circumstances, such as geography, industrial structure, public attitudes toward nuclear energy and the size of the national economy. However, they can also produce distortions. During a crisis, wealthier governments have more room to support their domestic industries, while countries with tighter fiscal space are less able to respond.

However, despite the challenging regulatory environment, the EU has made substantial progress in decarbonizing its electricity system. According to the European Commission, low-carbon sources, including renewables and nuclear power, generated more than 70% of the EU's electricity in 2025. Wind and solar alone accounted for 30% of electricity generation, overtaking fossil fuels, which represented 26%.² Nevertheless, the EU's role in incentivizing the interconnection of national electricity grids and developing cross-border electricity infrastructure remains challenging. This is mostly because the costs and benefits of new interconnectors are not always distributed evenly among the countries concerned.

² European Commission. (2026, April 22). AccelerateEU – Energy Union: affordable and secure energy through accelerated action, COM(2026) 370 final. https://energy.ec.europa.eu/document/download/7fac9eea-5717-4182-a368-bd68c427ff4c_en?filename=Communication.pdf.



Member States with abundant renewable-energy generation, such as Spain, may experience particularly low electricity prices during periods of high production and limited export capacity. More connections between national electricity grids would make it easier for countries with surplus electricity to sell it elsewhere in Europe. This would make the European energy system more efficient and better able to cope with disruptions. However, consumers in electricity-exporting countries could lose some of the short-term benefits of lower domestic prices, as prices become more exposed to higher demand elsewhere in Europe. According to the EU Agency for the Cooperation of Energy Regulators (ACER), such asymmetries weaken national incentives to invest in the infrastructure required for a genuinely integrated European electricity market.³

³ ACER. (2026, May 18). Sharing of costs and benefits of electricity network infrastructure arising from cross-border trade. <https://www.acer.europa.eu/sites/default/files/documents/Position%20Papers/ACER-Policy-Paper-Infrastructue-Cost-Sharing-2026.pdf>.

II. From Ukraine to Hormuz: energy security as a geopolitical issue

Despite Europe's progress in decarbonizing electricity generation, the continent remains heavily dependent on imported fossil fuels to power its industries, transport systems and other sectors of the economy.

The war in Ukraine was Europe's first major energy wake-up call of the decade. Russia had long been a central supplier of natural gas to the EU. When Moscow significantly reduced energy supplies to Europe in 2021, the consequences were immediate with gas prices surging and industrial production coming under pressure. To eliminate this dependency, the EU first introduced energy sanctions and then, as a longer-term measure, launched the REPowerEU initiative, which aims to phase out Russian energy imports by the end of 2027.⁴

The share of Russian gas in total EU gas imports fell from 45% at the beginning of the full-scale war in Ukraine to 12% in 2025. Russian oil imports declined from 27% to 2%.⁵ The twentieth sanctions package, adopted in April 2026, added further energy-related measures, including restrictions concerning Russian LNG tankers and icebreakers.

This move was viewed as a strategic achievement, but it should not be mistaken for the end of Europe's energy-security problem. The nature of the vulnerability has changed. Russian pipeline gas has been replaced partly by supplies from Norway and partly by LNG delivered by ship mostly from the United States.

⁴ European Commission. (n.d.). REPowerEU—Phase out of Russian energy imports. Retrieved June 3, 2026, https://energy.ec.europa.eu/strategy/repowerEU-phase-out-russian-energy-imports_en.

⁵ *Id.*

In 2025, EU LNG imports reached a record 146 billion cubic meters, delivered through approximately 1,850 cargoes.⁶ The United States supplied 58% of those LNG imports, equivalent to around one quarter of total EU gas demand. LNG now accounts for close to half of the EU's gas supply.⁷ The United States is Europe's ally, not a hostile power deliberately using gas exports as leverage. However, a high degree of concentration creates risks of a different kind.

⁶ ACER. (2026, May 13). Analysis of the European LNG market developments: 2026 Monitoring Report. https://www.acer.europa.eu/monitoring/MMR/LNG_market_developments_2026.

⁷ Id.



Relying more on LNG imports ties the EU more closely to a global market in which cargoes respond to price signals and geopolitical risks far beyond Europe's borders. The Strait of Hormuz crisis illustrates this reality. According to the European Commission, more than half of the energy consumed in Europe – 57% – is imported fossil fuel. In 2025, the EU imported approximately €340 billion worth of fossil fuels. The Commission estimated that the Middle East conflict and the closure of the Strait of Hormuz had added a further €24 billion to the EU's fossil-fuel import bill during the first weeks of the crisis.⁸

Oil prices have created even broader vulnerability for Europe in the context of the Hormuz situation. Physical crude cargoes for prompt delivery to Europe had climbed to nearly \$150 a barrel in mid-April, as disruption in the Strait of Hormuz left buyers scrambling to secure alternative supplies. Even though the prices of oil have retreated from their April peaks. By early June, Brent crude was trading at around \$96 a barrel, roughly one-

third above its pre-war level. Nonetheless, the impact extended well beyond higher fuel bills. Elevated energy prices and continued uncertainty over shipping routes added to inflationary pressure across Europe.

