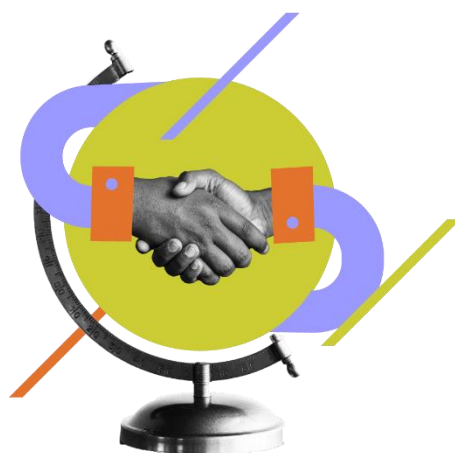




THE ITALIAN CLIMATE CHANGE THINK TANK

FIT FOR GEOPOLITICS: INTEGRATING CLIMATE AND ENERGY SECURITY IN THE EU EXTERNAL ACTION

POLICY BRIEFING
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KEY MESSAGES

The Strategy for external energy engagement presented by the EU Commission on 18 May 2022, is a starting point for the EU to begin thinking about the external dimension of the EU Green Deal. However, the EU needs **to reconcile the concept of energy security with climate security and integrate this new approach into its external action, encompassing foreign, development, and industrial policy**. This would help the EU to avoid dangerous dependencies, increase its climate leadership and geopolitical weight, and prepare for the new geopolitics of the energy transition.

The concern for a possible interruption of supply as a result of Russia's weaponization of energy, should not overshadow the equally urgent concern for the climate crisis and for the need of accelerating the global energy transition. In particular, it is of the utmost importance that **any action taken today to guarantee security of supply does not delay the transition neither in the EU nor in partner countries**.

Europe should build new partnerships based on the concept of resilience. While much of the world has yet to recover from the pandemic and its economic repercussions, other systemic shocks are threatening political and economic stability and human development, inflicting the highest toll on countries that don't have a large economic cushion.

The food crisis provoked by the Russian invasion of Ukraine and compounded by **climate change** is threatening the stability of import-dependent countries, from Turkey to Indonesia, from Lebanon to Somalia. At the same time, **high energy prices** are strongly impacting not only the EU, but also energy importing countries in its immediate neighbourhood such as Tunisia and in South-East Asia, such as Pakistan and Sri Lanka. Most of all, **in all of these countries high energy and food prices combine with debt distress**. This results in limited room for maneuver for governments for addressing current energy and food price shocks as well as current and future climate shocks. In turn, this significantly **increases the risk of political turmoil and instability**.

If the EU wants to act geopolitically to advance the global energy transition and help building resilience to shocks, it should better balance **the focus from the current reactive, emergency approach with a more strategic, long-term one**. In particular, the EU should devise a multi-level approach through better focusing already existing instruments, such as its development aid, but also acting at the global level in multilateral fora for reforming global rules which could help EU partners to future-proof their economies.

Accelerating the transition is key not only for reaching independence from Russia, but also for becoming a geopolitical actor, for positioning itself as a technological leader and being a standard-setter for the global energy transition. To achieve these goals, **building effective partnerships and resilient supply chains for unblocking the EU green industrialization is imperative. The EU should therefore aim to significantly scale-up its technological and R&D sectors, to identify critical supply chains and to manage the social consequences of this new industrial revolution**.

When it comes to redesigning supply chains, partnerships are key to achieve this goal. In particular, **developing win-win partnerships with Africa on sustainable raw materials value**

chains emerges as a priority for the EU. Also extremely important is the dialogue with the US on these topics under the EU-US Trade and Technology Council (TTC).

To establish itself as a credible leader in the field of the energy transition and climate ambition, **the EU should establish a true Green Deal diplomacy.** A stronger engagement at the multilateral, G7, G20 and COP level for addressing issues such as debt restructuring, investments in resilience and loss & damage, are key for managing the magnitude of the crises unfolding outside its borders. Also, a key part of the Green Deal diplomacy should be a more active engagement with the big emitters, in particular India and China, for cooperation on mitigating emissions.

INTRODUCTION

On May 18, the EU Commission presented its [Strategy for external energy engagement](#). The document, which aims at strengthening the EU's energy diplomacy, comes ten years after the adoption of the previous one, in a totally different environment whereby the EU is grappling with multiple crises.

As rightly acknowledged in the document's Introduction, the climate crisis is endangering the planet, with serious risks for people and economic activity. This is made ever so evident by the [scorching heatwaves](#) that are hitting Europe, China, India, Pakistan, and the US – with temperatures well beyond the seasonal average, and consequences such as drought, fires, problems for human health.

