

SPECIAL ISSUE:

**Energy Supply Security
in the 'New Europe': Critical
Perspectives on the European
Union's External Energy Policy**

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Anke Schmidt-Felzmann

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Michał Natorksi and Anna Herranz Surrallés

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Energy Dependency, Politics and Corruption in the Former Soviet Union Russia's Power, Oligarch's Profits and Ukraine's Missing Energy Policy, 1995-2006 (2008)
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JCER Special Issue

Energy Supply Security in the 'New Europe': Critical Perspectives on the European Union's External Energy Policy

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Guest edited by:
Anke Schmidt-Felzmann



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Editorial: The European Union's External Energy Policy

Anke Schmidt-Felzmann

THIS IS A PARTICULARLY APPROPRIATE MOMENT FOR THE PUBLICATION OF A SPECIAL ISSUE on the European Union's External Energy Policy. With the rising price of fuel on the world market, over the past months energy supply security has become an issue of vital importance to many governments (if it had not been that already). The implications of the present 'crisis in oil prices', both for the individual citizen and the economy as a whole, and especially the fisheries sector, were extensively debated at the recent European Council (19-20 June 2008) in Brussels. The crisis came as a shock to many, but analysts had already predicted that the inevitable emergence of a shortage of supplies on the global market would have severe economic consequences for many.

In recent years, the protection of 'critical energy infrastructure' has been included on the agenda of the North Atlantic Treaty Organisation (NATO), and the security of energy supply has become one of the most prominent and pressing issues on the EU's agenda as global demand begins to outstrip supplies of fossil fuels. The Union's import dependence on natural gas and crude oil has been gradually increasing as domestic production of solid fuels, gas and oil is declining rapidly even in the traditional energy exporting countries. Despite technological advancements in the sector of renewables (bio-fuels, wind and hydro-energy), the growing demand cannot be fully met by these alternative energy sources. For many governments this, and the need to reduce carbon emissions to combat climate change, has meant revisiting their decision against the use of nuclear power to generate electricity for domestic and export markets. While atomic energy continues to be highly controversial, and member states remain divided over whether or not to include or retain atomic energy to meet rising demands, support for the 'clean' nuclear option is certainly on the rise. The European Commission has in any case been careful to honour the principle of subsidiarity in its proposals for a common energy policy, leaving the choice of energy mix for the national governments to decide.

However the liberalisation of the electricity and gas market is another matter entirely. The European Commission has been pursuing full liberalisation of the electricity and gas markets for a number of years now. The establishment of a liberalised open single market would go hand in hand with the abolition of protectionist measures at the national level. These moves have been met with considerable resistance by some member states intent on protecting their 'national energy champions'. Cleavages among member states are indeed presenting formidable obstacles to the forging of a common EU internal energy policy. This is especially true regarding the questions of whether (1) the energy sector is of such strategic importance that it must be state-controlled rather than directed from the supranational level and by market forces; or (2) it is the full liberalisation of the market that will better be able to ensure national supply security. In parallel with growing concern over difficulties in ensuring secure provision of fuels, energy security has also become an integral part of the Union's bilateral and multilateral cooperation agreements with third countries. The fundamental questions of whether or not energy should be controlled by market forces or overseen by national governments act also as obstacles to the adoption of a common *external* energy strategy that would win the unreserved support of all 27 states.

The EU has thus encountered significant difficulties in the development and execution of its nascent external energy strategy not only within the EU itself, but proposed policies have also been resisted by external parties. At their recent summit meeting in Khanti Mansiisk (26-27 June 2008), the EU and Russia reaffirmed their commitment to the dialogue on energy and especially the predictability and safety of demand and supply. The recent launch of negotiations on a New Agreement that is to replace the existing Partnership and Cooperation Agreement of 1994 constitutes a first step in what is predicted to be a long and arduous political process. Energy is one of the key issues that the EU and Russia are set to agree basic principles of engagement on. Among the principles which the EU would like to see enshrined in the New Agreement are the stipulations of the Energy Charter Treaty and its Transit Protocol which were signed, but not ratified by Russia.

Over the past year a number of member countries that are heavily reliant on energy imports have come under severe criticism for concluding new, and renewing existing, long-term bilateral energy deals with the Russian Federation in an attempt to safeguard their national energy supplies despite agreement at the EU level on the need for a 'common', unified approach towards this and other supply states. Some member states and the European Commission have argued that these individual deals undermine the declared aim for the whole of the EU to diversify its energy provision, in terms of supply routes and supply sources and to achieve greater security by reducing, rather than increasing, EU dependence on a single supplier. Those having already concluded such agreements are adamant that they are simply exercising their sovereign right to protect their national supply security, and that one may not speak of a 'breach' of the common energy policy, when its shape remains in flux and its principles highly contested among the member states.

In the wake of the disputes over a steep increase in gas prices between Russia and Ukraine (as well as Belarus and Georgia) which we have witnessed over the past couple of years, concerns about reliance on Russia as the main, or even only supplier of oil and gas have given rise to demands for enshrining 'EU solidarity' as one of the key principles for the Union's member countries. Dedicated lobbying efforts by some of the Central and Eastern European member states resulted in the inclusion of an 'energy solidarity clause' in the *Treaty on the Functioning of the European Union* (2007), better known as the 'Lisbon Treaty' (see Article 176A, consolidated version). However it remains doubtful whether this stipulation will be honoured, and in which fashion this may be the case. After the Irish no-vote in the referendum of 12 June 2008 on the ratification of the Lisbon Treaty, it is in any case unlikely that the 'solidarity clause' will become part of the *acquis communautaire* in the foreseeable future.

In parallel with rising concerns among the political leadership about how to ensure energy supply security in the EU, and after the comparatively low levels of interest among researchers during the 1990s – a period of cheaper fuel prices – we are now seeing a flurry of publications on EU energy policy and in particular its emerging external dimension. The contributions in this issue each address a key aspect of the dilemmas EU policy-makers are facing in the development of a common external energy policy.

The first contribution by *Michał Naturski* and *Anna Herranz Surrallés* critically examines the 'securitization' of energy policy in the EU. Their article carefully traces the development of the prevalent discourses on energy by the European Parliament, the European Commission (and individual Commissioners), the Council and some of the member states during 2005-2007. Their focus is on the question what different actors within the EU actually mean by energy security, whether there were windows of opportunity for collective action, and what are the implications of this for the development of a common energy policy. Their findings highlight the effects of the divergent understandings of energy security within the EU on the shape and effectiveness of the common external policy. In particular, the article illustrates the persistent concern among member states about a potential transfer of sovereignty to the EU level in a sector of such strategic importance which they strongly resist. As Naturski and Herranz Surrallés demonstrate, the reservations by some member states against pooling

sovereignty in the energy sector, act as a real obstacle to the implementation of the measures proposed by the European Commission with a view to enhancing the supply security of the EU as a whole.

The second article, by *Francis McGowan*, picks up the debate about national sovereignty and places it in the context of the dilemmas states are being faced with in the 'new' contemporary global energy policy environment. His contribution focuses on the inherent tension between the European Commission's push for a full liberalization of the EU's internal energy market in the face of renewed 'economic nationalism' by some member states, as well as some third party countries that the EU's policies are aimed towards. The article illustrates why key aspects of the market-led approach to energy security are contested internally, and externally by the major energy supplying countries, Russia and Algeria. McGowan sketches the main issues associated with debates about whether and how to allow third country energy suppliers market access in the upstream and downstream sectors of the EU departing from the Commission's proposed move towards 'ownership unbundling' of assets, most notably the stipulations known as the 'Gazprom-clause'. He concludes that the EU's strategy of relying on energy market liberalization to enhance security of supplies may not be as effective as it is claimed because of the inherent contradiction between the economic nationalism of individual states (within and outside of the EU) and the promotion of a comprehensive market-led approach to energy diplomacy.

In the third article *Pamela M. Barnes* addresses the energy interdependencies in the European neighbourhood and their implications for the EU's external energy policy. In her contribution she focuses on the role of nuclear power in the supply mix and in particular the difficulties faced by the EU in reforming the European Atomic Energy Community after more than 50 years of its existence. She convincingly illustrates the continuing relevance and importance of the Euratom Treaty (1957) with reference to the new member states that joined the EU in 2004 and 2007. As she explains, the EU's regulatory framework for atomic energy served to effect successful upgrading of the safety standards in Bulgaria and Lithuania. The EU's enlargement policy in this sector serves also as a model for its engagement with the new eastern neighbours. With regard to the Eastern neighbourhood, Barnes discusses the cases of Ukraine and Armenia who are, besides Russia, the only third countries in this region that use nuclear energy. These cases serve to highlight the decisive role of Russia in the wider European region, and the competition the EU is facing by the country in its policies towards the eastern neighbours. She concludes that the difficulties faced by the EU in its external energy policy can only be resolved by firstly developing a coherent EU policy internally and secondly, by establishing cooperative relations with Russia in the shared neighbourhood for the benefit of all parties involved in the 'triangular relationship'.

The fourth article, by *Valentina Feklyunina*, picks up the theme of competition over energy between the EU and Russia in the shared neighbourhood. Her contribution focuses specifically on the geopolitics of energy in Central Asia and the conflict that has arisen between the EU's and Russia's respective pipeline projects in the Caspian region. Both their diversification plans are aimed at enhancing 'energy security', including that of supply from different sources on the part of the EU, and that of securing long-term contracts with a broad consumer base as well as additional supplies to top up its own resources on the part of Russia. She analyses this issue from the vantage point of the Russian elites who are, as she contends, intent on rebuilding Russia's status as a great power. In the discussion of divergences and contradictions between the EU's declared intentions and mutual distrust, her analysis of the dominant discourses of the Russian political elites regarding the EU's diversification plans highlights the important role of Russia's 'self-image' in the Kremlin's foreign energy policy towards 'the West'.

In his contribution, *Lutz Güllner* raises important issues which he himself, from the practitioner's perspective, would wish to see addressed in the research that is currently being conducted into EU external energy policy, especially regarding Russia's role in the European energy security debate. Firstly he contends that rather than accept that Russia 'has power'

over a 'vulnerable EU', researchers should discuss the entanglements between Russia and the EU concerning energy security in a more nuanced way and clarify what exactly are the issues at stake. Before analysing the EU's policy options, researchers should carefully dissect and scrutinize the complex energy relations, and notably make a distinction between whether there is a 'real threat' vs. a 'potential risk' of energy insecurity when speaking about the EU's dependence on Russia. Further, 'state-controlled companies' and 'state-actors' should be differentiated in the analysis, and a clear distinction be drawn between the different energy products; as markets for coal and oil are global, whereas the gas market remains essentially regional. Finally he argues that the question of supply insecurity should be examined in terms of three distinct dimensions of risk: material, economic and political. This would add scientific rigour and depth to the current debates on energy security. Research which takes these considerations on board could make a desirable and valuable contribution to the ongoing policy debates among the political elites.

The final contribution consists of a review of three recent contributions to the literature on energy security, by *Jack Sharples* and *James D.J. Brown*. These are two monographs, one on European energy security from a legal perspective (Haghighi 2007), the other a case study of Ukraine's energy relations with Russia (Balmaceda 2008) and an edited volume on EU energy policy from a regional perspective (Aalto 2008), with a focus on Northern Europe and the EU-Russian energy dialogue. Both reviewers provide a commendable concise overview and insightful discussion of these books, highlighting their strengths and weaknesses as well as the kind of readership these books are suited to.

The workshop '*Security of Energy Supply in the New Europe – A Challenge for the European Neighbourhood Policy?*' (19-20 September 2007), which brought together the authors and reviewers featured in this special issue, was hosted by the Department of Politics at the University of Glasgow and was jointly organised by Valentina Feklyunina and myself. Earlier versions of the four articles were presented and benefited from discussions at this workshop and I would like to thank all participants for their valuable contributions. I would also like to thank Alasdair Young for his advice and guidance during the preparation of the workshop. Further I would like to acknowledge the generous financial support by UACES, the Glasgow-based Centre for Russian, Central and East European Studies (CRCEES), the Scottish Jean Monnet Centre as well as the Faculty of Law, Business and Social Sciences and the Department of Politics of the University of Glasgow.

I would also like to thank the referees for their thorough reviews and helpful comments on the articles included in this issue. And last but not least, I am very grateful to Eamonn Butler for his absolutely outstanding commitment to the editing of this issue and his support, well above and beyond the call of duty, during the final stages of the publication process.



Securitizing Moves To Nowhere? The Framing of the European Union's Energy Policy

Michal Natorski & Anna Herranz Surrallés

Abstract

In 2006, debates about 'energy security' reached the top of the EU's political agenda. A conjunction of political and economic factors seemed to be critically affecting the security of supply in most EU member states. A wide range of actors called for the establishment of a 'Common Energy Policy,' based on a fully operational Internal Energy Market and equipped with an external dimension enabling the EU to speak with one voice in the world. The results of this heated debate, however, fell short of these objectives. Informed by securitisation approaches, this article explores the debate over energy security that unfolded between 2005 and 2007. It aims to provide an understanding about why the framing of energy as a security issue did not mobilise enough support in favour of ground-breaking measures to tackle what was unanimously presented as a unique and especially hazardous situation. Specifically, the article will argue that those attempts to frame energy as a security issue in order to gain support for a Common Energy Policy have been of limited effect, precisely because the security framing contributed to the further legitimisation of EU member states' reluctance to cede sovereignty in the energy domain.

IN THE MID 2000s, A SERIES OF ECONOMIC AND POLITICAL DEVELOPMENTS IN WORLD energy markets converged, offering an especially disquieting picture. In market terms, the already rapidly growing world demand for energy reached an unexpected peak in 2004, with a growth rate that doubled the annual average growth rate of the preceding decade (Yergin 2006: 72). This demand shock was due, in part, to an annual increase of 16 per cent in China's demand of energy, thus supporting the fact that, with the ever-increasing demand from developing countries, notably in Asia, energy demand would soon grow faster than supply (Grevi 2006: 2). In the geopolitical terrain, the 2000s witnessed how the regions where the most important oil and gas reserves are located became particularly unstable.¹ Political instrumentalisation of energy resources by major producers was also revealed as a great concern for European countries. The Russian-Ukrainian natural gas dispute that provoked

¹ 65% of the world oil reserves are located in Middle Eastern countries from which many terrorist threats emanate. The situation in the region was aggravated at the beginning of 2000s due to the war in Iraq and the second Intifada in Palestine. Iran's nuclear programme caused another point of friction in the region. Finally, the major hydrocarbons producers in Latin American (Venezuela and Bolivia) suffered from different domestic tensions that affected their hydrocarbons sectors.

The authors would like to thank the participants of the UACES Workshop on 'Security of Energy Supply in the New Europe' that took place in September 2007 at the University of Glasgow, and especially Anke Schmidt-Felzmann, Valentina Feklyunina and Alasdair Young, as well as the Editor of JCER and an anonymous referee for their helpful comments. We also thank Amisha Shah for the language supervision.

temporary cuts in supplies in some EU countries in January 2006 caused commotion in many European capitals, which until then had seen Russia as a reliable supplier. Unforeseeable events, such as natural catastrophes, accidents and terrorist attacks affecting energy infrastructure, also demonstrated the vulnerability of the tight global energy markets. For example, Hurricanes Katrina and Rita in August and September 2005, which affected areas of high concentration of oil infrastructure in the United States, were depicted as “the world’s first integrated energy shock, simultaneously disrupting flows of oil, natural gas, and electric power” (Yergin 2006: 70). For EU representatives, all these trends that had been announced over the previous decades – fast growth in global demand of energy, increasing dependence on imports from unstable regions, but also rising energy prices and global climate warming – suddenly appeared as ‘serious risks’ (Commission/SG/HR for the European Council 2006).

Against this background, between 2005 and 2007 the EU’s political agenda prominently featured debates over energy security. All EU institutions and member states put forward their proposals for a more integrated energy policy, a ‘Common Energy Policy’ (CEP) in the terms used by the Commission (Piebalgs 2006d), or a ‘New Energy Policy’ (NEP) as the Council posited (Council of the European Union 2006i, 2006j, 2006k). Likewise, all institutions made a case, in one way or another, for the development of an external dimension of the European Energy Policy in order to enhance the external security of energy supplies to the EU (Commission of the European Communities/SG/HR for the European Council 2006; Commission of the European Communities 2006b). In this regard, the European Parliament even spoke in favour of a ‘Common foreign energy policy strategy’ (European Parliament 2006b). This was essentially a recognition of the fact that energy supply could not be dealt with only within the market sphere, but also needed a strategic, foreign policy approach, enabling the EU to maintain a unitary position in international energy relations. The necessity of setting new instruments to govern energy at the EU level was also supported by an important part of the scientific community (Geden *et al.* 2006: 25-29; Harks 2006; Westphal 2006; Baran 2007; Correljé and van der Linde 2006; Mañé-Estrada 2006; Weisser 2007).

Paradoxically, however, this broad consensus over the need for a more integrated energy policy ran parallel with EU member states’ reinforced trend to affirm their own national energy policies. Particularly, big member states continued favouring their large national energy companies (national champions), contravening Internal Market rules and provoking intergovernmental disputes such as the Spanish-German conflict about the takeover of Endesa by E.ON that broke out at the end of 2006. Member states’ bilateral strategies to secure their energy supply also caused major intra-EU tensions and mutual accusations of a lack of solidarity. Two particularly controversial cases in this regard have been Germany’s bilateral agreement with Russia to build a North European Gas Pipeline, now known as ‘Nord Stream’ under the Baltic Sea without intermediaries; and Hungary and Italy’s deals with Gazprom to build the ‘South Stream’ pipeline to the detriment of the Nabucco pipeline, one of the main European projects for diversifying the sources of gas supplies to EU countries.²

This article explores the debate that unfolded between 2005 and 2007 within the EU, as a means to help understand this gap between the unparalleled consensus for taking a quantum leap forward towards a Common Energy Policy and EU member states’ affirmation of their national energy strategies. This article examines what different actors within the EU actually mean by energy security and explains why discourses by the European Commission and the Parliament about energy were not able to mobilise support in favour of significant, ground-breaking measures to tackle the gloomy prospects for energy supply to EU countries. The article begins by contextualising the debate over a European Energy Policy,

² The planned Nord Stream Pipeline will directly connect Vyborg (Russia) with Greifswald (Germany) through the Baltic Sea, avoiding the intermediaries of other transit routes from Russia to Germany, i.e. the Jamal Europa and Progress pipelines. The project, finally approved in 2005, is promoted by a holding of German companies and Gazprom. The Nabucco gas pipeline project is intended to connect the Caspian region via Turkey with Bulgaria, Romania, Hungary, Austria and other Central and Western European countries. As of June 2008, the Gazprom backed competing ‘South Stream’ pipeline is supported by Italy, Hungary, Bulgaria, Serbia, Greece and Slovenia. It is anticipated that Austria will also sign up as a partner.

arguing that the context of the mid-2000s was particularly propitious for further steps towards a Common Energy Policy, both due to international political and economic developments and to the securitizing dynamics emerging in the energy domain. The sections that follow are dedicated to an analysis of the discourses of the following actors: the European Commission (and some Commissioners), the Council of the European Union (as well as the contribution of some member states) and the European Parliament. The concluding section summarises the debates about the meaning and consequences of the various discourses on energy security.

Energy Meets Securitization

Energy constituted the starting point of European integration, with the European Coal and Steel Community (ECSC) and Euratom treaties adopted in the 1950s. Yet, oddly enough, the European Communities had no clear competency in the hydrocarbons sector, although oil and gas soon gained a dominant position in the energy mix of most West European countries, replacing coal energy.³ The inclusion of the hydrocarbons sector within the domain of European integration has long been subject to struggles between member states defending their national competencies and monopolies in these strategic sectors and the European Commission favouring the establishment of an Internal Energy Market and a Common Energy Policy. The oil crisis in 1973 marked the beginning of a slow development of a European Energy Policy in the field of hydrocarbons, albeit until the late 1980s, this policy would only embrace non-legally binding guidelines and recommendations. The first remarkable leap forward in the process of developing a European Energy Policy was achieved with the Internal Market reforms introduced following the 'Single European Act'. Thus, at the beginning of the 1990s, the EU adopted a series of Directives leading to the integration of energy markets, most notably regarding the transit of electricity and natural gas through the major European networks, as well as the transparency of gas and electricity prices.⁴ The reforms introduced at the beginning of 2000 allowed for the further liberalization of the electricity and gas sectors in the EU member states. Throughout this period, the scope of the nascent European Energy Policy sector progressively enlarged to embrace environmental concerns, placing an emphasis on renewable energies and energy efficiency.

These progresses notwithstanding, there are still numerous issues that remain outside the scope of European integration.⁵ Indeed, as early as 1990, the European Commission had already proposed the inclusion of an entire chapter in the Treaty of the European Union on a 'Common Energy Policy,' pursuing the following objectives: security of supply in the EU; the stability of the energy market; progress towards the internal energy market; adoption of measures to be taken for all energy sources in the event of a crisis; and a high degree of environmental protection (Matlár 1997: 62). This inclusion was rejected by the member states and nowadays, it is still not possible to talk about a Common Energy Policy, much less

³ Coal constituted a basic source of total energy consumption in member states of the European Communities, but was substituted progressively by oil and gas. In 1950, coal provided 70 per cent of energy for consumption and oil 12 per cent, lignite 8 per cent, and primary electricity 8 per cent. In 1971, this situation had changed significantly with oil constituted 60 per cent of energy consumption, coal 20 per cent, gas 11 per cent, lignite 4 per cent and primary electricity 5 per cent. It is worth noting that despite initial expectations, nuclear power developed very slowly as a source of energy and in 1970, contributed only 1 per cent of energy consumption (Commission of the European Communities 1972: 3-4). In 2005, the Gross Inland Consumption of energy was made up of 17 per cent solid fuels, 36 per cent oil, 24 per cent natural gas, 14 per cent nuclear power, and renewable energy provided almost 7 per cent of energy (European Commission, Directorate-General for Energy and Transport 2008: 96).

⁴ The Directives related to the transit of electricity and gas through the major European networks established that transit conditions negotiated between operators responsible for major networks and relevant bodies in member states should be non-discriminatory and impartial and must not contain unfair clauses and unjustified restrictions. The Directive on the transparency of gas and electricity prices for industrial end-users made compulsory the communication of prices data twice a year (Moussis 2004: 334).

⁵ The European Commission, despite its insistence during the 1990s, failed to introduce the carbon tax as an element of energy policy (Matlár 1997: 68-71).

consider an external dimension of the European Energy Policy, despite some small developments that will be discussed later in this article.

It has been argued that progress in developing both internal as well as external dimensions of the European Energy Policy was achieved mainly due to the 'windows of opportunity' brought about by external events (see Matlár 1997; Moussis 2004). The context of the mid 2000s, it was speculated, could work as another such window of opportunity. In fact, in 2006, alarm vis-à-vis changes in the world energy system appeared clearer than ever before and the concept of 'energy security' became one of the core elements of the energy debate. The words of the Energy Commissioner, Andris Piebalgs, show the dominance of this new framing:

...over the past year we have seen the issue of *security of energy* supply become the issue of international relations. Across Europe, there has been a change in sentiment. Whereas previously the issue of *security of supply* was a technical issue reserved for the very specialised engineer or system operator, now the issue of *energy security* is on the table of every energy minister, as well as foreign, finance and industry ministers across Europe (Piebalgs 2006e) [Emphases added].

From the perspective of securitisation studies, speaking of security is a non negligible act. This is because presenting a public issue as a serious security threat means elevating this issue to an absolute priority, so that the logical consequence will be to take emergency measures or an exceptional course of action to face it (Buzan *et al.* 1998; Wæver *et al.* 1993). Employing security discursively is considered a politically-laden act also because it involves defining what legitimately deserves protection. Accordingly, basic concepts of securitisation approaches include securitising moves and referent objects. *Securitising moves* arise when a discourse takes the form of presenting something as an existential threat. These moves can lead to successful securitisation only if the relevant audience agrees with the given security discourse and its policy consequences. For security discourses to be accepted, it is essential that the audience attributes a high value to the issues identified as being threatened (the *referent objects*). However, it might also help that the threat-defence logic of the security discourse appears reasonable and the proposed measures workable. That is to say, the chain linking the causes and the consequences should be traceable and the proposed measures should convincingly appear capable of tackling the identified sources of threat.

The unprecedented debate about energy security in the EU together with the overall meagre outcomes of it opens many questions in this regard. Why did securitizing moves by different institutional actors not successfully activate the extraordinary measures to be expected from successful securitizations? What did different actors really mean when speaking about energy security? Were all speakers referring to the same threats and referent objects? Which actors employed a more securitizing rhetoric and for what purpose? Energy is a particularly elusive policy domain, since it can theoretically be framed in almost all the sectors identified in securitization studies (military, political, economic, societal and environmental). For example, a lack of energy resources can be conceived as a factor increasing the likelihood of *military* conflicts; as critically affecting *economic* performance; or certain inefficient uses of energy might be considered harmful for the *environment*. Similarly, referent objects might be placed over different levels, ranging from the *individual* (e.g. consumers) to the *systemic* level (e.g. global energy markets). In between, other intermediate levels of analysis are also possible in the case of energy security, for example the *unit* (e.g. national energy systems) or the level of the *sub-system* (e.g. EU internal market). The article endeavours to identify precisely which sectors of perceived threats and levels of referent objects actors were referring to and to analyse whether different definitions imply support for different measures to tackle the identified threats.

Securitization studies that have addressed European integration have mostly concluded that some of the decisive steps towards new areas of integration have been facilitated by successful securitizing moves. The Area of Freedom, Security and Justice, in particular, is a place where new security framings have been, for good or for bad, an important trigger for

EU integrationist developments; for example, in migration and asylum policies (Huysmans 2000, 2006; Bigo and Guild 2005) or in police, justice and intelligence cooperation (Balzacq 2008; Bigo 1996; De Goede 2008; Guild 2008). Also in the foreign policy domain, some studies have argued that securitization mechanisms have contributed to some important policy developments; for example, EU eastern enlargement (Higashino 2004) or the European Neighbourhood Policy (Jeandesboz 2006). Hence, the question emerges of whether securitizing moves in energy policy, although not completely successful, did also contribute in one way or another to further integration in this domain. Such steps would crucially include the completion of deregulation and liberalisation of energy markets in member states; the establishment of new organs at the EU level to deal with energy such as EU regulatory agencies; or the setting up of an external dimension of a Common Energy Policy or at least well-built coordination mechanisms amongst EU member states, enabling them to elaborate common positions in international energy relations.

European Commission Discourses on Energy

Since the oil crisis of 1974, the European Commission has been advancing the notion of 'energy security' (Commission of the European Communities 1974). However, the Commission's approach to this topic was then circumscribed to economic and technocratic measures for harmonizing national energy policies. Conversely, the Commission's recent documents about the European Union's energy policy in general and its external dimension in particular (Commission of the European Communities 2006a, 2006b, 2007)⁶ have been characterized by a high securitising tone.

The basic sources of threat identified by the Commission are related to well known concerns about energy supply and dysfunctions in global energy markets: the growing dependency on energy imports and the concentration of reserves in only a few countries and regions, most of them unstable; the growing global demand for energy; the lack of reliable, affordable and sustainable flows of energy; and low reliability of suppliers, which may use energy as a political lever. In a nutshell, the Commission defined as threatening the fact that external actors do not 'play the same game' as the EU, thus reinforcing perceptions of instability. These observations were further aggravated by other uncertainties surrounding energy, such as the perspectives for global demand, price volatility, and the actual capacity of producer countries to supply the energy demanded due to the lack of necessary investments. In this context, divergences between member states, for example regarding policies towards Russia, and the lack of intra-EU solidarity in the event of a crisis were also considered a challenge for particular member states or the EU in general due to the fact that some countries are completely dependent on one source of energy supplies. All these energy-related threats are mainly of a market-economic nature, but may have consequences in broader terms: geopolitical security, economic stability, social development and climate change.

With all the aforementioned developments in mind, Commissioner Piebalgs (2006b) went so far as to declare that the world has entered into a "new energy era" that will last for the next few decades. This provoked a call for an urgent change in dealing with energy: "we are facing a period in which we have to get serious about the energy transition we are facing. We can either prepare it sensibly today, or risk being faced with a major crisis to our energy system

⁶ The last significant document of the European Commission, before the fresh re-emergence of the energy debate, was issued in 2000 under the title 'Green Paper – Towards a European strategy for the security of energy supply' (Commission of the European Communities 2000). This document 'opened up a debate on energy policy unprecedented in the last 30 years' and encouraged the Commission to put forward some proposals concerning the regulation of energy efficiency, energy savings in buildings and fiscal and regulatory proposals to promote biofuels. However, the conclusion that "one message of the debate is to reflect on a global concept of security of supply" and for the European Union "is necessary to reinforce the co-ordination of the measures ensuring security of supply" was not followed in practice until the recent debate (Commission of the European Communities 2002: 9).

for want of sufficient preparation" (Piebalgs 2006a). But on the other hand, the 'novelty' of the situation led him to elaborate on the lack of predictability in the energy sector, which is regarded as a source of political concern in itself. He argues for example that "global oil markets are not characterised by transparency and, put quite simply, we do not know how long oil will last, but we do know that the clock is ticking" (Piebalgs 2006c). Moreover, this uncertainty could be further aggravated by natural disasters or other accidents having a negative impact on energy, especially on prices and accessibility. The inability to make a rational and planned forecast of the energy situation through known free-market mechanisms exacerbates this perception of insecurity. But at the same time, this uncertainty discourse obscures the cause-effect relationship between the origin of threats and objects affected.

The definition of the referent objects in the documents presented by the Commission are somewhat diffuse, but focused at the sub-system level: the referent objects cover the European Union as a part of the world market; the competitiveness of the EU economies as a condition for consumers' (both individuals and businesses) well-being; and finally, the process of European integration itself, especially in its economic and international aspects. For example, the Communication, 'An Energy for Europe', from January 2007 recalls the origins of European integration in the Messina Declaration and stresses that "energy is essential for Europe to function" (Commission of the European Communities 2007). This discourse is complemented by a more global perspective, which acknowledges that the energy problem is not exclusively European, since "energy interdependence is becoming a global issue, with major shared concerns" (Piebalgs 2006a). But overall one may conclude that the need to protect EU competitiveness (and thus, European integration itself) was the dominant framing.

The discourses of other Commissioners clearly show a relationship with their institutional responsibilities. The discourse of Stavros Dimas, the Commissioner responsible for environmental policy, is structured around the threat of the consequences of climate change which may affect, especially in environmental and social terms, not only Europe but also the global level. For his referent object (environment, broadly considered), energy (or better, the misuse of energy) is considered a source of threat that should be faced 'urgently', 'decisively' and 'quickly' (Dimas 2005, 2006a, 2006b). In turn, Nelie Kroes, the Commissioner responsible for competition policy, focuses on a market and economy approach. The threats coming from outside the European Union are possible shortages of supply and trends observed in the global energy market. However, Kroes emphasises the problems related with the development of the Internal Energy Market. In this regard, a threat to EU competitiveness is market concentration, which leads to a lack of investment in infrastructure, a lack of consumer choice, lack of interconnections and thus, non-market regulated prices for energy (Kroes 2006a, 2006b).

Consistent with the Commission and various Commissioners' identification of the referent object at the level of the EU, the proposed measures are also EU-wide and go in the direction of greater integration in the energy field. Crucially, some of the measures proposed to alleviate the weaknesses of the European Energy Policy implied Member States' pooling of sovereignty in sensible issues such as energy infrastructure or the energy mix. Regarding infrastructure, the Commission proposed the establishment of a European Energy Regulator that would have decision making powers to establish common rules and approaches such as a European grid code to facilitate cross-border trade in electricity and gas⁷ (Commission of the European Communities 2006a: 6). Furthermore, in reference to the energy mix, the Commission indirectly suggested the limitation of Member States' sovereignty in choosing

⁷ As an alternative to the European Energy Regulator, the Commission proposed the establishment of a European Centre for Energy Networks, thus formalizing intergovernmental cooperation between national transmission system operators. Other institutional proposals of the Commission were the establishment of the Energy Correspondents' Network and the European Energy Supply Observatory. The first one would reinforce the cooperation between member states in cases of crises, since the later would monitor the energy markets.

their own energy mix when proposing the establishment of ‘a minimum level of the overall EU energy mix originating from secure and low-carbon energy sources’ (Commission for the European Communities 2006a: 9). Other internal measures proposed by the Commission to increase security of supply were of a more conventional nature: further development of an Internal Energy Market through liberalizing and regulative measures, energy savings, energy efficiency and renewable energy and further research into energy technology.