The Commission's structural response has been AccelerateEU, an initiative outlined in April 2026. It is best understood as an emergency toolbox combined with a longer-term resilience strategy.⁹ The main objective of the initiative is to reduce energy costs and strengthen the EU's energy security by accelerating the shift away from volatile imported fossil fuels towards clean, domestically produced energy. This rests on five pillars: closer coordination among EU countries, protection for households and businesses, more domestically produced clean energy, a stronger energy ecosystem, and greater investment in Europe's energy infrastructure.

The war in Ukraine and the crisis in the Strait of Hormuz have placed the EU in a difficult position. The bloc must cushion the immediate economic impact of surging fossil-fuel prices while preserving incentives for deeper structural change and the continued decarbonization of Europe's energy system. In the short term, measures

⁹ Id.

⁸ European Commission. (2026, April 22). AccelerateEU – Energy Union: affordable and secure energy through accelerated action, COM(2026) 370 final. https://energy.ec.europa.eu/document/download/7fac9eea-5717-4182-a368-bd68c427ff4c_en?filename=Communication.pdf.

such as reducing electricity taxes, supporting vulnerable households, or protecting strategically important industries may be justified. Broad, untargeted fossil-fuel subsidies, however, are more problematic. They can increase demand, weaken price signals and impose substantial fiscal costs.

III. Decarbonization under pressure: a more cautious path

The most politically sensitive question is whether these two geopolitical shocks will strengthen or weaken Europe's climate agenda, particularly its commitment to achieving climate neutrality by 2050. In this regard, the European Commission is determined to accelerate the energy transition, as Europe lacks substantial domestic oil and gas reserves. A larger share of domestically produced renewable and low-carbon electricity, combined with energy storage, electrification, greater energy efficiency and stronger grids, can reduce the exposure of households and industry to volatile fossil-fuel prices driven by imports from different regions of the world.

According to the International Energy Agency (IEA), global energy investment will reach \$3.4 trillion in 2026. Around \$2.2 trillion is projected to go to grids, storage, low-emissions fuels, nuclear energy, renewables, efficiency and electrification, compared with around \$1.2 trillion for oil, gas and coal.¹⁰ In this endeavor, electricity-related investment is becoming the dominant theme. For Europe,

¹⁰ International Energy Agency. (2026, May 28). World Energy Investment 2026. <https://www.iea.org/reports/world-energy-investment-2026>.

these trends are relevant not only because of emissions targets but also because they identify emerging industrial markets. Batteries, grids, transformers, turbines, flexibility services and clean manufacturing capacity are part of the competitiveness debate.

Nevertheless, the direction of travel is not entirely clear. Political pressures within Member States to soften parts of the EU's decarbonization framework has increased as energy-intensive industries and households face higher costs. In March 2026, the European Council requested a review of the bloc's Emission Trading Scheme (ETS) to "reduce the volatility of the carbon price."¹¹ Such a review is not inherently a rollback given that carbon-market rules need to respond to economic conditions and preserve political legitimacy. The risk arises if repeated interventions undermine confidence in the framework or weaken incentives to invest in low-carbon production.

The so-called ETS2, which extends the EU Emissions Trading System to buildings, road transport and additional sectors, has already been postponed by one year and is now expected to become fully operational in 2028. The system is intended to encourage investment in renovation and low-emissions mobility, while revenues support climate action and social measures.¹² The postponement reflects the need for a smoother and more socially manageable start, but it also illustrates the political difficulty of extending carbon pricing to sectors that directly affect households.

¹¹ European Council. (2026, March 19). European Council meeting (19 March 2026): Conclusions (EUCO 1/26). <https://www.consilium.europa.eu/media/lwhk3itd/en-20260319-european-council-conclusions.pdf>.

¹² European Commission. (2026). ETS2: buildings, road transport and additional sectors. https://climate.ec.europa.eu/eu-action/carbon-markets/ets2-buildings-road-transport-and-additional-sectors_en.





