

# Between Security and Transition: Prospects for German-Italian Energy Cooperation

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Italy and Germany share relevant similarities and challenges in the energy domain. They are both large energy consumers (145 and 270 million tonnes of oil equivalent, respectively)<sup>1</sup> with large populations (60 million and 80 million, respectively), high GDP per capita (43,788 US dollars Italy, 53,560 US dollars Germany)<sup>2</sup> and energy-intensive sectors – such as steel, cement, glass, refineries and metallurgic industries. Likewise, they

face common challenges regarding the energy trilemma (energy security, affordability and sustainability). In the current context, navigating the energy trilemma requires coordinated policies to steer a successful European energy transformation. Energy security remains a crucial consideration for both Italy and Germany. Major concerns over high energy prices and their impact on competitiveness have necessitated a new approach in terms of demand curtailment or energy subsidies at the EU and bilateral levels in order to prevent detrimental intra-European competition. Meanwhile, the EU has not cooled down its climate ambitions, it has instead further enhanced them through the crisis. Therefore, Italy and Germany need to find ways to

<sup>1</sup> In 2022. see Enerdata, "Total Energy Consumption", in *World Energy & Climate Statistics – Yearbook 2023*, 2023, <https://yearbook.enerdata.net/total-energy/world-consumption-statistics.html>.

<sup>2</sup> World Bank Data, *GDP per Capita PPP (constant 2017 international \$) in 2022*, <https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD>.

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reconcile energy security and climate objectives set by national and European legislation.

In this context, the complementarities between the two countries provide some relevant opportunities for a more coordinated approach towards these multiple issues. Joint efforts, further cooperation and deeper dialogue would yield positive results for their economies and energy systems, as well as for the entire EU. To achieve that, the two countries will need to overcome domestic and bilateral constraints and leverage their similarities to shape the future of their energy transformations.

### *Different policy drivers for the transition*

At first glance, the political drivers and ambition towards energy transition in Italy and Germany seem to differ considerably. For Italy, the main driver has been the EU climate and energy legislative framework. Furthermore, the current government headed by Giorgia Meloni, compared to the Draghi government, has expressed less enthusiastic support for the energy transition, prioritising energy security and affordability as illustrated by the name-change of the Ministry for Ecological Transition (Draghi) to the Ministry of Environment and Energy Security (Meloni). In this context, some political parties argue that the development of nuclear energy is an avenue for reconciling security with climate objectives, although some major challenges remain.<sup>3</sup>

<sup>3</sup> Pier Paolo Raimondi, "Italy and Norway: Perspectives for a Further Energy Cooperation",

In Germany, the main political driver of climate policy ambition is a member of the coalition: the Green Party. The Party has strongly pushed for expanding renewable capacity and climate policies, while advocating for a phase-out of coal and nuclear power plants, which resulted in the last three remaining of the latter being shut down in April 2023. However, Germany's political preferences are quite fragmented in terms of energy transition and decarbonisation strategy. The Green Party's ambitions have, in the past, clashed with the objectives of another coalition party, the liberal FDP, on the issue of financing the transition. This tension has intensified following the German Constitutional Court's recent ruling holding that the government acted unconstitutionally by reallocating 60 billion euros in emergency loans to a climate fund.<sup>4</sup> Its constitutional and budgetary implications for Germany's approach to the energy transition are uncertain, as the government now needs to find alternative ways to fund its climate action beyond already announced policies.

Italy and Germany have also experienced strong debates over increasingly ambitious climate policies at the EU level. The most notable examples of such debate are the phase-out of sales of internal combustion engine cars,<sup>5</sup> the phase-out of fossil fuel

in *IAI Papers*, No. 23|18 (July 2023), <https://www.iai.it/en/node/17342>.

<sup>4</sup> Maria Martinez and Christian Kraemer, "German Court Deals 60 Billion Euro Budget Blow to Scholz Government", in *Reuters*, 15 November 2023, <https://www.reuters.com/world/europe/german-court-make-key-ruling-budget-manoeuvre-2023-11-15>.

<sup>5</sup> Philip Oltermann, "German Government in



heating systems,<sup>6</sup> and energy efficiency improvements in the building sector.<sup>7</sup> More generally, the two countries are embracing diverging strategic thinking regarding the transition. Germany has encapsulated the concept of energy transition (*Energiewende*, which dates back to 2010) into its energy policy. In Italy, the development of the energy transition has unfolded through different phases, especially depending on the availability of generous subsidies, without putting forward long-term strategies.