The measures that the EU should undertake in its external energy policy also contain proposals pushing for further integration, although their scope and institutional linkage within the EU system remains ambiguous. The most far-reaching example is the decision of appointing *European coordinators* “to represent EU interest in key international projects” (Commission of the European Communities 2007: 19) in accordance with trans-European network guidelines approved in 2006 (Decision No. 1364/2006/EC). Another proposed mechanism for coordinating Member States’ external energy policies, was the creation of the *network of energy correspondents* “to assist the EU’s early response and reactions in case of energy security threats” (Commission of the European Communities 2006b: 6). The Commission also stressed the relevance of the principle of coherence in EU energy policy between different EU energy-related policies and between the EU and Member States, especially with reference to issues of sustainability and climate change. Diversification of energy supplies in terms of energy sources, geographical origin and transit routes also ranked high in the Commission’s documents. Other methods proposed for increasing the security of supply include the establishment of dialogue and *energy partnerships* with producing, transitional and other consuming countries, the creation of a *pan-European Energy Community*, that is to say the extension of the European energy *acquis communautaire* to neighbouring countries with the main aim of “ensuring stable and predictable regulatory frameworks for [the] development of energy markets and for providing stable conditions for the necessary investment in the supply of hydrocarbons” (Piebalgs 2006f). These are however measures that were already in place before the beginning of the ‘energy security’ debate in late 2005.⁸

At the level of international energy markets, the European Commission focused on describing how this area should be organized world-wide, establishing “a new energy system, based on effective collaboration between producers and consumers, efforts to increase energy efficiency worldwide and a quantum leap in the production of renewable and low carbon energy” (Piebalgs 2006g). Measures proposed are somewhat diffuse, but some examples include the promotion of an international agreement on energy efficiency or widening the geographic scope of the EU Emissions Trading Scheme (Commission of the European Communities 2006b).

All in all, the content of the measures proposed by the European Commission were not much different from earlier proposals or instruments already in place. However, they were presented in the new light of the threats and risks emerging from the changed situation of the energy markets. Therefore, security discourse seems to be more inclined towards giving political salience and a sense of urgency to the already known measures and convincing the target audience (member states) to effectively implement them. In the same vein, the discourse about the novel and insecure world energy system served as a background for the Commission to justify the need for new landmark decisions paving the way for a Common Energy Policy, including an external dimension.

⁸ The Energy Community process, aimed at extending the EU’s internal energy market to the South East European region, was initiated in 2002 and the Treaty was signed in October 2005. The proposal of its extension to other countries, e.g. Ukraine, was already considered in 2004. Although to a very different extent, the Energy Charter Treaty signed in 1994 – joining 51 states from the Eurasian space plus the European Communities – is also aimed at establishing a legal foundation for energy security, based on the principles of open, competitive markets and sustainable development.

European Parliament Discourses on Energy

The European Parliament (EP) has also been very active in the debate on energy security since the early 1970s, by issuing various reports and resolutions on the topic. Individual MEPs and groups have also contributed to debates on energy policy issues through parliamentary questions. Since the Parliament became a directly elected body in 1979, about 250 parliamentary questions on energy policy have been posed to the Council or the Commission (42 of them directly related to the issue of energy supply).⁹ During 2006, two main resolutions on this specific topic were discussed and adopted by the European Parliament (European Parliament 2006a, 2006b). In both documents, the EP made clear the connection between energy and security in global and European terms and clearly spoke in favour of a Common Energy Policy. Compared to the Commission's documents, the Parliament's discourse was even more straight-forward in describing the sources of threat and their proposals more far-reaching in their integrationist content.

Regarding the sources of threat, the EP noted with considerable concern the EU's high level of energy-import dependency on a limited number of energy producers and supply routes, a situation that, in its view, poses a "serious risk to its stability and prosperity" (European Parliament 2006b). The EP expressed its concern about the political use of energy supplies and prices, aggravated by Russian disputes over energy prices with its neighbours, and talks of the possible establishment of 'gas OPEC', which would have a major medium- and long-term impact on gas prices and security of supply. In this situation, the EP developed an emergency discourse "urging the Commission and the member states to take very seriously the real danger of a deficit in gas supplies from Russia after 2010" which, in its view, would be brought on, among other things, by a lack of investment, excessive leakage and energy waste in the Russian domestic market (European Parliament 2006b). At the same time, observing the well known problem of the lack of competitiveness in the EU energy market, the EP blamed member states for their "protectionist support for national market leaders" that distorts the internal market (European Parliament 2006a).

Regarding the referent object, the documents of the Parliament stress the social dimension of energy policy, indicating that "rising energy prices not only affect the economy as a whole but, above all, the socially disadvantaged" and claim that "consumers must be placed at the centre of all future energy policies" (European Parliament 2006b). The EP's discourse is couched in terms of a holistic vision of the consequences of the disturbance to energy supply. This is evident, for example, in its statement that "energy security should be considered an essential component of the global security concept and has an increasing impact on the overall security of the European Union" (European Parliament 2006a). It also observes that "disturbances in the supply of energy may create instability and can endanger peace" and that "...precarious energy and climate security situation is frequently the trigger for international crises and conflicts, which have consequences for democracy, human rights and poverty" (European Parliament 2006b).

The Parliament's proposed measures were characterised by a high degree of specificity, especially regarding the global and EU external levels, with some proposals going even further than those of the Commission. Although political groups and individual MEPs maintained diverse positions on the topic during parliamentary debates, the positions expressed in the two resolutions analysed here contain a clear push for a Common Energy Policy, including what the Parliament calls a 'common foreign energy security strategy' (European Parliament 2006b). In fact, in its resolutions, the EP regretted that the Commission's "Green Paper does not propose new targets or advance concrete proposals that would respond to recent calls for a common energy policy" (European Parliament 2006a).

⁹ The data come from EurLex (Term search of Eurovoc descriptor: energy policy and energy supply).

At the level of the international energy system, the EP proposed three kinds of measures. The first, in line with the Commission, was the promotion of a dialogue between consumers and producers in order to define a global approach and strategies towards energy. But compared to the discourse of the Commission, the Parliament seems to adopt a more confrontational stance in that it calls for the joining of efforts from consuming countries to counterbalance the oligopoly on the production side (European Parliament 2006b).¹⁰ Secondly, the EP proposed more concrete measures to “promote rules and institutions at a global level in order to protect sources of energy as well as the well-functioning of energy markets”. For example, concrete measures to promote energy efficiency at a global scale could include the setting of minimum efficiency standards for global goods such as cars, appliances, consumer electronics and office equipment, to be harmonised in phases, and the promotion, at a global level, of integration of environmental issues into transport and energy decisions (European Parliament 2006a). The EP also proposed the creation of an internationally recognised mediation system for cases of conflict and dispute concerning the delivery and distribution of energy, for example in the framework of the WTO; in concrete terms, the EP put forward a proposal for the EU to pioneer this mediation system by developing it first within the framework of its Neighbourhood Policy and also with other key supplier countries and then to promote it at a global level (European Parliament 2006a). Finally, the EP also proposed linking energy security to development policies, recalling the right of every person in the world to have access to basic energy services, as stated in the Millennium Development Goals. Measures to achieve such development goals regarding energy would include the incorporation of a greater number of programmes promoting clean and efficient energy in the EU’s development policy. Concrete measures included for example the formal endorsement by the Commission of the Extractive Industry Transparency Initiative (EITI) and the development of a strategy to mainstream the principles of the EITI and the Corporate Social Responsibility Scheme into all agreements with third countries.

Regarding the EU’s external measures for the protection of the EU’s interests on the world stage, the EP insisted on the need to ‘speak with one voice’ to increase its leverage in negotiations with energy producing and consuming countries. Remarkably, the EP even proposed that the Commissioner for energy policy be put in charge of this task, with a clearly defined mandate, which could set out a long-term European energy planning vision (European Parliament 2006b). In the EP’s view, the ‘supreme aim’ of this external energy policy should be a reduction of the EU’s dependence on fossil fuels from a few large suppliers and the diversification of the sources of energy and transit routes. The EP also encouraged cooperation with other producer (Central Asia) and transit countries but specifically underlined its concerns about Russia and its reluctance to accept the rules stipulated in the Transit Protocol and the Energy Charter Treaty “ensuring future much-needed foreign investment in Russia’s energy infrastructure and ensuring an adequate gas supply to the EU in the future” (European Parliament 2006b). Furthermore, the EP proposed in more detail the principles and objectives of energy relations in a future agreement between the EU and Russia.¹¹ Like the Commission, the EP indicated the relevance of the ENP and its mechanisms as well as the extension of the Energy Community Treaty to other countries.¹² However, in the view of the EP, cooperation with producer and transit countries

¹⁰ In the resolution of December 2006, however, the EP also stated that producer countries also needed to be engaged in this definition of a global approach to energy. The principles of these new forms of global energy dialogue should aim at making global energy markets stable, secure and transparent, and at the same time provide a continued boost in favour of clean energy sources and energy efficiency (European Parliament 2006b).

¹¹ These are: the incorporation of WTO mechanisms for settlement of disputes between the EU and Russia and/or individual investors; mutual access to infrastructure; competition rules limiting the power of quasi-monopolistic companies which have not been unbundled having access to their respective energy markets; and an agreement to address the issue of technical failures in the third countries affecting cross-border supplies to a EU Member State.

¹² During the parliamentary debates, the MEP Charles Tannock, rapporteur of one of the main reports on the ENP in 2006, spoke in favour of including Kazakhstan in the ENP, based on energy security considerations: “I have repeatedly made a case for a stable Kazakhstan to join the ENP, as (...) could indeed supply not just oil and gas but also uranium to the European Union, as we will inevitably have to build more nuclear reactors to satisfy Kyoto and not be over-reliant on unstable regions of the world –such as the Middle East, Venezuela or Nigeria, to name but a few – for fossil fuels” (European Parliament 2006c).

should also encompass policies promoting “democratic reforms, the development of civil society and social progress”, which “will contribute substantially to long-term political stability, which is necessary for security in the supply and distribution of energy” (European Parliament 2006a). As to the Internal Market, the Parliament’s proposals followed the Commission’s line. The EP emphasised the need for member states to implement existing Internal Market provisions to avoid the formation of oligopolistic energy markets or market dominance. It also called on the member states to agree on concrete, measurable objectives on issues such as the development of renewable energies, energy efficiency or Kyoto-related commitments. Yet, criticisms were directed at the Commission for the lack of instruments provided to address the high level of oil dependency in the transport and aviation sectors which were identified as the main cause of Europe’s biggest security of supply problems and also environmental damage.

Overall, during the three plenary debates about energy security that took place in 2006, several MEPs defended the urgency of adopting further integrative measures in the energy domain employing a high securitizing tone. However, a contradiction seemed to appear in the very definition of energy and the measures proposed, particularly in the external dimension of this policy. As mentioned above, the EP proposed far-reaching integrationist steps in the external energy policy, proposing a leading role for the Commissioner for Energy in international energy relations. Yet, during the debates, some of the MEPs that most maintained that energy had to be dealt with as a security issue, ended up with the conclusion that it should be regarded as a matter of the Common Foreign and Security Policy, and not so much as a Community policy issue. The following quote by Polish MEP, Jacek Saryusz-Wolski, exemplifies the difficulty of framing energy as a security issue without taking it out of the Community domain:

The problem should therefore be considered as a *foreign and security policy issue* and so, besides Commissioner Piebalgs, I would willingly address Mr Solana and Mrs Ferrero-Waldner. It is essential for the EU to develop a true external security policy dimension in relation to gas and oil deliveries, which is distinct from *energy policies* sensu stricto. We should not mix them up [emphases added] (European Parliament 2006c).

Member States’ Discourses on Energy

The issue of energy security has only very recently been incorporated as a relevant matter on the Council’s agenda. The intergovernmental debate on energy policy was encouraged by the informal meeting of Heads of State and Governments, held in Hampton Court in October 2005, which marked the turning point in the intergovernmental debate about energy. At that meeting, energy security ranked high on the list of topics to reflect on the future path of European integration, and EU member states started to think about some kind of ‘New European Energy Policy’. The already mentioned dispute over the prices of gas delivered from Russia to Ukraine and the ensuing Russian gas cut-off at the beginning of 2006, which affected not only Ukraine but also various member states of the EU, acted as catalysts for discussion in various configurations of the Council.

Some member states in particular acted as catalysts for this debate on energy security, by emphasising the geopolitical dimension of energy policy. For example, German representatives, in contrast to their country’s traditional economic approach to energy issues, repeatedly spoke about energy as a serious geopolitical security challenge and called for the development a ‘foreign energy policy’ as a new policy category (Steinmeier 2006a; 2006b, 2006c).¹³ The main source of threat was the coupling of rising global demand of energy with the fact that the most energy resources are located in regions of the world

¹³ It is relevant that the “White Book for Security Policy of Germany and the future of the *Bundeswehr*” of 2006 included ‘Energy security’ as a section in its own. It established that “for the future of Germany and Europe, a sustainable and competitive energy supply is of strategic importance” (Bundesministerium der Verteidigung 2006: 17)

characterised by political instability.¹⁴ The German foreign minister insisted on the need to find energy security means not only for EU countries but also for all producing, transit and consumer countries, especially on the European continent and its neighbourhood. "Regional cooperation", according to the German foreign minister, would include the North Sea, Northern Africa, Russia and the Gulf States (Steinmeier 2006a). By contrast, other member states, mainly from central Europe, insisted on the need to reinforce solidarity among European countries and reduce dependency on countries such as Russia, which exerted political pressure through the use of energy instruments. Poland was the standard-bearer of this discourse, especially after the approval of the North Stream gas pipeline under the Baltic Sea in September 2005, perceived as being directed against some member states' security of supply.¹⁵ However, in both cases, the referent objects were states' energy independence and their autonomy in vital economic and political matters. In no case did states propose a pooling of sovereignty or transfer of competencies to the EU level as a suitable option to alleviate the risks of external dependency, but rather, they favoured other forms of intergovernmental cooperation outside the EU framework.

Some of these forms of extra-EU intergovernmental cooperation are highlighted in the proposals for an 'energy NATO' and its rival 'energy OSCE', advanced by Poland and Germany respectively. The first was advanced by Poland in March 2006 and consisted of a 'European Energy Security Treaty', aimed at developing an absolutely new kind of political instrument linking states in the area by mutual energy security guarantees. The core of the Polish 'NATO energy' proposal would be a commitment "to cooperate in bringing assistance to a Party affected by restrictions in energy supplies, and to build and develop the necessary organisational and technical infrastructure designed to permit such cooperation". More specifically, the Energy Treaty would have a clause of mutual assistance among the Treaty signatories, as in the case of NATO, whereby "a threat to the energy security of one...will be a threat to the energy security of all...". In order to secure energy supply, the proposal also established the objective of diversification of energy sources and transit routes (Council of the European Union, 2006l). Quite to the contrary, Germany (Steinmeier 2006b) referred to regional cooperation on energy in the form of some kind of "energy OSCE", claiming that cooperative security strategy "can rely on the success of the Helsinki process". In this sense, German Foreign Minister Steinmeier stressed that there is no need for totally new instruments since "more importantly we have to revitalise the already existing forms of cooperation in energy policy context in the light of new challenges" (Steinmeier 2006b). Both of these proposals failed to be implemented but the residual outcome of Polish insistence on energy solidarity was the inclusion of this concept in the Lisbon Treaty, although the solidarity obligations were watered down in comparison to Poland's initial proposals.¹⁶

Other countries, such as France or Great Britain, were more cautious in presenting proposals on external measures for security of supply. For example, for France, in its 'Memorandum for revitalising European energy policy with a view to sustainable development' of January 2006, security of supply appeared to be more related to issues such as electricity interconnections, internal diversification of the energy mix, increased energy efficiency and use of renewable energies. Indeed, the Council debates for an 'Energy Policy for Europe' were framed more in terms of this internal dimension. As established by the Council, the means to develop a European Energy Policy were "investment, technological development, domestic and foreign trade, environment policy [...] employment, regional policy and particularly transport policy"

¹⁴The danger of these global dynamics was plainly formulated in expressions such as "global hunger for resources" and "world order politics threaten to collide" (Steinmeier 2006b).

¹⁵In January 2006, Poland presented a joint position on the diversification of energy supplies to Central and East European countries, prepared together with the Czech Republic, Hungary and the Austrian EU Presidency, and also promoted a joint action plan (worked out with the Czech Republic, Slovakia, Austria, Hungary, Slovenia, Croatia and Romania) to reduce dependence on Russian natural gas (Documents referred to in Geder *et al.* 2006: 20)

¹⁶Art. 100 of the Treaty introduced the concept of "solidarity", stating that "without prejudice to any other procedures provided for in the Treaties, the Council, on a proposal from the Commission, may decide, in a spirit of solidarity between Member States, upon the measures appropriate to the economic situation, in particular if severe difficulties arise in the supply of certain products, notably in the area of energy".

and only in the last position “foreign and development policy” (Council of the European Union 2006m).

However, what unites the discourses of all the member states is the emphasis on their competencies in determining their national strategies for security of supply. For example, Portugal insisted that the principle of subsidiarity “dictates that member states should keep the right to decide on the most appropriate solutions for implementing energy policies and measures, in order to take account of their specific situations” (Council of the European Union 2006d). Germany also stressed that “while a legal framework will be set at [the] EU level taking the *subsidiarity* principle into account, the choice of energy mix and general structure of energy supply as well as compliance with the legal framework will remain a matter of the Member States” (Council of the European Union 2006e). In the same vein, Spain stated that “improving the dependence-vulnerability relationship is the primary aim of Community action” while emphasizing the prerequisite of “preserving *national sovereignty* over energy sources and safeguard national preferences for the choice of energy-mix [...] for it to be otherwise would be a grave mistake” (Council of the European Union 2006h). In the French proposals, it might seem that European and member states’ levels are blurred, but for France the origin of a European Energy Policy stems from the *exchange of national energy plans*. With this aim in mind, each member state should “identify the medium and long-term balance to be achieved between supply (production plus imports) and demand, and contribute to the drafting of national energy policies in which each Member State establishes a clear framework for the actions it aims to take to balance supply and demand” (Council of the European Union 2006b).

Contributions arguing for a Community-focused dimension of energy policy are in a clear minority. For example, the main concern for Italy was the lack of an adequate legal basis for more *integrated policies*, which would make energy a matter of shared competence between the Commission and the member states (Council of the European Union 2006c). In this respect, Belgium also insisted that “the time has come to boost Europe’s influence in so strategic an area as Energy” and that “the pursuit of a European energy policy demands that Europe be able to speak with a *single voice* and brings its full economic political weight to bear in dialogue with third countries, both producer countries and consumer countries” (Council of the European Union 2006f).

In this context, it is not surprising that the Council’s proposals for the EU’s external energy relations underline the responsibility of member states, as shown in the various drafts of the document ‘A New Energy Policy for Europe’, where the ministers “call for a reinvigorated Energy policy for Europe, aiming at coherence between member states”, their “sovereignty over primary energy source” and respect for “member states preferences for the choice of energy mix”; ensuring an utmost degree of consistency at the Community level “they should take due account of member states specific characteristics” (Council of the European Union 2006i) or “recalling the primary responsibility of member states in the event of supply crisis” (Council of the European Union 2006j).

Consequently, the conclusions of the Council meetings focused on the EU’s internal and external measures on security of supply policy with much more ambiguity and vagueness than the other Community institutions. The initial debate within the Council confirmed the extreme caution in adopting any far-reaching decision. The Austrian Presidency in early 2006 maintained a prudent stance and hardly raised any new topics to be debated or extraordinary measures to be implemented (Council of the European Union 2006a). Therefore, it is comprehensible that after taking the opinion of other member states into consideration, the Presidency recognised that:

[...] regarding the regulatory framework it is worth noting that there are very few requests or suggestions for the development of new instruments, with the possible exception of measures related to energy efficiency and gas storage, while several delegations, [...], are pressing for a fuller implementation of the existing framework and, to that effect, more consistency in the remit of regulators throughout Europe (Council of the European Union 2006g).

However, despite the initial reluctance of many member states to approve concrete proposals, especially when it came to establishing new institutional forms of cooperation, some ideas were finally adopted by the European Council in March 2007. European leaders agreed to base the European Energy Policy on internal measures such as the reinforcement and full implementation of the Internal Energy Market. They also agreed on the objective of 20 per cent of the overall energy mix in 2020 to be from renewable energy sources and stressed the relevance of energy efficiency in order to reduce primary energy consumption in 2020 by 20 per cent. Taking into account the indeterminacy of earlier proposals by the Council, the agreement on establishing concrete targets represents a significant political commitment. However, the Council dismissed the more ambitious and integrationist proposals from the Commission, such as establishing an EU regulatory agency to deal with energy policy.

As far as the external dimension of energy policy is concerned, no major proposals were adopted. The most remarkable, albeit timid, decisions of the European Council of March 2007 had to do with security of supply. It was agreed to establish more effective crisis response mechanisms to face the eventuality of a crisis in supply. However, the significance of these mechanisms is far from clear, given the carefully worded compromise that further mechanisms should be built “notably on existing mechanisms [...] taking into account the primary responsibility of Member States regarding their domestic demand” (Council of the European Union 2007: 18). The Council also approved the institutionalisation of the role of the network of energy security correspondents which had met informally for the first time after the Ukrainian-Russian energy crisis of January 2006. Likewise, the Commission’s proposal of establishing an Energy Observatory within the Commission was adopted (Council of the European Union 2007: 18). Finally, the Council agreed that energy be included on the agenda of the EU’s bilateral and regional external relationships.

In summary, the Council’s proposals fail to reflect the positions adopted both by the European Commission and the European Parliament, particularly on the question of whether the EU is the most appropriate level to tackle energy related problems. Ironically, member states actually shared the views of both the Commission and the EP concerning the evolution of energy as a vital security concern. However, this security framing of energy is precisely what justified their reluctance to (1) transfer competencies to the supranational level and (2) increase the level of intergovernmental cooperation within the EU on these issues. Therefore, the member states’ collective approach to a European Energy Policy was to continue “to do the same but better” and to achieve greater coherence through “better exploiting the synergies and complementarities between the various, internal and external, components of energy policy” (Council of the European Union 2006g).

Conclusion

This article has discussed the various discourses of the EU institutions and those member states that took an active role in the debate on energy security in order to understand why the final results of this debate failed to reflect the high securitizing rhetoric maintained by most of the actors involved. In this regard, we have argued that few significant measures were finally adopted towards a Common Energy Policy, although several proposals were put forward in this direction. Particularly, the Commission and the EP advanced proposals that, even though they were not entirely new, did envisage an important step towards further communitarisation of energy policy. Conversely, the novel decisions finally adopted by the Council mostly consisted of loose mechanisms for intergovernmental cooperation that would draw on already existing instruments.

Informed by securitization studies, this article has attempted to explain the reasons for this gap between *highly securitizing* discourse on the one hand, and, on the other, the lack of agreement on taking urgency or extraordinary measures to tackle the identified sources of insecurity. In the first place, we argued that differences in actors’ approaches to energy

security did not have to do with the definitions of the threats, which were similar in all discourses, but with their differing referent objects. Regarding the definitions of threats and risks, our analysis has shown that there was significant similarity between the different actors in terms of the way they were framing energy. The dominant discourse maintained that the sources of threat related to the market disturbances that changed the existing patterns of the global energy system. The main concern was related to the observation that, on the one hand, market-type energy relations no longer worked because they were progressively being substituted by both political and other kinds of unpredictable interferences in energy relations, such as natural disasters or terrorist attacks. Another widely-shared feature of the framing of energy security was its cross-sector nature; energy was framed both in terms of economic, environmental, societal and political concerns, even though different actors put special emphasis on particular sectors.

In contrast, major differences exist when it comes to the identification of the referent objects, that is to say, the things that are considered to be affected by threats. The participants in the energy security debate, in accordance with the expectations related to their institutional roles, emphasised different types of referent objects. Thus, in the European Commission's discourse, the national perspective was almost non-existent and the focus was on protecting the European economy or European integration and individuals, both consumers and citizens. The European Parliament widened the scope of referent objects further, ranging from the EU citizens' way of life to energy as a global good. Conversely, the European Council and particular member states put special emphasis on national energy systems and thus, their own competences and responsibilities to ensure their energy independence. This may hardly be surprising, but it reaffirms the fact that even in times of growing demand for cooperative governance at the EU level in the domain of energy, member states hardly perceive the EU as a unit of reference, and consequently do not trust the EU as the 'most appropriate locus' for dealing with energy problems. Unlike other policy domains, such as those in Justice and Home Affairs, where security discourses may have triggered uniting effects around the need to protect the EU's common borders and a common 'Area of Freedom, Security and Justice', no such powerful parallel can be found in the energy domain at the time being. As this article has sought to demonstrate, member states have emphasised the unit level (state) or sub-systemic level (not the EU, but the European or Euro-Atlantic community of countries). This is most clearly evident in the Polish and German proposals for an Energy NATO or an Energy OSCE.

Secondly, this article has highlighted the fact that the discourses of those actors pursuing further communitarisation of energy policies might have been ineffective precisely because of their appeal to security. Essentially, the framing of the external dimension of the energy policy in terms of security or geostrategic concern rendered the pledge for a greater role for the Community institutions more difficult. In this sense, we have argued that framing energy as a security issue contributed to a reinforcement of the discourses in favour of maintaining energy policies in a predominantly *intergovernmental* framework.

Finally, we should recall that although we have argued in this article that no major moves towards the establishment of a Common Energy Policy and/or an EU external energy policy have been made, the small steps that have been taken are not to be dismissed. The most illustrative of these steps was the introduction of a Title on 'Energy Policy' in the Lisbon Treaty, including a solidarity energy clause. This is a development that the Commission has been pursuing since 1990. In fact, it might be argued that the Commission and the Parliament's securitizing moves did have: (1) a mobilizing effect on the level of support among the member states for the measures that had already been implemented or prepared and (2) an impact on raising public awareness of the Community institutions' tasks. However, these gradual reforms in the field of energy could also be considered as a natural development through functional steps towards greater cohesion with both horizontal and vertical coordination of existing activities and, it could be argued, they do not constitute an exceptional course of action, as a more radical, successful securitization process would suggest. In this sense, it is important to remember that the Council already posited in 1974

that the establishment of the then “new energy policy strategy for the Community”, implied “close coordination of the positions of the member states of the Community which will enable it *progressively* to express a common viewpoint on energy problems vis-à-vis the outside world” (emphasis added) (Council of the European Communities 1974).

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Can the European Union's Market Liberalism Ensure Energy Security in a Time of 'Economic Nationalism'?

Francis McGowan

Abstract

The EU's higher profile in energy policy matters is arguably due to the increased importance of market liberalisation as a policy objective over the last twenty years. Given the EU's own competences in the internal market and competition policy, the European Commission has accordingly been able to play a more active role in energy policy-making. Moreover it has been active in extending this approach to its energy relations with its neighbours as manifest in the Energy Charter Treaty, the European Energy Community Treaty and bilateral agreements with third countries. The European Commission has been keen to assert the centrality of market liberalisation to its future energy policy and energy diplomacy, notwithstanding the changes that have taken place in energy markets. Given that there appears to be an increased interest in 'national champions' amongst both energy exporting countries and at least some EU member states, how far can the EU sustain a strategy of market liberalisation? The article will place current policy dilemmas (and the EU's role) in the context of a shifting energy policy agenda – essentially from a supply security 'economic nationalism' to market liberalism and back again. It then considers how EU policy is adapting to these circumstances and assesses the effectiveness of this response.

THIS ARTICLE EXPLORES ONE OF THE CENTRAL DILEMMAS FACING THE EUROPEAN UNION (EU) as it develops a common energy policy: how far can a market-led approach to energy deliver security of supply at a time when concerns over sovereignty and policies of 'economic nationalism' appear to be in the ascendant? The dilemma is manifest externally and internally. Attempts to pursue an energy diplomacy based on opening up access to suppliers' markets and liberalising investment conditions have had mixed results as governments and firms in producing countries have sought to maintain or extend control over their energy assets. Inside the EU, some member states remain resistant to the idea of a full liberalisation of market conditions, apparently preferring to support their 'national champions'. There is a dynamic between the internal and external aspects of both positions. For proponents of full liberalisation, greater access to the markets of exporting countries is both a logical extension of the internal market and a pre-requisite for its full achievement. Defenders of the status quo argue that maintaining powerful integrated incumbents provides, amongst other things, the best basis for negotiations with third countries and for ensuring secure supply.

In each respect, supporters of, and sceptics towards, full liberalisation invoke 'energy security' to justify their stance. This reappearance of security as an energy policy priority has been a relatively recent phenomenon. As increasing global demand has pushed up prices

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and short term disruptions have raised questions about the reliability and motivations of suppliers, policy-makers in the EU and elsewhere are once again worrying about the availability of energy resources in the short, medium and longer terms. These concerns echo the debates of the 1970s when disruption to energy supplies was last a high profile policy issue. While by no means a carbon copy of circumstances in the 1970s, the current market and political conditions have rendered energy salient in a way not seen since that decade. It is in this context that the European Union launched a new attempt to develop an 'Energy Policy for Europe' in early 2007 (European Commission 2007a; European Council 2007a). This initiative has been equally concerned with 'climate change' as another major, possibly existential, challenge for energy policy, but it is 'energy security' that has given the policy debate a particular immediacy and profile.¹

As part of that policy, the Commission has stressed and the Council has endorsed the central importance of market liberalisation as a means to the end of ensuring supply security.² Moreover it has sought to project the principle of open markets beyond its borders by negotiating agreements with neighbours and other countries involved in the production and transmission of energy for consumption in the Union. The emphasis is not surprising, given the prevailing orthodoxy of economic liberalism in energy policy in recent years. However, it is unclear how well the EU's advocacy of market liberalisation in its energy policy and energy diplomacy sits with the 'new' energy policy environment. The revival of energy security has been accompanied by a concern with sovereignty on energy matters in both producing and consuming countries.

There appears to be an increased interest in 'national champions' amongst both energy exporting and consuming countries, the latter including a number of EU member states. Such a shift in energy policy arguably challenges the EU's emphasis on liberalisation and with it the strategy adopted by the EU in its external energy relations. While recent developments suggest that the European Commission wants to adopt a tougher stance in negotiations with third countries, it remains to be seen whether this policy can be sustained given internal differences on the direction of policy to pursue and the degree to which the EU is united in its dealings with energy exporters.

The article begins by placing current developments in the context of changes in the overall pattern of energy policy development in recent decades, in particular the rise of liberalisation as a means and, according to some, an end of energy policy. It then turns to the evolution of EU energy policy, reviewing both the overall development of policy and the external dimension. The article highlights the growing importance of market liberalisation as a principle of both internal energy policy making and the conduct of energy diplomacy, noting how this principle is seen as a way of ensuring greater supply security. It then reviews how far this approach can be pursued given recent changes in the broader energy policy context – principally the revival of concern with energy security and of economic nationalism. It also considers the implications of these changes for the EU's internal and external energy policies.

Given that the issues under discussion are ongoing, any conclusion is tentative. Nonetheless, it appears that, while there is a clear logic between the internal and external aspects of EU energy policy, the pursuit of that logic is likely to remain compromised by the traditional obstacle to the development of collective energy policy responses, namely, national sovereignty. In both supplier countries and a number of member states, concerns about sovereignty appear likely to prevail over the full liberalisation of investment and market

¹ While there is no doubting the seriousness of the climate change issue and there are clearly trade-offs between addressing this issue, pursuing market liberalisation and ensuring energy security, this article will focus on the interaction between the latter two objectives.

² Supply security has a variety of meanings in energy policy discussions. It can refer to short term availabilities affected by system stability and usually regarded as a function of infrastructure investment, operation and protection. Another short term manifestation relates to the risk of supply disruptions which is addressed by maintaining emergency stocks of fuels. A longer term dimension of supply security is that of dependency upon external supplies and suppliers of energy.

conditions. Moreover, the EU's ability to assert the latter objectives will depend on both the specific nature of its relationship with each partner and the coherence of its own position. In analysing this issue, the article focuses on the evolution of EU energy policy both in the last few years and over the longer run, highlighting the way in which questions of market liberalisation have come to influence both the overall orientation of EU energy policy and its attempts at energy diplomacy. The logic of market liberalisation – understood as attempts to encourage competition and market access on the one hand and to limit the scope for unfair discrimination or subsidies and the abuse of market power on the other – has been pursued in EU energy policy for at least twenty years. The way in which such logic applies varies from sector to sector, but the Commission's promotion of it has been comprehensive and has intensified over time.

