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EXCLUSIVE INTERVIEW WITH NICOLAS BERGHMANS

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"The energy crisis shows the importance of European solidarity in the face of asymmetric shocks"

How has the current energy crisis arisen?

To understand current developments, we need to go back a little: first of all, the global economic context with a fairly strong post-Covid recovery has contributed to the increase in prices of raw materials and energy. And then there has been the crisis with Russia. Even prior to the start of the invasion of Ukraine on 24 February 2022, Moscow had begun to reduce the gas storage levels held by Russian operators in EU Member States, including Gazprom, which controls significant capacity, particularly in Germany. The war in Ukraine has only made the situation worse. The availability of natural gas in Europe has fallen and the price on the markets has risen to an unprecedented level, sometimes reaching a price five times higher than previously.

It should also be noted that Europe is emerging from a period of more than ten years in which the price of gas and, more generally, of energy has been relatively low, which makes the shock all the greater, and this upward trend is spreading beyond the gas to the electricity market; at certain times, the price has increased fourfold, or even fivefold, compared with the usual rate.

In your opinion, is the strategy presented by the European Commission, RePowerEU, commensurate with the challenges?

On paper, we can consider that does indeed rise to the challenge. It chooses to continue the policies introduced by the European Union as part of the Green Deal and the strengthening of its policy to achieve climate neutrality by 2050, particularly those concerning the increase in the share of renewable energy in the Member States' energy mix. This is essential because the current security crisis does not diminish the urgent need for action to combat climate change on the one hand, and because energy transition solutions help reduce dependence on Russian hydrocarbons on the other. The European Union's target for the share of clean energy by 2030 should therefore be further increased from 40% to 45% (it was 22.1% in 2020). The plan aims to accelerate the deployment of clean energy, improve energy efficiency and diversify sources of supply. There are many implementation challenges, including the scale of the investments needed, estimated at €210 billion by 2027.

Specifically, there are two elements of this plan that give cause for concern. The first is the question of the availability of green gas (biogas and/or hydrogen): Will it be possible to mobilise as much biomass for the production of biogas in Europe? How can enough electricity from renewable energy sources be produced to cover electricity requirements and also to produce hydrogen? This demands significant acceleration in the production of clean energy both in Europe, but also in countries that could export hydrogen to Europe, for example, which should be achieved with sustainability criteria that are at least as demanding as those applied domestically in Europe. The second factor is how can energy demand be reduced? This raises the issue of the renovation of buildings, where investments are not yet sufficient, either in number or in quality.

On this point, energy efficiency is mentioned as a key short-term response to the current crisis. Are there any levers at European level for credible action?

First of all, it is important to distinguish between energy efficiency and energy sobriety. Efficiency concerns the improvement of a home or a vehicle to benefit from the same service, while consuming less energy. Then there is the question of sobriety, which envisages rather more a change in lifestyle and the organisation of society -

less frequent and shorter car journeys, less resource- and energy-intensive food.

Levers exist at European level, for example marketing standards, which can influence players' decisions. When we talk about energy efficiency standards or food labelling to indicate the carbon footprint, for example, this concerns measures that are prepared over the long term. However, during the most recent crises, there has been a lot of talk about energy sobriety as a way of acting in the short term on energy consumption. I would tend to say that, in this case, we mean rationing rather than sobriety, i.e. people are being encouraged to reduce the temperature in their homes and public buildings, and to use bicycles or public transport instead of cars, if possible. This can be done at the moment. However, a distinction must be made between measures that can be adopted in the long term to anchor sobriety in the organisation of our society and those that can be used in the short term to save as many kilowatt hours (kwh) as possible in a constrained environment. This long-term organised sobriety requires a collective deliberation regarding what is desirable and fair to implement.

While many states are re-opening coal-fired power plants and announcing investments in fossil fuel infrastructure, despite the Commission's stated ambitions, isn't the transition being undermined by the war in Ukraine?

