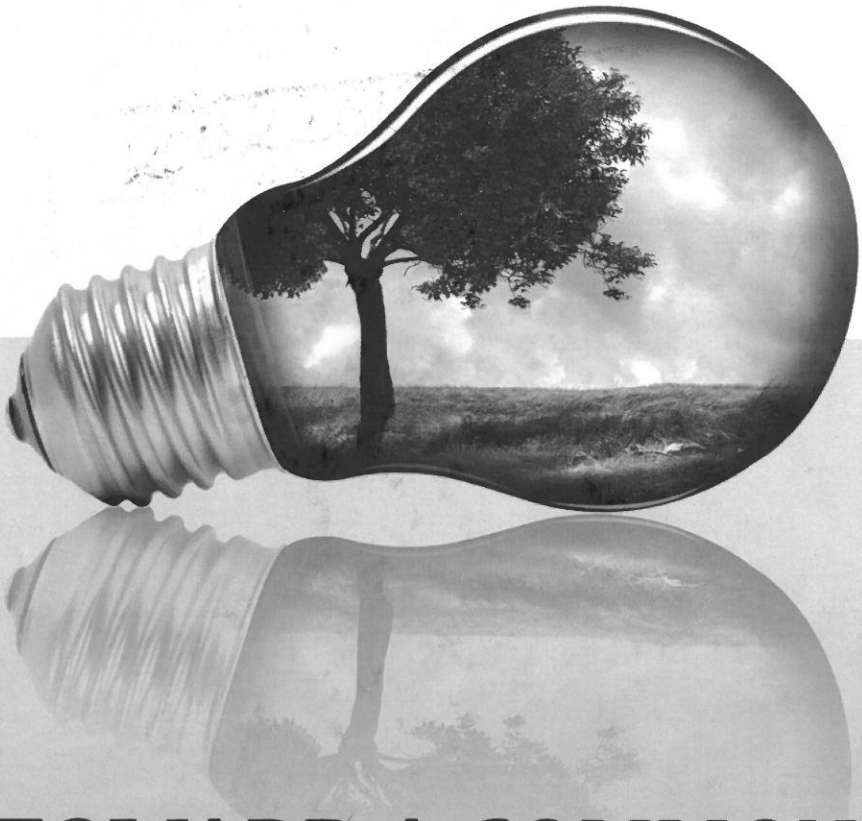


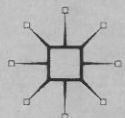
Foreword by European Commissioner for Energy Günther Oettinger



TOWARD A COMMON EUROPEAN UNION ENERGY POLICY

Problems, Progress, and Prospects

**Edited by Vicki L. Birchfield
and John S. Duffield**



Chapter Two

Foreign Policy and Energy Security: Markets, Pipelines, and Politics

Richard Youngs

Few policy areas have witnessed such intense activity and rapid evolution in recent years as that of energy security. With its dependence on external oil and gas supplies inexorably rising, the European Union (EU) has set out to become a lead player on energy questions. This applies especially to the foreign policy dimensions of energy security. There has been much policy activity during the last five years that would seem to suggest an incremental Europeanization of key dimensions of energy security.

In formal terms, the EU has staked out an approach to energy security that is based heavily on liberal internationalist norms. Its stated cornerstones are interdependence, market integration within and beyond Europe, and a convergence of governance standards. Time and time again EU documents, European ministers and policy-makers reject realist geopolitics as a basis for energy security. The EU also lays claim to a "rules-based governance" approach to energy security. Integral to the liberal approach is the conviction that more open and accountable governance in producer states is a necessary part of Europe's own energy security interests. In practice, however, energy security is an area where geopolitical realism has made one of its most spectacular comebacks. In their foreign policy strategies, Member-State governments seek the influence that flows from Europe-wide market rules while simultaneously pursuing short-term gain from highly geopolitical behavior.

The shift back to geopolitical realism militates against the centralization of EU external energy policy. This does not negate EU unity quite as much as is sometimes assumed. But it is certainly the case that today the dynamics of bilateralism and EU coordination exist uneasily together. Sometimes, support for common, supranationalized EU rules is seen by Member States as the best form of geopolitics. At least

as often, however, such rules are discarded as unduly constraining. A crucial question is whether Member States can continue to benefit from the advantages of both EU commonality and national maneuverability over the long term. Are these two perfectly proper elements of a balanced external energy policy or mutually incompatible dynamics that betray the EU's inability to cohere its strategic thinking?

New Institutionalized Commitments

At one level, it is remarkable how many formal EU energy security initiatives have been established in the last decade. An impressive range of new commitments has been enumerated, establishing the foundations for significant Europeanization of the external dimensions of energy policy. This is illustrative of the value, in formal terms at least, that Member States have attached to developing such centralized commitments as a means of pursuing their own energy interests.