It should also be noted that the issues discussed in this paper are more controversial within the context of some sectors than in others. This reflects market structures and the degree of EU dependence on different sources of energy. Of particular importance is natural gas, the characteristics of which highlight two of the most sensitive issues in energy policy; (1) a commodity which is largely produced outside the EU and where access to upstream activities is generally limited, and (2) an energy resource which has been traditionally transmitted, distributed and supplied on a monopolistic and integrated basis, a structure which the EU is seeking to liberalise. In its analysis of recent developments, the article focuses primarily on this sector.³

Finally, a word about terminology; as already stated above, this article focuses on the process of market liberalisation in the energy sector and the limits to that process. In this regard the article deals with a variety of activities – mainly on the part of governments – designed to maintain or extend sovereignty over particular assets (whether resources or firms). These actions have been commonly referred to as instances of 'economic nationalism', 'resource nationalism' or 'energy nationalism' and the terms have become a feature of recent media reporting and speeches by politicians and officials in recent years. As such they could be considered to be inappropriate for academic discourse. Yet the concept of economic nationalism has a long legacy in academic debate as well as in wider usage (Johnson 1967; Burnell 1986; Levi-Faur 1997). Academically the term has been deployed (positively and negatively) to refer to state activism in defence of the national interest.⁴ For the purposes of this article we use these phrases to refer to such practices in order to capture the ways in which governments have reacted against liberalisation, or have attempted to contain its scope and not to cast judgement on whether such measures are economically sound.

The Changing Debate on Energy Policy: Shifting Priorities Between Markets and Sovereignty

The context in which EU energy policy has developed is shaped by broader debates on energy policy itself. The priorities of energy policy, whether officially defined or informally pursued, have embraced a wide variety of concerns over the years. Considerations of inflation control, employment protection, balance of payments management, regional development, technological innovation and poverty alleviation have all informed national policies towards the energy sector at different times. However, the central objective of energy policy has traditionally been that of ensuring adequate supplies of energy resources. In the last two decades this objective has been accompanied by increased attention to improving the functioning of energy markets, mainly through liberalisation and privatisation,

³ While gas is clearly the main focus of policy and of this paper, the issue of upstream investment access also applies to the oil sector. The issue of network ownership is also relevant in the electricity sector.

⁴ In recent years some academics, critical of the conventional meaning of economic nationalism, have sought to reappropriate the term to refer to a much wider range of economic policies which could be interpreted as 'nationalist' – see the collection edited by Helleiner and Pickel (2005). Ironically they did so more or less at the same time as the term (in its older sense) re-emerged into public discourse.

and addressing the environmental consequences of energy production and consumption (McGowan 1990).

The relative importance of supply security, market liberalisation and environmental protection has shifted over time. For much of the post war period, particularly after the oil shocks of the 1970s, energy policy tended to prioritise supply security and was largely government-led, embracing long range planning and investment and public ownership and intervention. At the heart of this policy was a concern to maintain a high degree of national sovereignty over the energy sectors. In the 1980s and 1990s, as energy supplies appeared abundant and prices fell substantially, policy became less concerned with supply issues and gave greater emphasis to market forces and private initiative. This shift was as much a reflection of broader ideological changes (Lawson 1982) as it was a response to energy market conditions, but it had important consequences for the way in which energy investment and policy decisions were taken. As energy came to be regarded as 'just another commodity' and amenable to the logic of market forces, a more short-term perspective prevailed at the expense of long-term considerations of energy availability.

In the last few years, however, the context has changed again with the re-emergence of concerns about the security of energy supply. Rising energy prices, particularly since 2006, have reflected a rapidly changing supply-demand balance. Consumption has increased rapidly on the back of continued growth within the industrialized world and rapid growth in the emerging economies, particularly China and India. The likelihood of this higher demand being sustained over the longer term has focused attention upon the evolution of the supply side, particularly the availability of energy. For some the location of available resources is also an important issue given the apparent increasing concentration of reserves in a diminishing cluster of countries and regions. These concerns with supply security have given energy policy a more strategic, even geopolitical, twist.⁵ Despite these changes, a number of policy makers and advisers remain committed to energy market liberalisation as the key not only to a competitive economy overall, but also to improving supply security.⁶

EU Energy Policy: From Supply Security to Market Liberalisation

The commitment to a market based energy policy appears to be particularly strong within the European Union. The European Commission and, for the most part, EU member states maintain the stance that open energy markets are a precondition for the pursuit of other energy policy objectives. Whether or not this is the case, it does appear that market liberalisation has been important in developing EU level policies for the energy sector.

Throughout the history of the EU there have been a number of attempts to develop a 'Common Energy Policy' (CEP). For example, the original European Coal and Steel Community (ECSC) and Euratom treaties were designed, amongst other things, to foster a cooperative approach to the handling of the traditional backbone of energy supply (coal) and the 'fuel of the future' (nuclear power). As it transpired, neither was particularly effective and attempts within the European Economic Community (EEC) to coordinate a CEP were largely inconclusive. While the 1970s energy crises led to a number of attempts to relaunch such a policy, the debates amongst member states tended to expose their differences rather than to foster closer cooperation and for many years, the CEP amounted to relatively little. That is not to say that there were no achievements in the area of energy policy; numerous Council meetings secured agreement on such issues as financial programmes to foster new energy technologies, restrictions on the use of oil and gas in power production, requirements on the storage of oil stocks for emergencies, dialogues with third countries on energy matters and a regular set of indicative 'objectives' for energy policy. However, it could

⁵ The growing importance of the security dimension in energy policy is covered by Yergin (2006) and Monaghan (2006).

⁶ Roller *et al.* (2007) offer an economic analysis of these trade-offs. Helm (2007) highlights how the EU needs to take into account higher energy prices in reconciling other energy policy objectives.

not be argued that these measures superseded or constrained national energy policies to any great extent (SPRU-RIIA 1989).

The Community's failure to act collectively in this area was perhaps not surprising given the centrality of energy to national sovereignty in that period, and given the fact that both economic integration and the conduct of external relations were at a relatively early stage of development. From the 1980s onwards, however, the Commission became more effective at proposing common initiatives and the EU's member states became more willing to agree joint measures. These measures tended to be framed on the basis of other policy objectives, reflecting the way in which national energy debates had also been redefined in that period. The more general shift towards economic liberalism facilitated the involvement of the EU given the centrality of such principles in European integration, particularly in the wake of the *Single Market* initiative in the mid 1980s.⁷ Energy was not part of the original package proposed in the Cockfield Report on 'Completing the Internal Market', but the latter's success prompted the Commission to make a number of proposals for an 'Internal Energy Market' in 1988 (European Commission 1988). Achieving such a market has been a drawn out process; for example the liberalisation of the gas and electricity sectors has proved to be an affair which even today is not yet complete. Even so, applying the principles of the internal market and competition policy to the energy sector has had important effects, not the least of which was to reopen and to redefine the overall European energy policy debate.

A central part of that redefinition was to reconcile the principles of supply security and market liberalisation. Critics of the latter tended to argue that greater competition would undermine the long term investment horizons which had traditionally characterized energy policy decisions. In response, the Commission has argued that liberalisation was not only compatible with supply security but would reinforce it. In the 1988 proposals the Commission claimed that an internal energy market would reinforce rather than undermine supply security by allowing greater interconnection and increase the availability of emergency resources in the event of a crisis. Following up the issue in a 1990 working paper, the Commission stressed the compatibility of supply security and internal market: the removal of obstacles to energy trade would "allow more efficient exploitation of the Community's energy resources" and reduce "reliance on external resources of energy" (European Commission 1990: 4). While the paper recognised that commercial decisions might "need to be supplemented for strategic reasons to obtain an acceptable security of supply at the Community level" (European Commission 1990: 5), it also noted that national policy measures such as extensive aid or long term contracts risked undermining the creation of a single energy market. In order to avoid this possibility, the paper stressed the need to establish Community-wide criteria for reconciling supply security policies with competition and internal market rules (i.e. the development of a Community-level approach to energy policy) (European Commission 1990: 14).

For much of the 1990s, in any case, the relative significance of supply security diminished, without wholly disappearing from the agenda, and concerns over the environmental consequences of energy use increased. This reordering of priorities was perhaps not surprising because as the salience of climate change, as a policy issue, increased on the one hand, on the other, energy prices remained at very low levels compared with the 1970s. The latter conditions made it relatively easy to argue for market-led energy policy measures. Over the course of the 1990s, therefore, the Commission made a series of proposals for a CEP (particularly around the time of the Amsterdam Treaty) which outlined a variety of measures ranging from support for new energy technologies to closer cooperation with external energy suppliers, but also continued to emphasise the importance of market liberalisation (European Commission 1995a, 1995b, 1997).

⁷ In fact, energy market liberalisation had been discussed within the parameters of EU energy policy before - the 1968 guidelines for energy gave considerable emphasis to integrating Community energy market (European Commission 1968). However these proposals were not followed up and were superseded by supply security considerations during the energy crises of the 1970s and early 1980s.

EU Energy Policy: Reviving Security, Deepening Liberalisation?

While individual initiatives on energy policy have been negotiated and agreed at the EU level over the last two decades, agreement on an overarching policy framework remained elusive.⁸ The ascent of the issue to the top of the EU's policy agenda in the last two years is due to many factors (with climate change the most significant) but the re-emergence of supply security concerns has also been an important catalyst. These concerns did not reappear over night and there was always a recognition in EU proposals that future sources of energy supplies remained a long term issue. Indeed the Commission produced a Green Paper on energy supply security in 2000 (European Commission 2000). However it does appear that the debate entered a new phase at the beginning of 2006. The trigger was the apparent disruption of gas supplies to the EU as a result of a dispute between Russia and Ukraine over gas prices at that time.⁹ The responsibility for the disruption is contested though it does not appear to have been a direct show of strength by Russia as was reported in much of the media at the time.¹⁰ However, the dispute, along with subsequent reductions in supply due to a fiercely cold winter in Russia and Eastern Europe, appeared to feed a sense of vulnerability about an increasing reliance on a small range of suppliers as the EU became more and more dependent on energy imports.

The strands of this new energy policy were proposed by the Commission at the start of 2006, revised at the start of 2007 and approved in principle by the heads of state of the EU27 in spring 2007 (European Commission 2006a, 2007a; European Council 2007a). The agreed policy included an EU wide commitment to a 20% reduction on 1990 levels of greenhouse gases regardless of international agreements. To meet this objective the member states agreed to a 2020 target of increasing the share of renewable energy to 20% of overall energy supply as well as an improvement in energy efficiency by 20%. As regards security of supply the proposals stressed the importance not only of achieving a better energy balance (something which arguably the combination of improved energy efficiency and increased renewables would facilitate) and improving network integration, but also of developing better relations with energy suppliers from outside the EU. While various mechanisms designed to achieve these objectives were envisioned, they were not independent of market liberalisation, which continued to remain central to the overall policy objectives. The Commission's proposals make clear that not only would market integration deliver competitiveness but it would also help to (1) meet sustainability objectives by enabling the "effective application of economic instruments" and promoting competition from cleaner sources of energy and (2) increase security of supply by giving incentives to invest in new capacity, promoting diversity and enhancing interdependence among member states. By contrast, it claims, existing practices which distorted the internal market would work against achieving energy security and a sustainable low-carbon future (European Commission 2007a: 6-7).

As noted, the Commission's proposals were largely accepted by EU Heads of State at their 2007 Spring Summit. There were, however, various aspects of the programme which proved contentious. Amongst the most divisive of issues were the proposals for extending the internal market in the electricity and gas sectors. Attempts to increase competition in these sectors had been at the heart of the Commission's attempts to liberalise the energy sector since the late 1980s. However, securing member state agreement had been extremely time-consuming and, in the Commission's view, of limited success. A Commission investigation of

⁸ However, it is worth noting that an explicit chapter on Energy Policy was included in both the Constitutional and Reform Treaties.

⁹ Energy issues were already attracting greater attention - as reflected in the British government's initiative at the informal Hampton Court summit on 27 October 2005 under the UK Presidency of the European Council and French government proposals earlier that year - but the events of early 2006 appear to have concentrated minds.

¹⁰ Stern (2006) argues that far from being a sudden show of strength by the Russian authorities, the dispute with Ukraine over gas supply, transit and prices had been ongoing for a number of years. However he recognises that while Gazprom's actions may have been largely driven by economic considerations the perception of the crisis was very different.

the lack of competition in these markets highlighted the market power of incumbent vertically integrated utilities in a number of member states (European Commission 2006d).

While the Commission's 2007 proposals envisaged a number of measures to increase competition and effective regulation, the most contentious was the requirement that vertically integrated gas and electricity utilities should be 'unbundled' into separately owned companies responsible for the functions of production and transmission (European Commission 2007b, 2007c). The Commission argues that the present 'unbundling' of these functions, whereby existing firms separate the different functions into subsidiaries with different management and accounting systems, has not been sufficient to allow new firms to enter the market or to prevent incumbent firms from exploiting their integrated structures. By requiring full ownership unbundling, or by establishing a highly regulated system of functional separation, the Commission hopes that competition would increase throughout Europe's energy markets. Needless to say, most of the companies which would be affected by the Commission's proposal opposed such divestment. These companies were also supported by their governments, with France and Germany leading a substantial minority of member states in rejecting the Commission's plans. Amongst the arguments raised against the proposal was its impact on supply security; breaking up national energy champions would weaken their bargaining power vis-à-vis external suppliers. It is clear that for some parts of the EU energy economy, the relationship between greater competition and greater security was not wholly accepted.

The EU's Energy Diplomacy: Market Rules?

As the dispute over unbundling indicates, there is a clear relationship between the EU's *internal* policy development (such as market liberalisation) and its *external* energy relations. Indeed, while the EU's past and present attempts at energy policy have been internally focused, there remains an important strand of EU energy policy which is externally orientated. Given the high degree of dependence on external sources of supply, it is not surprising that energy diplomacy should be an element of the strategy.¹¹ Moreover, as in other parts of the EU's energy policy, it is possible to detect the growing influence of market liberalisation. However, the scope for such a market driven approach is not as great as might be thought. Given the EU's competence in external trade relations and its bargaining power as a major economic bloc in the world economy, it could be expected that the EU would have developed an effective energy diplomacy. In practice, the development of such a policy has been limited due to the particular nature of energy markets. The application of international trade rules to energy has been much debated but scarcely pursued (not least because many of the major energy exporting countries were not members of the GATT/WTO). Suppliers and consumers have mostly preferred to conduct energy commerce outside of such frameworks (WTO 1998; Selivanova 2007).

In any case, the EU's attempts to develop a common front, vis-à-vis external energy suppliers, has been mixed. One of the reasons why earlier attempts to develop a common energy policy were unsuccessful was the diversity of national interests regarding relations with supplier countries and the determination of member states to defend those interests. The failure of the then nine member states to present a united front during the 1970s energy crises (or indeed of the "eight" to support the Netherlands when it faced a boycott of oil supplies by Arab exporters in 1973) only underlined the persistence of 'national' over 'Community' concerns (Lucas 1977; Lieber 1980). Subsequent attempts to develop an energy diplomacy were less ambitious and took the form of a series of dialogues with major energy suppliers, notably oil exporting nations in the Middle East and the Gulf. Such dialogues were designed to encourage economic development and diversification in exchange for a stabilisation of supplies. In the 1980s and 1990s the Commission presided over a wide range

¹¹ Imports accounted for slightly more than 50% of energy needs in 2005 and this is expected to rise to 70% by 2030 on current trends.

of international programmes designed to foster cooperation on energy matters, mostly in the realms of training and research on technical issues of energy technologies and policy analysis (European Commission 1995c). Such cooperative initiatives have remained an important part of the EU's external energy relations, but increasingly the overall thrust of energy diplomacy has been couched in terms of market access with the aim of opening up trade and investment opportunities in energy exporting countries. Therefore, just as market liberalisation emerged as a core element of the intra-EU energy policy agenda in the 1990s, so too did it become a more important component of EU relations with external energy supplier states (European Commission 1997: 2). Moreover the EU's growing effectiveness in trade policy strengthened its willingness to adopt a more active energy diplomacy.

With renewed concerns over supply security, the diplomatic dimension of energy policy has become more important. This is reflected in the fact that energy has become an important part of external relations (van der Linde 2007). As an indication of its significance, in 2006 Commission President Barroso called for all summits with third countries to prioritise energy matters (Barroso 2006). The overall thrust of policy was expressed in a joint document prepared by the European Council and Commission in June 2006. Stressing that "(w)ell-functioning world markets are the best way of ensuring safe and affordable energy supplies" the document proposed that the EU should extend its energy market "to include its neighbours within a common regulatory area with shared trade, transit and environmental rules" while more widely "the EU should advocate reciprocity in market opening and respect for market rules: non discrimination, competition, transparency and enforcement" (European Council 2006a: 2). At the multilateral level the report called for the integration of "the EU's energy objectives...into its multilateral trade policy", a proposal subsequently reinforced by the Trade Commissioner (Hagry 2006). A similar emphasis on markets was apparent in the Commission's follow-up work. The 2007 Energy Policy proposals make very clear the importance that the EU "speaks with one voice" on international energy matters and argues that it use its established role in trade to secure commitments from energy suppliers for the liberalisation of trading, investment and access conditions (European Commission 2007a: 17-18).

The most important target of the EU's external energy policy are its neighbours or near neighbours, many of whom are suppliers of energy to the EU or host the infrastructure which delivers key resources to the Union. A key component of this policy is the EU's determination to provide clear legal frameworks premised on market access, in effect bringing the logic of the internal market and international trade rules to the energy sector across much of Eurasia and the Mediterranean. The EU's approach is a mix of regional and bilateral agreements, the former setting out a mixture of general principles and obligations, the latter consolidating these objectives and commitments according to the specific characteristics of the partner and the EU's relationship with them.

One of the first expressions of the EU's 'liberal' energy diplomacy was the European Energy Charter, later the Energy Charter Treaty (European Commission 1991, 1993; Energy Charter Treaty Secretariat 2002). Originally mooted by Dutch Prime Minister, Ruud Lubbers, as a post cold war equivalent of the ECSC which would bring together the countries of Eastern and Western Europe through closer energy relations, the European Energy Charter was signed in 1991. It set out a framework for cooperation which was to span the whole of Europe on the basis of principles of open markets, non discrimination and access for foreign investment *inter alia*. It also stressed the need for an international agreement to provide a common set of rules and dispute settlement procedures which would be based on GATT/WTO principles and rules. Negotiations on the Energy Charter Treaty began in 1992 and the Treaty was signed in 1994, entering into force in 1998 and subsequently followed up by negotiations on various protocols, including one on transit (i.e. access to networks in countries between the seller and buyer of energy). However, while signed and ratified by most of the governments of Europe, the Treaty remains to be ratified by some of the most important energy players in the region, notably the Russian government (Haghighi 2007).

The Energy Community Treaty which entered into force in 2006 (European Commission 2006b) effectively applies the EU energy *acquis*, particularly the internal market provisions, to the Western Balkans and it may be extended to other near neighbours such as Moldova, Turkey and Ukraine. While the Treaty provides the non-EU parties with access to EU energy markets, the core intention of the agreement is to establish a single framework for energy markets in both the EU and those countries that are, or may become, candidates for EU membership. Parties to the Treaty are in the process of agreeing national 'road maps' which are intended to bring their energy policies into line with this goal.

The Commission has indicated that it is keen to extend the provisions of the Energy Community Treaty to reforming countries in other strategic regions, notably around the Black and Caspian Seas. In the interim, however, it has established separate frameworks for engaging these regions in an energy policy dialogue. The 'Baku Initiative' of 2004 involves countries from these regions, as well as from Central Asia, in a joint effort to foster regional energy markets and develop new infrastructure with the longer term aims of bringing about the convergence of energy policies and the creation of a larger energy market (European Commission 2006c).

With regard to its neighbours to the south of the Mediterranean, the EU has been seeking to develop a similar framework for its energy relations. Since the 1995 Euro-Mediterranean Conference, member states and the countries of the Middle East and North Africa (MENA) have been trying to agree a framework for enhancing energy cooperation. As part of the 'Barcelona Process', the Commission has used these discussions to foster reform in the energy producing and transit countries of MENA as a means to provide 'security of investment' (European Commission 1996).¹² Initial proposals to extend the Energy Charter Treaty framework to the region have given way to a range of other projects, the most recent of which was a 2007 agreement on a five year 'Priority Action Plan' to bring about the convergence of market conditions and energy policies as a prelude to creating a Common Euro-Mediterranean Energy Market (European Council 2007b).

Such regional frameworks, along with more general programmes such as the European Neighbourhood Policy, are potentially important in framing the terms of the EU's energy relations with its near neighbours, particularly where the agreements entail binding commitments and dispute settlement procedures. However, the EU has also put considerable effort into securing bilateral agreements with individual energy supplier or transit countries. Indeed it has sought to substantiate the broad principles of regional agreements with more detailed agreements on a bilateral basis. So far such bilateral agreements have been negotiated with Azerbaijan, Morocco, Ukraine and Jordan. It has also been courting suppliers such as Kazakhstan and Turkmenistan (European Commission 2007d).

However, the major prize for EU energy diplomacy would be an agreement with Russia to place energy relations on a surer footing. Russia supplies 20% of the EU's oil needs and 40% of its gas needs. For a number of years the EU sought to persuade the Russian government to ratify the Energy Charter Treaty and its Transit Protocol. The Russians, arguably correctly, saw this proposal as a potential threat to the market position of the country's incumbent energy companies, notably Gazprom, and have so far been unwilling to sign up (Haghighi 2007). Instead, the main framework for EU-Russian energy relations has been an 'Energy Dialogue' (European Commission 2004). Established in 2000, this has been the venue for some quite difficult discussions on energy matters over the last few years and hopes of a

¹² When the Euro-Mediterranean Partnership was launched there were also hopes that the Energy Charter framework would be extended to relations with energy suppliers in the Mediterranean.

more wide ranging agreement to open up energy markets have yet to bear fruit (Johnson 2005; Gomart 2007).

The Return of Security and Sovereignty in Energy Policy

The Russian response to the EU's calls for more liberalisation is perhaps the strongest example of the limits to the EU's strategy. Given the way that market liberalisation has come to influence EU energy policy overall, its increased prominence in energy diplomacy is understandable. The Commission and many energy consuming states claim that such an approach is the best guarantee of supply security because it removes obstacles to market access and investment. However, it is not at all clear that such a view prevails elsewhere, particularly amongst the major energy exporting countries. For many of these countries, and arguably some energy consuming countries as well, the return of energy security as a core concern has also revived interest in national sovereignty over energy resources.¹³

The last few years have seen a backlash against the terms on which foreign investors secured energy assets in the developing world and former socialist states. Governments in those countries have sought to revisit what they consider to be unfair agreements, often renationalising the assets or asserting greater control over their development. In addition, energy firms from those countries have, in some cases, been keen to develop their presence in 'downstream' energy markets, even selling direct to final consumers, as a way of securing more of the economic benefits from their assets. These moves by governments to assert greater sovereignty over what are often the key sources of export and fiscal revenue have been characterised as the principal example of a revived 'economic/resource nationalism'. Arguably this revival has been a contributory factor to the rising energy prices and supply security concerns. It is, however, debateable whether higher energy prices and tighter energy markets have prompted governments to seek greater control and economic rents, or whether governments' interventions have themselves contributed to higher prices and supply side constraints.

While signs of such 'energy nationalism' are apparent in Sub-Saharan Africa, Latin America and parts of Central Asia, the most important developments for the EU have been those taking place in Russia and Algeria. Taken together they account for around 60% of the EU's gas imports (Russia 42% and Algeria 18%). In both cases, the national governments maintain close relations with the principal national energy companies through partial or complete state ownership and those relationships have been deployed in recent years to strengthen control over national energy resources at the expense of foreign involvement in 'upstream' activities such as exploration and production.

Partially state-owned Gazprom has been able to rely on the support of the Russian authorities in securing a stronger position within the Russian oil and gas markets, in some cases revisiting the terms on which foreign participation in new energy projects had previously been agreed. Over the last few years a number of Russian projects in which companies such as BP and Shell had secured highly advantageous terms began to encounter serious regulatory problems. In the case of Shell, only after it reduced its major shareholding in the Sakhalin II gas project were the regulatory difficulties resolved (Ostrovsky 2006).

Over the same period, Algerian relations with foreign investors in its energy sector have also been revised (though with less of the highly public tensions which have accompanied the Russian cases). In 2006 the Algerian government reversed a planned liberalisation of its investment regime for oil and gas, reinstating the principle of majority Algerian ownership in new projects (Hoyos 2006). In 2007 the state owned oil and gas company Sonatrach rescinded an agreement with the Spanish companies Gas Natural and Repsol for the

¹³ The changes are particularly apparent in the oil sector (see Hoyos 2007).

development of a major oil and gas project on the grounds of delays and cost overruns (England 2008a, 2008b).

At the same time as consolidating their control over domestic gas production, both companies have also been able to take advantage of their market power vis-à-vis consuming countries to gain a greater downstream presence in many parts of the EU. In recent years energy companies such as Sonatrach and Gazprom have been able to establish or acquire supply companies in a number of EU member states, enabling them to sell directly to consumers. In the case of Gazprom, for example, the company has been able to acquire distribution and transmission companies and has established supplier subsidiaries in a number of member states (Locatelli 2008). Sonatrach has also acquired stakes in many European energy companies and established its own marketing companies to sell direct to final customers, often in the face of opposition from existing suppliers in those markets (see Crawford and England 2008). Furthermore, in a further sign that it wants to see the state owned company diversify downstream, the Algerian government has indicated that granting future exploration rights for foreign investors would be dependent on obtaining overseas energy assets (England 2008a, 2008b).

The EU's Response: Reciprocity and its Limits

Such activism has crystallised concerns in some member states and the European Commission that the balance of power between suppliers and consumers has become seriously skewed to the EU's disadvantage. There is the potential for third country energy suppliers to penetrate EU downstream markets at the same time as EU firms were facing more upstream restrictions. To compound the fears of a shift in the balance of power, there has been a growth in concern about the possibility of supplier companies (notably Sonatrach and Gazprom) developing closer links, possibly leading to the creation of a gas supplier cartel equivalent to OPEC.¹⁴

Overlapping with these worries was a wider concern about state owned enterprises investing in 'strategic' industries within the EU. While some of these concerns were directed to the increasing prominence of so-called Sovereign Wealth Funds – government owned investment vehicles which often draw upon the fiscal gains from high commodity prices (Whyte and Barysch 2007) – they were also directed at the presence of state owned energy firms as investors in EU energy utilities. There was a worry in some member states that such investors might use their ownership position in pursuit of wider political objectives rather than immediate economic returns.¹⁵

The response of the European Commission to these developments has been to back up its call for market opening agreements with a more active use of its competition and internal market powers. In the first instance it has used the competition provisions of the Treaty to tackle the more restrictive elements of agreements between energy producers in third countries and their utility customers within the EU. In the second it is aiming to use its internal market reforms to impose limits on the way energy suppliers from third countries can operate inside the EU, making full access conditional on a reciprocal opening up of home markets.

Signs of a more aggressive approach towards energy exporters have been apparent in the approach adopted by the Commission's competition authorities in recent years. For many

¹⁴ Fears of such a cartel have been widely debated since 2006 and were highlighted by organisations such as NATO (Buckley et al 2006). Others are more skeptical about the possibilities of such an arrangement given the nature of the international gas trade (see Finon 2007; Darbouche 2007).

¹⁵ According to President Barroso, while generally the EU welcomed foreign investment, in the energy sector "we should be open but we should not be naive. We want to have a mechanism which if needed can be activated to protect the internal market from foreign designs whose motives are not purely commercial." (Hagry 2007).

years gas exporters and their partners within the EU have agreed to a number of restrictions on the marketing of contracted gas, in particular limits on the scope for gas buyers to resell outside of their supply zone. The Commission considered such restrictions to be against European competition rules and launched investigations in 2000. Between 2003 and 2007, all of the major exporters and their EU based customers have agreed to remove any restrictions on the sale of such gas and profit sharing (Wäktare 2007). So far, however, it has not applied its competition powers more widely against what some would consider the anticompetitive behaviour of some suppliers (Milligan 2007).

Instead, the Commission has sought to use its reform of EU gas and electricity markets to tackle the structure of exporting companies' operations and potentially to obtain some reciprocity in terms of investment and possibly market access conditions. As noted, the main objective of the EU's legislation was to ensure a fully competitive internal market for electricity and gas. The reforms involve amendments to existing rules on market liberalisation to increase the degree of separation between companies involved in importing or producing gas and electricity on the one hand and transmitting, distributing and supplying it on the other. However, such changes would not only apply to the utilities based inside the EU; companies from third countries which produced or supplied energy to EU markets would also not be able to own transmission systems within the Union. In addition, the Commission's proposals require that third country operators would not be able to own such assets unless there was an agreement between that country and the EU which covered a wider range of energy market issues. In effect the Commission's proposal implies greater reciprocity of market access in exchange for involvement by energy suppliers in downstream markets within the EU (ab lago 2007a).

These requirements, commonly referred to as the 'Gazprom clause', have proven to be very controversial and have been criticised by both third country suppliers and their governments.¹⁶ However, it is not clear whether the proposed measures will be translated into legislation. As noted, the directives in which these provisions are included have been heavily criticised by a number of EU energy companies and their governments. Needless to say, those energy utilities which are not fully unbundled have been the most hostile to the Commission's proposals in this area. They and their governments have been seeking to water down the unbundling provisions since the principle was mooted by the Commission (ab lago 2007b). While their opposition is premised on the impact on their own operations, any changes they were able to secure might also impact upon what is expected of third country operators. The question of a reciprocity clause would probably be addressed separately.

Indeed, while the vertically integrated incumbents tend to defend their market power as necessary to negotiate on equal terms with exporters such as Gazprom, their relationships with such suppliers are generally good, with many of them having recently renewed long term supply contracts with the exporters and some (such as E.ON) have still closer linkages through minority shareholdings. The Chair of one utility has been reported as claiming the threat to EU energy supplies does not come from companies such as Gazprom but from the European Commission on the grounds that its various energy proposals are discouraging future investment (Milne 2007).

In a sense therefore the Commission's attempts to liberalise both internally and externally, face a significant challenge from within its borders as well as from outside. Indeed, throughout the liberalisation process it has encountered an alliance of companies and governments which has constrained and shaped the pace of reform. The parameters of that alliance have changed with market developments but it remains a problem as governments have sought to promote and protect the interests of their national energy champions. Aside from the unbundling issue the main manifestation of the tension between the Commission and some states has been over the issue of corporate restructuring. While the

¹⁶ See for example the critical response of Vladimir Putin at the time of the EU Russia Summit (Bruls 2007) and from the CEO of Gazprom (ab lago 2008).

Commission has generally sought to encourage the development of Europe-wide utilities which would compete for consumers across many member states, it has been faced with a number of member states seeking to shape such reorganisation to the advantage of their national firms. In some respects, such as where mergers between national firms have escaped the scrutiny of the EU Merger Regulation, the Commission has been unable to act. In other cases, however, it has sought with mixed results to prevent national authorities from blocking takeover attempts either through a 'golden share'¹⁷ or the manipulation of corporate governance and other rules. In such cases, the member states justify their actions as necessary to defend their strategic interests in maintaining energy supply. While the Commission has sought to act against these restrictions where they conflict with Internal Market principles, the process is drawn out and uncertain. In the meantime, such manifestations of 'energy nationalism' inside as well as outside the EU might be regarded as compromising the Commission's attempts to liberalise energy markets at home and abroad.

Conclusion

This article has attempted to show how liberalisation has become an important principle of not only the EU's internal energy policy but also its energy diplomacy. In both respects, moreover, the pursuit of market opening has been seen as important for ensuring the security of energy supplies. The policy has had some successes, particularly with countries which aspire to join the EU (and where arguably the EU has a stronger bargaining position). Yet it is not clear how far this strategy can be pursued with those energy suppliers who are unlikely to be candidates for membership. In these cases, the EU's limited bargaining power is further constrained by the revival of sovereignty and security concerns inside and outside the EU. With 'economic nationalism' apparent in the policies of not only many energy exporters but also some member states, a strategy of relying on liberalisation may not be as effective as it is claimed. In effect, there appears to be a mismatch between, on the one hand, an ostensible commitment to internal and external liberal strategies led by EU authorities and, on the other, conduct inside and outside the Union where governments support and protect incumbent firms. There are signs that aspects of this policy are changing, most notably in terms of the willingness of the Commission to push a policy of 'reciprocity' in the treatment of market access and investment in the energy sector. However, even this strategy depends upon member states agreeing to internal reforms which are opposed by a significant minority.

