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SEE ENERGY BRIEF

Monthly Analysis

EU and the Difficult to Explain Policy Inconsistency

Introduction

Despite the ongoing energy crisis and growing concerns over supply security, the European Union has maintained a cautious stance toward altering its policy on financing oil and natural gas projects. While some argue that increased investment in fossil fuel infrastructure is necessary to ensure short-term energy stability, the EU continues to prioritize its long-term climate commitments, including decarbonization and the transition to renewable energy sources. This policy position reflects the tension between responding to immediate energy demands and upholding strategic environmental goals.

At the heart of this debate lies a broader question about the future of Europe's energy model. Critics contend that refusing to expand financial support for oil and gas projects may deepen vulnerabilities during periods of crisis, while supporters argue that such investments risk locking the EU into carbon-intensive pathways and undermining the European Green Deal. As energy security, economic pressures, and climate objectives increasingly collide, the EU's financing policy remains a focal point of political and economic controversy. EU's attitude of undisputed support to green policies, despite the obvious need to strengthen oil and gas supply-which meet the great bulk of energy demand- point to a difficult to comprehend inconsistency.

The Great Inconsistency in Detail

The European Union's cautious stance toward altering its policy on financing oil and natural gas projects is closely linked to its broader climate strategy and legal commitments. Through frameworks such as the European Green Deal [1] and the Fit for 55 package [2], the EU has committed itself to reducing greenhouse gas emissions and accelerating the transition toward climate neutrality. Expanding financial support for fossil fuel infrastructure would risk contradicting these objectives, particularly because such projects often require decades of operation to remain economically viable. From this perspective, maintaining restrictions on financing oil and gas projects is seen as a way to avoid long-term carbon lock-in and preserve policy consistency.

At the same time, the EU's position reflects a strategic assessment of energy security that goes beyond short-term crisis management. Although the energy crisis exposed vulnerabilities in Europe's dependence on external suppliers, particularly in natural gas markets, policymakers have increasingly argued that diversification through renewables, interconnections, and energy efficiency offers a more sustainable response than renewed fossil fuel investment. Rather than viewing oil and gas financing as a solution to insecurity, the EU has sought to frame the crisis as further evidence of the need to accelerate the clean energy transition. In this sense, caution is not necessarily passivity, but part of a long-term resilience

strategy.

Economic considerations also play a significant role in sustaining this policy approach. Public and institutional financing decisions are increasingly shaped by concerns over stranded assets, investor risk, and the shifting economics of energy production. Large-scale fossil fuel projects may become less profitable as carbon pricing expands, environmental regulations tighten, and renewable technologies continue to decline in cost. For European institutions, continuing to limit financing for such projects can therefore be justified not only on environmental grounds but also as a matter of financial prudence. This approach aligns climate policy with broader concerns about market stability and sustainable investment.

Nevertheless, the policy remains contested because it sits at the intersection of competing priorities. Critics argue that refusing greater flexibility in financing oil and gas projects may weaken Europe's ability to respond to immediate supply disruptions or rising energy costs, particularly during geopolitical crises. Supporters, however, contend that relaxing these policies would undermine the credibility of the EU's climate agenda and delay structural transformation. The cautious stance of the European Union thus reflects an attempt to balance urgent energy concerns with long-term strategic objectives, even as that balance continues to provoke political and economic debate.

The Case of SE Europe

The European Union's cautious stance toward altering its policy on financing oil and natural gas projects has particular implications for countries in SE Europe, where energy security concerns are often more acute than in other parts of the Union. Many countries in the region, including Greece, Bulgaria, Romania and Croatia, remain dependent to varying degrees on imported fossil fuels and have historically viewed natural gas infrastructure as a bridge in the transition toward cleaner energy systems. For these countries, EU restrictions on financing new oil and gas projects can create tensions between regional energy priorities and broader European decarbonization objectives.

