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Reflections on the energy crisis in Europe

Russia's military invasion of Ukraine in February 2022 shook continental politics and led to an unprecedented energy crisis in Europe. With Russia no longer considered either a reliable or desirable energy supplier, the EU member states had to rethink their energy policy priorities and seek alternatives as a matter of utmost urgency. In the unfolding energy-climate crisis, the phase-out of Russian fossil fuels and diversification of supply routes with a simultaneous acceleration of the energy transition is a major task that will prove both difficult and costly. How did we get here, what challenges are ahead of us and what should drive the EU's energy policies in the future?

Russia's military invasion of Ukraine in February 2022 shook continental politics and led to an unprecedented energy crisis in Europe. With Russia no longer considered neither a reliable nor a desirable energy supplier, the EU member states had to rethink their energy policy priorities and seek alternatives as a matter of utmost urgency. This is an intricate task. Before the outbreak of war, the EU was heavily dependent on Russia: 40% of its gas and nearly a third of its oil supply were of Russian origin, making the rapid diversification untenable. While oil – by nature – is a more palpable commodity that can be transported via road, rail and sea, thereby enabling imports from various geographical locations, natural gas poses more challenges, as it requires specific infrastructure (pipelines and liquified natural gas [LNG] terminals) and the accessible supply is limited, in both liquified and gaseous form. Therefore, the cut in the Russian gas supply by over 80% this year, which has been a critical energy resource used for heating, industrial processes and power generation in Europe, has triggered a major crisis that will not be quickly resolved. Moreover, although the classification of gas as a transitional fuel (and later as “green” in the EU taxonomy) has been criticised, a number of EU member states enlisted natural gas in their national strategies as a “bridge fuel” carrying the countries towards a low-carbon economy.

Considering the current impact of the war in Ukraine, and the unfolding energy-climate crisis, the phase-out of Russian fossil fuels and diversification of supply routes with

a simultaneous acceleration of the energy transition is a major task that will prove both difficult and costly. For the time being, the EU remains vulnerable to energy blackmail. Whereas the Kremlin's weaponisation of its energy exports, especially gas, since the outbreak of war came as unexpected to some European players, the assessment of the geopolitical threat, including the instrumental use of energy resources by Russia, has been anticipated in Central and Eastern Europe (CEE) over the years. So how did we get here, what challenges are ahead of us and what should drive the EU's energy policies in the future?

“Energy as a weapon”

Those in the EU who insisted on the economic dimension of EU-Russia energy cooperation appeared to be caught by surprise when Moscow employed energy blackmail towards the western states and used its gas pipelines instrumentally after the Russian attack on Ukraine in 2022.

In parts of Western Europe, most notably in Berlin, there was a belief in strong and growing interdependence between Europe and Russia in the energy sector for many years. This 'mutual dependence' promoted, for example, by the former German Chancellor Gerhard Schröder, was seen as beneficial for both sides. There was also hope that with time, growing economic cooperation with Russia could bring the latter closer to Europe, also in terms of democratic values. Critique of this strategy highlighted the lack of reciprocal behaviour from Russia, as it was gaining access to European customers through new pipeline projects but, at the same time, was not opening its energy market to the same extent, yet simultaneously increasing energy exports to other geographical locations such as China.

Crucially, Germany did not perceive Russia as a threat, but rather as a small country, due to the size of its economy, which was more dependent on Europe than vice versa. The import dependency was also seen in Germany in economic rather than security terms and thought of in the context of increasing gas and oil prices on the global market. The 2006 Ukrainian gas crisis, which closely followed initial developments around the Nord Stream 1 project, served to justify the venture further. The disputes between Russian Gazprom and Ukrainian Naftogaz over natural gas supplies and prices, which culminated in the 2006 gas cut-off episode, affecting Ukraine and several states in the region, sparked the debate on energy security in the EU and prompted many states in CEE to think more seriously about diversification of their gas supply. The crisis had a negative impact on the reputation of Ukraine as a transit country and slightly damaged the perception of Russia as a reliable partner in Germany. At the same time, although the signing of the Nord Stream project without consulting eastern neighbours at the early stage was criticised for its insensitivity, the project was seen in Berlin as a European rather than a national undertaking and a way to improve the energy supply from Russia without interruptions. This contrasted strongly with the energy security considerations of much of Eastern Europe.

