

ENFORCEABILITY OF A COMMON ENERGY SUPPLY SECURITY POLICY IN THE EU: AN INTERGOVERNMENTALIST ASSESSMENT

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Abstract

The central aim of this paper is to present an intergovernmentalist evaluation of the prospects for the European Union (EU) member states to pursue a common energy security policy at the supranational level. Particularly, the analysis seeks to address the demands for a common EU stance concerning the issue of energy supply security. Thus, the paper leaves aside other cornerstones of a common EU energy policy, namely the issues of environmental protection and liberalization of the electricity and gas markets.

Keywords: *European Union, intergovernmentalism, supranationalism, energy supply security, gas, oil*

Introduction

The ever-changing geopolitics of energy supply to Europe has currently led to the escalation of discussions at the EU supranational level about the necessity to define a common EU external energy policy. From the viewpoint of intergovernmentalism¹, a collective EU stance towards the countries which export energy to Europe depend primarily on the benefits that a united attitude will provide to individual member states in the event of a crisis of energy supply. Intergovernmentalists assert that cooperation is possible among sovereign states as long as their interests converge.² Beyond question, there are divergences in the concerns of and options available to different EU member states as regards the issue of energy supply security. Not only their diverging energy situations, interests and demands, but also various distinct webs of relations between the individual member states and energy exporting countries hitherto hampered the formulation of a common EU external energy policy.

The paper first elucidates the evolution and maturation of energy security debate in the EU parallel to the progress of the EU integration project. It analyzes the prime rationale for the European Commission's efforts to formulate a common external energy policy and seeks to comprehend the issues that gave rise to frictions among the member states. The paper addresses the conditions that have so far necessitated transfer of competencies regarding external energy policy from member states to the EU supranational level.

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¹ Intergovernmentalism is one of the grand theories about the EU integration process and the theory provides explanations for why and how the EU integration proceeds.

² See for instance Andrew Moravcsik, "The Choice for Europe," in *The European Union: Readings on the Theory and Practice of European Integration*, ed. Brent F. Nelsen and Alexander Stubb (USA: Lynne Rienner Publishers, 2003).

The aim to understand the limits of policy convergence in the sphere of energy necessitates identification of the member states that are involved in the discussions over security of energy supply, and parallels as well as divergences in their interests, mainly concerning their relations with the non-EU energy suppliers. The paper addresses these issues and proceeds with reasons for the European Commission's incessant promotion of an integrated response to common challenges. It concludes with a discussion of the Commission's limited capacity to further integration in the absence of collective member state interests.

Historical Evolution of Energy Dependency in the EU

The original design of the European integration project was based on cooperation in the area of energy. The establishment of the European Coal and Steel Community (ECSC) in 1951 was followed by the signing of the Euratom Treaty establishing the European Atomic Energy Community (EAEC) in 1957. Specifically, the focus in these founding treaties was on energy. Yet the centre of attention has gradually shifted to economic integration after the signing of the Merger Treaty in 1965 which created the European Community (EC) incorporating ECSC and EAEC under the control of the same set of institutional structures and additionally creating the European Economic Community (EEC) to initiate economic integration. Thus, after the creation of the EEC the member states rather began to concentrate on closer cooperation in the area of economy. Concerning energy security, they soon began to follow different paths which led energy to remain as a state competency. Yet, in the following decades threats to the energy security of the EU have escalated tremendously, as the member states were becoming gradually more dependent on oil and gas imports.

The risks of excessive reliance on the non-EU energy exporters first became clear after the 1973 oil shock, when the members of the Organization of the Petroleum Exporting Countries decided to radically increase the oil prices. As a result, the economies of the oil-dependent countries within the EU were deeply damaged. This incident signified the necessity for new initiatives to contain the EU's systematic dependence on oil exporting countries. Moreover, the gradual replacement of the traditional private energy companies once known as the "Seven Sisters" with the National Oil Companies has led politically unstable countries to steadily become dominant in global oil and gas production, and eventually constituted an additional threat to energy dependent Europe.

The oil shock led the Commission to advocate the precaution that "to reduce the risk of failure of certain streams of supply, sources must be sufficiently spread and none must occupy a too exclusive place."³ Yet, the member states responded separately to these recommendations and the Commission's role remained limited, as the member states were extremely reluctant to cede sovereignty to a supranational authority - despite the realization that they were vulnerable to blackmail from the energy providers. Some of the member states opted for going nuclear (especially France), whereas others chose to start diversifying their imports.

From the 1990s onwards, the Commission has underlined the cost-effectiveness of harmonizing energy supply security policies at the supranational level instead of administering them nationally.⁴ The Commission has addressed the issues of "strategic oil reserve, strategic gas storage capacity, emergency sharing arrangements, and trade and aid deals with foreign producers."⁵ But ultimately,

³ Keith Fisher, "A Meeting of Blood and Oil: the Balkan Factor in Western Energy Security," *Journal of Southern Europe & the Balkans* 4, no: 1 (2002), 77.

⁴ John Surrey, "Energy Policy in the European Community: Conflicts between the Objectives of the Unified Single Market, Supply Security and a Clean Environment," *The Energy Journal* (1992), 27.

⁵ Ibid.

the Energy Chapter was dropped from the Maastricht Treaty of 1992 leaving the Commission yet again dramatically constrained in terms of its scope of action.

