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Joint statement

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Joint French-German energy initiatives

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The overarching objective of both French and German policymakers is to achieve ambitious European decarbonization targets while at the same time reducing energy costs (to reinvigorate economic growth and strengthen competitiveness) and ensuring energy security. While there is broad agreement between France and Germany on the overall aims that should be pursued, the policies actually in place suffer from a blatant lack of coordination, and they involve the risk of putting the two countries on a collision course. To avoid such developments, the memo advocates, among others:

- Experimenting with joint procurement auctions for renewables and firm capacity.
- Creating a bilateral energy council that would comprise the two governments and the five systems operators, whose task would be to agree on practical steps for greater cohesion.
- Developing a joint energy research framework that would trigger innovation and favour a quicker scaling of key technologies, thereby reducing costs and hedging technology risks.
- The memo also proposes that the two countries develop joint strategies for both external and internal climate policies, the ramp-up of hydrogen, and the coordination of energy and defense strategies.

This policy paper is one of a series of five short action-oriented policy memos that have been prepared to inform the Franco-German Council of Ministers on 29 August 2025 at the request of the French and German leaders, by independent economists of both countries, under the auspices of the Franco-German Council of Economic Experts (FGCEE). The memos were coordinated by Xavier Jaravel, (LSE, Co-Chair FGCEE), Jean Pisani-Ferry (Bruegel, Co-Initiator), Monika Schnitzer (LMU Munich, Co-Chair FGCEE) and Jakob von Weizsäcker (Saarland, Co-Initiator).

Common objective, uncoordinated approaches, and the urgent need for a rapprochement

The overarching objective of both French and German policymakers is to achieve ambitious European decarbonization targets while at the same time reducing energy costs (to reinvigorate economic growth and strengthen competitiveness) and ensuring energy security.

So far, however, the two countries have set very different priorities pursuing this objective, especially in the electricity sector: in terms of choice of primary energy (nuclear vs. wind/solar plus natural gas), in terms of choice of governance model (state-owned utilities vs. a broad array of private and municipal actors), and in terms of regulating final consumer prices and administering state-aid.

Unabated by an explicit and ambitious bi-national effort, these uncoordinated approaches could put France and Germany on a collision course regarding energy policy. In particular, the increasingly distinct structure of their electricity systems could lead to growing tensions, for example, regarding the provision of firm and reliable electricity to both nations, price disparities, or the role of state aid.

While we acknowledge the emerging tensions between the various objectives and constraints in European energy and climate policy, this note focuses on identifying potential action steps within the existing strategies and frameworks. In particular, in the face of the risks to prosperity and security posed by the lack of coordination between France and Germany, we believe it would be beneficial to work towards greater cohesion, if only in limited and incremental steps. Therefore, we suggest that our countries may adopt concrete joint initiatives such as:

1. Joint procurement auctions for renewables and/or firm capacity

First, coordinating the procurement of low-cost renewables would provide opportunities to improve cost-efficiency, providing more “bang for the buck” through relaxed country-specific targets and hence lower cost. Second, the ongoing update of the French capacity mechanism and the current plan to introduce such a mechanism in Germany provide a unique opportunity for action, for example, building on the activities in the Pentalateral Energy Forum. While joint procurement can increase efficiency and strengthen integration, implementation challenges can be high (due to differences in market structure, support instruments, etc.) and are application-specific. Joint capacity mechanisms, e.g., require the development of basic rules for cross-border participation and a bilateral agreement on mutual inclusion (prerequisites, availability, capacity limitation, crisis situations, etc.). Nevertheless, the cross-border integration of capacity mechanisms could yield significant synergies, strengthen the security of supply, and reduce costs for both countries. Experimenting with innovative joint tenders for a well-defined application could kick-start this process.

2. Keep working towards a cohesive Franco-German electricity system, leading the way to broader European integration

To create an increasingly coherent playing field in the electricity market, France and Germany could establish a Franco-German Energy Council comprising the two governments, the five TSOs, and the national regulators. In particular, the Council could be tasked with exploring opportunities for better cross-border coordination, both for short-term operations and long-term investments (e.g., grid planning, generation adequacy), including moving beyond the current model of (sub)national TSOs and towards a multinational, independent system operator. Moreover, the two countries could foster bilateral cooperation and exchange between the expert advisory bodies of both countries (e.g. scientific advisory boards of regulators, climate advisory boards of governments, energy monitoring commissions, etc.). In addition, organising a yearly France-Germany electricity market conference gathering experts from both countries under Chatham house rules could help build mutual expertise and understanding. It could focus on a number of well-known market failures that still largely remain, e.g. i) Wholesale electricity prices imperfectly account for the physical laws governing the flows of electricity in the network. At the transmission level, the redefinition of wholesale pricing zones appears to be stuck, and redispatch mechanisms remain suboptimal and insufficiently coordinated between France and Germany. At the sub-transmission and distribution level, local grid constraints, which can grow dramatically in the future under a combination of flexible loads (EVs, batteries) and inappropriate tariff structures, are not accounted for; ii) The use of poorly-designed long-term contracts to secure investors' revenues. The now very frequent occurrences of negative prices in both French and German wholesale markets illustrate the magnitude of this issue; iii) Lack of efficient integration of flexibility due to technical and regulatory barriers, disincentives and significant distortions in final retail prices

