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Shaping the European Energy Solidarity

If not now, then when?

EUROPA



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EXECUTIVE SUMMARY

This paper provides an analysis of the newly established EU Energy Platform – an institutional set-up that aims to play a key role in pooling Europe’s demand for energy, coordinating infrastructure use, negotiating with the international partners and preparing for joint gas and hydrogen purchases. The main goal is to shed some light on the proposed instrument and analyse its relevance for the ongoing energy crisis. The paper is based on the qualitative research methodology approach that involves the technique of semi-structured interviews with American and European experts on energy policy, governance and oil and gas industry that were conducted in July–August 2022. Their perspectives and key recommendations are incorporated in the current analysis.

Special thanks to contributing experts (in alphabetical order): **Andris Piebalgs**, former European Commissioner for Development (2010–2014) and for Energy (2004–2009) at the European Commission. Since 2015 he is a Senior Fellow at the Florence School of Regulation; **Ben Cahill**, Senior Fellow, Energy Security and Climate Change Program at the Center for Strategic and International Studies (CSIS); **Dr Katja Yafimava**, Senior Research Fellow at the Oxford Institute for Energy Studies; **Lenka Kovačovská**, Advisor to the Deputy Minister of Czechia in charge of Industry and Trade

INTRODUCTION

2022 is testing Europe’s resilience with several cascading crises. The aftermath of COVID-19 lockdowns and the comeback of war on the continent has shaken Europe to its core. These challenges have also brought major shocks on the energy market. Supply disruptions and skyrocketing energy prices are forcing Europe to find the best solutions and instruments to address these difficulties. One of these instruments is the newly established [EU Energy Platform](#) – a voluntary coordination mechanism set up at the European Union level for the common purchase of gas, LNG, and hydrogen.

Will this new institutional set-up effectively pave the way for Europe’s exit out of Russia’s energy supply? Is this a short-term emergency tool or this could also be regarded as one of the building blocks of Europe’s energy security strategy? Will this new proposed strategy of pooling demand and having one single EU-wide mandate for negotiations work better than having each Member State coordinating its own contracts? Can we interpret this new mechanism as a sign of a truly united Europe, a trigger for a real European solidarity?

THE RESURRECTION OF AN OLD POLITICAL WILL

Joint purchase agreements represent the foundation that led to the establishment of the EU Energy Platform (hereinafter the Platform). It is not something new. This approach has

been proposed before by several high-level politicians. It happened for the first time in May 2009, when President Nicolas Sarkozy expressed the will of France to set up a central gas purchasing body to strengthen its negotiating hand with suppliers: “I will not back down on the need to have a real energy policy,” Sarkozy said in a speech in southern France setting out his policies ahead of the 2009 European elections. “I want to introduce the idea of a central gas buying body so that Europe has a really strong negotiating position opposite its suppliers”¹. At that time, the announcement was made in the context of disruptions of Russian gas supplies in the past three years following disputes between Moscow and its key energy transit countries – Georgia and Ukraine. It was a bold political statement. However, no concrete policy actions have been taken in order to implement this tool into practice.

The next attempt took place in April 2014, when the then Prime Minister of Poland, Donald Tusk, proposed an instrument for jointly buying gas, as part of the “[EU Energy Union](#)” framework. In order to improve the collective negotiating power of the gas importing companies in the Member States that are heavily dependent on Gazprom as the main gas supplier, he considered the creation of a **mandatory** system for the joint purchasing of gas in the EU.² By contrast, the European Commission has announced in its Communication on the “Energy Union”³ of 25 February 2015 that it wants to examine “options for **voluntary** demand aggregation mechanisms for collective purchasing of gas during a crisis and where Member States are dependent on a single supplier,” subject to the requirement that these are “fully compliant with World Trade Organization (WTO) and EU competition rules.” The Commission’s suggestion was politically endorsed by the European Council in its conclusions⁴ on the Energy Union on 19 March 2015. Member States have specifically endorsed the voluntary option of this mechanism as a compromise because several national governments were not keen on promoting mandatory joint purchases due to the different national policy view: “At that time this strategy failed not only because of a different perception of Russia, but also because we have been very far from the energy transition. Politically it was fine, but in essence, no one would use this tool really to achieve some energy policy goals. Now with this major political decision⁵, combined with the energy security concerns, this tool might be more re-

levant than ever”, highlights prof. Andris Piebalgs, former European Commissioner for Development (2010–2014) and for Energy (2004–2009).