Since the collapse of the Soviet Union, the Commission has sought to integrate energy sectors of the former Soviet Union and Eastern European countries into European markets, and tried to achieve these objectives with the signing of the Energy Charter Treaty which entered into force in 1998. The treaty obliged signatories not to raise difficulties about energy transits across their territory and to secure the safety of flows from the established lines. Russia did not ratify the treaty due to the rationale that third parties would have access to Russian pipelines. Russia's decision to refrain from signing the charter was basically an outcome of its concern to maintain a dominant position in energy transit to Europe, through keeping open its option of arbitrary control over the amount of energy supply. The European Parliament's Foreign Affairs Committee has countered the Russian position about the charter with the suggestion that the EU should not support Russia's World Trade Organization membership unless Russia ratifies the charter.⁶ Yet the ability of the EU level institutions to put pressure on Russia remained very limited. These limits were proved when, in January 2006, Russia halted the distribution of gas to a host of East European countries and also to Germany, France and Italy.⁷ This event was followed by waves of supply disruptions from Russia to transit countries and thus automatically to Europe, including the January 2007 crisis with Belarus and also in January 2009 when Russia suspended gas deliveries to Ukraine. Russia has underlined its independence from Europe in this regard: in the summer of 2009 Russian Prime Minister Putin proclaimed that Russia will not sign the Energy Charter Treaty.

All of the above strategies of Russia have demonstrated that Moscow is resolute to preserve its power to arbitrarily administer the supply and transit of energy to Europe. Thus, lately Russian energy policy strategies have become the most pressing challenge to the energy security of the EU. Excessive dependence on Russian supply (more than 50% of overall EU energy imports) and the energy policy strategies of Russia makes it clear that the EU should reconsider its links with Russia in the formulation of a future common external energy policy.

Definition of a Common External Energy Policy: A Conceptual Clarification

The energy policy of the EU is an integral part of its foreign policy and there are three main aspects to it: environmental protection, competitiveness in the internal energy market and diversification of the security of supply. Both the issues of environmental protection and the liberalization of the European energy market, although indirectly, constitute parts and parcels of the energy security of the EU member states. The most immediate risks, however, originate from the problem of ensuring the security of energy supply from the key energy providers.

Energy dependency is a fact of life for the EU and most of its energy comes from within the neighborhood. In particular, the supply of gas has become increasingly vital to the energy security of the member states. As Umbach puts it, "the future new capacity will be predominantly generated still by fossil resources with a rising percentage of gas, while the number of oil and solid-fuel power stations will continue to decline" and already being the largest gas importer of the world, the EU will continue to be the prime gas importer till 2030.⁸

With respect to the security of gas supplies there are a number of critical issues that the EU needs to consider. The necessary infrastructure for the transport of natural gas is a profound burden that EU

⁶ Honor Mahoney, "MEPs Link Russian WTO Membership to Energy Rules" (2007), <http://euobserver.com/9/24687>.

⁷ Pamela Ann Smith, "Energy Becomes an EU Election Issue", *Middle East* 365 (2006), 36.

⁸ Frank Umbach, "Global Energy Security and the Implications for the EU," *Energy Policy* 38 (2010), 1236.

energy consumers have to undertake. For the transport of fossil fuels the transit countries play an important role. In order to cope with the threat of energy cuts by key suppliers, it is in the vital interest of the EU countries to look for pipelines which would diversify the supply of oil and gas through multiple sources, if not substitute for the existing ones. The dialogue between the EU member states and the key suppliers is another central aspect of the EU's energy supply security. A joint policy stance towards the main producers is progressively becoming a necessity. However, this aspect of energy security remains the source of some friction among the member states, as they are unwilling to shift the administration of energy security to EU-level institutions, and often prefer to engage in independent energy deals. In the face of these reservations, the Commission strongly promotes a concerted position towards the non-EU countries that export energy to Europe. According to the Commission's view such a collective stance would enhance the member states' ability to tackle the risks of energy cuts from the key suppliers.

The issue of 'external energy policy', thus, includes the diversification of energy sources, and the security of transportation routes, and it calls for a better system to respond to crises that emerge from the unstable nature of the international market for fossil energy.

The Main Energy Suppliers: Dependency on Russia, Algeria and Norway

It is estimated that the energy dependency of the EU will increase from current 50% to 70% in 2020, as the EU became the largest energy market through its enlargement to Eastern and Central European countries in 2004.⁹ According to the European Commission, dependence on gas imports will also increase tremendously: it is estimated to reach 80% in 2030.¹⁰ However, most experts emphasize the uncertainty of mid-term challenges till 2030, due to the optimism with respect to energy security beyond 2030, based on the expectation that future utilization of renewable energy sources and techniques would decrease reliance on fossil fuels.¹¹ Nevertheless, dramatic dependence on non-EU suppliers persists, thus making the dialogue between the EU-27 and the energy exporting countries an integral part of a common external energy policy.

The nature of the existing deals between the individual member states and the energy exporting countries could either foster or discourage the formulation of a common stance in the EU with respect to security of supply. The EU could support initiatives in its discussions with the key suppliers to the extent that the interests of the individual member states converge. But above all else, the level of dependence of the EU as a whole to individual energy exporting countries would determine the initiatives at the supranational level that call for adoption of a common external energy policy. Thus, the levels of energy contributions of key suppliers to the EU energy market are decisive in shaping the efforts of the supranational institutions, such as the European Commission, and ensuing debates about the common EU external energy policy.

