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Jean Monnet Chair Workshop
The EU's External Energy Relations: Russian and Canadian Dimensions
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Carleton University, Ottawa

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Workshop Goals

- Better understanding the impact of EU energy policies beyond its borders
- Degree of EU energy security's structural vulnerability (market/political)
- Degree of EU energy security's sensitivity to Russia (reliance vs. diversification)
- Mix of potentially contradictory objectives (green policies vs. fossil fuel reliance; neoliberal market principles vs. ongoing inhouse monopolies)

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Overall Objective

- ‘The EU sometimes has difficulties forging a unified external energy policy that reconciles that diverse interests of its Member States. This complex mix of objectives and considerations forms the backdrop for the workshop’s analysis of the EU’s impact on foreign partners in the energy sphere.”

Panel 1: Discussant

EU Energy Policy in an International Context

- Energy and Climate Change Strategies: North America and the EU
- EU and Canada as Energy Actors

The Arctic…

- A **peaceful High North** = Iceland using extra-territorial policies to participate in international operations (climate change research & peacekeeping);
- A **securitized High North** = needs a minimum operational capacity like its NATO allies; should increase its cross-border regional monitoring for shipping
- A **busy High North** = more ships passing through Icelandic waters; higher risk of accidents, detrimental to fishing industry. Emergency response capabilities are vital.

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Canada's Arctic Foreign Policy: 2012

Canada's Arctic foreign policy provides the international platform from which to project our **national interests** in the world across all four pillars of the **Northern Strategy**:

-exercising our sovereignty,

- promoting economic and social development,

- protecting the Arctic environment, and

- improving and devolving governance. We will pursue our interests at the international level through leadership and stewardship.

http://www.international.gc.ca/polar-polaire/canada_arctic_foreign_policy-brochure-la_politique_etrangere_du_canada_pour_arctique.aspx?lang=eng&view=d

EU Arctic Policy 2013

- Research on the Arctic environment (determining the EU's 'Arctic footprint')
- Fighting climate change (20% GHG reduction by 2020)
- Investing in sustainable investment (€1.14 billion for social, economic & envtl dev't)
- Monitoring changes (€200 million, international research activities)
- Shipping and maritime safety (EU competence; 90% of its trade is ship-based)

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Russian Arctic Claims

“The Arctic is undeniably, legally, territorially and culturally Russian. It has been since time immemorial.”

- President Vladimir Putin (2012)

“For the Russian economy there are no alternatives for the majority of resources extracted in the North,” These resources provide Russia’s strategic security and will be a determining factor in lifting and modernizing its economy.”

- Deputy Secretary of Russia’s Security Council, Yevgeny Lukyanov (2011)

1. EU: Multiple Actors

- European Commission: the ‘competence’ to make policy Competition, Internal Market, and Climate Change
- Member States (operating within the EU Council): retain competence in ALL other areas including negotiating with foreign suppliers like Gazprom
- National energy companies (NOC/NECs) (EdF, Gaz de France)
- Private energy companies

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2. EU overview

- World's largest integrated trading block
- 479 million people; 27 Member States
- Operates on the basis of 'rolling treaties' and core institutions
- EU as a unit: 3rd largest energy consumer in the world (after US & China)
- BUT: little European 'indigenous' energy sources
- An importer (except Netherlands & UK)

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3. EU Energy Profile

Is the EU an autonomous energy actor? Can it make its own “EU energy policy”?

- Yes: It has a 3-part energy policy based on competitiveness, security of supply and sustainability.
- Yes: It has its own legal framework, or ‘acquis’ connected to Compeition Policy, and the Internal Market which affects HOW MS regulate, sell, protect and use their energy supplies (form).
- No: The Member States still have sovereign power to determine the source of their imports, destination of exports and type of energy mix (content).

EU Energy Policy

1. Competitiveness

A completed Internal Energy Market based on transparency, non-discrimination, third-party access, cross-border transmission. Universal electricity for all; and independent regulators.

2. Sustainability

20% of EU energy used by 2020 or 30% by 2030 must come from energy efficiency, or renewables.

3. Security of Supply

Oil stocks of 90 days

Diversification via enhanced supplier relationships (Russia, Norway, North Africa)

EU-owned pipelines, gas hubs in central Europe, poss. more LNG terminals, set up Energy Correspondents networks for gas and oil supply, stocks.

