

## Europe's Tough Energy Choices

Dimitar Lilkov

The EU's energy sector is in a severe shock. The Kremlin's deliberate choice to limit natural gas exports to Europe is causing lasting damage, which is **ricocheting** in many directions. Electricity prices have [skyrocketed](#) in all member states, setting new grim records. Natural gas rates are also soaring, while conventional alternatives such as coal and timber are becoming pricier or more limited in supply. Leading energy utilities like Uniper SE and Électricité de France (EDF) are asking for **state bailouts** to recover their huge losses. European governments are **pumping billions of euros** each month in order to keep energy prices artificially lower for end users. Most worryingly, European citizens are asking if there will be sufficient power supply during the winter to keep homes warm and businesses running.

The main reasons for this energy debacle are clear. The **Faustian bargain with Gazprom** has made many European capitals addicted to Russian gas and blinded them to the risks facing the continent's energy security. For years, pro-European parties, institutions and experts have argued against this growing dependence and called for the cancellation of new fossil fuel infrastructure coming from Russia. The Martens Centre [made](#) no exception to these efforts.

In parallel, over-ambitious green policies made many leaders [forget](#) about **security of supply and price affordability** of energy resources – the other components of the famous [trilemma](#) of energy politics. Energy security has been taken for granted for decades, especially in North-Western Europe,

where gas deliveries were comparatively cheap and the diversification from the Russian monopolist always postponed. Add in the volatile energy demand during the COVID-19 lockdowns and the hibernating inflation of the last two years and you've got a recipe for a full-blown crisis.

As the EU is in the eye of the energy storm, the most important question remains, what is there to be done?

### Short-term measures

First, European policy-makers must overcome the increasing **panic**. Fear is the mind-killer and governments should not succumb to rash decisions. The recent [appeal](#) by Belgium's Green Minister for Energy that gas prices should be frozen across the EU is over-simplistic and doesn't address the root cause of the problem. The upcoming emergency EU Energy Council session in September should explore sensible ways for introducing **interim measures** for energy price relief and avoid excessive state intervention. The jury is still out on whether there should be a complete overhaul of the current marginal pricing system. Even if such reform is initiated, it will take a long time to be fully implemented.

Second, governments should review the way they are **subsidising energy consumption** and develop more nuanced mechanisms. In the last 12 months, aggregated state [funding](#) to shield households and businesses from the increasing energy prices has reached almost 250 billion (!) euros in the EU.

Currently, Greece and Italy spend 4 % and 3 % respectively of their annual GDP on energy support schemes. Even though there are political and social considerations for these subsidies, such massive state funding is simply not sustainable.

The government **debt-to-GDP** ratio is already hiking towards 100 % in the Eurozone and state coffers would be unable to keep up with such subsidy schemes in the future. The money must come from somewhere and there is bound to be a negative whiplash of increased taxation or social spending cuts. Lest we forget that inflation is also rampant across the EU.

Moreover, these measures provide the wrong incentives and propel end users to maintain their high energy usage. Tinkering with energy prices is a political priority for European leaders, but the pressing policy issue is curbing energy consumption, as we simply don't have sufficient supply. Put simply, households and businesses must **use less energy** and limit their demand in the next few months. Governments could devise more granular [options](#) for subsidising certain basic amounts of energy but also allow higher market-based prices above that basic level. More targeted consideration could also be given to vulnerable consumers and families living in energy poverty, given the disproportionate impact of higher energy bills on their monthly budget.

All in all, politicians must clearly communicate the gravity of the situation and find ways to **optimise energy usage** in every member state. Urging Europeans to take fewer showers makes the headlines, but the energy demand reduction must come in **terawatt hours**, not in mere kilowatts. The effort needed is massive and involves painful readjustments in large-scale public systems and manufacturing processes. In the same way you cannot fight climate change solely by using paper straws or eating less meat, you cannot compensate for the huge power gap by piecemeal measures adopted only by individuals.