The discussions at the Brussels Roundtable on Energy Security in SE Europe **[3]** demonstrated that Europe's energy transition is entering a far more complex and uncertain phase than previously anticipated. The combined impact of geopolitical instability, supply disruptions, high energy prices and growing infrastructure vulnerabilities has highlighted the urgent need for a more balanced and pragmatic energy strategy. For SE Europe in particular, energy security remains closely linked to diversification of supply sources, routes and technologies, while resilience has now become a strategic imperative encompassing infrastructure protection, cybersecurity, storage capacity and system flexibility. The region's continued dependence on hydrocarbons, combined with insufficient interconnections and persistent energy poverty, underlines the importance of maintaining realistic transition pathways that safeguard affordability and security of supply.

A key conclusion emerging from the Roundtable was the growing disconnect between European energy policy objectives and market realities, especially regarding hydrocarbons and nuclear energy. While natural gas and oil continue to play a critical role in electricity generation, industrial activity and long-term energy security, the European Commission's restrictive regulatory framework and the withdrawal of financial support for fossil fuel infrastructure are discouraging investment in both domestic production and strategic import projects. At the same time, the absence of a clear and unified European policy on nuclear energy creates additional uncertainty, despite increasing recognition that nuclear power can provide stable, low-carbon baseload generation and strengthen regional resilience. Many participants stressed that Europe cannot pursue energy security while simultaneously limiting investment in the very technologies and fuels that continue to underpin its energy system.

The Roundtable therefore highlighted the need for a comprehensive policy realignment that combines decarbonisation goals with security, competitiveness and social cohesion. Greater investment in electricity grids, gas interconnections, LNG facilities, storage infrastructure, hydrogen systems and carbon management technologies will be essential, particularly in SE Europe where vulnerabilities remain significant. Equally important is the establishment of stable and predictable regulatory frameworks capable of attracting long-term investment. Europe's future energy strategy must ultimately be based not only on climate ambition, but also on realism, technological neutrality and resilience, ensuring that the transition proceeds without undermining economic stability, industrial competitiveness or the security of energy supply.

One major issue concerns infrastructure development and diversification. The SE European countries have sought to expand pipelines, LNG terminals, FSRUs and interconnectors to reduce dependence on limited suppliers and strengthen resilience against supply disruptions. Projects, such as the Vertical Corridor, FSRUs and LNG facilities in Greece and Croatia, and cross-border interconnection initiatives, have often been presented as both strategic and transitional investments. A restrictive financing approach from the EU may slow or complicate some of these efforts, especially for countries with limited domestic capital or strong reliance on European financial mechanisms.

Economic development considerations also shape the regional debate. In several SE European economies, fossil fuel-related investments are linked not only to energy security but also to industrial competitiveness, employment, and regional growth. Romania's offshore Black Sea gas resources, for example, have been viewed as potentially significant both for national development and for regional supply diversification. From this perspective, some governments in the region argue that a rigid EU financing stance does not fully account for differing national energy structures or the developmental needs of member states and candidate countries in SE Europe.

At the same time, the EU's cautious policy has encouraged the SE European countries to accelerate