At the same time, political dialogue and energy cooperation are spurred by the reconfiguration of energy flows caused by the decoupling between Europe and Russia. Italy seeks to seize this opportunity to become an energy hub and an energy bridge between Europe and Africa thanks to its position in the Mediterranean. From this perspective, Italy could contribute to enhancing

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Crisis over EU Ban on Car Combustion Engines”, in *The Guardian*, 23 March 2023, <https://www.theguardian.com/p/ntkx4>.

<sup>6</sup> Sören Amelang, “Q&A – Germany Agrees Phaseout of Fossil Fuel Heating Systems”, in *Clean Energy Wire*, 11 September 2023, <https://www.cleanenergywire.org/node/12040>. These sometimes very public tensions between the coalition partners have also contributed to a general dissatisfaction with the government among German voters, see Julian Wettengel, “Public Discontent with Government Risks Slowing Germany’s Climate Efforts”, in *Clean Energy Wire*, 10 August 2023, <https://www.cleanenergywire.org/node/12341>.

<sup>7</sup> Crispian Balmer and Valentina Za, “Italy Gets Cold Feet over EU Greener Buildings Plan”, in *Reuters*, 3 February 2023, <https://www.reuters.com/business/environment/italy-gets-cold-feet-over-eu-greener-buildings-plan-2023-02-03>; and Nikolaus J. Kurmayer, “Germany Industry Launches Last-Minute Bid to Salvage EU Buildings Law”, in *Euractiv*, 10 October 2023, <https://www.euractiv.com/?p=1990439>.

diversification and energy security in Central and Eastern European countries as well as Germany. However, while doing so, Italy will also need to take into consideration future gas demand in the EU and coordinate with potential importing EU countries, such as Germany. Indeed, Berlin has drastically expanded its liquefied natural gas (LNG) import capacity, potentially lowering its import needs from the south.

### *Coordinating economic transition and investments*

There is a strong economic case for closer energy cooperation between Italy and Germany. The perhaps best-known similarity between the two countries is their traditionally strong automotive manufacturing industry. In absolute terms, Germany ranks first among vehicle-producing countries in the EU by some distance, with 3.7 million units produced in 2022, with Italy sixth with 783,000 units.<sup>8</sup> Germany is by far the most important trade partner for Italy in terms of automotive parts accounting for nearly a quarter (23.7 per cent) of all Italian exports of this kind in 2022.<sup>9</sup> Given such deep economic and trade interconnections, dialogue and coordination between Italy and Germany on how the transition towards net-zero will unfold and impact EU industry will be important to facilitate mutually beneficial adjustments.

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<sup>8</sup> European Automobile Manufacturers’ Association (ACEA), *Motor Vehicle Production in the EU, by Country*, 1 May 2023, <https://www.acea.auto/?p=1306>.

<sup>9</sup> Trade Map website: *List of Importing Markets for a Product [8708] Exported by Italy*, accessed on December 2023, [https://www.trademap.org/Country\\_Sel/ProductCountry\\_TS.aspx?nvpm=1|381|||8708||4|1|2|2|4|1|1](https://www.trademap.org/Country_Sel/ProductCountry_TS.aspx?nvpm=1|381|||8708||4|1|2|2|4|1|1).

This is especially true for industrial strategy, although Germany tends to be ahead in developing a long-term strategy.<sup>10</sup> Italy's industrial strategy, instead, has usually been more short-term due to constraints regarding cost and promotion of growth along the entire supply chain. Furthermore, the diverging fiscal capacity of the two countries may lead to markedly different outcomes in their industrial transitions. Italy's fiscal weakness undermines the ability to invest in new solutions and transformation. Given the challenges, EU funding will be required, while Italy needs to prove that it can actually spend the existing resources in a timely and efficient manner. The implementation of Italy's revised Recovery and Resilience Plan, which has been positively assessed by the European Commission on 24 November 2023 and which would see 39 per cent of its value of 194.4 billion euros allocated to Green Deal objectives, will be an important indicator in this regard.

Despite these differences, Italy and Germany need to work jointly to explore ways in which to leverage their economic similarities and interconnections into more efficient climate action. Both countries should continue to promote communication of Green Deal policies as an opportunity rather than an obstacle to economic

<sup>10</sup> The most recent German Industrial Strategy, presented on 24 October 2023, can be accessed here: Federal Ministry for Economic Affairs and Climate Action, *Minister Habeck Presents Industrial Strategy – Industrial Policy in Changed Times*, 24 October 2023, <https://www.bmwk.de/Redaktion/EN/Pressemitteilungen/2023/10/20231024-minister-habeck-presents-industrial-strategy.html>.

advancement, which however is becoming more difficult as Green Deal law and policy are increasingly perceived to be in conflict with industrial competitiveness.<sup>11</sup> In this context, it is vital for both countries to address the question of just transition to try to compensate those communities that will be disadvantaged by the decarbonisation process.