The EU, following the recommendations of the IPCC, rightly acknowledges that cutting emissions from the energy sector is vital for limiting global warming within the 1.5°C objective set in Paris, and tries to set out a strategy for engaging with global partners to deliver the energy transition. But at the same time, the Strategy comes at a time in which Europe is dealing with the major gas crisis in decades, and with the return of war at its borders. The Russian war of aggression against Ukraine, besides posing a serious security threat, is also affecting the world's food security and contributing to rising inflation, which could make global economies spiral into recession and developing countries in particular [spiral into default and instability](#). And finally, the Strategy come at a time in which the EU is struggling [to remain relevant](#) in an epoch of resurgent multipolarity and great power competition, also marked by [the weaponization of interdependence](#).

While it would be too much to ask an Energy strategy to answer all these challenges, the energy transition is at the heart of a much broader transformation involving technology, supply chains, power shifts. And while the ultimate aim is societal resilience, this transformation will also affect geopolitics and Europe's role in the world.

The Strategy correctly acknowledges these issues by recognizing that the EU's energy policy should be complemented with an industrial and trade policy to support the EU and its partners' decarbonization efforts. It also rightly acknowledges the need for forging new partnerships for the green transition, and to avoid fossil fuel lock-ins and stranded assets. However, **a much broader effort is needed for the EU to actually step up its engagement at the global level, to achieve energy and climate security, and to deliver on its green industrial transformation.**

RESCUING THE TRANSITION

Indeed, the concern for a possible interruption of supply as a result of Russia's weaponization of energy, should not overshadow the equally urgent concern for the climate crisis and for the need of accelerating the global energy transition. In particular, it is of the utmost importance that any action taken today to guarantee security of supply does not delay the transition neither in the EU nor in partner countries.

The EU and its member states have moved really quickly for diversifying natural gas supply. Just in the last few weeks, a new [Energy Platform Task Force](#) was created for coordinating purchases of natural gas and LNG, [an MoU was signed](#) between the EU, Israel and Egypt, as well as [between the EU and Azerbaijan](#). European energy firms such as the French Total and the Italian ENI have been awarded stakes in Qatar's North Field East project, which will further increase Doha's natural gas exports. This adds to a stream of initiatives carried out by member states aimed at striking bilateral agreements for increasing supply from current or perspective natural gas exporting countries, mainly in Central Asia, MENA and Sub-Saharan Africa regions.

However, this is all happening against energy [experts' reports](#) showing that there is no need for a rush to build new gas infrastructure and investment. The current expansion of fossil fuel projects also clashes with the trend of gas demand in the EU and the objective set in the RePowerEU action plan of a 30% reduction by 2030 compared to 2021.

If the EU wants to remain a credible actor on the energy transition and a trusted partner for countries in the neighbourhood and beyond, it is important that it assigns the same urgency to supporting its partners in the transition, and avoids locking them into old extractive energy schemes. This means to act now for kick-starting projects for accelerating the energy transition in these countries by supporting the deployment of renewable energy, improving energy efficiency, ensuring energy access, strengthening and integrating the grid. As these processes will take months to translate into installed capacity, it is urgent to kick-start them now.

Also, it is important that these projects do not replicate the fossil fuels' extractive model. Support to renewables' projects and deployment should aim at creating value in the target countries, powering their electricity sectors first and increasing their resilience vis-à-vis energy and climate shocks. The energy transition, especially in energy exporting countries, is **an opportunity for transforming economies and societies provided that this transformation is managed and brings with it the diversification of local economy and the creation of decent jobs.**

In particular, the EU should plan and support for the energy transition of countries in its Southern neighbourhood as this is the region [most exposed](#) to instability if the transition is not properly managed and if climate shocks are not adequately addressed. Coincidentally, this is also the region upon which the EU and its member states are relying the most for their gas diversification efforts. But preparing for the future means supporting these countries economic diversification efforts through clean and resilient investment, technological exchange, assistance in subsidies and broader social and economic governance reforms, and in putting in place training opportunities for their young workforce.

