



**Giovanni GREVI**

## **CFSP and Energy Security**

EU Institute for Security Studies  
Paris, 23 October 2006

At a moment when energy security features prominently on the political agenda of the European Union and of all its Member States, the EUISS convened a selected group of experts and practitioners to help define and fine-tune the policy priorities for the EU. Looking at the question of energy security from a foreign and security policy perspective, speakers situated EU energy interests in a broader geopolitical context, addressed the energy security outlook of other major global players, and outlined the threats and vulnerabilities with which the EU will be confronted.

### **Key findings**

- Energy security is a very broad concept. Perceptions vary from country to country and risks are different if assessed in the short or long-term. It is also essential to differentiate between oil and gas markets. There is therefore no one-size-fits-all solution: different responses are needed to address different problems.
- The question of energy security needs to be framed in the wider picture of geopolitical tensions and instability affecting many energy-rich regions, notably the Middle East and Russia as well as South Caucasus, Central Asia, Western Africa and South America. Yet another crucial policy link needs to be strengthened between the question of energy security/efficiency/mix and environmental requirements.
- Growing EU dependence on energy imports cannot be averted but can be mitigated. The focus lies on diversification (of suppliers, transport routes and energy mix) and on investment in new technologies and renewables. Furthermore, the question of interdependence needs to be factored into the debate, so that the EU can fully exert its leverage as the largest market for energy imports. Dialogue and cooperation needs to be fostered with third parties, addressing for example common concerns on the protection of energy infrastructures.
- Russian energy nationalism is a question of major concern considering both its political implications in the Russian 'near abroad' and the absence of sufficient investment notably in the gas sector, which could entail shortages of supply in the next few years. Gazprom's monopoly on the gas market and its envisaged expansion downstream require serious attention.

- China's energy policy is essentially directed towards sustaining its fast economic growth and supplying cheap energy to its people. China gives priority to long-term supply contracts and its dynamic presence abroad makes competition tougher for international oil companies and raises serious governance and development issues. The biggest question, however, is the environmental sustainability of China's energy consumption and how to integrate China in multilateral efforts to regulate energy markets and carbon emissions.
- Confronted with the growing politicisation of the energy debate, the EU needs to develop and implement a coherent and focussed energy security strategy, delivering added value to what Member States and market actors can do. Energy security needs to be mainstreamed and effectively promoted in the interplay of different external instruments and policies, from CFSP to development. From a foreign policy standpoint, energy can be a source of cooperation but also of conflict, and large energy revenues tend to weaken domestic governance and affect stability.

### **Energy security: defining the question**

A number of experts stressed that the question of energy security needs to be set in a broader policy context than CFSP/ESDP. Crucial environmental considerations, energy efficiency, economic implications as well as S&T and R&D perspectives need to be brought into the picture to get the policy mix right. With a view to that, speakers highlighted the need for both a more specific approach to interconnected issues and a comprehensive geopolitical assessment of regional dynamics.

On the one hand, it was felt that energy security is an elusive concept. Perceptions of energy security vary from country to country: threat assessment depends on geography as well as on different energy choices. Different challenges also emerge depending on whether energy security is regarded over the short term (including punctual disruptions) or long term (growing structural dependency on imports). Likewise, differentiating between the oil and gas markets is essential. In short, when looking at energy security, there is no one-size-fits-all solution: it is a matter of unpacking the questions and looking for appropriate responses to different problems.

On the other hand, the point was made that long-term solutions to energy security concerns, notably including dependence on imports from turbulent regions, could only be provided by addressing wider security issues. In the words of one speaker, 'questionable' regimes are not so because they are unreliable energy providers, but they are unreliable because they are authoritarian and/or corrupt, and closed to foreign investment in the first place. A holistic regional approach is therefore required to tackle the root causes of the problem.