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The EU internal energy market

- Rests implicitly on **open competition**, which means breaking apart **all** energy monopolies, so that energy **suppliers** should not dominate EU distribution networks
- The European Commission wants to enforce the EU's single energy market laws "as a matter of priority",
- How? EU Legislation (series of Directives to be adopted by all EU MS), completed by 2014
- Centerpiece: **Third Energy Package**…

EU Third Energy Package

- **Gathering together** all the updated EU Energy Directives (Gas, Electricity) to stimulate competition / eradicate dominant or monopolistic suppliers) completed by 2014
- Chiefly: the requirement on **Unbundling**: picking apart vertically integrated companies (uncoupling upstream & downstream; and breaking apart monopolies, within, and supplying to EU)

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EU Good cop, bad cop

- **Good cop:** Commission as regulatory watchdog: Phasing out regulated prices, analyzing the proper & improper use of subsidies by various EU MS, and acting to protect vulnerable customers.
- **Bad Cop:** The Commission is pursuing infringement procedures against MS that have not transposed the **Third Energy Package** directives yet or have failed to do so correctly.” This could lead to cases at the European Court of Justice and heavy fines.

Enforcing the Third EU Package

- Caused outright anger amongst European dominant gas suppliers *and* Gazprom of Russia.
- Energy Commissioner Günther Oettinger: “Russia must abide by the EU's internal market rules and stop offering widely varying prices.”
- Followed by: investigation into suspected anti-competitive market practices by Gazprom.
- Possibly overhauling current contracts…

Energy in **Current** EU Foreign Policy

- EU-Russia Energy Dialogue (10 years in 2010)
- European Neighbourhood Policy/ Eastern Partnership (Ukraine, Georgia, Azerbaijan)
- Euro-Mediterranean Partnership (EMP-ENP tension incorporates Algeria, Egypt, Libya*, Syria*)
- Energy Community Treaty (Balkans & Ukraine as observer)
- EU-Africa Strategic Partnership (Sub-Saharan Africa)
- Central Asian Strategic Plans

Commission’s New Role?

- 7 September 2011: *‘The EU Energy Policy: Engaging with Partners Beyond our Borders’*
- MS must share info on all their energy agreements with third countries, amongst themselves & the Commission
- Commission ‘may provide an opinion on the conformity of these agreements with EU law and EU security of supply objectives’
- If mandated by the Council, the Commission **could negotiate** key energy agreements (at EU level, to achieve EU core objectives) e.g. with Russia, Azerbaijan and Turkmenistan

2011 EU Energy Policy

- An enormous step forward? Or source of legal and regulatory confusion & stasis?
- Concretizes the role of energy security within European foreign policy.
- May provide the EU with a new capacity to actually deal with its own energy security problems via suppliers, not merely market mechanisms.