Although the EU has a complex network of energy flows from multiple suppliers, Russia, Norway and Algeria account for almost half the EU's current gas consumption.¹² Russia is the leading energy supplier for the EU market. Thus, energy dialogue between Russia and the EU represents one of the fundamental aspects of a common external energy policy. As Beyli argues, "the ongoing

⁹ Andrei V. Beyli, "New Dimensions of Energy Security of the Enlarging EU and Their Impact on Relations with Russia," *Journal of European Integration* 25: 4 (December, 2003), 352.

¹⁰ European Commission, "An Energy Policy for Europe, Communication from the Commission to the European Council and the European Parliament" (European Commission, Brussels, January 10, 2007).

¹¹ Umbach, 1234.

¹² According to figures provided by Umbach, Russia accounts for 23 percent of the EU's gas imports, whereas Norway's and Algeria's contributions are 14 and 10 percent respectively. See Umbach, 1236.

EU enlargement to countries historically dependent on Russia for their energy supply introduces significant modifications to the EU-Russia relationships.”¹³ Hence, the enlargement of the EU to Central and Eastern Europe is expected to considerably alter the economy and geopolitics of energy links with Russia in the near future. A gradual increase in Russian dominance over the supply of energy to European markets would force the EU member states to reconsider their energy relations with Russia.

Issues of contention between Russia and its neighbors – Belarus and Ukraine - and a Russian strategy to periodically put hold on its gas and oil deliveries to Europe hugely contribute to the EU’s energy security vulnerability. Ukraine, for instance, is tremendously dependent on Russia for its energy supply, and is a key transit country and an important strategic partner for the EU. According to 2004 figures, more than 80% of Russian natural gas was transported through Ukraine to Europe thanks to Ukraine’s pivotal geographical position.¹⁴ So any conflict between Russia and Ukraine in terms of the delivery of natural gas would greatly endanger Europe’s security of gas supply.

Similarly, Belarus is another key transit country for Europe and from time to time political stalemates between Russia and Belarus culminate in conflicts about energy delivery. As Bruce notes, Russia’s suspension of gas supplies to Belarus in January 2004 “...was the first time in Gazprom’s¹⁵ 30-year history of gas exports that total cut-off had occurred on a key transit country.”¹⁶ Another crisis hit when Belarus rejected higher Russian prices for 2007’s gas supplies and Gazprom responded by threatening to halt gas deliveries to Belarus.

In addition to the challenges that originate from near-continuous strife between Russia and the transit countries, Russia also threatens the EU’s security of energy supply through a strategy of dominating pipeline projects, which raises concerns in the EU about the Union’s future bargaining power vis-à-vis Russia. To reduce its overall energy dependency on Russia, it is in the best interests of the EU to engage in the construction of alternative pipeline projects to cut the Russian monopoly on natural gas deliveries from Central Asia to Europe. One such project is the Nabucco natural gas pipeline, which was conceived in 2002 and expected to become operational by 2015. The pipeline will carry mainly Azerbaijani gas all the way to Austria, via Turkey. Yet, there are reservations about the viability of supplies, as the main supplier will be Azerbaijan and the sustainability of gas delivery from this pipeline depends primarily on the Azerbaijani reserves, on the nature of cooperation between Turkey and Azerbaijan and finally on possible contributions from other countries involved in this project, including Turkmenistan, Iraq and Egypt.

Russia, in response, assertively seeks to fortify its cartel of energy transport to Europe both from Central Asia and from other energy suppliers in the Middle East. To counter the Nabucco project and to fortify its position as the main gas supplier to Western Europe, Russia has begun the construction of two pipeline projects. In 2005, it started the construction of a gas pipeline across the Baltic Sea, the Nord Stream pipeline. In 2007, it announced the start of the construction of the South Stream pipeline which will provide a new channel for Russian natural gas transports to Western Europe under the Black Sea and through the Balkans.

¹³ Beyli, 351.

¹⁴ Jonathan Stern, “Russian-Ukrainian Gas Crisis of January 2006” (working paper, Oxford Institute for Energy Studies, January, 2006), 2, retrieved from http://www.oxfordenergy.org/pdfs/comment_0106.pdf.

¹⁵ Gazprom is a Russian state-owned gas supplier.

¹⁶ Chloë Bruce, “Fraternal Friction or Fraternal Fiction? The Gas Factor in Russian-Belarusian Relations” (working paper, Oxford Institute for Energy Studies, March, 2005), 17, retrieved from <http://www.oxfordenergy.org/pdfs/NG8.pdf>.

These acts of Russia demonstrate its determination to remain the EU's main energy supplier. According to Zeyno Baran, the lack of cohesion among the EU member states to develop a common energy policy towards Russia "...allowed Moscow to preemptively block European attempts to construct transport routes for Caspian and Central Asian oil and gas that do not involve Russia."¹⁷ Once completed, the new Russian energy routes will supply the EU with increased amounts of natural gas. However, the reliance on these routes will increase the EU's energy dependence on Russia and the risks that emanate from lack of diversity of supply. To eliminate these risks, a concerted approach towards the threat of Russian monopoly and EU-wide determination to diversify energy routes to Europe is central to the Union's future energy supply security.

