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# Transitioning towards energy security beyond EU borders: why, where and how?

The EU aims to promote the green energy transition both at home and abroad. A proactive green energy diplomacy could help to increase energy access levels and mitigate climate change as well as reduce commodity price shocks, social unrest and fossil exporters exerting unwarranted leverage over the EU. This would require a strategy to avoid new dependencies on critical raw materials and to factor in more explicitly an increased realisation that fossil energy relations carry an inherent security risk. But is the EU managing to live up to its green energy ambitions? After an analysis of the instruments available to promote the green transition in third countries, this policy brief argues that the current EU toolbox does not reflect the scale of the new external energy and foreign policy priorities. The EU needs to make smarter choices in order to align its energy transition ambitions with foreign policy priorities, catalyse private sector investments through guarantees and Team Europe Initiatives, and enhance the flexibility of its instruments.

## Introduction

In recent years, the risks of fossil energy dependency have become more visible and acute. For the EU, the Russian invasion of Ukraine and repeated attempts by the Kremlin to weaponise its energy supplies have thrown into sharp relief European dependency on fossil imports. Large shares of EU oil and gas imports come from petrostates, where fossil production generates revenues for autocratic regimes and exposes these countries to economic and political instability. Fossil dependency on undemocratic and unstable petrostates can pose a risk to European security. In fact, externalities, from social unrest to civil war, can cause supply disruption and price shocks for EU consumers, but could also have wider security implications such as new migrants coming to Europe.

Clearly, the EU needs to find a sustainable solution to enhance its long-term energy security. In this regard, transitioning towards greater shares of renewable energy in third countries, although entailing great challenges like the need to secure critical raw materials (CRMs), has the potential to help reduce energy security risks at home. To honour its objective to become climate neutral in 2050 and to reduce undesirable fossil energy dependencies, the EU arguably has a strategic interest in catalysing the green energy transition in third countries. But what does this imply for its foreign and security relationships with fossil exporters, and do the instruments in the EU toolbox match its ambitions?

Security and foreign policy communities in the EU have already become interested in looking at how peace and stability efforts in third countries are connected to energy security at home. Although most of the EU's energy security measures are internal, documents such as the 2014 European Energy Security Strategy,<sup>1</sup> the 2016 Global Strategy and the 2022 RePowerEU Plan highlight the importance of the external dimension, especially regarding relations with EU energy suppliers. In its Global Strategy, the EU recognised the need to assist partner countries along a path of energy transition to avoid fuelling social tensions and potential conflicts.<sup>2</sup> Likewise, with the publication of the External Energy Engagement Strategy (EEES), which accompanied the RePowerEU Plan, the EU has signalled a desire to become more proactive in supporting third countries in facilitating their own domestic transitions.<sup>3</sup> This comes on top of climate finance commitments that seek to support mitigation and green energy transition efforts globally.

This policy brief discusses which EU instruments are currently available and which ones could be used to promote energy transition in third countries, while taking account of inherent fossil energy security risks. Does the EU possess tools which reflect the flexibility, robustness and scale needed to deal with this new geopolitical landscape? This brief encourages smarter choices to be made in the prioritisation of third countries, based on strategic and security priorities of the Union.

## Fossil energy risks and the potential of renewable energy to bring stability

Fossil fuel dependency, especially on undemocratic and unstable countries, has always posed security risks to the EU. The most visible risk that we are witnessing now is the weaponisation of energy, with Moscow openly using gas as leverage over Europe. In fact, following the Russian invasion of Ukraine and sanctions imposed by the EU, Russian producer Gazprom curtailed supply to several European countries. This form of energy coercion has raised alarm bells in Europe, causing energy prices to skyrocket to record levels and throwing the bloc into an energy crisis. Due to the high reliance on Russian fossil imports – which amounted to 39.2% of gas and 24.8% of oil imports in 2021<sup>4</sup> – Europe is now paying a high price.

Apart from Russia, the EU also imports oil and gas from several other 'petrostates', where fossil production is more likely to be linked to rent-seeking elites and the financing of autocratic regimes.<sup>5</sup> Such petrostates often have undiversified economies, as they rely mainly on fossil revenues to sustain their regimes. This makes them more vulnerable to the impact of volatile global energy prices,<sup>6</sup> which could reduce the consistency of flows into the state budget and the provision of basic social services, fuelling instability and anger among the local population. Such risks can feed into social unrest and often can form part of bottom-up protests or widespread anger directed at the regime. A recent example is Kazakhstan, where sudden increases in fuel

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1 The European Commission, "[European Energy Security Strategy](#)", 2014.

2 The European Commission, "[Shared Vision, Common Action: A Stronger Europe. A Global Strategy for the European Union's Foreign And Security Policy](#)", July, 2016.

3 The European Commission, "[EU external energy engagement in a changing world](#)", May 18, 2022.

4 Eurostat, "[EU imports of energy products - recent developments](#)", September, 2022.

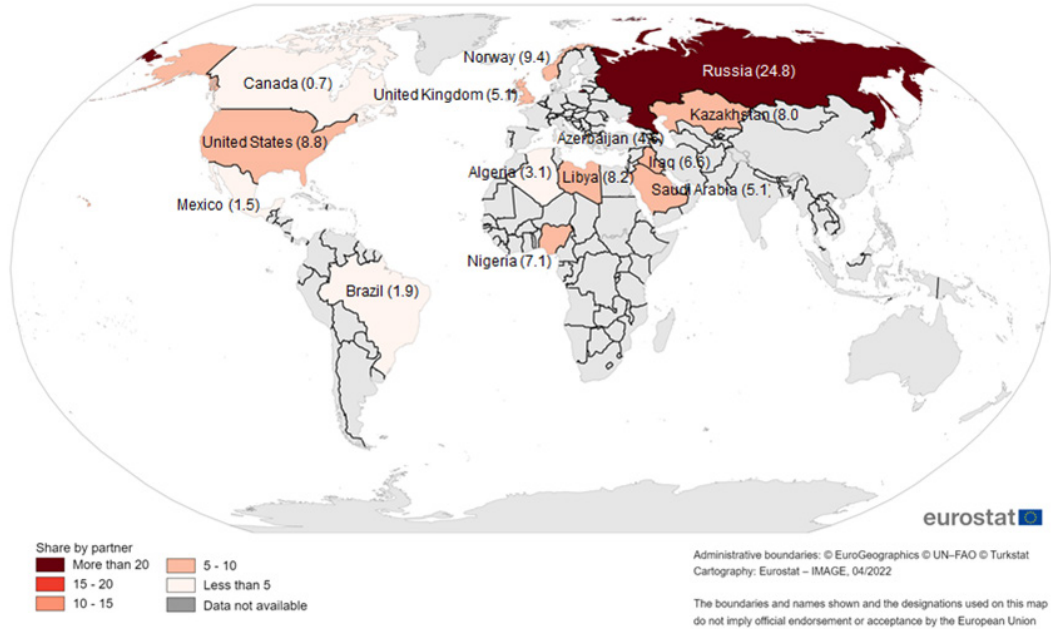
5 Bilal Wahab, "[What Will It Take to Repair Middle Eastern Economies?](#)" In *Seven Pillars: What Really Causes Instability in the Middle East*, eds Michael Rubin and Brian Katulis, (Washington Institute, 2019), 126-127.

