JCER Commentary

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

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'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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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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