



Europe, a territory dependent on energy

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*"Energy is eternal delight"
The Marriage of Heaven and Hell,
1790-93
William Blake (1757-1827)*

There are no official worries within the European Union about energy still it is a fact that Europe is largely dependent on energy supplies from abroad. Even if the events on past August in Georgia have not managed to wake up hearts and minds enough and the European Commission plans no more than to "monitor the situation closely", Europeans are going to need to look at the situation having energy in their minds. Russia is pursuing a comprehensive strategy that could increase Europe's political and economic dependence on Russian energy. Such dependence could negatively affect transatlantic relations, common values, goals, strategic objectives, and security policies. Without a policy dialogue and coordination between Washington and European capitals, Europe's strategic drift away from the United States could continue un-

abated and perhaps this could be the ultimate goal of the present tenants of the Kremlin.

Past increases in energy prices and a steady escalation in world energy demand that is expected to rise by nearly 60% over the next twenty years has led U.S. policy-makers to engage in a wide ranging debate over how best to address future energy requirements. Similarly, the European Union, along with its member states, is also engaged in an intense discussion of Europe's future energy challenges. The United States and the European Union, together, represent the world's largest energy market. Today, the United States and the EU produce approximately 23% of the world's energy but consume almost 40% of the world's supply of energy. The EU consumes approximately 18% of global oil consumption and 19% of gas produced.

Certainly, after all, less than 3% of Europe's oil imports come from

Azerbaijan via Georgia according to European sources but Russia is without much difficulty the biggest supplier of oil and gas to the European Union. In 2007 it provided 38% of gas imports and 33% of oil imports and nonetheless some European countries in particular – especially the former Soviet republics and Warsaw Pact satellites–, rely on Russia for virtually all their energy.

The European Union's dependence will only grow, as its own production declines, along with that of its second-biggest supplier, Norway. According to the International Energy Agency (IEA) Europe's gas imports will double by 2030 –with much of the extra-supply coming from Russia.

Yet the EU is not looking at recent events in the Caucasus through its energy implications. However one may suspect that perhaps a principal Russian consideration in invading Georgia could have been no other than highlighting its vulnerability as a transit route for oil and gas. Russia has demonstrated its willingness to use oil and gas for political purposes on several occasions. In 2006 it cut off the gas to Ukraine, affecting severely too the supplies intended for Hungary and Italy. Russia had also cut off supplies of oil to Lithuania and to Belarus and Georgia and more recently to the Czech Republic, in what is interpreted as a reprisal for hosting a radar base for next American missile defense systems.

Even if a substantial part of Europe's energy supplies come from the Middle East rather than Russia, yet, the Middle East region is fraught with war, terrorism and politically unstable regimes. Iraq's oil production has not reached pre-war levels, and there is fear that terrorist groups could target pipelines and production facilities throughout the region. Iran has threatened to cut back oil production for the West if Tehran is forced to abandon its nuclear power program. It doesn't help that pipelines from either place, or from the Caspian, would have to cross Turkey, with whom Europe's relations are getting frostier and Russia's are getting warmer.

High global demand for energy has also raised questions regarding the amount and future availability of global oil and gas reserves. There does not appear to be any projected shortages of either resources for the next several decades. However, uncertainties over future investments in new exploration or production in regions such as Russia and the Middle East have raised concerns about the long-term availability of future supplies. The IEA estimates that close to \$16 trillion in new investments may be needed over the next 30 years to meet future global energy demand. All of these issues have led Europeans to begin to plan more seriously for their energy future and to give energy policy a higher priority within the European Union.

The European Union would like to reduce individual countries to supply interruptions by getting them to

build more links between Europe's largely separate national gas grids and it is thinking into forcing the big companies to sell their distribution networks. So far even if European governments have offered some kind of compromise, the European Parliament is rejecting the plan. In the end there's some kind of comfort thought that Russia, after all, is almost as much at the mercy of the pipelines as the EU, in that it cannot easily send its gas anywhere else.

