While European consumers are suffering the impact of a global energy crisis, the EU is renewing its commitment to costly fossil gas, instead of investing in cheap renewables.

Lawmakers have paved the way for new cross-border pipelines
EU Auditors have pointed out a huge investment gap in green energy
Electricity prices could fuel member states' opposition to climate goals

The numbers are startling. Since 2021 began, wholesale gas prices in Europe have soared by over 300%. As natural gas is often used to generate electricity alongside heat, consumers have felt the full blow of the increase. In Spain, electric bills have swollen by a third so far this year. In Italy, they are expected to jump by 40% in the next quarter.

"Today's situation underlines that we have to end our dependence on foreign, volatile fossil fuels as soon as possible," declared Kadri Simson, the EU Commissioner for Energy, recently.

Natural gas accounts for a quarter of the bloc's power mix, second only to oil. Most of it comes from Russia (41%) and to a lesser extent, from Norway (16%). Although it offers a backup alternative to coal, it contains high levels of methane, which contributes to global warming.

In fact, the European Commission itself admitted that it was not compatible with its pledge to become climate neutral by 2050 and to slash emissions by 55% before 2030. As per its own assessment, gas consumption must be "reduced to a fraction of current levels" to reach net-zero goals.

EU lawmakers still back gas

Yet, the opposite is happening. On September 28, the European Parliament backed new cross-border pipelines, under the so-called TEN-E regulation. This controversial framework defines which infrastructures can be on Europe's fifth list of projects of common interest (PCI).

Making the cut entitles corporations to fast-track permits and EU grants. MEPs agreed that gas bids would be eligible for quick approval but not for cash from the PCI's dedicated fund, called the Connecting Europe Facility (CEF).

However, the loophole is twofold. First, pipelines blending gas with an unspecified amount of hydrogen will still receive subsidies until 2027. Hydrogen can be produced from renewables, but at the moment, 95% derives from fossil sources. Besides, activists gauge that PCI beneficiaries traditionally receive more money from other public pots than from the CEF. The endorsement also creates incentives for banks to chip in.

Observers now suspect the next list could award special status to over 70 gas developments, up from 32 two years ago. This is despite analysis from Artelys, a data-science consultancy, highlighting that most previous projects were superfluous. What's more, it would override Kadri Simson's proposal to ban gas from TEN-E revisions.

"The gas lobby is extremely powerful"

So what happened? Parliament caved to the industry's demands, Marie Toussaint, a green French MEP, told Investigate Europe. "The gas lobby is extremely powerful," she claims. "They've been manoeuvering a lot. I am green and they still send me three or four emails every day."

Two NGOs have revealed that the TEN-E rapporteur, Polish conservative MEP Zdzisław Krasnodębski, refused to disclose meetings with businesses.

"Lobbying is pernicious and embedded at the heart of the system," regrets Toussaint. She believes sponsoring fossil fuel is indecent when crippling bills are going through the roof.

To get their way, gas enthusiasts have been able to manipulate European guidelines — or rather, the lack of them. The EU's common classification for sustainable activities, known as taxonomy, is elusive on the matter. By its own definition: "The Taxonomy regulation neither includes nor excludes natural gas."

EU Commission not doing enough

Such ambiguity around standards could thwart climate efforts, as the European Court of Auditors points out in a report. Eva Lindstrom, the paper's lead author, told Investigate Europe that vague rules create a market failure whereby investors are unable to identify which projects could become stranded assets. "There must be more information on what is green and what is brown," explains Lindstrom. "We need the private sector, but we can't expect companies to just be good. They're there to make money."

The auditors' main conclusion is that the Commission is not doing enough to stimulate sustainable investments. €1 trillion will be needed — every year — to complete the transition. Of that sum, the EU plans to provide €200 billion in each annual budget. "The investment gap is huge," notes Lindstrom.

"Politicians will try to benefit for their gain"

Others would argue that Brussels is doing too much. Polish Prime Minister Mateusz Morawiecki accused the EU's environmental agenda of driving the power crunch. Frans Timmermans, the Commission's Green Deal chief, played down the charge, insisting that just "one-fifth" of the higher fees could be attributed to carbon policies.

While the blame game unfolds, Timmermans' job could get tougher. Plans to extend the carbon market to transport and construction, in particular, will be a hard sell. The yellow vest protests in France were ignited by a fuel tax rise in 2018. Estimates say 3 million took to the streets then.

"There's a risk that energy prices could have consequences on the Green Deal," fears Annika Hedberg of the European Policy Centre. "People are inherently opposed to change and some politicians will try to benefit for their gain."

Nonetheless, Hedberg stresses that a decarbonised economy could reap clear benefits, including cheaper power.

"If we had higher renewables, we'd be brushing off this crisis"

Actually, the mere presence of gas in Europe's grid is part of the problem. Our electricity market operates with the aim to cover the needs of the following day. Under this system, the total sum is pegged to the most expensive asset used to meet expected demand.

In other words, if 100% of demand is met with wind or solar sources, tariffs can be very low. But when expensive fossil fuels enter the mix, the final cost is indexed to their value.

"If we had higher renewables and less exposure to gas, we'd be brushing off this crisis more easily," reckons Raphael Hanoteaux of E3G, a think-tank. In parallel, the EU should decrease energy needs and electrify heating, he says.

But in the short term, the priority is: "Social support to alleviate the spike for households."

Several governments have already rushed through emergency measures. Spain announced a €2.6 billion clawback of energy firms' profits, France vowed to freeze utility rates and Italy promised €3 billion to curb bills. Such makeshifts may shield their citizens momentarily.

Still, the future of fossil fuels will be decided on a European level. The Commission is expected to give its verdict on whether to label gas as sustainable in November, before a much-anticipated policy package in December and the new PCI list later this winter.

Background

Whereas the European electricity crunch stems from gas dependency, the global surge in energy tariffs results from a mosaic of factors.

First, a cold winter pushed demand for heating and dried up reserves. Then, a windless summer hit renewables as businesses emerged from the pandemic. In addition, lockdowns delayed infrastructure maintenance and the grid suffered unexpected incidents, such as a plant fire in Siberia. Finally, booming demand in Asia stretched supply chains.

The reasons could be partly geopolitical as well. EU lawmakers suspect Russia of market manipulation to speed up the launch of its Nord Stream 2 gas pipeline. According to the International Energy Agency (IEA), state-owned Gazprom has been shrinking its output to

the West. Moscow denies any wrongdoing.
While fingers are being pointed, global competition for energy is likely to worsen. Faced with a coal shortage, China has ordered energy firms to secure fuel, whatever the cost. And with winter looming, prices are not expected to come back down to earth any time soon.
Source: investigate-europe.eu