Clearly the processes of internal and external liberalisation are intertwined. As the Joint Council-Commission proposals stressed "(e)xternal energy relations cannot be separated artificially from the wider question of what sort of energy policy the EU and its Member States want...A more fully developed internal policy is a pre-condition for delivering the EU's external energy interests, and for better judging what leverage the EU is able to bring to bear in its external relations for furthering these interests" (European Council 2006a: 1). One could add that a limited internal policy is likely to be matched at the external level.

In other areas of policy (such as telecoms or airlines) the EU has been arguably quite effective in using internal liberalisation as a driver for external liberalisation. Moreover the area of trade policy has been the area of external relations where the EU has been most effective. However, it is clear that energy is different from other external trade policies as regards the nature and flows of the traded goods and the regimes governing them. In these circumstances it appears difficult for the EU to conduct a common energy diplomacy when many member states not only maintain policies at odds with the overall orientation of market liberalisation but also seem to prefer to work with their *national champions* to arrange future energy supplies with external suppliers. For the time being it appears that sovereignty remains the prevailing principle for a number of member states. As long as this is

¹⁷ A golden share provides a state with a 'non-financial' stake in a company (usually considered important to national interest) which provides it with a veto over a possible merger of that company.

the case the EU's energy policy, in its internal and external forms, will exist more in principle than in practice.

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Security of Energy Supply in the New Europe: A Role for the European Atomic Energy Community in the European Union's Neighbourhood Policy?

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Abstract

External energy relations are essential components of both the European Union's search for an overall energy strategy, an Energy Policy for Europe (EPE) and the development of the European Neighbourhood Policy (ENP). In this article questions are posed about the role for the use of nuclear technology as the means of meeting some of the objectives of both areas of policy. As both the EPE and the ENP are dependent on the negotiation of international agreements with third parties for their effectiveness the focus of analysis presented will be on the EU's legal and constitutional framework for action and in particular the EURATOM Treaty which established the European Atomic Energy Community in 1957.

THE EUROPEAN UNION (EU)'S EUROPEAN NEIGHBOURHOOD POLICY (ENP) WAS LAUNCHED by the European Commission in March 2003 (CEC 2003b) and followed by the formal adoption of a Strategy Paper in May 2004 (CEC 2004a). The objective of the Neighbourhood Policy was to achieve a framework for partnership and co-operation amongst states in the *arc of instability* on its eastern, south-eastern and southern peripheries.¹ Through the opening of access to the EU's Internal Market and increased economic co-operation it was hoped to promote security, stability and prosperity in the wider European region. For some of these states in the eastern region (especially for Ukraine, Georgia, and Moldova and to a lesser degree for Armenia) there is an ambition to eventually accede to the EU. Acceptance that this ambition is unlikely to be achieved in the short to medium term has increased the support for the development of the ENP in the Eastern European states.

Accession is not the objective of the bilateral agreements being established under the umbrella of ENP policy between the EU and the ENP states. The agreements are however framed as a result of the experience the EU has in the use of conditionality in the 2004/7 accession process. The 'Country Strategies' for each of the ENP states outline conditions for

¹ The European Neighbourhood Policy states - Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, the Palestinian Authority, Syria, Tunisia and Ukraine.

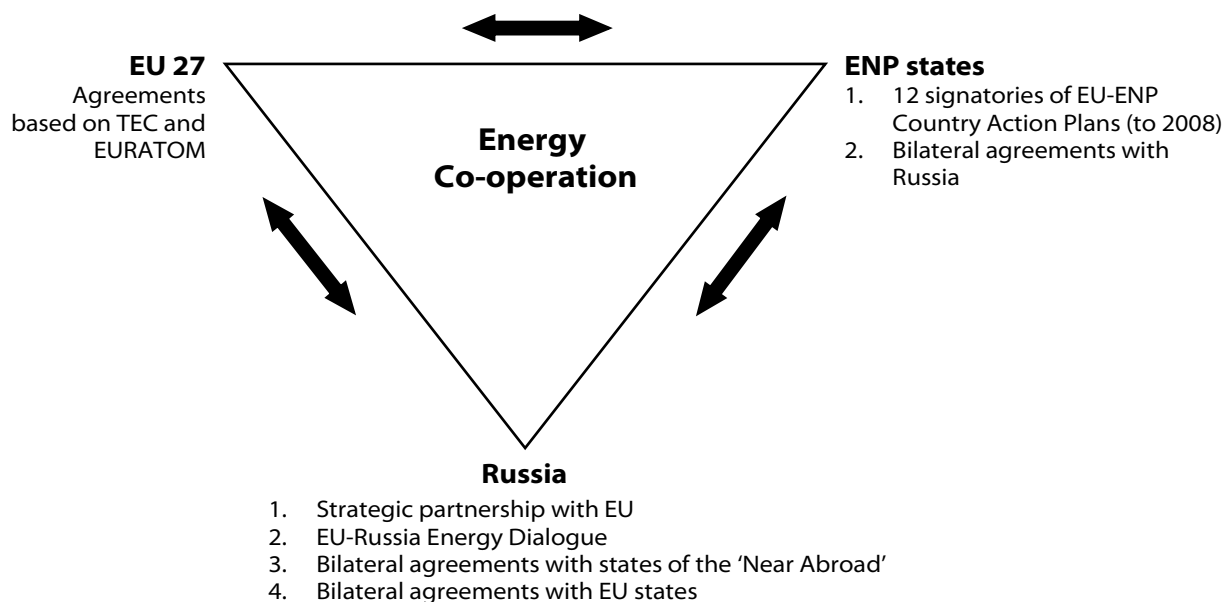
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access to the benefits of the internal market agreed between the EU and each state. The EU's positive leverage through this conditionality approach comes from the financial support² and the other benefits including access to the internal market given on the basis of the extent to which the objectives of the plans are achieved.

An inevitable consequence of the deepening of the dialogue with the ENP states lying to the east is that the EU must engage in more structured dialogue with Russia which considers that the eastern states are states of its 'near abroad'. The development of a more assertive foreign policy by Russia during the leadership of Vladimir Putin had increased the difficulties encountered establishing this dialogue. As has the fact that some in Russia have gone so far as to declare that the EU has no *legitimate* interest in the ENP states. Emerson *et al.* (2007: 8) warn of the necessity of bearing this in mind in ENP developments and of the need for the EU to "...persuade Russia that its national interest lies in a co-operative rather than coercive approach to the common neighbourhood".

Driving the urgency of engaging in dialogue with the ENP states and Russia for the EU is the high level of import dependency for energy resources which the Member States have on energy supplies from Russia. The interdependency generated by the energy trade offers advantages to all parties but has resulted in a complex pattern of agreements, many of which are made on a bilateral basis between the parties. The result is a fragile triangular partnership in which two parties, the EU and Russia, are competing for influence over the same ENP states (see Figure 1). The former Soviet states of Eastern Europe are looking for a reason to turn to support from the EU to act as a counter-weight to pressure from Russia.

Figure 1: Europe's triangle of competing partners (the case of energy co-operation)



Many of these agreements in the field of energy co-operation focus on the trade in oil and natural gas but in this article attention is turned to development of co-operation on the production of electricity by nuclear technology. For the EU states the use of nuclear

² In 2007 the European Neighbourhood Partnership Instrument (ENPI) replaced the TACIS and MEDA funds for the period 2007-2013 and with a budget of 11.2 billion euros, increasing the available funds for the ENP states by 32% from the previous budgetary period of 2000-2006. Of the ENPI Budget 494 million euros was allocated to projects in the Ukraine between 2007-2010 and 98.4 million euros to Armenia for 2007-2013.

technology to generate electricity is a highly controversial issue and very different national policies have been adopted towards its use. All the EU states are signatories of the EURATOM Treaty which established the European Atomic Energy Community (EAEC) in 1957. In this article questions are posed about the role which the EAEC, and the competences established for it in the EURATOM Treaty, may play in the development of energy security in the wider Europe.

Energy security may be defined as the ability to secure access to secure and sustainable energy resources. The ideal would be for those resources to be indigenous and large-scale so that a country is able to respond to current demands and have confidence in its independence from other countries for future energy needs. But this is not possible in the interdependent world. As Gideon Rachman (2008) commented in an article in the *Financial Times* "calls for energy independence are all but universal". Energy security (i.e. the ability to access secure and sustainable energy resources) is now central to the foreign policies of the United States, the emerging Asian economies and the EU.

The launch of the Energy Policy for Europe in 2007 outlined the EU's strategy to access secure and sustainable energy resources, emphasising the importance to this objective of the development of a more coherent approach to external energy policy (CEC 2007a). European Commissioner for External Relations and European Neighbourhood Policy, Benita Ferrero-Waldner (2008), identified the required objectives of such a policy as:

...addressing our ability to maintain basic supplies and service, (including energy, (specifically) ...diversifying our sources of supply, our transit routes and our internal energy mix...addressing energy security in our political dialogues with all external partners; discussing and taking action to protect critical infrastructure and diversify supply routes and building on the memorandum of understanding we have already signed with countries like Azerbaijan, Egypt, Turkmenistan and Jordan (ENP states).

The analysis presented in this article demonstrates the ways in which the EURATOM Treaty offers an opportunity for the EU to act as a single entity, concluding agreements with Russia and the ENP states to achieve a number of objectives including some with regard to aspects of safety in the nuclear sector, accountability of nuclear materials to ensure they are not diverted to military usage, combating trafficking of nuclear materials and technology transfer and co-operation (CEC 2006b:17).³ In the absence of changes being made to its terms or legal status it is argued that the EURATOM Treaty strengthens the available policy instruments of energy dialogue and co-operation within the EU's Neighbourhood Policy.⁴

Weaving a Web of Agreements

The power of the EU to conclude agreements on energy co-operation is undermined by the high degree of fragmentation of instruments and objectives which characterises EU Energy Policy overall. National interests remain strong in the arena of energy policy measures and national governments *jealously guard* their competences as the appropriate bodies to determine their own national energy policy structures. Despite a number of developments during 2006 and 2007 (e.g. the emphasis on the international dimension given to European Energy Policy (CEC 2006a:4), inclusion of a clause on energy solidarity in the Lisbon Treaty) the impact of the fragmentation in the internal operation of Energy Policy remains and is an obstacle to establishing a more coherent External Energy Policy.

³ These were identified in 2006 by the European Commission (2006b:17) as a group of nuclear issues of common interest where increased multilateral action would enable the ENP states and the EU to respond to more effectively in the wider regional context. A commitment was also made to enhanced dialogue with ENP partners planning to use nuclear energy in the future.

⁴ Two ENP states are currently users of nuclear electricity – Ukraine and Armenia as is Russia. New reactor development is planned in all three states. Ukraine is also one of the world's uranium mining countries. In the discussion which follows the abbreviation ENP2 will be used to refer to Ukraine and Armenia together.

Amongst the legal and constitutional tools which the EU has in its portfolio of instruments to achieve energy security in the wider Europe is the EURATOM Treaty. The Treaty has remained substantively unchanged since it was adopted in 1957. It may be repealed or amended at any time. But this would require the unanimous vote of all the signatory states and the political willingness to undertake revision of the EURATOM Treaty does not currently appear to be evident amongst the EU's national governments. Despite much criticism of its longevity and outdated emphasis on support for a single industrial sector the EURATOM Treaty thus continues to retain a separate legal personality from that of the European Union Treaty.

The Treaty was more difficult to negotiate in 1956 than its proponents had anticipated because of differences in national nuclear energy policies that had already emerged (for detailed discussion see European Parliament 2002). Although the political and socio-economic environments within which the nuclear sector is operating in 2008 have altered, national nuclear energy policies which are highly divergent remain in place. As the author of this article has argued elsewhere, recent opportunities to amend or repeal the treaty were not taken (Barnes 2007). This would suggest that it would be difficult to negotiate a treaty in which the signatories agreed to co-operation on the peaceful, civilian use of nuclear technology today for different reasons from those encountered in 1957, most specifically because of difficulties reconciling national nuclear energy policies. So the question of what value the EURATOM Treaty has in the development of the actions of the Neighbourhood Policy must be addressed.

The Neighbourhood Policy is based on the EU adopting a role as a normative foreign policy actor and exporting through its exercise of soft power instruments the norms of European integration.⁵ In the wider European region the norms of energy co-operation are seen as improved security of access to energy supply, enhancement of competition, environmental protection, increased energy efficiency and development of renewable energy resources. The main tool which the EU has at its disposal to achieve its energy policy commitments is the market liberalisation and the opportunities for the transfer of energy resources on integrated transmission systems. Increased connectivity between the energy markets of the EU, the ENP states and Russia and the development of infrastructures for transfer of energy (including electricity) are vital components of the co-operation. Electricity is a potentially tradeable commodity within the enlarged internal market being created as a result of the agreements with the ENP states. It is not possible to differentiate the generating source of electricity on an electricity transmission network. *De facto* the opening of the internal market for electricity has increased the need for co-operation in the nuclear sector with those ENP states which are generating nuclear electricity (Ukraine and Armenia) and with Russia.

Nuclear energy co-operation is also founded on the commitments made by the EAEC on behalf of the EU states, the EU's member states acting separately, Russia, and the ENP states also acting separately, to adhere to the safety principles of the International Atomic Energy Agency (IAEA)⁶. These commitments form the basis of the International Convention on Nuclear Safety.⁷ The objective of this Convention is to legally bind the signatory states

⁵ Joseph S. Nye defines (2005) *soft power* as the ability to be able to get others to want what you want by co-opting rather than coercing them. It relies on attractiveness of a country's culture, political ideals and policies and in large part arises from the values and norms which are held within a country. The attraction of these is what encourages others to acquiesce or imitate them.

⁶ The IAEA is an independent international organization reporting to the General Assembly and the Security Council of the United Nations. It was established as an autonomous agency by the United Nations on 29th July 1957, as the world's *Atoms for Peace* Organisation, IAEA Statute, Article 2. 'The Agency shall seek to accelerate and enlarge the contribution of atomic energy to peace, health and prosperity throughout the world. It shall ensure, so far as it is able, that assistance provided by it or at its request or under its supervision or control is not used in such a way as to further any military purpose'.

⁷ The International Convention on Nuclear Safety was adopted June 1994, opened for signatures on 20th September 1994 and entered into force 24th October 1996. The EAEC acceded to the Convention in 1999. By 2007 the Convention's signatory states numbered 65, including all 31 states with operating nuclear power plants globally.

producing nuclear electricity to maintain a high level of safety at the power plants. Reports on the implementation of the necessary measures are subject to peer review at meetings of the IAEA. As the EAEC is a signatory to the Convention the European Commission has the requisite competences to provide these reports on behalf of the EU. The issues addressed in the Convention include ensuring that there is no undue risk to the health and safety of the general public and site personnel from the operation of nuclear installations, including nuclear power plants, research reactors, parts of the nuclear fuel cycle and related infrastructure.

EURATOM: An Appropriate Legal and Constitutional Basis for Action in the Wider European Region?

The EAEC was established to provide the conditions for the development of nuclear energy in Europe by sharing the resources required (financial, materials, technical and expertise). Specifically it was to provide protection of the workers in the industry and the general public and to enable agreements to be developed with third parties and international organizations on issues relating to supply and peaceful use of the technology. Exclusive Community competence for action focused on eight main areas which were outlined in Article 2 EURATOM, with prominence being given to safety of the workers in the industry and the public in the areas surrounding the nuclear power plants.⁸

These limitations on the competences given to the EAEC, including the lack of competence for the safety of the nuclear installations themselves, were the result of the powerful national interests that had resulted in the development of differing national nuclear policies in the 1950s. Two factors played a role in the reluctance of the Member States of the EAEC during the negotiations of 1956/1957 to open up the nuclear sector. One was the link between the use of nuclear technology for electricity generation and the evolving nuclear weapons technology. Both energy and military strategic competences were and continue to be considered by national governments as vital aspects of national security interests. At the same time strong national commercial interests were evolving in the electronuclear sector and the Treaty negotiations were constrained by concerns by the national industry (particularly that of France) that commercial information would have to be revealed in order to ensure enforceable nuclear safety regulations by the EAEC (European Parliament 2002).

Despite changes to the political and socio-economic environments in which the electronuclear industry is operating the EURATOM Treaty has remained an element of the *acquis* which all EU states must adopt on their accession to the EU. As such the Treaty encompasses a group of signatory states with national nuclear policies as diverse as that of Austria (anti-nuclear) and France, Finland, Lithuania and Bulgaria (supporting new reactor

⁸ In order to perform its task, the Community shall, as provided in this Treaty:

- a) promote research and ensure the dissemination of technical information;
- b) establish uniform safety standards to protect the health of workers and of the general public and ensure that they are applied;
- c) facilitate investment and ensure, particularly by encouraging ventures on the part of undertakings, the establishment of the basic installations necessary for the development of nuclear energy in the Community;
- d) ensure that all users in the Community receive a regular and equitable supply of ores and nuclear fuels;
- e) make certain, by appropriate supervision, that nuclear materials are not diverted to purposes other than those for which they are intended;
- f) exercise the right of ownership conferred upon it with respect to special fissile materials;
- g) ensure wide commercial outlets and access to the best technical facilities by the creation of a common market in specialised materials and equipment, by the free movement of capital for investment in the field of nuclear energy and by freedom of employment for specialists within the Community;
- h) establish with other countries and international organizations such relations as will foster progress in the peaceful uses of nuclear energy.

(Article 2 EURATOM)

developments) to present a unified approach when dealing with aspects of external nuclear energy policy (see Barnes 2006 and Foggatt 2007).

It may be that the seeming resilience and longevity of the Treaty is because it “...(is) a remarkable document that expresses the essential commitments of the parties in a flexible and forward-looking language” (CEC 2002a:7).⁹ It may be because it is a very specific Treaty supporting an area of energy generation which appeared, particularly in the late 1980s and 1990s following the Chernobyl disaster, to be no longer relevant in the energy debate. Alternatively, the longevity of the Treaty may result from the fact that those negotiating Treaty changes are often more concerned with reform of the institutional frameworks which support the operation of the EU as a whole rather than one specific aspect of energy policy.¹⁰ Particularly as such negotiations would relate to a technology as controversial and divisive within the EU as the nuclear energy technology. Irrespective of the explanation, the Treaty remains. As such it is an instrument which the EU has at its disposal to use to support the developments of the frameworks of action with the ENP states and Russia.

The utility of the Treaty has been demonstrated in the interpretation and application of its terms throughout the history of the EAEC. Measures have been developed to improve the safety standards for the industry, monitoring of the use of nuclear materials, commitment to nuclear weapons non-proliferation and research into new aspects of the nuclear technology for commercial use. All the EU’s nuclear generating states use safety standards based on those of the IAEA and the Convention on Nuclear Safety. These are standards which have been developed on the basis of international experience in nuclear safety since the 1950s. Safety of the nuclear installations themselves remains a competence of the national authorities of the nuclear generating states of the EU.

The safety regimes in place at the nuclear installations have evolved in independent ways in the differing national contexts because this competence was not transferred to the EAEC. But, at the same time a *non-binding acquis* has been developed within the EU combining and harmonising national practices on safety.¹¹ In addition to this harmonisation of national practices a number of legislative acts based on the legal framework of the EURATOM Treaty have been adopted all of which do have an indirect impact on installation safety (Barnes 2003). As a result by the beginning of the 2000s the European Commission confidently concluded that the EU has the most effective safety regime and system of control of nuclear materials in the world (CEC 2002d). A conclusion that appears to have been substantiated, by the close co-operation which has been achieved between the EAEC and the IAEA on the safeguarding of nuclear materials.¹²

In recognition of the growing urgency to address problems relating to nuclear decommissioning and safety of nuclear reactors, particularly in the light of enlargement to Central and Eastern European states (CEC 2002d) the European Commission proposals for a package for measures to address these concerns were put forward in 2003 (CEC 2003a) on the basis of the EURATOM Treaty. Despite amendments being made to the proposals (CEC 2004b) they remained un-adopted in 2008. But safety of the electronuclear industry sector

⁹ In 2002 a High Level Expert Group was established to report on the effectiveness of the ESO as the terms of the EURATOM Treaty had not been revised since 1957. The findings of the Group were that the ESO should remain the focus of EU wide controls for both practical and legal reasons. “The EURATOM Treaty being a remarkable document that expresses the essential commitments of the parties in a flexible and forward-looking language” (CEC 2002:7).

¹⁰ My thanks to one of the anonymous reviewers of this article for reminding me of the realities of the negotiating process within the EU.

¹¹ Also supporting the development of the voluntary harmonisation of national practices is the work of the Western European Nuclear Regulators Association (WENRA) established in 1999 by the regulatory authorities of the EU and Switzerland to build a network of European states to determine a common approach to safety and develop an independent capability to examine nuclear safety in the applicant states of the EU. In 2008 the regulatory authorities of 17 European states were parties to this association.

¹² Co-operation based originally on a Cooperation Agreement between the EAEC and the IAEA 75/780/EURATOM, OJ L 329, 23.12.1975 pp.28-29, strengthened in a joint statement by Commission President Barroso and Director-General of the IAEA Dr. El Baradei in May 2008, IP/08/719, Brussels 07.05.2008.

has been identified as of high priority in the development of the EU's energy policy, both within the EU and in its relations with other states. At EU level the Heads of Government of the Member States have declared that the role of the EU should be "...to develop further, in conformity with Community law, the most advanced framework for nuclear energy in those Member States that choose nuclear power, meeting the highest standards of safety, security and non-proliferation as required by the EURATOM Treaty ..." (Brussels Council March 2007: para.32). And as "...nuclear power also raises important issues regarding waste and decommissioning so nuclear waste management and decommissioning should also be included in future Community work. The EU should also continue their efforts to ensure that such standards are observed internationally" (CEC 2007a:17).

Support for the development of nuclear industry in the EAEC was based on the EURATOM Treaty provision for funding for research and development of nuclear fission technology (Article 7 EURATOM). This support for the EURATOM research programmes has continued throughout the history of the EAEC, the most recent being included in the Seventh Framework Research and Technology Development programme (FP7) proposed by the European Commission 2007-2013. Agreement on the budget for the EURATOM Research Programme 2007-2011¹³ was difficult to achieve because of the divergent views of the national governments about further developments in nuclear fission technology. Eventually agreement was reached in the Council of Ministers on 24 July 2006 with the bulk of available funding being directed to new fusion technology developments and limited amounts for decommissioning of fission technology.¹⁴

Of the total budget for EURATOM research of 2.7 billion euros, 2.1 billion are to be allocated to fusion research and in particular the development of the International Thermonuclear Experimental Reactor (ITER) which is under the auspices of the IAEA.¹⁵ The agreement for the ITER development in Cadarache, France, was signed on 21 November 2006 and will include input from the EU27, represented by the EAEC, Russia, Japan, China, India, South Korea and the United States. The ITER development is regarded by many as having the potential to make a major contribution to sustainable and secure energy supplies in Europe. Critics such as Friends of the Earth (FoE) on the other hand point out that it is unlikely to be at the stage of commercial production before 2050 because of the difficulties of achieving and maintaining the high temperatures needed for the reaction to take place. In the view of FoE it will take too long and require a very large investment which could be used in the development of other energy technologies.

Further financial support for the evolving European nuclear industry came when a lending instrument was established in 1977 empowering the European Commission to issue *EURATOM loans* for the purpose of contributing to the costs of construction of nuclear power stations (Council Decision, 77/270 EURATOM). In the period between 1977 and 1987 90 new-build projects in Belgium, France, Italy, Germany and the UK were partially financed through this loan facility. However as concerns about the safety of the nuclear industry grew in the late 1980s following the Chernobyl disaster no applications were made for new projects by the nuclear states of the EU 12 and all loans had been repaid by 2000.

¹³ Although included in the FP7 the budgetary line for EURATOM actions remained separate and for a shorter period of time than other funding for research projects, but a facility was agreed to extend the EURATOM funding for an additional two years to ensure that the budgetary lines were synergous with one another.

¹⁴ Nuclear fusion – is the process of fusing two hydrogen atoms to form a single atom of helium. One gram of the fuel produced can develop the same energy as 45 barrels of oil. However the process requires extremely high temperatures which it is not yet possible to achieve in a reactor.

¹⁵ The total funding package of the FP7 was more than 50 billion euros for the time period 2007-2013. The EURATOM Budget as a separate budgetary line included 2.7 billion euros for the period 2007-2011 with the possibility for an extension of funding to for the period to 2013. Energy technology research was identified as one of the co-operative themes in the overall budget with 2.3 billion euros allocated to new energy technology developments particularly renewable energies. A difference in funding that led environmentalists to express concern that the nuclear technologies were receiving unjustifiable levels of support which would divert attention from the development of renewable technologies.

Although no loans were authorized from 1987 in 1994 the scope of the EURATOM lending facility was extended (Council Decision, 94/179 EURATOM). The Commission was authorized to contract EURATOM borrowings in order to finance improvements in safety and efficiency of non-EU member states – specifically targeting Former Soviet Union (FSU) states likely to be amongst the first to apply for membership of the EU, and also Ukraine. In particular:

...the Commission is empowered to contract borrowings the proceeds of which will be allocated in the form of loans to finance projects to increase the safety and efficiency of the nuclear power stations of the non-member states...(projects must relate)... to nuclear power stations or installations in the nuclear fuel cycle which are in service, or under destruction or to the dismantling of installations where modification cannot be justified in technical or economic terms (CEC 2002c:2).

Using this facility EURATOM loans were provided for improvements to safety standards and/or construction to the Bulgarian government (in 2000 for Kozlduy 5 and 6 reactor units, 12.5 million euros), Romania (in 2004 for Cernovoda 2, 223.5 million euros) and to Ukraine (in 2004 Khmelnitzky 2 and Rovno 4 units, 83 million euros) (2002c:18).¹⁶ Articles 41 - 44 EURATOM Treaty require notification to be made to the European Commission of any new reactor developments within the EU. A favourable opinion is then required from the Commission on the provisions made by the national governments of finance to meet de-commissioning costs and funds for the management of radioactive waste. By complying with these requirements in 2007 in preparation for the construction of a new reactor unit at the Belene site, the Bulgarian government became the first member state of the EU to be eligible for a EURATOM loan since 1987.

Criticisms of the EURATOM Treaty may be made on the grounds that developed as it was in the context of the highly regulated and subsidised energy sector of the 1950s it is based on an outmoded paradigm of state support for a sector of energy production. Svein Andersen in a study of the liberalization of the gas market points to the way in which the energy policy paradigm underpinning EU action has changed since the 1950s from a traditional model of energy developments by public bodies supported by long term state investment and subsidies to one of market functionality (Andersen 2000). There is still a considerable element of state involvement in the contemporary energy sector but the focus is now on the creation of liberalized power markets in which all modes of electricity generation should be competitive without state support. As the EU 27 is faced with the energy reality of increasing dependency on imported energy resources the primary tools which are available to respond to this challenge are those of the market.

Any subsidies given to energy developments may be seen in terms of unfair advantage for that particular technology over other aspects of the energy sector. The creation of the European internal market for energy requires an underpinning of a level-playing field for all electricity producers. Electricity, as a product from all generation sources, is a tradeable commodity which may be moved both within the integrated European energy market and as a commodity for export trade outside the EU. EU competition legislation applies to nuclear electricity as a commodity available for trade. Legislation to liberalize the EU's national markets in electricity and thus reduce prices for domestic, commercial and industrial users, based on the TEC, applies also to electronuclear production.

Here lies the problem for the EU in dealing with nuclear energy. The EURATOM Treaty provides a framework for collaborative action that includes support for high levels of state intervention to assist the development of nuclear energy technology. The economic viability of the electronuclear industry remains contested, as is the question of appropriateness in terms of offering state support for the use of technology which requires a high level of capital investment in the construction phases in an increasingly liberalised and privatised energy sector. From the viewpoint of the contemporary electronuclear industry itself

¹⁶ At the time these loans were agreed with the Bulgarian and Romanian governments neither state was a member state of the EU.

however it has been "...demonstrated that nuclear power does not, over the long term, require subsidy". (World Nuclear Association (WNA) 2005:10). A situation acknowledged by the European Commission "...if you would like to build a nuclear power station it is an investment-based decision without state aid. We are not in a situation where we should provide state aid for the nuclear industry..." (Piebalgs 2006). However in the view of the European Renewable Energy Federation and Greenpeace when they launched their challenge to the funding arrangements for the new reactor development at the Okiluoto site in Finland state aid in the form of export credits and loans at special rates to the companies involved are indeed examples of state subsidies to the nuclear sector (Greenpeace, Press Release, 26 September 2007).¹⁷

The creation of the European Atomic Energy Community was not a commitment by the national governments of the six signatory states to any form of co-operation on the military use of nuclear technology in 1957. The political realities of the 1950s Treaty negotiations were dominated by the reluctance of the national governments of the EU to proceed with strategic and military integration in a context other than the North Atlantic Treaty Organisation (NATO). The underlying political philosophy for the creation of the EAEC was a search for peaceful co-operation, not collaboration so that weapons of war could be developed. Not all the EU's Member States had developed or were intending to develop nuclear weapons capability in the 1950s. As it remains an element of the EU's acquis the EURATOM Treaty is one of two treaties which have an impact on the approach to nuclear non proliferation which is adopted by the EU 27 – the Nuclear Non-Proliferation Treaty (1 July 1968) (NPT) being the other. Both contain measures and statutes on safeguards of materials. All the NPT signatory states (those which are nuclear weapons states and those which have agreed to exclusively peaceful uses of the technology) have voluntary agreements and protocols with the IAEA for inspection to ensure that nuclear materials are not being diverted to military use.¹⁸

The EURATOM Treaty transferred competences to the EAEC to ensure that the fissile materials being used in the nuclear reactors of the EAEC were only being used for peaceful purposes. The EURATOM Safeguards Office (ESO) was established to ensure all EU states did not divert or acquire materials away from their intended and declared uses (Chapter VII EURATOM). (The ESO is now based under the supervision of the Commission (DG TREN) and is considered to have more robust mechanisms in place and a much clearer current role and mandate than the EURATOM Supply Agency (ESA).¹⁹ The EAEC is thus a party to the agreements which have facilitated the co-ordination of its role with that of the IAEA in the monitoring of the terms of the NPT within the EU. For some of the supporters of the EURATOM Treaty it is this competence which has created a "...firewall against proliferation of nuclear weapons, through the elements of ownership of fissile material and nuclear safeguards ...(which) was and is its main success (of the Treaty)" (Linkohr 2007).

¹⁷ Subsidies for the nuclear industry are also the subject of much controversy in the US which has 104 operating reactors and plans expected to be made for up to 27 new reactor developments in the next two years. (Economist September 6th 2007) The US Energy Policy Act of 2005 (Pub L. 109-058) includes provisions for grants of up to \$2 billion in insurance against regulatory delays and lawsuits for the first six reactors to receive licences and begin construction. It extends a law limiting a utility's liability to \$10 billion in the event of an accident and provides a tax credit of 1.8 cents per kWh for the first 6,000 MW generated by new plants. The Act also guarantees for an indeterminate amount of loans to fund new nuclear reactors and other types of power plant using 'innovative technology'.

¹⁸ France and the UK of the 189 signatory states of the NPT are declared Nuclear Weapons States (the others being the USA, Russia and China). Some NATO countries, the EU Member States of Germany, the Netherlands, Belgium, Italy, Greece and the applicant state of Turkey, have forces which are trained to use US nuclear weapons. India, Pakistan and Israel are known to have nuclear weapons and have not signed the NPT and North Korea is now withdrawn.

¹⁹ The EU is highly dependent on imported uranium supplies and the European Supply Agency was established in 1960 as a procurement agency. It was concluded in 2002 that the Supply Agency exists, '...but is a mere shadow of what was intended.' European Parliament (2002:xiii) In 2006 the ESA had only 17 employees but as the price for uranium ore rises on the world market its future role may arguably increase.

Reluctance to Repeal the EURATOM Treaty

Recent criticisms have been made that the EURATOM Treaty is "...an undemocratic, outdated alien in the world of the liberalized market" (Fouquet 2005). These criticisms are NOT based on the Treaty competence in managing and developing aspects of safety in the electro-nuclear industry, an aspect of nuclear energy policy which many policy makers and members of the general public feel should be subject to a stringent legislative framework. Rather they are made on the basis of the lack of involvement of the European Parliament²⁰ in the decision making process of the EAEC and the high level of state support for an aspect of the energy sector as the European energy market becomes more open to liberalization and de-regulation. As one of the founding Treaties of the European Union the EURATOM Treaty was included in the list of Treaties to be reviewed as outlined in the Laeken Declaration, 2001 (Laeken Council, December 2001). Whilst several options, including repeal of the Treaty, were possible discussion of the EURATOM Treaty was limited within the context of the Convention's debates.

