EU Monitor

THE FUTURE SHIFT OF ENERGY POLICIES IN THE EUROPEAN UNION

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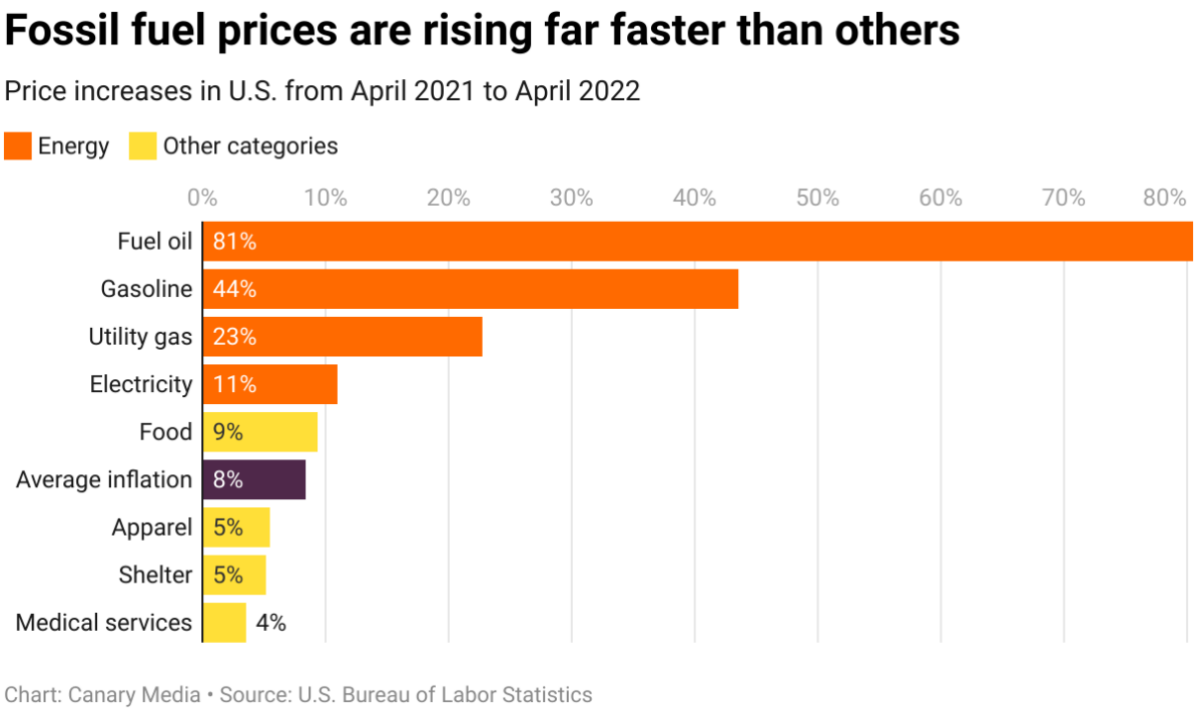
Two current dynamics are shaping the future of the EU'S energy policies: global climate change and the consequences of the Ukrainian war. With regard to global warming and the climate crisis, the EU aims to become the world's first climate-neutral continent by 2050. Firstly, the EU has already been committed to fighting against climate change through ambitious policies, such as the European Green Deal, to which Member States have responded with mixed ambitions but nonetheless rhetorical commitment at the very least.

As the key element of the European Green Deal, the Council of the European Union adopted the European Climate Law in 2021. With this legal background, the member states should prioritize reaching both the 2030 and 2050 climate goals set by the European Green Deal and its Fit for 55-package.

The Ukrainian war was the second wake-up call to find a new economic model decoupled from fossil fuel dependence on Russia. Over the preceding two years, the energy market experienced extreme price volatility, such as during the pandemic, when demand was reduced and supply contracted; the ensuing surge in demand outpaced supply. The war in Ukraine has further disrupted fossil fuel supplies and the overall market, in which the Russian Federation is the leading exporter of natural gas and the second largest exporter of oil. The world is in the grip of a major energy crisis, with countries worldwide affected by extremely high and volatile prices, particularly of fossil fuels.



The current energy crisis thus shows the only medium- and long-term solution is to accelerate the deployment of renewable energy. Hence, the shift from fossil fuels to decarbonising societies represents the best choice for future sustainable development and thus economic growth. According to the Renewable Energy Market launched by the International Energy Agency in May 2022, while renewable energy has great potential to reduce prices and dependence on fossil fuels in the short and long term, could also help to speed up the slow economies slow and rebalance the markets. As a result, the larger share of renewable energy will immediately and structurally reduce the EU's demand for fossil fuels in heating and cooling, industry and transport sectors. This would also have a positive impact on energy prices across the EU as well. In addition to being one of the cheapest and most immediate solutions for sources of electricity, it also has the least impact on the grid infrastructure and the environment since it could be rolled out rapidly, directly benefitting citizens and businesses.