There is bound to be pushback. Some left-leaning political parties or Gazprom proxies will call for a truce with the Kremlin and ask for a resumption of gas supply. We continue to see the naivete of Putin appeasers (*Putinverstehers*), i.e., amid the [ranks](#) of the German Social Democrat party. The current Bulgarian caretaker government, under the auspices

of a pro-Kremlin [President](#), is sending mixed signals about the need for restoring supplies from Gazprom. Hungary's Orbán has also considered [signing](#) a new agreement for Russian gas. These **flirtations are dangerous** and the EU must not allow any of its member states to sign future deals with Putin.

The energy pain for our economies is real, but the **abstinence from Russian hydrocarbons** will bring substantial and tangible benefits. Not only will Europe stop funding Putin's war budget, but it will severely damage the whole Russian energy model of sales, maintenance and investment. Russia is trying to pivot some of its oil and gas exports to new customers in Asia, but most of the volumes and existing infrastructure are linked with Europe. Cutting the energy umbilical cord would cause a **severe shock for Gazprom**, which is the backbone of Russia's state budget. Such a move would be one of the vital keys to ensuring Ukraine's success in repelling the aggressor beyond its sovereign borders.

### Long-term steps

The current gas crunch is likely to become more than a one-off crisis. Political [leaders](#) and industry [executives](#) are already warning that the EU might be faced with drastic power shortages and even **energy rationing** in the next few years. Natural gas provides close to 25 % of the continent's overall power consumption. This fossil fuel warms homes, drives manufacturing and produces a big chunk of our electricity. It is directly linked with **fertiliser production** and even food prices. Natural gas is also an important pillar in the EU's decarbonisation strategy, which assigns it as a transitory resource that is less damaging to the environment compared with coal. Consider how even the **hydrogen industry**, a beacon of the European Green Deal, is negatively impacted as natural gas shortages hike up the price for the vast amount of electricity needed for H2 production.

Whether we like it or not, abundant amounts of natural gas have been vital for both our energy security and long-term decarbonisation efforts. European leaders face the momentous challenge of re-evaluating our energy mix and finding the necessary energy alternatives. The current crisis is an important reminder that peace on the continent and the prosperity of our citizens is the *raison*

*d'être* of the European Union. At the moment, both are being put to the test. In the near future, Europe has to ensure its [energy security](#) without making any concessions to the barbarians in the Kremlin. There are several important steps which need to be considered in the long-run.

Liquefied natural gas (**LNG**) from the US, Qatar and Australia have compensated some of our current needs but volumes remain limited and costly. Emergency tankers are essential for overcoming the crisis, but liquefied gas remains finite in an overheated market full of competition. Washington remains a key partner in both ensuring more US supply and also cajoling other LNG providers to divert their shipments to European ports. Member states should invest in the needed LNG infrastructure and make sure that the continent has the necessary terminals for annual shipments. Europe needs to mobilise all available gas molecules and boost its own (even though limited) **domestic production**, such as in the Dutch Groningen fields. Moreover, increased cooperation with Norway, the UK, Algeria and other African actors will be vital for Northern and Southern energy supplies via conventional pipelines.

The complete pivot away from Russian gas also entails the hasty rollout of additional **renewable energy** capacities. The current system of permitting in Europe is extremely sluggish and it might take up to a [decade](#) for new units to become fully operational. The current crisis should prompt a boost in renewable energy deployment and re-thinking of the burdensome red tape involved. Clean energy sources are one of the pillars in Europe's quest for decarbonisation, but they are still not as quickly available as needed to compensate for our true power needs. Modern renewables are slow in deployment, demand huge amounts of scarce (and costly) mineral resources, along with physical land space and have lower power outputs compared with conventional fossil fuels. One can only remain sceptical of the European Commission's [proposal](#) that 45 % of the EU's energy mix should come from renewables by 2030. Current figures hover just over 20 %, with substantial discrepancies between member states. Such a leap in renewable deployment in seven years is close to a pipe dream.

