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Dealing with the Current Energy Crisis: the role of the Eastern Mediterranean

Policy Brief

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Dealing with the Current Energy Crisis: The Role of the Eastern Mediterranean

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Most European governments have attempted to deal with energy rising costs by offering short-term solutions to assist their citizens. They have focused more on the global availability of supply by building a network of new pipelines and LNG terminals. For instance, the German government has adopted an LNG Acceleration Act to make the regulatory framework more favourable to fast-track construction of four new terminals. Moreover, Berlin has signed long-term LNG contracts with Qatar, while exploring options in sub-Saharan Africa. Likewise, the UK seeks to increase gas imports from Algeria, Egypt, South Africa, USA, Australia, and the UAE.

Furthermore, almost all European countries has attempted to establish a safety net for consumers through the provision of state support for the consumption of energy. Governments have provided flat-rate tax cuts to compensate consumers for the dramatic increases of electricity prices in recent months. For example, the Dutch government has announced a package of measures particularly aimed at cushioning the impact of rising prices on middle- and low-income consumers. Specifically, it provides a one-off energy allowance of 800€ to those with incomes close to the social benefit levels. Additionally, it has announced tax cuts on energy, lowering the VAT on energy from 21% to 9% and cutting excise duties on petrol and diesel by 21%. In a similar fashion, the Spanish and Portuguese governments have announced plans to stabilize the Iberian energy markets by initiating a package of 8.4€ billion (6.3€ billion for Spain and €2.1 billion for Portugal).

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While safeguarding citizens' rights to affordable energy is certainly crucial, these short-term measures have attracted some criticism from stakeholders. Environmentalist parties and groups have called for a reorientation of energy supply towards more clean and affordable energy, rather than focusing on how to guarantee new fossil fuel production. For example, London's plans to assist with rising energy costs have been criticised by the UK Green party as early as February 2022. The UK government has committed £37 billion to assist consumers with rising energy costs, while approving tax breaks that could finance up to £8 billion in new projects. Yet, the government has done very little to address the structural causes of the crisis and improve energy efficiency.

Energy reduction is another preferable strategy for European policymakers. The German government has considered the possibility of adopting stricter speed limits for two reasons: first to reduce fuel emissions and second to encourage the use of public transportation. The Dutch government has also announced that it will provide a package of 150 million euros to assist households in adopting energy saving measures and renovations to make their houses more efficient and sustainable.

However, the EU has prioritized the formation of a competitive, secure, and green energy market in the last decade. The year 2020 was designated as a target according to the '20-20-20' goal and was accomplished at a very satisfactory level. Charting the course ahead, the 'European Green Deal' (2020) has come to dominate the front scene capitalizing on earlier goals and boosting them further towards a climate neutral EU in 2050. It has even been proposed a 'European Climate Law'. The European Commission has increased its renewable energy mix goal from 40% to 45% for 2030. The Commission hopes that this proposal will make other energy related developments and improvements more feasible, including its plans for an EU Solar Strategy to double solar photovoltaic production, solar rooftop initiatives, legal obligations to install solar panels on public buildings, among other measures focused on renewable energies.

Following the outbreak of the Russo-Ukrainian war in February 2022, Moscow has utilized its gas exports as leverage against NATO and EU countries that support Ukrainian independence. The need to reduce dependence on Russian energy has forced European policymakers to consider alternative options. In this context, the Eastern Mediterranean region has increasingly attracted the attention of European policymakers and business leaders as an additional source of energy for the EU economies. Indeed, Greece could play an important role in the transportation of LNG from the Eastern Mediterranean to the rest of the Balkan region. Due to the increased production of shale gas, the US is bound to become the largest gas

producer in the world. The US shale gas has already reached Greece for the purpose of supplying via pipelines other Balkan countries. A new 182 km-long Greece-Bulgarian gas pipeline will transport 1 billion cubic metres of Azeri gas to Bulgaria via northern Greece.

In addition, Greece has enormous renewable energy sources (RES) potential. For example, the country enjoys on average more than 250 days of sunshine or 3,000 sunny hours (twice as many as Denmark which is a frontrunner in the RSE). The use of RES can contribute to the Greek economy by reducing costs and creating numerous jobs. Moreover, the country could assume a broader energy role due to its strategic geographic position at the crossroads of Europe and Asia. Greece could become the centrepiece of international interconnectors, spearheading the EU efforts in concluding ‘green’ agreements with third countries. Hence, European economies could benefit from the transfer of energy through interconnectors that link the Middle East and North Africa with Greece, Cyprus, and possibly Bulgaria and Romania. In this way, European governments would lessen their dependence on Russian gas at a time of increased tensions with Moscow. The use of renewable energy is not only safer environmentally but also politically. There are two projects of strategic significance for the EU.

