

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

Dangerous Illusion (cont'd)

- 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 its foreign policy*

Rising EU dependence on Russian gas?