### **The challenges ahead**

Over the next 25 years, energy demand will grow by about 50%; oil, gas and coal will account for 83% of that growth; 66% of the increase in demand will come from developing countries (notably Asia), and the OECD share of oil production will shrink from 25% to 12% of the world total. These were among the many figures and statistics submitted in the course of the discussion to make one simple and critical point: energy demand will grow faster than supply. Seven key challenges and questions flow from this basic remark.

- First, the EU will become increasingly dependent on oil and gas imports from a turbulent neighbourhood. By 2030, the EU will import 90% of its oil and 80% of its gas requirements. Most speakers stressed that the best recipe to confront dependency was the diversification of the energy mix, suppliers and transport routes. Looking at oil, most of the production increase will occur in OPEC countries and in Russia/Central Asia. The oil market, however, is global and transport lanes more flexible. Dependency is much more accentuated for emerging Asian economies than for the EU. The best protection against sudden disruptions resides in strategic stocks.

Turning to gas, the largest reserves lie in the Middle East and in Russia. It was stressed that the latter will remain the EU main individual gas provider, which will link the EU's and Russia's energy interests for the foreseeable future (see below). Pipelines are bilateral and the market remains a regional market, which entails much less flexibility than in the case of oil. It was also noted that LNG (liquefied natural gas) would play an important role in the future of gas supplies. Transportation costs are lower for LNG than for gas piped overland when the distance to cover goes beyond 3,500 km and a number of LNG terminals are under construction in Europe.

- Second, the question of dependence on imports should be framed in the broader context of interdependence. The security of supply and the security of demand should be regarded as the two faces of the same coin in the relations between producers and consumers. In the case of gas, some felt that the dependence of the exporters at least equals that of the importers. Considering that the EU is by far the largest gas import market, that would entail considerable political leverage.

Others questioned the notion of interdependence by pointing out two key differences. First, goods: the EU receives vital resources whereas producers receive money, which is conceivably of less immediate critical importance. Second (and related to this), timeframe: financial flows can wait, but the impact of energy disruptions are felt immediately and cannot be tolerated for long. The debate on this issue was very rich with yet another speaker comparing the 'energy weapon' to the nuclear weapon: it can be used as a deterrent but, once it is used, it is lost, with harmful consequences for both importers and exporters.

- Third, various factors will contribute to maintaining high oil prices, including the expected gap between demand and supply, geopolitical turbulences as well as, notably, a pervasive sense of fear and looming crisis. For the time being, prices do not pose a major economic problem (in real terms, they are lower than in the aftermath of the first oil crisis in 1974). On the positive side, it was also noted that high prices represent a powerful incentive to investment in alternative sources of energy, including renewables, and in energy efficiency. Aside from the direct impact on developed economies and consumers (transport will account for 60% of the increase in oil demand over the next ten years), however, it was highlighted that high prices entailed three major consequences.

First, price variations added to the volatility of financial markets, which might in turn affect savings and pension funds. Second, high prices had a much more severe effect on poor importing countries. The total debt relief agreed at Gleneagles in 2005 amounts to only one eighth of the additional expenses that poor countries had to face due to rising oil prices over the last year. Third, and of most concern to all speakers, windfall energy revenues were not put to the best use in producer countries.

- The fourth challenge concerns the negative economic, social and political consequences of windfall energy revenues – the so-called 'oil-curse'. At the domestic level, it

was stressed that easy energy money prevented a balanced economic development based on productive activities and enterprise. Energy exporting countries can afford very low levels of taxation which, in turn, diminishes demand for political accountability and hampers progress towards democracy. Many speakers stressed that corruption posed a particular problem. In 2005, an estimated 1 trillion US\$ was spent in bribes, a lot of which took place in the energy industry. At the international level, the finding that resource-rich countries were nine times more likely to suffer internal conflicts than resource-poor ones was recalled. In short, energy cash made a lot of countries less secure, which clearly affected EU interests.