Fast forward a few years later and in December 2021, the European Commission once again proposed the option for voluntary joint purchase of gas reserves⁶. This announcement came in the context of record-high energy prices and ultimately, Russia’s invasion of Ukraine on 24 February 2022 has impelled the EU heads of government to speed up their efforts to decrease Europe’s dependency on Russian gas. As a result, the political endorsement for the joint gas purchase agreements took place during the EU Council summit at the end of March this year. And here we are, once again finding ourselves back to the relatively old idea of showing solidarity and pooling the forces together to jointly buy energy. But will Europe succeed this time?

OVERVIEW OF THE EU ENERGY PLATFORM AND ITS REGIONAL TASK FORCES

The reference to the Platform was made in the [REPowerEU Communication](#) “Joint European Action for more affordable, secure and sustainable energy”, followed by a formal political endorsement by the EU’s heads of state or government at the European Council on 25 March 2022. Shortly after this, the Platform was formally established on 7 April 2022, at a first meeting with EU countries. The Platform is supposed to aggregate EU gas demand, help use efficiently and transparently gas infrastructure, like LNG terminals, and carry out outreach to supply partners. When it comes to the operational perspective, the Commission will steer the work of the Platform through the following regional task forces:

- 1) **The South-East Europe regional task force** – launched on 5 May 2022 at a ministerial meeting in Sofia, Bulgaria, in coordination with neighbors in the South East of Europe. In June the Commission endorsed an action plan to guide the next steps of diversification and security of supply in the South-East Europe region after the disruption of gas supplies by Russia. It foresees joint efforts of the region and the European Commission on three key pillars: gas demand needs of the region, including demand reduction potential via electricity; infrastructure opportunities and addressing outstanding issues; and gas supply options.
- 2) **The Central Eastern regional task force** – initiated in June 2022 at a ministerial meeting in Prague. The task force brings together nine EU countries – Austria, Croatia, Czechia, Germany, Hungary, Italy, Poland, Slovenia and Slovakia – including also Ukraine and Moldova. It will be co-chaired by the Czechia, which also took over the Council of the EU Presidency in July 2022. According to Lenka Kovačková, Advisor to the Deputy Minister of Czechia in charge of Industry and Trade, the scope of the Platform and its regional task forces is evolving over time. At the beginning there was

¹ Déclaration de M. Nicolas Sarkozy, Président de la République, sur l’action de la France en faveur de la construction européenne, à Nîmes le 5 mai 2009, <https://www.vie-publique.fr/discours/175146-declaration-de-m-nicolas-sarkozy-president-de-la-republique-sur-lact>

² Financial Times, A united Europe can end Russia’s energy stranglehold, <https://www.ft.com/content/91508464-c661-11e3-ba0e-00144feabdc0>

³ Energy Union Package, A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy, https://eur-lex.europa.eu/resource.html?uri=cellar:1bd46c90-bdd4-11e4-bbe1-01aa75ed71a1.0001.03/DOC_1&format=PDF

⁴ European Council Conclusions on the Energy Union (19 March 2015), <https://www.consilium.europa.eu/en/press/press-releases/2015/03/19/conclusions-energy-european-council-march-2015/>

⁵ REPowerEU, Commission’s plan to make Europe independent from Russian fossil fuels well before 2030, https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/repowereu-affordable-secure-and-sustainable-energy-europe_en