ASSESSING THE FEASIBILITY OF HYDROGEN PARTNERSHIPS

Most of all, European support to the energy transition in the Southern neighbourhood should be carefully designed, so that it achieves the intended results in terms of supporting these countries in delivering on their own climate mitigation and adaptation targets. The EU international energy strategy puts a strong emphasis on cooperation with partners, especially in the Southern Neighbourhood, but this cooperation is mainly framed in terms of production and export of green hydrogen. The [EU Hydrogen Strategy](#), released in 2020, sets a 2x40GW target of installed capacity by 2030, with 40GW produced inside the EU and 40GW produced in the neighbourhood, namely Ukraine and North Africa. The [REPowerEU Plan](#) sets even more ambitious targets, doubling the import target to 10 million tonnes per year by 2030. **With war in Ukraine raging on and no clear end in sight, the burden of producing this impressive quantity of green hydrogen shifts entirely on North Africa.**

However, given the huge amount of renewables and desalinated water needed to produce green hydrogen, as well as the significant costs associated with production and transport, a reassessment of this strategy is needed. Countries in North Africa are falling short of their targets for deploying renewable electricity. Even assuming that green hydrogen would be produced from excess renewable electricity, numbers simply do not add up. **The most urgent need of renewable electricity is to replace coal (in Morocco and Turkey) and oil&gas (in Algeria, Egypt and Libya) for electricity generation, while new interconnectors between neighbouring countries and with the EU could help balance the grids.** Once significant renewable electricity targets for domestic use are met, excess renewable electricity could be delivered to Europe by means of undersea transmission cables which need to be built to create an Euro-Mediterranean electricity network. Investing in this kind of infrastructure, rather than in new pipelines, would be more in line with the needs of the energy transition, and would make more sense both from an economic and a climate perspective.

Even though the narrative of new “hydrogen-ready” gas infrastructure is rapidly gaining speed, the reality is rather different. In fact, there are significant challenges associated with transporting hydrogen in pipelines, especially over long distances. Hydrogen molecules, being the smallest in the universe, would leak much more than the standard 3.5% upstream methane leakage, thus causing significant losses and damages to the pipe. Equipping the pipelines with sealants to reduce leaks would significantly increase the costs. Moreover, when compared with methane, moving an equivalent volume of hydrogen over the same distance requires three times the energy, again multiplying the costs.

The same goes for LNG terminals as their [transformation into green hydrogen hubs](#) face severe technical challenges that make them scarcely viable from an economic perspective. In order to be shipped, hydrogen requires to be liquified by chilling it to -249°C, taking three times the energy needed to liquify natural gas. Also, as liquid hydrogen is less energy dense than LNG, the same vessel would carry only a portion of the energy that it could carry in liquified natural gas.

For all these reasons, **big question marks remain over the feasibility and the cost of producing and transporting green hydrogen from North Africa or even more remote regions such as the Gulf to Europe.** These high costs are the main reason why the large majority of hydrogen is produced close to the point of consumption today. A more efficient way of using hydrogen could be to produce green ammonia for local industry uses, such as fertilizers, steel and petrochemicals, as all countries in North Africa either produce or import large quantities of grey ammonia.

While countries, such as Egypt, Morocco and Algeria, seem to be betting on future large export markets for hydrogen in order to either preserve or gain a position as energy seller to the EU, the latter should be clearer and honest in communicating to partners that future trade in renewable energy and hydrogen will not replicate the fossil fuels model.

Even if the very ambitious targets on hydrogen were to be reached, this trade would not replicate the patterns of trade in oil and gas. A world powered by renewables will be a world in which power is much more diffused. Countries will no longer be able to rely on the rent distribution to maintain social peace and will no longer be able to weaponize relations by threatening to interrupt supplies. New cooperation models, including around critical materials, need to be explored and mutually agreed upon: the discussion can no longer be postponed.

PUTTING RESILIENCE AT THE CENTER

While the EU support to its partners' mitigation efforts is necessary, it is no longer sufficient. For cooperation to be successful and to actually raise the EU's geopolitical standing and contribution to systemic stability, **Europe should build new partnerships based on the concept of resilience.** There are many definitions of [resilience](#). For the EU, it is *"the ability not only to withstand and cope with challenges but also to undergo transitions, in a sustainable, fair, and democratic manner."* The [2017 Council conclusions](#) on a strategic approach to resilience in the EU's external action state that *"Strengthening resilience of EU partners in the immediate neighbourhood and beyond is of particular importance"* and that while *"Governments have primary responsibility for catering for the needs of their populations, and international assistance should not be a substitute for local responsibility and political action"*, the EU and its Member States can *"support the strengthening of resilience through raising the issue as an integral part of its political dialogue, including at the highest level"*. The EU also commits to *"developing international policy and practice on resilience, through political dialogue, sectoral policy dialogue and external investment policy"* and through cooperation with *"multilateral partners, including the UN system, World Bank, OECD, EBRD, regional and sub-regional organisations"*.