Algeria represents another important energy supplier and the EU is the prime energy market for Algeria since, as the Energy Commissioner Andris Piebalgs stated, "...90% of its crude oil exports come to Western Europe."¹⁸ Algeria accounts for 10% of the EU's gas imports and constitutes the prime supplier for the south-Western Europe. As Piebalgs underscored, investment by the EU in the Algerian energy sector is critical to upgrade the Algerian energy transport infrastructure (through investment in planned gas pipeline projects of Medgaz, GALSI and a trans-Saharan natural gas pipeline) and to facilitate energy exports from Algeria.¹⁹

Norway, which is the fifth largest natural gas producer (and third largest exporter) in the world²⁰, also greatly contributes to the EU energy supply mix and will continue to do so. However, some analysts argue that in the long run Norway's contribution to the European energy mix will be unpredictable, given its relatively scarce reserves compared to Russia and other worldwide reserves.²¹ The current high energy production rates in Norway leads to the forecast that its exports will decrease within about 30 years.²² According to Söderbergh et al., by 2030 Norwegian gas deliveries to the EU may "even be 20 bcm/year lower than today's current level". Thus, the EU will have to resort to and become further dependent on other key energy exporters to meet its rising demand for gas imports which "must increase by almost 90% by 2030."²³

Energy Reviews and Energy Security Concerns of Actors within the EU

The EU currently satisfies most of its energy need from the above-discussed non-EU suppliers, Russia, Norway and Algeria. Increasing energy requirements bring up the issue of enhancing the export capacities of these multiple suppliers and routes. However, member states adopt different measures while dealing with energy exporting countries and they have different stances concerning the issue of whether to support investments in certain pipeline projects.

The member states' positions on a common external energy policy towards the non-EU suppliers are shaped by deviations in their energy needs and energy mixes, by the variations in their alternative sources of energy (mostly given their geographical closeness to different suppliers), and

¹⁷ Zeyno Baran, "EU Energy Security: Time to End Russian Leverage", *The Washington Quarterly* 30: 4 (2007), 131.

¹⁸ Andris Piebalgs, "EU-Algeria Energy Challenges," (Speech at the 5th International Conference on Investment Opportunities in Algeria's Energy Sector, Oran, Algeria, November 26, 2006) 4, retrieved from <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/06/752&format=HTML&aged=1&language=EN&guiLanguage=en>.

¹⁹ Ibid, 3-4.

²⁰ Bengt Söderbergh, Kristofer Jakobsson and Kjell Aleklett, "European Energy Security: The Future of Norwegian Natural Gas Production," *Energy Policy* 37 (2009), 5038.

²¹ Mathias Reymond, "European Key Issues Concerning Natural Gas: Dependence and Vulnerability," *Energy Policy* 35 (2007): 4170-7.

²² Ibid.

²³ Söderbergh et al., 5053.

by the preexisting independently concluded energy deals that they have concluded with the energy providers.

This paper mainly limits itself to the discussion of the energy interests of France, Germany and the UK, which constitute the most influential actors within the EU. The paper also narrowly refers to the common interests of the Central and Eastern European (CEE) countries which became members of the Union with the 2004 enlargement, which is widely considered to have notably altered the energy dependency rates of the EU. The paper discusses the interests of the above-mentioned member states with respect to their resources and energy requirements and their relationships with the exporting and transit countries.

Coby van der Linde, Director of the Clingendael International Energy Programme argues that “energy supply could not just be left up to the markets as Member States were unlikely to hand responsibility for security of supply policies over to the EU given their differing foreign and security policies.”²⁴ In order to understand the reasons why the EU member states chose to follow diverse foreign and security strategies in the field of energy, one should primarily analyze their distinct energy situations. The level of import dependence varies considerably among member states. Moreover, natural gas is not easily available to all consumers in the European market because of the geographical pattern of pipelines and distribution systems. Northern Europe has greater access to natural gas whereas countries such as Portugal, Spain and Ireland will remain outside the European pipeline system until it is extended to supply them²⁵ or until the alternative routes from Algeria become operational.

France, although conservative on its current energy supply mix, pushes for a European Energy Policy (EPP).²⁶ Its energy profile is rather mixed, since it exports large amounts of electricity to neighboring countries and also to Spain and Italy, relies heavily on nuclear energy and imports oil and gas from both European and external energy providers. Its oil imports come from a number of suppliers, namely the Middle East and North Africa (51%), North Sea (32%) and Russia (only 23%).²⁷ France has also diversified its gas imports which come from Russia (22%), Algeria (16%), Norway (35%) and the Netherlands (21%). According to these figures, France is a net importer of natural gas (95% of France’s gas consumption is supplied through imports).²⁸ However, as already mentioned it supplies its energy need from various energy providers and the sources of energy that France utilizes vary to a great extent. Nuclear energy is a key source for France’s consumption and accounts for 41% of its total energy supply.²⁹ This heavy investment in nuclear energy differentiates France from other EU members and since the first oil shock in 1973 France continues to advance its nuclear capability in order to be able to respond to possible future cuts from energy exporters. In the face of challenges such as Russian gas supply cut-offs to transit countries and consequently to the European markets, different French governments refuse to shut down the existing nuclear stations in France and resolutely seek to preserve advances in nuclear power. Germany relies mostly on Russia for energy resources (one third of its oil and 35% of its gas). In order to reduce its imported energy

²⁴European Policy Centre, “The New EU Energy Policy: Balancing the Internal Market and External Security of Supply” (Event Report, January 29, 2007), 3, retrieved from http://www.euractiv.com/29/images/EPCenergypolicy_tcm29-161816.pdf.