- Fifth, energy nationalism is on the rise, with the state dominating energy companies and the latter behaving according to political and not market logics. As shown by recent developments not only in Russia (see below) but also Bolivia, international energy companies are eager to operate in a number of countries. It was pointed out that an estimated 80% of world oil reserves and 75% of world gas reserves were off-limits for international energy companies (IOC). The speakers noted that the problem of access was not new in itself, but the imposition of more stringent contractual conditions as well as the growing influence of national energy companies meant that it needed to be urgently addressed. All the more so with a view to the serious and under-estimated problem of insufficient 'upstream' investment in many producer countries, notably Russia but also Iran and other OPEC members.

- Sixth, high prices and uncertainty as to the security of supply have led to a revival of nuclear energy, with the construction of about 200 new plants envisaged across the world. It was stressed that this posed a direct challenge to the non-proliferation regime since no appropriate multilateral system was yet in place for the control of fuel supply, spent fuel or waste. There was a strong interest in establishing effective regimes for the control of the civil nuclear industry. The perspective of multi-national consortia was raised and attention was drawn to significant technological progress towards making the nuclear fuel cycle proliferation-resistant.

- Seventh, and most important of all in perspective, the envisaged rise of demand and consumption of hydrocarbons entails serious environmental consequences, leading some speakers to question the sustainability of future energy patterns, unless there is a major investment in R&D and new technologies and a major policy shift. The potential relevance of 'carbon capture and storage' technologies, and its quick application to a new generation of power plants, was stressed. Based on a reference scenario by the IEA, CO<sub>2</sub> emissions are forecast to grow by 50% between now and 2030, and developing countries' emissions will overtake those of the developed world by 2020. Energy security and environmental security needed to be part of one and the same debate.

Reference was also made to the need to review the multilateral frameworks addressing environmental matters, which do not seem to be delivering sufficient progress, with a focus on post-Kyoto. Interestingly, the IEA submitted an alternative scenario predicated on realistic policy progress on new technologies, energy efficiency and renewables. Under this scenario, both oil and gas demand in 2030 would be 10% lower than in the reference scenario, which showed the very considerable gains that can be drawn from wise energy policy choices.

### **The energy security strategies of Russia, China and the US**

#### Russia

- Concern was expressed throughout the discussion about the behaviour and reliability of Russia as the biggest individual energy supplier of the EU. Most speakers pointed out the

intimate connection between political and economic interests and priorities, notably with a reference to Gazprom and its approach to both domestic and foreign markets. Gazprom is moving to extend its control downstream, to distribution grids primarily in Europe, and upstream, to new fields in Central Asia and relevant transport facilities, thereby consolidating a dominant position while not agreeing to play by open market rules.

- At the same time, Gazprom and the Russian government are not making the necessary investment to guarantee the sustainability of supply. Extraction rates from existing giant fields are declining and the development of new fields is slow at best. With EU gas demand expected to grow from 200 billion m<sup>3</sup> in 2003 to about 500 in 2030, Russian estimations of production growth over the same period range between only 30 and 65 billion m<sup>3</sup>. In addition, it was noted that there would be an increasing conflict between growing foreign demand and an expanding domestic demand. Supply shortages from Russia could already become evident over the next few years. In this connection, the problem of gas ‘flaring’ was also touched upon. When gas is extracted together with oil, huge amounts of it are simply burnt away and wasted because oil companies cannot sell it at a profitable price to Gazprom, given the monopolistic position enjoyed by the latter.

- It was felt that Russia invested too much in political leverage and not enough in future production. The willingness of Russia to engage in a real dialogue with the EU was questioned by some, and the problem of widespread corruption stressed. It was no longer clear whether Russia’s goals were compatible with EU interests. On the other hand, the EU’s difficulty in forming a common front and presenting Russia with a unified position was also remarked upon and it was felt that much progress needed to be achieved from that standpoint.

- Much attention was paid to Russia’s strategy towards the Caspian region, directed towards gaining control of local resources and channelling them through the Russian pipeline network (which, in so far as gas towards the EU is concerned, only goes through Ukraine). The crucial importance of Turkey as an alternative transit route for energy from Central Asia and the Middle East was stressed by many and, in this context, the discussion focussed on the key strategic role of the future Nabucco pipeline supposed to connect Central Asia with Europe through Iran, Turkey and the Balkans. Some felt that this project needed much more political backing from the EU, failing which Russia is likely to consolidate its gatekeeping role with regard to energy flows from East to West.