Alternatively, member states might consider how to

allocate joint resources **in breakthrough energy innovation**. Only a small chunk of our overall climate investment is allocated to breakthrough R&D on energy and sustainable technology. Not to mention the fact that Europe is developing a growing reliance on the People's Republic of China for battery units, solar panels, electric vehicle components and a myriad of minerals and rare earths required for the production of renewables. Stronger efforts must be made to tap into Europe's own resources, i.e., in Portugal, Spain or the Balkans, and to diversify globally.

European leaders must be bold in exploring all alternatives in order to ensure our long-term energy needs. Even though it cannot compensate for gas usage fully, **nuclear power generation** must be sustained and increased within the EU as well as nuclear research. Note how China, South Korea and even [Japan](#) are currently signalling a bigger focus on nuclear energy in the future. Nuclear plants produce zero-carbon electricity without the caveats of intermittency or low power density, which continue to plague modern renewables.

Unconventionally, some European member states might also want to reconsider their position on **shale gas** exploration. Preliminary [studies](#) indicated that Europe has 13–14 trillion cubic metres of recoverable shale gas reserves, substantially more than existing conventional gas deposits. This alternative industry was never fully developed in Europe due to unfavourable geology, high population density and environmental concerns. Several European capitals introduced moratoriums on shale gas exploration due to negative public opinion and local protests. However, it later resurfaced that Russia was actively [involved](#) in supporting environmental [groups](#) protesting against shale gas in many European countries. Gazprom also became one of the main campaigners against shale in Europe. This meant a lost decade in the examination of potential deposits.

If Europe doesn't explore novel options for satisfying its **energy needs**, it'll be faced with two gruesome choices. One would be to succumb to situational pressure and negotiate for restored shipments from Gazprom. This would be a devastating geopolitical failure for the EU and a direct betrayal of the people of Ukraine. The second option is **energy rationing, social tensions and a painful loss of economic**

**competitiveness** across the continent. Certain German manufacturers have already [halted](#) their production due to the energy crunch. If this trend intensifies within the EU in the next couple of months, the European Single Market and European solidarity with Ukraine will suffer heavily.

### Federal response

The energy situation is bitter, but still not dire. The EU began preparing for Russia's energy warfare well in advance in anticipation of a difficult winter. Most of the member states have already fulfilled their **gas storage targets** and the EU [hit](#) its collective 80 % goal in late August. In parallel, Germany is making [progress](#) in reducing its gas consumption and limiting Russia's leverage. Even though there are [disagreements](#) and even old [grudges](#) on the energy front, European leaders are still united in looking for joint solutions.

This is where European solidarity needs to hold firm. It is clear that Moscow is directly linking gas shipments with the relaxation of the Western sanctions on the Russian economy and Putin's oligarchic circles. The energy shock caused by Gazprom intentionally aims to wreak political havoc and cause energy nationalism within Europe. European institutions and national capitals must avoid partners outbidding each other for gas shipments and leaving neighbours out in the cold. Instead, improved continental connectivity, common energy storage capacities and even the future joint purchasing of natural gas are all options for potential collective steps in the future.

The EU already has a gas crisis solidarity [mechanism](#) in place, but more is to be desired from European capitals when it comes to bilateral technical and legal agreements to make this mechanism operational. Politicians are reminded of the **European Energy Union** initiative, championed by the Juncker Commission after Russia's unlawful annexation of Crimea on 2014. The current crisis clearly shows the need for energy synergies and a decisive **collective response** vis-à-vis the Russian aggressor. For the first time in its history, our Union is coordinating the reduction of gas usage across the continent and reacting as a monolith economic and political bloc. In the last decade, the EU managed to coordinate novel fiscal transfers, tackle large-scale migration flows and even roll-out billions of vaccines to European

citizens. The same collective ambition must be achieved on the energy front, as well.

Similar to the [pandemic](#), the European Union might not have all the mechanisms to easily solve the energy emergency, but this crisis must and will receive a decisive European **response**.

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