A quick run through some of these initiatives suffices to demonstrate how dense the network of external EU commitments now is. An EU-Russia energy dialogue commenced in 2000. November 2004 saw the launch of a Black Sea and Caspian Sea cooperation initiative, aimed at the progressive integration of this region into the European energy market. In October 2005, the Energy Community of South East Europe (ECSEE) Treaty was signed, with the aim of incorporating Balkan states into the European regional market for gas and petroleum products; this initiative extends the EU energy acquis to the Balkans and coordinates infrastructure linkages, with World Bank financial support (Grant 2006). A Memorandum of Understanding on energy cooperation was signed with Ukraine in December 2005, reflecting Kiev's aspiration to join the Energy Community of South East Europe Treaty. Similar bilateral energy partnerships were signed in 2006 with Azerbaijan and Kazakhstan.

Subregional energy dialogues were developed with the Maghreb and Mashreq from the late 1990s under the Euro-Mediterranean Partnership (EMP). The European Neighbourhood Policy (ENP) also contains an energy component. A notably reinforced program of such energy cooperation began under the rubric of Algeria's EMP association agreement. Outside the scope of formal EU frameworks, after 2003, efforts were made to initiate energy dialogue with Libya. In December 2004, bilateral political dialogue between the EU and the

Organization of Petroleum Exporting Countries (OPEC) was formally established and developed from 2005.

If policy-makers recognized that such initiatives had developed in a fragmented fashion, deliberation then (apparently) moved to a more overarching strategic level. Discussion was pushed in particular by the United Kingdom (UK) presidency in the second half of 2005. The October 2005 EU summit at Hampton Court agreed to a formal commitment to move toward the definition of a common European energy policy. A first set of proposals was set out in the European Commission's (hereafter: the Commission) March 2006 Green Paper. This paper started from the premise that "acting together, [the EU] has the weight to protect and assert its interests" (Commission of the European Communities 2006a). The paper identified a number of practical, technical priorities in relation to the internal dimensions of energy policy. The most significant new departure was, however, at the international and strategic level. The Commission argued that the EU needed a "coherent external energy policy," agreement on which would represent "a break from the past"—a past characterized by a conspicuous lack of unity and coordination. The paper proposed a Strategic EU Energy Review, with regular follow-up of political discussions; a network of "energy correspondents" to facilitate coordination between Member States; "a better integration of energy objectives into broader relations with third countries"; coordinated response mechanisms in relation to crises in energy supplies; and the development of interconnecting energy systems between different geographical areas, as a means of transcending the so far partial technical cooperation pursued separately with individual partner states (Commission of the European Communities 2006b).

Responding to the Green Paper, Member-State representatives in the European Council accepted that "foreign and development policy aspects are gaining increasing importance to promote energy policy objectives with other countries." They backed the Commission's calls for better coordination, and more specifically for a comprehensive Strategic Energy Review, "addressing in particular the aims and actions needed for an external energy policy over the medium- to long-term" (Council of the European Union 2006). In a follow-up note to the Council, the Commission stated that energy security policy "must also be consistent with the EU's broader foreign policy objectives such as conflict prevention and resolution, nonproliferation and promoting human rights" (Commission of the European Communities 2006a). Such linkages were pushed *inter alia* by the Benelux states (Belgium, the Netherlands, and Luxembourg), which urged the Political and

Security Committee to drop its reluctance to engage in energy matters and argued that European leverage would be strengthened by “embedding energy in a wider range of subjects” (Benelux Position Paper 2007).

The then external relations commissioner Benita Ferrero-Waldner revealed that the aim to bolster the foreign policy dimensions of energy policy was the key driving force behind the ENP. She admitted that the Russia-Ukraine gas dispute at the beginning of 2006 was “a wake up call, reminding us that energy security needs to be even higher on our political agenda” (Ferrero-Waldner 2006). Indeed, some analysts saw energy security concerns as the only factor linking the diverse regions included within the ENP and as the main issue according the latter some logical rationale (Danreuther 2006). At the first high-level ENP conference held on September 3, 2007, Commissioner Ferrero-Waldner listed energy as a top priority and floated the idea of a new “neighbourhood energy agreement” (Ferrero-Waldner 2007).

Further initiatives commenced to deepen energy cooperation with Turkey, in recognition of the latter’s importance as a transit route into the EU and Ankara’s influence in the wider Black Sea and Caspian regions. By 2007, energy was a prominent issue in nearly all external political dialogues, where it had been barely mentioned five years previously—this, according to one official, requiring Member States to look at energy from a common European perspective and not merely through the lens of their national policies. Twenty-two million euros from one of the Commission’s post-2007 external relations budgets—the development cooperation instrument (DCI)—was allocated to energy projects, representing 7 percent of funding. Eurobarometer polls suggested a clear majority of the European population wished to see a more common EU energy policy (although in a number of Central and Eastern European states and in Finland the balance of opinion was against such deeper cooperation) (European Commission Eurobarometer Unit 2007).

Rhetorical commitments incrementally intensified. At the end of 2006, Commission president José Manuel Barroso declared that energy had been “until recently a forgotten subject in the European agenda. Now it is back at the heart of European integration, where it began with the creation of the Coal and Steel Community. And where it belongs.” He was confident that by this stage a “quick revolution” had taken place, with Member States dropping their nationally centered approaches and genuinely agreeing on the desirability of a common European energy strategy (Barroso 2006). He committed the EU to making energy a priority topic in all summits with third countries.