²⁵ Surrey, 5.

²⁶ Oliver Geden, Clémence Marcelis, and Maurer Andreas, “Perspectives for the European Union's External Energy Policy: Discourse, Ideas and Interests in Germany, the UK, Poland and France” (working paper, FG 1, SWP Berlin, December 17, 2006), 4, retrieved from http://www.swp-berlin.org/common/get_document.php?asset_id=3521.

²⁷ Source: International Energy Agency (IEA).

²⁸ Jacques Percebois, “The Supply of Natural Gas in the European Union—Strategic Issues,” *OPEC Energy Review* 32 (2008): 35.

²⁹ Oliver Geden et al., 7.

consumption, it continues to invest in coal-based electricity generation (24% of its total consumption).³⁰ Additionally, around 12% of Germany's total energy consumption is supplied by nuclear energy generation within the country.³¹

However, due to environmental concerns there is currently a very controversial discussion going on within the country about withdrawing from the nuclear industry in the long run. Different governments, however, proclaim different policies with respect to phasing out the use of nuclear energy. In 2000, the governing coalition (the Social Democratic Party of Germany together with the Greens) decided to gradually withdraw from nuclear energy and some nuclear reactors in Germany were shut down. However it seems likely that the current coalition government (consisting of the Christian Democratic Union and Free Democratic Party) would delay phasing-out nuclear power production.

If Germany totally withdraws from nuclear energy, the country will become more dependent on energy imports, which will be reflected in its stance towards a common EU external energy policy. In particular, the special partnership between Germany and Russia in terms of energy trade, and Germany's attempts to enhance this partnership³², reveal the tendency to further develop its independent long-term contracts with Russia, despite the resulting reliance on Russian energy exports previously

In the past, The UK has been a self-sufficient country in terms of energy and is a net exporter of oil. The UK also exports gas to other EU member states and some UK governments have supported the nuclear option. However the problem for the UK is the sustainability of its production, since its oil resources are increasingly becoming exhausted. Similarly, its indigenous gas resources are running out which forced the UK to start importing natural gas. Thus, through a set of pipeline projects, the UK has sought to increase its access to gas fields in Norway and continental Europe. "By 2020 it would be importing as much as 90% of its gas"³³ and it will become dependent on multiple suppliers. These considerations have led to the understanding that the continuation of the current energy policy would threaten the UK's energy security and force it to revise its stance toward a concerted EU-wide external energy policy.

CEE countries continue to depend on Russia for their energy imports, since Russia provides natural gas to these countries (especially the Baltic States) at much lower levels than the international gas markets. However, Russia's decision to apply different price increases to these countries has annoyed those that have had to defray the cost of this Russian policy. It is widely argued that the harsh price increase for Ukraine has economic reasons, but was also made intentionally to pressure Ukraine politically.³⁴ The successive clashes between the two countries have led to a decrease in gas supplies to Europe, since Ukraine is the most prominent transit country between Russia and the EU countries. Energy disputes between Russia and transit countries noticeably brought to the surface the exposure of the EU and CEE countries to supply security threats. The disputes between supplier and transit countries and the fact that the gas demands of the EU will rise drastically in the upcoming years can be taken as indications that some member states will reconsider the Union's current levels of dependence on Russia.

³⁰ Ibid.

³¹ Ibid.

³² For instance, in the energy field the bilateral relationship between Germany and Russia has further developed with the jointly launched Nord Stream pipeline project.

³³ Oliver Geden et al., 7.

³⁴ See for instance Miklós Losoncz, "Analysis: Energy Dependence and Supply in Central and Eastern Europe", (May 15, 2006), retrieved from <http://www.euractiv.com/en/energy/analysis-energy-dependence-supply-central-eastern-europe/article-155274>.

Recent Debates and Calls for a Single Voice on the Supply of Energy

According to the estimates of International Energy Agency, the energy import volumes of the EU will increase by 87% between 2006 and 2030.³⁵ Apart from the increasing demand in the EU for energy imports, with the rise of new economic giants like China and India there is also a growing demand in the global energy market which would become 40% higher than it was in 2007.³⁶

Thus, “Europe is being exposed to increasingly intense competition for global energy resources from other countries, and is becoming ever more dependent on oil and gas imports from geopolitically uncertain regions.”³⁷ As a result, besides the existing problem of unpredictability of energy suppliers, the EU member states have to deal with rising global competition for access to energy resources.

These considerations have led the member states to take a number of steps towards cooperation in the area of energy. The idea of a common energy policy was approved at the Hampton Court summit in London in October 2005.³⁸ It was stated at the summit that “the EU needs to diversify its sources of energy and approach its current energy suppliers in a more coherent manner.”³⁹ Following the Hampton Court summit, the European Commission published a Green Paper on March 8, 2006, which aimed at identifying the potentials for energy cooperation within the EU.

