GOVERNING SCARCITY

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For European countries, the resurgence of conflict on geographical and cultural frontiers, together with heightened tensions in the Balkans and the "Wider Mediterranean," is a severe stressor. While it's encouraging to see calls for a coordinated response to the crisis, the economic benefits of these efforts have yet to become apparent. The European Union has shown once again the effects of the political vacuum that only the renewed strength of NATO has filled, allowing for a unified action to occur in complete alignment with the condemnation of the Russian invasion. What is harder to find is unison in the application of sanctions and a counterreaction to the impending energy crisis. European nations have had to nearly completely divorce themselves from the import of Russian gas, which has had ramifications, especially in strongly reliant countries like Germany and Italy, two of the most significant European countries for industrial manufacturing. The solution for the lack of Russian gas is not impossible to find but remains unresolved as of March 2021. Any answer would not, in the short term, be without consequence on economic, social, and production systems. The replacement of energy sources in a social system based on stability and well-being is not painless.

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Self-Production and National Interests

The scarcity of energy caused by the war has pressed Europe to change its strategy and to have a more planned approach to the environmental and energy transition – anyway, it remains the objective of the decade. For the first time, energy self-reliance is seen as the key to political independence.

Regarding environmental impact, the approach has shifted to a more "human" model, which is concrete and distinctively ideological, as the COP27 summit in Egypt has shown. After the phase of pessimist narratives around climate change and its effects, the approach of infrastructure and technology rather than the reduction of human activity to a minimum has won.

Europe has found itself in the unenviable position of having to abandon fossil resources. Meanwhile, it must seek other energy sources to keep up with the rising demand brought on by the pursuit of digitalization. In the future years, the options the EU will have might include diversifying natural gas supplies, increasing the import of LNG, increasing the use of renewable sources, and maybe reviving the deployment of nuclear power.

Price Cap: Too Little, Too Late?

The price cap on gas is one of the most anticipated countermeasures and the fruit of an exhausting negotiation promoted chiefly by the Italian government. Its effects have yet to be seen. Indeed, its mechanism – it's coming into effect in February and once the price has risen above 180 – has some peculiarities that might reduce its efficiancy.

When imported stock is nearly depleted, the fixed price control should apply to Russian gas; this undoes the effects of sanctions on Russia; the fixed price control does not apply to LNG, which has an entirely different market and should, instead, contribute to gas demand in the coming years.

A matter yet to be resolved is how a historically useless measure, insofar as it is expensive, as a "cap price" might work nowadays, as markets are complex and interconnected. Furthermore, regarding countermeasures to the sky-high rise in prices, it is challenging to organize a unified acquisition of gas on a European scale; it is also out of the question to extend the fixed cost to other European providers such as Algeria and Norway, or even Azerbaijan, who provides gas to Italy via Tap. It makes much more sense to negotiate using political means.

As Massimo Nicolazzi suggests,[1] if the objective of fixing the price in this new market was simply to "prevent sudden and contingent price spikes," it would suffice to introduce negotiations al TTF (Title Transfer Facility) "a circuit breaker on the example of the suspension for an excess rise."

"New" Gas and Old Dependencies: The European Passion Interest in LNG

While the volatility of the gas market has already been mentioned above, it should also be noted that LNG is just as susceptible to market fluctuations as pipeline gas because it is transported by sea and lands wherever it will fetch the highest price; there are no long-term contracts or stable infrastructure that renders countries independent and permits regulatory policies or even the amortization of initial investments; and regasification plants are required to retransform the liquefied natural gas (LNG) – about to -160 degrees – back to natural gas at atmospheric temperature.

As demand grows, imports from the USA, Qatar, and Russia grow. Curiously, while natural gas no longer arrives, LNG imports from Russia have been growing in 2022 as 16.5 billion in the January-September period of 2022 against 11.3 in the same period of 2021.[2]

1) M. Nicolazzi, Staffetta online, "Più che difficile inutile: il price cap ha perso di senso", 16 December 2022. https://www.staffettaonline.com/articolo.aspx?id=371294

2) C. Cooper, Politico, "The Russian gas habit Europe can't quit: LNG," 6 November 2022. https://www.politico.eu/article/russia-gas-europe-lng-putin/

Given the amount of LNG exported, thanks to the North Field, it remains to be seen whether there will be repercussions from the "Qatargate scandal" – the Gulf country aims to reach 126 million tons per year (MTPA, Million Tonnes Per Annum) by 2027 – on imports to Europe.[3]

Projects for Self-Sufficiency in Energy: Meloni's Government Focuses on Diversifying Resources

The new Meloni-led government started having to face the consequences of the energy crisis, and in just over two months of operation, it had to allocate enormous resources. In addition, Environment and Energy Security Minister Pichetto Fratin presented a precise plan for energy self-sufficiency to create a new energy mix. It is based on a few pillars: growth in LNG imports which requires the construction of at least two new regasification plants, in Ravenna and Piombino, where a new gas pipeline should also arrive, from Algeria, the Galsi[4] – a project resurrected after Meloni's last visit to the North African country; relaunching and strengthening of gas extraction from Italian fields; dissemination of renewables with the expansion of areas suitable for installation (the goal is to reach 70GW in about 6 years). The challenge is delicate and decisive, but a clear political will to intervene on the issue is positive.

Conclusions

Three years from now, from 2020 to 2023, will mark a turning point in history after 1989, and the repercussions of this series of shocks are still being tallied. Certainties are few and far between, yet they do exist. As a result of their scarcity, the prices of all resources, from gas and grain to rare earths and water, are expected to rise and likely remain relatively high. At this point, globalization either comes to a halt or enters a new phase in which new powers are firmly established and insist professionally on spheres of influence. However, the United States serves as the military and technical center, with measures becoming increasingly isolated in their little ponds. As things stand, self-sufficiency appears to be the best course of action. This has far-reaching implications, not just economically (because of a drop in traffic and commercial quotas) but also politically (due to a predictable "nationalization" of the politics of the various countries).

3) Eni, *World Energy Magazine* No. 53, "Today & Tomorrow" (July 2022).
https://www.eni.com/static/en-IT/world-energy-magazine/today-tomorrow.html#slide11

4) Á. Escalonilla, *Atalayar*, "Meloni resumes Draghi's agenda in Algeria: "We will be a gas hub for Europe", 24 January 2023.