

# A better response to energy price spikes

## From emergency support to investments in green energy sovereignty

The energy crisis caused by the war in Iran is exposing the vulnerability of the European Union's continued reliance on fossil fuel imports. Akin to the start of the Russian war on Ukraine in 2022, the supply of fossil fuels has suddenly been disrupted, causing price spikes, increasing inflation expectations, and worsening the growth outlook.<sup>i</sup> Thus, transitioning to renewable energy sources is crucial for Europe's energy independence and resilience to future shocks.

At the same time, short-term emergency measures are required so that industry does not suffer disproportionate damage to employment and production. Immediate economic pressure should be reduced, while transition to renewable production methods should be incentivised in the medium- to long-term.

## **The Commission proposal**

The Commission's leaked draft for the Temporary Iran Crisis Energy Framework amends the Clean Industrial State Aid Framework (CISAF), most notably, expanding the scope of electricity price relief for energy intensive firms. Under the CISAF, Member States can subsidise energy-intensive industries for up to 50% of the average wholesale electricity market price. In exchange, beneficiaries must use at least half of the subsidy amount for "investments that contribute to the green transition and help energy system costs over the medium to long term".<sup>ii</sup> The Commission's Crisis Framework draft now suggests allowing subsidies for energy-intensive firms for up to 70% of the wholesale electricity price with no decarbonisation investment requirements attached to this additional funding.

This approach undermines the much-needed transition of European industry away from reliance on fossil fuels towards a resilient and decarbonised mode of production. The explicit exemption from decarbonisation conditionality removes reciprocity from public aid.<sup>iii</sup> Companies face less pressure to contribute to the energy transition in exchange for public crisis support. Insulating firms against volatile energy prices lessens the pressure they face to decarbonise their energy supply, creates price expectations that cannot be maintained if the crisis persists, and leads to the harmful assumption that public balance sheets will also absorb future shocks. Easing state aid restrictions benefits fiscally stronger Member States, risking single market distortions as more indebted countries struggle to match aid levels and will worsen their debt pressures.

## **A better framework**

The Commission's approach fails to maintain the necessary price signals and conditionalities to preserve an ambitious pace for the energy transition and risks creating internal market distortions. The proposal eases the short-term electricity price pressures faced by energy-intensive firms by giving them access to additional liquid funds from Member States. It does nothing to address problems that could arise from a persistent shock to energy prices which would threaten these companies' long-term solvency. Nor does it increase the preparedness for any future energy price shock.

Without the following principles, the European Commission risks failing to take on board lessons and best practices learned from energy crises in the past<sup>iv</sup>:

- **Strong energy efficiency conditionality:** Companies that are saved by public balance sheets must in return contribute to preventing a repeat of the same situation when the next crisis hits. Support payments should, therefore, be directly tied to decarbonisation measures, including energy savings and efficiency achievements. This is best achieved through an outcome-based mechanism based on binding progress checks.<sup>v</sup>
- **Maintenance of the price signal:** A blanket subsidy of companies' power bills locks in subsidised price expectations and reduces incentives to transition away from fossil fuel reliance in the long-term. Effective support measures must ensure that, in particular, those firms that are not (yet) making sufficient progress towards fossil energy usage reduction are not sheltered from energy price pressures.
- **Equality of aid access across the EU:** Energy-intensive firms in countries with a small fiscal space must not be disadvantaged in relation to their competitors in the single market. Simply easing the state aid restrictions will not do. Instead, support must be offered to affected companies across the EU on equal terms without putting too much pressure on already strained national balance sheets.

## **A suggestion**

A crisis support measure that takes these principles seriously would need to follow a different logic. Instead of increasing individual Member State's spending power from previous limits without any additional decarbonisation requirements, the funds should be raised centrally and disbursed according to shared principles.

This could be achieved through a scheme in which the Commission raises funds on capital markets and passes these favourable conditions onto Member States, who then administer the support to their domestic industries. Allocation of available loan envelopes should be based on a composite assessment of Member States' crisis exposure, combined with criteria that prioritise support to industries of high strategic relevance and strong long-term viability

within a decarbonised European economy<sup>1</sup>. A balanced approach to liability would combine a predominantly joint guarantee structure with a limited share linked to actual usage, preserving the benefits of risk-sharing while maintaining incentives for prudent use. This set-up broadly follows the mechanism of the Covid-era instrument for Support to mitigate Unemployment Risks in an Emergency (SURE). This approach would equalise the borrowing costs for Member States' emergency support, thereby equalising their capacity to support domestic industry.