The main purposes that were enumerated in the paper were: completing the internal energy market; security of supply in the internal energy market; sustainable, efficient and diverse energy mix; common external energy policy; an integrated approach to tackling climate change; and the deployment of a Strategic Energy Technology Plan. At the European Council summit of March 2006, it was decided that to avoid the negative implications of energy stoppages from main suppliers, the EU should strengthen its solidarity and assistance mechanisms. However, member states chose to preserve their sovereignty over some key aspects of their energy policies, particularly the kind of energy they will resort to and the suppliers they will choose to contract with. It was agreed in the European Council’s Presidency conclusions of March 2007 that “...as regards to security of supply the European Council stresses the importance of making full use of instruments available to improve bilateral cooperation of the EU with all suppliers and ensure reliable energy flows into the Union. It develops clear orientations for an effective European international energy policy speaking with a common voice.”⁴⁰ The Presidency conclusions also underscore the importance of “...member states’ choice of energy mix to have effects on the energy situation in other member states and on the Union’s ability to achieve the objectives of the European Policy of Energy.”⁴¹ Finally, in the Presidency conclusions of December 2007 it was stated that “with respect to energy and climate change, the European Council reiterates the importance of implementing, in line with its March 2007 conclusions, all aspects of the comprehensive 2007-2009 Action Plan endorsed last spring with a view to taking forward the three

³⁵Söderbergh et al., 5038.

³⁶IEA, “World Energy Outlook 2009 Fact Sheet: Why is Our Current Energy Pathway Unsustainable?” retrieved from http://www.worldenergyoutlook.org/docs/weo2009/fact_sheets_WEO_2009.pdf

³⁷ José Manuel Durao Barroso, “Speaking with a Common Voice: Energy Policy in the 21st Century” (Speech at the Honorary Degree Ceremony, Georgetown University, Washington, DC, February 9, 2006), <http://www.eurunion.org/News/speeches/2006/060209jmb.htm>.

³⁸ The Hampton Court summit was an informal meeting under the UK’s presidency where the EU heads of State acknowledged the need for a more sound European Energy Policy.

³⁹ Oliver Geden et al., 10.

⁴⁰ Presidency Conclusions of the Council of the European Union (March 8/9, 2007).

⁴¹ Ibid.

objectives of the Energy Policy for Europe: security of supply, competitiveness and climate change.”⁴²

The 2007-2009 Action Plan, as it was referred to in the Presidency conclusions, outlines a framework of policies and measures for the member states. It underscores a 20% energy saving potential for the EU by 2020, which is intended to facilitate a reduction in the import of fossil fuels. In the Action Plan it was also maintained that the Commission should take the initiative to reach framework agreements with key external trading partners which would cover the transport of energy.⁴³ In 2008, the EU Commission has taken further steps to harmonize the energy policies of the member states through recommendation of initiatives in the 2nd *Strategic Energy Review* and *EU Energy Security and Solidarity Action Plan*. The implementation of the recommendations in these documents is intended to diminish and freeze the EU’s external energy dependency at the current levels.⁴⁴

Yet the ability and willingness of the member states to follow the recommendations in these documents depends primarily on their existing energy situations and future energy supply preferences. As Umbach argues, “the EU-27 member states have largely failed to forge a coherent European energy security and energy foreign policy strategy after their Spring summit of 2007 because its declared political solidarity has been still lacking.”⁴⁵

In December 2007 the EU member states signed the Lisbon Treaty, which entered into force in December 2009, amending the Maastricht Treaty of 1992. In its new energy chapter (Article 194), it was stated that the EU energy policy shall ensure a functioning energy market and ensure security of supply to the Union and will also advance energy efficiency and energy saving within the Union.⁴⁶ It was also stated that the energy policy shall promote the development of new and renewable forms of energy; as well as the interconnection of energy networks.⁴⁷ To achieve these objectives, Article 194 also introduced a new legislative procedure whereby the Parliament and the Council will act together after consulting the Economic and Social Committee and the Committee of the Regions. Yet “...the Member State's right to determine the conditions for exploiting its energy resources, its choice between different energy sources and the general structure of its energy supply, without prejudice to Article 192(2)(c)”⁴⁸ remained intact once again, leaving major aspects of the energy supply policy as a member state competence.

An Intergovernmentalist Reading of the Steps towards Common External Energy Policy

Most of the EU member states resolutely guard their sovereignty over their energy policies, declaring it a sensitive decision to be taken at the national level. Today supply security is still an unsettled issue, as demonstrated by the low level of convergence in the field of energy given the asymmetrical risk perceptions and energy mix preferences of the member states. As Stanley

⁴² Presidency Conclusions of the Council of the European Union (December 14, 2007).

⁴³ European Commission, “Action Plan for Energy Efficiency: Realizing the Potential” (Communication from the Commission, Brussels, November 10, 2006).

⁴⁴ Umbach, 1229.

⁴⁵ Ibid.

⁴⁶ See Article 194 of the Lisbon Treaty, retrieved from <http://www.lisbon-treaty.org/wcm/the-lisbon-treaty/treaty-on-the-functioning-of-the-european-union-and-comments/part-3-union-policies-and-internal-actions/title-xxi-energy/485-article-194.html>.

⁴⁷ Ibid.

⁴⁸ Ibid.

Hoffmann argues, self-interested states are quite obstinate in the face of European integration.⁴⁹ Classical intergovernmentalists like Hoffmann would argue that it is the divergences in the interests of the member states which hitherto prevented the formulation of a concerted approach towards the energy suppliers. However, in recent years the heads of governments began to accept the above-discussed Commission proposals, which some analysts deem as steps towards the eventual realization of a European-wide energy policy.