⁶ European Commission Press Service, Commission proposes new EU framework to decarbonise gas markets, promote hydrogen and reduce methane emissions, https://ec.europa.eu/commission/presscorner/detail/en/IP_21_6682

also a discussion about demand reductions being implemented in the so-called Action Plans for the regional levels, but with the new legislation on the obligatory gas savings⁷ it is logical that this may not be addressed any more by the regional Task Force. However, the added value of this proposed structure could be seen in tackling the infrastructure bottlenecks. This is especially valid for the CEE region that is dominantly landlocked with infrastructure bottlenecks, prohibiting the free flow of gas into other regions. Therefore, the infrastructure part is a crucial in the structure of the Platform and a strong governance framework is much needed in order to address these issues that have been identified already by this regional task force. Furthermore, there must be a governing framework on how to effectively manage the existing capacities when it comes to fixed contracts that were pre-booked by major shippers that are not using it. In this sense, the task force has been discussing a Pan European framework on how those booked and unused gas capacities should be implemented. This is also an outcome of the current discussions that the task force already channeled to the European Commission. When it comes to the gas purchases themselves, so far, according to Mrs. Kovačová there is relatively lower commercial interest compared to political one. Nevertheless, this lower commercial interest that we see at the moment is due to the still lacking clarifications on double supplies and competition issues.

Other regional task forces with more details in terms of the workflow will follow, including: **the North-West, the South West and the Baltics regional task forces**.⁸ When it comes to the future development of this regional approach, **striking the right balance will be key**. It is natural that some regional task forces will have a lower activity level than the others. Some regions will experience more challenges than the others, due to the different economic and energy metrics. Furthermore, every single region will have different issues to address. This will evolve naturally because the topology of the European gas network is very diverse. The only question mark in this sense would be the price that will have to be paid by the others. For the CEE region, for example, the inclusion of Germany and Italy into the above-mentioned task force is extremely useful, even if these countries are not necessarily identifying themselves with this region. Without these two major players no effective solution can be found. In every group you will have a Member State which will have to give more than receive, at least this is how the situation looks like for the moment. For the stability of the EU it might even play a positive role, as for now.

In essence, when looking at the proposed structure of this new mechanism it is evident that there will be a graduate establishment process of the Platform: initially it will act as a “*door opener*”, meaning that the Platform will conclude memoranda of understanding with third countries in order to open the door

for EU companies to step in and conclude commercial contracts. As a next step, according to the Commission’s vision in its REPowerEU plan, it will present a voluntary joint purchasing mechanism, which will negotiate and contract gas for consumers in participating EU countries. At least this is the current thinking around the implementation of this proposed mechanism. Eventually, this vision aims to represent the way in which Europe’s Member States can use their collective political and economic weight to ensure affordable and secure energy imports.

CURRENT CHALLENGES

Considering the above-mentioned structure of the Platform, there are several important challenges that needs to be clarified in order to set-up a properly functioning mechanism:

- **Legal constraints:** there are two aspects that have to be clarified in this sense. First, there are still many contracts for Russian gas concluded by individual Member States that are stretching into the early 2030s for significant volumes. If those contracts are still to be met until the expiry dates then this is a direct contrast with the REPowerEU provisions that aims to end Europe’s dependence on Russian fossil fuels by 2027. This is especially valid for industrial players who still possess valid contracts. Unless they have clarity that those already signed contracts will not materialize in the end, they are not really eager to commit to any other new contract for gas purchases because they would have to face the risk of having overlapping agreements. Second, should companies be interested in the joint gas purchase there is a need for much more legal clarity on how the joint gas purchases will work. At the end of the day companies sign contracts, not governments, and if the set up of the joint venture will eventually be implemented, these legal requirements have to be addressed.
- **Operation and implementation:** at this point there is strong ambiguity when it comes to the implementation of the joint ventures. How to balance and what would be the added value of these compared to the existing supermajors on the EU market? Would they be the part of it? What would be the role of competition in this case? Will these joint ventures be organised by the existing supermajors and therefore we would see a kind of relief from the competition rules? If this is the case then we might have a really complex negotiation in the future, because it would be quite challenging to establish on which type of activities they would make profits. In this case, the expression of a strong political will is not enough. This an exercise for both – political and commercial actors.
- **Bringing everyone on board:** in the case of Latvia there is this public perception of needing to build its own LNG terminal, even if there is enough capacity in the closest regions of Lithuania, Estonia or Finland. There is always this suspicion that the neighbor will try to deal with his emergency first, and then will continue dealing with the other country. And this is where one of the dangerous aspects is because this perception could be strengthened by one action, as for example in the case of Hungary when

