

Energy Unity or Breakup? The EU at a Crossroads

by Pier Paolo Raimondi and Margherita Bianchi

The European Union is once again at crossroads. Russia's war on Ukraine and the energy crisis that ensued in its wake, the worst since 1973, are shaking the continent to its core. Coming on the heels of other recent disruptions – the 2008 financial and sovereign debt crisis, the so-called European migration crisis of 2015, Brexit and the rise of populist parties across the EU –, today's crisis will have far reaching implications on the future of the European project.

The EU has shown a remarkable degree of unity in pushing back against Putin's aggression. Yet, such harmony may splinter and even crumble as winter approaches and Moscow continues its policy of weaponising gas exports (accounting for 40 per cent of EU gas imports in 2021).¹ Many European

economies rely on cheap Russian energy, meaning that an expected decoupling will heavily impact economic growth as well.

All of this may make or break EU integration. The invasion prompted an unprecedented series of measures and proposals that could profoundly transform the internal energy market. Still, more needs to be done. European and national policymakers will need to decide how to respond to such transformations, as these will ultimately define the future trajectory – and unity – of the EU. Future responses will eventually determine EU's role on the world stage and its credibility to lead the global energy transition.

European integration started with energy in the wake of World War II, when six European countries overcome national animosities and in 1951 came together in the European Coal and Steel Community (ECSC) to foster economic growth and prevent conflicts. In 1957,

¹ Eurostat, *EU Imports of Energy Products – Latest Development* (Data extracted in April 2022), https://ec.europa.eu/eurostat/statistics-explained/index.php?title=EU_imports_of_energy_products_-_recent_developments#Main_suppliers_of_natural_gas_and_petroleum_oils_to_the_EU.

Pier Paolo Raimondi is Research Fellow in the Energy, Climate and Resources Programme at the Istituto Affari Internazionali (IAI) and PhD candidate at the Università Cattolica del Sacro Cuore, Milan. Margherita Bianchi is Head of the Energy, Climate and Resources programme at IAI.

those same countries created the European Atomic Energy Community (EAEC) following the Suez Canal crisis. Yet, in the 1960s, national priorities overshadowed further integration. The 1973 oil crisis made energy security a top political priority again and a key pillar of European policy. Over time, European institutions and member states transformed their energy priorities, from liberalisation in the name of affordability in the 1980s and 1990s to sustainability, especially from the 2010s onwards.

Advances in energy policy integration have taken place in the wake of severe energy and climate crises which required member states to find EU-level solutions and coordinate their response to boost the bloc's preparedness. This was the case following the two gas crises in 2006 and 2009. Back then, the EU adopted important directives to regulate European gas markets, making them a key pillar of the European internal market. More recently, EU states decided to fight climate change together: sustainability has become Europe's defining mission and the new narrative for the EU project, embodied by the European Green Deal.

By 2021, energy security and affordability returned to top Brussels' agenda. Pursuing its aggressive policy, Moscow weaponised its energy resources by refusing to sell additional gas on the spot market despite soaring prices, and subsequently moved to tighten its gas supplies to EU countries. At the time of writing, Russia halted its gas supply to six European countries completely, while significantly diminishing gas volumes to key gas

markets, namely Germany and Italy, using technical issues as a pretext. The Nord Stream 1 pipeline has also been suspended indefinitely.²

These moves are clearly aimed at undermining European efforts to fill gas storages, vital for the winter, and ultimately at breaking Europe's unity. Indeed, Putin's calculus is that European unity will crumble as socioeconomic costs begin hurting European societies,³ forcing EU states to loosen sanctions on Russia and diminish support for Ukraine.

The EU should consider this threat as nothing less than existential. With European governments struggling to cope with potential supply shortages and economic damages, the next months will test European unity. The International Energy Agency's Director, Fatih Birol, already warned Europe to prepare "in case Russian gas is completely cut off".⁴

In response, the EU has launched the REPowerEU plan, seeking to phase out of Russian gas imports before 2027.⁵ The plan consists of two pillars:

² David Sheppard and Max Seddon, "Russia Indefinitely Suspends Nord Stream Gas Pipeline to Europe", in *Financial Times*, 3 September 2022, <https://www.ft.com/content/5867c175-df16-4c8b-9b7a-a868a19d0138>.

³ Max Seddon, "Putin Claims Russia Has Weathered Sanctions Better than Europe", in *Financial Times*, 17 June 2022, <https://www.ft.com/content/fb79c2bd-fb88-4055-8183-508d4df865e5>.

⁴ David Sheppard, "IEA Chief Warns Europe to Prepare for Total Shutdown of Russian Gas Exports", in *Financial Times*, 22 June 2022, <https://www.ft.com/content/f7990162-395f-488e-9d23-13f3cce83e24>.