During his stint as external relations commissioner, which ended in 2004, Chris Patten had engaged little with energy issues; for his successor, Ferrero-Waldner, energy became a staple part of diplomatic activity. The deputy director general for energy at the Commission railed that “those who try to hide the fact that energy has moved into the realm of foreign policy are trying to forget reality... Why can’t Europe bring energy politics into the core of external policies?” (Barabaso 2007).

A number of institutional innovations reflected the new priority attached to energy issues. The network of “Energy correspondents” was launched in May 2007, linking together the key personnel covering energy issues in Member States and the Brussels institutions. This was conceived as the core of “an energy crisis management system” (*PlattsEU Energy* 2006). An energy unit was created within the Commission’s external relations department, with instructions from commissioners that energy be woven into policies in each geographical area: this unit was charged with ensuring that henceforth geographical departments assessed and justified policies in terms of how these contributed toward energy security. A number of Member States advocated moving all decisions on energy security to qualified majority voting (QMV)—they contrasted the stagnation of unanimity-bound foreign policy making with the qualified majority voting that had, they argued, ensured more productive debate in the area of climate change.

On January 10, 2007, the Commission published its eagerly awaited Strategic Energy Review. This reiterated the main principles and objectives that had taken shape during 2006: the need for greater “capability to react in times of external energy security pressure”; the importance of international partnerships based on “shared rules or principles derived from EU [internal] energy policy”; the desirability of “comprehensive partnerships based on mutual interest, transparency, predictability and reciprocity”; the need for some form of energy supply solidarity mechanism, especially for states dependent on a single gas supplier; the intention to make available increased funding for energy projects through the EU’s new financial instruments; the need to promote “transparent legal frameworks” in producer states; and the idea of European coordinators to represent EU interests in key international energy projects (Commission of the European Communities 2007).

The March 2007 EU summit agreed on an energy action plan for 2007–2009. This reiterated a series of core principles, based on the need for diversification; crisis response mechanisms; transparency

both between Member States and within producer states' governance structures; and an assessment of current patterns of energy imports into different Member States (Commission of the European Communities 2007). The June 2007 summit, at which the new Lisbon Treaty was hammered out between European leaders, included a number of developments pertinent to energy. A new legal base was introduced in the Treaty for EU legislation in the field of energy, along with provisions for qualified majority voting in some areas of energy policy. Poland insisted on a new energy solidarity clause, this representing one of its threats to veto a new Treaty mandate—although the reference to energy policy needing to be in accordance with “a spirit of solidarity between Member States” was less committal and specific than Poland had wanted. Some of the more general reforms agreed also had relevance for energy security. The powers of the high representative to speak on behalf of the EU were enhanced, fusing powers hitherto falling to a number of different commissioners. Some Member-State representatives reported that they supported this revision thinking in particular of energy policy. In mid-2008, preparations began for a new strategic review that would consider the need for additional energy security policy instruments.

Under the Lisbon Treaty a new energy department has been created, combining energy and foreign policy diplomats—a move that offers the possibility of a more security-informed energy strategy. However, the Treaty also provides for separate energy and climate change commissioners, with the new high representative for foreign and security policy seemingly marginal to both these issues. At the time of writing, it is clear that the Lisbon Treaty reinforces a formal European energy security mandate but it remains to be seen exactly how this will be developed in terms of institutional innovation. DG Energy now leads on the external dimensions of energy policy rather than the new External Action Service. Some Brussels insiders ponder in private whether this once again militates against a systemic linkage between energy and the Common Foreign and Security Policy.

Part of the explanation for this incipient Europeanization is to be found in external factors. Indeed, it is not difficult to intuit the geopolitical concerns driving all this new activity. The Commission's 2005 paper famously suggested that the EU's import dependency for oil was set to increase from 52 percent in 2003 to 95 percent in 2030, and for gas from 36 to 84 percent over the same period, and that in absolute terms EU import requirements would double by 2030 (Commission of the European Communities 2006c) The International Energy Agency (IEA) estimated that \$200 billion worth of investment

per year—equivalent to 2 percent of global gross domestic product—would be needed in increases to production capacity to meet energy requirements by 2030. It was also calculated that by 2012 the EU would face a 30 percent shortfall in its gas import requirements. While reserves are set to decrease, demand for oil and gas is predicted to rise exponentially. It is estimated that in 2035 global energy consumption will be double that of 2005, with fast-developing economies such as those of China and India hungry for ever-increasing supplies of oil and gas. Record high oil prices during the mid-2000s, Russia's periodic interruptions of gas supplies to Ukraine, and terrorists' threats to target energy pipelines have all additionally helped propel energy to the top of the foreign policy agenda.

The Liberal Model of Energy Security

Adding to concerns over rising dependency is an internal dynamic that accords more to institutionalist, spillover-type explanations. If Europeanization has advanced in the energy sphere, this can only be understood in the context of the interstice between internal and external policies.