For many years the western counterparts perceived countries in CEE as too paranoid regarding Russia due to their troublesome historical relations. Without a doubt, the

perception of the potential threat from Russia in the CEE region is strongly rooted in historical experiences and heightened by geographical proximity. However, the strategic use of energy resources by Russia is not a new phenomenon and has happened on numerous occasions in Central and Eastern Europe over the last three decades.

Following the dissolution of the USSR, Moscow recognised that its diminished military and political power in the region could be partially compensated for by using energy resources as a political tool. Gas and oil became the new currency of power. This was technically possible, as many countries of the former Soviet space remained locked-in in the Soviet-era energy infrastructure that linked them with the USSR, as well as with one another – creating multi-level dependencies in the form of gas and oil pipelines, and electricity grids. After gaining independence in the early 1990s, diversification away from Russian fossil fuels was therefore particularly challenging, especially when it comes to natural gas, as its diversification required alternative costly infrastructure – pipelines to suppliers from other geographical locations (for example, Norway or Central Asia) or LNG terminals. Moreover, in some cases, such as Ukraine, Russia offered gas at heavily discounted rates – keeping Kyiv in a strings-attached state of privilege for years.

In this context, the use of ‘energy as a weapon’ by Moscow to manifest its regional power and prevent states from the post-Soviet space from turning towards the West became possible. From the early 1990s, Russia used its energy resources to exercise political and economic pressure at different points on Belarus, Georgia, Estonia, Latvia, Lithuania, Moldova and Ukraine, among others. Although Moscow would typically deny that the disputes over the oil/gas deliveries or supply cut-off episodes were politically motivated, these events tend to correlate with political developments in the fossil-fuel-importing states that ran against Russian interests. For instance, Russia periodically limited oil and gas supply to the Baltic states in the early 1990s, after the newly independent states requested the Russian military to leave their territory. The Ukrainian gas crisis of 2006 took place in a new political context, with pro-European president of Ukraine Viktor Yushchenko in office. In 2006 Gazprom also more than doubled the gas prices for Georgia shortly after the country expressed its desire to join the NATO alliance. Before opening its LNG terminal ‘Independence’ in 2014, Lithuania experienced gas-price spikes that correlated with its gas diversification plans, and the national gas sector unbundling when the Lithuanian state was buying out Gazprom’s shares. In 2021 Gazprom limited the gas supply to Moldova, causing a domestic energy crisis that coincided with the election of pro-EU politician Maia Sandu as the president of Moldova.

The above examples, as well as numerous others, put the issue of energy supply high on the security agenda across the CEE region early on and prompted diversification policies, especially in the gas sector, via new LNG terminals (for example in Poland and Lithuania), gas pipelines from non-Russian directions (such as the Baltic Pipe) or gas interconnectors between CEE countries. The regional concerns related to different energy blackmail episodes were additionally heightened by the tense political climate. The 2008 war in Georgia and the 2014 war in Ukraine, which resulted in Russia occupying parts of both countries’ territories, made it explicitly clear that Moscow does not intend to lose strategic influence

in its so-called 'near abroad'. Consequently, after 2014 the regional developments in the energy sector were increasingly scrutinised from the security angle, and the construction of pipelines circumventing Ukraine caused strong opposition in CEE and calls for greater European solidarity.

On solidarity

After the 2014 conflict, Russia focused on constructing the TurkStream and Nord Stream 2 gas pipelines that would omit the so-far transit states in the CEE region.

These developments were especially important for Ukraine for both economic and political reasons. Apart from the revenues from transit fees, being a significant transit country gave Ukraine certain leverage in conflicts with Russia. Circumventing Ukraine as a transit state would make it ever more vulnerable to gas cut-offs in the future. Moreover, the construction of the Nord Stream 2 pipeline sent a clear signal to Moscow that energy trade with Europe would not cease, even following the annexation of part of Ukrainian territories by Russia in 2014. Not surprisingly then, the project was met with strong opposition from Ukraine and several other countries in CEE.