The Covid-19 pandemic has revealed the importance of preparedness and building resilience to shocks. Most of all, it has showed the importance of global cooperation for addressing common challenges. While much of the world has yet to recover from the pandemic and its economic repercussions, other systemic shocks are threatening political and economic stability and human development, inflicting the highest toll on countries that don't have a large economic cushion.

The food crisis provoked by the Russian invasion of Ukraine and [compounded by climate change](#) is threatening the stability of import-dependent countries, from Turkey to Indonesia, from Lebanon to Somalia. The stakes are especially high for Egypt, which imports 80% of its grain – most of it from Russia and Ukraine – and where the economy has been in a precarious situation for years. In Egypt, a country whose stability is key to Mediterranean stability and now also to EU energy security, political discontent often follows spikes in food prices. Thus, the potential for bread shortages is among the most urgent security challenges for the Egyptian state, which has been seeking to make up for Black Sea wheat shortages by contracting it from India. Delhi, however, is in the midst of a severe heatwave which has seriously curtailed its wheat output. As a consequence, it has introduced an export ban, allowing only for partial and government-to-government sales. Egypt will thus receive only a smaller percentage of the contracted wheat. **What we are seeing today on global food markets is just an anticipation of the cascading effects of climate change.** The severe drought currently affecting parts of Europe, while adding to the food crisis, is also an anticipation of the world under a water-scarcity and high-temperatures scenario.

At the same time, high energy prices are strongly impacting not only the EU, but also [energy importing countries](#) in its immediate neighbourhood such as Tunisia and in South-East Asia, such as Pakistan and Sri Lanka. In the Asia-Pacific region, in particular, several countries are facing their worst energy crisis in years **driven by high demand for fuel - as countries exit the pandemic-induced restrictions – combined with a supply crunch caused by the competition for non-Russian fuels.** While the price of energy imports has risen globally, Asian developing and import-reliant economies have been hit the hardest, as they are not able to compete with more deep-pocketed rivals. **European customers, in particular, have been outbidding countries like India, [Pakistan](#) and Bangladesh as they are paying increasingly high prices for diverting LNG**

towards the Western markets. This leads to negative consequences for Asian emerging economies, as they are forced to rationing energy, implement lockdowns thus curtailing their economic output, and to switch back to coal. This also means power outages in the midst of severe heatwaves, leaving people without access to cooling or emergency life-saving machines.

Most of all, in all of these countries high energy and food prices combine with debt distress, a consequence of the push to borrow more money for the pandemic response and the steep rise in the cost of servicing borrowing. This results in limited room for maneuver for governments for addressing current energy and food price shocks as well as current and future climate shocks. In turn, this significantly increases the risk of political turmoil and instability, as happened in Pakistan with the ousting of prime minister Imran Khan and in Sri Lanka, which has spiraled into crisis. This also means that these countries are not in the position of making significant investments for future-proofing their economies to climate change.

The emerging and most vulnerable economies are thus paying high costs from the Russia-Ukraine war and the EU's rush to secure supply. **Widespread economic collapse could require huge bailouts from the West** via the World Bank and International Monetary Fund, while it could push countries across the world closer to Russia and China.

If the EU wants to act geopolitically to advance the global energy transition and help building resilience to shocks, it should better balance **the focus from the current reactive, emergency approach with a more strategic, long-term one.** In particular, the EU should devise a multi-level approach through better focusing already existing instruments, such as its development aid, but also acting at the global level in multilateral fora for reforming global rules which could help EU partners to future-proof their economies.

NEEDED: A GREEN INDUSTRIAL STRATEGY AND RESILIENT SUPPLY CHAINS

The external dimension of the EU green deal is deeply interlinked with its internal dimension. First, because for the EU to be a credible and leading actor externally, it needs first of all to speed up the transition domestically. Second, because an effective external action is key for delivering the transition in the EU and making it a geopolitical actor. For these reasons, a swift and smooth approval of the Fit for 55 package measures is key not only for accelerating the transition and reaching independence from Russia, but also for becoming a geopolitical actor, for positioning itself as a technological leader and being a standard-setter for the global energy transition. To achieve these goals, **building effective partnerships and resilient supply chains for unblocking the EU green industrialization is imperative.**