⁵ European Commission, *REPowerEU Plan*

diminish European dependence on Russian energy through diversification, notably in the form of liquefied natural gas (LNG), and boost decarbonisation through renewables and energy efficiency.

These twin goals are no easy task. The tight global gas market is hindering efforts to find alternative non-Russian gas resources, while accelerating the green transition is also a challenge, not least in light of ongoing delays for new renewable projects.⁶ Much of the REpowerEU plan takes the form of guidance from the Commission. To be effective, this requires close coordination with member states. Given the challenging international gas market, member states may end up competing for non-Russian supplies in order to secure enough gas for their own citizens and companies ahead of winter, prioritising national interests and thereby undermining EU unity and solidarity.

In order to have enough gas for the winter, European countries are considering contingency measures on the supply side, such as bringing back coal and nuclear plants, and on the demand side, through future energy rationing plans, which would affect both households and businesses.

(COM/2022/230), 18 May 2022, <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52022DC0230>.

⁶ Obtaining a permit can take nine years for wind projects, and four and a half years for solar projects in certain European countries. See Alice Hancock, "EU Must Speed Up Approval of Renewable Projects, Denmark Says", in *Financial Times*, 29 August 2022, <https://www.ft.com/content/8fc5d390-df66-4da3-96b0-b65408bb0536>.

Nonetheless, states should also take into consideration the socioeconomic and climate consequences of such measures.

In an effort to reduce the burden on citizens, EU governments have since September 2021 devoted massive amounts of public money to subsidise fossil fuels,⁷ putting public finance under severe stress, exacerbating fragilities in certain countries and exposing them to high interest rates and tighter macroeconomic policy. Economic constraints could also potentially harm future investments into renewables and the much-needed sustainable transformation of the energy system.

In this regard, governments should coordinate their response to shield the most vulnerable citizens and companies, yet avoiding universal subsidies that do not solve the issue, as they incentivise consumption in times of crisis. This is no longer environmentally, financially and strategically acceptable. Governments should find common solutions on energy conservation, which could contribute to depress energy prices.

Lastly, in the event of supply disruptions, lack of European solidarity and the harmonisation of rules could further undermine European unity.⁸

⁷ Giovanni Sgaravatti, Simone Tagliapietra and Georg Zachmann, "National Policies to Shield Consumers from Rising Energy Prices", in *Bruegel Datasets*, 10 August 2022, <https://www.bruegel.org/node/7844>.

⁸ Joe Miller, David Sheppard and Nathalie Thomas, "Russian Gas Crisis Will Test EU Solidarity, Warns German Utility RWE", in *Financial Times*, 24 June 2022, <https://www>.

Potential disruptions may lead to beggar-thy-neighbour policies already seen during other crises, such as the so-called refugee crisis in 2015, when member states momentarily suspended Schengen rules, or immediately after the outbreak of the Covid-19 pandemic in 2020, when states competed over access to protective gear while suspending travel.

Such a threat is unfolding in conjunction with other fundamental crises facing the EU and the world, chief among which stands the climate emergency, but also extending to the crisis of multilateralism and liberal democracy as well as mounting inflation and socio-economic challenges. The way the EU will respond to these intertwined crises will define the future of the Union and its ability to stand up in the international arena. European unity at home is a precondition for a solid and credible EU abroad.

Notwithstanding these existential threats, the current energy crisis is also an opportunity to strengthen the EU's architecture. The EU has moved in the right direction. Yet, energy is a shared competence (Article 194, TFUE) and governments are still jealously protecting their sovereignty on such a strategic issue. In this regard, governments could take advantage of the current gas crisis to enhance and improve their energy integration based on three concepts: energy security, affordability and sustainability.

[ft.com/content/7826bf60-8d33-4c69-9191-e8f1eafd59d8](https://www.ft.com/content/7826bf60-8d33-4c69-9191-e8f1eafd59d8).

The Commission proposed its “Save gas for a safe winter” package, which instructs member states to reduce their gas demand by 15 per cent.⁹ Different energy conditions among countries have caused (perhaps understandable) opposition from certain states, which were ultimately overcome via amendments to the Commission's proposal. The current crisis and the skyrocketing prices also require a reconsideration of existing energy market fundamentals, with several countries calling for a structural reform of the electricity market – a problem that Ursula von der Leyen has recently recognised.¹⁰ Member states need to find new tools to reduce national opposition and enhance solidarity, building on the positive example provided by the EU's economic recovery plan approved the wake of the Covid crisis, aiming at fostering the energy transition while sheltering the most vulnerable groups. An extraordinary meeting of energy ministers, scheduled for 9 September, will debate potential solutions.