The main argument for this appeared to be that the Praesidium of the Convention regarded the Treaty as a distinct, complex and technical subject which it was not appropriate for the Convention to consider (Secretariat of the European Convention 2003). As a result the EURATOM Treaty was retained instead as a Protocol annexed to the Draft Constitutional Treaty (DCT). A declaration was however appended to the Constitutional Treaty, (signed by Germany, Ireland, Hungary, Austria and Sweden) noting that the Treaty had been unchanged since its adoption in 1957 and supporting an Intergovernmental Conference to review its terms as soon as possible (Declaration 44, DCT).

Failure by all the Member States of the EU to ratify the Constitutional Treaty created a difficult period of reflection and then negotiation on alternatives amongst the national governments which concluded with the introduction of a draft Reform Treaty²¹ by the German presidency in 2007, being ratified in 2008. At the same time during 2006 and 2007 the European Union engaged in a search for an Energy Strategy which would ensure that secure, competitive and sustainable energy for the EU. Commitments to energy solidarity and action to curb climate change were included in a more explicit manner in the Lisbon Treaty proposals than such commitments have been to date in the Treaties. The outcome of these debates was for the EURATOM Treaty to be maintained in a Protocol as proposed in the DCT, thus leaving its separate legal personality unaltered. The question of an early IGC to review the Treaty was not addressed by the Heads of Government meeting to sign the Reform Treaty in Lisbon.

Despite the commitments to energy solidarity the Lisbon Treaty confirms that the supranational competences with regard to the energy sector are still to be limited. Measures in the field of energy will be taken by the ordinary legislative procedures with qualified majority voting in the Council and co-decision in the European Parliament. This should not affect the rights of Member States to decide on the choice of energy resources and the structure of their national energy industries. Decisions which significantly affect a Member

²⁰ The European Parliamentarians have argued for a stronger role in the areas covered by the EURATOM Treaty as "... (I)t can be plausibly argued that it is precisely in these areas...relating to safety that the public most feels the need for rigorous democratic scrutiny, control and accountability" (EP 2002:2). Support for increasing the EP's role in the EURATOM Treaty also came during the deliberations of the Convention on the Future of Europe. In the so-called 'Penelope paper' which was prepared by a task force led by Francois Lamoureux, Director General DG TREN proposals for changes to the EURATOM Treaty included support for the extension of Qualified Majority Voting and co-decision to nuclear energy policy. (CEC 2002e) The objective of the proposals intended to bring the EP into the decision-making process include the power to adopt laws, with the Council, on basic standards for nuclear safety. A view which has continued to be represented within DG TREN of the European Commission "... the first - and most important in many ways would be to give the EP a greater role rather than just a consultative one. Make more decisions, co-decisions with qualified majority voting for more issues" Official of DG TREN in correspondence with author, July 2005.

²¹ Signed by the Heads of Government in October 2007 in Lisbon when it adopted the name of the city in which it was signed and has since come to be known as the Lisbon Treaty.

State's energy choices and the general structure of national energy supply remain subject to unanimity vote. It would thus appear that the Lisbon Treaty is proposing little change to the decision-making process which underpins the development of energy policy and measures in the EU.

The manner in which the national governments of the EU have decided to continue to guard their rights to choose their national energy resources demonstrates how little room there is for bargaining and consensus building between the national governments about future nuclear energy policy development. At the Brussels Council in 2007 it was clearly stated that the Energy Policy for Europe will pursue three objectives, *fully respecting the Member States' choice of energy mix and sovereignty over primary energy resources* (Brussels Council, March 2007). In the EU some states are more heavily dependent on the sector than others, some states are in the process of developing new reactors, some are reconsidering new nuclear projects, whilst others with no-nuclear policies nevertheless import electricity from states which are nuclear electricity producers. As such agreement would be difficult to achieve on regulation of an energy resource and technology which is regarded as unsafe by many amongst the electorates of the EU's Member States. The EURATOM Treaty does provide a legal framework for action which might not be provided if the Treaty was subject to re-negotiation for amendment or repeal. From a practical perspective the impact of failures to ensure safe operation of the industry in the geographical area of the EU and its neighbouring states could result in major environmental consequences including damage to human health and life. Politically it is unacceptable for the decisions made about one country's energy policy to carry with it the potential to significantly affect another country's environment or population.

As the search for a competitive, secure and sustainable energy policy intensifies not just in the EU but globally the importance of maintaining a diversified electricity sector is apparent and it is in that context that the nuclear energy option is gaining in support (WEC 2007). Richard Youngs (2007), in his analysis of the EU's external energy policy, highlights how firmly the EU's energy policy is grounded in the internal market and its effective operation. In the external dimension the approach to energy security is thus focused on spreading the internal market rules to the east and south of the EU. The objectives of some EU states (such as Bulgaria) and those of the ENP (Ukraine) are to participate in trade of electricity, irrespective of the technology by which it is produced. Therefore "...care should be taken to ensure that the development of trade does not in the medium term lead to the placing on the (Market) of electricity produced in nuclear power stations whose safety is not guaranteed..." (CEC 2002d:74). The presumption being that the EU would not wish to encourage the maintenance and longevity of nuclear reactors which are located in the wider European region and contributing to the integrated electricity market but are palpably unsafe and should be closed.

The EURATOM Treaty: A New Role for an Old Instrument?

The European Union is heavily dependent on imported supplies of the fossil fuels needed to meet its growing energy demand. Solidarity amongst the Member States on energy measures appears to offer the most effective way forward to meet the challenges the EU 27 faces, but the rhetoric of the national governments does not match their action and protection of national interests continues as a constraint to proposed strategies. In March 2006 the European Commission launched a debate about how the European Union was to achieve the competitive, sustainable and secure energy policy which is required for the future (CEC 2006a).

Whilst there is agreement within the EU that energy usage and its impact on climate change should lead to the development of low or if possible carbon free economies there is debate about the most effective mechanisms to achieve this goal. No technology used for electricity generation currently is carbon free. It would appear that the renewable technologies, which are less carbon producing than the fossil fuels, are not yet able to match the growing

demand for energy. The use of the nuclear energy option in national energy policies is gaining support globally,²² not just in some European states (see Table 1, below).

Table 1: Reactors by Member and Candidate State (to summer 2007)

	% of national electricity produced by the nuclear sector	Number of operable reactors	Reactors under construction	Reactors planned and proposed
Belgium	55	7		
UK	19	23		
Finland	26	4	1	
France	78	59		2
Netherlands	4	1		
Spain	23	9		
Sweden	52	10		
Germany	32	17		
Czech Rep	41	6		2
Hungary	34	4		
Lithuania (1)	72	1		1*
Slovakia	55	6		2
Slovenia (2)	39	1		
Bulgaria	44	4		2
Romania	8	1	1	3
Croatia		(with Slovenia)		
Turkey (3)		0		3/5
EU 27 + candidates		152	2	11
World (4)		442	28	204

Source: various European Commission and IAEA (cited in Barnes 2008).

Notes

- (1) Lithuania, planned new nuclear power plant with Latvia, Estonia and Poland
- (2) Croatia, no nuclear power plant of its own but Croatian national electricity company has co-ownership of plant at Krško in Slovenia
- (3) Turkey, accession to the EU estimated by 2020
- (4) 68 of the global total of planned reactors are in China

²² World Energy Council (2007:Introduction) 'To meet energy demand of all households worldwide, energy supplies must double by 2050' with policy makers being prepared to keep all options on the table. *Energy Policy Scenarios to 2050* World Energy Council, November 2007, WEC website <http://www.worldenergy.org/publications>.

Nuclear electricity requires high levels of capital investment to be made at the construction phase but once in operation has low marginal operating costs and an ability to run most economically at very high load factors thus meeting the demand for volume base-load electricity. The International Energy Agency (IEA) 2006 World Energy report concluded:

...new nuclear power plants could produce electricity at a cost of less than 5 US cents per kWh if construction and operating risks are appropriately managed by the plant vendors and power companies. At this cost nuclear power would be cheaper than gas-base electricity...(but) more expensive than conventional coal-fired plants...(but) the breakeven cost of nuclear power would be lower when CO₂ prices are taken into account (cited in CEC 2006c:12).

Within the EU inability to meet demand with alternative sources was a major factor in the decision of French and Finnish governments in the period 2005-2007 to commission new reactors. It has been the driving force behind the decision of the Lithuanian, Latvian, Estonian and Polish governments to enter into discussion for a joint project to build a new reactor at the Ignalina site in Lithuania. The favourable opinion of the European Commission for the construction of a new reactor at the Bulgarian Belene nuclear power plant in December 2007 was to meet demand following the de-commissioning of other Bulgarian reactors in preparation for accession. The debate about nuclear electricity has also been reopened in other EU states such as Germany, Italy and the UK. For the ENP2 states Ukraine meets 48% of its electricity needs from its nuclear reactors, Armenia 42% and these high levels of dependency make it difficult for these states to find alternatives. Both states have plans in place for new reactor construction to replace reactors which are being de-commissioned.

The Energy Policy for Europe (CEC 2007a) contains an outline of plans which would achieve the aims of increasing the security of energy supply, ensuring the competitiveness of European economies and the availability of energy and at the same time promoting environmental sustainability and combating climate change. This Action Plan was accepted by the European Council and accompanied by some ambitious targets to achieve curbs in greenhouse gas emissions the European Council "...emphasizes that the EU is committed to transforming Europe into a highly energy-efficient and low greenhouse gas emitting economy" (CEC 2007a: Annex 1). Whilst the contribution nuclear electricity may make to the development of a low carbon economy is contested, the European Commission in presenting this strategy for future energy policy considered that nuclear power was the least carbon-producing energy source after offshore wind power and small-scale hydropower (CEC 2007a:18).

It is acknowledged in the EPE Action Plan that no single element of policy provides all the answers and that energy policy must be addressed by many different policy areas. As a consequence of the changing acceptance of the nuclear sector, its increased economic viability, continued safety concerns and developments of the EU's technological lead in this field certain conclusions were drawn in the EPE.

Recalling that the EPE will fully respect Member States' choice of energy mix the European Council notes the Commission's assessment of the contribution of nuclear energy in meeting the growing concerns about safety of energy supply and CO₂ emissions reductions while ensuring that nuclear safety and security are paramount in the decision-making process, confirms that it is for each and every Member State to decide whether to rely on nuclear energy and stresses that this has to be done while further improving nuclear safety and the management of radioactive waste.... (CEC 2007a: para. 11).

The EURATOM Treaty as an element of the EU's energy *acquis* which all states accept on their accession includes the statement that "...only joint effort undertaken without delay can offer the prospect of achievements commensurate with the creative capacities of their countries ..." (Treaty Preamble). This statement implies a commitment (which has not been repealed) to solidarity on aspects of developments relating to the nuclear sector. The EURATOM Treaty thus gives the EU the competence "...to develop further, in conformity with Community law, the most advanced framework for nuclear energy in those Member States that choose

nuclear power, meeting the highest standards of safety, security and non-proliferation as required by the EURATOM Treaty..." (CEC 2007a: Annex 1).

The EU's safety regime is based on the 25 safety principles of the IAEA which are also the basis of the International Convention on Nuclear Safety. There is overlap but not duplication in the work of the IAEA and the European Commission on nuclear safety and safeguards on nuclear materials. The European Commission and the IAEA work in close collaboration on the development of these standards. In order to avoid duplication of effort within the EU the IAEA procedures are invoked to verify the EU's procedures but not to replace what the EU is already doing. This is in recognition of the fact that through the European Safeguards Agency the EU states have in place a more comprehensive and effectively monitored system in place than the IAEA is able to achieve.

Although the role of the European Court of Justice is limited in the competences awarded by the EURATOM treaty the legislative acts and measures which are in place have been supported by rulings of the European Court of Justice. In aspects of the EU's nuclear regulation (e.g. transport of waste) the implementation mechanisms of the TEC may be applied. In the IAEA's monitoring through inspection of nuclear power plants in non-EU countries the issues of non-compliance with safety standards are harder to determine. Extending the EU's safety regimes and competences to co-operation with Armenia and Ukraine through the ENP policy will thus bring positive benefits.

The Value-added of the EURATOM Treaty in the European Neighbourhood

The value-added of the EURATOM Treaty as an instrument to address problems of safety in the operation of the nuclear industry both within the EU and in states in the European neighbourhood was first demonstrated in the early 1990s. The catalyst for the EU to take action outside its borders on nuclear safety came from two interlinked events. The first was the catastrophic events at the Chernobyl nuclear power plant in the Ukraine in April 1986 and the second was the interest shown in accession to the EU by states of the former Soviet Union.²³ The action taken then has produced the model of action to be used in the ENP2 Action Plans.

Despite incidents such as the melt down of part of the core of reactor unit 2 at the Three Mile Island (TMI) nuclear power plant in USA in 1979²⁴ a spirit of complacency about the safe operation of Western Europe's reactors had developed by the 1980s. This complacency was shattered in 1986 by the devastation wrought by the explosion and fire in the Soviet designed reactors at the Chernobyl nuclear power plant. Fall-out from the Chernobyl explosion was detected across the whole EU including the UK and Scandinavia, where it remains a problem today. It demonstrated very clearly how dependent the states of Europe are on one another to deal appropriately with nuclear safety in the wider European region. Admittedly the reactors in Western Europe had been built to different designs from those of the Soviet designed technology used at Chernobyl, but the widespread nature of the devastation undermined levels of support and confidence in the nuclear industry overall. It caused a re-think in some Member States of the EU, for example in Italy where reactor developments had been pioneered in the early 1960s. In November 1987 the outcome of a referendum held in Italy was to halt all new reactor construction programmes and initiate a programme of de-commissioning of existing reactors from 1990. The Italian government

²³ Date of applications from the former Soviet States – Hungary 31 March 1994, Czech Rep. 17 January 1996, Poland 5 April 1994, Slovenia 10 June 1996, Romania 22 June 1995, Slovakia 27 June 1995, Cyprus 4 July 1990, Latvia 13 October 1995, Malta 16 July 1990, Estonia 24 November 1995, Lithuania 8 December 1995, Bulgaria 14 December 1995.

²⁴ Whilst it was felt that the TMI incident had been contained within the power plant itself in 1979 it was nevertheless considered to be serious enough for 30,000 people living in the local area to be screened for the effects of radiation until 1997. The clean up of the damaged reactor took 12 years at a cost of US \$973 million.

reversed this policy in May 2008 and announced the development of an action plan to resume nuclear reactor development within 5 years.

When meeting in Munich in 1992 the leaders of the G7 countries²⁵ commissioned a study of nuclear safety at nuclear power installations in Central and Eastern Europe and the countries of the FSU because of the widespread concerns about the safety of Soviet design reactors. Particular attention was paid at the G7 summit to developing a programme of action which would include support for the enhancement of regulatory regimes for improvements of the operational safety of plants, alongside the closure or up-grading of those plants with the most serious problems. These proposals were accompanied by calls for funding from the World Bank and European Bank for Reconstruction and Development (EBRD) and the completion of the International Convention on Nuclear Safety (G7 Summit Communiqué, 1992).

The EU Heads of Government concluded that it was appropriate for the EU to take a lead role in the international efforts to ensure the safety of the Soviet design reactors because of the proximity of the states where these reactors were located. A Council Regulation published in July 1992 emphasised the importance of intensifying the harmonisation of the safety measures within the EU. At the same time a commitment was made to intensify co-operation with the states of Central and Eastern Europe and the Republics of the former Soviet Union in order to bring the levels of safety in their nuclear reactors up to those of the EU's states (Council Resolution OJ C 172, 8 July 1992). Following from this as the states of Central and Eastern Europe made their applications for membership of the EU the Commission was given the mandate, based on its EURATOM Treaty competences, to undertake careful monitoring and review of their Russian technology nuclear reactors.

The overall objective of the work undertaken by the European Commission was to bring the accession states to a level of nuclear safety compatible with that of the EU's Member States. Analysis was prepared by the European Commission and included in the initial evaluation of the applicant states which was presented to the European Council in 1997 (CEC 1997). By the Cologne Summit of June 1999 a two-pronged approach to dealing with the safety at the Soviet design reactors had been developed by the European Commission. Firstly remedial short term action was to be undertaken at the reactors with the most serious problems and secondly the longer term safety considerations would result in closure of the unsafe reactors, modernisation of others and a commitment to a search for alternatives to nuclear generated electricity.

For the new Member States the reactor closures were deeply controversial. There is a high dependency on nuclear electricity in the new Member States as a domestic source of energy which will reduce their reliance on imports of Russian energy resources and its attempts as a result to retain influence in these states. However closure programmes have been carried out, supported by EU funding and new reactor developments are planned (for example in 2006 the governments of Latvia, Estonia, Lithuania and Poland signed an agreement for the construction of a new reactor at the Ignalina power plant, replacing a unit closed in preparation for EU accession) and others proceeding to construction.

The mandate given to the European Commission in the EURATOM Treaty to work in this field provided the basis of a coherent approach from the EU's Member States. The European Commission officials were brought into direct collaboration with the nuclear authorities of the accession states in order to ensure that appropriate regulatory authorities were established. This was before the states (Hungary, Slovakia, the Czech Republic, Bulgaria, Romania, Slovenia, Lithuania) using nuclear electricity had acceded to the EU. Agreements

²⁵ G7 Informal grouping of leaders of Canada, France, Germany, Italy, Japan, UK, USA and the EU represented under current institutional structures by the President of the European Commission and the Head of Government of the Member State holding the rotating presidency at the time of the summit meeting. When the Russian Federation began to participate at these summits in 1998 the group assumed the title G8.

on funding, including access to the EURATOM loan facility, from the European Union to support the closure and upgrading of reactors in the accession states were also initiated. It is this approach of technical assistance and financial support which has been adopted within the ENP framework of energy co-operation for the EU and the ENP2.

Financial support comes in the form of loans and grants. In 1991 the TACIS Nuclear Safety Programme²⁶ was introduced with a total budget of 721 million euros (including 100 million for the Chernobyl shelter fund) and PHARE²⁷ funding of 192 million euros for the same period. As a result 950 projects were financed, 300 under PHARE, 650 under TACIS (CEC 2006c). In 2007 this funding was replaced by the Instrument for Nuclear Co-operation (INSC) with provisions to finance nuclear safety co-operation in the ENP2.²⁸ The need for available funds for future reactor developments upgrades and modernisation of existing plants and de-commissioning of ageing reactors within the EU's Central and Eastern European States, the ENP2 states and Russia, however remains.

EURATOM loans (see above) are not disbursed from the EU's budgetary funds but are funded on the financial market. There is no subsidy from the Commission or the EAEC associated with EURATOM loans. But they are the only international financial instrument providing unrestricted long term funds for nuclear projects. EURATOM loans can only finance up to 50% of the investments needed, and therefore require involvement of complementary financial sources, such as:

- In EU member states: internal cash flow of the operator, financial market, banks, European Investment Bank (EIB).
- In non-member states: the state concerned, the EBRD (only available for closure of reactors), internal cash-flow of the operator, financial market, banks, export credit agencies.

The period of highest levels of financing for nuclear electricity generation by the EIB was between the 1960s and 1980s when 6.6 billion euros was lent for investments for nuclear power stations, experimental facilities and facilities relating to the nuclear fuel cycle in France, Germany, Belgium, the UK and Italy. In a similar fashion to the fall in applications for funding through EURATOM loans during the 1990s and early 2000s few requests were made to the EIB for financing of nuclear electricity projects. In 2007 the EIB reviewed its policy with regard to energy related projects in the light of the adoption of the EPE. The EIB's Corporate Operational Plan for 2007-2009 included five energy related priorities – renewable energy; energy efficiency; research development and innovation in energy; security and diversification of internal supply (including the trans-European networks); energy security and economic development in neighbourhood and partner countries (EIB 2007). As nuclear sector projects raise very specific issues of safety and requirements for de-commissioning funding the EIB require notification to the Commission under the terms of Article 41 EURATOM as an essential pre-requisite before a loan is authorised. The EIB also carries out economic, technical, environmental and financial assessments of all projects and ensures that they are fully consistent with EU and national law and policies.

In December 2007 the European Commission gave the required favourable opinion to the new nuclear power plant at Belene, Bulgaria (IP/07/1874, Brussels 6 December 2007) in

²⁶ TACIS is the instrument established in 1991 to provide financed technical assistance to states in Eastern Europe and Central Asia, including Armenia, Russia and Ukraine. It was initiated as a 'stand-alone' programme but has become an instrument of the more strategic approach being developed by the EU towards these states.

²⁷ PHARE (Pologne, Hongrie, Assistance à la Reconstruction Économique) set up in July 1989, initially to support the transition of Poland and Hungary to democracy and market economies and then widened to encompass all the Central and Eastern European states.

²⁸ The INSC was established by Council Regulation EURATOM 300/2007 on nuclear safety co-operation, February 19th 2007, published in the OJ L 22.03.2007, 81/1, with a budget allocated of 524 million euros for the period 2007-2013. It replaced the TACIS Nuclear Safety Programme.

accordance with articles 41-44 EURATOM notification of new developments. The favourable opinion followed discussions between the European Commission and the Bulgarian government about financing of future de-commissioning at the proposed reactor and safety at the installation. It is estimated that a EURATOM loan facility of 300 million euros will be authorised in addition to financing from the EIB. (European Atomic Forum 2008) The first of the two units at the new plant is expected to begin operation in 2011 and the second in 2013. The new power plant is intended to replace lost capacity from the closure of reactor units at the Kozloduy plant, which was a condition of Bulgaria's accession to the EU. In addition the objective of the new reactor development is also to enable Bulgaria to become an electricity exporting state.

A number of controversies had surrounded the proposal for the new Belene reactor. The project is an initiative of the Natsionalna Elektricheska Kompania of Bulgaria (which will hold 51% stake in the investment) and is based on a design developed by Atomstroyexport JSC of Russia (a company in which the state owned Gazprom has an interest). Atomstroyexport will act as the main contractor with Areva NP (France) and Siemens (Germany) as the main sub-contractors. Concerns were raised that this would in essence be Soviet designed technology and would not meet the standards of safety required within the EU. However the reactors are to be Russian design but their operational systems will be supplied by Areva and Siemens. In addition, although a single regulatory safety design standard does not exist for the EU as a whole, the project met the European Utility Requirements for Light Water Reactors²⁹ (which is also the basis for the development at the Olkiluoto 3 nuclear reactor unit in Finland).

The agreement on this contract, which includes Russian input, is a demonstration of the continued influence of Russia in Bulgaria, now an EU state. It was one of a package of energy contracts agreed between Russia and Bulgaria in January 2008 including co-operation on the construction of the South Stream gas pipeline which is valued at more than 10 billion euros. The conclusion of this package of energy contracts between Russia and Bulgaria demonstrates two realities of the energy challenges being faced within the wider European region. Firstly the levels of energy interdependency which exists and the interaction between the energy utilities which are involved in the sector and secondly how difficult it is for the EU to establish a common external energy policy when member states engage in bilateral agreements with a third party.

Co-operation with Russia in the European Neighbourhood

The co-operative approach to dealing with nuclear safety issues with Russia and with Russian support to deal with nuclear safety issues in the wider European region has evolved since the mid-1990s. This is evidenced in the meetings of the G8 states and since 2000 in the EU-Russia Energy Dialogue. At the G8 Summit held in Moscow in April 1996 Russia joined the G7 States in publishing a declaration on Nuclear Safety and Security. The emphasis in this declaration was on international collaborative action to promote a high level of nuclear safety worldwide. It provided the grounding for increased collaboration and co-operation on nuclear related issues between the EU, the other states of the wider European region, for which accession is not an option in the short term but a longer term perspective, and also Russia.

The G8 Summit in Kananaskis, Canada (2002) agreed to establish a G8 Nuclear Safety and Security Group which reported back at the 2007 Summit in Heiligendamm, Germany. The

²⁹ EUR European Utility Requirements for Light Water Reactors – this is a common set of requirements agreed by the major European utilities for Light Water reactors at nuclear power plants. They were developed as a result of a project begun in 1991 to promote the harmonisation of the safety approaches, equipment specification and standards and the information needed for the assessment of safety in LWRs. Amongst the utilities which are parties to the EUR agreements are British Fuel (UK), EdF (France) and Rosenergoatom (Russia).

objective of the report was to "...develop a common understanding of internationally acceptable safety and security levels in the fields of nuclear installations, radioactive sources, decommissioning, radioactive waste and spent fuel management facilities in order to benchmark ...national practices". Support for the Ukrainian government to convert the damaged reactor unit at Chernobyl to a safe condition and for the Armenian government's closure and de-commissioning of the Medzamor nuclear power plant were highlighted in the report. The EURATOM Treaty provides the legal and constitutional framework for the EU states as a group in the implementation of measures relating to these commitments.

The main tool of foreign policy which the EU has at its disposal is the prospect of accession. Requirements to close or upgrade reactors in the accession states were included in conditions for membership introduced to exert influence on states prior to their accession in 2004/7. The interdependencies between the EU 27 and the ENP countries in the field of energy demonstrate the desirability for the EU of establishing a common legal framework on energy with these states. In December 2006 the European Commission concluded that the ENP policy had achieved good results and become the established vehicle for co-operation across a wide range of issues but made proposals for more effective action (CEC 2006b:8). In presenting proposals for increasing the effectiveness of the ENP the European Commission reiterated the commitment to largely bilateral agreements in order to reflect the specific needs of the neighbouring states. But a number of cross-cutting themes were also identified with energy co-operation as being one of the most important where the EU and ENP states share common interests and which could be usefully addressed in a multilateral context. Indeed the interdependencies which exist in the wider European region and with Russia on aspects of energy co-operation raise this as an issue of importance in all agreements made between the triangle of partners – EU 27, ENP states and Russia.

Of the two current nuclear generating states of the ENP the Ukraine is the most significant strategically. It occupies a geographical location between Poland, Romania and Moldova in the west, Belarus in the north and Russia in the east. As a result of this location it is in the eastern region of Ukraine that Russian influence is most evident. Russia has not been slow to use energy as a weapon to maintain its influence in Ukraine (demonstrated in January 2006 when Gazprom, the state controlled Russian company, cut gas supplies to Ukraine, causing a reduction in gas supplies in some EU states and again in January 2008 when similar action was threatened). Co-operation in the area of nuclear safety between the EU and Ukraine began in the early 1990s and by 1998 304.3 million euros had been given through the EU's TACIS programme for nuclear safety, funds for the Chernobyl Shelter Fund and the Ukrainian G7 Action Plan. The Chernobyl Shelter Fund was established in 1997 to implement the Shelter Implementation Plan and to restore the damaged unit 4 at the Chernobyl nuclear power plant to an environmentally safe status. The total cost of this Plan is \$US 1 billion and overall the EU has been the largest contributor to the Fund. In addition EURATOM loans were also provided to Ukraine for upgrading and modernising reactor units at the Khmelnytskyi and Rovno nuclear power plants.

In October 2005 the European Union signed the Energy Community South-East Europe Treaty (ECSEE) with a number of Balkan states which came into force on 1 July 2006. Ukraine has observer status to the Energy Community but with the expectation of full membership in the Treaty in 2008. The primary objective of the Energy Community is to establish a single regulatory framework for trading energy across south-east Europe and the EU on the same terms. In order to do this it entails the signatory states adopting the *acquis* of the EU in the fields of energy (including the EURATOM Treaty), environment and competition. If Ukraine accedes to the ECSEE Treaty then the co-operation on nuclear safety will have a clear and firm legal basis.

A Memorandum of Understanding (MoU) on co-operation in the field of energy between the EU and Ukraine was signed during the EU-Ukraine summit in Kiev in December 2005. It formed the basis of the European Neighbourhood and Partnership Instrument between the EU and the Ukraine on energy co-operation. Two of the four identified areas of energy co-

operation were nuclear safety of the operating Ukrainian nuclear power plants (subject to the competences discussed in this article) and the integration of the electricity market (subject to the terms of the TEC). Included in the MoU was an agreement for a safety evaluation in the Ukrainian nuclear reactors to be undertaken by the end of 2006. The MoU with Ukraine shows the relevance of the EURATOM Treaty to energy co-operation between Ukraine and the EU as it is under its terms that co-operation on nuclear safety, control of nuclear fusion, controls on trade in nuclear materials³⁰ and fuel cycle services, prevention of illicit trafficking of nuclear materials, pursuit of nuclear research and technology development have been included in the agreement.

For Armenia, where the prospect of EU accession is an ambition but a more distant prospect than for Ukraine, participation in the ENP is a mechanism by which the regional isolation of the state and lack of economic development may be addressed. The Armenian average per capita GDP was only \$US 1,523 in 2005; considerable less than that of the EU 27 which equalled \$US 32,900 in 2007. Tensions remain within the Southern Caucasus over the status of the region of Nagorno-Karabakh and settlement of Armenian-Turkish relations over the recognition of the Armenian genocide during World War I. As a result of these tensions the borders of Armenia with Azerbaijan and Turkey have remained closed and there has been a consequent impact on the Armenian economy. In the early 1990s war broke out between Armenia and Azerbaijan over the status of the Nagorno-Karabakh region. Although there has been a cease-fire since 1994 security in the region is an issue of grave concern for both Armenia and the EU.

A major focus in the EU-Armenia ENP Action Plan is co-operation on a peaceful resolution to the status of Nagorno-Karabakh in line with the strategic objectives of the EU's Security Strategy (CEC 2003c). The prospect of accession by Turkey to the EU has increased the tensions between Armenia and Turkey over the recognition of the Armenian genocide. Although it is not an official EU policy, many states of the EU have supported the arguments of Armenia that events in the region during World War I which led to the death of 1.5 million Armenians through Turkish actions should be recognised as a case of genocide. This is not a view accepted by Turkey.

Of the three states of the Southern Caucasus Armenia has the closest links to Russia in the energy sector. There is a high level of dependency on imported supplies of energy from Russia and vulnerability in particular to gas pricing disputes. Armenian government plans to diversify its energy sector to overcome the insecurity this action brings to the Armenian economy have been delayed by continued Russian influence and involvement in the energy sector. This in turn has led to increased levels of support for developments in energy co-operation under the umbrella of ENP action from the Armenian government. However there appears to be an impasse currently over the closure of the Medzamor nuclear power plant which involves the three parties - Armenia, the EU and Russia.

A major element of the EU-Armenia ENP plan is co-operation to close the Medzamor Nuclear Power Plant. This is a first generation Soviet designed nuclear power plant built in an area of seismic activity. It was identified as a dangerous nuclear power plant in the 1990s and became the subject of international action (see above on the Nuclear Safety and Security Group report at the 2007 G8 Summit in Heiligendamm). However as the plant provides 42% of Armenia's electricity the Armenia government has pointed out to the EU that "...energy capacities must take account of the future expected needs of the Armenia, the need to strengthen energy security and the need to offset the closure of the Medzamor plant" (CEC 2005:2).

Bilateral dialogue on the Medzamor plant has been part of EU-Armenia co-operation since the early 2000s. In 2001 the EU offered to organise a conference of parties to create a fund to finance alternative energy capacity in Armenia, offering to provide 100 million euros of

³⁰ An issue which has gained in importance as supplies of uranium have become more expensive (the price of uranium ore had trebled on the world markets in 2007) and Ukraine is a supplier of uranium.

assistance if a date could be agreed on closure of Medzamor. The EU view continues to be that the plant cannot be upgraded to internationally recognized standards at a reasonable cost and provides support for nuclear safety assistance at the plant. The Armenian government view is that closure of the plant will proceed before 2016 if an alternative source of electricity can be found. However as this commitment is associated with a plan to build a new reactor at the same plant, which will not only provide domestic electricity but enable export of electricity to take place, the concerns raised by the EU about safety of the new reactor because of its location in a zone of seismic activity remain. The Medzamor Plant is owned by the Armenian Ministry for Energy but is financially managed as the result of a debt settlement agreement for unpaid deliveries of nuclear fuels by Russia's United Energy Systems, an arrangement which is due to finish in 2008. But it is unlikely that the Armenian government will be able to proceed on the new reactor development without further involvement of Russian capital.