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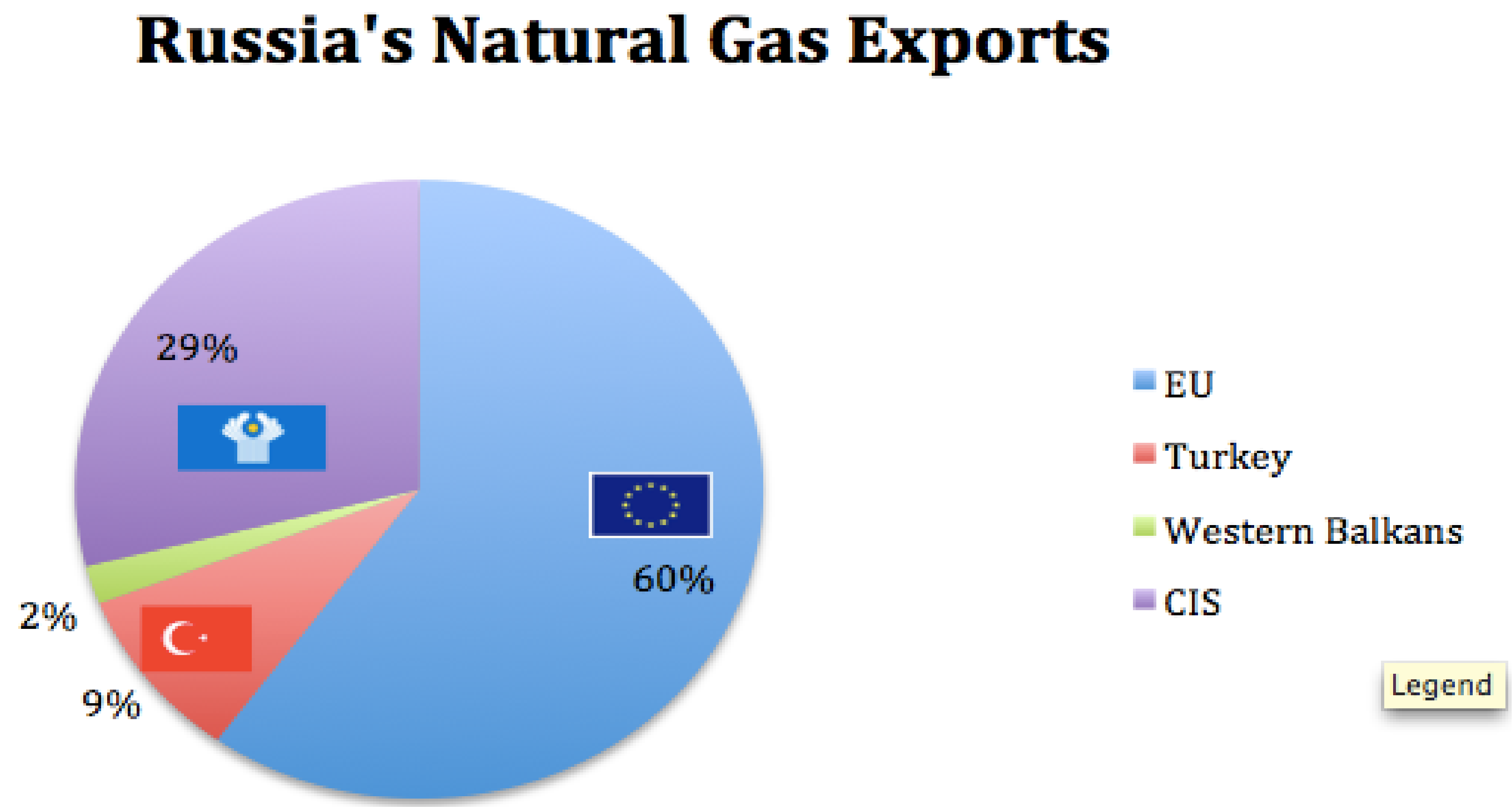
EU-Russia Decent Economic Ties

- Russia: EU's third most important trading partner in goods (after the US and China), with 87 billion EUR in exports to Russia. The EU is thus by far the largest market for Russian goods.
- But Russia is 4th (after US, China, Switzerland) for the EU, with 6.4% of all EU exports and 158 billion EUR in imports in 2010.
- 2010: imports and exports rose by 32 % compared after having been hit by the global economic crisis. Russia's total account surplus rose by 47% compared to 2009 and reached $ 79 billion in 2010.

Comrades or competitors?



Source: European Commission – Eurostat
Link: http://ec.europa.eu/energy/international/russia/doc/20120329_pl_presentation_ep_eu_russia-clean.pdf