6 International Renewable Energy Agency, "[A New World: The Geopolitics of the Energy Transformation](#)", 2019: 31-35.

**Map 1 of the largest EU energy importers (only 2021 data exists in full)<sup>7</sup>**

**Main extra-EU partners for imports of petroleum oils, 2021**

%



Source: Eurostat database (Comext) and Eurostat estimates

prices in January 2022 triggered a violent uprising.<sup>8</sup>

Dependency risks on these autocratic petrostates can result in local political unrest directly affecting EU energy security by causing supply disruptions and price shocks for EU consumers. This happened in Libya in 2011, for instance, when the insurgency against Gaddafi’s regime erupted and oil production went offline. The civil war caused severe supply disruptions, triggering global oil prices to spike. One of the most affected countries in Europe was Italy, which at the time was importing 22% of total crude consumption, a dependency not easily replaced overnight.<sup>9,10</sup>

Another issue is the use of fossil revenues by armed groups accelerating conflict risk. During the Syrian civil war, the emergence of the Islamic State (ISIS) in the country was majorly funded by proceeds from stolen Syrian oil fields. Although overall production collapsed, ISIS raised approximately \$500 million US dollars in 2015, money which was channelled back into their repressive and terrorist activities.<sup>11</sup> In the meantime, ISIS brutality and overall chaos of the civil war prompted migration towards Europe, putting a huge strain on the EU’s borders.<sup>12</sup> These fossil risks demonstrate the vulnerable position in which the EU finds itself as an oil and gas supply-dependent region in a sea of autocratic petrostates, whose instability can pose a risk for the EU’s own energy and wider security.

7 Eurostat, “Main extra-EU partners for imports of petroleum oils”, 2022.

8 Karin Strohecker, “Analysis: Kazakhstan reminds world leaders of costly fuel subsidy dilemma”, *Reuters*, January 6, 2022.

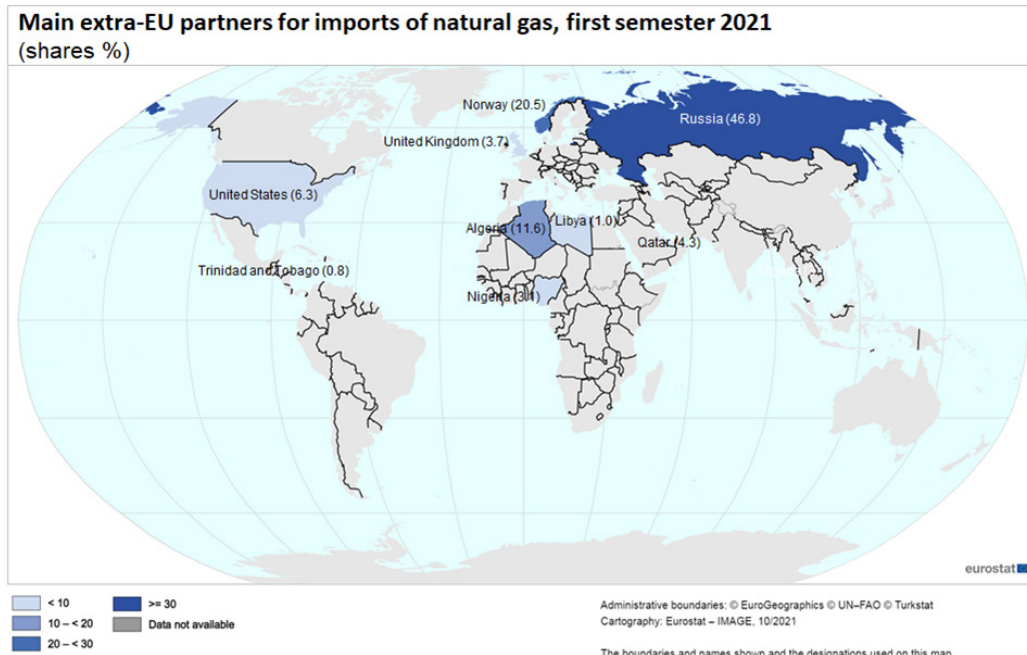
9 Brad Plumer, “What would Gaddafi’s fall mean for oil prices?”, *Washington Post*, August 22, 2011.

10 Andrés Cala, “Europe rethinks dependence on Libyan oil”, *Christian Science Monitor*, February 23, 2011.

11 Heißen, et al., “Caliphate in Decline: An Estimate of Islamic State’s Financial Fortunes”, *The International Centre for the Study of Radicalisation and Political Violence*, 2017: 9.