A liberalized internal energy market is routinely presented as Europe's best foreign policy tool. The internal market fosters a more efficient and flexible distribution of energy supplies within Europe. And it also shapes the external dimension of energy security. Internal market rules help break up powerful non-European energy multinationals. State-backed oil and gas giants from non-European countries are less able to play divide-and-rule politics with Member States, as supplies flow without restriction across European borders. Moreover, the internal market serves as the model for regulatory rules and standards to be extended to oil- and gas-producing states in other regions. The single European energy market also acts as a more powerful incentive for producer states to sign up to the principles of energy interdependence. It is the EU's best negotiating tool to win concessions from producers.

The Commission has pushed to deepen internal market liberalization by requiring companies to separate out (or “unbundle”) the generation of power from control over its distribution. The Commission has presented this as key not only to internal efficiency but also to external security. To the extent that large third-country companies, such as Russian giant Gazprom, would also be required to “unbundle” within the European market, this would protect EU consumers from these firms gaining a dominant position. Breaking apart national

energy champions within Europe would make it harder for large non-European firms, like Gazprom, to negotiate their way into dominant positions simply through a small number of bilateral deals.

Internal EU competition laws condition foreign policy positions. For example, they have required non-EU oil-producing countries to drop “destination clauses,” through which they traditionally prevented a buyer passing on surplus supplies to other states. Removing such provisions undermines the exclusivity of bilateral contracts. Supplies are better able to flow to where they are needed within the European Union, and national EU governments gain leverage over producer states. Europeanized internal rules are what provide foreign policy influence and unity.

European policy-makers have readily acknowledged that completing the internal market in energy is necessary for external influence and unity. The rules and regulations of the internal market are defined as the key foundation to the EU’s international projection in energy matters. New EU energy partnerships around the world offer cooperatively to draw producer states into a European market-governance area. Integration and partnership are said to reign rather than zero-sum geopolitics. Most recently, new energy cooperation clauses have been inserted into the EU’s eastern partnership. The EU has also supported and sought to harness the Energy Charter Treaty as a pivot of rules-based multilateralism in energy.

Among Member States, British energy policy has been the most market oriented. Having already liberalized its own markets, the UK has the most to gain from ensuring that market reform is implemented in other EU states and beyond Europe. One diplomat defines the aim of external UK energy security as, “To take the politics out of energy.” Officials insist that liberalization has increased long-term investment to increase production capacity, rebutting fears that investors need long-term contracts protected from market instability. The UK is forceful in urging the EU to push for more competitive international oil and gas markets. It insists that offering Gazprom downstream access into the EU market is the best way of pushing this supposed bogeyman of international energy into making long-term investments to increase production capacity. While the UK is the most pro-market of Member States, others have adopted similar rhetoric. Spain has largely privatized its energy sector and invested heavily in liquified natural gases (LNGs) as a way of injecting greater fluidity into gas supplies. Even French policy-makers recognize that energy security should be predicated on a “logic of market integration” (Lamy 2007).

Geopolitics Return

Part of the story of external energy policy is indeed liberal internationalist. But another part is decidedly geopolitical. And it is this part that is in the ascendant. Significantly, so far this trend has fractured EU unity rather than act as a prompt to deeper coordination. Geopolitics have been as much about zero-sum competition between different Member States as between producer states and the EU as a whole.

Producer states’ more assertive emphasis on short-term national interests has led EU governments to question market-based approaches. The “economization” of international energy has been arrested. The fear is prevalent that the internal market is already too open to third-country producers to give the EU sufficient leverage to negotiate reciprocal liberalization for their investments in producer states. Even in relation to oil supplies, which are more market-based than gas trading, the reliance on bilateral, highly politicized energy deals is on the rise. Many Member States have not definitively given up on the market but they are “hedging” bilateral energy deals in case things become more acutely geopolitical in the future (Linde 2007). European policy may not be as geopolitical as United States (US) energy security strategy—which most analysts judged to have become increasingly militarized during the Bush administration—but it does exhibit more of a geostrategic flavor than hitherto.

The internal market is still not integrated enough—even at the level of basic infrastructural links within Europe itself—either to serve as a common regulatory-governance magnet for producer states or to absorb external shocks. Member States have rejected proposals, for example, for common strategic storage facilities managed by an EU-level agency. A September 2008 IEA report expressed concerns over the EU’s failure to implement commitments to market liberalization (Platts EU Energy Review 2008). Another independent review carried out for the European Parliament highlighted the extent to which bilateral agreements are distorting efficiency and leading the EU into the uncertainties of prisoners’ dilemma diplomatic brinkmanship (Kepler 2007). In summer 2009 the Commission opened infringement procedures against a total of 25 Member States related to energy market protectionism (EurActiv 2009a).