## China

- China is already the second largest energy consumer in the world after the US and, based on its envisaged economic growth rate, the demand for oil, gas and coal is expected to skyrocket. Against this background, it was pointed out that four factors shaped China’s approach to energy security: the need to sustain the fast pace of growth; the perception of external threats; and domestic industrial as well as social policies.

- At the domestic level, the government controls every aspect of the energy sector, including energy prices. It was noted that this was not going to change, which would entail entry barriers to both the domestic and foreign private sector for the foreseeable future. Domestic priorities include increasing production, providing cheap energy to the people and, more recently, promoting energy efficiency. The latter is the real big issue but the question was put whether deeds will in fact match official rhetoric, which will have critical implications for the sustainable development of China as well as for the global environment.

- At the international level, China's goals are the diversification of oil supplies, the expansion of investment overseas and securing transport routes. It was noted that China's national companies rushed straight to the source, invested in equity oil and gas and concluded long-term import deals, which gave China a comfortable sense of security, as opposed to relying on the functioning of the market. Investment overseas in more than 40 countries reflected therefore the convergent interests of the Chinese government, of national companies and of host governments. In terms of transport routes, a new oil pipeline from Russia will soon be activated, whereas there is no short-term prospect of gas pipelines being developed. Oil and gas pipelines are being built from South-East Asia to diversify supply. Speakers stressed the particular interest of China in keeping sea-lanes secure, notably around the vital Malacca Strait, which entailed a proactive Chinese presence in the Indian Ocean and the construction of maritime energy transport hubs such as the Gwadar facilities in Pakistan.
- Among the considerable implications of Chinese policy for the EU, three stood out. First, at a political/strategic level, Chinese dynamism heightened the sense of growing competition for resources and the perception of threat. On the whole, EU relations with energy-rich countries or regions will be complicated by China's growing influence. Second, at the economic level, concerns about upward pressures on prices, given growing demand, were balanced by the consideration that Chinese investment abroad helped to expand production, although that entailed stronger competition in particular for medium-sized international oil companies. Third, the environmental implications of China's present policies were considered the biggest problem for the EU and the global environment at large.

### The US

- Given a growing sense of vulnerability of supply, US energy policy is progressively shifting to defining alternatives to America's 'oil addiction'. Aside from focussing on lowering demand through energy efficiency and new technologies, it was pointed out that natural gas and LNG would play a bigger role on the supply side. However, against strong policy statements with a view to drastically lowering oil imports from MENA and other regions, the point was made that the probability of the US escaping its dependency on oil were very slim: investment in that direction was still far too low.
- The issue of infrastructures is particularly critical for the US, notably the question of refining capacity, with no new refineries built over the last 30 years. As a result, the US are importing about 1million b/d of refined product, a considerable amount of which from Europe. From this standpoint, the hurricanes in 2005 marked a turning point and raised awareness in Congress of the urgent need to upgrade infrastructure. Infrastructure protection was also a prominent factor under the new Homeland Security Legislation, and some felt that focus on the interplay between energy security and terrorism could become the basis for enhanced transatlantic and global efforts.
- A number of questions were singled out for discussion regarding US perspectives and their convergence or divergence with EU ones, starting from the straightforward although hardly reassuring consideration that energy decision-making is increasingly conducted by politics and not by economics. Questions addressed in particular the merits of a common transatlantic approach to dealing with Russia, whose renewed nationalism was once again regarded as a serious problem for both the EU and the US. The need to integrate China further in the global energy community was stressed, through membership of bodies like the G8 and other networks. It was also felt that transatlantic cooperation could be of particular help in undertaking major investments in new technologies, including the key but long-term perspective of developing a hydrogen economy.