⁷ European Council, Council adopts regulation on reducing gas demand by 15% this winter, <https://www.consilium.europa.eu/en/press/press-releases/2022/08/05/council-adopts-regulation-on-reducing-gas-demand-by-15-this-winter/>

⁸ Euractiv, Central eastern Europe energy hub to coordinate EU gas supplies, <https://www.euractiv.com/section/energy-environment/news/central-eastern-europe-energy-hub-to-coordinate-eu-gas-supplies/>

it declared that it will impose a state of emergency and stop delivering energy to other countries⁹. “You are in the common market, you cannot take all the flows to yourself just because you are sitting closer to the pipeline. But if this pipeline will be closed, you will be shouting wild to get the solidarity. To avoid this political division and minimize this suspicion to a reasonable scale, this is where the Platform is needed”, highlights prof. Piebalgs.

- **Comparison with the COVID-19 vaccines procurement is not helpful:** on the one hand, political explanation, spreading the messages of encouragement and underpinning the need for solidarity in the public space is extremely needed. This is the way where the Platform could serve as a tool for expressing broader political solidarity when you have to cut your own customers to provide gas to other countries. On the other hand, energy market is a much more complex structure, as well as the process of buying and securing your energy supply. In this sense, policy makers shall not rely too much on this past experience of the common purchases of the vaccines. The current energy market landscape does not offer too much optimism for to this simplistic approach.

FUTURE PROSPECTS AND CONTRIBUTION TO ENERGY SECURITY

When looking at the evolution of this proposal, one could think that the Platform has been foreseen as a rather emergency tool that was supposed to deliver in times of crisis. However, experts argue that if it was to be an emergency tool, it would have to be fully functional a few months ago already. At the beginning, indeed, it was perceived or drafted as an emergency tool. Yet as there were major unclarities about the legal provisions, organisational aspects etc. many companies and Member States already started to address the issues on their own. When it comes to the joint gas purchases, now the role is more for the medium to long-term prospects to aggregate the future demand – especially in the context of uncertainty of available quantity of gas in the future on the market. “The number one priority from my perspective should be energy security. Securing all supplies wherever you can at the most reasonable cost from reliable suppliers” underlines Ben Cahill, Senior Fellow, Energy Security and Climate Change Program at the Center for Strategic and International Studies (CSIS). Nevertheless, in the future the Platform could potentially play an important role in hydrogen purchases, once the market for it will be established. Hydrogen is very new and a proper market for it does not really exist yet. However, the EUs thinking on this is that it will eventually follow the same rules as the gas model, which means that it will develop as a regional trade. And that is how hydrogen is most likely to expand. Considering that one part of the EU’s hydrogen strategy¹⁰ refers to the

import of hydrogen from outside Europe, this is probably where the Platform could contribute. A potential monitoring of the infrastructure development within Europe, i.e. removal of technical or commercial contractual bottlenecks, collecting the data on potential demand for it, etc. – this could be an area where the Platform could make a difference. Nevertheless, it does not mean that this will be the only tool that will provide reliable energy supply in the future. “The future prospects will depend on how the EU will be implementing its renewable energy targets and energy efficiency programmes. Without major advancements in renewable energy there will be no real change and this will negatively impact our energy security” stresses prof. Piebalgs.