Former Ukrainian President Petro Poroshenko attempted to stop the development of Nord Stream 2 in Brussels with the help of some European companies, as he considered it a political project against Ukraine and an economic and energy blockade of no economically justifiable basis. He also called Nord Stream 2 the 'Trojan horse for European security', which was threatening both the EU's energy and geopolitical security. In a wider public debate, Ukrainian commentators started to cast doubt on the integrity, motives and values of the EU actors in charge of the project. This debate echoed in the region, as following the outbreak of the Ukrainian-Russian conflict in 2014, the construction of yet another pipeline bypassing CEE raised a red alert. In a joint letter to the European Commission, the governments of Poland, Hungary, Romania, Slovakia and the Baltic states pointed out the issue with Ukraine's transit fees, Europe's increased dependency on Russia and an undermined trust in the planned Energy Union, as a result of the project. In CEE, the Nord Stream 2 pipeline was frequently regarded as a political rather than a business undertaking that would consolidate the Russian dominant position as a gas supplier, *de facto* prevent the development of the South Stream pipeline and mark the comeback of political realism with national interests of individual member states prevailing over the common one. In the aftermath of the 2014 war in Ukraine, CEE states called for even greater European solidarity with their security concerns and interests. As the Polish president Andrzej Duda commented on the Nord Stream 2 project after the meeting with the presidents of the Visegrad Group in Slovakia in 2018: "We want a solidarity-based European Union that seeks mutual understanding in which every country is treated as equal".

The different views on energy security across Europe in the context of the perceived potential energy blackmail from Russia did not align until the Russian attack on Ukraine in February 2022. The latter led to a U-turn shift in the EU's energy policy which started to

focus on cutting energy ties with Moscow and accelerating the energy transition. In March 2022, the International Energy Agency outlined a ten-point action plan to reduce the EU's dependence on Russian gas by a third by the end of 2022 while staying on the green transition path, and the European Commission followed suit with 'REPowerEU' – a blueprint to eliminate the EU's dependence on Russian fossil fuels by 2030. The necessary measures include diversification of gas supply, the introduction of minimum gas storage requirements, increased generation from low-emission energy sources (for example, bioenergy and nuclear), boosting energy efficiency measures and accelerating the development of wind and solar energy. However, the necessary speed of the combined diversification away from Russian energy sources, fossil fuel phase-out and mass scale-up of the low-carbon energy technologies, with policy targets being further accelerated in the "REPowerEU Action Plan" from mid-May, is a huge task. And as the current energy crisis unfolds, the negative impact felt by the European national economies and societies complicates the picture further.

Challenges ahead of us

The current energy crisis poses several key challenges, especially as it is intertwined with wider climate, economic and societal considerations.

By phasing out fossil fuels, including those imported from Russia, and accelerating the transition to a low-carbon economy, the EU could improve its security of supply long-term and address the unfolding energy-climate crisis. However, this task will be costly for European consumers. There are no quick fixes and no one-fits-all solutions, as each member state needs to tackle the challenges within the limits of its own current energy mix and economic situation.

In the short term, cutting energy demand and improving energy efficiency measures are the fastest and most cost-effective ways to partially mitigate the crisis. The adjustment of national energy policies going forward is more demanding, though, and often implies trade-offs between, for example, short-term energy security versus long-term climate-mitigation targets, or security of supply versus cost of energy.

In the current crisis, the International Energy Agency listed burning coal as a possible short-term solution to replace gas in electricity generation, and a number of EU states (including Austria, France, Germany, Italy, Greece, the Netherlands and Poland) decided to extend the operation of the existing coal-fired plants, increase their output or reopen those that were previously shut down in line with the climate-change-mitigation goals. These policy moves are deemed necessary to ensure energy security in the short run, although they do sidetrack the ambitious climate agenda for the time being. In the longer perspective, Russian gas needs to be replaced by other sources of gas, while further investments in low-carbon energy are needed, including key renewable energy sources such as solar, wind, biomethane and green hydrogen. The EU states are currently in different positions when it comes to their individual choices of low-carbon energy technologies and the necessary scale and speed of their deployment to meet future domestic energy demand.

For instance, while the planned mass scale-up of renewable energy in countries like Denmark – a regional leader in wind energy generation and technology – can largely pave the way to a low-carbon economy, this task is more complicated for bigger EU economies. In Poland, for example, where 70% of domestic electricity is still generated from coal, the policy plan for energy transition involves the development of both renewables and big power-generation units, such as nuclear energy, to replace coal. In Germany, where the ambitious *Energiewende* ruled out the use of both coal and nuclear energy long-term, gradually reducing the reliance on Russian gas has posed a major challenge. Although Germany planned to phase out nuclear energy by the end of 2022, the government has already extended that deadline to April 2023 and, given the insufficient supply of energy in the south of the country, extending the operation of nuclear power plants in that region beyond this date remains a possibility.