## Energy security and CFSP

Several speakers argued that another key distinction should be drawn between the question of energy security and the question of energy in a security context. In particular, beyond the traditional focus on security of supply, the question needed to be addressed of how energy-related tensions/crises could threaten EU security. Energy can be both a source of cooperation and of conflict.

Competences and institutions overlap when dealing with energy security. The EU can bring a number of instruments to bear on energy negotiations with other partners, and the size of its market gives it huge leverage. At the same time, the right balance needs to be struck between foreign and security policy and other policies, and better priority setting carried out. For example, the drive towards market liberalisation needed to be reconciled with clear rules on market access for foreign companies with unclear ownership structures.

When it comes to fostering energy security *through foreign policy*, relevant issues should be mainstreamed through various channels, including for example political dialogue with consumer, producer and transit countries. Looking at energy security *in* foreign policy, on the other hand, it was felt that the question of the compatibility of energy security goals with the other objectives pursued by the EU (including for example human security) required further reflection. There was a need to boost mutual awareness between practitioners from different fields, and the example was cited of the constructive role that development policy could play to ensure that energy revenue was well spent in producer countries.

The point was made that the securitisation of the energy discourse needed to be averted, unless there is to be a clear departure from the distinctive value-driven approach of EU CFSP. In fact, a potential tension was identified between the creeping securitisation of the discourse and the basic reality of interdependence, which demanded more and not less open dialogue between exporting and importing countries. Ultimately, coercion or force will simply not be the answer to long-term challenges. On the other hand, however, it needs to be recognised and squarely factored into EU policy-making that the energy card is played in an overtly political way by a number of players.

With a view to equipping the EU to confront crises and develop long-term policies, it was noted that progress is ongoing towards setting up a network of energy security correspondents enabling early warning and rapid reaction, but it was also noted that joint threat assessment in this domain is at its very early stages. Looking at the critical question of infrastructure protection (it was stressed that attacks are rising sharply across the world), technical cooperation with EU neighbours was envisaged, notably including a EU-CIS network. At a political level, the need for more frequent Joint Council meetings involving Foreign Ministers and Energy Ministers was mentioned. At an operational level, interesting points were raised including the requirement for better energy intelligence, the potential use of naval forces to protect the 'dire straits' of Hormuz and Malacca among others, and the potential review of the Petersberg tasks with an eye to energy security.

It was also suggested that EU Member States could exchange mutual energy security guarantees and set up a mechanism to assist one another by supplying energy in case of disruptions. The idea was discussed, notably with a reference to the existing provisions of the IEA, and it was noted that such a 'solidarity' clause would imply convergent targets on the amount of available national reserve stocks.

**LIST OF PARTICIPANTS**

**Patrick ALLARD**, Conseiller pour les affaires économiques, Centre d'Analyse et de Prévention, Ministère des Affaires étrangères, Paris

**Per ANDERSEN**, Counsellor, Danish Permanent Representation to the EU, Brussels

**Philip ANDREWS-SPEED**, Director, Centre for Energy, Petroleum and Mineral Law and Policy (CEPMLP), the University of Dundee, Dundee

