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Energy as a Security Challenge for the EU

15 October 2004, EU Institute for Security Studies, Paris

When does energy constitute a security threat for the EU? How should the EU respond to existing and potential threats to its energy security? Taking place on the day that the crude oil reached the historical price of \$55 the barrel, this conference raised these critical questions facing the European Union and its member states. This conference brought together officials from the EU Council, the Commission, the Dutch Presidency and other member states with many of Europe's most prominent independent experts on energy questions.

A centrepiece in the conference's proceedings was the draft paper by John Roberts entitled *Energy as Security Challenge for the EU*. In light of the discussion during the conference and comments from participants, the EU ISS will publish a Chaillot Paper on this subject for December 2004.

One should note that the discussion focused less on specific threats to energy supply and infrastructure and more on the wider political and market climate in which the EU must devise its energy security policy.

Five points emerge when considering energy as a security challenge for the EU.

- ***Defining the Notion of Energy Security***

First, there is the general point that energy security is not a self-evident concept. Can it be compared to military security, one participant queried, or it is more similar to food security? Energy security can mean different things at different levels, ranging from accidents, blackouts, to supply interruption and sharp rises in the price of oil. Each of these concerns requires a different set of responses from a different set of actors, including member states, the Commission and stretching to energy suppliers and consumers. The wide-encompassing nature of the energy security (*what indeed constitutes a threat that must be responded to and how?*) makes considering it at the EU level challenging.

Certainly, there is a consensus that energy will increase as a question of ever more vital importance in the future, driven by enduring instability amongst major producers in the Middle East and rising demand from the global market. For the EU, the problem is seen to lie at four levels:

- 1) The technical dimension of energy transportation, infrastructure maintenance and protection.
- 2) The supply dimension of increasing reliance on singularly important producers, namely Russia for natural gas, and Middle East for oil.
- 3) The market dimension of how to balance the needs of the EU and member states with the capacity of private companies to respond to state concerns in terms of investment and strategies.
- 4) The Transatlantic dimension in terms of differences between the EU and the US over unrestrained demand in the U.S., different visions on major environmental questions such as ratification of the Kyoto Protocol and destabilising American policies in the Middle East.

Means to respond to these various dimensions reside at three levels:

- 1) The pursuit of geographical diversification of supply sources.
- 2) The pursuit of technological alternatives in renewables and even nuclear energy.
- 3) The pursuit of political engagement to stabilise the Middle East as the major producer region.

- ***Dispelling Myths***

There are a number of pieces of common wisdom on the question of energy security that require rethinking.

A first myth concerns the notion that ‘import dependence is something to be avoided at all cost.’ The figures put forward by the Commission in its *Green Paper* forecast that, failing significant changes, EU energy imports will rise from 50% to over 70% by 2030. Contrary to common wisdom, such reliance is not itself a problem to be avoided at all cost. Generally, no country or group of countries can realistically aim for self-sufficiency or even substantially lower levels of reliance in the medium term. High levels of import reliance do carry risks over the short to long term, to which diversification would provide solutions. It also requires careful management internally as well as externally.

A second piece of common wisdom is that high oil prices are necessarily a bad thing. Low oil prices may in fact present false promises to consumers all the while inhibiting great investment. It is the general consensus that the current price bubble reflects a combination of three factors:

- 1) Demand shock from the rising needs of the US and Asian economies.
- 2) An absence of real idle capacity amongst producers, with most working currently at capacity.
- 3) Rising instability in the Middle East (Iraqi interruptions, and the Israeli-Palestinian conflict) and high perceptions of risk in the region.

The 2000s are very different to the 1970s in terms of the pervasiveness of oil use in our economies. In 2004, oil is extensively used only in the transportation sector; this increases the EU's ability to manage the repercussions of current oil prices through various fiscal measures. However, at the same time, the factors producing current prices lie largely beyond the EU's grasp. In many respects, the EU is something of a bystander before these developments. While two experts foresaw a decline in the oil prices to \$28-32/barrel, most agreed that the price is likely to continue to rise because of increasing demand and an unforeseen lack of idle capacity in the system.

- ***The Market vs. the Strategic***

Much of current EU energy policy follows a market approach and logic, encapsulated by the push for a liberalised internal market. In current international conditions, many experts argue that this will leave the EU vulnerable. On the contrary, energy policy should become more strategic and political.

The politicisation of energy was noted at several levels, and especially internally. Indeed for many experts, a stronger political hand is called for to clarify the question of idle capacity – the market is not enough to ensure appropriate levels of idle capacity.

One concrete proposal was put forward to conduct systemic analysis of idle capacity within the EU system itself. Moreover, the EU should start with a focus on ensuring reliability and protection of critical infrastructure. This is seen to concern, although not exclusively, the electricity networks – recent blackouts in Italy proved very costly and dangerous. Finally, the case was made for heavier political steering in the development of a range of renewable energy, especially bio-fuels.

The underlying point is that the logic of competition policy is not necessarily the most fitting for ensuring EU energy security. In energy parlance, demand management requires more political attention at the EU level.

- ***Energy and External Policy***

The rules of the game are changing in international energy markets. In the words of one expert, the rise of increasing numbers of non-OECD state energy players means the rise of non-OECD rules in the energy market. Once again, this highlights the need to include energy security as an integral part of the EU's external policies. The national level is no longer the most appropriate one for decision-making on energy security questions; greater competence should reside at the EU level.

Three international factors call for a great integration of energy within EU external action:

- 1) The rise of a new energy market, with rising demand and, thus, increasing competition for the EU in securing energy imports.
- 2) The shift over the medium-term towards greater reliance on natural gas, especially in Europe, signals the rise of new gas geopolitics, whose configuration is rather different than with oil – note, the EU's reliance on Russia and Algeria, as well as Turkey's search to become a 'fourth artery' in natural gas (mainly as a transit state – the third artery is Norway).

- 3) The EU is a main player in the new international environmental agenda, which increasingly constitutes the framework for much decision-making.

While energy security is already part of EU external action, it is widely recognised that it should take on heavier weight. For example, the energy dialogue with Russia presented an excellent start, but it has run aground with little progress.

The Commission's conclusion in its *Green Paper* is that because there is little that the EU can do to affect supply, Brussels should focus on managing its own demand – to alter the fuel mix across the Union, increase the use of renewables, and ensure import diversification. However, a point of consensus to emerge in the conference is that the EU must integrate energy into its external policies in order to seek also elements of supply management. Demand management is not enough.

- ***A Constitutional Opportunity***

Most fundamentally, the fact is that the EU does not have an energy policy as such. The Constitutional Treaty will change this when it comes into force. Until then, however, without a legal basis, energy policy is undertaken through the framework of environmental and internal market policy. Both of these policy approaches are relevant; but, as discussed above, they are not the most pertinent for the development of a more strategic EU energy policy.

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