12 Alex P. Schmid, “Links between Terrorism and Migration”, *International Centre on Counter-Terrorism*, 2016: 3.

Map 2 of the largest EU energy importers (only 2021 data exists in full)<sup>13</sup>



Source: Eurostat database (Comext) and Eurostat estimates

Despite the fact that fossil fuels are still likely to play a role in the global energy mix of the next decades and that the EU also receives supplies from stable and democratic countries, greater access to renewable energy in third countries has the potential to help reduce the acute energy security risks in the medium to long term. The primary benefit is the expansion of the number of energy-producing countries, hence of energy exporters, which would reduce EU dependency on petrostates. The capacity to produce renewable energy is more evenly distributed across the world than fossil reserves, given that renewable energy sources are infinite in theory. The EU would most likely still import energy, for instance in the form of hydrogen, but this would be from a wider range of countries. A reduced dependence on fossil-producing autocratic regimes would minimise the risk of weaponisation of fuel supplies. The fossil revenues that help fund state repression in these countries and fuel their geopolitical

ambitions externally, would also diminish. Considering that fossil fuel exports account for 39% of Russia’s federal budget, less global revenues might be a decisive factor in breaking down the geopolitical power of this ‘petrocrat’.<sup>14</sup>

Greater access to renewable energy could also help many developing, energy-hungry countries meet their rising energy demand endogenously by giving them the means to become energy producers. On the one hand, energy resilience could reduce their debt exposure that makes them vulnerable to economic shocks.<sup>15</sup> Increased stability would help alleviate the externalities which the EU might have to deal with. On the other hand, greater energy autonomy in third countries could increase their resilience against external powers such as China and Russia, who often take advantage of energy vulnerabilities to strengthen their own political hand in regional geopolitics.

13 Eurostat, “Main extra-EU partners for imports of natural gas”, 2022.

14 Angelina Davydova, “Will Russia ever leave fossil fuels behind?”, *BBC Future*, November 24, 2021.

15 Ammar H. Khan, “A Dark Winter”, *Profit Pakistan*, August 21, 2022.

A greater access to renewable energy could also help stabilise global energy prices. The production of renewable energy is already cheaper and makes countries less reliant on imported fossil fuel.<sup>16</sup> Moreover, renewable energy is not as substantially affected by supply volatility as fossil fuels and most nations can generate it in some capacity. As such, supply-side shocks can be limited. All of this could contribute to a more balanced global energy market, which would benefit the EU energy security, especially as a historic net-importer.

Nonetheless, the renewable energy transition does not come without risks to EU security. Energy systems powered by green energy technologies, such as solar photovoltaic plants, wind farms and electric vehicles, require critical raw materials (CRMs) that will create new or exacerbate current dependencies. These include the minerals and metals whose extraction requires significant efforts, not to mention environmental damage, and which is concentrated in few countries.<sup>17</sup> Their processing is dominated by one specific player, China. In 2017, China supplied the EU with 98% of its rare earth requirements. Today, the dependency is still at 90%.<sup>18</sup> Demand for other CRMs, like lithium, is also rising exponentially (production needs to increase by more than 450% by 2050 to meet demand from renewable energy technologies).<sup>19</sup> To quote von der Leyen, ‘lithium and rare earths will soon be more important than gas and oil’;<sup>20</sup> therefore it is essential for the long-term security of the Union to promptly address these dependencies.

## EU’s green ambitions and energy security concerns

The Russian invasion of Ukraine has seen energy security become a top priority for EU’s foreign policy. This has been evidenced by, for instance, the rapid publication of REPowerEU and the fact that Commission President von der Leyen was personally involved in securing bilateral agreements with new gas-supplying countries. Also, in her 2022 State of the Union Address, energy security was the first topic she touched upon right after the Russian invasion of Ukraine. In particular, she spoke directly about the risks of fossil fuel energy dependency and the importance of the renewable transition to face this crisis. Energy security had already been mentioned as a priority for the security of the Union in 2016,<sup>21</sup> but Putin’s invasion has meant that it is now fully the prerogative of the EU’s political leaders, as well as a core focus of non-traditional energy institutions such as the European External Action Service.

With the publication of REPowerEU and the EU External Energy Engagement Strategy, the Commission has reiterated the need to increase EU energy security by diversifying its energy supply and accelerating the roll-out of renewables at home and in third countries. Drafting of the strategy had already commenced before the Russian invasion of Ukraine and was guided by Council Conclusions on the external dimension of the European Green Deal adopted in January 2021.<sup>22</sup> However, the changed geopolitical conditions forced EU institutions to consider the current energy crisis and re-write it with a focus on short-term security-based objectives. Combined with a deepening climate emergency, it has led the EU to reshape its

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16 Enel Group, “[How renewables will stabilize energy prices](#)”, October 6, 2021.

17 Dolf Gielen, “[Critical materials for the energy transition](#)”, *International Renewable Energy Agency*, 2021.

18 Misha Glenn, “[The scramble for rare earths carries big geopolitical risks](#)”, *Financial Times*, 2022.

19 Kirsten Hund, et al., “[Minerals for Climate Action: The Mineral Intensity of the Clean Energy Transition](#)”, *World Bank*, 2020: 12.

20 Ursula von Der Leyen, “[State of the European Union Speech](#)”, The European Commission, 2022.

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21 The European Commission, “[Shared Vision, Common Action: A Stronger Europe. A Global Strategy for the European Union’s Foreign And Security Policy](#)”, 2016.

22 The Council of the European Union, “[Council conclusions on Climate and Energy Diplomacy - Delivering on the external dimension of the European Green Deal](#)”, January 23, 2021.

energy diplomacy, especially vis-à-vis fossil fuel producers. The strategy reveals not only the unacceptable dependency on Russian energy imports, but also the securitisation lens through which Brussels and national capitals increasingly view energy and climate objectives.

