Germany’s ambitious plan to shield its power-hungry industries from soaring electricity costs is sending shockwaves through the European Union, igniting a high-stakes debate over fairness, legality, and the future of the bloc’s single market.

At the heart of the controversy is Berlin’s proposal to cap electricity prices for energy-intensive companies, with the government footing the difference—an estimated cost of €10 billion by 2030. For Germany’s beleaguered industrial sector, this lifeline could mean survival. For the European Commission in Brussels, however, it’s a legal and political minefield.

Under current EU law, such direct subsidies—known in Brussels jargon as “operating aid”—are largely prohibited. The rules are designed to prevent wealthier member states from gaining an unfair advantage by offering financial support smaller countries can’t match. Germany’s scheme, critics argue, risks doing exactly that.

“There is no way Brussels will allow that without a fight,” warned Oliver Bretz, founder of competition law firm Euclid Law, who also advises Romania’s energy-intensive industry. “Subsidizing electricity prices on an ongoing basis will be seen as nothing more than operating aid, which the Commission detests.”

Even Berlin seems to know it’s stepping into dangerous legal territory. A leaked internal paper from the German economy ministry admits the plan poses “considerable challenges” under EU law, and that “the prospects of approval are highly uncertain.”

A Familiar Pattern

This isn’t the first time Germany has tested the limits of EU subsidy rules. Back in 2022, Berlin raised eyebrows—and tempers—when it unveiled a €200 billion fund to shield households and businesses from soaring gas prices following Russia’s invasion of Ukraine.

Now, with the continent still grappling with inflation, geopolitical instability, and industrial sluggishness, Germany’s latest move is being viewed warily in other capitals.

“It’s worrisome,” said one EU diplomat, who requested anonymity. “Other countries simply don’t have the fiscal capacity to offer such subsidies. We have state aid rules for a reason—otherwise we jeopardize the internal market.”

The fear, echoed across EU corridors, is that if Germany is allowed to press ahead, it could open the floodgates for countries like France and Italy to follow suit, unraveling decades of economic integration.

Brussels in a Bind

Yet despite the uproar, few expect Brussels to flatly reject Germany’s plan.

In a post-pandemic, post-invasion world, the EU has shown a growing willingness to bend its own rules in the name of economic competitiveness. With the U.S. and China lavishing their own industries with government support, Europe is facing mounting pressure to keep pace.

“The Commission tends to be more skeptical of operating aid,” acknowledged Tomaso Duso, chair of Germany’s Monopolkommission, the government’s competition watchdog. “But timing and context matter.”

Indeed, the EU is already in the midst of a broader rethink. Under Commission President Ursula von der Leyen, the bloc has launched a “Clean Industrial Deal” aimed at boosting green tech and cutting red tape. As part of this shift, Brussels is expected to unveil new state aid guidelines in June, potentially opening the door for more flexible subsidies—especially those linked to climate goals and energy transition.

Still, the fundamental principles of the EU’s internal market are unlikely to change overnight. “Explicit prohibitions of state aid are rare—and becoming rarer,” said Ulrich Soltész, a partner at German law firm Gleiss Lutz. “But the Commission is more likely to seek a workaround than allow an outright breach.”

Path to Compromise

That workaround could involve Brussels encouraging Berlin to redirect its support toward green innovation or energy efficiency measures, rather than simply cutting industry’s electricity bills.

“Helping companies decarbonize is one thing,” said Bretz. “Handing out money just to keep inefficient industries alive is another.”

The European Commission, for its part, is staying cautious—but not combative.

“This is a complex issue,” Commission spokesperson Lea Zuber said in a statement. “The German authorities must engage closely with the Commission to ensure full respect of EU rules, which ensure fair competition across Member States.”

Zuber added that the Commission is “ready to assist Germany” in designing a plan that avoids market distortion.

Unity on the Line

As negotiations loom, EU leaders are aware that more than subsidy rules are at stake. With external threats—from Russia’s aggression to trade tensions with the U.S.—and internal pressures mounting, the bloc’s cohesion is being tested yet again.

“We can’t afford disunity right now,” said another EU diplomat. “If we don’t stick to the rules, or at least agree on new ones together, we risk undermining everything we’ve built.”

The question now is whether Berlin and Brussels can find common ground—or whether Germany’s power play will spark another crisis in the EU’s ever-evolving balance between national interest and collective rules.