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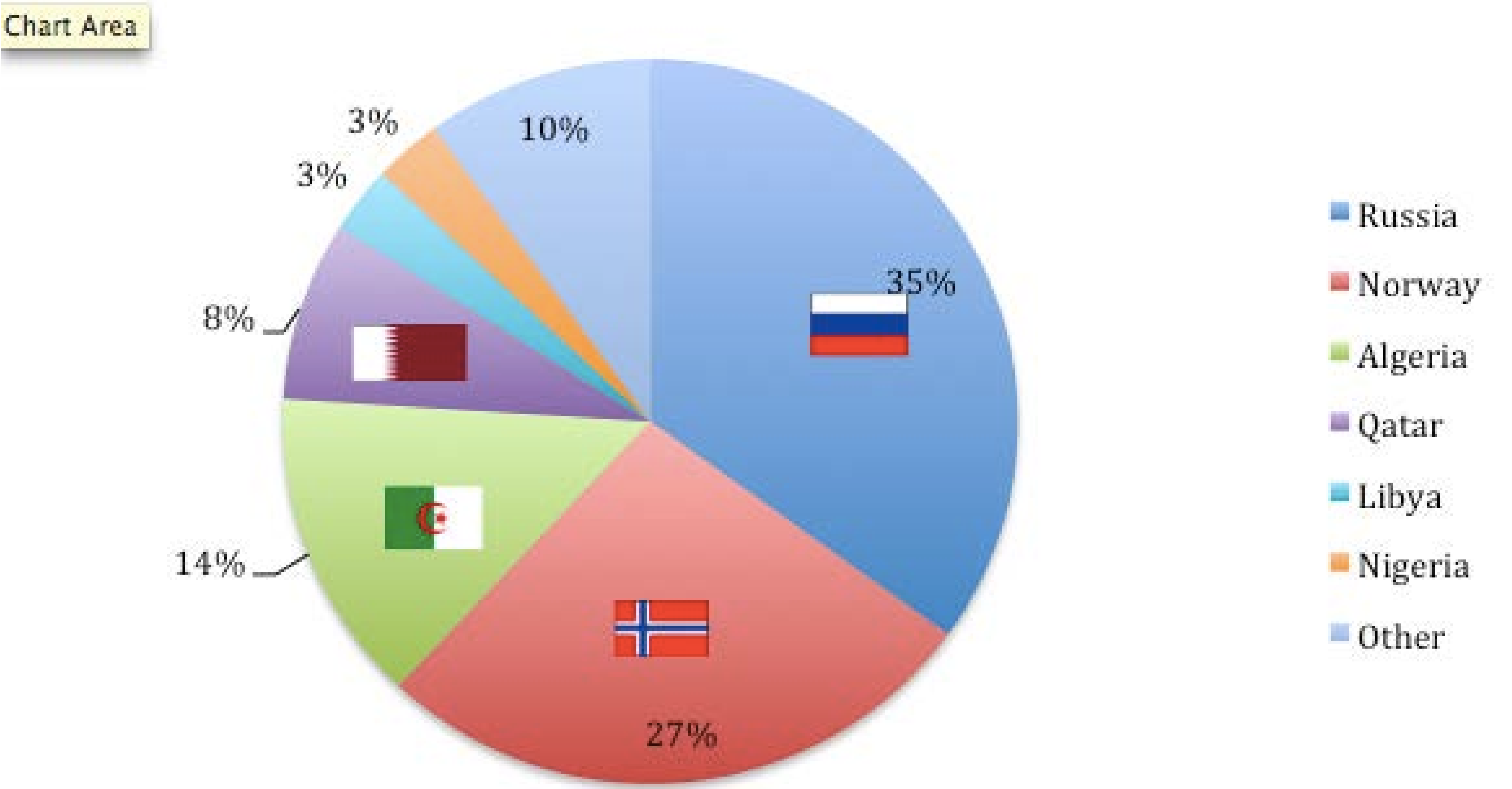
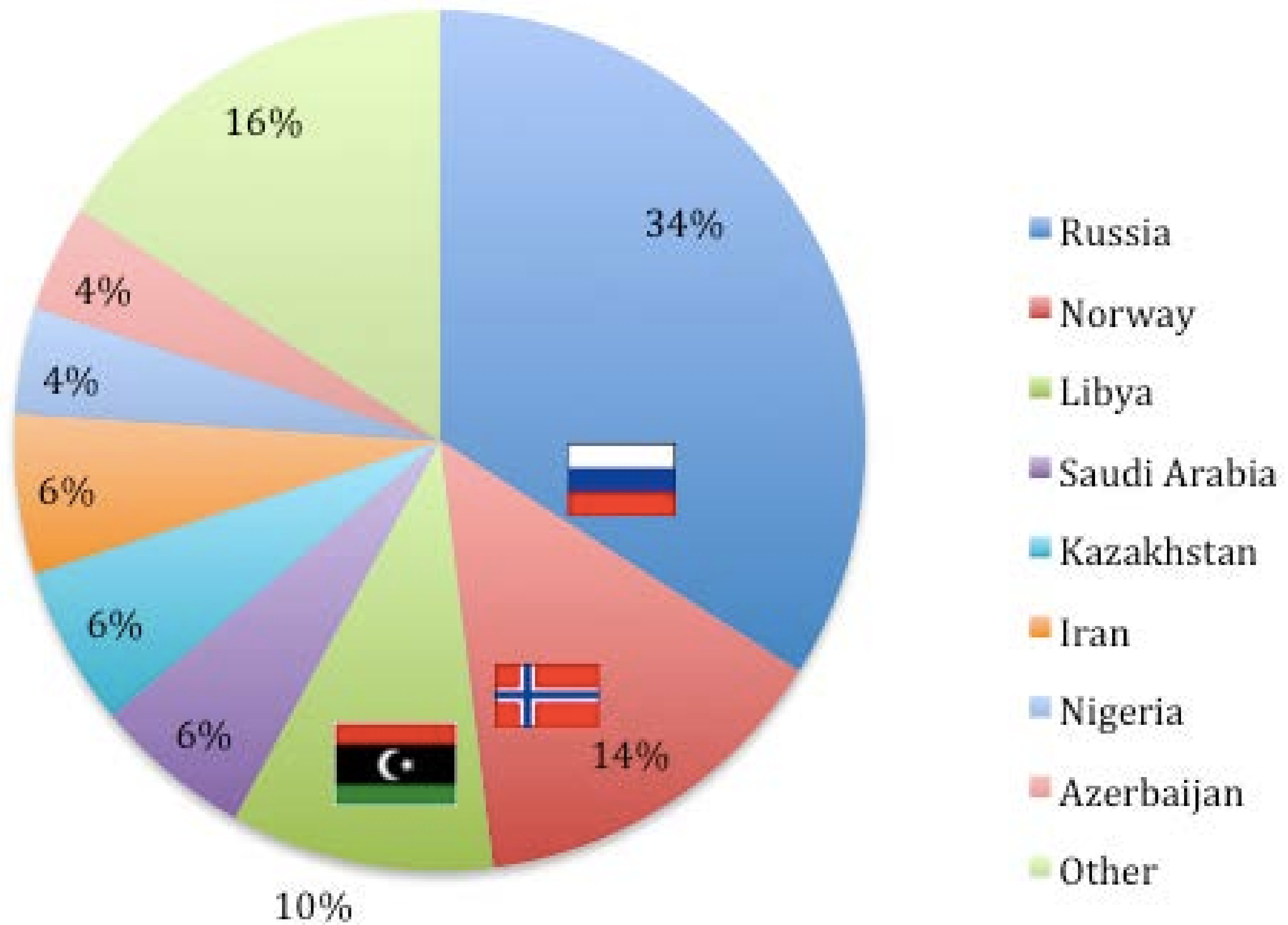
Total EU-27 Imports of Gas by Country of Origin (2010)