This crisis does not spell the end of the energy transition's ambitions. On the contrary, in the long term, these ambitions must be maintained rather than questioned. Some targets are even being raised.

It is true that, given the scale of the crisis, Member States need to activate certain levers as a transitional measure: the re-opening of coal-fired power stations, the construction of fossil fuel infrastructures, etc. Finally, if the ambitious trajectories of the RePowerEU plan can be maintained, it will be possible to quickly dispose of the gas and coal being reactivated for this winter.

However, care must be taken to limit the development of any new infrastructure to what is necessary so that it does not become a «white elephant» or lock us into a fossil fuel dependent energy system as we seek to move away from it. The reactivation of coal-fired power plants poses an immediate climate problem as it implies more emissions, but these are already existing plants that were due to close, whether in France, Germany, or Romania. So, there is no need to build new power stations! For the development of gas infrastructure, care should also be taken to ensure that investments are sufficiently transitional so that in ten years' time the objectives expressed in the RePowerEU plan can be achieved.

Has the war in Ukraine challenged the role of gas as a transitional energy, which was the gamble taken by countries like Germany?

Clearly, this is one of the major consequences of this conflict. First, less gas is available because of Europe's disconnection from Russian pipelines. The substitute for Russian gas this winter will come from the international liquefied natural gas (LNG) market and will be more expensive than in the past. This necessarily gives pause for thought to those states and economic actors who had chosen gas as a transitional energy. There is also the idea of not exchanging one dependency for another. In the quest to diversify its supply, Europe is certainly looking to the United States for more LNG, but also to countries such as Azerbaijan, Egypt, Algeria, the Gulf States, or countries in Sub-Saharan Africa such as Nigeria, Senegal or Angola.

Basically, the question arises of whether to accelerate the European production of low-carbon energy, in terms of renewable energies, but also for certain countries of nuclear energy. For example, the countries of Central and Eastern Europe are looking more attentively at this question. Belgium has delayed its nuclear phase-out by ten years. The Netherlands has introduced a government plan to develop a new power plant, whereas until two years ago nuclear power was no longer a preferred energy source.

You mentioned the risk of dependence on certain states for gas. Are you not afraid of dependence on states that export rare metals, which are essential for the development of renewable energy?

This is indeed an issue that is emerging at European level, as for example in some European Commission communications. In the RePowerEU strategy, a chapter is devoted to dependence on critical materials. However, the nature of the dependence is not the same. For fossil fuels, dependence is almost immediate in the event of a disruption of supplies since stocks only cover a few weeks or months of consumption. In the case of rare materials, once they are imported, they are available and create a recycling economy. This is true for lithium, which is essential for batteries. Obviously, this creates new dependencies, but several measures can be taken, such as diversifying partnerships, developing the recycling economy, encouraging sobriety in terms of the use of materials and encouraging local production.

Finally, Europe has natural resources and there is no reason to depend on imported materials to meet our energy needs when resources exist within our territory. Will it be necessary to relaunch mining in Europe? The question will become apparent in the years to come.

How must the European gas and electricity network be adapted to cope with this winter?

The question of gas networks is crucial, especially with regard to the reversal of flows. Gas will no longer come from the East, but rather from ports, the most of which are in France, the Iberian Peninsula and Italy. Adjustments are being made, which are currently under discussion between, for example, France and Germany.

On the electricity network, developed interconnection capacities already exist, new projects are underway to develop interconnections and move towards a system with more renewable energies. This mainly concerns the Member States where there are many projects that have been blocked at various stages of approval. One of the aims of the RePowerEU plan is to try to speed up these approval processes so that projects can be undertaken faster. This also requires investment in the European electricity grid because some projects are not only blocked for administrative reasons, but also because there is not enough capacity to accommodate them. The priority is to speed up interconnection projects, and to avoid bottlenecks.

What role might the EU play in relieving pressure on consumers?

