Stronger incentives needed to fast-track Europe's heating transition

Press Release

With current policies, Europe may end up installing tens of millions of new fossil fuel boilers by 2040, jeopardising climate and energy security goals and undermining cleantech leadership, Agora Energiewende warns. A new instrument could help accelerate the transition to clean heating by incentivising manufacturers to increase the share of clean appliances and improve consumer access.

Brussels, 5 February 2025. Europe's stagnating clean heating transition risks undermining the competitiveness of European cleantech industry, a new analysis by energy and climate think tank Agora Energiewende shows. A continued reliance on fossil fuels for heating in buildings would also prolong the EU's dependence on fossil fuel imports, endangering the bloc's climate and energy security goals.

Drawing on a market analysis by consultancy LCP Delta, the paper finds that sales of clean heating appliances have fallen to 2021 levels after a surge during the energy crisis. With the current policy framework, fossil gas boilers are set to maintain their strong market position well into the 2030s, being the leading technology for new sales until 2034. This would lead to over 50 million boilers being installed cumulatively until 2040.

"At the current pace of transition, the EU risks missing out on the significant growth potential in clean heating appliance sales," said Emeline Spire, Director Europe at Agora Energiewende. "This policy cycle is critical for developing innovative approaches that can reignite the transition and enhance Europe's competitive edge in cleantech."

The paper comes on the heels of the European Commission's 'Competitiveness Compass', which aims to ensure that clean products are "developed, manufactured and marketed in Europe" as the bloc strives for climate neutrality. It also precedes the release of the 'EU Clean Industrial Deal,' which will include a focus on boosting the competitiveness of European cleantech manufacturing.

A challenging market situation

Many of the announced new investments into heat pump manufacturing during the energy crisis were based on the expectation that legislation such as a sales-ban for fossil fuel boilers would drive heat pump deployment, thus boosting the market.

However, as many of these expectations did not materialise, a growing gap has emerged between capacity and demand, resulting in underutilised facilities, job cuts and short-time work, the paper finds. According to Agora, these setbacks risk creating a further ripple effect along the supply chain by slowing installer retraining in clean heating appliances, while also weakening manufacturers' commitment to the heating transition.

These developments come in the context of growing external competition on the European heating market. Imports from non-European manufacturers, particularly from China, have increased in recent years, posing a

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rising challenge to Europe's competitive position. Accelerating the heating transition is therefore also essential for maintaining Europe's position as a leading manufacturer of clean heating appliances, the paper underlines.

A new tool to strengthen the existing policy framework

To address these challenges and help safeguard the transition and competitiveness of the European heating industry, Agora proposes strenghtening the existing policy framework with a new market-based measure.

The proposed 'EU Clean Heat Market Instrument' is inspired by the UK Clean Heat Market Mechanism, which will encourage manufacturers to achieve a certain share of heat pumps in their sales portfolio from April this year. Adapted to the EU market, the proposed instrument would introduce a financial incentive for manufacturers to scale up their supply chains and boost end-consumer markets for clean heating appliances.

This financial mechanism could take three forms: a fixed incentive, where manufacturers are charged for non-eligible boilers and the revenue is reinvested to reward progress by manufacturers towards clean heating; a credit trading system like the UK's CHMM, with a target to increase clean heating sales; or a cap-and-trade system, where manufacturers purchase certificates for each boiler sold. As in the EU's emissions trading system, the number of certificates would decrease over time, reducing the market for fossil fuel boilers and expanding the market for clean appliances.

According to Agora, a fixed incentive, gradually increasing over time, would initially be most suitable for the EU context, as it would provide a predictable price signal and can be phased in more easily. The think tank proposes rolling out the system gradually and sequentially, allowing time to establish and test the instrument and for manufacturers to adapt before introducing the pricing element.

"It is crucial to begin discussions on such a new tool promptly to ensure it can contribute to the transition by the early 2030s. However, a gradual approach to its introduction and progressive strengthening is key. This allows both governments and industry the time needed to prepare, adapt to the system, and ensure its success before the pricing element is implemented," said Spire.

Ensuring a socially just heating transition

For the EU Clean Heat Market Instrument to be effective, it is imperative that it be embedded into a broader, well-coordinated policy framework that addresses market barriers and social impacts, and provides adequate lead time for manufacturers and governments. Its success will depend on the strength of the existing market and policy landscape, which varies across EU countries, and should be considered in its design.

Another key policy for the promotion of clean heating is the planned introduction of an EU emission trading system for heating and transport fuels (ETS 2) from 2027 onwards. The introduction of uniform carbon pricing for heating fuels across Europe has the potential to significantly improve the economic case for clean heating by increasing the price of fossil heating fuels, while also generating additional fiscal revenues that can be used by national governments to support the deployment of clean heating.

The EU Clean Heat Market Mechanism could play an important role as a companion policy to the ETS 2. It would help meet the demand for clean heating appliances created by the ETS 2, by making those appliances more accessible to consumers. By reducing the installation of fossil fuel boilers, it would also contribute to keeping the

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future carbon price in check.

The upcoming EU Clean Industrial Deal and the planned Electrification Action Plan present important opportunities to kickstart a strategic dialogue about the future of Europe's heating industry, the authors note.

"Buildings account for 40 percent of the EU's total energy consumption – this makes the acceleration of the heating transition essential not only for meeting Europe's climate goals but also for driving competitiveness and strengthening energy security," Spire concludes.

Accompanied by a detailed market and policy analysis by consultancy LCP Delta, the 48-page publication "Boosting the clean heat market" provides an in-depth assessment of the European heating market, examining market trends and the policy landscape. Both publications are available for free download at www.agora-energiewende.org.

About Agora Energiewende

Agora Energiewende develops scientifically sound and politically feasible concepts for a successful pathway to climate neutrality – in Germany, Europe and internationally. The organisation which is part of the Agora Think Tanks works independently of economic and partisan interests. Its only commitment is to climate action.

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