An important pillar of the EEES is renewable hydrogen, which will play a key role in the future EU energy import mix. The Commission expressed its desire to establish three ‘hydrogen corridors’ in the North Sea, Ukraine and southern Mediterranean.<sup>23</sup> Moreover, in September 2022, von der Leyen announced a ‘hydrogen bank’ worth around €3 billion to incentivise investments in new hydrogen infrastructure and joint production capabilities.<sup>24</sup>

The EEES reads that ‘the green energy transition is the only way to simultaneously ensure sustainable, secure and affordable energy worldwide’.<sup>25</sup> However, this green ambition is curtailed by the short-term objective of securing non-Russian fossil fuel supplies, even if this requires new explorations and gas infrastructure that could hamper the energy transition, as well as agreements with non-democratic regimes. While the EU recognises the risk of dependency on petrostates, the cost-of-living crisis, inflationary pressures and acute demand for natural gas has made Brussels’ political bargaining positioning weaker than prior to the war. The urgent need for energy imports has led the EU to put aside its democratic and green values and negotiate, for instance, new deals with Azerbaijan and Qatar to expand gas volume imports, as well as a trilateral agreement with Egypt and Israel to extract and refine gas from newly

discovered fields.<sup>26,27</sup> These new agreements will expand gas extraction and, in some cases, enrich autocratic regimes. An example is Azerbaijan, where there is widespread corruption and the repression of opposition, particularly recently during the Covid-19 pandemic.<sup>28,29</sup>

Credibility issues also emerge when the EU encourages African countries to accelerate their energy transition while also being willing to explore the gas potential of countries like Nigeria, Senegal and Angola. This move has raised the eyebrows of experts in Africa who claim that calling on African nations to open up more gas supplies is reckless because these countries are already facing severe climate crises, including water scarcity, energy poverty, insufficient food production and post-Covid impacts. Moreover, it paints a picture of EU Green Deal external ambitions as being ‘fossil fuelled colonialism’, which is counterproductive to EU strategic interest in the region.<sup>30</sup>

## Which instruments can the EU use to catalyse renewable transitions in third countries?

The operationalisation of EEES is still rather unclear. The language is reminiscent of the Council Conclusions of 2021, which indicates that the strategy does not offer any more critical detail on operationalising its ambitions, beyond providing a narrative. This is a likely consequence of the fact that it was rewritten after February 2022.

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23 The European Commission, “[EU external energy engagement in a changing world](#)”, May 18, 2022: 5.

24 Ursula von Der Leyen, “[State of the European Union Speech](#)”, The European Commission, 2022.

25 The European Commission, “[EU external energy engagement in a changing world](#)”, May 18, 2022: 20.

26 Sarah El Safty and Ari Rabinovitch, “[EU, Israel and Egypt sign deal to boost East Med gas exports to Europe](#)”, *Reuters*, June 15, 2022.

27 Stephen Stapczynski & Verity Ratcliffe, “[Qatar to Demand EU Sign Long-Term LNG Deals If It Wants More Gas](#)”, *Bloomberg*, June 23, 2022.

28 Gligor Radečić, “[The EU-Azerbaijan gas deal is a repeat mistake](#)”, *Politico*, August 17, 2022.

29 Human Rights Watch, “[Azerbaijan: Crackdown on Critics Amid Pandemic](#)”, July 13, 2020.

30 Enviro News Nigeria, “[Global energy crisis: Campaigners describe EU strategy as ‘reckless response’](#)”, May 18, 2022.

So, how does the EU intend to pursue its green goals practically? And which instruments can be used to promote energy transitions in third countries with a view to reducing fossil security risks? To paraphrase an old point of criticism on EU foreign policy, does the EU have the capabilities to meet the expectations it raises?

To meet its ambitions, the EU has several instruments at its disposal, including financial, technical and regulatory tools. A full overview can be found in Table 1 at the end of this brief.

## Financial firepower

To catalyse an external green energy transition, the majority of the EU's financial firepower comes from the **Neighbourhood, Development and International Cooperation Instrument (NDICI – Global Europe)**. Because of the political desire to streamline and make EU external spending more agile, the NDICI was designed to cover all resourcing of the EU's foreign policy objectives in third countries. Although principally aimed at promoting a green transition – 30% of the instrument's €79.5 billion is enveloped for green or climate spending – the reality is that the NDICI sets substantial conditionalities for third countries to access financing.<sup>31</sup> These include everything from meeting human rights standards to ensuring the rule of law is followed, which, though consistent with EU principles, hampers the speed and flexibility at which NDICI can be deployed. Also, the NDICI's envelopes were set within the 2021-2027 Multiannual Financial Framework (MFF), prior to the Russian war in Ukraine, and cannot be easily reallocated to strategic areas.

Moreover, during the negotiations of the instrument, the Commission's Directorate-Generals for Energy (DG ENER) and Climate Action (DG CLIMA) were hardly involved in

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31 The European Parliament and Council of European Union, "[Establishing the Neighbourhood, Development and International Cooperation Instrument – Global Europe](#)", June 9, 2021: 3.

the decision-making process. This has led to a struggle in deploying financing to countries where supporting energy efficiency and green energy transition would yield great potential. Clearly, the NDICI is not flexible enough to meet short-term external energy objectives. There could be a window for change, however. The instrument is subject to annual review of its annual action plans and a mid-term review of the tool's objectives and spending efficacy, likely to be held in 2024.<sup>32</sup> So, if energy security could be clearly defined as one of the goals of the geographic pillar, notably 'Security, Stability and Peace' and 'Environment and Climate Change',<sup>33</sup> there may be scope for the existing envelopes to be redistributed into external transition projects, but not in the short term.

Similar problems are also being encountered by the **European Fund for Sustainable Development Plus (EFSD+)**, which aims to support sustainable investment worldwide. Although there are many guarantees, blended actions and grants to enhance the attractiveness of investments to the private sector and minimise financial risk, much of the budget was set prior to 2022. Covered by the geographic envelopes of the NDICI (worth €60.38 billion), it is envisaged that the EFSD+ will help generate up to €135 billion worth of private investment in green energy infrastructures, clean transportation and the digital transition externally, among other things.<sup>34</sup> From the outset, the fund seems to incorporate tools designed to support external transitions such as risk guarantees for private investors and currency exchanges. Yet, it reflects more development-based priorities and a pre-2022 political reality. Moreover, it relies heavily on generating private investment to fund the programmes, but these are slowing down in times of economic downfall and

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32 European External Action Service, "[Concept for an Integrated Approach on Climate Change and Security](#)", October 5, 2021: 6.

33 EU NeighboursEast, "[Factsheet: Neighbourhood, development and international cooperation instrument \(NDICI\) – 'Global Europe'](#)", June 11, 2021.

34 The European Commission, "[European Fund for Sustainable Development Plus \(EFSD+\)](#)", 2021.

heightened geopolitical tensions. As such, the instrument's structure, with a focus on long-term development goals, is not equipped for the short-term objectives such as energy security.

