Does Europe Need an External Energy Policy?

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New Push for EU External Energy Policy

- Growing “dependence” on imports
- No collective gas security regime (unlike oil)
- Structural change in international energy markets / geopolitics
  - Emerging countries compete for energy with mature economies
  - Rise of the “Asian model” of international resource policy
  - Competitive fringe of upstream oil & gas industry is shrinking
  - Resource-owner governments are empowered
- Deteriorating geopolitics
  - US strategic failure in the Middle East
  - Sharp decline in US “soft power”
  - Rise of the rich, undemocratic countries with global ambitions
  - Is the international liberal economic order falling apart?
“Europe Should Go Strategic” -- The new conventional wisdom

- Competition in Europe is neutral at best to security of supply, probably detrimental -- “fragmentation of Europe”
- It should be balanced with initiatives to guarantee “access to resources” and “diversity of supply sources & routes”
  - Strategic infrastructure: Nabucco; LNG facilities?
  - “Dialogue” and “strategic partnership” with supplier countries
  - Aggressive plans to integrate the neighbourhood into EU markets
- Europe needs giant energy companies to negotiate with NOCs
- Political negotiations with resource-owner governments should be centralised -- “Speaking with one voice”
- Europe should play by the rules of the new world -- develop a “strategic” (read: non-market) approach to energy security
The “Strategic Approach”: A Dangerous Illusion

- The global shift to “non-market” is vastly exaggerated
  - Gas markets are becoming more competitive/flexible, not less
  - Global oil commodity market is not falling apart
  - The US is not moving to a “non-market” approach
  - Even China is questioning the “non-market” approach
- Would give China et al. the worst of examples -- undermines the concept of rules-based, de-politicised int’l energy system
- It does not work: example of China
  - China/Russia: not a single m³ of gas; no oil pipeline
  - Gas imports from Australia, through IOC-led projects
  - Equity oil policy is a complete failure -- and could not be otherwise
  - Rapid and smooth integration into world oil market
The idea of “dialogue” and “strategic partnership” with exporters -- positive politicisation -- is dubious
  – We do not have the same economic interests -- even if both benefit from the trade
  – We should not try to lure them -- but make their market position as contestable as possible

“Strategic approach” makes foreign policy hostage to energy
  – Plays in the hand of those who want to leverage their energy position into the diplomatic arena

Politicisation is a dangerous road to go down to -- Some of our suppliers want it, but we do not have to accept it
The Example of the EU-Russia Energy Dialogue

- Flagship external energy policy initiative from the Commission (DG TREN) -- 2000-2005
- Extremely ambitious goal of building a strategic partnership between the EU and Russia -- *Not about organising a market*
- Russia loved this “dialogue” -- and bought time to reinforce Gazprom’s monopoly power
- DG TREN did all they could to sideline the ECT, perceived as an American-inspired, anti-Russian scheme
- **Disastrous results**
  - EU shot itself in the foot by killing the ECT and transit protocol
  - It did not lead Gazprom to invest into production
  - And did not prevent it to invest into leverage over Europe
Do We Need an External Energy Policy?

• Short-term gas security is built at home
  – Flexible gas system with liquid spot market is the key to deal with supply disruptions
  – We need more competition, not less

• “Speaking with one voice?”
  – Bilateral deals with Gazprom are not a problem...
  – …provided we have an integrated, competitive European market
  – The problem is the cosiness between “national champions” and their own governments -- not Gazprom

• Increasing gas supply diversity
  – Diversity is increasing
  – Strategic infrastructure: In some cases “pipeline diplomacy” is needed (trans-Caspian gas pipeline; Nabucco?)


Do We Need an External Energy Policy? (cont’d)

- Longer-term gas security (dealing with the “scarcity risk”) is built by increasing competition against natural gas
  - Coal CCS + renewables + nuclear
- How to deal with Russia now?
  - ECT is stalled. WTO accession may be our only leverage to force access of Russian pipelines to transit -- *but we are not credible if our gas market is not competitive*
  - Ban on Gazprom investment in Europe as long as we cannot buy from Russian independents
  - Unilateral move to an integrated, competitive gas market will change the structure of this relationship in unpredictable ways
  - Current structure is inherited from a completely different era -- *The Soviet Union had disconnected the gas trade from it foreign policy*
Rising EU dependence on Russian gas?

**EU 27 Primary Energy Consumption, 2006**
1782 mtoe

- **Net growth, 2000-06**
  - 72 mtoe

- Of which, **Natural gas**
  - 42 mtoe
  - 58% of primary energy demand growth

- Of which, **Russian gas**
  - 9 mtoe
  - 21% of gas demand growth; 12.5% of energy demand growth