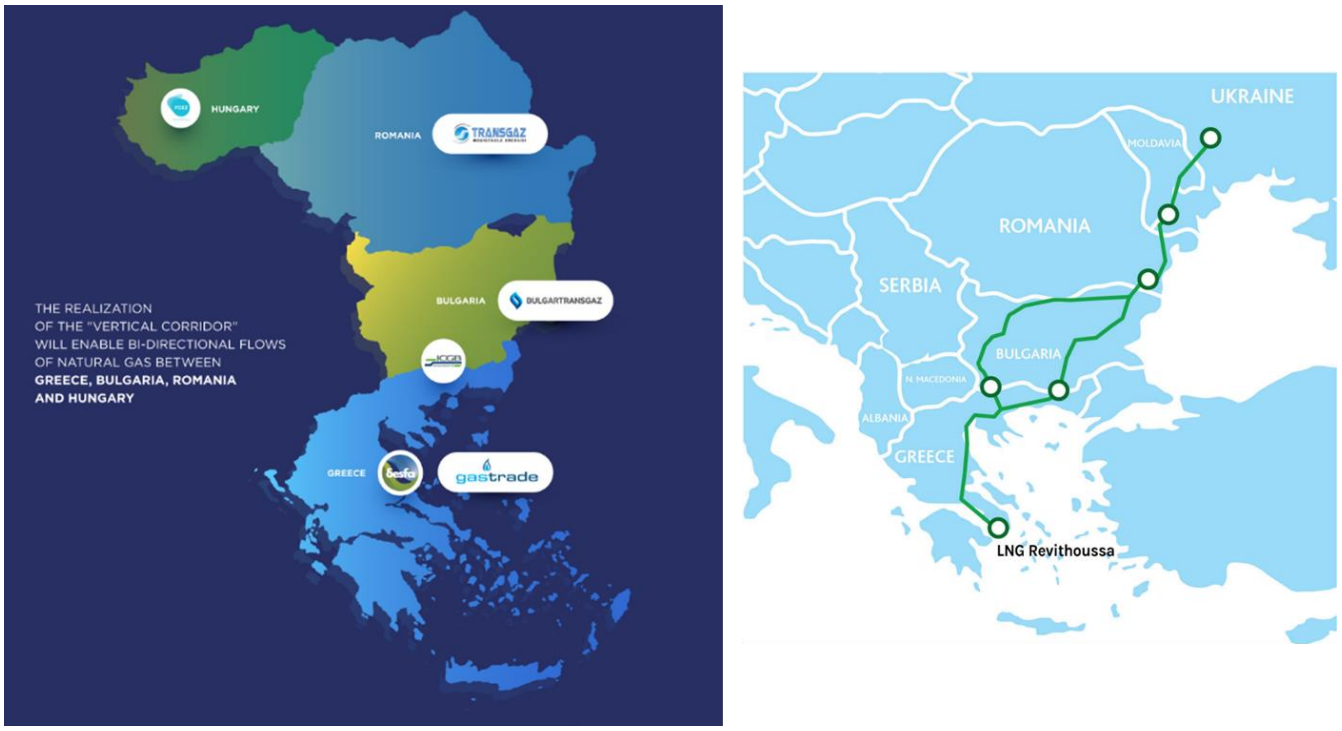
investment in alternative energy pathways. Access to EU transition funds and growing support for renewable infrastructure have pushed the region toward greater development of solar, wind, hydropower, and grid modernization. In some cases, the reluctance to expand fossil fuel financing has reinforced long-term diversification strategies and reduced the risk that SE Europe becomes locked into carbon-intensive infrastructure that may lose economic viability over time. This reflects the EU's broader argument that energy security and decarbonization can be pursued simultaneously.

Nevertheless, the policy remains contested in SE Europe because the region sits at the intersection of geopolitical exposure, developmental needs, and climate transition pressures. Governments often balance support for EU climate goals with concerns about affordability, supply reliability, and strategic autonomy. As a result, the EU's cautious approach toward financing oil and natural gas projects is viewed in the region both as a constraint and as a catalyst for transformation. Its impact therefore depends largely on whether alternative financing and transition support can adequately address the specific vulnerabilities and energy realities of the SE European countries.

For instance, the Vertical Corridor, as shown in Map 1, is increasingly seen as a critical component of Europe's energy architecture, particularly for Southeast and Central European countries seeking greater security and flexibility in gas supply **[4]**. By linking infrastructure across countries such as Greece, Bulgaria, Romania, and Hungary, it enables the flow of natural gas from diverse sources, including LNG imports and pipelines from the Caspian and Eastern Mediterranean regions. This reduces dependence on single suppliers and enhances resilience against geopolitical disruptions. At the same time, the Vertical Corridor promotes regional market integration and positions SE Europe as a strategic transit hub within the EU. Its importance also extends to the energy transition, as the infrastructure could be adapted in the future to transport low-carbon gases such as hydrogen, aligning short-term energy security needs with long-term climate objectives.