As part of the streamlining of the EU's external spending, the EU consolidated foreign spending guarantees into a single **External Action Guarantee** of €53.4 billion (also included in the financing allocated to the NDICI's geographic programme), which was presented in tandem with the EFSD+.<sup>35</sup> A guarantee in this form is designed to mitigate the risk for national institutional and private sector investors when investing in EFSD+ designated projects in third countries, by guaranteeing a portion of the investment should the value drop or a third country default on an EU external action loan. This is a vital instrument to de-risk activities and leverage private investments, especially in volatile regions. Yet the guarantee itself does not even come close to covering the proposed amounts needed to fund external transition. Also, given that it was introduced in an economic environment dominated by a post-Covid recovery, it is not designed to support specific investments in energy.

More is to be expected from the **European Export Credit Facility** that was announced in the EEES. This needs to be based on an adjustment of the framework of export credits called the OECD Arrangement on Officially Supported Export Credits (the 'OECD Arrangement'). Although coal has already been agreed for a phase-out, other fossil fuels are yet to be fully discussed.<sup>36,37</sup> In other words, it might still take a while before the EU can really cover the risks of private sector investors interested in financing smart grids, energy efficiency and renewable energy production abroad.

Finally, the latest European strategy to boost the digital and green transition across the world by mobilising private sector investments is the **Global Gateway**. Loans will be disbursed through a Team Europe approach, bringing together the EU and its member states' financial and development institutions, including the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). Global Gateway draws on the financial tools of the MFF 2021-2027 with an estimated total value of €300 billion. However, most of the money is not new, but repurposed and repackaged finance. Only up to €18 billion of grant funding will come from the EU budget, though it is not specified where in the budget it will come from. The rest includes up to €135 billion worth of investments made available from the EFSD+ for guaranteed investments for infrastructure projects, and an estimated €145 billion in planned investment volumes from European financial and development institutions.<sup>38</sup> Since the bulk of this funding comes in the form of loans rather than grants, it will not raise outright the EU's spending capabilities. The ability to access and desire for these loans by third states is also in question, especially as EU funding often comes with many strings attached, such as cumbersome bureaucratic processes. The EU compares poorly in accessibility to the 'easier' conditionalities of Chinese investments through the Belt and Road Initiative (BRI).

## Geographical stretch

Geographically speaking, the EU instruments to support the roll-out of renewables and energy efficiency encompass regions as far reaching as the Western Balkans, Eastern Europe, Africa, the Mediterranean, Central Asia and the Indo-Pacific.<sup>39</sup> Some examples include the Coal Regions in Transition initiative in Ukraine (no longer operational) and Western Balkans, Just Transition

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35 The European Parliament and Council of the European Union, "[Establishing the Neighbourhood, Development and International Cooperation Instrument – Global Europe](#)", 2021.

36 The Council of the European Union, "[The Council adopted conclusions on export credits](#)", 15 March, 2022.

37 OECD, "[Arrangement of Officially Supported Export Credits](#)", 2022.

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38 The European Commission, "[The Global Gateway](#)", December 1, 2021.

39 The European Commission, "[EU external energy engagement in a changing world](#)", May 18, 2022:15.



Partnership with South Africa, the African Green Energy Initiative, the EU-India Clean Energy and Climate Partnership and the EU-Morocco-Green-Partnership. Experts have pointed out that, with a desire to be the global leader in green transitions, the EU might risk overspreading its resources to too many regions that are not necessarily strategic for the bloc's own energy security.

This creates a misalignment with the foreign policy priorities of the Union, which primarily target the resilience of its eastern and southern neighbourhoods, including reducing their energy fragility.<sup>40</sup> In the framework of the **European Neighbourhood Policy (ENP)**, the EU eastern neighbourhood includes Armenia, Azerbaijan, Belarus (suspended in 2021), Georgia, Moldova and Ukraine; the southern neighbourhood encompasses Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria and Tunisia. In these countries, EU green energy cooperation fits with the overall external policy objective of reducing vulnerability to energy supply risk. In fact, by supporting transition and energy resilience in its neighbourhood, the EU could increase the energy security of those countries as well as its own.

Most countries of the eastern neighbourhood, including **Ukraine** and **Armenia**, have been or still are importing energy from Russia. That means that boosting their domestic production of renewable energy would reduce their vulnerability to energy pressure as well as Moscow's regional influence. The same applies to the **Western Balkan** region where Russia traditionally has been the main gas supplier to Serbia, North Macedonia, and Bosnia and Herzegovina.<sup>41</sup> China is also a key investor of coal-fired power plants in this region, despite a 2021 statement to end financing for coal-fired power plants

abroad.<sup>42</sup> As these countries are part of the EU accession process, it is in the interest of EU security to reduce the Russian and Chinese spheres of influence in the region by promoting greater energy autonomy through renewables.

This argument now also applies to **Ukraine**, which has recently been granted the candidate status for EU membership. Aside from reducing Russian leverage in the neighbourhood, Ukraine could become an important hydrogen supplier, once conditions allow,<sup>43</sup> with an estimated potential to produce 500bcm of hydrogen (half of the global hydrogen consumption).<sup>44</sup> Given that hydrogen has a prominent role in the future of EU energy security, the renewable and geostrategic priorities align. Ukraine is also an important supplier of nuclear energy and holds substantial deposits of rare earth elements (REE), which are vital in future renewable technologies.<sup>45</sup> A deepening of energy and transitional ties with Ukraine could therefore secure future energy value chains.

Unlike the rest of the eastern neighbourhood, **Azerbaijan** has substantial oil and gas reserves and is set to become a key gas exporter to Europe despite serious human rights concerns.<sup>46</sup> Instead of signing new gas extraction deals that would enrich the Azerbaijani autocratic regime and might pose new threats to European security, the EU could intensify its energy transition efforts in the country. Likewise, across the Caspian Sea, **Kazakhstan** is a key oil exporter to Europe. Over the years, the EU has invested

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40 The European Commission, "[Shared Vision, Common Action: A Stronger Europe. A Global Strategy for the European Union's Foreign And Security Policy](#)", 2016.