In the US Congress some interest has also been taken in the relationship between the United States and Europe with respect to the issue of energy security by holding several oversight hearings on this subject since more than a couple of years already. In May 2006, two Subcommittees of the House Government Reform Committee held a joint hearing entitled "*Russian Energy Policy and Its Challenges to Western Policymakers.*" In late June 2006, the Senate Foreign Relations Committee held a hearing on the "*Future of Russia*" in which energy policy was extensively discussed. Finally, in July 2006, the Middle East and Central Asia Subcommittee of the House International Relations Committee held a hearing entitled "*Energy and Security Issues in Central Asia.*" Each of these hearings touched on Europe's energy challenges. In addition, congressional participation in several transatlantic dialogues such as the NATO Parliamentary Assembly and the Transatlantic Legislators' Dialogue has kept the issue of energy security and US-EU cooperation on the agenda in order to provide a better understanding of the

importance of this issue to both the United States and Europe.

The United States and the European Union have steadily increased the transatlantic energy dialogue on issues such as energy efficiency and alternative energy sources. Both want to explore ways in which the U.S. and EU can cooperate in the world energy market (such as liquidized natural gas) and how to deal with Russia and other politically unstable regions where large energy supplies are located. At the conclusion of the US-EU Summit held in Vienna, Austria, in June, 2006, both sides issued a joint statement which declared that the United States and the EU recognized the strategic role of security of supply, competitiveness and sustainability in the energy sector. In this connection, both sides reaffirmed their commitment to energy security and to cooperate to ensure sufficient, reliable and environmentally responsible supplies of energy.

Over the past 55 years, relations between the United States and the EU have steadily broadened and deepened so that today, they remain inextricably linked. Nowhere has this transatlantic integration manifested itself more than in the economic relationship between the United States and the European Union. This economic partnership has been described by many as the single most important influence on worldwide economic growth, prosperity and trade. Within the continually deepening transatlantic economic relationship, common concerns with and shared developments in energy

security policy have become a high priority for both the United States and the European Union. The United States and the European Union, together, represent the world's largest energy market. The United States and the EU produce approximately 23% of the world's energy and combine for almost 40% of the world consumption of energy. The United States' share of global oil consumption is approximately 43% while the EU consumes 18%. The United States consumes 23% of the world's production of natural gas. The EU consumes close to 19%. The United States and the EU combined represent over 40% of the electricity consumed world-wide and produce almost 40% of the global CO2 emissions.

This is a critical period for the transatlantic partnership. The long-term implications of the energy debates taking place within the United States and Europe are so similar in scope that the United States and the European Union have found common cause to join together in a cooperative transatlantic energy dialogue, not only to promote competitive markets and market-based policies of producing nations, but more importantly to develop common strategies to provide for the security of energy sources and supply for both Europe and the United States.

The EU, on the other hand, needs available and reliable supplies of energy to support European economic growth. Russia's resources and proximity to Europe make an EU-Russian energy partnership a necessity. For Europe, managing

relations between Brussels and Moscow has become the EU's top energy security priority. This relationship was formalized in 2000 with the creation of the EU-Russia Energy Dialogue. The results of that Dialogue have been mixed to date. So far neither side has been able to resolve differences regarding supply security or investments in each others energy sectors. Compounding Europe's dilemma is the fact that 100% of Europe's current supply of gas from Russia is provided by the state-owned energy enterprise, GAZPROM. However Russia's use of energy for political purposes has angered the main Western European governments and put energy security back on Europe's agenda. Nevertheless the policy response from the European Union countries has been divergent -mainly due to the attitudes of both Germany and France-, and it is being proved very difficult to create a forceful common foreign policy.

The European Union's demand for energy continues to grow. But Europe is not the only region where growth has resulted in additional demand for energy. Growth in China and India has added significant levels of new demand for energy. Even in the energy rich region of the Middle East, growth in population along with economic modernization have resulted in a higher demand for energy. As living conditions and economies in Africa and Latin America continue to improve, the global demand for energy will increase. Europeans must compete for existing and new sources of energy supply.