When it comes to the matter of energy security, “on the short-term Europe will definitely learn from its reliance on Russian energy supply. The question is how far reaching would be the memory?” highlights Mrs. Kovačová. The real danger for Europe is to fall again into the trap of finding the cheapest option. Energy security has its price and all dependence on Russian gas was to a certain extent caused by the fact that gas was the cheapest option. And there was demand for cheap gas, especially when you factor in the competitiveness of industries and affordable prices for customers. The future architecture of energy security has to be built by factoring in the aspects that go beyond the price dimension.

POLICY RECOMMENDATIONS

- **Connecting the political rhetoric with commercial reality:** governments must handle the crisis with the most appropriate means, while at the same time continuing the policy path towards climate-neutrality. Achieving this balance is not easy, especially when heavy industries in Europe still rely on fossil fuels and are currently undergoing through major challenges. For example, about 50% of EU aluminium and zinc production capacity “has already been forced offline due to the power crisis”,¹¹ while European buyers (understandably due to the geopolitical consequences) remain a bit reluctant to sign long-term contracts for gas which make them less competitive on the global market. This commercial factor must also be factored in when deciding to sign the next contracts.
- **Incorporating geopolitical risks into the governance framework:** provisions on obligatory diversification of energy supply must be implemented on both levels – commercial and national/European regulatory frameworks. A proper acknowledgement of the strategic importance of the diversification of energy supply did not occur in the past. Furthermore, national governments have to remember that trade with fully like-minded democratic states in the global energy market is unrealistic, as the quantities that they can offer in this respect are not enough to cover the needs of Europe’s heavy industries. Inevitably, some commodities happen to be in the countries which have

⁹ Euractiv, EU solidarity tested as Hungary bans gas exports in emergency move, <https://www.euractiv.com/section/energy/news/eu-solidarity-tested-as-hungary-bans-gas-exports-in-emergency-move/>

¹⁰ European Commission, EU strategy on hydrogen, https://energy.ec.europa.eu/topics/energy-systems-integration/hydrogen_en#eu-hydrogen-strategy

¹¹ Euractiv, Energy crisis an ‘existential threat’ to EU metal production, heavy industries, <https://www.euractiv.com/section/energy/news/energy-crisis-an-existential-threat-to-eu-metal-production-heavy-industries/>

political models that differ from the EU one. That is why it is crucial for governments now to consider the inclusion of these provisions into their energy strategies so in this way they will drive the security agenda.

- **Do not lose sight of energy security:** the energy prices crisis is currently getting the spotlight in terms of emergencies that have to be addressed. Naturally, it is critical to tackle it with the most appropriate instruments in order to bring relief to consumers and industries. However, the energy security vision must also be anchored in the proposed solutions.

CONCLUSION

Solidarity has become a keyword during the COVID-19 pandemic, initially in a call to people at local, national, and global levels to work together through maintaining social distancing in order to slow the spread of the virus. Today Europe finds itself in the same situation: the solidarity principle is actively invoked by the political establishment of the EU in order to jointly coordinate the efforts across the continent to solve the ener-

gy crisis. Essentially, this strong appeal has led to the establishment of the EU Energy Platform. However, **the Platform itself will only remain a tool, through which a coordination of common efforts will be possible.** Eventually, the solidarity will be based on the political will and the extent to which it will be successful in bringing commercial companies on board. At the same time, as we are getting closer to winter and the energy prices are expected to remain high due to uncertainty in the market, solidarity will be heavily tested. For policy makers it will be increasingly difficult to continue to convince the citizens and other stakeholders to remain united and confront this crisis together. “Ultimately, you have as much solidarity as Member States believe it is politically palatable within their own countries, within their own constituencies and they will not do more than that”, underlines Dr. Katja Yafimava, Senior Research Fellow at the Oxford Institute for Energy Studies. Nevertheless, let us remember once again that in the end **we all find ourselves in the same European boat.** The projection of solidarity between the Member States is crucial to face this ongoing crisis which in the end, creates the perfect foundation for shaping a proper European energy solidarity and implement the political vision that started more than ten years ago. After all, if not now, then when?

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