Due to these energy-related challenges, the EU is at a critical junction turning in terms of energy and climate policy: it can either replace dependency on fossil fuel

imports from Russia with new reliance on other countries' fossil fuels or take decisive action and switch to domestic renewable sources of energy.

However, the EU is currently taking a middle ground and trying to massively diversify its fossil fuel infrastructure. The ongoing energy crisis has facilitated a major rush for new investments in fossil gas infrastructure, especially new LNG import terminals and gas pipelines either in Europe or abroad.

Qatar is the most likely potential future gas exporter

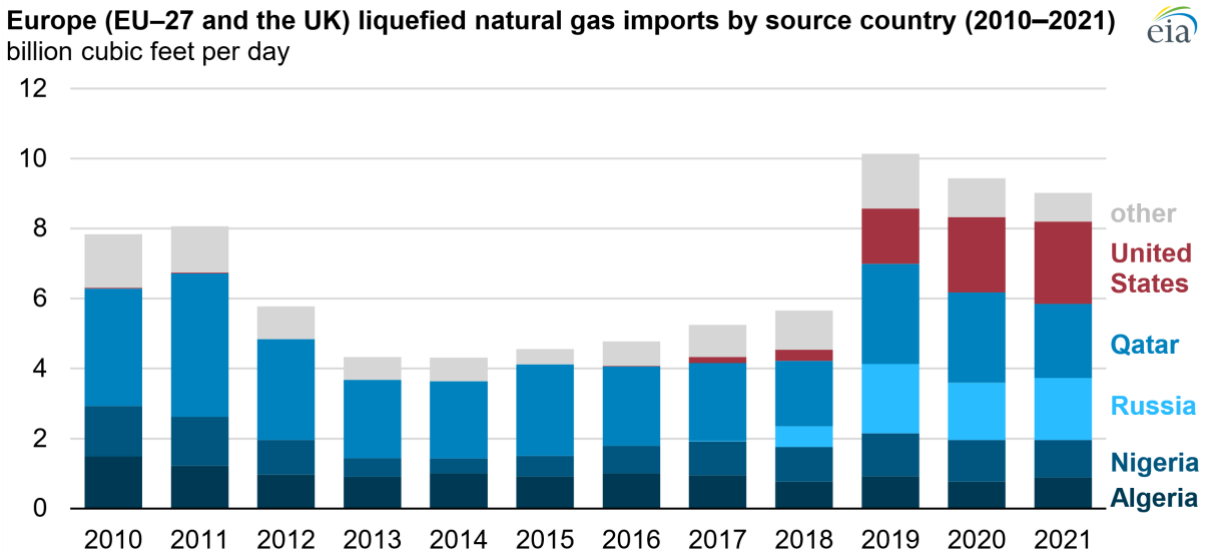
Qatar with a proven resource of approximately 23.8 trillion cubic meters has the second-largest gas reserve in the world, only second to Russia, making it a major player in the global gas market. With approximately 177 billion cubic meters of production,, it ranks fourth in the globe behind China, Russia, and the United States, which is the world's largest natural gas producer as of 2021. Qatar's vast oil and gas resources have greatly enriched the small Middle Eastern country, which this year became the world's largest exporter of liquified natural gas (LNG) superseding Australia, the U.S. and Russia., This paves the way for Qatar to take the lead among the nations that export hydrocarbons in the Middle East and North Africa to provide reliable LNG supply solutions to customers across the globe. Moreover, Qatar could be the top gas producer internationally as well, due to the continuing significant potential for growth in the energy markets.

EU's reaction to Qatar's emerging role in gas supply

In response to the war in Ukraine, the EU is actively working on reducing its energy dependency on Russian natural gas.

Currently, Qatar is a reliable partner – the country is one of the leading suppliers of liquefied natural gas (LNG) to the 27 European Union members. Behind the U.S., it has emerged as the second-largest gas provider in 2021. The EU-27 imported

roughly 16.6 billion cubic meters of LNG from the Middle-Eastern country in 2021. It supplied 24% of Europe's energy demands in 2021.



The liquefied natural gas trade is rising as a result of both natural gas supply challenges in Europe, especially since the pipeline flows of natural gas from Russia decreased during 2021, and the sizable price differences between natural gas produced in the United States and current prices at European trading hubs. Despite the high cost of the shipment and infrastructural investments, LNG imports remain an option given the current energy crisis and Europe's urgent need for gas. The rising U.S. LNG exports are a fossil fuel in 2022 for instance was able to make up for the gap in gas imports in Europe.

Under its REPowerEU initiative, the European Commission is aiming to further increase and diversify the LNG imports to replace 50 bcm of Russian gas by the end of 2022. Therefore, additional Qatari LNG is expected to be supplied but only in the long term. In fact, The EU has already redoubled its efforts to secure strategic agreements with Qatar, being represented in Doha in September 2022. In fact, Germany has already signed a long-term agreement with Qatar from 2026.

