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## **Energy and gas. Timpano (Uni. Cattolica): "Diversification of supply sources is of the essence. The 'price cap' will tell us how far Putin wants to go."**

"Putin triggered a global increase in the prices of energy commodities to checkmate Europeans on their way to ending Russia's energy stranglehold. Should the gas price cap become a reality, we will finally understand the extent to which the Kremlin leader is willing to go", says **Francesco Timpano**, Professor of Economic Policy at the Economics Department of Sacred Heart Catholic University, Piacenza campus, commenting to SIR on the consequences of Russia's invasion of Ukraine on energy supplies to Italy and Europe. **Professor, the war has affected and is bound to continue affecting global economy. The rising prices of fuels and energy sources and high utility bills are among the most noticeable impacts. In your opinion, how long will this last?** The continuation of the conflict is obviously an element of uncertainty for the future of Europe's economy in particular, which does not represent, however, world economy. As a whole, projections for both 2022 and 2023 indicate that the global economy will continue to grow. Despite the war and the pandemic, the outlook for Europe remains positive. The energy issue is bound to weigh heavily. Should Russia decide to fully shut off the gas taps, especially to Germany and Italy, it would cause a slowdown also in both countries' productivity with an impact on European growth. This possibility is connected to the 'price cap' issue. **Italy, with Prime Minister Draghi, has been very active on this issue, calling for a limit on the price of gas imports. Could you help us gain a clearer understanding of the matter?** The practical mechanism underlying a price cap implementation is still unclear. It is a very complex subject and, putting it as simply as possible, one idea could be for the EU Commission to decide to centralise gas purchase from Russia and thereafter distribute supplies to Member States, hence to public or private companies. Gazprom would thus have a sole buyer, either the Commission itself or an Agency, which declares its willingness to pay an agreed price for gas, the so-called cap. However, this scenario carries the risk that Putin may decide to refuse to sell gas at that price and shut off all supplies. **Is this even possible?** Putin cannot stop supplying gas to Europe overnight because it means eliminating a key source of revenue for an economy that in essence has virtually nothing else: the bulk of Russia's GDP comes from gas and oil. However, should Russia decide to proceed with a shutdown, the impact on the economy - notably Europe's - would be severe. In any event, it is a major factor of uncertainty. **In the aftermath of Ukraine's invasion, we realised we were highly dependent on Russian energy sources. Do you think that Putin has exploited this situation?** For years, Russia supplied us with inexpensive gas, with a good service, on a regular basis. We must remember that reducing our own gas supply was convenient for us, because importing gas from Russia was cheaper. That model has been working for Italy and Europe. In its 2018 Sustainable Finance Action Plan, the EU Commission summoned global financial investors explaining that all fossil fuel-based energy investments would receive strong support in Europe. Gas was included in the taxonomy of sustainable economic activities last year. Faced with this scenario, involving a change in the European production model, Russia is bracing for a challenging situation. In fact, for the first time, Europe takes this matter seriously, with a string of decisions and projects, and Putin seems to have understood this. It may be a far-fetched speculation, but it is possible that having envisaged a decrease in Russian fossil fuel purchases from EU countries, Putin triggered an increase in prices that forces Europe to continue purchasing from Russia for a few more years at a higher price. This strategy was adopted when energy prices were increasing already, at a time of extreme tensions throughout commodity markets and world trade due to post-pandemic readjustments. **The Italian government has been diversifying its sources of energy over the past few months. Italy's dependence on Russian gas, which stood at 40 per cent last year, has been reduced to 25 per cent, while it signed gas supply deals with Algeria, Egypt, Congo, Angola, and Mozambique. Next come Libya and Qatar... Is this the right**

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**strategy to meet our needs?** First of all, it must be said that in international trade political risks must be carefully monitored, especially today. In the past few years - as Italians and as Europeans - we failed to give due importance to this in our dealings with Russia. That being said,

Diversifying sources of supply is a basic rule.

The steps that have been and are being taken, clearly compulsory and inevitable given the situation, are also important in the long run. However, let us not forget that many of the countries with which we are currently negotiating or have increased supply contracts are marked by high political instability, they are not entirely tranquil countries. This is something that should be taken into account, trying to focus our attention on importing from countries with which we enjoy stable political relations and where stability is a mid- to long-term prospect. Based on the experience of the Italian multinational oil and gas company ENI, founded by Enrico Mattei, we learned that this is among the most important factors, especially when it comes to energy raw materials. **All this is happening while we should be embarking on a green deal transition pathway...** It's a challenge, for the energy transition is not that easy to achieve. Nevertheless, it is definitely necessary, and the past few months testify to the fact that we must finally be serious about breaking free from fossil fuels - or in any case becoming less dependent on them. Next winter we will face the most urgent challenge, requiring, where possible, the reactivation of coal power plants, energy supply diversification, along with starting the regasification process that we have reprehensibly halted... These are fundamental measures that will also determine our medium to long term energy situation. We also have a problem with power grid interconnection across European countries. However, this in no way detracts from the fact that we need to move forward with investments for the electrification of a large part of our energy systems, adapting all infrastructures, electric cars, battery production... We must face up to this challenge, in full awareness of the extremely delicate relationship between national and collective European interests. We are not going to succeed if each Country assumes that it can manage on its own. **Given this situation, is there some room for optimism?** The only piece of 'good news' in the current situation is that households and consumers are also reflecting on the need to change consumption patterns in order to be less dependent on the energy sources used so far. We are all coming to realise that resources are scarce and that there is no such thing as a low-cost use, as in the case of water. Citizens are growing increasingly aware that switching on a light bulb, cooking with gas, travelling by car are not free choices but that alternatives are available. Energy Communities - despite not resolving the problem - signal growing collective awareness that energy production is a serious issue requiring a contribution in terms of individual choices, and the Italian Church has rightly given them impetus.

Alberto Baviera