Most notably, the principle of “unbundling” has been blocked by a coalition of market-skeptical Member States, led by France and Germany. The European Parliament’s two-year battle to retain full unbundling came to an end in March 2009, when it assented to a diluted package of reforms. Member States are now able to choose

one of three options: the full unbundling of ownership, the independent operating of the energy distribution system, or the independent operating of transmission (with parent companies in charge of supervision). Several have already unbundled ownership unilaterally, but the majority look set to rein back market principles.

This dilution of market principles has important external dimensions. Much revolves around the more technical detail of energy questions; but from this detail emerge crucial questions of high politics. The proposal for an EU-level clause providing for reciprocal market access between the EU and producer states has in essence been dropped. Each European government will have the freedom to decide whether or not big energy contracts are to be based on producer states providing reciprocal access to their markets. Now all deals involving non-European companies have to be approved by national regulators. One regulator alone can block a deal with pan-European coverage, rather than there being a one-stop EU-level mechanism to approve market opening deals. Member States have ensured that they will not be required to abide by an approach based on market interdependence rather than geopolitical trade-off. The new European Agency for the Cooperation of Energy Regulators is limited to overseeing loose coordination between national regulators and is bereft of powers to force liberalization on reluctant Member States.

Russia had made the fair point that the proposed “reciprocity clause”—or what the press dubbed the “Gazprom clause”—would have imposed on Russian suppliers a degree of liberalization and market discipline to which the EU was unwilling to subject its own energy companies. Russia argued that this clause was legally incompatible with the EU-Russia partnership and cooperation agreement provisions on nondiscrimination. While the UK expressed concerns that the principle of reciprocity was being used to legitimize protectionism, its own reaction to Gazprom’s interest in Centrica (British Gas) was defensive. Vladimir Putin threatened to drop the Nord Stream pipeline project if the EU did not give Russia a guaranteed level of demand for future years. Faced with a choice of either extending to itself the market openness it would have Gazprom abide by or retracting from liberal principles externally as well as internally, the EU chose the latter option. The EU has abandoned the liberal argument that the best defense against Gazprom and other third-country energy giants is full liberalization and unbundling, which would prevent these companies buying up distribution networks and establishing a dominant market position.

The increasingly preferential protection accorded to national energy champions represents a dramatic return to “economic nationalism” within Europe (Vos 2006). When President Nicolas Sarkozy pushed through a merger between Suez Gulf Power Company (Suez) and Gaz de France (GDF) unashamedly creating a new powerful “national champion” in 2007, French Europe minister Jean-Pierre Jouyet stated that such preferential strategic measures represented the “vision of what could be the energy policy for Europe.”¹ Italy has pumped increasing amounts of financial sweeteners into Ente Nazionale Idrocarburi (Eni) to subsidize international deals whose financial viability is dubious.

With governments backing their respective national champions in signing bilateral contracts, EU competition law has not been invoked against such deals. The Commission’s competition directorate has been reluctant to get drawn into the external politics of energy, and no Member State has pushed this in the European Court of Justice. When the Commission took its antimonopoly action against Microsoft, energy experts noted the political significance of the fact that similar action against Gazprom had not been contemplated. The Commission says it has no locus over the political conditions included in long-term bilateral contracts, as long as they do not include destination restrictions—that is, as long as German Energy On (E.On), for example, can sell Russian gas to the wider European market and other suppliers. In practice even this basic transferability of energy is absent, with the European market carved up into fiefdoms served by separate contracts with Gazprom and other external suppliers.

External energy supply is now driven by the need for a diversification of supplies. Producer states complain that the EU preaches mutually beneficial, market-based solutions but then urges policies that reduce political dependence on these “partners” (Stern 2002). With oil supplies supposedly fungible and governed by markets that should clear and self-correct at any given price, diversification is a clearly geopolitical design. The tilt toward geopolitics is further driven by the increasing importance of gas supplies—which are shaped by political deals over fixed supply routes rather than, as in the case of oil, supplied onto an open international market. While much European rhetoric insists that energy supply is a matter for private companies rather than government command, the EU increasingly seeks to direct producer governments to increase production and export capacity.

European energy companies commonly criticize governments and the Commission for being insufficiently pro-market and for increasingly intervening in a political fashion. But their own behavior in practice prioritizes alliance building and the protection of existing dominant market positions. Energy officials in the Commission note that network industries are the most resistant of all sectors to liberalization. European energy companies have fought hard to gain support from their respective national governments to secure long-term preferential deals with individual third-country producers on a bilateral basis.

The debate now is not so much about reverting from political deals to market principles, but whether the EU can substitute the current plethora of contracts signed by individual companies for overarching, umbrella deals to buy certain quantities for Europe as a whole. Such deals have notably been concluded with Turkmenistan and Iraq. In addition, the Caspian Development Corporation (CDC) has been created to undertake common, bulk purchasing of Central Asian and Caspian supplies. However, these common accords remain the exception rather than the rule, and those that have been signed do little to remove doubts about whether commonly contracted supplies will actually reach European markets.