A discussion about who you want to protect is crucial. When you want to intervene in the wholesale price of electricity, everyone is protected: the aim is to reduce prices for large-scale industry, as well as for private individuals. It is in everyone's interest to align the direction in which the Member States are going, because a certain number of levers affecting bills are available to the Member States: energy taxation, for example, is regulated at European level, but it is mainly decided by the Member States. So, it is interesting to have an exchange of good practice at European level.

Many voices are calling for a revision of the architecture of the European electricity market.

This discussion has been going on for a year and there are several opposing views. Member States such as France and Spain find the system unfair, given the small proportion of gas-fired power stations in national production. In its report published at the end of April, the European Agency for the Cooperation of Energy Regulators (ACER) nevertheless remained firm. In its view, the architecture of the electricity market is not responsible for the current crisis. However, the Commission President, addressing the European Parliament on 8 June, said that the market was no longer working and that it was urgent to review it so that new realities can be integrated in particular the low cost of renewable energy. Germany's position, which was firmer at the beginning of the year, seems to be moving in this direction.

The embargo on Russian oil imports will come into force on 1 August. Will it have the effect the Europeans had hoped for, namely to reduce Moscow's revenues, or will China be able to compensate for these losses?

In principle, the oil market is a liquid-based one, so there is scope for substitution. If the Europeans do not buy Russian oil anymore, the Russians will sell it elsewhere. However, as the road is longer and Moscow is no longer in a strong position, it is likely that they will have to sell it at discount prices. It is not certain that this will necessarily reduce the volumes sold by Russia, but they will have to sell it for less than the market price, or the price at which they would have sold it to the Europeans. However, there is another key element in the EU sanctions: the embargo on oil and gas technologies. It is going to be interesting to see what happens to production in Russia because of these embargoes: will they be able to source engineering and spare parts from alternative suppliers, such as China? Oil and gas production in Russia is dependent on Western technology, so this may be where the problem lies. Eliminating European gas imports, on the other hand, will hurt Moscow much more: Russian gas fields that are connected to Europe are not connected to other consumers. Some of it can be redirected to LNG terminals. Nevertheless, it is clear that if Europe stops buying Russian gas, Russia will initially not know what to do with it. It has the option of selling less, but at a higher price, which would be the short-term strategy. For the time being, the impact in terms of revenue is not fabulous. In the longer term, if Europe implements this exit from Russian gas, Moscow will lose a very valuable customer.

Could joint gas purchases help to bring down the market price?

Prices could be brought down, but these are times when everyone is buying what they can. It is not a good period. The main advantage is to show full European solidarity. The energy system is interconnected and the great risk for this winter, when tensions emerge over gas or electricity supplies, is that everyone will go it alone, manage their own supply, cutting pipes with neighbouring countries. This situation must be avoided at all costs, and efforts must be made to work together to reduce energy consumption and the consumption of gas by our industries. Europeans cannot leave the industry of one country or another at a standstill because it is running out of gas, and if a country has gas and is saving it, it must also be able to send some elsewhere. This is extremely important. Finally, saying that Europe is going to buy gas together helps to show this solidarity. In the area of energy, there have already been cases in which countries have been tempted to go it alone, either in terms of technology or strategic decisions. In this crisis, the common European response is more important than ever. This response could be applied to all the parameters of the energy system: the purchase of gas, the reduction in demand, the development of renewable energies, etc.

Is the question of energy changing the European balance?

This undeniably changes the balance. This crisis is having a greater impact on countries that were not necessarily the most affected by previous episodes. The Covid crisis has affected the countries of the South most, as has the sovereign debt crisis. The energy crisis shows the importance of European solidarity in the face of these asymmetric shocks.

Perhaps the next storm will affect the Nordic or Eastern countries more. If a Member State faces a major challenge, it will need its European allies at that moment in time. European solidarity is more essential now than ever before in every sense - «*today some states need to be helped and we know that tomorrow solidarity could take a different direction*». In any case, this solidarity will be very valuable to face the challenges of the transformation towards a low carbon economy.

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