⁹ European Commission, *Save Gas for a Safe Winter* (COM/2022/360), 20 July 2022, <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52022DC0360>; European Commission, *Proposal for a Council Regulation on Coordinated Demand Reduction Measures for Gas* (COM/2022/361), 20 July 2022, <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52022PC0361>.

¹⁰ European Commission, *Keynote Speech by President von der Leyen at the Bled Strategic Forum*, 29 August 2022, https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_22_5225; Jorge Liboreiro, “Energy Crisis: Ursula von der Leyen Calls for ‘Emergency Intervention’ in Electricity Market”, in *Euronews*, 30 August 2022, <https://www.euronews.com/my-europe/2022/08/29/energy-crisis-ursula-von-der-leyen-calls-for-emergency-intervention-in-electricity-market>.



European countries and institutions are called to renew and improve the bloc's political and energy integration. This is key to increase interconnectivity, vital to move energy from the least to the most vulnerable states, and strengthen solidarity among member states in case of supply disruptions. Such measures will also help harmonise intra-EU rules and plans to protect households and businesses, thereby also reinforcing European institutions and frameworks, such as the EU internal energy market.

EU unity and solidarity will also be enhanced through investments in infrastructure that will contribute to the reconfiguration of flows. Even though the war has undermined trust in positive outcomes from trade connectivity, reinforcing protectionist tendencies, the EU needs to sustain the positive outcomes of interconnectivity especially among European countries and with like-minded countries, such as the US. Rather than full autonomy, the new energy landscape is expected to spur regionalism and fragmentation into blocks with the EU and US becoming more integrated.

Lastly, European unity should not only apply to today's most pressing energy priorities (i.e., gas). The EU should start to proactively consider common measures to protect itself from future and potential security risks along the energy transition,¹¹ such as creating a common European stockpile for critical raw materials and other commodities

that are vital for decarbonisation technologies.

Unity and solidarity are key responses in light of Putin's war. The European project is at stake. Enhanced and effective coordination among EU member states will determine not only the future European energy landscape but also the EU's political weight on the international scene.

5 September 2022

¹¹ Neil Hume, "Europe Faces Critical Shortage of Metals Needed for Clean Energy", in *Financial Times*, 25 April 2022, <https://www.ft.com/content/72400b96-4c67-4a7f-9a98-53371f5ab421>.

Istituto Affari Internazionali (IAI)

The Istituto Affari Internazionali (IAI) is a private, independent non-profit think tank, founded in 1965 on the initiative of Altiero Spinelli. IAI seeks to promote awareness of international politics and to contribute to the advancement of European integration and multilateral cooperation. Its focus embraces topics of strategic relevance such as European integration, security and defence, international economics and global governance, energy, climate and Italian foreign policy; as well as the dynamics of cooperation and conflict in key geographical regions such as the Mediterranean and Middle East, Asia, Eurasia, Africa and the Americas. IAI publishes an English-language quarterly (*The International Spectator*), an online webzine (*Affarinternazionali*), three book series (*Global Politics and Security*, *Quaderni IAI* and *IAI Research Studies*) and some papers' series related to IAI research projects (*Documenti IAI*, *IAI Papers*, etc.).

Via dei Montecatini, 17

I-00186 Rome, Italy

Tel. +39 066976831

iai@iai.it

www.iai.it

Latest IAI COMMENTARIES

Director: Andrea Dessì (a.dessi@iai.it)

- 22 | 39 Pier Paolo Raimondi and Margherita Bianchi, *Energy Unity or Breakup? The EU at a Crossroads*
- 22 | 38 Riccardo Alcaro, *More Integration, Less Autonomy: The EU in Europe's New Order*
- 22 | 37 Andrew McIntosh and Jawad Fairouz, *Fragile Nationality and Permanent Precarity in Bahrain*
- 22 | 36 Giulia Gozzini, *Lebanon's Perennial Limbo: A Paralysed System Teetering on the Brink*
- 22 | 35 Dario Cristiani, *The Killing of Al-Zawahiri and the Future of Al-Qaeda*
- 22 | 34 Akram Ezzamouri, *Transitional Justice: Lessons from Tunisia's Aborted Transition*
- 22 | 33 Rafael Ramírez, *The De-Globalisation of Oil: Risks and Implications from the Politicisation of Energy Markets*
- 22 | 32 Alessandro Azzoni, *European Defence: Time to Act*
- 22 | 31 Daniel Gros and Nathalie Tocci, *Sense and Nonsense behind Energy Price Caps*
- 22 | 30 Alessandro Marrone, *NATO's New Strategic Concept: Novelty and Priorities*