

The new EU External Energy Policy: an important move -if it is not too late

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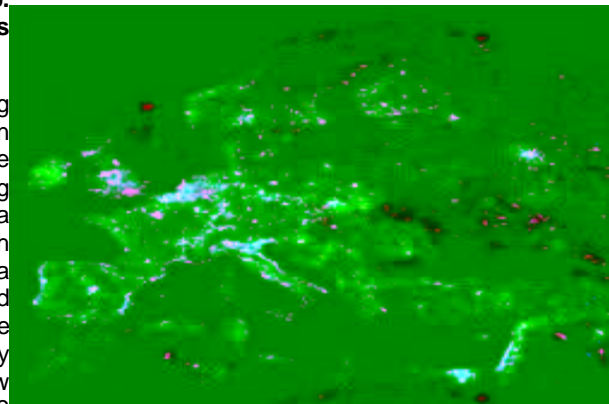
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The new EU External Energy Policy: an important move -if it is not too late

By Alexander Mirtchev

With the adoption of its new External Energy Policy, the EU has finally made a first step towards its integration as a single negotiating bloc in the world energy market. As such the External Energy Policy could become an important factor in the global energy security picture and a possible geopolitical game-changer. However, it remains to be seen whether the big EU member states will be willing to subordinate their interests to the wider EU interest. The External Energy Policy has probably come five years too late, argues Alexander Mirtchev, President of Krull Corp. and Vice-President of the Royal United Services Institute for Defence and Security Studies.

In the first quarter of 2011, Europe imported a staggering 896 million barrels of oil, valued at over US\$92 billion. In addition, gas imports for the first quarter of 2011 were 1,390 TWh, up over 7.5 percent from the preceding quarter, valued at over €50 billion at industrial prices. As a net importer of energy, the EU has long been faced with the fact that the majority of those imports are from a limited number of sources – predominantly Russia and Africa. This dependence comes with challenges: the potential fragmentation of the internal market, supply instability and reduced competitiveness. In a few instances, real shortages have occurred, as in the 2009 Russia-Ukraine gas dispute. Harmonising the external dimension of EU energy policy has thus been high on the agenda.



The new “Communication” on “[Security of Energy Supply and International Cooperation](#)” (officially entitled “The EU Energy Policy: Engaging with Partners beyond Our Borders”), which was presented on 7 September by Energy Commissioner Günther Oettinger, aims to transform the European Commission into a monitor and (to a more limited extent) arbiter of the external energy policies of the member states. To achieve this transformation, the Policy relies on the creation of a new institutional framework that includes an “information exchange mechanism” to share information within the EU on all bilateral, “intergovernmental” energy deals that member states make with non-EU countries. The proposal adds that “the Commission may give an ex-ante assessment of the conformity of a future intergovernmental agreement with the EU law before such agreement is signed.”

The proposal further aims to facilitate and promote large-scale infrastructure projects, diversify sources and routes of energy supply and integrate the EU energy market with those of neighbouring (non-EU) markets. All in all, the Policy proposes to put the EU Executive on the centre stage in the energy policy show.

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There is a lot to be said for this new approach. A unified Policy could unify the divergent interests, strategies and requirements of a large number of disparate European economies. Thus, it could

provide more efficient economic outcomes, reduce price volatility and strengthen political stability, with a positive effect on regional and global energy security and geopolitical balances. Most importantly, a unified energy policy could enhance the influence of the EU and its Member States in the global energy market, in line with the understanding that the larger the country or block, the more market influence it wields, and that size translates into “economic” and “military power” (as pointed out by philosopher Will Durant in “The Lessons of History”). By strengthening the EU’s internal energy market and creating the ability for it to monitor and drive energy deals by member states, the new Policy could endow the EU with a new power in global energy markets greater than the sum of its parts. This build-up toward a unified energy consumer stance could enable the EU to have a larger say in global energy security matters and may help cushion it from many external energy shocks.

That is, of course, if the new external energy policy ever becomes a reality – which is a big “if”.

Prisoner's dilemma

The question is how the new Policy can be made to work in practice. A major aim of the Policy is the establishment of a new framework for engaging partners outside the EU that would place energy relations beyond the divergent interests of individual member states. This could be considered a claim by the EU to become a new key player in the global energy market, with the European Commission at its head.

To some extent, this is a development that has already been going on for some time. Since 2009, the European Commission has been made responsible for ensuring the bloc's security of energy supply, promoting the interconnection of its energy networks, and improving energy efficiency and savings. For some time now the EU has been engaging in "pipeline politics", in particular by trying to diversify energy routes away from Russia, through the so-called Southern Gas Corridor, and in particular, the Nabucco pipeline that would deliver Caspian gas directly to Europe. However, this mission has so far not led to tangible arrangements with external suppliers and partners. Instead, member states have developed bilateral relationships and pursued individual energy deals which may or may not support the Commission's overall goals and which may or may not be in the interest of all the member states.

Thus, one of the main questions for the new Policy is how it will counter the incentive for member state governments to continue taking unilateral action to achieve their individual energy security goals. The answer to that question is far from clear. The Policy is currently non-binding, whereas to be implemented successfully some transfer of sovereign powers to the European Commission would seem to be indicated. In any case, the Policy will need to be translated into the common politics of the EU in such a way as to avoid running counter to the already established geopolitical stances of member states toward external countries. Not an easy task.

