

# The EU and energy security

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Energy security has several dimensions, among them:

- ★ The domestic energy mix: which mix of domestic resources (conventional and unconventional gas, coal, renewables, nuclear) is best suited to ensure that the UK's energy needs are met? Efforts to reduce overall energy demand also fall into this category.
- ★ Resilience of the domestic energy system: how do we need to design and build our energy system so that it is best able to withstand disruptions?
- ★ External supply security: can we rely on the Middle East, Qatar, Russia and other hydrocarbon producing states to deliver our vital energy needs?
- ★ Implications of energy for international security: how will resource competition or the consequences of climate change impact on the UK's security?

## How does the EU add value and what are the comparative (dis)advantages of working through the EU?

### Domestic

At the domestic level, the Lisbon treaty leaves member-states to decide their own national energy mix. However, the EU's multiple targets restrict that freedom in practice.<sup>1</sup> The EU's target for 20 per cent reduction in energy demand is non-binding but it does provide incentives for member-states to increase energy efficiency and so lower their overall demand for energy (see for example UK Green deal for buildings). The obligation to shift 20 per cent of energy production to renewables and to reduce carbon emissions by 20 per cent by 2020 will reduce the UK's reliance on fossil fuels and therefore on outside energy suppliers. The occurrence of natural resources such as shale gas will also have considerable implications for the energy security of the EU and its individual member-states.<sup>2</sup>

The EU also has programmes for the construction of pan-European power and gas networks. For the

continental European member-states, especially smaller ones, this integration into an evolving pan-European energy market delivers a significant increase in energy security.<sup>3</sup>

In the next Multiannual Financial Framework (MFF), spending on the 'Connecting Europe' facility (which also includes transport and broadband) has been cut from an originally proposed €50 billion to €29 billion to achieve an overall cap on EU spending. Nevertheless, EU infrastructure policies, such as rules for accelerated planning and approval of cross-border projects, help to physically connect EU energy markets.

For the UK, the benefits are tangible but less significant because of its island character, North Sea resources (although diminishing) and LNG import facilities. The EU has also agreed on standards to make power and gas systems more resilient to disruptions, for example as a result of power failures or severe weather.

1: Katinka Barysch (ed), 'Green, safe, cheap: Where next for EU energy policy?', CER report, September 2011, <http://www.cer.org.uk/publications/archive/report/2011/green-safe-cheap-where-next-eu-energy-policy>.

2: Katinka Barysch, 'Shale gas and EU energy security', CER insight, June 2010, <http://www.cer.org.uk/insights/shale-gas-and-eu-energy-security>.

3: Stephen Tindale, 'Connecting Europe's energy systems', CER policy brief, October 2012, <http://www.cer.org.uk/publications/archive/policy-brief/2012/connecting-europes-energy-systems..>

The European bodies that bring together electricity and gas network operators (ENTSO-E and ENTSO-G) for the first time give a regional dimension to issues such as network planning and safety margins. Moreover, the EU requires member-states to build up gas storage facilities, something that the UK has traditionally been weak in.

## External

The EU's external energy policy is still under construction. The main issue in the EU's external energy security policy (as opposed to climate change policies or technology transfer) is natural gas. Oil is a much more fungible commodity that is traded on world markets. Europe's gas supplies, on the other hand, are dominated by long-term bilateral contracts that govern the flow of pipeline gas. Individual EU countries (or more precisely their energy companies) have traditionally negotiated their own supply contracts with outside suppliers such as Sonatrach. The EU does not have powers to negotiate with third-country energy suppliers.

However, the creation of an internal gas market (where countries can help each other out in case of supply disruptions), as well as the requirements of market liberalisation and competition policy have considerably weakened the power that large outside suppliers used to have.<sup>4</sup> For example, EU countries now have an obligation to disclose certain parameters of the energy deals they conclude with third countries. The European Commission is currently investigating whether Gazprom is abusing its dominant role in the European gas market.

Moreover, the EU has bilateral energy dialogues with large suppliers such as Russia, Norway and OPEC. These do not as yet add as much value as they could. The EU also has a pro-active policy to diversify sources of supply, through building LNG terminals and new pipeline infrastructure. The Commission has taken concrete actions to facilitate a 'southern corridor' for gas imports from the Caspian and the Middle East. In this context, the Commission has supported the Nabucco pipeline from Turkey to Austria and the Trans-Caspian pipeline from Turkmenistan to Azerbaijan through political support,

legal agreements and some funding.<sup>5</sup> The EU has also included energy in its third country relations, for example signing 'strategic energy partnerships' with individual countries (Iraq, Azerbaijan) or whole regions (Africa). An 'energy community treaty' has extended some of the energy acquis to most South-East European countries.

Although the UK is less directly dependent on individual outside suppliers for its energy than many of the continental European countries (who depend for much of their gas on either Russia or Algeria), the country benefits from the strengthening of an EU external energy security policy. The dominant and opaque relationships that German, Austrian, Italian and other energy companies had (and to some extent still have) with Gazprom have made the creation of an EU gas market more difficult. But UK energy security will rise if it is part of a flexible and resilient European gas market. The bilateralism in energy also made it harder for the EU to speak with 'one voice' vis-à-vis Russia more generally. This has made it harder to resolve disagreements for example over the EU-Russia common neighbourhood.