A simple explanation that the intergovernmentalists would give for the recent level of integration in the area of energy is that there is a potential for cooperation among sovereign states, but only up to a point where they would disagree about the best course of action. As Hoffmann suggests, when there is a surge of nationalism in one important issue and when there are also differences in assessments of the world role of the new supranational whole, the integration process is destined to fail.⁵⁰ Some analysts argue that the EU heads of state adopted the series of Commission proposals with the expectation of outlining the groundwork for an “Energy Policy for Europe.”⁵¹ However the path to endorsement of a common foreign policy on securing energy supplies is complicated, since such a policy will require political partnership between the EU as a whole and the energy suppliers. The EU member states rather chose to pursue diverse paths to safeguard their energy situations from risks. Some member states have established long-term energy contracts with non-EU energy exporters. For instance, Germany and Italy have independent bilateral agreements with Russia in order to guarantee the safety of supply in the near future. These member states will not be willing to give up their individual rights to practice autonomous external energy relations. On the other hand, CEE countries have long experienced Russian dominance in the energy sphere. Nonetheless they benefited from the Russian policy of keeping the energy prices at lower levels for these former Soviet satellites. Recently, as they face the challenge of soaring prices, these countries will call on the EU to curb Russia’s established power over the issue of energy.⁵² Hence, some CEE countries criticize the states which rely on supplies coming from Russia, arguing that this increases the leverage of Russia over EU decision-making policies.

France responds to the risks of Russian gas supply cut-offs with a determination to continue investing in its own nuclear capacity. The UK also went for the nuclear option, but its governments will be forced to further reconsider the issue of supply diversity because of the fact that the UK’s resources, other than nuclear energy generation, will wear out in the near future. Countries such as Spain and Portugal, which fall outside the European pipeline system, do not have easy access to natural gas. Hence, it is expected that their position with respect to a coordinated policy on the external energy supply security will greatly diverge from the other member states.

Thus, the varying energy demands and mixes of the member states, their different levels of self-sufficiency, political problems between the transit and supplier countries, divergences in terms of demand for and availability of alternative routes for different members states, existing energy deals, and finally the political risks associated with alternative suppliers obscures the realization of a common external energy policy at the EU level.

Given the divergent energy interests of the member states, the bargaining among them in the Council heads-of-states meetings will result in the approval of the lowest common denominator:

⁴⁹ See Stanley Hoffmann, “Obstinate or Obsolete? The Fate of the Nation-State and the Case of Western Europe”, in *The European Union: Readings on the Theory and Practice of European Integration*, ed. Brent F. Nelsen and Alexander Stubb (USA: Lynne Reiner, 2003).

⁵⁰ Hoffmann, 169.

⁵¹ Paul Belkin, “The European Union’s Energy Security Challenges” (Congressional Research Service report, May 7, 2007), 7, retrieved from <http://www.fas.org/sgp/crs/row/RL33636.pdf>.

⁵² Belkin, 9.

that is, the least objectionable alternative for all the players, as in these meetings every major policy has to be decided unanimously. The recognition of a common external energy policy does not seem agreeable under the current state of affairs, basically since most of the member states perceive it as a threat to their national interests and sovereignty. This tendency of the member states to keep their sovereignty over decisions concerning energy supply is reflected in the energy chapters of EU treaties, including the final amendments introduced with the Lisbon Treaty. These reservations show that member states are not yet prepared to adopt a common position in their deals with energy providers. Hence, as an intergovernmentalist analysis would argue, the integration in the area of energy is doomed to freeze unless the national preferences of the member states converge.

The first question that liberal intergovernmentalists raise is, what best explains these national preferences and why do national preferences vary greatly among the member states? According to liberal intergovernmentalists, pressures from interest groups within the member states put constraints on the policy choices of their governments. This process of national preference formation at the domestic level is the demand side of international co-operation.⁵³ Parallel to the demands coming from the domestic energy consumers and producers, states articulate their energy policy objectives. Hence, the cooperation among politicians does not reflect the pursuit of geopolitical goals such as containment of Russia from controlling the EU energy markets but their policies represent the aim to guarantee maintenance of least costly supply for their domestic consumers or the aim to protect their domestic producers from the risks of competitive energy markets.

Compared to previous theories of the EU, adherents of intergovernmentalism offer a distinct model for European integration, consisting of the view that international relations is a bargaining game between the states, all of which seek to fulfill the purpose of preserving their national self interests. Hence, according to intergovernmentalist accounts, the EU integration process does not require a *sui generis* theory and can be explained with reference to general theories of international relations.⁵⁴ Intergovernmentalists criticize neo-functional theory for its emphasis on the *sui generis* nature of the EU, according to which national sovereignty is “chewed up leaf by leaf like an artichoke”⁵⁵; that is to say, every collective EU level decision would lead to unintended consequences and inadvertently help the supranational institutions to integrate further. Instead, intergovernmentalists draw attention to treaty revisions as critical junctures without which the integration process is meaningless.

Thus, liberal intergovernmentalists also underscore the importance of these junctures when member states debate and decide about how integration will proceed. States bargain amongst themselves in an attempt to realize the interest of their constituencies and this bargaining process is the supply side of international cooperation. These intergovernmental bargains set the agenda for the prevailing periods of consolidation⁵⁶ and therefore, the bargaining outcomes help one develop predictions in the evolution of the EU. In this context a critical question arises: what best explains the outcomes of the interstate bargaining? This is the second key issue that liberal intergovernmentalism addresses.

⁵³ Andrew Moravcsik, “Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach,” *Journal of Common Market Studies* 31: 4 (December, 1993), 481.