Many officials suggest that the tougher international energy panorama requires the EU to drop the pretence that energy policies are to be based on liberal interdependence. Officials increasingly lament that it is “unrealistic” to expect key producer states to sign up to a model based on the extension of the EU’s own internal market. They point to a whole range of disquieting trends. Azerbaijan responded to the 2008 Georgia conflict by diverting additional supplies to Russia and eastward, nervous about relying so much on the Baku-Tbilisi-Ceyhan (BTC) pipeline to the west. Gazprom has proposed to buy all Libya’s oil and gas exports. In most Member States foreign ministries have fought to gain a say over energy policy, to politicize what they tend to see as the overly technocratic approach followed by energy and trade departments. One report concludes that decision-making on energy security has already moved in significant measure into the hands of national security strategists (Austin and Bochkarev 2007).

One senior official acknowledges that the host of supposedly rules-based Memorandums of Understanding that the EU has signed with third countries have produced nothing more than “empty talks.” Diplomats prefer to define the EU model as one of “regulated liberalization”; a “third way...between markets and geopolitics,” predicated upon “political dialogue and cooperation.” One of the EU’s

particularly senior producer-state interlocutors observes that the EU is “egotistically geopolitical” but seeks to mask this with rules-based discourse.

These trends are evident in all main producer regions. The reach of EU internal market norms remains especially limited in the Gulf. Here Member-State governments have rather sought energy cooperation on the back of traditional geopolitical forms of engagement, such as security cooperation and arms sales. In North Africa the EU has offered increasing amounts of technical cooperation to boost energy links and regulatory harmonization in the energy sector, based on the existing market-oriented *acquis* of the EMP. The EU talks of creating a Mediterranean Energy Ring. However, with North African producers resistant to the market-governance model, in countries like Algeria bilateral political agreements and deals have increased in number. An interesting aside to the sagas of “pipeline politics” is that public funding for LNG facilities has not been readily forthcoming. LNGs may be more market-susceptible, but policy-makers fret that they are geopolitically more vulnerable to attack.

It is, of course, in relation to Russia that Europe’s geopolitical stance has emerged most clearly. The well-known differences between Member States are not over the need for a more geopolitical approach toward Russia on energy issues. Rather, they are over what such a political approach should consist of: confrontation or uncritical engagement (Youngs 2009). Most states, and particularly Germany, have sought to engage more in pursuit of long-term bilateral contracts. A majority of Member States have now signed bilateral deals of some kind with Russian energy companies. Several new Member States, of course, argue for a tougher stance. Polish politicians admonish Member States for their increasingly furtive energy deals with Russia. Lithuanian president Valdas Adamkus insists that the EU must respond in kind to Russia’s securitization of energy and drop the “mantra” that the market by itself will provide for Europe’s energy security (*Eurasia Daily Monitor* 2007). A low-level Energy Dialogue with Russia has existed since 2000, aimed at extending market rules, deepening regulatory convergence and improving the governance of foreign investment. But progress at this level has been stymied by high-politics tensions. Increasing Russian heavy-handedness has led to some notable measures, such as the EU’s focus now on extending its Energy Community Treaty from the Balkans to Ukraine, Turkey, and Moldova. In the wake of the Russia-Ukraine gas dispute of January 2009 the EU has increased subsidies available to large energy companies to build interconnectors between different

European countries—which some have criticized as another step away from a free market model (Platts EU Energy Review 2009a). Council officials acknowledge that since the Georgia conflict and the 2009 Russia-Ukraine dispute the “market purists” are in full retreat. The prospect of Russian control over key pipelines passing through Georgia has further politicized energy calculations.

In September 2008 the Commission and the African Union formally established a new energy partnership. This could attract up to 1 billion euros for energy infrastructure projects in sub-Saharan Africa, including help for the Trans-Saharan gas pipeline. Energy Commissioner Andris Piebalgs noted that these new steps in Africa represented an overtly political reaction to a new Gazprom partnership with Nigeria as well as to the Georgian conflict (*Financial Times* 2008). In Africa the EU talks the same talk of extending internal market rules. Economic Partnership Agreements are formally to involve liberalizing energy markets. But this approach in practice has little resonance. Most energy experts see the Trans-Saharan pipeline as a purely geopolitical venture whose economic fundamentals do not make sense. Diplomatic deals are increasingly pursued by France and others with Angola. Several European states help the US navy in patrolling the Gulf of Guinea. Responding to China's presence in Africa is seen as requiring a more geopolitical approach and presence.

Pipeline Politics

The geopolitical dimension is indeed starkly manifest in the thickening intricacies of “pipeline diplomacy.” There is now a great deal of new activity relating to the development of additional pipeline capacity from the Caspian Basin and Central Asia into Europe. European governments' preferences remain balanced between support for routes involving Russia and those designed to exclude Russia, especially the Nabucco pipeline set to run through Turkey into southeastern Europe. Prompted by many Member States, the Commission says it is now more willing than before to back big (Russia-bypassing) infrastructure projects and take a more geopolitical view on these—including not only Nabucco but also the more speculative White Stream pipeline planned to run directly from the Caucasus across Ukraine. It is perceived that without backing, the long-planned Nabucco pipeline may not get off the ground. Unlike most pipeline projects that are constructed by upstream producers to get their gas to export markets, Nabucco is being led by a consortium of consumer-state companies

without firm guarantees yet of supplies to fill the pipeline. It is a clearly political rather than purely commercial undertaking.