The US has traditionally carried the main responsibility for ensuring the stability of the Middle East and global energy sea lanes. The EU is becoming more involved in crisis-management however, for instance through the anti-piracy mission, Operation Atalanta, and the EU training mission in Somalia. Both operations are in the UK's interest and have strong UK support. Operation Atalanta is also run out of the maritime command at Northwood.

Through the principle of burden-sharing, the UK is getting greater mileage working through the EU, than if it were to operate alone. Similarly EU policy for the southern neighbourhood aims to promote long-term stability in important resource-producing regions. The 2003 EU Security Strategy acknowledged the security implications of climate change and energy security, and that climate change can lead to greater competition over resource-access. The EU's Arctic Policy promotes international co-operation and the sustainable development of arctic resources. This amplifies UK foreign policy objectives in the arctic.

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## Would a different division of EU and member-state competence produce a more effective policy?

### Domestic

The UK is not alone in resisting any attempt to involve the EU in determining the energy mix at the EU level. It would make little sense to determine fixed ratios for

say, nuclear, coal and offshore winds that member-states need to achieve in their domestic energy markets. However, the idea that in an integrated European energy market, individual countries can be free to determine their own energy mix is equally fraught. In a European

4: Katinka Barysch, 'Gazprom's uncertain outlook', CER insight, December 2009, <http://centreforeuropeanreform.blogspot.co.uk/2009/12/gazproms-uncertain-outlook.html>.

5: Alexandros Petersen and Katinka Barysch, 'Russia, China and the geopolitics of energy in Central Asia', CER report, November 2011,

<http://www.cer.org.uk/publications/archive/report/2011/russia-china-and-geopolitics-energy-central-asia>;  
Katinka Barysch, 'Should the Nabucco pipeline project be shelved?', CER policy brief, May 2010, <http://www.cer.org.uk/publications/archive/policy-brief/2010/should-nabucco-pipeline-project-be-shelved>.

context, it is not effective to decide about the location of renewables in response to national subsidy regimes (as at present), rather than in line with endowments with sunshine, wind and geothermal in a European context. A truly European energy mix would mean that several EU regions would be treated as one market, with strong implications for the energy mix of individual countries.

The UK would then, for example, 'specialise' in wind and nuclear while the Netherlands, for example, would rely mainly on gas whereas Spain would export electricity from solar power plants. Such an EU-wide diversification would be much more cost effective than each EU country seeking to diversify its own sources of supply.

In an integrated European market, the planning and management of critical infrastructure is by necessity a cross-border issue. The UK, because of its island character, might seek to arrange gas and power interconnections on the basis of bilateral agreements. Since the counterparts would be the EU (or the EEA), the legal basis for such agreements would presumably still be the *acquis*. So the UK would not gain from trying to decouple itself from pan-European network plans but it might miss opportunities created by the pan-European energy market described above.

### External

A stronger external energy policy would be a natural

corollary to an integrated EU market, especially for gas. Just as the creation of a single European airspace at one point necessitated that the EU negotiate 'open skies' agreements with the US on behalf of all member-states, so a truly European gas market would probably require a much stronger role for an EU body in negotiating third-country agreements.

The most pressing need for unity is with regard to Russia. Moscow has for many years managed to play individual EU countries off against each other. Bilateral energy dependencies have been at the heart of this strategy. The fact that Russia (and other energy suppliers) can play 'divide and rule' in the EU has prevented a strong and coherent EU policy in other areas, for example Ukraine and the Eastern neighbourhood. Since the UK does not so far rely on Russian gas, its direct interest in a coherent Russia policy may be said to be small.

As in the CFSP generally, the security implications of energy and climate change can be more effectively addressed by EU countries working together. In addition, the EU is committed to strengthening international legal regimes to address transnational resource issues. It is a strong supporter of the UN Convention on the Law of the Seas (UNCLOS) and strives for the adoption of a Code of Conduct to resolve maritime issues in the Asia-Pacific, as witnessed most recently by the joint EU-US statement at the Asian Regional Forum.

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## How might the national interest be served by UK action through different institutions?

The UK's energy security is mainly determined by two levels: national government and EU. In addition, there is the International Energy Agency, which provides information and services on energy to developed countries. There is no consensus within NATO to use the alliance in defence of member-states' energy security concerns, even though reference is made to it in the 2010 New Strategic Concept. The international

organisation with arguably the biggest impact on the UK's energy security is OPEC. The EU has an energy dialogue with OPEC.

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## Additional information

For additional information on the EU's energy policy see 'Green, safe, cheap: Where next for EU energy policy?' by Katinka Barysch (ed.), CER report, September 2011, <http://www.cer.org.uk/publications/archive/report/2011/green-safe-cheap-where-next-eu-energy-policy>.

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