Russian President Putin has come to believe that Russia's vast energy resources, which not only can supply the needs of Europe but can also meet a good portion of the demands of Asia and the United States, will aid Russia in regaining its stature as a major force in global affairs. Thus, Russia sees energy as an important political force as much as it is the force driving Russia's economic development. For some, it is acknowledged that *"the Putin government has made it clear that it intends to use its energy export power to regain Russia's cold war influence around the world."* One of Russia's priorities is to control as much of Europe's energy infrastructure as possible in return for Russia's delivery of a reliable supply of energy. Moscow knows that if the EU is successful in creating a Europe-wide single market for electricity and gas, which is discussed later in this report, "it will be presented with opportunities to become part of the world's largest and most integrated energy market right on its border." Thus, according to Daniel Yergin, from *The Wall Street Journal*, *"Putin believes that energy security is about [Russia's] retaking control of the 'commanding heights' of the energy industry and extending that control downstream..."*

Energy is an important key to Europe's future economic stability. Europe knows that Russia simply cannot divert gas currently flowing into Europe via an extensive pipeline system to Asia where no comparable pipeline system from its current gas fields exists. Russia's recent decision to build the new Baltic Sea pipeline to Germany, its de-

velopment of the large Shtokman gas field in the Barents Sea, the recent purchase of gas storage facilities in Hungary from Germany and its continuing interest in the British energy market all confirm the fact that Moscow understands that Europe will continue to play an important role in Russia's long-term global political and economic strategy. Thus, Russia, with its vast resources, especially gas, will likely continue to be Europe's primary supplier of gas for the indefinite future. For Europe, trying to construct an overall common energy policy with a common external energy strategy, directed especially at Russia, could be critical. However Russia's reluctance to agree to meet the EU's terms for open and competitive markets has led many in the EU to express concern over Russia's political reliability as a long-term supplier.

Conclusion

Europe's reliance on available and secure sources of imported energy without becoming totally dependent on any one source, has become the foremost challenge for the nations of Europe and its Union. Europe is fortunate in one sense in that it has the largest sources of available energy within a relatively small geographical space. However, like everyone else, Europe faces the same fact that for the foreseeable future those energy producing nations all come with their own levels of risk ranging from outright political instability to more subtle questions of political reliability and long term intentions. The EU, through its Common For-

eign and Security Policy (CFSP), can continue to work on the political stability and security of Europe's energy suppliers by offering stronger foreign and trade relations. However, perspectives on energy security policy differ among the 25 member states themselves and between the states and the EU. Nevertheless, it would seem that the EU's case for a common external energy security strategy tied to the EU's CFSP will require much more work.

At the same time, of particular concern to the United States is the potential long-term threat to transatlantic relations that could emerge should the EU become too dependent on energy supplies from Russia or if GAZPROM succeeds in wielding too much influence in large segments of Europe's energy infrastructure. Mindful of the EU's growing dependence on Russian energy, the United States and the EU have joined together to better understand at what point reliance on Russia could threaten Europe's overall energy security and weaken the EU's ability to deal with Russia on a whole host of non-energy related policy issues. The United States and the EU could take actions to ensure that Moscow cannot be in position to exploit future opportunities to use energy as a policy tool for intimidation or coercion against any one particular member of the EU or any nation constituting Europe's immediate neighborhood. The United States and the EU could also work in harmony to encourage Russia and in particular, GAZPROM, to accept standard open market business practices, competition and for-

eign investment in Russia's energy sector. Russia could also be pressed to ratify the Energy Charter Treaty. On the other hand, the United States and the EU could also differ on their approaches to Russia, especially given Europe's reliance on Russia for energy.

Finally, transatlantic cooperation on energy security does not just mean working together to promote energy efficiency, the use of alternative fuels or the securing of reliable supplies of energy from a diversified array of energy producers.

Security of supply also requires a dialogue on energy crisis management and infrastructure protection. In this context, a military dimension to energy security has begun to be included in the transatlantic dialogue, including a potential role for NATO to play in energy security. Both the EU and NATO have begun to address the issue of energy security and options to secure supply sources, distribution routes, and storage facilities, all of which would require enhanced multi-national cooperation.

NATO's role in energy security could be complementary to the EU's effort to strengthen market forces and interdependence in the international energy sector by offering assistance for the protection of pipelines or sea lanes during times of political unrest or conflict. Partnership for Peace countries, such as Kazakhstan and Turkmenistan, which are important energy producers are seeking ways to associate themselves more closely with

NATO, in part to diminish Russian influence and in part to develop reliable partners in an unstable region. NATO has the ability to help secure

the energy infrastructure of such countries. It would be most desirable that this is fully understood on both sides of the Atlantic Ocean.