The Policy will undoubtedly expose contradictions between its intended outcomes and the existing positions of individual member states that may have previously enjoyed advantageous arrangements with energy suppliers. Because the Policy has the potential to redefine the geopolitical advantages that individual member states have been able to enjoy from bilateral energy relationships, it will need to provide a replacement for them that provides some compensation for the member states that stand to lose from new initiatives. This will not be easy to accomplish in view of the kaleidoscope of economic and political interests of both EU member states and their external energy suppliers. The Policy will in practice need to be adapted to the confluence of geopolitical and economic imperatives that are likely to top the international agenda in the coming months and years – from economic growth and sovereign debt problems to the overall global pecking order that is currently in flux. Whether the European Commission has the ability to do so remains to be seen.

Indeed, energy forms part of the existing relationships and arrangements that have moulded European politics even before the Second World War. Changing the paradigm of energy geopolitics will undoubtedly bring about resistance from the large and influential member states such as Germany, the UK and France who may perceive the Policy as interference in their sovereignty.

There is a risk that the Policy may actually result in

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alienating some external suppliers geopolitical

advantage of existing bilateral arrangements with specific third party energy suppliers. For example, it is unclear how the new Policy might affect the decisions of European leaders such as France's Nicolas Sarkozy and Britain's David Cameron to involve their countries in developments with energy supplier countries such as Libya. And would Angela Merkel entertain new centrally defined approaches to the German-Russian relationship, when previous bilateral arrangements have benefited Germany probably as much as they have benefited Russia?

The Policy appears to offer a choice similar to that in the classic Prisoner's Dilemma. If the players trust each other and make the choice to enter a cooperative agreement, they can achieve an outcome that is best for the group as a whole. However, the incentive for a 'first mover' to break away from the common position and gain significant competitive advantage is very strong. The usual outcome of the Prisoner's Dilemma is that all players are tempted to pursue the best personal outcome for themselves, which results in everybody being worse off. This could certainly happen in this case as well.

To be generally accepted the Policy must be seen by all member states to be to their advantage (or it must have sanctions for non-compliance). But it is currently unclear how it will distinguish between the divergent interests and market weight of larger and smaller countries in deploying its regulatory mechanisms, and indeed if such a distinction will be made at all. It is important to remember that the EU members are not identical and a common energy stance that is reduced to the lowest common denominator could be seen as non-beneficial by certain states. As it stands, the Policy would seem to offer as much incentive for member states to circumvent it as to comply with it.

Benefits for suppliers

For the new Policy to become a success, it would also need to engage the suppliers, making them stakeholders in the future energy security of Europe. The Policy focuses on the starting point of establishing specific dialogue and partnerships with external suppliers. An example is the negotiation of a treaty between the EU, Azerbaijan and Turkmenistan for the construction of a Trans-Caspian pipeline system that the European Commission has taken upon itself. Initiatives of this type provide suppliers with an expanded and stable market.

In general terms, however, the Policy does not give a clear indication of what its added benefits are for these suppliers. As a result, there is a risk that the Policy may actually result in alienating some of them, or even be seen as endeavouring to force them to give up the competitive advantage that their natural resources provide. Expecting energy exporters to forego this competitive advantage is not realistic and could even be counterproductive. Should the EU's energy suppliers determine that the Policy is damaging to their interests, they may be tempted to rectify any perceived harm by directly engaging with specific member states, providing blandishments that could prove too sweet to ignore, which would again lead to the negative outcome of the Prisoner's Dilemma.

Further refinements of the Policy's delivery mechanisms are therefore needed to incentivise energy suppliers to 'buy-in' to it. Incentives could take the form of bilateral arrangements between external suppliers and the EU for the development of energy facilities and infrastructure as well as technology transfer arrangements that would benefit energy exporters in the long run. Alternatively, incentives could be outside the energy realm, and could be determined by the specific interests of the external countries and the relevant needs of the EU as a unified energy consumer.

Political intent

The ambiguity of the External Energy Policy's impact at its initial stage, which is not uncommon for similar policies of significance, is exacerbated by the nature of the current global energy system and its focus on securing access to oil and gas. The dominant policy approach by countries has been aimed at acquiring control over energy supplies, or "energy independence", as a national security imperative. The Policy does mention the importance of "interdependence", but it is still overwhelmingly based on traditional notions of diversifying supply sources while at the same time decreasing reliance on oil and gas. A stronger emphasis on interdependence might have positive results. The Policy does mention the importance of sustainable energy supplies (e.g. from Africa) in the future, but it may be necessary, for example, to expand on the EU's position toward alternative energy megaprojects, in order for it to maintain its effectiveness down the line when non-fossil forms of energy may play a more important role in EU energy balances.

The new External Energy Policy is as much a

Although policies such as the new External Energy

statement of political as economic intent

Policy rarely result in the initially declared or anticipated outcomes, the Policy itself represents a clear signal to the markets – the EU aims to become a unified consumer block that directly engages key external suppliers. No matter how it evolves in practice, it is an economic and geopolitical signal that heralds an important unfolding story. Undoubtedly, the Policy represents a new building block introduced relatively unobtrusively within the broader tapestry of policies underpinning the European Union's development that would define the internal EU energy market. The Policy thus has the potential to become a beneficial game-changer in the political and energy landscape of Europe and beyond. Indeed, its very existence could change the energy and geopolitical balances of the 21st century.

About the author

Alexander Mirtchev is Vice-President of the Royal United Services Institute for Defence and Security Studies and founder and president of Krull Corp., a US-based global strategic solutions provider. He is an international commentator on global economic security, new economic trends and emerging policy challenges, with frequent appearances on US and international news programs. He has served as Senior Fellow of the Institute of Europe, Russian Academy of Sciences; Senior Fellow of the National Public Center of the Bulgarian Academy of Sciences; and as Adjunct Professor at St. Kliment Ohridski University. He is a Doctor Emeritus of the University of Foreign Trade and Finance, Ukraine and a member of the Russian Academy of Natural Sciences.