Russia is continuing to use the *weapon of energy* in its relationship with Armenia in other projects e.g. the investment of 250 million euros in 2006 by Russia in the construction of the Thermo Power Plant V on the Hadrzan River. Instead of transferring capital for this investment gas tariffs will be maintained at a level of 55 euros instead of 110 euros as with other Russian trading partners. Armenia is almost completely dependent on imported energy. It does not have any coal production, oil or gas fields. The only source of domestic primary energy – electricity – comes from the thermo power plants of the Hadrzan River or the Medzamor nuclear power plant. For a state such as Armenia where the per capita GDP is one of the lowest in Europe and which is highly dependent on imported energy the attraction of such an arrangement is clear and maintains the close relationship which the state has with Russia. This is despite the fact that almost 40% of Armenia's export trade and 30% of its import trade is with the European Union.

Furthermore the gas transmission and distribution system of Armenia is owned and operated by Armrosgazprom which is a joint venture of the Russian owned Gazprom and Itera utilities and the Armenian state which has a 45% holding. The Armenian electricity distribution network is privatised with a British company Midland Resources Holding being the major shareholder. Of the generation plants 60% have been transferred into private ownership or Russian ownership to offset government debts (Energy Charter Secretariat 2004:11). As a result of the high dependence on imported energy and desire of the Armenian government to secure supply from diversified energy sources an important element of Armenian energy policy is to liberalise the electricity market and integrate into regional markets. Integration into the EU energy market through the ENP action plans provides an important counter-balance to the influence Russia is able to exert.

Conclusion

As a result of the energy interdependencies in the region there are arguments that co-operation should be enhanced by all parties the EU 27, the ENP states and Russia. However Javier Solana has warned that in the energy sector:

...there is a justified concern across Europe about Russia seeming more interested in investing in future leverage than in future production. Contrast Gazprom's spending spree abroad with the lack of investment and waste at home...(Furthermore) It is up to us to avoid the kind of fragmented bilateral negotiations which leave us all worse off. A more united and comprehensive approach would enhance our bargaining position (Solana 2008).

This is recognition that, unlike Russia, the EU is not a major source of energy, but rather is reliant on Russia as a mainstay of its own energy imports. So what leverage can the EU bring to bear on the neighbouring states if it does not award the prize of accession in the short term?

The European Union has developed a new mechanism to extend its influence within the wider European region. The frameworks created in the context of the European Neighbourhood Policy which was launched in 2003 marked a different approach from the EU to co-operation with states on the eastern and southern borders. The purpose was to deepen the co-operation between the EU and these states to enhance stability and security in the wider European region with states which may or may not have the ambition to accede to the EU in the future. At the same time the ENP is not a mechanism to undermine that ambition. In the arena of energy co-operation the ENP utilises the main instrument of EU Energy Policy – that of access and integration to the energy market. In the arena of nuclear energy co-operation the instrument being utilised for joint action by the EU 27 is the EURATOM Treaty. The EURATOM Treaty has remained substantively unchanged throughout the history of the EU. It provides the competences for the EU to respond to co-operation on safe operation of nuclear reactors, safeguards on the management of nuclear materials to ensure their use for peaceful and not military purposes and safe management of waste in the wider European Region.

In the wider European region the EU and Russia are competing for influence in the ENP states but have differing approaches and tools. The high levels of energy interdependencies of all parties in this triangular partnership would suggest that there are advantages for all in maintaining a co-operative approach to one another in the European region. This requires two considerations to be taken into account by the EU. The first is the need to balance its response to the needs of the regional co-operation with an awareness of the pressures on Russia to maintain its influence in the region. The second consideration is that as the EU does not yet have a coherent external energy policy urgent action must be taken in order to develop one.

The efficacy of the EURATOM Treaty as an external policy instrument to deal with issues of nuclear safety and safeguards of nuclear materials was demonstrated during the 1990s and early 2000s in states in Central and Eastern Europe. Although the goal for these states was accession to the EU the co-operative approach supported by financial aid and technical assistance to upgrade and modernise reactors proved the success of the use of the competences of the Treaty and the expertise of the European Commission to effect changes in states before they became members of the EU. As an external foreign policy tool the EURATOM Treaty provides the EU with an opportunity to bring pressure to bear on the nuclear generating states of its Neighbourhood – Armenia and Ukraine - to deal with issues of nuclear safety and the safeguard of nuclear materials. It is for this reason that this article has argued that there is a role for the EAEC and its founding Treaty in the European Neighbourhood Policy.

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The 'Great Diversification Game': Russia's Vision of the European Union's Energy Projects in the Shared Neighbourhood

Valentina Feklyunina

Abstract

This article examines Russia's vision of the European Union's energy diversification projects that focus on their 'shared neighbourhood'. It argues that although the European Union (EU), unlike the USA, is not yet seen as a serious threat to Russian interests in the area, this situation is rapidly changing, with the Kremlin becoming increasingly sensitive about the EU's plans to diversify energy supply sources and transportation routes by increasing cooperation with other former Soviet Republics within the Commonwealth of Independent States (CIS). The article highlights how the EU's energy diversification projects are viewed by Moscow as anti-Russian and details the way in which Russia is responding to this perceived threat, including plans to diversify its own energy exports.

ENERGY SUPPLY SECURITY HAS BECOME ONE OF THE TOP ISSUES ON THE EU'S POLITICAL agenda. The EU's dependence on Russian energy supplies has grown dramatically in recent years, in part due to the expansion of the EU following its most recent round of enlargement towards Central and Eastern Europe in 2004 and 2007. Recognition of this fact has informed the recent debate on energy supply for Europe. The Russian dispute with Ukraine over gas prices and overdue payments in the winter of 2005-2006 resulted in a drop in the level of supply to some EU member states. This, coupled with a growing acceptance among European states of increased assertiveness of Russian foreign policy under Putin, raised European fears that Russia was prepared to engage in 'pipeline diplomacy' and 'energy blackmailing'. It is feared that this could have detrimental effects on the security of supply of natural gas and crude oil to the EU.

In this context, diversification of energy supply sources and transportation routes is often suggested as a possible way to minimise the risks for the EU of single source dependency. The European Neighbourhood Policy (ENP) is seen as one of the key instruments in achieving this goal, as it aims (*inter alia*) to strengthen the EU's cooperation with neighbouring countries in the energy sphere. According to the ENP Strategy (2004) "enhancing [...] strategic energy partnership with neighbouring countries is a major element of the European Neighbourhood Policy" (European Commission 2004: 17). Some of the EU's neighbours, such

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as Ukraine, can offer alternative transit routes, including projects such as the existing Odessa-Brody-Poland oil pipeline and the proposed White Stream project which would bring natural gas from Central Asia to Europe via Ukraine. Others, such as Azerbaijan, are important for the EU in terms of both the production and the transit of energy from Central Asia and the Caspian Basin (European Commission 2006d). Moreover, there is a growing interest from the EU in developing cooperation with the energy-rich Central Asian countries – Kazakhstan, Turkmenistan and Uzbekistan – which are not formally part of the ENP, but which, nonetheless, are seen as “neighbours of our neighbours” (European Commission 2006c: 11). The basis of cooperation with these countries is the EU’s ‘Central Asia Strategy’ which was developed and adopted in 2007 during the German EU Presidency (Council of the European Union 2007).

As this article will show however, Russia’s policies towards these countries could pose a serious challenge to the ENP’s success in the East and to the implementation of the EU’s strategy for Central Asia. This is due to the fact that Russia has become increasingly sensitive about the EU’s actions on the territory of the former Soviet Union, specifically because it views this region as being within its own sphere of ‘legitimate interest’. Effectively, the region can be viewed as a ‘shared neighbourhood’,¹ however, the divergence between the respective EU and Russian interests in the region, both perceived and objective, is especially wide, particularly with regard to energy cooperation and the problem of energy security. Understanding this divergence in interests, from the perspective of both parties, should be paramount; unfortunately, most of the current literature written by western-based scholars has focused predominately on the EU’s perceptions of the situation and there has been little attention given to understanding Russian perceptions of the EU’s energy cooperation with the CIS countries. There is an obvious lacuna within the literature that needs to be addressed and this article aims to contribute to filling the gap. It will do this by examining how the recent developments in EU policy towards the ‘shared neighbourhood’ are viewed by Moscow. Specifically, it addresses the question of how Russian perceptions of the EU’s energy projects in the post-Soviet area shape visions of Russia’s national interest, and consequently shape the Kremlin’s policy towards the region, vis-à-vis the EU. To this end a range of documents are analysed which reflect the prevalent discourse in the Russian mass media² and the dominant discourse among Russian political elites concerning the country’s energy policy. These include official documents³ and statements by high-ranking decision-makers.⁴

The article is organised into four parts. It starts with a brief overview of the reasons behind the different energy diversification projects of the EU and Russia. The second section looks at Russia’s views on EU policy towards the ‘shared neighbourhood’ and shows how these changed following the 2004 Orange Revolution in Ukraine. It also examines how the EU’s interpretations of energy security are portrayed in Russia’s dominant discourse, and analyses the factors that contribute to Moscow’s perceptions of the EU’s diversification intentions as a threat. In the third section, the article discusses the advantages Russia perceives itself to have over the EU, and the West in general, in terms of the competition for Central Asian energy resources. The article concludes with a discussion about the implications all of this has for EU-Russian relations, and ultimately for the success of the EU’s energy policy in the ‘shared neighbourhood’. It argues that although the EU, unlike the USA, is not (yet) considered as a serious threat to Russian interests in the region, this situation is rapidly changing due to the fact that the Kremlin is becoming increasingly sensitive about the EU’s intention to diversify its energy supplies by intensifying cooperation with the CIS countries. As will be shown, the

¹ It should be noted that in the Russian dominant discourse the former Soviet Union republics are viewed as the ‘near abroad’ while the rest of the world is the ‘far abroad’.

² This includes print media and the state controlled radio station ‘Voice of Russia’, and television channel “Channel One”. These outlets were chosen because their state ownership and editorial status means that they are more likely to reproduce the dominant political discourse.

³ These are the Russian Federation’s ‘Foreign Policy Concept’ and its ‘Energy Strategy for the Period until 2020’.

⁴ These include former President Vladimir Putin; Minister for Foreign Affairs, Sergey Lavrov, and his deputies; Minister for Industry and Energy, Viktor Khristenko, and his deputies.

divergent visions of energy security held by Russia and the EU create a 'security dilemma' for both.

The 'EU-Russia-Central Asia' Triangle: The Pursuit of a 'Great Diversification Game'?

Growing EU dependence on energy supplies from the Russian Federation has recently become one of the most important issues on the EU's political agenda. In terms of EU energy consumption, about 24 per cent of natural gas and 27 per cent of oil is supplied by Russia (European Commission 2006b: 5). This dependence is seen by many in Brussels and in the national capitals as posing serious risks to the EU's energy security. The problem has become especially politicised in relation to natural gas supplies, which can largely be explained by the difference in transportation of natural gas and oil. In the trade of crude oil, dependence on a particular supplier (and transit country) is significantly lower, since both suppliers and target countries have more options. Most crude oil is brought to the consumer via a variety of routes, and not limited to the transmission via pipeline. This means that if a producer country decides to cut its oil supply to a consuming country, it is unlikely to have any major effect as the targeted country can make up for the shortfall by buying supplies on the 'spot market' (Goldthau 2008). But it must be noted that for the landlocked countries of Central and Eastern Europe the reliance on oil supply through pipeline transmission remains significant.

Gas supply, on the other hand, is by its nature generally still restricted to transport via pipeline and supply routes are therefore rather inflexible. In order to ensure delivery of gas to a different customer, a producer would have to invest in new pipeline infrastructure, which takes time to construct and requires significant investment upfront; the same logic applies for the consumer. Since the exploration and production of new gas fields and construction of pipelines is extremely expensive and time-consuming, producers and consumers generally negotiate long-term contracts that can run for up to 25 years. For the consumer the certainty of guaranteed supply for several decades also removes any need to build up expensive stocks to buffer supply shocks (Goldthau 2008). The alternative to pipeline transport of gas is Liquefied Natural Gas (LNG)⁵, however, it is expensive and not a viable alternative in the medium or perhaps even long-term (Goldthau 2008).

Table 1: EU Member States' Gas Imports from Russia (2005)

Member State	% of Total Gas Imports from Russia (2005)
Austria	70
Belgium	8
Bulgaria	100
Czech Republic	76
Estonia	100
Finland	100
France	23
Germany	57
Greece	84
Hungary	81
Italy	36
Latvia	100
Lithuania	100
Poland	68
Romania	100
Slovakia	100
Slovenia	60
Other Member States	0
EU 27	42

Source: House of Lords (2008: 47).

⁵ LNG technology allows gas to be shipped in large quantities by tankers, and thus makes it independent from existing pipeline routes.

Table 1 (above) illustrates the share of Russian gas supplies in relation to total gas imports by individual member states and for the EU as a whole. This dependence is likely to increase even further due to the decline of indigenous fossil fuel production in the European Union, as well as the growing share of natural gas in the EU's energy mix. According to International Energy Agency (IEA) estimates, the gap between production and demand in the EU will increase from about 230 billion cubic metres (bcm) in 2002 to 640 bcm in 2030, which means that by 2030 the EU will have to import about 80% of its gas (IEA 2004).

In this context, diversification of both the sources of supply and the supply routes is seen by the EU as one of the main ways of addressing the problem (European Commission 2006a: 25). In an attempt to reduce its dependence on Russia, Brussels views cooperation with the resource-rich Central Asian countries as key to diversifying the sources of energy. Although the gas reserves of the Central Asian Republics are substantially smaller than those of the Russian Federation, they are still significant (see Table 2 for data on proved reserves, production and consumption of gas in Russia, the EU and three of the Central Asian countries - Kazakhstan, Turkmenistan and Uzbekistan).

Table 2: Natural Gas: Proved Reserves, Production and Consumption (2007).

	Proved reserves		Production		Consumption	
	tcm ⁶	Share of total, %	bcm ⁷	Share of total, %	bcm	Share of total, %
Russian Federation	44.65	25.2	607.4	20.6	438.8	15
Kazakhstan	1.90	1.1	27.3	0.9	19.8	0.7
Turkmenistan	2.67	1.5	67.4	2.3	21.9	0.7
Uzbekistan	1.74	1.0	58.5	2.0	45.6	1.6
EU 27	2.84	1.6	191.9	6.5	481.9	16.4

Source: British Petroleum (2008)

According to the EU's 'Central Asia Strategy' (2007), "energy resources in Central Asia and the region's aim to diversify trade partners and supply routes can help meet EU energy security and supply needs" (Council of the European Union 2007: 9). However, the EU's plans to diversify energy imports with the help of Central Asian hydrocarbons (primarily from Kazakhstan and Turkmenistan) need to address some considerable difficulties, such as the geographical location of these countries, before they can be realised. Being landlocked, the Central Asian Republics need to rely on specific transit routes in order to ensure that their gas reaches the European market. To solve this problem, the strategy envisages that the EU will "support the development of additional pipeline routes and energy transportation networks" (Council of the European Union 2007: 19).

The European Commission's Green Paper, 'A European Strategy for Sustainable, Competitive and Secure Energy' (European Commission 2006a), provides an overview of new gas projects that are intended to help the EU diversify energy sources and supply routes. One of these projects is the 'Nabucco Pipeline', which is planned to cross Turkey, Bulgaria, Romania, Hungary and Austria, bringing natural gas from the Caspian region, Iran and the Middle East. Its capacity is supposed to reach 31 bcm by 2020 (European Commission 2006a: 25). Another EU-backed project is the 'Trans-Caspian Gas Pipeline' that is planned to bypass Russia by going along the Caspian seabed before connecting with the Nabucco pipeline. It would bring natural gas from Central Asia "via the Southern Caucasus or Iran and Turkey to the EU, the Western Balkans and other partner countries linked to the 'European Neighbourhood Policy'" (European Commission 2006a: 46-47). These projects are designed to serve two functions at the same time: on the one hand, they will bring gas from Central Asia, thereby diversifying the EU's sources of energy, while, on the other hand, they will not cross Russian

⁶ trillion cubic metres (tcm)

⁷ billion cubic metres (bcm)

territory, thereby diversifying transit routes.⁸ The EU's intentions to diversify energy supply, with the help of Central Asian resources, are viewed in Russia with increasing suspicion and regarded to be an infringement on Russian geo-political and geo-economic interests in the region.

The geo-economic interests, in particular, are significant because energy-trade plays an extremely important role in Russia's economic development. In 2005 the energy sector represented 20% of the country's GDP while in 2007 it generated around 64% of its export revenues (House of Lords 2008: 45). Despite the Kremlin's recurrent declarations of the need to diversify Russia's economy, it is still dependent on oil and gas production (see Hanson 2007). Moreover, according to the *Energy Strategy of the Russian Federation for the Period until 2020* (adopted in 2003), Russia's energy resources are also "an instrument of domestic and foreign policies" (Ministry of Industry and Energy of the Russian Federation 2003). The document states that "the country's role on the world energy markets largely determines its geopolitical influence" (Ministry of Industry and Energy of the Russian Federation 2003). The exceptional significance attached to energy resources by the Kremlin goes some way towards explaining why Russian elites are increasingly wary of attempts by other international actors to operate within this sphere and consider such attempts as an infringement on Russian interests.

The EU-backed diversification projects are regarded by Moscow as threatening to Russia's interests for a number of reasons. Firstly, the transit of Central Asian oil and gas through Russian territory, with the pipeline system being under state control, generates substantial revenues, and Moscow obviously does not want to lose this source of income. Moreover, Russian gas is more expensive than Turkmen gas, which is why the purchase and exportation of Turkmen gas to the EU is more profitable for Moscow in the short-term compared with developing new gas fields in Russia. In 2006 the quantity of gas exports from Turkmenistan and Uzbekistan going to/via Russia reached 51 bcm (Paramonov 2008: 1). Secondly, according to both Russian and western energy experts, the Russian energy industry shows signs of a possible energy deficit (see Milov 2007; Riley 2006). Although Russia has the largest proved gas reserves in the world, chronic underinvestment in the development of new gas fields and drying up of existing fields could lead to a situation where Russia will not be able to maintain the required level of export to the EU (Fredholm 2006: 12). Moreover, Russia also requires gas for its growing domestic market; for example, the increasing levels of domestic demand for gas makes it possible for Russia to export only around 30% of its production (Svedberg 2007: p. 199). All this means that Russia increasingly needs to import gas from Turkmenistan to ensure that its commitments to its consumer EU member states are met (Svedberg 2007: 199). Thus, retaining control over the export of Central Asian energy to the EU is of utmost importance to Moscow.

With Nabucco and the Trans-Caspian projects being regarded as potentially damaging for Russia's interests, it is possible to take the view that recent measures by the Kremlin have been designed to undermine the feasibility of the EU-backed projects. For example, the struggle to secure access to Caspian gas resources reached a climax in May 2007, when Vladimir Putin signed a declaration with the leaders of Kazakhstan, Turkmenistan and Uzbekistan to (1) construct a Caspian pipeline that would go along the Caspian coast through the territories of Turkmenistan and Kazakhstan, and (2) up-grade the Central Asia-Centre pipeline (a remnant of Soviet pipeline infrastructure). According to the agreement between Russia, Turkmenistan and Kazakhstan signed in December 2007 as a result of the negotiations that followed the May declaration, the new pipeline will increase the existing capacity to export Turkmenistan's gas to Russia by 20 bcm.

Russia has also begun to implement its own diversification projects in an attempt to decrease its dependence on its traditional transit countries, such as Ukraine, which at present sees around 80% of Russia's gas exports transfer via its territory (Svedberg 2007: 197). The

⁸ Turkmen gas currently comes to the European market through Russia, with Russian state-owned company Gazprom being 'the single customer' (Paramonov and Stokov 2008: 5).

'Nord Stream' and 'South Stream' projects are designed to bypass traditional transit countries for Russian gas exports to the EU and thus diversify transport routes. Nord Stream is an off-shore natural gas pipeline which will go through the Baltic Sea, from Vyborg, Russia to Greifswald, Germany, from where gas could be transported onwards to a number of interested EU member states, reportedly including Denmark, the Netherlands, Belgium, the UK, and France. The pipeline will have a transport capacity of around 55 bcm per year and is expected to be completed in 2011 (Nord Stream 2008). The South Stream pipeline will go under the Black Sea and will carry gas from Russia to Southeast and South European countries (Milov 2007a: 138) via Bulgaria, Serbia, Hungary, Slovakia and Austria.

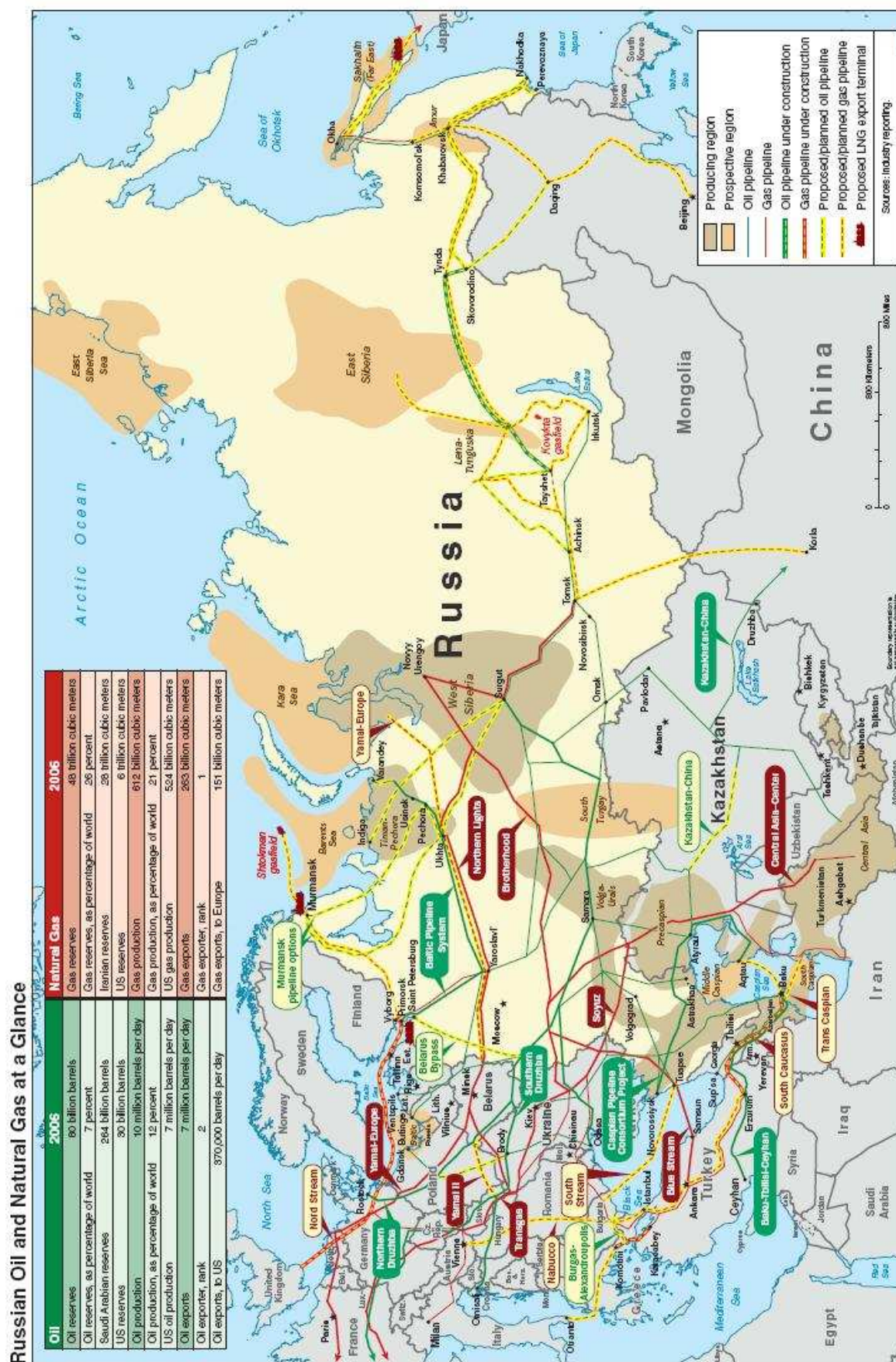
Furthermore, the Kremlin has responded to the EU's declared intention to diversify energy imports with its own declaration of intent to diversify energy exports, thus reducing Russia's traditional focus to export the majority of its energy to the EU. According to Andrei Dement'ev, Russia's Deputy Minister for Industry and Energy, Russia will significantly diversify its energy exports by 2015 by increasing its supplies to the Asian markets by up to 15 per cent for oil and 25 per cent in the gas sector (Dement'ev 2007). Moreover, the *Energy Strategy of the Russian Federation for the Period to 2030*, which has been discussed by the Russian expert community for some time now (see Bushuev 2008; Delyagin 2008) and is expected to be published in the near future, envisages even more significant restructuring of Russian energy exports with increasing emphasis on energy supplies to China and other countries of the Asia-Pacific Region. The East Siberia-Pacific Ocean (ESPO) pipeline will bring up to 1.6 million barrels of crude oil per day from Siberia to Russia's Far East and then to China (RIA Novosti 2008). In addition, the Altai gas pipeline which will have a transport capacity of around 68 bcm per year will go from West Siberia to the Xinjiang-Uyghur Autonomous Region in western China (Gazprom 2006). China is viewed as a very promising market for Russian hydrocarbons due to the geographic proximity of Russian oil and gas fields to the Russian/Chinese border and to the continuing growth of the Chinese economy which is accompanied by increasing energy demand. However, some Russian experts have voiced their doubts about the profitability of these projects as it is unlikely that China will be able to pay the same price that Russia receives from its exports to the EU (see Milov 2006).

Map 1 (see page 136) illustrates the diversification projects on the territory of the former Soviet Union as discussed above, including the existing pipelines and those that are still at the planning stage by both the EU and Russia. The competition for Central Asian energy resources between the two powers (as well as some other 'major' players such as the USA and China) has been compared to the Great Game of the 19th Century – the rivalry between the Russian and British Empires for influence in the region (see Blank 1995; Rasizade 2005). Since energy diversification projects are at the heart of this renewed rivalry between Russia and 'the West', it could be argued, that we are witnessing the emergence of a Great Diversification Game. As a result of their clash of interests – both objective and perceived – Russia and the EU are supporting a number of projects that compete for Central Asian resources and ultimately threaten to undermine each other.

Russia Versus the EU in the 'Shared Neighbourhood'

Why is Russia so sensitive to the EU's diversification projects in the 'shared neighbourhood'?

To answer this question, it is necessary to examine Russian perceptions of the EU's policies towards the post-Soviet area. Ever since the collapse of the Soviet Union, Russia's political elite has been wary of any attempts by other countries or international organisations to gain influence in the post-Soviet area. Even in the early 1990s, when Russia's political relations with the West were at a post-Cold War positive high, there remained a concern among some members of the Russian political elite that Russia should retain an important role and influence in its 'near abroad'. The 'Foreign Policy Concept of the Russian Federation' (1993) notes, for instance, that some countries might try to "replace Russia in the countries of its traditional influence under the disguise of intermediary and peace-keeping efforts" (Ministry

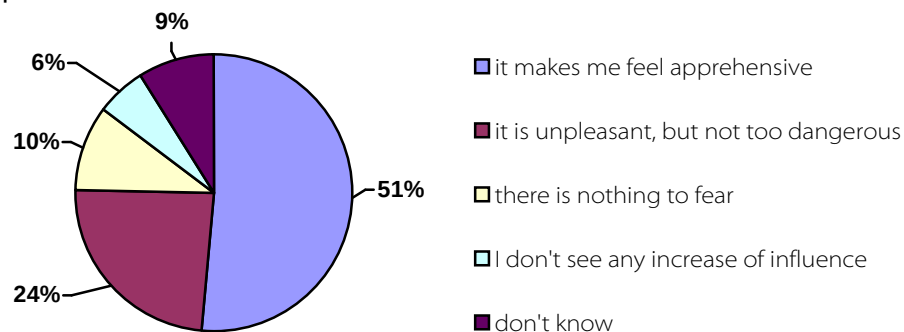
Map 1: Russian Oil and Natural Gas at a glance

Source: Energy Information Administration 2007

of Foreign Affairs of the Russian Federation 1993: 31). In this regard it was the United States and NATO that continued to be considered the more serious threat, while the European Union was not regarded as a threat in this respect. In particular, NATO's expansion in Central and Eastern Europe encountered fierce criticism from the Kremlin, whereas its reaction to EU enlargement was less negative, and on the whole not as intense (Allison 2006: 160).

The Orange Revolution in Ukraine at the end of 2004 was a turning point for Russia's attitude towards the EU's policy in the 'shared neighbourhood'. Poland and Lithuania both supported the pro-Western candidate, Viktor Yushchenko. Both of these countries, as new EU member states, used the EU as a platform or point of reference for the political aspirations of Yushchenko. Regardless of the fact that Lithuania and in particular Poland, as a neighbouring state to Ukraine, had legitimate regional interests in what was happening in Ukraine, Russia took the position that the EU (as a political bloc) was interfering in a specific Russian sphere of interest. For example, in the Russian mass media, the events in Kiev were constructed as a battle between the East – that is Russia and pro-Russian Ukrainians – and the West – the EU and the USA – which, it was argued, wanted to weaken Russia by "tearing off" its neighbour [Ukraine] (Pushkov 2004). This strengthened anti-Western elements in Russian public opinion, which in turn became more suspicious of the EU's intentions towards Ukraine and other CIS countries. However, it should be noted that the USA still remained the predominate threat within Russian political discourse. According to a public opinion survey conducted by the All-Russian Public Opinion Research Centre (VCIOM) in April 2005, 75 per cent of respondents in Russia expressed negative feelings towards the increased influence of the USA and the EU on the former territory of the Soviet Union (see Figure 1). Just over half of the respondents acknowledged that they felt apprehensive about this development, and almost a quarter described the increased influence as "unpleasant, but not too dangerous" (VCIOM 2005).

Figure 1: Attitudes towards increased influence of the US and EU in the area of the former Soviet Union, April 2005.



Source: VCIOM 2005

While the Western mass media featured many articles that accused Russia of pursuing 'neo-imperial' ambitions in the post-Soviet area (see Applebaum 2004; *The Independent* 2008), in the Russian official discourse more emphasis was placed on the 'legitimacy' of Russia's interests in the CIS countries (Labetskaya 2008; *Nezavisimyya Gazeta* 2006). At the same time, as Russian foreign policy was becoming more assertive, Russian high-ranking officials started to put increasing emphasis on the Kremlin's readiness to defend its interests in the region. As the then Minister of Foreign Affairs, Sergey Lavrov, argued in his speech to the State Duma in May 2005, "We do not want the CIS to turn into an area of rivalry with anyone. We do not claim to have a monopoly in this region, but we will not let anyone else have a monopoly here either" (RIA Novosti 2005).

It should be mentioned that re-integration of the post-Soviet space has been high on Russia's foreign policy agenda since the disintegration of the Soviet Union (see Vinokurov 2007: 22). However, Moscow's approaches to integration have changed significantly over time. In the 1990s the Kremlin viewed the re-integration project within the Commonwealth of Independent States as the most important project of regional integration. Under Vladimir Putin's presidency, the ambition to integrate, or at least to cooperate closely, with *some* of the neighbours became more important (e.g. the 'Common Economic Space' - a project that is meant to foster the integration of the 'Big Four' - Russia, Ukraine, Kazakhstan and Belarus). The ambition to challenge the USA's hegemonic status and establish a multipolar world order is one of the driving forces of Russian foreign policy emphasised by the Russian President at the Security Conference in Munich in February 2007 (Putin 2007). It is argued that Russia needs to establish a dominant position in its own neighbourhood as a stepping stone towards claiming the status of an independent centre in a multi-polar world. As Russia's Minister for Industry and Energy, Viktor Khristenko (2004), pointed out in a recent article in *Russia in Global Affairs*, "Russia cannot compete with major global players like the EU, the Asia-Pacific countries or the United States alone. As part of a common economic space, Russia would be more confident in pursuing its interests, while relying on common resources". Demonstrating Russia's key role in the area serves also as "an important legitimising device" for the Kremlin, helping to persuade the electorate that Russia is indeed a great power (Anderman *et al.* 2007: 43).

How do the Russian elites perceive the EU's Neighbourhood Policy?