The Covid-19 pandemic has led the EU to acknowledge the vulnerability of its industrial system and to initiate a debate about reshoring, nearshoring, or geographically diversifying the value chains to avoid overdependencies from a limited number of suppliers. The Russia-Ukraine war has further intensified this debate. At the same time, the green and digital transformations linked to the EU Green Deal have brought the EU to acknowledge the importance of developing an EU open strategic autonomy through a green industrial strategy. **The EU should therefore aim to significantly scale-up its technological and R&D sectors, to identify critical supply chains and to manage the social consequences of this new industrial revolution.**

When it comes to redesigning supply chains, partnerships are key to achieve this goal. In particular, **developing win-win partnerships with Africa on sustainable raw materials value chains emerges as a priority for the EU.** Many of the raw materials central to the energy transition are found in Africa. As an example, the Democratic Republic of the Congo (DRC), an extremely fragile country, produces more than 60% of world cobalt. As the importance of this strategic material is set to exponentially grow in the future, this risks of exposing the DRC to further pressure, while local communities risk of remaining hostage of labour exploitation and abuse. Building partnerships based on the respect of environmental, biodiversity, workers' rights criteria will be an important test for the EU.

Also extremely important is the dialogue with the US on these topics under the [EU-US Trade and Technology Council \(TTC\)](#). A specific working group on Secure supply chains inside the Council is focusing on important aspects such as developing an "early warning system" for semiconductor supply chain disruptions, bolstering solar manufacture capacity (by addressing the issue of China's monopoly in this field), preserve the openness of the transatlantic supply chains. This latter aspect, however, risks to be deeply questioned should the US return to a sovereigntist, "America-first", agenda after the 2024 elections. Also in this field, thus, it is key for the EU to develop and apply significant strategic autonomy, through means of anti-coercion instruments.

CONCLUSION

Strengthening the EU credibility as a climate and multilateral leader through a Green Deal Diplomacy

Through the EU Green Deal, the EU is not only trying to lower its fossil fuels dependency, increase its competitiveness and achieve first-mover advantages in the technological-industrial system of the future, but it is also trying to build its credentials as a key geopolitical actor and in defense of the multilateral system. For this purpose, it is essential to establish itself as a credible leader in the field of the energy transition and climate ambition.

For this reason, recent developments such as the potential U-turn on financing gas projects in Africa risks exposing the EU to accusations of hypocrisy - besides further delaying climate targets. The financing of such projects in fact was a widely debated issue during last February's Summit between the European Union and the African Union, with African countries asking for EU support in developing gas projects for powering African economies while the EU stood firm in its opposition to the financing of new fossil fuels projects. Today, with the EU and its member states looking for new gas contracts, the perception in Africa is once again that of being at the weaker side of an unbalanced power relation. This – together with the delay in delivering on climate finance, including on loss & damage, or SDRs reallocation – could further widen the gap in trust and ultimately favour Russia's influencing efforts in Africa and elsewhere in the developing world. Another aspect questioning the credibility of the EU as a climate leader is its outbidding on the LNG market of Asian emerging economies, described above. This is leading to the paradoxical outcome of a gas-to-coal switch that goes against the EU goal of supporting the coal-to-clean transition, as it is trying to do [with South Africa](#).

In order to restore its credibility the EU should first address these unintentional consequences of its current approach and then establish a true Green Deal diplomacy. A stronger engagement at the multilateral, G7, G20 and COP level for addressing issues such as debt restructuring, investments in resilience and loss & damage, are key for managing the magnitude of the crises unfolding outside its borders. Also, a key part of the Green Deal diplomacy should be a more active engagement with the big emitters, in particular India and China, for cooperation on mitigating emissions.

The Strategy for external energy engagement presented by the EU Commission as part of the REPowerEU plan is a starting point for the EU to begin thinking about the external dimension of the EU Green Deal. However, new and bigger challenges are on the horizon when it comes to delivering the energy transition and fighting climate change. The EU needs to reconcile the concept of energy security with climate security and integrate this new approach into its external action, encompassing foreign, development, and industrial policy. This would help the EU to avoid dangerous dependencies, increase its climate leadership and geopolitical weight, and prepare for the new geopolitics of the energy transition.

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ABOUT ECCO



THE ITALIAN CLIMATE CHANGE THINK TANK

ECCO is the first independent Italian, non-profit climate change think tank. Founded in 2021 with the mission to accelerate climate action in Italy and around the world, ECCO uses its independence and expertise to identify and promote transformative science-led climate solutions and implementation strategies. ECCO is an active agent of change, deploying strategic communication, advocacy and diplomacy to shape climate and energy politics in all forms. www.eccoclimate.org

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