The Euro-Asia Interconnector (EAI) has been included in the first EU list of key infrastructure projects known as Projects of Common Interest (PCI) in 2013 and has remained in the current 4th PCI list (Commission Delegated Regulation 2020/389). Moreover, it is codified as “Priority Corridor North-South Electricity Interconnections in Central Eastern and South Europe (NSI East Electricity): Cluster Israel-Cyprus-Greece” and is entitled to funding from the ‘Connecting Europe Facility (CEF)’, the EU €30 billion fund for supporting energy, transport, and digital infrastructure. The EAI project relies on the cooperation among Greece, Cyprus, and Israel - the region’s three liberal democracies. The 1,208 km-long submarine power cable will have a 1000 MW capacity and is expected to finish by December 2025. The project will contribute to the reduction of CO₂ emissions by 1.6 million tonnes annually.

The Greece-Africa Power (GAP) interconnector aims at bridging Europe and Africa by building a 1,309 km-long submarine power cable of total capacity 2000 MW in either direction. More specifically, GAP will connect Egypt’s Mediterranean coast with the Greek island of Crete and mainland Greece. The proposed Greece-Africa Interconnector will provide energy stability by facilitating intercontinental energy transfers and will contribute significantly to the reduction of CO₂ emissions. The delimitation of the Greek-Egyptian Exclusive Economic Zone sharply increases the political and legal viability of the project. The construction of the GAP project will begin in 2023.

Recommendations

- ✓ The EIA and GAP projects could significantly contribute to Europe's energy security for several reasons. First, the creation of high-capacity electrical interconnections is one of the most efficient strategies to allow the penetration of RES and the lifting of the energy isolation of Greece and Cyprus. Second, the two projects will help reduce the impact of climate change and pollutant emissions at the European level, thus protecting the biodiversity of the region. Third, they will help reduce electricity costs for European citizens by offering new market coupling opportunities. The additional power offered through the projects will contribute decisively to the system adequacy and flexibility of the electric networks in Greece and Cyprus. **Therefore, the EU should encourage the development of the EIA and GAP projects in a timely and effective manner. Given Turkish objections to both projects, the EU should offer political support for the constructing of the two interconnectors.**
- ✓ In the last decade, Greece has increased the share of RSE in the country's total production to 40%. Solar power is the most striking case, having exhibited an almost fivefold rise and accounting for 19% of RSE in the Total Primary Energy Supply (TPES). Wind power has shown a considerable grow having been tripled and accounting for 15.3% of RSE in the total primary energy supply. The situation becomes far more tangible when it comes to electricity generation from RSE. A major, but not insurmountable, obstacle in this encouraging course is the interconnection of the Greek islands with the mainland grid. The islands lack storage and are subject to high fluctuations in electricity consumption due to seasonal tourism. As a result, only 10% of the renewable energy capacity rests within the islands. The biggest challenge is the planned interconnection of Crete with the mainland. Crete exhibits a tremendous RSE potential, hosts the largest system compared to the other islands and accounts for almost 60% of all the non-interconnected islands' electricity consumption. **The Greek government should promote the use of RES at the local level by encouraging the establishment of energy communities in Crete and other Greek islands.**
- ✓ Egypt is the most populous Arab country and plays a vital role in North Africa's security architecture. Hence, Egypt can play the role of an energy hub since it is located near the European markets. Egypt has also the potential to become an important green energy exporter, if certain solar energy projects proceed. The EU has signed a

Memorandum of Understanding for a Strategic Cooperation in Energy with Egypt, which could pave the way for closer cooperation. However, the country has faced several external security challenges, including an increase of refugees from the Horn of Africa and a civil war in neighbouring Libya. At the same time, there is growing public anger due to the failure of government to improve the economic conditions, widespread resentment for public sector corruption, a lack of political reforms that fuel extremism and the growing influence of Islamist movements. Yet, from a European point of view, Egypt is too big to fail. **Therefore, the EU should build a special relationship with Egypt by offering a Deep and Comprehensive Free Trade agreement. In this way, the EU will be able to support public sector and economic reforms in Egypt. Moreover, energy trade could contribute to Egypt's economic stability and foster greater cooperation with the EU.**

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