Although the ENP in Moscow's eyes is not considered to be as serious a danger as the NATO enlargement policy promoted by the USA (Zagorski 2005), it is still regarded as a formidable obstacle to Russia's integration projects. This is emphasised in a report by the Institute of Economics of the Russian Academy of Sciences and the National Investment Council (2007), which argues that the ENP "ties the neighbours to European programmes and projects", and, what is more, imposes on them requirements "to limit cooperation with Russia to the lowest level", (i.e. not to go further than a free trade area) (cited in Omel'chenko 2007). Thus, according to the report, the ENP is to be blamed for the apparent lack of success of the Common Economic Space (Omel'chenko 2007). Trenin (2005: 2), of the Moscow Carnegie Center, also contends that Russia sees the ENP as "too competitive with its own perceived interests in the common neighbourhood".

How do the Russian elites perceive the EU's vision of energy security and the planned diversification projects?

Moscow has been very sensitive to the on-going debate in the West over whether or not Russia is a 'reliable energy supplier'. To be regarded as a reliable supplier of energy to the European market is of great importance to Russia. In response to growing scepticism on the part of the EU, Russian authorities point out that Russia (and the Soviet Union previously) has been a reliable supplier of energy to Europe for over 30 years (RIA Novosti 2006). Of course, events such as the 2005-2006 Russian-Ukrainian gas dispute did little to help Russia's images, so it is understandable that Moscow considers it necessary to conduct a public relations campaign to improve Russia's image as a reliable energy supplier. As part of this campaign, Moscow has continuously stressed that it is the transit countries, especially Ukraine, that are to be blamed for any supply shortages (RIA Novosti 2007b). For Russia, the way that it conducts its relations with CIS countries should not be used as evidence of its approach and intentions towards relations with the EU and its member states. There is a fundamental difference in Moscow's approaches to its relations with the countries of the 'near' and 'far' abroad: while Russia's policies in the 'near abroad' are more coercive, its policies in the 'far' abroad tend to be more pragmatic and cooperative (Casier 2007: 82). Therefore, any suggestion that Russia will use energy as a geopolitical tool against the West is perceived by Moscow as unjustified.

What are the reasons for the EU's distrust of Russia as an energy supplier?

There are several recurrent explanations in the dominant Russian discourse. Firstly, Russia's negative image is seen as being rooted in centuries-long 'Russophobia' which intensified in Europe with the strengthening of Russia's position in the world during Vladimir Putin's presidency (2000-2008). According to Alexander Murychev, first Vice-President of the Russian Council of Industrialists and Entrepreneurs (RSPP) "we [Russia] are too large, too big, our potential is too huge" (Voice of Russia 2007b). Secondly, diversification plans are perceived to be a product of anti-Russian sentiments within the new, EU member states that joined in 2004 and 2007 and which are trying to thrust their view on energy security on the old member states (Voice of Russia 2007a). The latter argument is especially popular, as it resonates with a number of other tensions in Russia's relations with Eastern European and Baltic countries.

Another popular narrative describes the EU's criticism of Russia's energy policy as 'psychological attacks' which are meant to weaken Russia's position and to defeat it in the geopolitical battle for energy resources. As Vladislav Belov, of the Institute of Europe at the Russian Academy of Sciences emphasised in an interview with 'Voice of Russia', portraying Russian oil and gas as the Kremlin's tools to apply pressure on the EU is "an attempt by certain Western politicians and the mass media to blackmail Russia by accusing it of blackmailing [the EU]" (Voice of Russia 2007c).

While Russia is seen in the dominant Russian discourse as a reliable supplier of energy to Europe, the EU's intentions and concern about the need to diversify energy sources and routes are often described by Russian officials and the mass media as paranoia, an *idée fixe* (Diev 2007). EU diversification projects are considered to be politically motivated, anti-Russian and not based on purely economic calculations. One of the prevalent interpretations is that the EU is frightened by Russia's growing strength and assertiveness in the international arena, and is therefore keen to "depriv[e] Russia of one more trump card in its relations with the West" (Boldyrev 2007). Furthermore, successful implementation of the EU's diversification projects in Central Asia would have severe consequences for Russia in that it would lose transit revenues that it could invest in its own economic development. Therefore, from the Russian point of view, the EU's diversification plans are targeted not only against Russia's legitimate geopolitical interests, but also against the Russian economy.

Finally, some Russian commentators explain the EU's diversification drive as the result of Washington's attempts to coax the EU in the 'wrong' direction. This position is illustrated by Mikhail Leont'yev, the host of the popular analytical programme 'Odnako' ('However') on Russia's most influential television 'Channel One'. Leont'yev described the EU's planned pipeline projects that are designed to bypass Russia as a transit country as "not only unprofitable, but even dangerous" for the EU. According to Leont'yev, "America is deeply interested in Europe's lack of energy security because Europe is its main competitor. And the European leaders obediently meet at the summit where they discuss...what to tear off or to cut from themselves..." (Pervy kanal 2007). These arguments reinforce the vision of Russia as a 'besieged fortress', while emphasising Russia's reliability as a supplier and lambasting the EU's 'suspiciousness' as unjustified. They also encourage the growth of anti-Western sentiments in Russian society which have become more pronounced in recent years (see Shevtsova 2007).

It is clear that Russia maintains serious concerns about its position vis-à-vis the EU, and it could be argued that these concerns have also contributed to the Kremlin's unwillingness to ratify the Energy Charter Treaty (ECT) which it had signed in 1994. For Russia, the ECT's Transit Protocol would grant third parties access to Russia's transit infrastructure without necessarily offering anything in return⁹. The ECT is regarded as 'the West's' attempt to gain

⁹ It should not be forgotten that Norway, an important supplier of oil and gas to the European Union, has also signed, but not ratified the ECT.

access to Russia's energy resources and transit routes. Vladimir Putin (2006) explained the Kremlin's position on this in an interview with the German television channel ZDF:

We ask our partners: "Very well, we shall give you access to this infrastructure and where will you allow us access?" And they answer: "We will reciprocate". And I ask you: "Where are these deposits? Where are the huge gas pipelines and infrastructure like the ones we have?" Our partners do not have such an infrastructure. For that reason signing and ratifying the additional protocols with Russia is a unilateral decision, and we shall not accept unilateral decisions.

In this narrative there is a clear opposition between (1) 'our resources', which refers to those resources *belonging* to Russia and which no one but Russia has the right to claim and (2) 'them', which refers to the 'West' and those who are eager to deprive Russia of its natural advantages. The emphasis on 'our interests' is especially pronounced in contemporary Russian discourse. This can be explained as a direct consequence of Russia's perceived weakness in the 1990s when the Kremlin, as many in Russia argue, compromised Russia's positions on many issues of strategic importance to the country (see Lyne 2008: 91).

In response to the EU's attempts to decrease its dependence on Russian energy, the Kremlin is actively trying to shift the focus of attention away from the diversification of supply sources and towards the diversification of supply routes. The 'Nord Stream' and 'South Stream' projects are, in this context, presented as Russia's own contribution to EU energy security. These two pipelines cross the Baltic and Black Seas respectively and will enable Gazprom to supply gas to EU member states directly, bypassing the traditional transit countries of Ukraine, Belarus and Poland. At the same time Moscow is placing more and more emphasis on negotiating alternative projects with Central Asian countries which will then compete with the EU's diversification projects in the region, depriving them of the necessary supplies of gas and oil, thus rendering these EU projects unprofitable.

Central Asian Resources as a 'Trump Card'

The growing interest and engagement of the EU in the Central Asian countries came at a time when Russia started to conduct a more pro-active policy in the region after having significantly recovered from its considerable weakness of the 1990s. A statement by Deputy Minister for Industry and Energy, Andrei Reus (2007), to foreign journalists in May 2007 illustrates this view: "Central Asia for us is one of the most important directions of Russia's energy policy". The EU's diversification projects in Central Asia are considered as a real threat to Russia's interests in these countries. Larsson (2006: 5) argues that "Russia has strategic priorities to keep its influence over the CIS and its energy policy is one of the means used for this reason".

In addition to these 'objective' factors, there are also a number of perceived threats that the EU's cooperation with Central Asian countries create for Russia's interests. Firstly, successful implementation of diversification projects would strengthen the geo-political positions of transit countries. This, in turn, would make it more difficult for Russia to play a leading role in the region. Secondly, in the context of mounting tensions between Russia and the EU, Moscow is interested in maintaining a high level of interdependence with EU member states in terms of 'energy trade'. It could therefore be argued that Moscow sees this interdependence not so much as a tool to exert pressure on the EU, but rather as an instrument of 'self-defence' which would not only guarantee the EU's non-interference in Russian domestic politics, but ensure also that Russia's interests in the international arena are not neglected. Russia is therefore keen to prevent any reduction of the EU's energy dependence on Russia. Finally, the Kremlin's successes or failures in its attempts to maintain Russia's influence in the region are of great symbolic significance for the Russian electorate. As the Russian authorities are trying to promote the image of Russia as a 'great power' among the domestic Russian populous, the EU's cooperation with the CIS countries would

challenge this vision, demonstrating instead that Russia is losing a geopolitical game of vital importance in the 'near abroad'.

In this context, the signature of a declaration by the Russian President and the leaders of Kazakhstan, Turkmenistan and Uzbekistan on the construction of a Caspian pipeline in May 2007 impacted significantly on the vision of Russia's political position in the Caspian region vis-à-vis the EU. Firstly, the symbolic importance of President Putin's meeting with the Central Asian leaders to 'sign' the Caspian declaration cannot be overstated; the meeting took place on 12 May – one day after the leaders of Azerbaijan, Georgia, Ukraine, Poland and Lithuania had met in Krakow to 'discuss' diversification projects that would bring Central Asian hydrocarbons to European countries, bypassing Russia. One particular project discussed was the extension of Ukraine's Odessa-Brody oil pipeline that would bring mainly Kazakh oil from the Caspian Sea via Poland to other EU member states. The President of Turkmenistan did not attend this summit and Kazakhstan was represented by the Deputy Minister for Energy and Natural Resources (not the President). These facts were presented in the Russian mass media as a sign of the pro-Russian choice made by the Presidents of Turkmenistan and Kazakhstan. Moreover, President Nazarbayev's 'loyalty' to Russia was particularly emphasised in the Russian discourse. His statement that "Kazakhstan is committed to transporting most of its oil, if not all of it, across Russian territory" (cited in Rubanov 2007) was quoted in numerous mass media outlets as an illustration of his 'pro-Russian' choice, which strengthened the image of Kazakhstan as Russia's ally, and consequently reinforced the image of Russia as a re-emerging great power in the post-Soviet area.

Secondly, although some Russian experts expressed their doubts about whether signing the declaration would lead to a substantial strengthening of Russia's position in relation to the EU in the long-term (see Milov 2007b), the dominant discourse in the Russian mass media and in statements by Russian politicians was that of a real 'geopolitical victory' (see Kolesnikov 2007). Konstantin Simonov, head of the Foundation of National Energy Security, illustrated this when he commented that "Russia has demonstrated to the EU: guys, we've got good positions in Central Asia" (Rubanov 2007). What is more, in many Russian mass media publications Russia's victory was presented as somewhat final and as such had left no further alternatives for the EU other than to rely on the Russian transit system for its supplies of oil and gas from the region (Kolesnikov 2007; Yunanov 2007). It was suggested that as a result of the deal, the EU would have to reconsider its critical rhetoric towards Russia; for example, according to the newspaper *Moskovskie Novosti* "instead of helpless 'blockade diplomacy' some ambitious European players should radically change the tonality of their dialogue with Moscow" (Yunanov 2007).

Thirdly, making the EU's diversification projects potentially unprofitable, or, to put it more bluntly, blocking the establishment of an 'anti-Russian alliance of European countries' was regarded to be the main geopolitical goal that the Kremlin had achieved with its agreement with the Central Asian leaders (RIA Novosti 2007c). Some Russian commentators hurried to express their doubts about the feasibility of the Trans-Caspian project and the Nabucco project now that Moscow had secured an agreement with the Central Asian leaders, emphasising that "they do not have any resource base now" (Rubanov 2007). One of the most popular narratives at that time was that the agreement demonstrated how "the [Russian backed] Caspian pipeline [had] defeated the [EU backed] Trans-Caspian one" (Kolesnikov 2007).

Moreover, when discussing the two rival projects in the Caspian region, Russian politicians and commentators emphasised the economic advantages of Russia's project while at the same time emphasising the political (and anti-Russian) character of the EU's Trans-Caspian pipeline. In the opinion of Viktor Khristenko, Russia's Minister for Industry and Energy, "the existing risks [of the Trans-Caspian project]– technical, legal, environmental – are so big that it is impossible to find an investor unless it is a political project and it does not matter what the pipeline will be filled with" (RIA Novosti 2007a). On the contrary, the Caspian pipeline was

presented as a profitable project, with a clearly defined resource base and a well calculated budget. According to Deputy Minister for Foreign Affairs, Andrei Denisov, in an interview with the newspaper *Vremya Novostei* (cited in Labetskaya 2008) questions were also raised about the [real] reason for [constructing the Trans-Caspian pipeline] when “there are cheaper supply routes”. There are obvious similarities between the arguments used by Russia and the EU in favour of or against these two projects. These reflect similar arguments made about the Russian-German ‘Nord Stream’ pipeline project. In both cases cost efficiency, technical difficulties and environmental risks have been used to highlight the political nature of the projects with Moscow resorting to the same arguments against the EU’s rival project in the Caspian region, as some EU member states (especially Poland and the Baltic states) have used to protest against the implementation of the Nord Stream project.

What are Russia’s perceived advantages over the EU in this ‘diversification game’?

In addition to the ‘objective’ factors of the existing structural interdependence of the former Soviet Republics – much of the energy infrastructure of the former USSR is still in place – a number of more ‘subjective’ advantages have been emphasised in the Russian discourse. Firstly, Russian politicians and experts underline Moscow’s policy of ‘non-interference’ in the domestic policies of the states in the ‘near abroad’; unlike the EU, Russia would not tie energy cooperation to the promotion of democracy in these countries (Rubanov 2007). Secondly, Russia finds it much easier than its European counterparts to work in the context of political uncertainty in Central Asia because it is more familiar with the political culture of the region. Another factor often mentioned in this context is Moscow’s vision of Iran as a ‘tactical ally’ in its competition with the EU’s rival projects considering that the future of the Trans-Caspian project is, in no small part, dependent on resolution of the legal status of the Caspian Sea.¹⁰ Iran as a littoral state has a say in that matter: “while there are no joint decisions concerning the status of the Caspian Sea, Iran – unfriendly to the West – is [Russia’s] key ally” (Boldyrev 2007).

Privileged access to Central Asian energy resources is viewed by Russia as a trump card in terms of its relations with the EU: if secured, it would not only help Russia to overcome the difficulties it is experiencing with its own domestic energy production, but it would also strengthen Russia’s geo-political position vis-à-vis ‘the West’. Since Moscow perceives the EU’s diversification projects in Central Asia as essentially ‘anti-Russian’, it is argued that it is in Russia’s national interests to prevent the successful implementation of these projects.

Is the Game Worth the Candle?

How do perceptions held by the Russian elite regarding the EU-backed diversification projects and their own visions of Russia’s advantages in the competition with the EU impact Russia’s energy policy in the region and Russia’s relationship with the EU? Although Moscow sees energy as an instrument that could help Russia reclaim its great power status, it has, as yet, failed to develop a coherent energy strategy (see Monaghan 2007). At the turn of the century Russia’s policy in the Caspian became more pragmatic, particularly when compared to the policies pursued during the 1990s when strategic considerations often gave way to economic ones (Bahgat 2002). At the end of Vladimir Putin’s first presidential term, and even more so during his second term, Russian foreign policy became overall much more assertive, with more emphasis being placed on the need to pursue *strategic* goals (Trenin 2006). In part, this is linked with a reassertion of the vision of Russia as a great power – something which

¹⁰ Azerbaijan, Russia, Kazakhstan, Turkmenistan and Iran have not agreed upon the legal status of the Caspian Sea. The question whether the Caspian is a sea or a lake is of utmost importance since these two options would mean different approaches to dividing the Caspian Sea waters and mineral resources between the littoral states (see O’Lear 2004). Consequently, any off-shore pipeline projects can be implemented only after all the five states have agreed on the Sea’s status (Energy Information Administration 2002).

has always been an integral part of Russia's identity (Feklyunina 2008). This was reflected in most of the foreign policy statements of Russian high-ranking officials and especially in the Russian mass media (see Egorova 2007; Radzokhovsky 2007). According to the great power discourse that came to dominate Russian political debates, Moscow should defend its legitimate interests in the 'near abroad' and endeavour to reclaim its special status by "promoting a form of soft and nuanced hegemony" (Allison 2004: 278). At the same time, it should be careful to resist other international actors' attempts to increase their influence in the region. The EU's diversification projects in the shared neighbourhood were therefore perceived as infringements on Russia's geopolitical interests.

Russia's perceived revival as a great power was met with widespread approval by the Russian electorate, and significantly increased Vladimir Putin's standing in the country. Consequently the Kremlin is keen to maintain and promote the image of Russia's success diplomacy (or 'victories') in the 'near abroad'. As a consequence, energy projects backed by the EU have become more politicised, and any success by the EU in its diversification projects would be regarded as a terrible 'defeat' for Moscow in the geopolitical battle with the West. The Kremlin's sensitivity to this issue became especially pronounced at the end of Vladimir Putin's second term in office when, in the run up to the Russian presidential elections of 2008, it became extremely important for the Russian authorities to demonstrate their readiness to defend Russia's interests against the 'West', including the EU.

Divergent perceptions of what constitutes 'energy security' held by Moscow and Brussels contribute to a proclivity to interpret each other's actions as a 'threat' to their national security. The EU, as an energy importer, is preoccupied with security of supply: it is wary of the increasing dependence on Russia and sees diversification of supply sources and routes as a way to minimise security risks. For Moscow, on the other hand, energy security means, first and foremost, security of energy demand. The Kremlin is therefore interested in securing long-term contracts with energy consumers, and is keen to minimise dependence on potentially unreliable transit countries such as Ukraine. These divergent visions of energy security held by Moscow and Brussels have led them to see diversification of energy suppliers and supply routes (in case of the EU) and of energy consumers and the reduction of reliance on transit countries (in the case of Russia) as a possible way to enhance their security. Their respective diversification projects are, however, perceived by the other side as a threat which undermines trust in their bilateral relationship. Under these conditions, a vicious circle has been created in the form of a mutual energy security dilemma, with both actors feeling increasingly threatened by each other's intentions to diversify their energy relations with third countries in an attempt to enhance their respective security situation. Any actions taken are consequently regarded as being targeted against each other. This contributes to a growing instability in their relations, resulting in a 'diversification race' (Goets 2007).

Considering that the EU's diversification projects in the 'shared neighbourhood' are seen by Moscow as anti-Russian, with a potential to reinforce already existing tensions in the EU-Russian relationship, how significant can the contribution of Central Asian states to the EU's energy security really be? Is the game 'worth the candle' for the EU? Although these countries are considered to be rich in energy resources, there is no reliable data on the exact size of their proved resources. Estimates suggest that Kazakhstan has 39.8 thousand million barrels of proved oil reserves (equating to 3.2 per cent of world reserves). As for proved natural gas reserves, Kazakhstan is estimated to have around 1.9 trillion cubic metres (1.1 per cent of world reserves) and Turkmenistan is estimated to possess around 2.67 trillion cubic metres (1.5 per cent) while Uzbekistan's potential is estimated to be around 1.74 trillion cubic metres (1.0 per cent of world reserves) (British Petroleum 2008).

There is a significant disparity between the assessments provided by industry experts and academic institutions on the one hand, and those by the United States government on the other hand, which has led some analysts to speak of "an orchestrated effort by Washington to exaggerate the significance of the region's hydrocarbon wealth" (Bahgat 2002: 310). In this context it is argued that one of the main reasons for Washington's "disproportionate

interest" in Central Asia was its determination to prevent Russia from reclaiming its influence in the region (Bahgat 2002: 315). In the 1990s, a period during which the EU was not engaged in the competition for Central Asian hydrocarbons, with the leading role played by the USA, some experts cautioned against the danger of over-estimating the significance of the region's resources. Their argument was that this could "rais[e] the risk of unnecessary contention with other actors, particularly Russia and Iran" (Myers Jaffe and Manning 98-99: 112).

The EU's growing interest in Central Asia a decade later and its vision of the region's energy resources as a panacea to long-term energy security seem to run the same risk. While Central Asian states keep expressing their interest in the EU-backed diversification projects, it is not clear if they possess sufficient resources to fulfil their contractual obligations to Russia and at the same time supply the European market. Turkmenistan's President Gurbanguly Berdymukhammedov, for instance, spoke of his country's readiness to consider *various* projects, including the Trans-Caspian pipeline, even after signing the declaration on the construction of the joint Caspian pipeline project with Kazakhstan and Russia (see Melikova 2007). Turkmenistan's actual ability to supply natural gas for the Trans-Caspian pipeline was called into question by some experts when it became public that according to the agreement concluded in December 2007 between Turkmenistan, Russia and Kazakhstan, the volume of gas to be exported through the Caspian pipeline would be only 20 billion cubic metres instead of the 30 billion cubic metres that had been agreed during the May negotiations (Tomberg 2007).

On the one hand, this reduction in supply volume could confirm Turkmenistan's intention to continue negotiations over diversification projects with the EU as it can be suggested that Turkmenistan intends to export less gas to Russia in order to retain sufficient supplies for the Trans-Caspian pipeline. A contrasting interpretation is that Berdymukhammedov is using the possible participation of Turkmenistan in the rival Trans-Caspian project as an instrument to put pressure on the Kremlin, with the aim to secure more favourable terms for its exports to Russia. If the latter is true, the EU's diversification project in the Caspian region can hardly be regarded as a solution to its energy supply dilemma if it is lacking a confirmed and proven resource base. At the same time, the EU's diversification project increases tensions in its already rather strained relations with Russia, thereby further contributing to potential energy supply problems. This creates a real obstacle to the EU's success in this 'Great Diversification Game'.

Conclusion

Following Moscow's dispute with Ukraine over gas prices and overdue payments in 2005-2006, the problem of energy supply security has risen high on the agenda of the political elites, both in EU member states as well as in discussions in Brussels and in Russia. While recognising the importance of the problem, Brussels and Moscow, have contrasting visions of what constitutes 'energy security': while the former focuses on the security of supply, the latter is preoccupied with the security of demand. Increasingly wary of its dependence on Russian gas, the EU views the diversification of energy supply sources and transportation routes as a possible solution to the problem, although this view is not necessarily shared by all of its member states. In order to enhance its security, the EU has been expanding its cooperation with the Central Asian countries, culminating in the launch of a 'Central Asia Strategy' in 2007. The Kremlin, on the other hand, is extremely sensitive to the EU's attempts at strengthening its ties with the ex-Soviet republics, as it considers Central Asia to be a sphere of Russian 'legitimate interest'. Thus, the EU's diversification projects in the region are perceived by Moscow as a threat to Russia's national interests.

The vision of Russia as a 'great power' became very salient in Russia's dominant discourse during the 'Putin era', and the EU's energy projects in the 'common neighbourhood' have become perceived as 'anti-Russian' in nature and had a pronounced effect on Moscow's

vision of Russia's national interests. The Kremlin considers it necessary to prevent the EU from gaining influence in the Central Asian states. Russian policies in the 'near abroad' have, as a result, become more pro-active, and the conclusion of agreements with Turkmenistan and Kazakhstan to construct a Caspian pipeline that would rival the EU's planned pipeline project in the region has been presented in the dominant Russian discourse as Russia's 'victory' over the EU, and the West in general, in their 'geopolitical battle' for the Central Asian energy resources.

Because Moscow regards the EU-backed diversification projects in the Caspian region as essentially 'anti-Russian' they are perceived as posing a real threat to its own energy security. In an attempt to strengthen the security of demand, it has therefore resorted to declarations about its intentions to diversify its energy exports, with more gas and oil being directed towards the Asian markets. The EU and Russia are therefore supporting projects that are in direct competition with each other, which has resulted in a 'diversification race'. This rivalry over the Central Asian hydrocarbons not only undermines mutual trust in the EU-Russian relationship but it also makes both their diversification projects less profitable. The lack of reliable data on the size of proven Central Asian energy resources further complicates the situation, as it is not clear whether these countries will be able to fulfil their contractual obligations to both Russia and the EU countries, should the EU-backed diversification projects actually be implemented.

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JCER Commentary

Threat or Risk? The Debate About Energy Security and Russia: Five Steps for a Scientific Research Programme

Lutz Güllner*

'ENERGY SECURITY' HAS BECOME THE BUZZ-PHRASE OF THE YEAR IN INTERNATIONAL Relations. Not a day goes by without the publication of a new article, discussion paper or political statement on the issue. Most of these comments claim that we are confronted with new challenges that need 'new responses'. This debate started in the winter of 2005/2006, when (1) Russia and Ukraine got entangled in a dispute about energy prices which led to a short interruption of supplies and (2) the cold weather snap and the increase in domestic demand at the end of January 2006 meant Russia was not in a position to supply all the gas demanded by its European consumers. Many in the EU argued at that time that these developments were a 'wake up call' for the EU to rethink its energy policy, especially the external aspects of it.

While the discussion started as a more general reflection on energy security and the need to ensure a diversification of energy types, geographical sources and transportation routes, it has now turned into a controversial debate about Russia's political intentions. The common assumption, at least in Western Europe, is that Russia, as the foremost external supplier of energy to the EU, has power over a 'vulnerable' Europe. This is exacerbated by a fear that it could have malign intentions that go beyond simply maximising its revenue stream from the sale of its energy resources and that it might somehow use energy as a 'weapon' to influence the foreign and commercial policies of individual EU member states. In this context, it is argued, something has to be done. From the practitioner's point of view, this is short-sighted and does not sufficiently tackle this rather complex issue. The current debate appears to be rather superficial and often lacks empirical scrutiny. Therefore, I would argue for a comprehensive scientific research programme on this issue to feed into the current policy debate. This programme should adhere to the following steps: (1) clarification of the conceptual basis; (2) definition of the actors; (3) analysis of key structures; (4) conceptualisation of the risks and (5) analysis of the various policy options.

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*This article reflects only the *personal* opinion of the author.

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Step 1: Clarify the Conceptual Basis

To begin with we need to examine the issues at stake more closely. Of course, this highlights the first problem. What is it that we are dealing with? A political, security, commercial or trade issue? A *real* threat? Or a *potential* risk?

In political science, the notion of *threat* has, traditionally been at the heart of security policy; but since the end of the Cold War, the threat-paradigm in international politics has undergone fundamental changes. Daase (2007) presents a compelling analysis of this change (see also Daase *et al.* 2002). Based on the works of Thomas Schelling and others, Daase argues that security during the Cold War was defined in terms of *threat reduction*. After the end of the Cold War, however, the notion became less attractive, not least because the actors and nature of the threat changed. Daase (2007) concludes that:

...most dangers currently perceived lack either a clearly nameable actor, or an identifiable intention or a measurable capability to harm. The danger is no longer direct, intended and calculable, but indirect, unintended and incalculable. In short, they are no threats, but risks.

However, the debate about energy security is still strangely focused on the notion of threat. The notion that Russia is using its raw materials for political means is, of course, attractive for a public debate, not least since it uses a straight-forward argumentation. There is a clearly identifiable actor (Russia), with (1) a clear objective to obtain its political and economic goals using a policy of 'energy imperialism', and (2) a measurable capability to harm stemming from a perceived 'overdependence' of the EU on Russia's energy supplies. This, however, does not do justice to a rather complex issue. On the contrary, we do *not* have one clearly identifiable and over-dominant external energy supplier, there is *no* clearly identifiable intention and even the capability to harm remains to be examined in more detail, particularly given the interdependence of the two sides. Everything points to the view that we are confronted with a *potential* risk, rather than a *real* threat.

Assuming that we can work on the basis of a 'risk analysis approach', there are a number of questions which can be asked. The most important of these is, 'how do we define and measure this risk? There are different ways of defining risk, but generally speaking there is no agreed notion of risk. In addition, risk is largely determined by the *perception* of given actors. These are all important elements to take into account when approaching the issue of energy security. Unfortunately, the current debate does not distinguish between these approaches and often mixes assumptions, presumptions, objectives and wishful thinking. We therefore need a better understanding of the issues at stake and a better conceptual approach.

Step 2: Clearly Identify the Actors

There are a multitude of actors and sub-actors that need to be taken into account when discussing the subject of energy security. These include state and state-actors, as well as commercial actors. States continue to play the key role in international politics and a lot can be explained by the behaviour of states and state-actors. But the state-centric (or state-actor-centric) approach is only one part of a much bigger picture. Energy policy is largely driven by commercial entities, some of which may be fully or partly state-owned. Nevertheless, it is important to recognise that contracts for energy supplies are concluded between companies, not states. Commercial actors are mainly driven by economic benefits and therefore have different interests, motivations and instruments from state actors. Even in cases where the commercial entity is owned by the state, it is unlikely that the entity would take wholly non-commercial decisions, although it may not necessarily take the most commercially optimal ones. As such it is possible to suggest that the equation "state controlled companies = state actors" is not necessarily correct. While it is true that commercial actors – if controlled by public structures – can *sometimes* act against their own optimal commercial considerations, the reasons for this still need to be properly analysed and conceptualised.

State actors also have very different perceptions of risk. Constructivist approaches have shown that state actors are not necessarily wholly rational entities which seek only to maximise their benefits. Other factors, such as culture, socialisation and history, also shape the behaviour of these actors. In short, various state actors can perceive risks in very different ways, depending on a variety of factors. This is particularly the case for energy security, when looking at the historical experience and political culture of some of the actors. Energy security can thus not only be understood as a rational, objective and material problem, but must also be seen as an issue that shapes its form and urgency according to the position and perception of the actor.

Step 3: Analyse the Structural Elements

This third step relates to the underlying structures which have to be defined properly. First and foremost, there are energy markets. However, in the debate about energy security, it is important to distinguish between the types of energy products that are traded. While the markets for coal and oil are global ones, albeit influenced to varying degrees by a cartel (e.g. OPEC), the gas markets remain essentially regional with only limited volumes of gas traded on international markets. Unlike coal and oil, which are transported in significant volumes by ship, gas, on the other hand, is by and large transported in long-distance pipelines. Exploration, exploitation, transport and storage are cost-intensive activities that require considerable investments and a long-term planning horizon. The relationship between consumers and suppliers of gas is much more stable and fixed than is the case for oil or coal. The lion's share of contracts concerning gas supplies are long-term contracts with a 20-25 year horizon. It is against this background that the current debate on energy security must draw a clear distinction between the different energy products.

There are also many other structural elements which determine the context of the debate on energy security. Most notably these are the existing normative frameworks that are based on the rules and norms already developed in multilateral organisations (e.g. WTO), plurilateral structures (Energy Charter Treaty, Energy Community) and bilateral agreements (for example the EU-Russia Partnership and Cooperation Agreement). The impact of these norms on actor behaviour should be a crucial element in any research programme on the issue of energy security.

Step 4: Conceptualise the Risks

We also need more work on better understanding the 'risks'. I suggest to create a typology. As noted above, risks are not well defined. But here we can assume that the relevant risk in energy security is the short, medium or longer term *risk of unavailable or insufficient energy supplies necessary for economic activities*. It is worthwhile to look at the different dimensions of this risk. I see three dimensions: material, economic and political.

- 1) *Material dimension*: The material dimension of energy security refers mainly to the physical availability of energy resources. Energy security is here linked to the scarcity of energy resources in the ground or the lack of sufficient investment in the exploration, production, transportation or conversion of energy. In addition, there is the physical vulnerability of the critical energy infrastructure which may be affected by adverse climatic conditions, or a lack of sufficient maintenance which increases the potential for accidents. For energy exporters, there is also the issue of a rapidly growing internal demand that may decrease the resources available to export. This material dimension is largely free of political considerations, although it may also reflect what the producing country sees as a prudent depletion policy.

- 2) *Economic dimension*: This aspect mainly focuses on available energy supplies but puts the focus on their actual delivery to consuming countries or the possibility for consuming countries to gain access to these supplies. It also concerns the economic consequences for the actors involved. Factors which shape this economic dimension include: (1) growing internal demand for energy in exporting countries; (2) increasing import dependence in many countries either due to a lack of indigenous resources, or to the exhaustion of easily accessible national energy resources and (3) the impact of the rapid economic growth of third-party states, particularly China and India.
- 3) *Political dimension*: The political dimension can be mainly defined by the potential to manipulate actor-to-actor relations by means of an intentional interruption of energy supplies for reasons other than purely commercial interests. The interruption of energy supplies is effectively used to exert influence, to punish or to reward political actors and states. But there is also a risk related to political instability that could lead to a situation where supplies are interrupted.