41 The European Parliament, "[Energy security in the EU's external policy](#)", March, 2020.

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42 Ilaria Mazzocco, "[China's Commitment to Stop Overseas Financing of New Coal Plants in Perspective](#)", *Center for Strategic and International Studies*, September 24, 2021.

43 The European Commission, "[EU external energy engagement in a changing world](#)", May 18, 2022: 5.

44 Anastasiia Zagoruichyk and Wojciech Jakóbiak, "[Prospects for a hydrogen alliance after Ukraine's victory](#)", *New Eastern Europe*, March 30, 2022.

45 Anastasiia Zagoruichyk and Wojciech Jakóbiak, "[Prospects for a hydrogen alliance after Ukraine's victory](#)", *New Eastern Europe*, March 30, 2022.

46 Human Rights Watch, "[Azerbaijan: Crackdown on Critics Amid Pandemic](#)", July 13, 2020.

in the Kazakh oil industry, which accounts for the 92% of the total exports to the EU.<sup>47</sup> However, the EU fails to include Kazakhstan in its ENP, meaning that financing available to promote the green transition is severely limited.<sup>48</sup>

Middle-income fossil-fuel exporters that will see in, the long run, a reduced demand for fossil fuels from Europe seem to be overlooked. The gradual decline in EU imports of fossil fuels will have strong repercussions on the economies of producing countries, such as **Algeria** and **Kazakhstan**, for whom the EU is their main fossil-fuel export market and might spur social unrest at home and foreign policy tensions abroad. **Algeria**, for instance, is the EU's third largest supplier as well as one of the main oil and gas exporters. Investing in its huge untapped potential for solar and wind power generation would reduce, in the long run, the fossil energy risks linked to fossil production.<sup>49</sup> It is important to acknowledge that EU energy security is most likely to be achieved in the long run if these countries accelerate their transition and start to see alternative business models to fossil fuels.

However, in the short run, EU support for renewable energy in fossil-fuel exporters could also help curb their domestic consumption, leaving room for more gas exports to Europe.<sup>50</sup> Countries of the southern neighbourhood, such as **Egypt**, have the potential to simultaneously develop renewable energy resources and increase gas exports to Europe. The Italian multinational oil and gas company Eni has already announced 10 GW of wind and solar energy projects in Egypt in order to

boost gas exports to Europe.<sup>51</sup> This was also signalled in the agreement signed between the EU and Egypt in April 2022 to reinforce cooperation on both liquified natural gas (LNG) and renewable energy generation, including green hydrogen.<sup>52</sup> This model of cooperation could help address EU short-term energy security needs while minimising the fossil risks in third countries in the long run.

## Regulatory and technical efficacy

To encourage EU trade partners to transition away from fossil fuels, the EU will require compliance with strict environmental regulations as a condition for entering the EU market. An important regulatory instrument that the EU is currently legislating as part of the external dimension of the European Green Deal, is the **Carbon Border Adjustment Mechanism (CBAM)**, which is a levy on carbon-heavy imports.<sup>53</sup> This measure will have a strong impact on EU energy diplomacy towards third countries, especially on EU relations with trading partners that do not have similar CO<sub>2</sub> emission reduction policies in place and whose companies will be most affected by the levy. Yet, EU institutions are currently more focused on negotiating the impact on EU industries, reducing their ability to fully tackle the international dimension. This is also signalled by the fact that CBAM was not mentioned in the EEES. Therefore, EU representatives are not yet taking advantage of CBAM's potential for encouraging third countries to adopt carbon measures and green energy policies. At the same time, CBAM will generate revenues (€1 billion per year) that could be redirected to finance decarbonisation projects in third countries.

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47 The European Parliament, "[Energy security in the EU's external policy](#)", March, 2020.

48 Louise van Schaik, Akash Ramnath and Roman Vakulchuk, "[EU Green Energy Diplomacy to Kazakhstan](#)", *Clingendael Institute*, October 19, 2021.

49 The European Parliament, "[Energy security in the EU's external policy](#)", March, 2020.

50 The European Parliament, "[Energy security in the EU's external policy](#)", March, 2020.

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51 Enterprise: State of the Nation, "[Eni could establish 10 GW of solar and wind projects in Egypt, looks to boost gas exports to Europe](#)", August 31, 2022.

52 The European Commission, "[EU strengthens climate and energy cooperation with Egypt in view of COP27](#)", April 11, 2022.

53 The European Commission, "[Establishing a Carbon Border Adjustment Mechanism](#)", July 14, 2021.

However, at this stage of negotiations, the likely option is that revenues will flow into the EU coffers.<sup>54</sup>

In addition, the EU aims to label or classify the impact of companies' investments according to their true environmental impact. The **EU Taxonomy** mainly governs what is considered environmentally friendly within private sector investments to reduce 'green-washing' and encourage the market to invest more in activities which enable true sustainable progress.<sup>55</sup> This is also relevant for participating companies' external investments, including in the energy sector. There are issues of ambiguity regarding a company's direct and indirect involvement in green investments and activities, with investments in some third countries or through multiple shell investments resulting in difficulty in understanding whether an end activity 'Does No Serious Harm'.<sup>56</sup> Finally, taxonomy reporting is not mandatory for all companies, including some energy companies which are not part of the Non-Financial Reporting Directive.

A security concern related to renewable energy is the supply of critical raw materials needed for the transition. With the EU in a substantially weak position vis-a-vis a domestic supply of CRMs, it is reliant on partnerships with third countries to increase its strategic autonomy. An example is the **Sustainable Raw Material Value Chain Partnerships** signed with Canada and Ukraine. The aim is to diversify EU supply chains of raw materials, while ensuring 'a high level of environmental protection'.<sup>57</sup>

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54 Louise van Schaik, Giulia Cretti and Pieter Pauw, "[The CBAM Effect: The World's Response to the EU's Climate Stick](#)", *Clingendael Institute*, May 24, 2022.

55 The European Commission, "[Political agreement on an EU-wide classification system for sustainable investments \(Taxonomy\)](#)", December 18, 2019.

56 Mark Uhrynyuk and Joey C.Y. Lee, "[ICMA Identifies Usability Challenges – and Recommends Action – for Implementing the EU Taxonomy](#)", *Mayer Brown*, March 29, 2022.