Germany is a key market for Qatari LNG

Over-reliance on Russian gas has turned out to be the major vulnerability of German industries. Russian gas accounted for more than half of Germany's total supplies before the invasion. This indicates one of the most critical aspects of Germany's energy policy. Although cheap Russian gas was pushed at the heart of its green transition, this resource is no longer available.

Germany, therefore, pushes the European LNG-pipeline projects by investing in LNG terminals. The LNG import from Qatar and the United States would cover the shortfall resulting from Russia's invasion of Ukraine. Under the two sales and purchase agreements signed on Tuesday by state-owned QatarEnergy and US group ConocoPhillips, about 2mn tonnes of LNG will be sent to Germany annually for at least 15 years, with deliveries expected to start from 2026.

QatarEnergy has signed partnership deals with western oil giants including Shell, Total, ConocoPhilips, Exxon and Eni to boost output of the north field by 60% over the next five years. This partnership aims to replace the cemented 50-year gas partnership between Germany and Russia by providing Germany with liquefied natural gas under a long-term supply deal. It is supposed to mark a big step forward in efforts by Europe's biggest economy to wean itself off Russian gas.

Expanding Qatar's gas extraction could rather push the planet into climate catastrophe

Qatar is poised to become a critical energy source for Europe. And consequently is taking the lead the Europe's race for diversified gas supplies in order to counterbalance Russia's monopoly on the natural gas supply to Europe.

Although it seems that Qatari gas could appear as a long-term solution for a reliable LNG supply solution to customers across the globe, no fossil fuel infrastructure should be built if the world is to avoid breaching the 1.5C limit,

according to the International Energy Agency. The EU member states' willingness to natural gas endangers climate goals. The crucial need for a root-and-branch transformation of world economies and societies was also acknowledged in the latest Gas Report launched by the United Nations Environmental Program.

If Qatar will exploit all of its oil and gas reserves it will eventually add an enormous 50bn metric tons of carbon dioxide to the atmosphere once burned. This is more than the entire annual emissions of the whole world., according to the dataset that the BankTrack used.

As a consequence of the quest for energy diversification, Qatar has emerged as a key pillar of the EU's strategy. Therefore, JPMorgan Chase, Citi, HSBC, Deutsche Bank, Goldman Sachs, MUFG, Credit Suisse and Bank of America have all backed planned projects for a vast offshore gas deposit called the north field, providing nearly $12bn in bond underwriting services to QatarEnergy.

Therefore, the principle of sustainability in the EU taxonomy, as a common classification system for sustainable economic activities, regarding the EU energy policies seems to be in conflict since the Qatari gas output raises the fundamental problem of gas extraction. It paves the way to put the effort into renewables to reduce the environmental impact of fossil fuels, thus achieving the EU's emissions reduction goals by 2050.

Conclusion

The EU and its member states have been signing agreements for scaling up fossil gas imports from around the world, especially from AzerbaijanAustralia, the United States, and Qatar. The planned expansion of import capacity is reducing Europe's dependency on Russian energy export indeed. However, most of the investments will only increase the gas supply in the upcoming years, while these years could be also spent to significantly reduce the fossil gas demand in the EU.

Therefore, instead of paving the way for further emissions reductions in the years to come, such LNG investment will shift energy dependency from Russia to other countries, such as Qatar, and result in carbon dependency contrary to the EU's emissions reduction goals. Hence, it also contradicts the EU's taxonomy aims, thus in this way undermines the EU's credibility as a global leader in climate actions.

Although the EU has already survived countless alleged „existential crises," the current resilience test will completely shift its relations with the rest of the world by losing access to Russia's gas resources. However, not only the new energy partners, such as Qatar, will shape the EU's new energy directions, but also the internal affairs and a potential new energy balance within the EU would influence the future directions of the EU's energy policies. In order to offer a pathway to a more secure and balanced EU energy market and consistent EU energy policies for the future, the member states need to be more consistent with the EU's climate goals by being more critical with the energy partners and investments.

About the author

Zsanett is a Research Assistant at EUROPEUM Institute for European Policy. As part of EUROPEUM's climate team, her research focuses mainly on raw materials, European green energy security, and the geoeconomic implications of climate change. She has a Bachelor's degree in International Relations from Eötvös Loránd University, during which she also gained experience at Sciences Po Lille, where she studied European Studies. She is currently pursuing a Master's degree in Geopolitics at Charles University while participating as an Analyst for the Arctic Region at the Prague Geopolitical Collective (PGC). Since Zsanett has long-term research activity in the field of Circumpolar geopolitics and contributes to conferences and political debates about how place matters in geopolitics and the Contemporary World Order.

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