Moreover, the EU needs alternative sources of gas, which are both more costly than the piped gas from Russia and harder to obtain due to market and infrastructure limitations. Most notably, obtaining additional volumes of liquified natural gas, which is the primary replacement option, requires the construction of costly LNG terminals and ensuring contracts with major suppliers (for example, the US, Australia, Qatar), who are already operating at near full capacity and on the basis of long-term contracts. As such, securing LNG on the global market comes with a heavy price tag, which has more than doubled since Russia's invasion of Ukraine in February 2022.

The only way forward is together

The combined costs of the accelerated pace of energy transition and diversification of gas add to the strained economic situation and skyrocketing energy prices that hit European consumers and businesses alike. The challenge is multifold. Despite billions spent by governments to shield consumers, the prices for electricity and natural gas paid by households are higher than ever, and the winter can worsen the situation further. National governments started to implement a set of policies to address the crisis, which involved retail price caps, regulated tariffs and support for companies, as well as policies aimed at improving energy-saving measures and increasing supply. Some of those measures are not without significant downsides, as uncoordinated action in different member states can negatively affect the EU as a whole. For instance, energy subsidies in one country might stimulate consumption and result in higher wholesale prices across the Union – negatively impacting customers in other states. Therefore, as some recent expert analyses point out, the best way forward involves a coordinated effort by the member states to lower energy demand and increase supply while keeping internal energy markets open and implementing measures to shield the most vulnerable consumers.

Cooperation and widely defined solidarity are, in fact, needed at different levels of policy and should inform not only domestic measures aimed at energy-crisis mitigation, but also joint projects in energy infrastructure, and dealings with external suppliers, as well as

the efforts to establish a common future energy policy outlook. To start with, it is crucial to increase the interconnectedness of energy infrastructures, such as gas and electricity networks. Whereas in some areas, such as the Baltic Sea Region (BSR), a number of important gas interconnectors (for example, Balticconnector adjoining Finland and Estonia, GIPL adjoining Poland and Lithuania) interlinked the national gas markets and improved regional energy security, similar projects should be prioritised across the EU (for example, connectors adjoining southern EU's gas networks). Cooperation is also key to avoiding uncoordinated investments (for example, current plans for multiple LNG terminals in the BSR) that will become stranded assets once the transition to green energy progresses further in the future. Hence, the new gas infrastructure should be also hydrogen compatible.

Equally important is the cooperation of member states on gas storage requirements for the winter season. Although in November 2022, gas storage across Europe was filled up to 95%, 2023 will pose a bigger challenge, as the storage facilities will need to be filled with sources other than Russian gas. Therefore, member states need to use the available coordination tools at the EU level, such as aggregating demand and partaking in joint-purchasing mechanisms, to facilitate the process and avoid excessive prices. In this regard, the recently established EU platform for the common purchase of gas, LNG and hydrogen to secure the best deals with external suppliers is a useful initiative that can maximise the EU's collective political and market power, and that could also be extended to other sectors, such as renewables.

This increased multi-level cooperation between member states needs to be driven by a heightened sense of solidarity. In policy terms, the solidarity agreements between countries in line with the Gas Security Supply Regulation are some tangible examples of this principle in practice. However, if the past is any indication, it is easy to envision how the interests of individual states might overshadow common energy policy outlook, especially in times of crisis. As the potential gas shortages occur and prices continue to rise, 'my country first' policies might surface. Even more so, as the worsening economic situation affects European societies, potentially stirring societal unrest and influencing domestic politics across the continent. The loss of political momentum constitutes therefore a real risk. Both at the societal level, where despite the enormous sense of solidarity with Ukrainians in the first months of the war, Europeans might get tired of the high economic costs and lean towards softening the policy towards Moscow to get a quick solution to the energy problem. And on the policy level. Here, the negotiation of energy sanctions toward Russia has already exemplified a lack of unity, as oil sanctions have been marked by exceptions (excluding one third of piped oil deliveries and allowing for emergency seaborne oil purchases), a relatively long timeframe, and a lack of urgency in the future, as no clear date has been set for the total ban on Russian oil. Negotiating gas sanctions will prove even more challenging, especially with countries such as Hungary potentially making use of their veto power.

However, despite all the challenges of the current energy crisis, it is also a unique opportunity to learn from past mistakes, cooperate on mitigating the unfolding energy crisis, and plan for a more secure future based on a common energy policy approach. And if we want to succeed in that, then the only way forward is together.