57 The European Commission, "[EU external energy engagement in a changing world](#)", May 18, 2022: 16.

The EU will also seek partnerships in Africa, Latin America and Western Balkans to diversify its supply chains further. Yet, the growing extractive impetus for minerals and metals from Africa is seen with scepticism by experts from the region, who accuse the EU of pursuing its own agenda and vested interests at the expense of African economic development. In her 2022 State of the Union Speech, Commission President von der Leyen announced a Critical Raw Materials Act, aimed at building more resilient supply chains, especially for rare earth elements and lithium.<sup>58</sup> Through the private sector, the EU also has the **European Raw Materials Alliance (ERMA)** as a forum for private sector actors across all parts of the supply chain to strengthen European interests in various key sectors. This, however, is not a deliberate incentivising instrument, but a vehicle to exert soft influence, limiting the scope in what Brussels can hope to achieve.

## Next steps for the EU to reduce fossil energy risks with an external green energy transition

What this all points to is a picture that energy security is at the top of Brussels' foreign policy agenda, yet the available instruments have not yet been adapted or new instruments created to match the new objectives. Although it is unfair to be too critical of the EU, given that only six months have elapsed since a paradigm shift in foreign policy objectives, a quick response to making current instrumentation more flexible and complementary is needed. The bureaucratic processes, set allocation of funding and global geographical focus demonstrate a dissonance between the new foreign policy reality, Brussels' energy security objectives and the EU's ability to act.

The EU needs to align its foreign policy priorities with current energy security concerns by taking a different approach to

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58 The European Commission, "[Critical Raw Materials Act: securing the new gas & oil at the heart of our economy. Blog of Commissioner Thierry Breton](#)", September 14, 2022.

regions, guided by technical and geopolitical realities. This includes prioritising efforts to support energy transition in strategic geographical areas that could reduce its fossil energy risk rather than attempting to cover the entire world, which is unfeasible with the level of resources currently dedicated. Strategic geographical areas could include the EU's eastern and southern neighbourhood for geographical proximity, risk of spillover effects and hydrogen potential; the Western Balkans as part of the EU accession process; and the middle-income fossil-fuel exporters that could supply more gas to Europe in the short term and gradually see a reduced demand from Europe in the long-term. It is important not to forget that more dialogue and support for those areas is needed.

Moreover, the EU needs to redesign the NDICI to be more flexible and agile – considering current energy security needs. This might involve removing specific allocations set by the MFF for 2021-2027 and diverting more funds away from specific thematic and geographic areas which do not reflect the priority foreign policy objectives of a post-February 2022 world. Yet, such a manoeuvre is extremely difficult as the MFF is set at the highest levels of the EU and requires European Council unanimity. Change is more likely to occur in the next Multi Annual Financial Framework (2028 onwards), where the designation of funds for geographies and priority spending areas could be less fixed or contain provisions to allow greater flexibility in transferring funds from one area to another, depending on geopolitical necessities.

Most of the policy options to reduce EU fossil energy risks with an external green energy transition are either already fixed or only able to be implemented in the medium to long term. More effective solutions in the short term include scaling up the financial firepower by involving the private sector and financial institutions to a greater extent. Considering many EU funds are in the form of bureaucratically heavy loans, if the EU wants to compete with the Chinese BRI, it needs agile and robust investments in green energy infrastructures. Team Europe Initiatives (TEIs), as part of Global Gateway, are a good

start, as the Commission, member states and their financial institutions can leverage collective financial resources for international development swifter with a less formal and less bureaucratic decision-making process. This also allows them to be more strategic about the geographical areas to target.<sup>59</sup> Most TEIs are already focused on the green transition, but these need to be expanded and coupled with technical assistance support, including for transition bottleneck issues, such as energy system integration and storage.

De-risking renewable energy investments is key. An option includes expanding the scope and number of guarantees, such as the External Action Guarantee, to help better mitigate investment volatility for private investors. Because a guarantee would not require upfront funding initially, it might be a lower cost option compared to the introduction of pure financing tools.<sup>60</sup> The EU could also look to accelerate the development of a new Export Credit Facility, as proposed by the EEES, and to couple it with the taxonomy requirements for green investments. Ideally, alignment with the OECD Arrangement would take place, but perhaps the EU and its member states should not wait for this but go ahead and green their export credit facilities. In addition, investments by companies operating on the key renewable energy value chains identified in the EEES, such as 'hydrogen corridors', should be prioritised.

Outside of reforming existing financial tools, the EU could seek to tighten its position vis-à-vis CBAM and Taxonomy. Better dialogue and explanation of the impact of CBAM on strategically important countries might help them position for an energy transition, also allowing EU financing to be better targeted. Additionally, the taxonomy could be tightened by clearer EU guidelines on what type of data

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59 Mikaela Gavas and Samuel Pleeck, "[Getting to the Bottom of the Team Europe Initiatives](#)", *Centre for Global Development*, May 12, 2021.

60 Mikaela Gavas and Samuel Pleeck, "[Redesigning Global Europe: The EU's Neighbourhood, Development, and International Cooperation Instrument](#)", *Center for Global Development*, March 30, 2021.

can be used to support sustainable labelling for investments.

Finally, the EU could look to create a new financing and support instrument to kickstart and accelerate transitions in countries designated as 'strategically important', either from a fossil-production standpoint, or being strategically vulnerable to fossil fuel imports and politically unstable. This instrument's aim would be to bridge the gap between short-term security objectives and the longer-term ability to reform the financial and political constraints of tools such as NDICI and EFSD+ to make them more flexible in supporting relevant energy objectives.