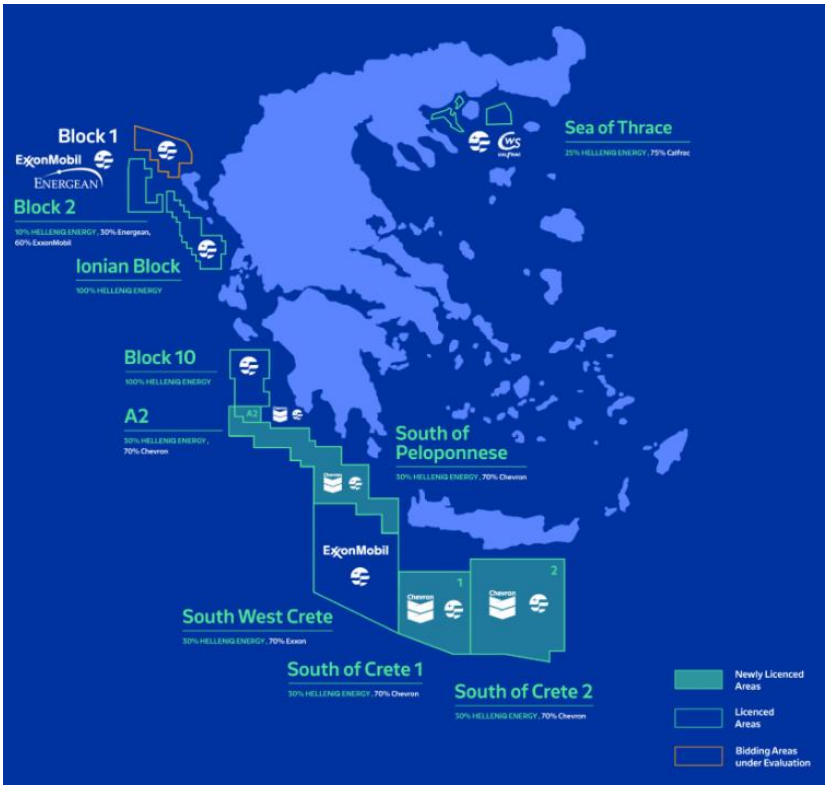
The continuation of hydrocarbon activities in Greece **[5]** and Romania **[6]**, as shown in Maps 2 and 3, has strengthened arguments that EU member states should retain access to European financing for selected oil and gas projects, particularly where these are linked to energy security and supply diversification. In both countries, hydrocarbon development has been presented not simply as support for conventional fossil fuel expansion, but as part of a strategic response to regional vulnerabilities and geopolitical instability. Romania's Black Sea gas projects and Greece's offshore exploration initiatives are often viewed as assets that could contribute to reducing import dependence, enhancing regional resilience, and supporting SE Europe's role as an energy corridor. From this perspective, EU financing for such projects could be justified as compatible with broader European energy security objectives, especially when focused on transitional or strategically significant infrastructure.