Source: EU Energy in Figures Statistical Pocketbook, 2012, p.22

Total EU-27 Imports of Crude Oil by Country of Origin, 2010



Perennial Russian Ambitions

To be the EU's main gas & oil supplier

Main export route for energy producers in Central Asia (Kazakhstan, Turkmenistan, Uzbekistan) and Northern and Central Europe (Nord & Southstream pipelines)

- A prime supplier for future customers in Asia
- A new investor in Africa
- A strategic partner, not a 'political customer' of the EU

Ideal energy relations?

"The overall objective of the energy partnership is to enhance the energy security of the European continent by binding Russia and the EU into a closer relationship in which all issues of mutual concern in the energy sector can be addressed while, at the same time, ensuring that the policies of opening and integrating energy markets are pursued. With the strong mutual dependency and common interest in the energy sector, this is clearly a key area of EU-Russia relations". (European Commission, 2011)

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Legally lacklustre

Opportunities to establish a legal basis for international energy cooperation:

(1991) European Energy Charter

(1994) Energy Charter Treaty

(1997) Partnership and Cooperation Agreement (PCA)

(2003) Four Common Spaces, based on the EU acquis

(2005) Single Package of Road Maps to promote Common Spaces: a medium term agenda for EU-Russia cooperation

(2009) Russian withdrawal of Provisional Application from the ECT; Yukos case complications.

(2010) Partnership for Modernization (P4M)

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Politically Unlikely…

“If the EU continues to push, continues to threaten Gazprom with unbundling directives, continues to insult the sovereign interests of Russia, insists on backward economic structures and unenforceable legal attitudes, or undermines bilateral trade relations with European partner states, Gazprom can easily find ways to ensure that energy diversification takes on a swift and permanent eastern dimension.” S. Lavrov, Russian Foreign Minister, 2012.

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Result

“To this day, energy constitutes one of the least legally detailed areas of Russia-EU cooperation, which only enhances the potential for politicization. It is no coincidence that energy is a key issue at the talks on the new basic agreement meant to replace the PCA.

There, Brussels is doing its best to incorporate provisions for liberalization, while Moscow is working to retain freedom of action, and leave energy to be covered by a special protocol.” T. Romanova

Result? EU vs. Russia

EU: Security of Supply	Russia: Security of Demand
Open energy market	State-managed/owned market
Seeking to buy from Africa, Caspian, possibly Iran	Seeking to buy from Africa, buy more cheaply from Caspian, to sell to Asia
Gas spats are of Russia's making	Gas spats are caused by Ukraine
Cut its reliance on Russian imports	Increase the reliance on European consumers
Demand-side reduction	Cheap gas outweighs EE savings 4:1
Can offer long-term FDI to underwrite pipeline modernization	Is interested in long-term contracts to bankroll further distribution, not capacity
Significant trade advantage over Russia	Significant energy supply advantage over EU
Lisbon Solidarity Clause	Has successful EU MS bilaterals

Outcome: Politicized Energy Security

- Fuel-based definitions (gas security vs. oil etc)
- Geopolitical "US vs. THEM" paradigm
  - Importer states: **security of supply =** consistent delivery of affordable energy sources.
  - Exporter states: s**ecurity of demand** = access to a developed and reliable market for the long-term sale of energy products.