## Policy recommendations

The reality of the matter is that the EU needs to make smarter choices about its prioritisation for target countries for a renewable energy transition as well as its prioritisation of energy security more generally. Renewable energy is inextricably linked to the EU's medium- to long-term energy security and the stability of target countries. This brief recommends the following short-term options for the EU to consider:

- The Commission could map the fossil energy risks in its wider neighbourhood in order to identify strategic countries in which to prioritise its efforts to support the green energy transition. This could inform the mid-term review of the NDICI instrument and could be taken into consideration in EU regional and thematic programming.
- The EU could scale up its financial firepower and increasingly involve private sector and financial institutions by incentivising more TELs on energy transition in strategic countries.
- To de-risk renewable energy investments, the EU needs to expand the External Action Guarantee to back all investments under the EFSD+, NDICI and Global Gateway and refocus its purpose to make the tool better equipped for supporting external transitions.
- The EU could look to expand the EFSD+ guarantees focused on renewable energy infrastructure and in particular the overhaul of electricity grids. This could be done in conjunction with financing dedicated to the Global Gateway, which prioritises green infrastructure investments.
- As part of this financial restructuring, the EU could move away from loans towards grants and guarantees to reduce the debt burden on target countries.
- The EU needs to end support for programmes still benefiting fossil investments. This could also speed up development of a green Export Credit Facility and the change in the OECD Arrangement. This might also be an area where specific attention could be paid to renewable infrastructure and grids.
- In the development of a new Export Credit Facility, the EU could develop specific guarantees for renewable energy generation, distribution and infrastructure companies and investments in third countries determined by the EU's strategic priorities. This could be done in line with specific EEES references for renewable energy value chains, for example companies vital in the creation of the 'hydrogen corridors' and should complement existing areas that the European External Action Guarantee provides.
- The EU could provide a more explicit guidance and incentives to green private sector investments by accelerating the application of the EU Taxonomy also to foreign investments.
- The EU could accelerate the scope of its raw material partnerships to encompass priority geographies, based on the need for specific materials and their position in the global value chain. Greater coordination could be encouraged between European-based companies and foreign companies in respective value chains through forums, such as the European Battery Alliance and the European Raw Materials Alliance.

- To encourage third countries to endorse the renewable transition, the EU could promote dialogue based on the real issues that affect them, including how to mitigate the negative effects of a reduced fossil energy demand by the EU and the impact of CBAM on their export market.
- The EU could reconsider lowering the conditionalities associated with certain financing tools such as NDICI to make it easier for external countries to access renewable energy support. For NDICI specifically, this could be looked at during the 2024 mid-term MFF review of the instrument.
- The EU could look to foster better horizontal communication between relevant Directorate-Generals (specifically INTPA, CLIMA, NEAR, ENER and GROW) and the European External Action Service in order to mainstream energy security as a factor in the decision-making process for current and future financial instruments.

**Table 1** Current EU instruments available to promote energy transition with a view to reducing fossil energy risks

Instrument	Size (financial value)	Scope
<b>FINANCIAL</b>		
<a href="#">Neighbourhood Development and International Cooperation Instrument (Global Europe)</a>	<p>Total: €79.5 billion</p> <p>€60.38 billion for geographic programmes:</p> <ul style="list-style-type: none"> <li>• €19.32 billion Neighbourhood</li> <li>• €29.18 billion Sub-Saharan Africa</li> <li>• €8.48 billion Asia and the Pacific</li> <li>• €3.39 billion the Americas and the Caribbean</li> </ul> <p>€6.36 billion for thematic programmes</p> <ul style="list-style-type: none"> <li>• Human Rights and Democracy</li> <li>• Civil Society Organisations</li> <li>• Peace, Stability and Conflict Prevention</li> <li>• Global Challenges</li> </ul> <p>€3.18 billion for rapid response actions</p> <p>€9.53 billion unallocated funds</p>	Global
<a href="#">European Fund for Sustainable Development Plus (EFSD+)</a>	Funded by the geographic envelope of NDICI. Its value is not mentioned in the regulation establishing NDICI. It aims to generate up to €135 billion in private investment.	Global
<a href="#">External Action Guarantee</a>	<p>€53.4 billion</p> <p>Funded by the geographic envelope of NDICI</p>	Global ex. EU (including Western Balkans)
<a href="#">Instrument for Pre-Accession Assistance (IPA) III</a>	<p>€14.162 billion</p> <p>42.25% allocated to 'Green agenda and sustainable connectivity'</p>	Western Balkans and Turkey
<a href="#">Global Gateway Loans</a>	<p>Total estimated €300 billion</p> <p>€18 billion grant funding under other EU external assistance programmes</p> <p>Up to €135 billion worth of investments made available from the EFSD+</p> <p>An estimated €145 billion in planned investment volumes from European financial and development institutions</p>	Global in scope with a focus on the global South
<a href="#">Just Energy Transition Partnership (JETP)</a>	\$8.5 billion (USD) mobilised by France, Germany, the United Kingdom, the United States of America and the European Union for JETP with South Africa	South Africa (current countries for consideration include India, Indonesia and Vietnam)
<b>TECHNICAL</b>		
<a href="#">European Raw Materials Alliance</a>	No budget for alliance framework	Global
<a href="#">European Battery Alliance</a>	<p>€20.2 billion formally allocated under EBA</p> <p>€925 million allocated in 2021-27 MFF budget for battery research projects</p>	Global
<a href="#">European Clean Hydrogen Alliance</a>	€130 billion (total EU spending so far on hydrogen development and deployment)	Global







Instrument	Size (financial value)	Scope
<a href="#">Global Technical Assistance Facility (EU GTAF) for Sustainable Energy</a>	€31.500.000	Global
<a href="#">Initiative for coal regions in transition in the Western Balkans and Ukraine</a>	No budget mentioned	Ukraine and Western Balkans
<b>REGULATORY</b>		
<a href="#">Carbon Border Adjustment Mechanism (CBAM) (in the legislative process)</a>	The estimate of revenues generated by CBAM is €1 billion per year from 2026-2030	Global
<a href="#">EU Taxonomy Regulation</a>	Not applicable	Global
<a href="#">Trans-European Networks for Energy Regulation</a>	Projects of Mutual Interest (PMIs) in third countries which meet these standards can become eligible for funding through the Connecting Europe Facility (CEF), worth €33.71 billion between 2021-27	Global, with a focus on the European neighbourhood



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Clingendael – the Netherlands Institute of International Relations – is a leading think tank and academy on international affairs. Through our analyses, training and public debate we aim to inspire and equip governments, businesses, and civil society in order to contribute to a secure, sustainable and just world.

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