Map 1: The Vertical Corridor



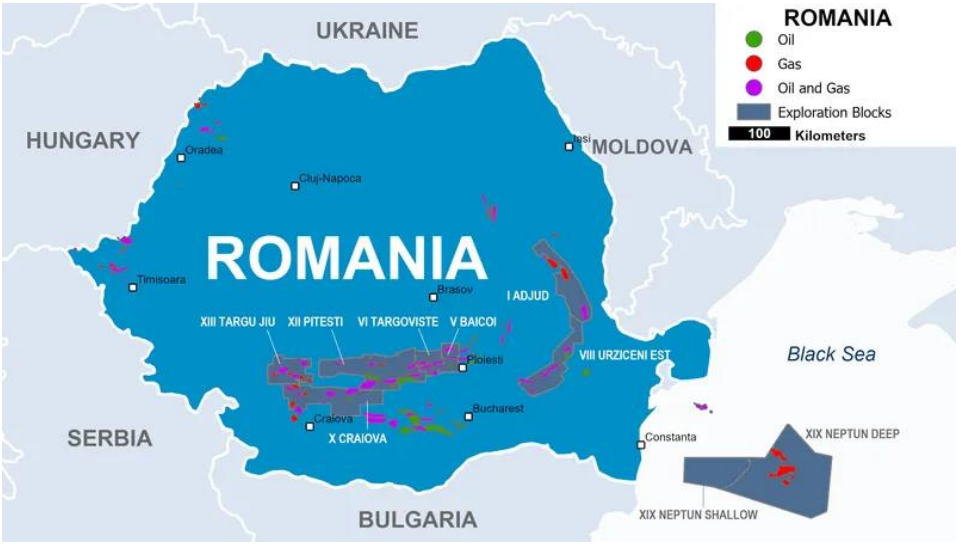
Source: DESFA

Map 2: Current Hydrocarbon Exploration Activities in Greece



Source: Helleniq Energy

Map 3: Current Hydrocarbon Exploration Activities in Romania

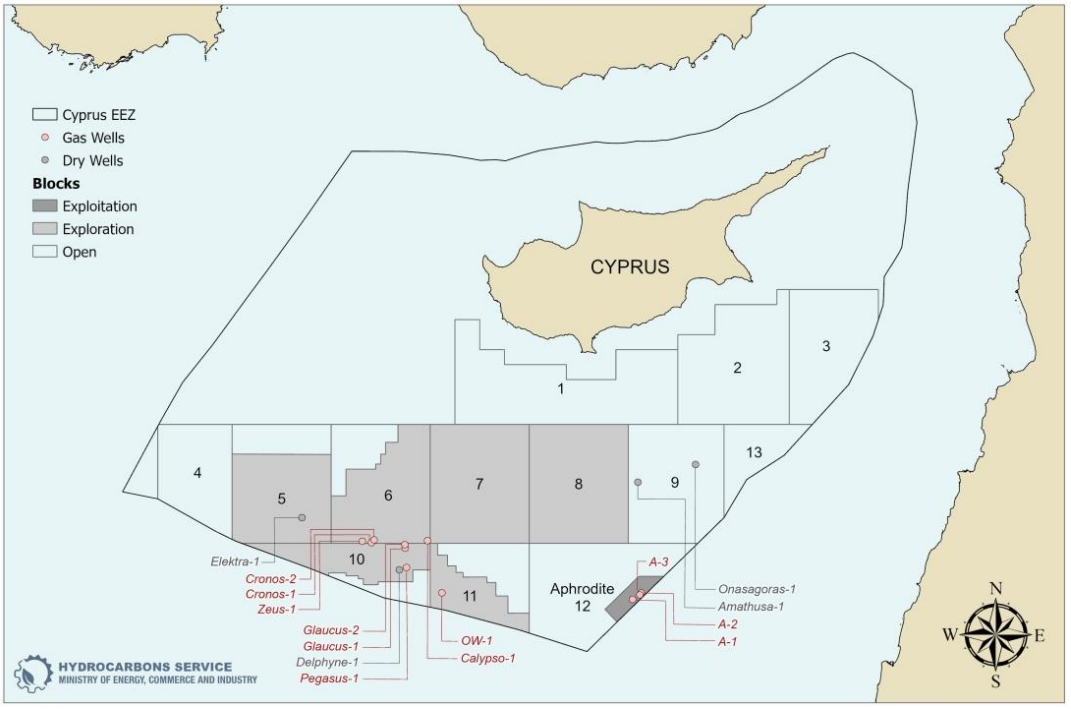


Source: OMV Petrom

It is worth noting that hydrocarbon exploration activities are of major importance for Romania, particularly through the development of the Neptun Deep project in the Black Sea, which is considered one of the most significant natural gas developments in the European Union. The project strengthens Romania's energy security, supports the reduction of dependence on imported gas, enhances regional supply potential, and contributes to economic growth through investment, employment, and government revenues. In addition, Neptun Deep is expected to reinforce Romania's strategic role in regional energy markets while supporting energy transition objectives by increasing access to domestic natural gas resources. **[7]**