⁵⁴ Moravcsik, 1993, 474.

⁵⁵ See Hoffman for more detailed analysis, 171.

⁵⁶ Moravcsik, 1993, 473.

Moravcsik argues that the bargaining in the EU is pareto-efficient: that is the gains from the outcome of bargaining favors one country over the other.⁵⁷ Hence, governments that gain most from a common policy will be more inclined to offer concessions in order to have their interests realized. Based on this assumption, it is expected therefore that the CEE countries will push more for a common external energy policy. Other countries will also be compelled in the near future to reconsider the gains of a common EU stance. Besides, bargaining outcomes are argued to reflect the relative powers of states. Therefore, the success of interstate negotiations in producing a common external energy policy depends largely on the convergence of interests among the most powerful states. In this respect, the concerns of Germany, UK and France will be detrimental.

Although the Presidency conclusions in 2007 stressed the importance of improved bilateral cooperation between the EU and all suppliers to guarantee energy flows into the Union, some states will be reluctant to take any action in the near future which would threaten their previously established deals (especially in the case of Germany) or any action that would add to their costs in their cost-benefit analysis. As Moravcsik argues, “the integration process did not supersede or circumvent the political will of national leaders; it reflected their will.”⁵⁸ Thus, states are still “the controlling agents with an interest in the promotion of degrees of integration.”⁵⁹

What, then, is the scope of action for the Commission and what is the role that it plays in the structuring of the energy choices of the member states? “What best explains the state choices to construct European institutions and transfer sovereignty to them?”⁶⁰ The role of supranational institutions is the third subject that the liberal intergovernmentalism considers. Perspectives on energy security differ among member states and the Commission has its own vision which contradicts the interests of some member states. Given the developments after the adaptation of various Commission proposals, one could prematurely conclude that integration in the area of energy is in full swing. However the elimination of the Energy Chapter from the draft Union Treaty which emerged from the Maastricht summit meeting in December, 1991 demonstrated that it is still the member states’ preferences which are going to shape the future of integration in the area of energy.

This decision also set the parameters for the Commission’s future ability to maneuver on supply security matters. The Commission has made several efforts to achieve progress in energy talks with Russia and other energy-producing and transit regions, and delineates several foreign policy objectives in its Action Plans and Energy Reviews. The new office of the High Representative for Common Foreign and Security Policy and the individual member states have begun to engage in dialogue with the energy-providing countries in a more explicit manner.⁶¹ Yet, when it comes to taking coordinated action, member states are truly reluctant. Their disinclination to harmonize policies on the issue of energy is also discernible from the amendments made to existing EU treaties. As previously discussed in this paper, the energy chapter of the Lisbon Treaty has additional clauses that provide member states with the ability to keep supply of energy as a state competence. In the Presidency conclusions of the Council meetings, issues related to energy are phrased in such a way as not to intimidate different national interests. It is fair, therefore, to conclude that energy policy is still by and large a realm of the individual states, which is shaped mostly by the interests of the domestic interest groups (domestic energy consumers and producers),

⁵⁷ Moravcsik, 2003, 246.

⁵⁸ Moravcsik, 2003, 243.

⁵⁹ Ben Rosamond, *Theories of European Integration* (Palgrave Macmillan, 2000), 139.

⁶⁰ Moravcsik, 2003, 244.

⁶¹ Belkin, 25.

and to a certain extent modified in the course of bargaining between the asymmetrically interdependent states.

Conclusion

It is natural that each member state will work on its own national supplies but it is also vitally important to maximize coordination for transparency to be achieved in the internal and external energy markets. Speaking with one voice towards the countries that export energy to Europe not only enables the EU to secure supply on behalf of the EU market but it also represents a real opportunity for the EU to present a sustainable vision to the world. However, as this paper shows there are internal discords within the EU concerning a united attitude towards the energy exporters. The disagreement among member states on the issue of external energy policy coordination is mainly the result of different national preferences of the most powerful states and the ensuing nature of interstate negotiations, which produce the least objectionable outcome for all the players. Coordination of the external energy policies of the member states seems unattainable for the time being, as a common external energy policy does not represent the lowest common denominator for all the EU member states.

If key member states relentlessly oppose the formation of a common external energy policy, controversial aspects of the Commission proposals are destined to be turned down. Germany appears reluctant to take any concerted action which would antagonize Russia. The UK and France will be averse to renounce their nuclear activities. These different choices of the powerful states will prevent any radical departure from their current policies, given their bargaining powers under the EU decision making structure.

The need to diversify energy networks is a big challenge for the individual member states in the shadow of risks emanating from the policies of the supplier countries. Russian gas will remain the leading supply source for the European energy markets. Hence, the EU member states will require better mechanisms to respond if another crisis between Russia and transit countries hits Europe. Yet the formulation of a common EU wide external energy policy is a pressing challenge as it threatens state sovereignty and is regarded by the EU member states as a loss of competency to the supranational level. Therefore, integration in the area of energy seems to remain highly intergovernmental in the absence of a collective EU position about a common external energy policy which transcends national interests. As the current levels of integration in the field of energy and continuing divergences in the external energy policies of the member states reveal, there remains the unwillingness to cede sovereignty to EU level institutions regarding the relations with the energy providers. This paper projects that a concerted approach towards the energy exporters is unlikely so long as the energy security interests of the member states diverge.