**Mustafa AYDIN**, Head, Department of International Relations, Economics and Technology University (Tobb), Ankara

**Pavel BAEV**, Research Professor, International Peace Research Institute Oslo (PRIO), Oslo

**Alyson J.K. BAILES**, Director, Stockholm International Peace Research Institute (SIPRI), Stockholm

**Emmanuel BERGASSE**, Independent Consultant, Energy Economics, Paris

**Simon BUCKLE**, Counsellor (Global Issues), British Embassy, Paris

**Leonard L. COBURN**, President, Coburn International Energy Consultants (LLC), Washington, D.C.

**Beverley DARKIN**, Senior Research Fellow, Royal Institute of International Affairs (Chatham House), London

**Jean-Paul DECAESTECKER**, Head of Division, Council of the European Union, Brussels

**Hideshi EMOTO**, Senior Energy Analyst, Economic Analysis Division, International Energy Agency (IEA), Paris

**Steven EVERTS**, Special Counsellor, Cabinet of SG/HR Javier Solana, General Secretariat of the EU Council, Brussels

**Nicole GNESOTTO**, Directeur, Institut d'Etudes de Sécurité de l'UE, Paris

**Giovanni GREVI**, Research Fellow, EU Institute for Security Studies, Paris

**Borut GRGIC**, Director, Institute for Strategic Studies, Ljubljana

**Enno HARKS**, Senior Expert Energy & Resources, Global Issues Research Unit, Stiftung Wissenschaft und Politik (SWP), Berlin

**François HEISBOURG**, Conseiller Spécial, Fondation pour la Recherche Stratégique (FRS), Paris

**Paul ISBELL**, Senior Analyst, International Economy, Real Instituto Elcano de Estudios Internacionales y Estratégicos, Madrid

**Kestutis JANKAUSKAS**, Ambassador, Permanent Representative of Lithuania to the PSC, Brussels

**Aleksandra JAROSIEWICZ**, Expert, Centre for Eastern Studies, Warsaw

**Atis LEJINS**, Director, Latvian Institute of International Affairs, Riga

**Dóra LOYDL**, Responsable COEST, Représentation permanente de la Hongrie auprès de l'UE, Bruxelles



**Lars-Erik LUNDIN**, Head of Unit, Deputy Political Director, European Commission, Brussels

**John MITCHELL**, Associate Research Fellow, Royal Institute of International Affairs (Chatham House), London

**Stanley D. MORRIS**, Security & Reliability of Energy Supplies, Joint Research Centre, European Commission, Ispra

**Sean O'REGAN**, Member, Policy Unit, General Secretariat of the EU Council, Brussels

**Martin ORTEGA**, Chargé de Recherche, Institut d'Etudes de Sécurité de l'UE, Paris

**Christophe-Alexandre PAILLARD**, Chargé de mission, Ministère de la Défense, Délégation aux Affaires stratégiques, Paris

**Kamila PRONINSKA**, Warsaw University Institute for International Relations, Warsaw

**Gerrard QUILLE**, Policy Department, Security and Defence, European Parliament, Brussels

**Olivier RICARD**, Délégué aux affaires européennes, TOTAL, Bruxelles

**Dariusz SERÓWKA**, Expert, Polish Ministry of Economy, Warsaw

**Narcis SERRA I SERRA**, Président, Centre de Informacio i Documentacio Internacionals a Barcelona (CIDOB), Barcelona

**Stefano SILVESTRI**, President, Istituto Affari Internazionali (IAI), Rome

**Ivo ŠRÁMEK**, Ambassador, Permanent Representative of the Czech Republic to the PSC, Brussels

**Dimitrios TRIANTAPHYLLOU**, Director-General, International Centre for Black Sea Studies (ICBSS), Athens

**Christof VAN AGT**, Principal Administrator, International Energy Agency (IEA), Paris

**Dirk WOUTERS**, Ambassadeur, Représentant Permanent de la Belgique auprès du COPS, Bruxelles

**Marcin ZABOROWSKI**, Research Fellow, EU Institute for Security Studies, Paris

### **Observers**

**Elin BENGTTSSON**, Intern (Sweden), EU Institute for Security Studies, Paris

**Tetyana BOBURKA**, Doctorante, Centre Thucydide, Université Panthéon-Assas, Paris

**Gearóid CRONIN**, English-language Editor, EU Institute for Security Studies, Paris

**Amandine LACOURT**, Stagiaire (France), Institut d'Etudes de Sécurité de l'UE, Paris

**Rūta REPECKAITE**, 3ème secrétaire, Ambassade de Lituanie, Paris

**András TÜRKE**, Visiting Fellow (Hungary), EU Institute for Security Studies, Paris

**Vsevolod SAMOKHALOV**, Visiting Fellow (Ukraine), EU Institute for Security Studies, Paris