Missing: how to equitably provide available, affordable, reliable, efficient, environmentally benign, properly governed and socially acceptable energy services.

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Current EU Russia Problems

Today, Moscow and Brussels are both aiming for a common energy market, as set forth by the draft **EU-Russia Energy Cooperation Roadmap** until 2050. But huge differences remain in perception of the energy sector and external activities.

- **Brussels:** views the common energy market as a space liberalized to the greatest possible extent. Problem: lackluster competition & overly complex common market European rules.
- **Russian:** focus is on maximizing profits, and this is guaranteed by means of control of gas pipelines built by Russian firms, and by access to the so-called "last mile", i.e. the EU end users, who offer the greatest profit.

Third Package Spat:

- Moscow: interprets reciprocity as common responsibility for shipments
- Brussels: universal rules and a liberalized market.

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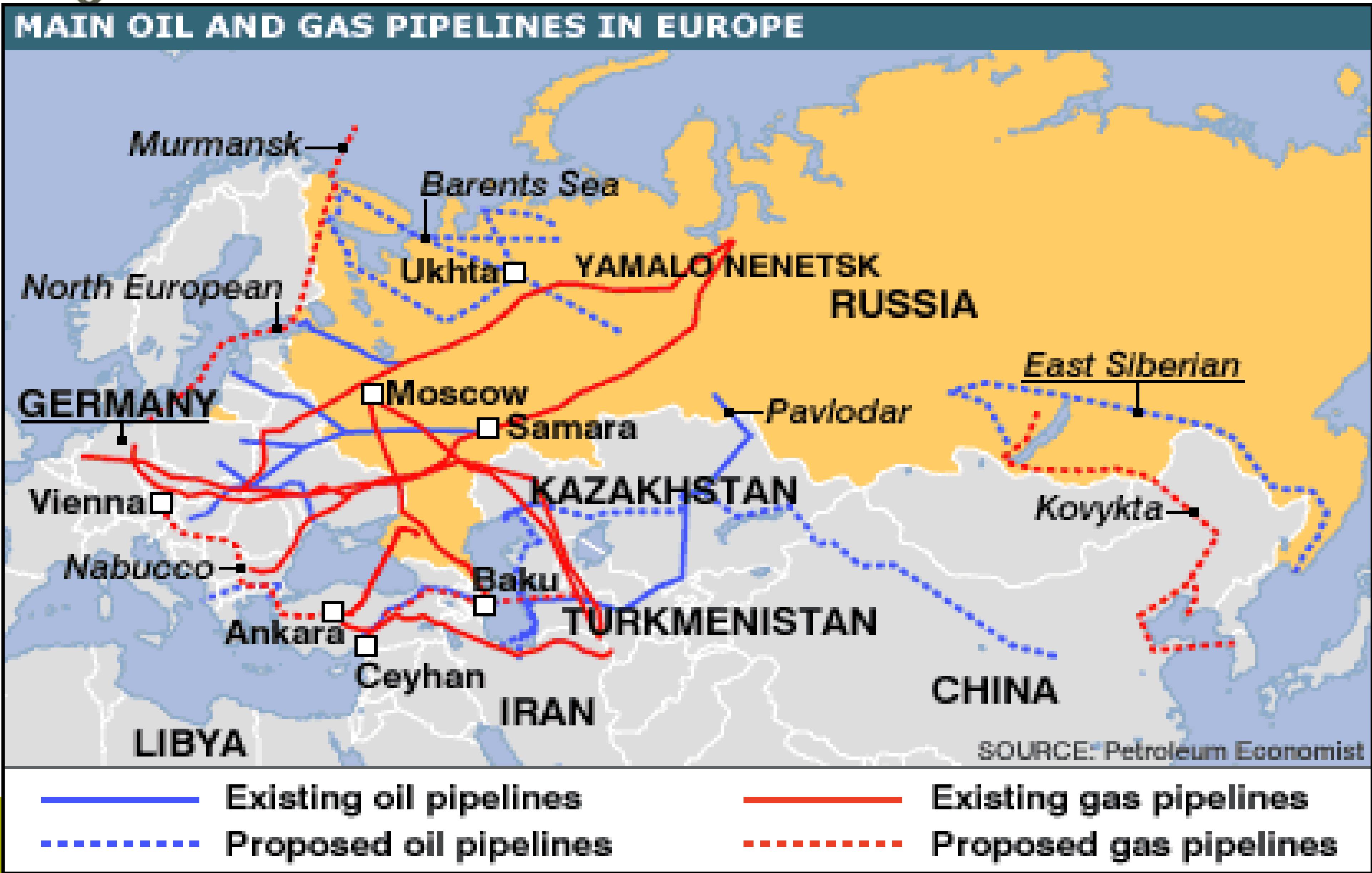
Energy Security Politicization

Increasingly stressed context of economic competition, rather than partnership; adversarial rather than complementary politics.

