

ASG Analysis: Europe's Energy Transition Amid the War in Ukraine

It's Not Easy Being Green

June 10, 2022

Key takeaways

- The war in Ukraine has caused major disruptions to the global energy market, especially affecting Europe, which is reliant on Russian fossil fuels. The European Union has responded by proposing a package of policies and funding called RePowerEU, aiming to reduce reliance on Russian oil and gas, address the spike in energy costs, and boost renewable infrastructure.
- The package combines a slew of measures, including new regulations to boost energy efficiency, funding for renewables and energy import infrastructure, coordination of gas and LNG purchasing, and increased renewables targets. The policies in the package are not entirely unfamiliar to EU policy watchers, as they are updates to existing European Green Deal plans and the Covid-19 recovery package, but they now carry an added sense of geopolitical urgency.
- RePowerEU aims to balance a tricky tradeoff between addressing rising energy costs by boosting short-term fossil fuel capacity while also pushing for long-term decarbonization. The tradeoffs involved are particularly contentious given concerns about extending the lifespan of fossil fuel technologies, and the difficulties of speeding up permitting for renewable projects and ongoing supply chain constraints in the renewables market.
- The EU's rapidly changing energy environment bears careful monitoring for firms on both sides of the Atlantic, as it presents new opportunities to invest and engage with officials. Officials are particularly keen to work with companies in the renewable energy sector, where trans-Atlantic cooperation will be central in the coming years.
- Looking ahead, EU institutions are aiming to finalize negotiations in the fall over the Carbon Border Adjustment Mechanism (CBAM), which will place tariffs on certain carbon-intensive goods from outside the EU. The CBAM, originally touted by France, will also tie into German G-7 plans to unveil a "Climate Club," a group that aims to harmonize decarbonization measures. All of these initiatives will be subject to complex negotiations between the European Commission, the European Parliament, and the upcoming Czech Presidency of the Council of the EU, the latter of which will be especially hesitant to push forward proposals that will appear to worsen high energy costs for constituents.

RePowerEU: Promise and peril

The war in Ukraine has prompted a wholesale reassessment of the European energy environment. The EU is trying to end its dependence on Russian fossil fuels as quickly as possible

while avoiding economic repercussions and meeting climate targets through increased renewable energy production. At the core of the EU's response is the RePowerEU scheme, which aims to address all three concerns simultaneously. Announced in mid-May, **RePowerEU, along with existing components of the European Green Deal, presents a generational opportunity for businesses across the Atlantic to engage with European governments, from the EU to the local level, to build a new energy ecosystem, rooted in energy independence and renewables.**

At the core of the package is a contradiction: the need to support short-term investment in fossil fuels to mitigate rising prices and the effects of sanctions and the need to speed up long-term investment in renewables. The extent to which the package leans towards the former or latter will likely be the subject of much debate as it turns to implementation.

Pillars of RePowerEU:

- Increase energy savings through efficiency measures for buildings, sustainable products, lower VAT rates, efficient heating, and a public outreach campaign.
- Diversify energy imports through purchasing and coordination mechanisms for gas, LNG, hydrogen, and nuclear.
- Increase targets and funding for renewable energy, aiming to bolster the EU's carbon reduction and neutrality goals.

Members of the European Parliament (MEPs) have already expressed their discontent with the European Commission's proposal to include financing for new oil and liquefied natural gas (LNG) infrastructure. The package is also tangled in a debate in the European Parliament over reforms to the EU's Emissions Trading System (ETS), a sort of cap-and-trade scheme, with criticism of the Commission's plan to fund RePowerEU by selling more carbon credits. While the proceeds would be mostly used to fund new renewable energy projects, the effective outcome would be to increase Europe's total carbon emissions in the short run.

Ongoing supply chain [constraints](#) are also a major risk for RePowerEU, as its ambition to quickly increase the share of renewable energy in Europe will be limited by the capacity to build and install facilities. As supply chains are threatened by both the war in Ukraine and Covid-19 lockdowns in China, the renewable energy industry is in an increasingly difficult position; demand is likely to rise due to EU policies, but supply may not be able to catch up. Despite significant talk about "European sovereignty" and securing supply chains, the Commission has omitted provisions considering the looming supply chain crisis in RePowerEU, although it is attempting to address the situation in other platforms and via the U.S.-EU Trade and Technology Council. Increasing prices for basic materials for solar panels or windmills will only limit the impact of the package's funds and constrain decarbonization programs, both in the EU and elsewhere.

Despite these risks, RePowerEU creates real promise for more rapid decarbonization in Europe, bolstering an already welcoming investment climate for renewable energy. The Commission's proposal increases energy efficiency targets; encourages personal behavioral changes to decrease demand; encourages reductions in tax rates on efficient heating systems; increases the headline 2030 target for renewables from 40 percent to 45 percent; aims to double solar capacity by 2025; creates a legal obligation for new buildings to install solar panels; and includes an increase of €210 billion in investments in energy connections, hydrogen and renewables infrastructure, storage, and offshore grids.

