

# Geopolitical Parameters and Energy Security: EU and Greece

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The oil&gas companies have been under immense pressure from the US and the EU to stop investing in new oil&gas fields and support transition to cleaner fuels. They have responded to this, with current investments in exploration and production down to about 50% of the levels during the heydays of the sector, in 2013/2014. In fact, oil major capital spending plans are still below pre-pandemic levels, with no plans to raise them significantly in the medium-term. The outcome is reduced reserves, tight spare capacity and inability to respond to increased demand.

This is now coming home to roost. At a time when global oil&gas demand has been increasing as the global economy has been coming-out of the pandemic driven by energy security concerns, supply has been unable to respond at the same pace, threatening energy security, with the inevitability that market forces have been driving prices up. This has been exacerbated by the Russia-Ukraine war.

## **Policy paradox**

In the middle of a global energy crisis, a policy paradox is emerging, where western governments call for OPEC and other oil&gas producers to raise output while also saying they want to transition away from fossil fuels and restrict investment in more supply.

The secretary-general of OPEC said recently that such “mixed-messages” are holding back energy investments “sowing seeds for future energy crises – not just one, but multiple.” He pointed-out that with “average annual decline rates around 4%-5%, you are talking about needing to add 5million barrels/day every year just to maintain today's global production, let alone meet future demand.”

Renewables intermittency is still a challenge and, until the problem of long-term electricity storage is resolved, it will remain a challenge. A recent report by the WMO showed that climate change is causing prolonged periods of slow winds, making wind energy unreliable,

requiring back-up by gas, as happened in 2021 when wind energy was down by more than 30% and is likely to happen this winter. Similar problems apply to hydropower.

Renewables are coming, but they are not reliable and not an overnight solution – energy transition is a slow process and will take time. In the meanwhile, uninterrupted, secure and reliable electricity supplies can be ensured only with back-up from fossil fuels, preferably gas. We should also remember that energy is not just electricity. We often ignore that.

However, if anything, Europe is speeding-up its exit from fossil fuels, as evidenced by its REPowerEU strategy and recent statements from the European Commission. So far the decline in natural gas consumption in the EU is 16%, on the way to 30% by 2030 and net-zero by 2050. In fact, gas consumption was down 25% in October year-on-year.

But there are signs that some re-thinking may be taking place. Germany is close to breaking its gas-funds pledge made at COP26. Its new position is “we reserve the right to do what is necessary to make gas available as an energy source, stressing at all times its transitional nature.” Will the EU follow suit before the next crisis? There are already efforts to postpone key Green Deal legislation.

The global goal remains to switch to green energy and eliminate carbon emissions.

But until we get there, the world will still need secure and affordable supplies of oil and gas, and for a long time to come. This was confirmed at COP27 by the majority of participating states that did not support phasing-down oil and gas. In fact, the COP27 deal now includes a provision to boost “low-emissions energy”, without defining what this means. This is interpreted to include natural gas, that has the lowest emissions of all fossil fuels.

To a certain extent, this reflects the important contribution gas is playing in response to the energy crisis, particularly in Europe. With no clear pathways to an energy-secure future completely reliant on renewables in the near to medium term, many countries still see a role for gas well into the next decade. This includes African countries that are asking financial support to develop their natural gas resources as part of the energy transition.

Unless Europe realizes this, it will sleep-walk into the next energy crisis later this decade, as the need for gas to make up for non-performing

renewables becomes apparent. Without new production, gas supply will be tight, with gas and energy prices going up...again.

### **Impact on our region**

In the East Med and our wider region, we are stuck with the fixation that Europe needs our gas and we need to help Europe by producing it and exporting it as fast as we can, ignoring Europe's stated-policies to speed-up energy transition and reduce fossil fuel consumption as fast as possible.

Whether this strategy works is not the point. As long as Europe sticks to it, it does not support increasing gas exports from the East Med to the EU, other than those covered by the EU-Egypt-Israel MoU. And the oil majors know it.

Another challenge is that neither Chevron nor ExxonMobil plan to raise medium-term spending targets significantly. Chevron aims to raise oil&gas production by 3% a year and ExxonMobil about 2% a year, coming largely from investments made years ago. Such plans limit funding of new projects.

Tristan Aspray, Director frontier exploration, ExxonMobil, said last month that oil companies require assurances about future security of demand, in other words long-term gas-purchase contracts, to facilitate future development. With Europe's current strategy this will not be forthcoming any time soon.

But eventually, and hopefully before the next energy crisis, I believe that Europe will recognize that it needs gas longer-term.

Greece is accelerating exploration and production and even hopes to be exporting gas to Europe later this decade – at least that is what Greece's energy minister said on the first day of the conference. Given the challenges E&P faces south-west of Crete and ExxonMobil's views I suggest: 'να κρατάμε μικρό καλάθι'. There are better chances for discovery of small to medium gasfields near Ioannina and in the Ionian by Energean that could cater for Greece's gas needs.

Until that happens, if it does, with the EU accelerating transition to green energy and hydrogen, the future of energy in the East Med and the region lies in a strategy based on a rapid growth of RES, combined with energy storage, electricity interconnectors and use of natural gas

regionally, in support of RES during transition. Regional cooperation is essential to achieve this.

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