However, it is doubtful that this represents the beginning of any deep Europeanization of pipeline geopolitics. Major differences remain between Member States on this issue. Germany remains unenthused over European backing for the Nabucco pipeline, in preference to its cooperation with Russia on the Nord Stream line. Hungary, Italy, Bulgaria, and Greece have all backed the Russian-sponsored South Stream project, support that some experts see as fatally undermining Nabucco. The Hungarian opposition has pressed for Hungary to pull out of South Stream. In July 2009, the new Bulgarian government announced plans to switch from South Stream to Nabucco. Conversely Silvio Berlusconi has led Italy into a position even more supportive of the Russian-led project. The summer of 2009 witnessed further spats and divisions. The Lithuanian government reprimanded Andris Piebalgs for his support of Nord Stream. The French energy giant GDF Suez then negotiated its way into the Nord Stream consortium, after being denied a role in Nabucco by the latter's Turkish partner (EurActiv 2009b).

With Nabucco's costs now estimated at 8 billion euros, industry experts judge that it would need Iranian gas to make it viable. Many policy-makers and experts opine that Nabucco still needs the involvement of at least one European oil major to be workable. The Kazakh government rails that the EU has been offering small-scale technical cooperation for a generation, but has built nothing; the Chinese arrived recently in Kazakhstan and very quickly set to work building a pipeline eastward. While Germany seeks partnership with Russia on energy, the Czechs retort that “you need two for a partnership” and that the EU and Russia will increasingly be rivals for finite resources.

The Russian invasion of Georgia in the summer of 2008 led some European governments to conclude that Nabucco needs stronger political backing. Others have reached the opposite conclusion, that solutions must be sought through and collaboratively with Russia. European policies consequently exhibit an inchoate mix of the two stances. The European Council in March 2009 asked for “concrete action” to develop access to Caspian supplies. The Commission allocated 200 million euros of funding for Nabucco and supported creation of the CDC (Platts EU Energy Review 2009b). What Nabucco needs even more than public money is governments' backing to unlock political blockages. Some Member States are beginning to agitate for such involvement. However, Caspian states want a broader strategic partnership, and not

be treated merely as gas suppliers. Even after two European companies, Austrian mineral oil authority (OMV) and Hungarian Oil and Gas Public Limited Company (MOL), signed contracts in Kurdistan in May 2009 to feed Iraqi oil into Nabucco, coleader of South Stream Eni opined that Nabucco would still not fly (*Financial Times* 2009). Also, when the EU presented its “southern corridor” initiative in May 2009, offering Central Asian suppliers guaranteed levels of long-term demand, Kazakhstan, Uzbekistan, and Turkmenistan walked away, complaining that Europe had placed insufficient incentives on the table. In July 2009 Nabucco’s five transit states finally signed the necessary intergovernmental accords to give the project legal grounding. But producer states declined European pressure to accompany the signing ceremony with firm promises of supplies into Nabucco. Even after this agreement, the lack of funding rendered the project doubtful (Denison 2009), and key transit state, Turkey, also gave its backing to the South Stream project only a month later.

Institutionalized Rules Versus Political Maneuverability

So, what can we conclude from these policy trends in terms of the reach of Europeanization? The question pertinent to this volume is what all these evolving features of policy mean for the extent of commonality in European external energy policies. Analysts of European foreign policy routinely point to a range of factors seen to be pushing in the direction of deeper EU unity: the ongoing processes of “socialization” within the Common Foreign and Security Policy (CFSP); the emergence of a “network” of common security perspectives within Europe; the influence of convergent “transborder” linkages between functionaries, including in the energy sphere. However, the evolution of external dimensions of energy security suggests that such dynamics of convergence remain weaker in this sphere than analysts have detected in other areas of the CFSP agenda. Common European approaches have certainly created the frameworks for potential socialization. But, in practice governments’ pursuit of energy security tells a more varied story.

It is commonly claimed that the gradual deepening of the internal market will drive convergence in the external dimensions of energy security policy. The evidence suggests that this has occurred only to a limited extent. Some Member States have resisted even the most basic principles of transparency and information sharing with their EU

partners. Such divergence exists not only at the political level but also among diplomats and technical experts—if a transborder epistemic community exists in the energy sphere it is no more than incipient and still often diluted by the disparate winds of fierce national competition.

What has determined this outcome? France’s external energy dependency is relatively low, undercutting its commitment to foreign policy unity. Germany has been even more the “spoiler” through its Russia policy and increasingly its bilateral efforts in Central Asia. Italy gives increasingly explicit political backing to national, bilateral energy deals. Conversely, the traditionally skeptical UK has become more supportive of EU cooperation, as its own energy dependency is set to increase fast. The Netherlands—the EU’s remaining significant gas producer—advocates a balance between unity and retaining scope for bilateral policies. Objective energy dependencies and mixes still engender very different energy narratives between Member States.