During April, developments in Cyprus's offshore gas sector accelerated, as shown in Map 4, with the government and international energy companies pushing forward the commercialization of key discoveries in the country's Exclusive Economic Zone (EEZ). ExxonMobil and QatarEnergy formally declared the commerciality of the Glaucus and Pegasus discoveries in Block 10, estimated to contain between 6 and 9 trillion cubic feet (tcf) of natural gas, reinforcing the strategic importance of Cyprus in the East Mediterranean gas landscape. At the same time, negotiations continued between the Cypriot government, Eni and TotalEnergies over the development of the Cronos field in Block 6, although disagreements regarding contractual and liability issues delayed the expected final investment decision (FID). Parallel progress was also recorded at the Aphrodite field, where Cyprus and Egypt advanced discussions on gas export arrangements through Egyptian LNG infrastructure, with Nicosia reiterating its objective for first gas production by 2027-2028.

Map 4: Current Hydrocarbon Exploration Activities in Cyprus



Source: Hydrocarbon Service, Ministry of Energy, Commerce and Industry, Republic of Cyprus.

At the same time, broader questions arise about how EU climate policy can accommodate differing national circumstances without undermining decarbonization commitments. Supporters argue that excluding oil and gas financing altogether may disadvantage member states pursuing indigenous resources that could strengthen European autonomy, particularly during periods of supply disruption. They contend that a more flexible financing framework could distinguish between projects that deepen long-term fossil dependence and those that serve strategic diversification or transitional purposes. Critics, however, warn that expanding financing could weaken the credibility of the EU's climate agenda and divert resources from renewables. The debate therefore centers on whether hydrocarbon activities in countries such as Greece and Romania justify targeted exceptions within EU financing policy, or whether such exceptions risk diluting the Union's long-term energy transition strategy.

The Main Challenges Lie Ahead

Despite the ongoing energy crisis and increasing concerns over energy security, the European Union continues to face major challenges in balancing short-term supply needs with its long-term climate objectives. Rising oil and gas prices caused by the conflict in the Middle East have intensified political pressure on governments to secure stable and affordable energy supplies. As a result, several European countries that were previously committed to reducing fossil fuel dependence are now reconsidering domestic oil and gas exploration as a temporary solution to the crisis. **[8] [9]**

One of the key challenges ahead lies in maintaining the momentum of the green transition while responding to immediate economic and geopolitical pressures. The disruption of global energy flows through the Strait of Hormuz and the sharp increase in fuel prices have exposed Europe's vulnerability to external energy shocks. Policymakers are under growing pressure from industries and consumers affected by rising costs, leading some governments to support expanded fossil fuel production despite climate commitments. This creates a significant policy dilemma: increasing domestic drilling may improve short-term energy security, but it risks slowing investment in renewable energy and undermining the European Union's goal of achieving climate neutrality by 2050.

Another major challenge involves political unity and public acceptance of future energy policies. While EU institutions continue to emphasize that renewable energy, electrification, and energy efficiency are the only sustainable long-term solutions, disagreements among member states are becoming more visible. Some countries advocate for accelerated investment in clean technologies, whereas others prioritize immediate energy affordability and industrial competitiveness through expanded fossil fuel use. Whatever the convictions of the different schools of thought and preconceived government positions, the present crisis presents a first-class opportunity for major rethink of pursued energy policies. In this context an increase of hydrocarbon production within the EU countries should become part of the current energy policy rethink as this is the most cost-effective way to balance increased fuel costs and ensure adequate supplies. After all satisfying the bulk energy demand through renewables cannot as yet be achieved, and it will take several decades for the full electrification of the energy system.

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