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IENE Comment

It’s Time to Rethink Opposition to Oil, Gas Drilling

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*By Irina Slav **

Italy's government last week announced it will be fast-tracking domestic oil and gas drilling projects in a stark departure from the EU's central energy agenda. The decision is, of course, a response to the worsening oil and gas supply crisis, and it is the right decision.

The European Union's dependence on energy imports has been flagged by both politicians and analysts as a significant vulnerability to geopolitical and market developments. This dependence is indeed a problem, which this year became particularly pressing amid the war in the Middle East and Ukrainian drone attacks on Russian refineries.

Both of these conflicts have caused a sharp spike in oil and gas prices, and this time, it's not only on the futures markets. Physical supply of both crude and natural gas has been seriously compromised, and the EU has been affected more severely than other large energy importers due to the sanctions in Russian energy imports.

In this context, alternatives are few and far between. Bussels has insisted that in gas, the United States is a reliable alternative but that alternative has come with a high price tag, which is getting higher by the day right now as seasonal demand picks up and competition with Asia intensifies. In oil, the U.S. has also become the go-to supplier in the absence of Russia and the Middle East. However, the U.S. cannot entirely replace other suppliers. Although it is the biggest producer in the world, it cannot ramp up oil or gas production indefinitely. In fact, oil output growth has slowed down this year as the shale industry matures.

This puts the European Union in quite a bind. Boosting domestic supply should be the no-brainer decision, seeing as consumption of oil and gas continues strong, even with the declines registered in recent years—and accompanied by declines in industrial activity and economic growth. Instead of that no-brainer decision, however, the central EU government has chosen to double down on the shift to electrification by means of wind, solar, and batteries. Italy just gave that central government a much needed reality check.

"We want to move ahead with increasing domestic oil and gas production, because it makes little sense to buy this energy from abroad when we can also produce it here in Italy," Prime Minister Georgia Meloni said last Thursday. One would be hard pressed to find a simpler way to state the obvious. As the European Commission has itself argued repeatedly, energy security begins at home, meaning energy generation from local sources is much more secure than reliance on external suppliers.

Alas, the EC does not mean domestic oil and gas production when it talks about energy security, despite, it bears repeating, the glaringly obvious fact that the EU remains a huge consumer of both oil and gas—and even coal. Not only is the central EU government firmly against domestic oil and gas production, but it also wants Norway, its biggest single natural gas supplier, to not pursue new drilling opportunities in the Arctic. So, Norway had to state the obvious as well, which it did last month.

“In today’s geopolitical and security environment, and given the resource situation, I believe continued activity in the Barents Sea serves both Norwegian and European interests,” Norway’s energy minister Terje Aasland told Reuters in August, adding that “We would develop these areas, and then it will be up to the EU whether they should have a moratorium on buying that gas or oil.”

The lesson that Norway is teaching the EU is that countries with natural resources should exploit these resources, both for their own energy security and for the security of friends and neighbors – and profits, of course. If those neighbors are unwilling to take advantage of those resources, it is their choice to refuse to do so—at their own expense. It seems, however, that some individual neighbours are having a rethink about the whole transition business.

Last year, Germany decided to pursue natural gas drilling in the North Sea. Reports have also named the Netherlands, Denmark, and the UK among countries willing to reprioritise their energy objectives and boost or restart oil and gas production. Poland, meanwhile, struck oil at its border with Germany and wants to develop it. Germany objects, worried about the environment.

It appears sentiment among national governments in Europe has been shifting for a while now. The wars causing oil and gas supply shortages were bound to intensify that sentiment. It was only a matter of time before one country made the first step—and Italy just did. Others will follow, too, as the bill for financial relief swells. In Italy, tax breaks to cushion the price blow from the Middle East crisis has so far cost the government 2.6 billion euro, and there is no end to the war in sight. Tax breaks are not a long-term solution to an energy crisis, and neither is talk about building more wind and solar to reduce oil and gas imports. Energy security starts at home, with hydrocarbons.

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