At a more fine-toothed level, the balance between convergence and divergence itself differs across regions. Russia provides the most conspicuous examples of disunity. Member-State governments have backed their respective national energy champions in signing long-term bilateral contracts with Gazprom—and have indeed been minded to argue that such deals represent a success for energy security. Even in the case of Russia, however, the pull of EU cooperation is not entirely absent, and unity has tightened to some degree as Russia has adopted increasingly heavy-handed tactics in the wielding of its new energy-based international power. Differences over Russia additionally engender contrasting views among Member States on how assertive the EU should be in prioritizing Central Asia within its energy security strategy. This is witnessed at a very general level—in differences over how far the EU should challenge Russian primacy in Central Asia—and in relation to more specific policy decisions—such as whether to offer Kazakhstan a place in the ENP or whether sanctions should have been retained against Uzbekistan. At the other end of the spectrum to Russia, energy strategy in sub-Saharan Africa has been least subject to high political tensions between Member States, as the EU has sought to take the first steps toward regaining its lost influence on the continent.

Policy in the Middle East and North Africa has benefited from more institutionalized long-term partnerships that the EU has sought to use as a base from which to deepen energy cooperation. While this undoubtedly renders common EU-level initiatives of great significance, even under the rubric of the EMP—the most strongly institutionalized

EU framework embracing oil- and gas-producer states—competitive dynamics are at least as evident as collusion. Member States increasingly undercut each other in an effort to gain access to Algerian energy supplies, this compounded by the latter's rejection of the ENP action plan offered to it. Spain and Italy in particular have justified such bilateralism by expressing frustration at the lack of north European backing for deeper EU-level engagement in North Africa. Outside the scope of the EMP, Libya has attracted even more of an open rivalry between Member States keen to gain early preference with the internationally rehabilitated Colonel Gaddafi—even as they talk of enticing Libya into the EMP and/or the Neighborhood Policy (at least until the recent conflict broke out).

In the Gulf, the weight of national diplomacy is even more pronounced in relation to the impact of common EU forums and initiatives. This is due to a combination of factors: the determination of the larger Member States to safeguard their national deals and channels of access; the relative disinterest in the region of most other Member States; the tendency of Gulf Cooperation Council states themselves still to prioritize their links with national capitals rather than conceive the EU as primary interlocutor; and the limited purchase in the area of traditional EU economic, developmental, and regulatory policy instruments. EU unity is notable in relation to Iran's nuclear program, but differences predominate over the prospect of energy cooperation with the Islamic Republic. Here Italy has been increasingly the most forward-leaning state in seeking to deepen energy ties on a bilateral basis with Teheran. A limited degree of Europeanization has taken shape in policy toward Iraq but—even aside from the original differences over the 2003 invasion—the nature of this country's security situation and political challenges continue to engender contrasting views among Member States. These militate against the possibility of establishing the foundations for a common energy strategy toward Baghdad.

In sum, the long-term vision based on a commitment to promoting market-governance reform in the management of energy resources is giving way to crisis-mode geopolitics. Pipeline brinkmanship and a "race to contract" are displacing cosmopolitan holism. As one EU policy-maker acknowledged: "There will only be a common energy policy when there is a crisis big enough to create it." At present, Member States appear content to continue with a nominal commitment to market-based energy policy and to the better governance of energy sectors, while also adopting bilateral strategies that pull in the opposite direction on both of these questions.

Note

1. Quoted in *Financial Times*, September 4, 2007.

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Chapter Three

Common Rules without Strategy: EU Energy Policy and Russia

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The European Union's (EU's) energy policy toward Russia—or, to put it more precisely—the absence of a coherent policy, is a hotly debated topic in academic and policy circles. The overall message is clear and has been reiterated for many years: As long as the EU does not act in a (vertically) coherent way it cannot be externally effective. But coherence would require that Member States limit their individual sovereignty over decisions for the sake of a greater autonomy at the community level. This has proven to be especially problematic with regard to energy policy, which may be regarded as a domain of “high politics” in external relations and is subject to politicized debates internally as well. Historically, energy policy has been regarded as a national prerogative, strongly linked with national security and public service. Also, a common external policy needs an agreement on what it is about: Should energy policy toward Russia concentrate mainly on maintaining energy security or should it be seen as the core of the overall foreign policy toward Russia? As energy is an important aspect both for the EU and Russia, a conflation between external energy policy and foreign policy in general can easily occur. This makes it even harder to arrive at a common position, as there are far more possible objectives in general foreign policy than in energy policy. In addition, foreign energy policy does not only involve state actors, but also big economic actors that control the economic processes underlying energy policy.

This chapter evaluates the EU's external energy policy toward Russia according to the general criteria of energy security policy. After giving an overview over the challenges Russia poses to EU energy security, the chapter will examine the policy measures the EU has taken vis-à-vis Russia. When evaluating the success of the actions taken, special emphasis will be on the goals of the various actors in