The current public debate has focused extensively on the last point (i.e. the political dimension of energy security), but in doing so it lacks a more fundamental analysis of the underlying economic or material interests. Any research programme on this issue would therefore need to be broader in scope in order to avoid a simplification and reduction of this complex issue.

Step 5: Analyse the Different Policy Choices

The St. Petersburg G8 Summit declaration on 16 July 2006 lists some of the policy objectives that are currently pursued. All of these are important elements in the ongoing policy work on energy security. Since their adoption, they have served as blue-print for the development of an external energy policy. Key elements are:

- strong global economic growth, effective market access, and investment in all stages of the energy supply chain;
- open, transparent, efficient and competitive markets for energy production, supply, use, transmission and transit services as a key to global energy security;
- transparent, equitable, stable and effective legal and regulatory frameworks, including the obligation to uphold contracts, to generate sufficient, sustainable international investments upstream and downstream;
- enhanced dialogue on relevant stakeholders' perspectives on growing interdependence, security of supply and demand issues;
- diversification of energy supply and demand, energy sources, geographical and sectoral markets, transportation routes and means of transport;
- promotion of energy saving and energy efficiency measures through initiatives on both national and international levels;
- environmentally sound development and use of energy, and deployment and transfer of clean energy technologies which help to tackle climate change;
- promotion of transparency and good governance in the energy sector to discourage corruption;
- cooperative energy emergency response, including coordinated planning of strategic stocks;
- safeguarding critical energy infrastructure; and
- addressing the energy challenges for the poorest populations in developing countries.

There is a need to further develop this already broad set of principles, but more importantly there is a need to identify the necessary instruments and institutional structures within which they will be employed. To some extent there is already an intense reflexive process currently ongoing. A number of institutions are working on concepts, approaches and strategies. As already mentioned, the G8 has provided a basis for reflection on further policy development and in 2007, the European Council requested the European Commission develop further policy ideas for the external aspects of energy security. As this work is ongoing, it would be premature to comment on the different elements of the policy proposals currently under discussion by the Commission, but what can be said is that in addition to the development of policies by practitioners, there is also the urgent need for a high-quality input from the research community. Only by bringing together the knowledge of both practitioners and researchers can we develop a pragmatic, realistic and solid policy approach to energy security that combines the necessary strands of energy policy which are, *inter alia*, the internal EU market, competition, trade, fiscal and environment policies, as well as external relations.

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J CER Book Reviews

Research in the Field of EU External Energy Policy – A Review of Three Recent Contributions to the Literature

Jack Sharples & James D.J. Brown

The following three reviews consider books that are all related by their broad focus on energy security, but which focus on different aspects of this issue. The first of the trio, *Energy Security: The External Legal Relations of the European Union with Major Oil and Gas Supplying Countries* (by Sanam Salem Haghighi, 2007) examines the issue of European energy security from a specifically legal, rather than a politico-economic, perspective. Haghighi conducts an extremely interesting and thorough investigation into the potential for the European Union (EU) to provide a stable and transparent legal framework in which various actors may consistently and coherently construct relations with non-EU energy-producing and energy-transiting states. The second book, *The EU-Russian Energy Dialogue: Europe's Future Energy Security* (edited by Pami Aalto, 2008), considers the energy dialogue from a (Northern European) regional perspective, and uses a series of case studies from this region to highlight the difficulties faced in the creation of a pan-European energy policy. The third book, *Energy Dependency, Politics and Corruption in the Former Soviet Union* (by Margarita M. Balmaceda, 2008) uses Ukraine as a case study for the Former Soviet Union, and explores domestic factors which may explain Ukraine's continued energy dependency on Russia, and Ukraine's failure to construct a consistent, coherent energy policy, more than sixteen years after the dissolution of the Soviet Union.

Jack Sharples – University of Glasgow

European energy policy is currently in vogue. The alluring interweave of sky-high oil prices, energy nationalism, and the geopolitical posturing of energy producers has attracted many non-energy specialists to apply their diverse expertise to this hitherto unfashionable subject. Consequently, there has been a major increase in academic output on the topic, with a multitude of articles and books recently published. However this is certainly not to say that the subject has become overworn. Indeed, given the multi-layered nature of the topic – with relevance to international relations, political science, European studies, international political economy, and post-Soviet politics – there is plenty of scope for additional material to offer complementarity rather than overlap. The books reviewed here are a case in point. Whilst all three directly relate to European energy policy, the authors have each tailored their approach to their particular specialism: European law, European Union institutions, and post-Soviet energy politics. The results are three very different books of contrasting styles and specificity, which intertwine to provide an enlightening overview of the complex tapestry of European energy policy.

James D.J. Brown – University of Aberdeen

Book Review

Haghighi, Sanam Salem

Energy Security: The External Legal Relations of the European Union with Major Oil and Gas Supplying Countries

Oxford: Hart Publishing (2007)

Jack Sharples

University of Glasgow, UK

As the title suggests, Haghighi takes a legal approach to the analysis of European Union (EU) energy policy. This book begins from the premise that while much work has been done on the development of the EU internal energy market, the evolution of European law and its link to energy security has been overlooked. Following on from this premise, Haghighi analyses current European law on the basis of its ability to provide a stable, transparent framework, within which the EU's external energy relations may be conducted.

The book may be divided into three distinct sections. The first section (Chapters One, Two and Three) lays the groundwork for the study. Chapter One provides a discussion of energy security as a concept, and puts forward the main argument of this book – That diplomatic relations do not provide enough transparency in terms of rights and obligations of the parties involved, to ensure security of energy supply, and that a clear and stable legal framework is needed to provide such transparency. Chapter Two offers a historical overview of the development of security of energy supply in Europe from 1951 to 2006, and suggests that 2006 was actually a watershed, in that the focus of European energy security began to shift from purely 'internal' considerations to external considerations. Chapter Three considers the division of competences between the European Community (EC) and the member states regarding security of energy supply, and concludes that there has been an imbalance between the progress on internal developments (such as the internal EU energy market) and the failure to develop equivalent policies on external energy security.

The second section of the book (Chapters Four, Five, and Six) provides the main, in-depth exploration of the topic at hand. Chapter Four considers EU measures providing for internal energy security, and the impact of these internal measures on external energy security. Chapter Five considers the external outlook of European energy security, and in doing so examines the issues of investment, trade and transit with reference to the Energy Charter Treaty (ECT) and GATT/WTO. A significant argument put forward in this chapter is the call for the Energy Charter Secretariat (ECS) to assume a more active role in encouraging more states (especially energy-producing states) to sign up the ECT, and to ensure that the specific interests of such energy-producing countries are fully taken into account. Indeed Haghighi concludes at the end of Chapter Five that the ECT in itself is to date the most successful attempt to create a legal framework for energy relations, but that the framework itself will be virtually worthless unless the ECS is able to convince more of the major energy-producing countries sign up to it. Chapter Six then presents three case studies which in turn examine EU energy relations with Russia, the Mediterranean region and the Persian Gulf. Here Haghighi illustrates the reasons why the EU co-operates more closely with Russia than the other two regions noted above, but calls for a more balanced approach and greater co-operation with all three in a manner which not only takes their interests into account, but also the interests of the energy-transit states in between the EU and the energy-producing

states. While Chapter Six focused on commercial elements (investment, transit and trade in energy), Haghighi suggests that two more sides of the 'triangle' remain to be considered: The economic development of the energy producing and transit states, and the creation of a common EU foreign policy towards these states.

The final section of the book builds on the analysis conducted in the second section, and offers policy recommendations. Chapter Seven examines the two 'missing sides of the triangle' noted above, and concludes that the EC should be doing more to aid the development and diversification of the economies of energy-producing countries, on the basis that this will increase European energy security. Furthermore, Haghighi calls for the Common Foreign and Security Policy (CFSP) to design a framework which ensures that member states conduct similar, consistent and coherent energy relations with the energy-producing countries. Haghighi suggests that such a framework could influence member states political relations with energy-producing countries, and that the resulting political coherence and stability would in turn contribute to the security of energy supply from these states. In the end, Haghighi concludes that various actors will continue to play a variety of roles in guaranteeing European energy security, and that the role of the EU (through the ECT and ECS) should be to create a stable and transparent environment in which these actors may act, and to provide a framework for relations which would enable them to act coherently and consistently.

On the whole, Haghighi's book represents an impressive and extremely thorough analysis of the legal basis for the EU's external energy relations, and the conclusions it draws are both clear and valuable. As such it is a must read for anyone interested in the issue of European energy security.

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This is an impressively broad, yet detailed, study of the external legal relations of the European Union (EU) with major energy-supplying countries. Although primarily a legal text, Sanam Salem Haghighi has succeeded in producing a book of much wider significance. Not content to provide a meticulous description of European law in the energy sphere, the author offers a carefully considered prescription for broadening out and improving EU external energy policy.

The book opens with an exemplary summary of the key issues, which stresses the vital status of energy in any industrialised economy and underlines that energy security remains a contested concept with no settled definition. This initial section will serve as an excellent introduction for newcomers to the field, yet does feature one significant error. Haghighi is correct to note that oil is a globally traded commodity, while the market for gas remains primarily regional. However the author is quite wrong to claim that oil is susceptible to manipulation 'while gas does not have such political characteristics' (p. 13). Indeed, although the impact of oil supply shocks is more global, it is the gas trade that is actually more prone to politicised disruption. This is because regional trading patterns and inflexible infrastructure enable gas-exporting countries to target and isolate individual import-dependent states.

Following this otherwise excellent introduction, Haghighi offers a detailed history of European energy security. Beginning in 1911 with Winston Churchill's momentous decision to convert the British Navy's fuel source from domestic coal to imported oil, the author proceeds to chart the steady growth of Europe's energy dependence, while emphasising that energy has always been central to the European integration project. However, as the chronological development of European energy policy is described, it quickly becomes apparent that this is a history of bold ambition and repeated failure. Each time the continent faces an energy security challenge the need for policy reform is proclaimed, yet decisions

persistently fail to match declarations. Notable in this regard is the fact that it is the Union's most recent efforts that are singled out as being particularly feeble.

With this history complete, the author turns to the task of providing a comprehensive delineation of legal competences over energy between member states and EU institutions. This section is more specifically about European law and will therefore prove trickier for those unfamiliar with legal texts. However the author deserves credit for keeping the explanation as lucid as possible. Her starting point is to make a sharp distinction between the internal and external outlooks. The former refers to the EU's endeavour to construct an efficient and secure internal energy market, whilst the latter relates to the Union's dealings with energy-exporting countries. This differentiation is important because, while there is little explicit treaty basis for supranational competence over energy, the EU has used secondary legislation to gradually accumulate authority over internal policy. This jurisdictional creep does not, however, extend to the external outlook. Therefore, while Haghighi is sanguine (perhaps overly so) about the progression of internal energy policy, she argues that it needs to develop a more concerted external energy policy in order to manage its growing energy dependence more successfully.

To begin with, Haghighi advocates shared competence for external energy policy between EU institutions and member states. She then unveils a more ambitious agenda. The crux of her argument is that, rather than conducting relations with energy-exporting states on a purely commercial basis, external energy policy should more explicitly incorporate political and developmental policies, thus creating a triangular and interdisciplinary approach. Firstly, as well as forging a more cohesive European foreign policy, it is argued that the Union needs to improve the formal mechanisms for engaging with major energy producers. While some structures already exist – such as the Energy Charter Treaty and EU-Russian Energy Dialogue – Haghighi claims that these need to be substantially extended and reformed. Secondly, the author proposes that the EU's development policy should be targeted at helping oil- and gas-producing states to achieve higher living standards and economic growth by means of economic diversification, integration with global institutions, and improved technology transfer.

Although cash-rich energy exporters may bridle at the idea of receiving development assistance, the basic idea is seductive. In Haghighi's view, energy dependence need not necessarily equal energy insecurity. Security is established by means of strong, institutionally-grounded, and reciprocal relations with one's principal suppliers. At present, Europe does not enjoy such a situation since formal mechanisms remain undeveloped and are not believed by producers to sufficiently reflect their interests; it is therefore little surprise that major exporters, such as Russia, continually refuse to ratify the Energy Charter Treaty. According to Haghighi, Europe must do more. By acting together to develop an external energy policy that offers investment, development assistance and more balanced modes of political engagement, the continent will profit from improved relations with energy producers, whilst also promoting transparency, sustainability and improved social conditions.

In terms of weaknesses, the most obvious criticism that can be levelled at Haghighi is undue optimistic. She clearly underestimates the obstacles to creating a cohesive European external energy policy. Given member states' very different energy needs, the long list of previous failures, and energy's status as a strategic good, her appeal to member states' feelings of loyalty and solidarity seems politically naïve. Additionally, although written recently, certain elements of this book are already a touch dated. For instance, there is little mention of the extent to which the international investment climate for western oil majors has deteriorated and no account is taken of rejection and reformulation of the EU Constitution. However, these faults are minor. In general, this is an impressive book and a first-class contribution to the literature. Whilst functioning as a unified piece of work, the book will also serve as a useful reference guide. It is essential reading for students of EU energy law, but will also be of great value to anyone with a general interest in European energy security.

Book Review

Aalto, Pami (ed.)

The EU-Russian Energy Dialogue: Europe's Future Energy Security

Aldershot: Ashgate (2008)

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University of Glasgow, UK

In their examination of the EU-Russian energy dialogue, Aalto *et al.* approach the issue from a specific point of view – the prospects for establishing a Pan-European energy policy. In doing so, the book may be divided into three sections. The first section begins with an overview of the EU-Russian energy dialogue, and how narratives may be used to interpret this dialogue from the perspective of both the EU and Russia. Chapters Four to Eight then offer a series of case studies, which illustrate different obstacles to the creation of a pan-European energy policy. In the final section, Aalto's concluding chapter re-considers the prospects for a pan-European energy policy in light of these obstacles.

The first section of this book begins with Aalto and Westphal's Introduction, which discusses European energy vulnerability and the need for a pan-European energy policy. In doing so, Aalto and Westphal identify six different approaches to analysing energy policy. In Chapter Two Aalto discusses the potential impact of the EU-Russia energy dialogue on the future of European integration, while in Chapter Three Morozov considers the impact of the energy dialogue on the future of Russia. Both Aalto and Morozov make use of narrative approaches to conduct their analyses; specifically the economic co-operation and the politico-normative peace project narratives.

The second section of the book begins with Chapter Four, as Romanova examines the EU's 'Northern Dimension' as a case study for regional interaction between the EU and Russia. Key themes in this chapter are the attempts (by both the EU and Russia) to 'de-couple' the technical aspect of energy co-operation from the political issues current in the EU-Russian relationship, and the attempts by the EU to extend the norms of the *acquis communautaire* to Russia, which is not in Russia's national interest, even if it is in the interest of the EU-Russian energy relationship. In Chapter Five Westphal considers Germany's bilateral relationship with Russia, and concludes that although this relationship is beneficial to Germany, it has somewhat undermined the common EU approach. In Chapter Six Aalto and Tynkkynen discuss the Nordic countries as a regional grouping, and conclude that the heterogeneity of interests among the Nordic states serves to illustrate the conflicts of interest which obstruct the creation of consensual energy policy at the broader European level. In Chapter Seven Berg explores the role of the Baltic States in the EU-Russia energy link. Berg concludes that despite differences in terms of structural factors, political strategies, and domestic actors, geographical location will continue to determine the role of the Baltic States as energy transit states between the rest of Europe and Russia. In Chapter Eight Tkachenko considers the Russian aspect of the EU-Russia energy, and concludes that the state will remain the supreme actor in the Russian energy sector, and that while the Russian President and Government do not oppose the presence of foreign capital and investment, this capital and investment will only be welcome if it does not entail any contradiction of Russia's national interests.

Finally, Aalto takes the issues discussed in chapters Four to Eight, and reduces them to four abstract concepts, which are then discussed as obstacles to the construction of a pan-European energy policy. Aalto concludes that while the current approach to the EU-Russia energy dialogue is yielding piecemeal progress, continuation on this course will leave fundamental questions unanswered, and that this could jeopardise the long-term energy relationship. Aalto therefore suggests a different policy option, which is to greatly increase the range of actors in the EU-Russia energy dialogue. Aalto argues that, while this would complicate the facilitation of short-term compromises, the varying interests of EU member states would be better served and the linkages between strategic and regional levels would be intensified. As such, EU member states would have greater incentives to integrate around a pan-European energy policy, while Russia would benefit from greater levels of interaction in terms of technology transfer, investment and modernisation.

This book offers an interesting collection of case studies which serve to illustrate the various difficulties faced in the construction of a pan-European energy policy towards Russia. However, while the difficulty of editing and constructing a study composed of a series of contributions by different authors is appreciated, this book is somewhat let down by its lack of coherence. Taken as a whole, this volume simply feels disjointed. The six approaches to analysing energy policy offered in Chapter One, and the narrative approaches utilised in Chapters Two and Three are rarely, if at all, present in the subsequent chapters of the second section. The result is that references to these approaches and narratives at the end of the book leave the conclusion also feeling disconnected from the case study chapters. Finally, although this book claims to focus on Northern Europe as the most promising 'test case' for a pan-European energy policy, the extent to which the lessons learned from this test case may be applied to other regions of Europe is given rather scant treatment in the concluding chapter of this book. As such, the declared aim of the book (to discuss the prospects for a pan-European energy policy) remains somewhat unrelated to its actual content (the development of the EU-Russia energy dialogue in Northern Europe). If the aim of this volume had been to use Northern Europe as a case study for the future prospects of the EU-Russia energy dialogue, then perhaps this volume may have been more intellectually coherent. On a minor note, this book would also perhaps have benefited from a proof-reading by a native English speaker, as the language was at times unclear. To summarise, while the case studies in this book provide interesting considerations of particular aspects of the EU-Russia energy dialogue, the gathering of these case studies into a single edited volume, and the additional analytical considerations offered at the beginning and end of this book, unfortunately add little intellectual value to them.

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In contrast to the wide-ranging analysis of Haghighi (2007), Pami Aalto's edited volume focuses more narrowly on Europe's energy relationship with its most important supplier, Russia, and specifically on the primary institution created to manage it – the EU-Russian Energy Dialogue. The book describes this mechanism in detail and employs international relations theory to analyse it. Northern European case studies are then utilised to test the authors' hypotheses.

The common epistemological current flowing through this book is constructivism and, as seems appropriate for a book about dialogue, the editor stresses narrative analysis. According to this theory, texts and social interaction are important influences on policy formation due to the key role that language plays in constructing actors' distinct realities. Specifically, contending narratives, in combination with concepts of identity and otherness, are viewed as significant influences on the development of European energy policy. Intra-EU

narratives of integration are identified, namely the economic co-operation narrative and the politico-normative peace project narrative. Additionally, as the book progresses, this narrative approach is used to invite comparison between the EU and Russian approaches to energy trade. Whilst EU institutions consistently employ language emphasising integration, dialogue, and the mutual benefits of co-operation, Russia interprets the relationship as a zero-sum game in which consumer and supplier compete for ascendancy. Other than constructivism, harmony between the chapters is also attempted via a common refrain about energy security's interdisciplinarity. Borrowing from neo-functionalism, it is suggested that one form of co-operation is liable to spill-over into other policy areas, thus encouraging integration to progress organically. What is more, there is a general emphasis on political sociology and bureaucratic theories of policymaking, which prioritise non-state actors.

In addition to the introduction stressing these core themes, this volume consists of eight chapters. The contributors are from several different countries and pleasingly include Russian academics. In the first three of these chapters, Pami Aalto, Viatcheslav Morozov, and Tatiana Romanova deal in more detail with narratives, Russia's future in Europe, and different levels of analysis (regional versus strategic). Then follow a series of chapters which focus more specifically on one country or regional grouping. Eiki Berg's offers a piece on the Baltic States that usefully highlights distinctions in the energy policies of Estonia, Latvia, and Lithuania. Meanwhile, Pami Aalto and Nina Tynkkynen evaluate Nordic countries' influence on the Dialogue, with particular attention to environmental issues and the contrasting positions of Norway and Finland.

The better case studies, however, are on Germany and Russia. In the first of these, Kirsten Westphal competently charts the evolution of German energy policy and evaluates its impact upon EU-Russian relations. The Schröder and Merkel administrations are compared and the controversial Nord Stream pipeline discussed. This chapter also draws attention to the prominence of interest-driven personal contacts and the protection that the Federal Government accords to Germany's largest energy companies. In so doing, Westphal goes at least some way towards addressing the key question of why EU states continue to prioritise bilateral energy relations and remain reluctant to pool sovereignty.

Secondly, Stanislav Tkachenko impressively catalogues the key actors involved in the formation and execution of Russian energy policy. Although undoubtedly more cohesive than the EU, it is too often assumed that Russia functions monolithically. Tkachenko instead takes the view that Russian policy is the product of competition and intrigue amongst a broad range of groups, including the presidential administration, government and ministries, parliament, regions, oil and gas companies, financial institutions, business organisations, and foreign energy companies. This will prove a precious resource for researchers studying the intricate inner-workings of the Russian political system. Curiously, however, Tkachenko makes no mention of Federal Service for the Oversight of Natural Resources (and its activist deputy head, Oleg Mitvol), which has been so central to the state's campaign to reclaim strategic energy assets from foreign ownership.

Collectively, the book's chapters provide a good account of the overall characteristics of the EU-Russian Energy Dialogue. However, it is difficult to avoid the conclusion that this Dialogue (and thus the subject matter of this book) is of extremely limited importance. Although the contributors enthusiastically point to various working groups and a few localised schemes to reduce Russian energy inefficient and improve environmental standards, this co-operation is very low-level and shows no signs of spilling-over into anything more significant. Indeed, when it comes to major issues and crisis prevention, the mechanism appears entirely powerless. This is reflected by the fact that, since the launch of the Dialogue in October 2000, relations between the EU and Russia have seriously deteriorated.

In addition to doubts about the impact of the Dialogue, there is also a real question mark about how much is usefully gained from the book's application of constructivism to the field

of energy security. There is a strong sense that a favoured theory of European integration has simply been foisted upon EU-Russian energy relations with little consideration of how much it actually has to contribute to the field. No doubt the EU and Russia do employ contrasting narratives, but such factors are extremely marginal when compared with material determinants of actors' behaviour. In fairness, material constraints imposed on the EU by its energy weakness are occasionally mentioned, yet they remain seriously underestimated.

Further weaknesses are derived from the fact that this is a book written by EU enthusiasts and not energy experts. To begin with, the editor's uncritically pro-EU tone and casual dismissal of the Union's detractors can be jarring. More seriously, however, unfamiliarity with energy issues has led to some considerable oversights. For example, the post-2001 rise in oil prices is exclusively attributed to supply-side constraints, while absolutely no mention is made of developing states' burgeoning energy demand or the weakness of the dollar (p. 1). More embarrassingly, the editor also confuses carbon dioxide and hydrocarbons (p. 25). Indeed, this book is generally let down by errors. Unlike the above, the majority of these are spelling mistakes or relate to the inarticulate use of English. Although one would usually be inclined to ignore such peccadilloes, on this occasion it is not possible due to their disruptive abundance.

In summary, this book is fine when dealing with technical elements of the EU-Russian Energy Dialogue, but much weaker at coherently addressing the big questions of European energy security. In this regard, it is rather like the EU itself. This volume will therefore be of use to those who wish to understand the Dialogue's institutional structure or who have a specialist interest in northern Europe. Readers looking for a book that successfully tackles the major issues of EU-Russian energy trade are advised to look elsewhere. Ultimately, the high initial promise of Aalto's book is not fulfilled.

Book Review

Balmaceda, Margarita M.

Energy Dependency, Politics and Corruption in the Former Soviet Union: Russia's Power, Oligarch's Profits and Ukraine's Missing Energy Policy, 1995-2006

London: Routledge (2008)

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In this study Balmaceda explores the domestic factors that may help to explain the continued dependency of post-Soviet states on Russian energy. Although the title of the book refers to the region of the Former Soviet Union as a whole, this book actually focuses very specifically on Ukraine as a case study: It explores both Ukraine's continued energy dependency on Russia, and Ukraine's failure to construct a consistent, coherent energy policy, more than sixteen years after the dissolution of the Soviet Union.

In doing so, Balmaceda takes a 'modified institutional approach', which entails a close consideration of Ukraine's domestic institutions and the behaviour of its domestic interest groups. During the course of this study Balmaceda introduces several key concepts. The first is 'energy dependency'. The second key concept introduced is that of 'rents of energy dependency'. By 'rents of energy dependency' Balmaceda is referring to benefits which an economic group or actor may receive from the continuation of energy dependency relationships, such as Ukraine's relationship with Russia. The third key concept Balmaceda refers to is that of a Business-Administrative Group (or BAG, commonly referred to as 'clan'). BAGs are significant to Balmaceda's approach, as their strength is drawn from a combination of economic resources and administrative or political decision-making power.

The book itself may be divided into three parts. The first part provides a frame of reference for the book as a whole. In this first part, Chapter Two discusses the role of energy in Ukraine's state-level foreign policy relations, particularly those with Russia, the EU and other international institutions. Chapter Three examines the characteristics of the Ukrainian political system between 1995 and 2004, and in particular the impact of several strong interest groups being balanced by a strong President in the role of 'arbiter'. Chapter Four goes on to evaluate the effects of the Ukrainian political system (and the actors therein) on the Ukrainian energy market between 1995 and 2004.

The second part of the book explores the concept of 'rents of dependency' and the influence of 'the Russian factor' in Ukrainian energy policy under President Kuchma between 1995 and 2004. Chapter Five considers how Ukraine managed its energy dependency relationship with Russia between 1995 and 2004 in terms of domestic and external diversification; the former being on the basis of reduced consumption, and increased production and efficiency, and the latter being in terms of geographical and contractual diversification of energy sources. Chapter Six considers the role of domestic institutions in Ukraine's responses to energy dependency. The three institutions focused upon here are; the system of energy market organisation, the system of interest articulation, and the system of energy policy making. The conclusion drawn in this chapter is that the combination of powerful interest

groups (i.e. BAGs), a strong President, and less-than-transparent policy formation resulted in the BAGs and President pursuing their own short-term interests (rent-seeking) at the expense of Ukrainian energy security. Chapter Seven defines ‘rents of dependency’ as a concept, discusses the possibilities for profiting from such rents of dependency between 1995 and 2004, and examines how these possibilities were used. This chapter concludes that the combination of corruption and rent-seeking has perpetuated Ukraine’s energy dependency and worsened relations with major suppliers.

The third part of the book considers energy policy and energy dependency in Ukraine under President Yushchenko. Chapter Eight considers Ukrainian energy dependency between January 2005 and August 2006 (i.e. from the ascension of Viktor Yushchenko to the post of President of Ukraine, to the return to power of Viktor Yanukovich as Prime Minister of Ukraine). The main focus of this chapter is the Russian-Ukrainian energy dispute of January 2006, and more specifically, the impacts of the agreements which resolved the dispute thereafter. In the concluding chapter Balmaceda re-asserts that the key factors in Ukraine’s post-Soviet energy policy development (or lack thereof) are; Ukraine’s particular path of post-Soviet political development (namely a strong President and the dominance of BAG’s relative to elected political parties), the widespread availability of opportunities for ‘rent-seeking’ in the corrupt energy sector, and the ability of Russia not only to co-operate with domestic rent-seekers within Ukraine, but also the role of Russia in fostering new aspects of Ukrainian energy dependency. When discussing the likelihood of Ukraine freeing itself from a situation of energy dependency, Balmaceda concludes that unless there are deep, structural changes in Ukraine to reduce the opportunities and rewards for corruption and rent-seeking, then the chance of real, energy-related, economic and political reform will remain slim to none.

Overall, this book provides an excellent insight into the role of domestic politics and economics in shaping the energy policy of Ukraine. Balmaceda’s argument that high levels of post-Soviet energy dependency are not inherent and inevitable for Former Soviet Union states such as Ukraine, but are significantly influenced by the levels of corruption, economic transparency and development of democracy in such states, is certainly compelling. A minor point to note is that the issue of how Ukraine may serve as a model for other post-Soviet states is somewhat underdeveloped in the conclusion of this book, and it perhaps would have been beneficial to more explicitly discuss this issue. However, as a study of Ukrainian energy policy between 1995 and 2006 this book provides a good-quality consideration of an interesting topic.

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Although very different from the preceding volumes, the final of these three books is also highly relevant to European energy security. Margarita M. Balmaceda offers an authoritative, well-structured, and balanced account of corruption in the Russian-Ukrainian energy trade. The book quickly assumes that Russia is indeed using energy for political leverage over its neighbour, yet takes a nuanced view of the relationship and impressively deconstructs the simplistic characterisation of Russia as villain and Ukraine as victim.

This book begins by describing how Soviet disintegration left Ukraine in the inimitable position of being hugely dependent on Russian gas, whilst also becoming Europe’s primary gas-transit state. This situation is generally detrimental to the Ukrainian economy, but is shown to offer domestic actors, especially those near the apex of power, the opportunity to use corrupt means to accrue vast fortunes. Consequently, it is in the interests of Ukrainian political figures to maintain the country’s intensive energy dependency and so perpetuate a state of affairs that generates lucrative rents. Indeed, Balmaceda argues that these rents of dependency have become thoroughly ingrained in the system and serve as a major political

tool with which the president may shore up his own position or buy-off and bargain with Ukraine's powerful business-administrative groups. Moreover, the continuation of this arrangement allows Russia to maintain political influence over the country.

As the author catalogues the astonishing array of dishonest practices employed – ranging from simple theft to complex kick-backs – the extent to which 1990s Ukraine developed into a rats' nest of corruption becomes clear. However, while venality may have peaked during the premiership of Pavlo Lazarenko, the book's most startling revelation relates to the depth and durability of this maladministration. The majority of Ukrainian politicians appear to be tainted and it does not seem an exaggeration for the author to claim, in quoting the former head of Ukraine's national gas company, that "all major political fortunes in post-independence Ukraine were made on the basis of Russian oil and gas" (p. 106). What is more, Balmaceda considers this statement to apply equally to the post-Orange Revolution period. Avoiding the temptation to take too rosy a view of its achievements, Balmaceda claims that very little changed after the Orange coalition took power. In fact, both of its key protagonists receive hefty criticism. Yulia Tymoshenko is revealed to have been heavily involved in the endemically-corrupt Ukrainian gas trade during the 1990s, and comes across as a ruthless and vengeful operator. More surprising, however, are the criticisms and allegations levelled at President Viktor Yushchenko, who is somewhat of a darling of the west.

Balmaceda is particularly critical of the President's role in the Russian-Ukrainian gas stand-off of January 2006. In what must be one of the best accounts of the crisis, the author comprehensively debunks the myth that Russia somehow lost this battle. In fact, it is convincingly argued that the January 4 agreements are highly favourable to Russia in terms of both gas pricing and transit terms, but were a "Pearl Harbor" (p. 126) for Ukrainian diplomacy. Throughout the negotiations, Yushchenko is said to have shown no leadership and to have appeared ignorant of developments. Indeed, such was his ineptitude, that Balmaceda is inclined to see foul play, rather than mere incompetence (p. 128). The suggestion is that Yushchenko and associates profited from the introduction of an intermediary – RosUkrEnergo – into the trading relationship. This is an extremely serious allegation for which Balmaceda has little solid evidence. However, the author does intriguingly establish an apparent connection between Yushchenko and Dmytro Firtash, the enigmatic gas trader later revealed to be RosUkrEnergo's main Ukrainian owner (p. 128). In making this bold claim, Balmaceda's wider argument is re-emphasised: corruption is so deeply entrenched in post-Soviet Ukraine that it is almost impossible for politicians, irrespective of political colour, to remain on the moral high ground.

In terms of downsides, some may consider that very nearly 50 pages of endnotes are excessive for a book totalling little over 200 pages. However this is easily forgiven due to the fascinating supplementary information that they contain; for example that Ukraine was the third-largest recipient of US aid during much of the 1990s (p. 153), or that Tymoshenko's husband was arrested for embezzlement whilst a board member for United Energy Systems of Ukraine, a corporation for which his wife was general director (p. 164).

Additionally, the author's last-minute efforts to generalise from Ukraine to the wider post-Soviet area seem rather contrived. As the book so successfully shows, Ukraine's energy situation is unique and thus there are real limits to the extent to which the knowledge gained here can be applied elsewhere. In any case, this seems unnecessary. As a superb monograph on Ukrainian energy dependency and corruption, this book is in itself a major achievement. It will be of great benefit to those studying European energy security and is surely a must for all researchers concerned with the intriguingly murky politics of post-Soviet Ukraine.