Meanwhile, the Carbon Border Adjustment Mechanism (CBAM) has entered its definitive implementation phase. The mechanism seeks to ensure that carbon-intensive goods imported into the EU face a carbon cost comparable to that borne by European producers. Since 1 January 2026, importers exceeding the applicable threshold must obtain authorized declarant status, report the emissions embedded in their imports and, in due course, purchase CBAM certificates linked to the EU ETS price. CBAM is strategically important because it aims to preserve a level playing field as European producers face carbon costs.¹³ Weakening it too far would risk penalizing domestic low-carbon investment. Therefore, implementing it without excessive complexity is key for Europe's competitiveness.

Transport policy offers another example of recalibration of Europe's climate agenda. The EU's existing rules require new cars and vans to achieve a 100% reduction in carbon dioxide emissions from 2035, a measure widely described as a phaseout of new combustion-engine vehicles. In December 2025, however, the European Commission proposed softening this target. Under the proposal, manufacturers would be required to reduce emissions by 90%, while the remaining 10% could be offset through the use of sustainable fuels and low-carbon steel produced in the EU. The proposal has not yet been adopted and must still be approved by the European Parliament and the Council.¹⁴

¹³ European Commission. (2026). Carbon Border Adjustment Mechanism: definitive regime from 2026 onwards. https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en

¹⁴ European Commission. (2025, December 16). Automotive package. https://transport.ec.europa.eu/transport-themes/action-plan-future-automotive-sector/automotive-package_en.



IV. What comes next?

The current energy debate is ultimately a test of European political leadership. The EU has already shown that it can adapt under pressure. After 2022, it reduced Russian energy dependence faster than many observers expected, expanded LNG infrastructure, lowered demand and accelerated renewable deployment.

To respond to the current volatile geopolitical environment and maintain its climate goals, the European Commission is working on several key files that is important to keep an eye on.

Revised EU energy–security framework

The European Commission is preparing a revision of the EU's energy–security framework covering both gas and electricity. The existing rules were shaped primarily by concerns over gas supply, particularly after Russia's invasion of Ukraine. The planned update, scheduled for mid-2026, is expected to take a broader approach, reflecting newer risks such as geopolitical shocks, physical attacks on infrastructure, cyberattacks, and climate-related disruptions. This is especially relevant in the context of both Ukraine and the Strait of Hormuz, as diversifying energy suppliers is important, but Europe should also remain resilient to disruptions affecting shipping routes, energy infrastructure, or electricity networks.

Revision of the Energy Union governance rules

The Commission is also working on the revision of the Governance of the Energy Union and Climate Action Regulation. This framework sets out how member states coordinate their energy and climate policies and report on progress toward EU targets. The revision is particularly relevant to the debate over fossil-fuel subsidies, as the Commission has indicated that it will address their phaseout more explicitly. The challenge of the ongoing revision is to distinguish between temporary, targeted support during periods of acute price pressure and broader subsidies that encourage continued fossil-fuel consumption, weaken price signals, and slow investment in cleaner alternatives.

There is a temptation to interpret every energy shock as evidence that Europe should slow down on its decarbonization commitments. If industry is under pressure, governments may be reluctant to impose additional costs or maintain demanding timelines on greening of European energy production. Nonetheless, these changes cannot be seen as abandoning decarbonization. In March 2026, the EU adopted a legally binding 2040 climate target of a 90% net reduction in greenhouse-gas emissions relative to 1990.

Yet the transition is entering a more politically contested phase. The European Commission's Clean Industrial Deal¹⁵, launched in February 2025, attempted to place this challenge within a more politically acceptable framework. Rather than presenting decarbonization as a regulatory burden and cost imposed on industry and households, the initiative seeks to frame green energy, industrial transformation and competitiveness as mutually reinforcing objectives.

¹⁵ European Commission. (2025, February 26). Clean Industrial Deal: A plan for EU competitiveness and decarbonisation. https://commission.europa.eu/topics/competitiveness/clean-industrial-deal_en.



Energy Union package for the next decade

The European Commission is also preparing a broader Energy Union package to guide EU energy policy after 2030. The package is expected to introduce new rules for renewable energy and energy efficiency. It should also include measures to support infrastructure for transporting captured carbon dioxide to storage sites and to develop a functioning market for carbon capture, transport, and storage. The package measures will influence how quickly Europe can expand domestic clean-energy production, reduce energy consumption, and decarbonize parts of the economy that remain difficult to electrify. They will also play an important role in reducing Europe's exposure to imported fossil fuels and strengthening its resilience to future geopolitical shocks.

Revision of the Energy Taxation Directive

The EU's long-delayed revision of the Energy Taxation Directive remains relevant in this context. The proposal would align the taxation of energy products more closely with the EU's climate and energy objectives. Nevertheless, it has remained under discussion among member states since 2021 without any meaningful progress. Agreeing on a common position has been difficult because taxation is politically sensitive and requires unanimous agreement of the 27 Member States.