### *Cooperation through infrastructure*

Infrastructure plays a critical role for both energy security and transition. However, the expansion of energy infrastructure entails domestic and European challenges. Regarding the energy transition, one of the key issues for both countries is to build adequate network infrastructure to bring energy to the main consuming hubs. In the case of Germany, the bulk of energy demand is located in the southern regions, while renewables – especially offshore wind – are and will be produced in the North. Instead, Italy is rich in renewables in the South, while its main consumption is in the northern regions. Local opposition and long permitting processes may hinder the pace of the required infrastructure network expansion.

The challenge of infrastructural development also holds for gas infrastructure, which Italy would need to expand in order to achieve its ambition to become an energy hub.

<sup>11</sup> This is reflected, for example, in the recent, heated debates in the European Parliament on the Nature Restoration Law. See Louise Guillot, "EU Nature Law Fight Ends in Pyrrhic Victory for Green Deal Defenders", in *Politico*, 10 November 2023, <https://www.politico.eu/?p=3842718>.



Furthermore, the country needs to carefully assess the future gas demand both in Italy and in Europe to avoid the risk of lock-in effect and stranded assets.

In parallel, Italy and Germany could cooperate in the development of hydrogen, given the relevance of hard-to-abate sectors. Italy is seeking to become a transit country for cheap low-carbon hydrogen from North Africa, leveraging on its position, existing infrastructure and positive relations with key countries. Given its industrial capacity, Germany is set to become a key demand centre for hydrogen as the decarbonisation process unfolds. To maximise the potential of hydrogen trade, however, the two countries need to expand North-South cross-border infrastructures within Europe. An initial step is the SouthH2 Corridor project which aims to bring 4 million tonnes of hydrogen from Algeria to Italy, Austria and Germany.

Lastly, given the complementarity of renewable potential (solar in Italy and wind in Germany), there is room for synergies over flexibility in the power system infrastructure, both on electricity and hydrogen.

### *Contribution to EU decarbonisation objectives*

National initiatives in Germany and Italy, and cooperation between the two countries, are crucial to pursuing the objectives of the European Green Deal, as well as meeting the EU's energy security targets in an efficient way.

The achievement of the EU's overarching target of achieving a 42.5 per cent share of renewables in gross final energy consumption by 2030 is a key challenge. German-Italian cooperation may result in considerable added value by helping efficiently meet the European Green Deal's targets, particularly by addressing the infrastructural challenges mentioned above.

The signature of an Action Plan between Germany and Italy on 22 November 2023, finalising a process initiated under the Draghi government, provided a clear signal of intent to collaborate more closely, including on energy. Though not providing a detailed roadmap, the Action Plan promises greater coordination in involving the private sector to meet EU climate targets, as well as greater cooperation on energy market issues, including at the European level.<sup>12</sup> Notably, a more formalised bilateral programme of action could also strengthen trilateral cooperation with France.

### *Looking ahead*

In the context of the energy transition and amidst the current debate on energy security, there is much at stake, not just for Italy and Germany, but for

<sup>12</sup> Germany and Italy, *Piano di Azione italo-tedesco per la cooperazione strategica bilaterale e nell'Unione europea* [Action Plan to strengthen cooperation at both bilateral and European level], 22 November 2023, <https://www.governo.it/en/node/24362>; *Deutsch-italienischer Aktionsplan für strategische Zusammenarbeit auf bilateraler und EU-Ebene*, <https://www.bundesregierung.de/resource/blob/975228/2244468/dc5441c1b7497c5855a723c87ffbf3a8/2023-11-22-dtitaktionsplan-data.pdf>.

the entire EU. Political cooperation and dialogue are strongly required to overcome misunderstandings and misperceptions, such as fragmented interests within the government coalition in Germany and decreasing enthusiasm towards decarbonisation as well as fiscal weakness in Italy.

A priority for German-Italian energy cooperation should be to ensure coherence between gas diversification strategies and to coordinate on the associated infrastructure for interconnection between both countries. This needs to go beyond the SouthH2 Corridor to involve broader strategic considerations, also at the EU level, as to how European energy security should best be guaranteed.

Coordination on decarbonisation and competitiveness of the Italian and German industries should not only aim to ensure that the energy transition in one country does not hurt the economy of the other; this partnership should also enable joint strategic thinking about other objectives of the Green Deal Industrial Plan, such as, for example, the strengthening of supply chains for critical raw materials. Given a host of complex interdependencies, continuous, deeper dialogue will be key as Italy and Germany, along with the rest of the EU, pursue a sustainable and secure energy future.

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