3. Establish a joint energy research framework

It is both acknowledged and unsurprising that net-zero trajectories (to achieve the decarbonization targets for 2045

and 2050) rely on a significant number of immature technologies, such as green hydrogen, biogases and biofuels, CCS, CCU, CDRs, SMRs, and fusion. France and Germany should enter into close, bilateral cooperation to develop R&D strategies concerning such technologies in the next Horizon Europe 2028-2034 Framework Programme. Without undermining this program and creating redundant structures, opportunities for a bilateral research program should be explored. In this way, France and Germany could coordinate their mutual efforts, identifying areas for specialisation of either country, supported by the other, and areas for beneficial collaboration. Moreover, France and Germany could create frameworks to allow for joint scaling of key technologies, thereby reducing costs, hedging technology risks and taking advantage of synergies. The joint energy research framework should include a regular energy research dialogue to implement further joint research and cooperation projects.

Besides the three main suggestions above, other important areas for joint Franco-German initiatives include:

4. Build common ground:

Enhance and harmonise information transparency, data accessibility, and best practice sharing by building appropriate bilateral (or multilateral) institutions and data repositories. For example, national weather agencies could collaborate on producing common and harmonised forecasts relevant for power system operations. Share best practices in various areas like demand flexibility and incentives (e.g. lessons from how Germany handled the 2022 crisis, or how France rolled out smart meters), price distortions introduced by network charges (e.g. connection and operation of utility-scale batteries, long connection queues, etc.) or distorted dispatch incentives and price formation in subsidy schemes (e.g. more innovative long-term contracts for investors, like the “advanced CfDs” or the “advanced PPAs”.

5. Develop a joint strategy for external climate policy:

Move towards building a "coalition of the willing", in the spirit of Nordhaus' climate clubs. The members of this climate coalition would raise the carbon price in their jurisdictions and impose a carbon border adjustment mechanism at the coalition borders, to leverage incentives and international reciprocity. Identify potential synergies with on-going trade negotiations in a shifting global geoeconomic arena. Explore the potential of adopting joint French-German sectoral approaches for industry.

6. Develop a joint strategy for internal climate policy:

In the face of public resistance to carbon pricing - such as the French Yellow Vests movement - governments have increasingly turned to standards and regulations, which have recently also proven to be challenging, as illustrated by recent protests against restrictions on oil and gas heating in Germany. Upholding market-based climate policies is crucial for reducing the economic cost of climate policies and carbon emissions, e.g. through ETS2 for the transport and residential sectors, while at the same time taking care of the substantial distributional concerns involved. On the industry side, ETS1 and ETS2 are key instruments for decarbonization, but the risks of carbon leakage through international trade and loss of competitiveness of domestic firms must be addressed, as the current cross-border adjustment mechanism rules are widely expected to be insufficient. Build a shared perspective on critical topics such as the ETS2 (interactions with overlapping policies in the transport and residential sectors, redistribution of ETS2 revenues, both in Europe and domestically), and opportunities for action in sectors that are currently under-addressed in climate policy debates (e.g. agriculture, land use, land-use change, and forestry).

7. Develop a joint perspective on the ramp-up of hydrogen as an energy carrier:

Start with a joint baselining exercise, identifying common ground, complementarities, and synergies for upstream support (imports, electrolysis), infrastructure built-out, and demand creation, respectively. From there, develop a view of the strategic contributions of France and Germany to the ramp-up. Important topics may include the role of France as a transit country, the role of Germany in creating H2 demand from industry and backup electricity, and the question of financial burden sharing between the two states.

8. Coordinate energy and defense strategies:

Peace is unfortunately not granted anymore for the EU, for the first time in decades. What would a “defense-ready” energy sector look like? The deep disruption of natural gas supply in 2022 generated some level of fear and chaos. There is an increasing geopolitical risk (cf. EU Note on Defense), and yet, a convincing coordination between defense and energy strategies is lacking. Identify common vulnerabilities (e.g., natural gas supply, reliability and continuity of power supply, cyber-attacks, critical infrastructure) and identify opportunities for action to increase the joint level of preparedness. This might imply to coordinate procurement, and storage strategies, of natural gas

(LNG, Russia, North Africa and other countries), to jointly quantify and address the dependence on foreign supplies at different stages of the value chain (e.g. energy from the US; appliances from China; critical minerals from everywhere, etc.) and to run stress tests together assessing the continuity of energy supply in various situations (e.g. business-as-usual, lasting conflicts) on various time scales (e.g. sudden disruption, short-term, long-term).

Franco-German Council of Economic Experts

The Franco-German Council of Economic Experts (CFAEE) was set up in 2019 to provide independent advice to the French and German governments on economic policy issues of common interest to both countries. It is co-chaired by the Chairs of the French Council of Economic Analysis and the German Council of Economic Experts, Xavier Jaravel and Monika Schnitzer.