De-politicization too means different things:

- **EU**: integrating the Russian supplier into its expanding *energy acquis*, on the basis of its underlying market regime; interpreting Russia's rejection of European norms as a cause for continued politicization. Individual Member State historically-driven energy nationalism: Poland, Baltic states. Worse, lack of infrastructure here lags behind the pace of liberalization.
- **Moscow**: maximizing its earnings through a pan-European approach that cultivates partners, co-ownership and polyvalent consortiums. Russia sees the EU attitude as interference in domestic affairs.

Russia-Europe Pipelines Overview



Russian Natural Gas Pipelines

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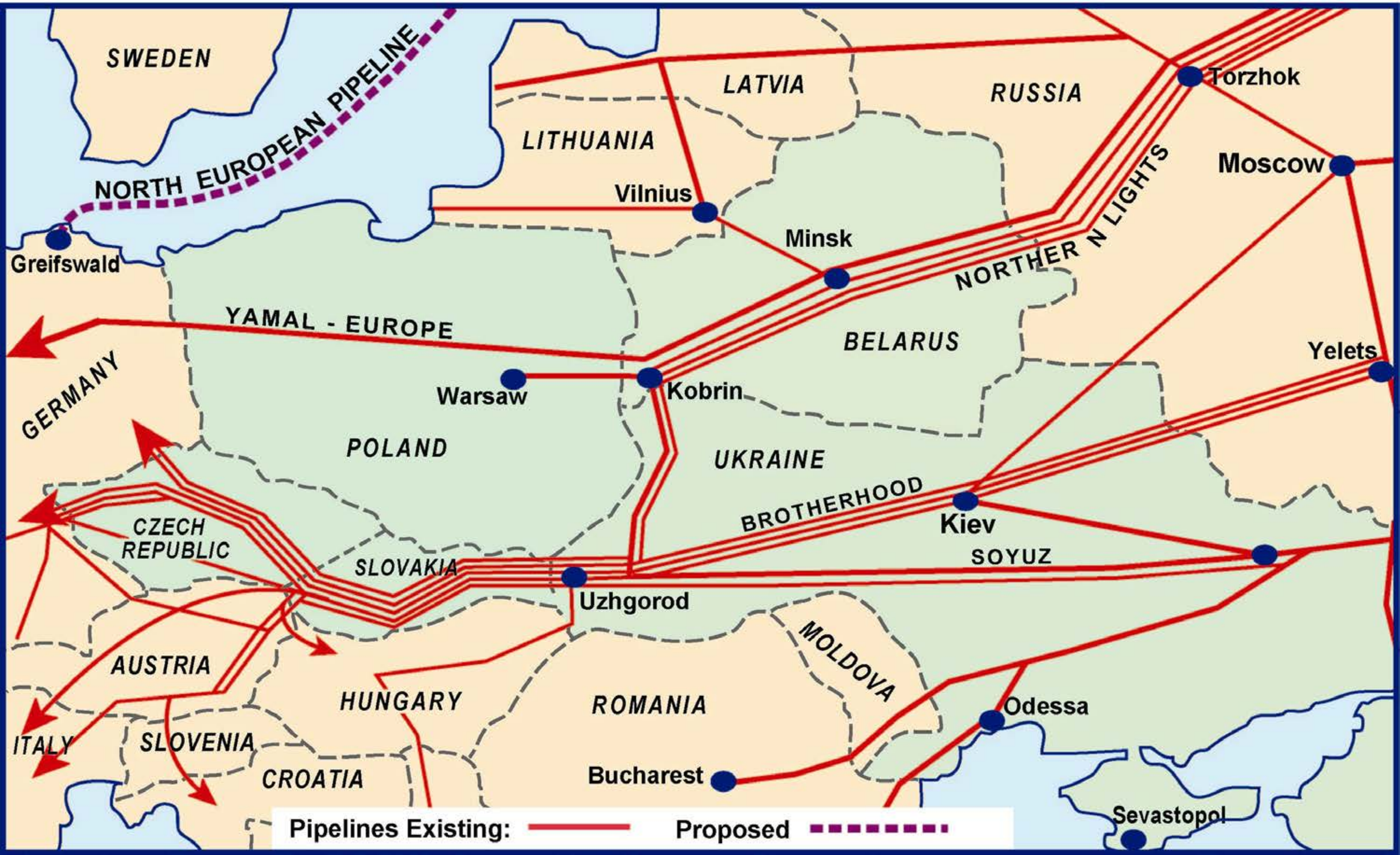