Maybe the most promising (and unusual) element of RePowerEU is a Commission [recommendation](#) to unlock complicated permitting and red tape for major renewable projects by recognizing renewable energy as an overriding public interest. This would shorten, reduce, or outright eliminate permitting procedures in “go-to” areas, already [mapped](#) by the Commission, with low environmental risk. **The high-profile recommendation to ease permitting is an unprecedented shift for the EU, which often avoids local issues, and aims to reduce one of the greatest barriers for widespread renewable infrastructure in Europe.** An example of the scale of the problem this tries to tackle: more than 80 percent of onshore wind projects under development in Europe are currently awaiting [permitting](#), with less than 20 percent actively under construction. While the Commission’s recommendation will not fully address the backlog, and it remains to be seen whether member state and local governments will adopt it (like previous, lower-profile recommendations), it is still a major business opportunity.

Overall, RePowerEU demonstrates Commission President Ursula von der Leyen’s ability to respond to crises. Her Commission’s leadership, starting with the Covid-19 pandemic and economic recovery package, has demonstrated the EU’s ability to be a nimbler actor in times of crisis, overcoming parts of its often slow and clunky bureaucracy to address issues it sees as too urgent and too large to be deferred to member states.

The energy package also marks a shift in how the EU sees energy policy, shifting it from a relatively technical area of work controlled by the Commission’s bureaucracy to a major geopolitical issue. Security concerns mean that decisions are now taken at the political level – namely by the most senior commissioners, ministers, and heads of government – with support rather than direction from the technical levels. Engaging officials will require broad outreach at the highest levels: namely, von der Leyen’s team, a few commissioners like Frans Timmermans and Kadri Simson, and the heads of DG Energy and DG Climate Action. It also means that the Commission understands tradeoffs are necessary to protect vital European interests – which are evident in the short-term funding of fossil fuel projects – and that under a “geopolitical Commission,” Europe’s place in the world will be defined by how it responds to the current moment.

Trans-Atlantic implications and looking ahead

As the EU responds to the energy crisis, the United States has increasingly become involved in supporting European energy security: the U.S. plans to [increase](#) LNG exports to the EU through 2030 and is [leasing](#) LNG terminals; the U.S. Department of Energy [is supporting](#) the development and construction of Romania’s civil nuclear power sector; and the U.S.-EU Task Force on Energy Security has set up a forum for both sides to discuss how to secure and bolster renewable energy supplies. So far, engagement across the Atlantic has heavily focused on energy security and fossil fuels, but **there is significant opportunity for constructive dialogue alongside the private sector on renewables and on ways to secure supply chains to make decarbonization cheaper and more reliable. Both sides will be keen to listen to private sector stakeholders on ways to speed up the energy transition.**

Looking ahead, the EU’s proposal for a Carbon Border Adjustment Mechanism (CBAM) is set to be finalized by the fall but will likely take years to come online. CBAM would place tariffs on carbon-intensive goods produced outside of the EU to balance increased costs from the EU’s ETS. This is particularly contentious in Washington, which remains reluctant on carbon pricing

harmonization. These issues, along with the proposed German idea for a Climate Club, will be on the agenda at the G-7 Leaders' meeting in Germany from June 26 to 28 though a formal announcement is not expected until the end of the year. While the Biden administration sees opportunities in a Climate Club focused on "friend-shoring" renewable technologies among a select group of advanced industrialized democracies, the German government is keen to have a more inclusive approach, to include countries from the Global South such as South Africa, Senegal, India, and Indonesia. Who is included in an eventual Climate Club – and more broadly the degree of carbon pricing harmonization – will have major repercussions for the North-South divide in the energy transition and on the rules for manufacturing bases for carbon-intensive products. All these discussions are likely to come to a head by November when the UN climate conference, COP27, takes place in Egypt.

More broadly, RePowerEU, along with other Green Deal measures, may bolster efforts to decarbonize Europe, but it also poses a significant risk to the Global South as the developed world is likely to take up a significant portion of the limited supply of materials and resources for renewable energy. While the G-7 countries have committed funding and resources for a just energy transition, these resources will be able to fund fewer and fewer projects if supply chain constraints coupled with rapid buying raise prices. U.S. and European policymakers may face the knock-on effects of their policies at a geopolitical level, especially as the fossil fuel price and looming food crises take their toll, battering the Global South.

Uncertainty about the war in Ukraine will also have a significant effect on how the EU implements its policies. Sanctions and energy costs will influence EU officials' reactions, giving companies opportunities to engage strategically and to look for avenues to cooperate with governments to bolster resilience and energy security. The upcoming Czech Presidency of the Council of the EU has already made energy security its top priority, noting that the debate will continue well into the fall. The political impact of rising energy costs should not be underestimated, as prices will push European politicians to respond to constituent concerns and focus on short-term fixes rather than addressing the systemic crisis. The immediate impact of RePowerEU and global efforts to address energy costs will decide whether Europe backtracks in the fall and winter or whether this marks a paradigm shift towards a greener economy.

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