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EUROPE COULD FACE STRATEGIC SHRINKAGE

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An intelligent conversation on energy is essential in the European Union. The EU faces the risk of depending on the growing power of major oil and gas producers, while dealing with the looming shortages of gas. The paradox of big oil and gas consumers, who want to pivot to cleaner energy, begging for more fossil fuels and trying to drive down prices simply underlines how messy the energy transition is getting.

695

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Europe is discovering all over again just how much it depends on foreign natural gas. So concerned is the British government that consumers will not have enough to heat their homes this winter, it has asked Qatar to guarantee the UK´s security of supply. As they plead for more fossil fuels from Russia, Saudi Arabia and Qatar, major energy-consumer countries pledge at the Glasgow climate Summit COP26 new ways to curb the carbon emissions caused by the burning of those same fossil fuels. Exporters are withholding supplies to drive up prices which have reached their highest level in years. The paradox of big oil and gas consumers who want to pivot to cleaner energy begging for more fossil fuels and trying to drive down prices simply underlines how messy the energy transition is getting. The EU faces a growing risk of "strategic shrinkage", in the words of the High Representative of the European Union for Foreign Affairs and Security Policy, Josep Borrell. The three factors which explain his gloomy outlook include the EU's shrinking share of the world's wealth (25% in 1990 forecast to decline to 10% in 2031 and 5% by the end of the century); the normative power of the EU is threatened by competitors whose values are very different; and Europe's strategic theater is increasingly contested by hybrid security situations and destabilisation strategies featuring cyber warfare and disinformation. The EU faces a growing risk of strategic shrinkage, in other words the risk of being always principled but seldom relevant.

The second paradox is the sight of the US president bemoaning the failure of the world's top oil producers to pump more crude to bring down prices and singling out two countries: traditional adversary, Russia and long-time US partner Saudi Arabia. Saudi Arabia, OPEC's de facto leader and the world's top oil exporter is the only oil producer with the capacity to add significant amounts of crude to the market. But it is not budging as the Saudi energy minister, Prince Abdulaziz bin Salman argues that the issue was that "the energy market is going through havoc and hell". Saudi Arabia´s coolness towards the US seems motivated by President

Joe Biden's lack of recognition of the importance of Crown Prince Mohammed bin Salman since he took office. Biden has criticised Saudi Arabia over the brutal murder in 2018 of Jamal Khashoggi and other human rights abuses, and promised to reassess Washington's relationship with Riyadh and freezing some arms sales. Neither the visit of the president's national security adviser, Jack Sullivan in September nor that of his climate envoy John Kerry in late October, let alone the regular contacts between Antony Blinken, US secretary of state with his Saudi counterpart, Prince Faisal bin Farhan, have changed the Saudi position. Biden's threat to release crude oil from US strategic stockpiles did nothing to persuade the OPEC+ oil exporter group (OPEC and Russia) to adjust its production quotas. The organization stuck with a plan to add 400,000 barrels a day of supply each month, gradually restoring the huge amount of production it agreed, under US pressure, to cut last year to lift prices.

Since 2000, the EU further has insisted on replacing the oil indexation of gas prices with gas to gas competition. By last summer, spot prices for gas were five times higher than the price generated by indexation on oil. Recent EU policy on gas imports has scored a magnificent own goal.

On several occasions in recent history, Saudi Arabia has risked causing schisms within OPEC, either to limit (1976) or cut (1986, 2016-16) oil prices. Now consumers of oil and gas are faced with a third paradox, that of a Saudi minister advocating the creation of an OPEC for gas and coal in Moscow, the capital of Russia and the former USSR, which Saudi leaders had little affinity with until recently. Saudi philosophy was to make sure that the lifetime of oil as a major energy source was as long drawn out as possible and that its reserves could be extracted to the last barrel of oil. This philosophy was shared by many other major oil and gas producers, but it appears to have undergone a revolution in recent months as developed countries have decided to accelerate their withdrawal from hydrocarbons. Some observers saw an International Energy Agency report last May as an appeal to stop investment in new upstream oil and gas projects. In Riyadh and Moscow the report was perceived as a threat from the West.

Saudi Arabia felt all the more threatened because it requires huge financial resources to transform its economy and prepare for the post-oil era, having fallen far behind its neighbours, notably the United Arab Emirates, in this respect. Observers also noted that gas prices started rising late last spring after the IEA report was published. The Russians can be forgiven for thinking that the EU, having done all in its power since the turn of the century to break long term gas contracts that provide security of supply, was getting its just deserts. Since 2000, the EU further has insisted on replacing the oil indexation of gas prices with gas to gas competition. By last summer, spot prices for gas were five times higher than the price generated by indexation on oil. Recent EU policy on gas imports has scored a magnificent own goal. For years, Algeria, which is an important provider of gas to southern European countries, has been pleading with the EU not to change a time tested policy, to no avail.

Long term customers of Russia and Algeria are protected by (partial) indexation to the price of oil, and none of them have been turned away when they have asked for higher deliveries. Algeria for its part cannot ramp up its exports of gas because bad management of the state oil and gas sector, and the constant meddling of politicians have hampered its capacity to extract and export more of the stuff. Russia for its part can expect to sell more gas to China in the future as the construction of the Power to Siberia 2 pipeline is almost a certainty.

The growing power of major oil and gas producers and looming shortages of gas explain Chancellor Angela Merkel's determination to lock in further supplies of Russian gas through the completion of the Nordstream 2 pipeline, and President Emmanuel Macron's recent announcement that France is committed to extend the life of existing nuclear power plants and build new ones. During the Glasgow climate Summit COP26 meeting, France, where nuclear power provides 70% of all energy had the satisfaction of seeing other European leaders throw their weight behind nuclear power, because it helps keep energy costs down. If solutions are to be found to the energy challenge Europe faces, the EU needs to embrace the idea of trade-offs between different sources of power.

Paradoxes in the energy market are many and diverse, but the energy crisis Europe faces this autumn speaks of a failure to grasp what energy security entailed. Germany's decommissioning of its nuclear power plants following the 2011 Fukushima accident in Japan was a huge strategic blunder. More than ever, an intelligent conversation on how Europe builds broad-based support for an eventual phasing out of fossil fuels is needed. Failure would risk turning the EU into a strategically insignificant player in the world of tomorrow.