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Druzbha Gas Pipeline

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Current Russian Pipelines

- Northern Lights: transits Belarus
- Soyuz & Brotherhood: transit Ukraine
- Yamal Europe & Druzbha: transit Poland

Russia's "anti-transit" options:

- Gas spats (reliably unpredictable)
- New partners, new routes (predictable if sometimes unreliable)

“If ‘we’ build it”….

“We consider it our **common objective to upgrade and diversify our energy infrastructure**. You know that we have completed the Nord Stream gas pipeline system under the Baltic Sea. We have launched another pipeline project that will run under the Black Sea, the South Stream. All this, along with the use of Ukraine’s gas transportation system and expansion of the Yamal-Europe gas pipeline system, will significantly increase energy security on the European continent.”

- Russian President V. Putin, EU-Russia Summit (Dec 2012)

“then we can sell it….”

“President Putin, Gazprom and Russia have only one topic on their agenda: to sell as much gas as our neighbours need. There is after all only a limited number of countries producing gas.”

Alexander Medvedev, Director General of Gazprom Export, 2012

1. Nordstream Pipeline: Russia-Germany (2011)

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2. Southstream Pipeline: Russia – Bulgaria, Serbia, Hungary, Slovenia, Austria

3. Bluestream Pipeline: Russia – Turkey

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EU’s own energy weaponry?

Massive Caspian gas & oil drawn from the port of Baku, crossing eastern Europe / Balkans without transitting Russia..

The Shah Deniz shareholders (SOCAR/Azeri state oil company + Statoil, BP and Total) in Azerbaijan

Currently choosing between two ‘corridors’: Trans Adriatic Pipeline (TAP) and Nabucco West Pipeline

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Nabucco (not just an Italian opera)

Trans-Adriatic Pipeline (Black Sea-Italy)

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Not a done deal…

- Gazprom involvement in precisely the same Member States as its own pipelines
- Gazprom stakes in key parts of both consortia
- Negative spin: more ‘divide and rule’ by Gazprom
- Positive spin: genuine attempt at ‘co-ownership’ (Big-3/Iran?)

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A shale revolution?

- Dieter Helm and other, consultant to Energy Commissioner Oettinger, the shale evangelists
- Shale: possibly ‘super-abundant’ in Poland, Hungary, Romania, Bulgaria
- Switching from coal to shale gas will “halve the EU’s CO2 emissions overnight”
- As conventional shale IMPORTS decline, Europe will, and can rely on “potential indigenous shale gas exploitation”

Or false promises?

- Vicious ‘anti-shale’ public diplomacy in Poland
- Geologically challenging: deep extraction, hydraulic fracturing (high pressure benzene), possible methane release post-fracking
- If safe, still unregulated
- Exit route: possibly subsidise wind and solar (Denmark); remain agnostic on nuclear?

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Solutions?

1. **Clear distinction of ends and means**. EU: what is meant by a common energy market? What are the most suitable tools for reaching those ends while taking account of the partners' individual circumstances? EU's strength is creating mechanisms allowing for different strategic preferences & economic structures. Extend via the acquis to Russia? This in turn will lead to…
2. **Depoliticization**:

- Enhancing **energy efficiency** and developing renewable energy sources (the centerpiece of the Partnership for Modernization), largely in order to balance the Russian leadership in traditional hydrocarbons.
- Augmenting interstate dialog from top government, through cabinet, ministry, parliamentary and committee levels to enhance "like to like", **interlocutor-driven** trans-government dialogue.

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Last: redefine energy security itself !

Energy Security Dimension	Components
1. Availability	Security of supply; security of production; dependency and diversification
2. Affordability	Price stability; access and equity; decentralization; low prices
3. Technology Development	Innovation and research; safety and reliability; resilience; energy efficiency; investment
4. Sound Regulation	**Governance; trade; competition; knowledge**
5. Sustainability	Land use; water; climate change; air pollution