The support should remain targeted only to those energy-intensive industries covered by CISAF. However, this **support would be disbursed not as a grant but as an interest-free loan**, covering up to 70% (together with already existing energy price relief under CISAF) of a firm's annual power bills. For the first year or until the crisis is over, the loan would be interest-free and with no repayment of the principal required.

In the short-term, a loan is sufficient to cover the liquidity issues created by large price spikes. Should the energy price shock turn out to persist and threaten the solvency of firms, support must be more permanent and advance the energy transformation. Therefore, the loans under this scheme should be **convertible into grants, conditional on decarbonisation investments**. The conversion rate would depend on the share of the temporary support that the beneficiary uses for decarbonisation investments. Firms would have one year of interest-free liquidity support and could then decide whether to repay the loan or keep the money for investments that will reduce the costs of the electricity system, in alignment with the CISAF.

The approach suggested here has several advantages over the current draft plan:

- **Reciprocity:** By converting the support from subsidies to loans, conditionality is built-in to the funding model. Failure to prove adequate decarbonisation investments will result in the recoupment of funds. From the firm perspective, this creates a 'use it or lose it' scenario. From the public perspective, every euro spent as subsidy is either repaid or used for investments into decarbonisation and a cheaper energy system.
- **No muting of price signals:** The proposal preserves the price signal, by making firms which do not invest in decarbonisation bear the cost of the crisis as they must repay their support loans.
- **Cushioning pressures on energy-intensive industries:** Those who do undertake the necessary decarbonisation investments will get to keep their funding. Even for those firms which do not invest, the repayment schedule would allow them to 'smooth' the cost of the crisis over the repayment period.
- **No market distortions:** Raising funds through common EU bonds but setting the received share and assumed liability according to national energy consumption, would make borrowing conditions much more equal across Member States.

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<sup>1</sup> In practice, crisis exposure could be proxied by indicators such as the share of energy-intensive industries in gross value added, dependence on imported fossil fuels, and the relative increase in industrial energy prices. Strategic relevance may be approximated by the sector's role in European value chains and its importance for economic security, while long-term viability can be assessed based on access to competitive clean energy and the feasibility of decarbonisation pathways.

The Iran Crisis Energy Framework represents a missed opportunity for the EU to learn the necessary lessons from past crises. The European Union cannot afford to trade-in long-term decarbonisation and energy resilience for short-term price relief. Ensuring that publicly funded energy crisis support to the private sector is repaid, either in cash or in the form of a cheap and resilient energy system, must be the aim of any policy design.

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<sup>i</sup> Lagarde, C., de Guindos, L. (2026). *Monetary policy statement (with Q&A)*. European Central Bank. [https://www.ecb.europa.eu/press/press\\_conference/monetary-policy-statement/2026/html/ecb.is260319~93b1cbad97.en.html](https://www.ecb.europa.eu/press/press_conference/monetary-policy-statement/2026/html/ecb.is260319~93b1cbad97.en.html)

<sup>ii</sup> European Commission. (2025). *Framework for State Aid measures to support the Clean Industrial Deal (Clean Industrial Deal State Aid Framework)* <https://eur-lex.europa.eu/eli/C/2025/3602/oj/eng>

<sup>iii</sup> Mazzucato, M., & Rodrik, D. (2026). *Industrial policy with conditionalities: a taxonomy and sample cases*. Industrial and Corporate Change. <https://doi.org/10.1093/icc/dtaf063>

<sup>iv</sup> Ari, A., Engler, P., Li, G., Patnam, M., Valderrama, L. (2023). *Energy Support for Firms in Europe: Best Practice Considerations and Recent Experience*. IMF Working Papers 2023, 197. <https://doi.org/10.5089/9798400255007.001>

<sup>v</sup> Hafele, J., Schneider, J., Schiefeling, M., & Hofmann, L. (2025). *Progress over promises: Rethinking direct public support through a progress-dependent conditionalities regime*. ZOE Institute for Future-fit Economies. [https://zoe-institut.de/wp-content/uploads/2025/06/Progress\\_Dependent\\_Principle.pdf](https://zoe-institut.de/wp-content/uploads/2025/06/Progress_Dependent_Principle.pdf)