

Emerging energy security challenges and Europe

CEEC 2013

26 November 2013

Iana Dreyer, Associate Fellow, EUISS

iana.dreyer@iss.europa.eu

www.ianadreyer.net

Shift of energy security discussion in Europe since mid 2000s

- Until deepening of Eurozone crisis & recognition of effects of US shale gas revolution (ca. 2011):
 - Fossil fuel scarcity, resource nationalism, rising oil & gas prices
 - Shadow of 2006 & 2009 gas supply disruptions
- Today:
 - Problem is relative abundance of fossil fuels
 - IEA (2013): oil supply to rise from 89mb/d today to 101mb/d 2035
 - Climate & economic competitiveness nexus hotly debated
- Energy security = securing an uninterrupted flow of energy at stable and affordable prices:
 - today discussion focused on domestic electricity markets (market design, renewables integration, grids, renationalisation of markets) = fear of massive electricity blackouts amidst rising prices

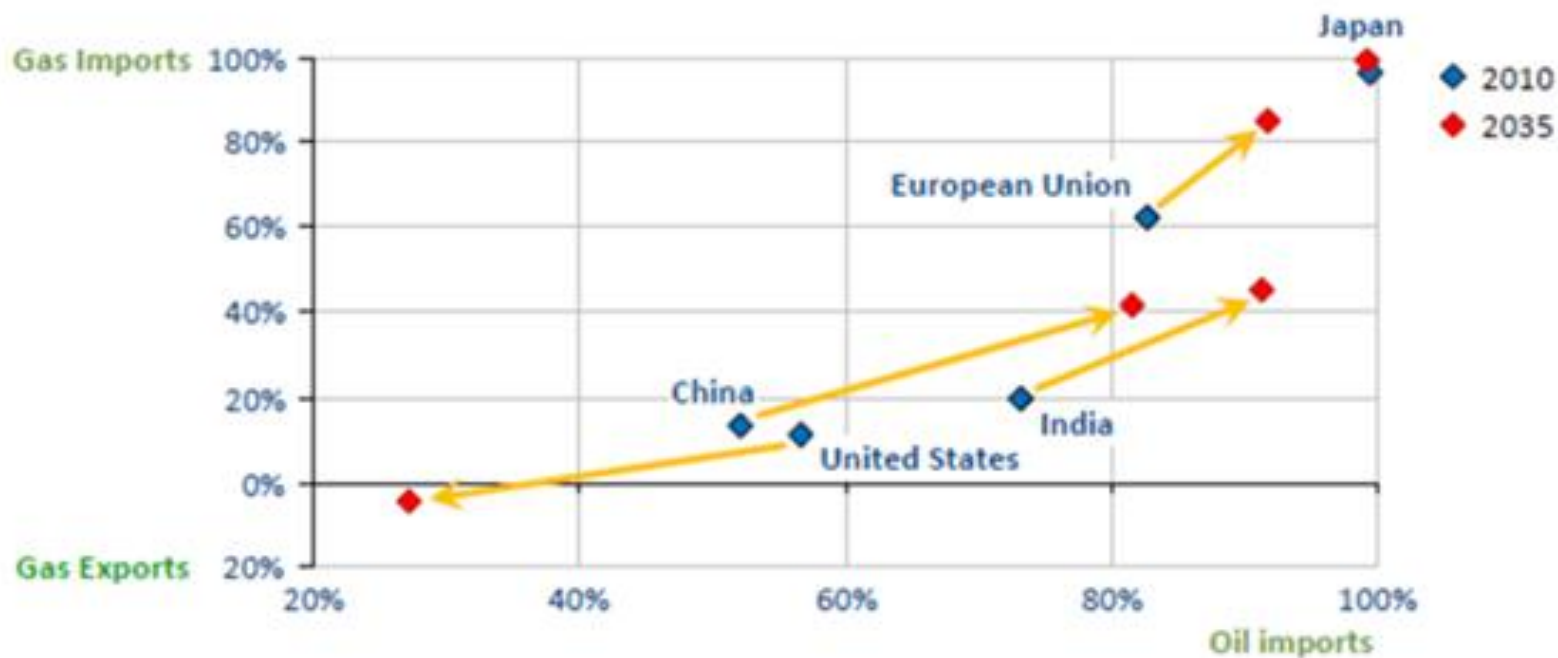
The emerging energy world...

- Market gravity shifting to Asia and the emerging world
 - IEA 2013: emerging economies = 90% of net energy demand growth to 2035
 - China to become largest oil-importing country, India largest importer of coal by early 2020s. ME itself increasingly an energy consumer
- Reconfiguration of geography of production and trade
 - USA to become largest oil producer by 2015, new producers in SSA and Latin America
- Stagnant overall demand for energy in advanced economies and notably in Europe
- In EU rising import dependency for gas:
 - EU Commission estimates: 80% in 2030 compared to 67% today

... and its « geoeconomic » implications for the EU

- EU increasingly a « price taker » for fossil fuels. Asia = more attractive prices to offer to producers of oil & LNG
- EU in strong relative economic decline = ability to shape its environment and international energy governance might suffer
- Relative loss of credibility of its climate policies = limit to ability to shape global energy and climate geopolitics (see COP 2013)

Net oil & gas import dependency in selected countries



While dependence on imported oil & gas rises in many countries, the United States swims against the tide

Data Source: Gould, IEA
05/03/2013

- Divergence of energy interests with USA post shale-gas revolution
- EU will share more concerns as net importer of fossil fuels with China, India than with USA (with implications for IEA and potentially Western alliance)
- Stagnant domestic demand = main supplier Russia currently vulnerable to pressure to reduce gas prices
- Problem for EU today is not international availability of fossil fuels – overall suppliers of fossil fuels diversified (see slide 7)

Top external suppliers to the EU - 2011

Crude Oil ('000s of tonnes)	Gas (Terrajoules)	Hard coal ('000s of tonnes)
175,634 Russia	4,101,546 Russia	52,691 Russia
63,687 Norway	3,715,398 Norway	47,904 Colombia
41,108 Saudi Arabia	1,767,006 Algeria	36,307 United States
31,075 Nigeria	1,485,596 Qatar	17,851 Australia
29,495 Iran	589,290 Nigeria	15,902 South Africa
29,215 Kazakhstan	158,134 Egypt	10,281 Indonesia
24,615 Azerbaijan	140,996 Trinidad and Tobago	4,461 Canada
18,197 Iraq	92,597 Libya	4,590 Ukraine
14,223 Libya	29,662 Yemen	1,158 Norway
13,068 Algeria	27,405 Turkey	1,094 Venezuela

Eurostat

EU approach to energy security until recently

- **Focus 1 – Cleaning up domestic markets**
 - Prioritised post 2009
 - Competition in domestic markets
 - Monitoring of long term gas supply contracts with foreign suppliers for compliance with EU rules
 - Interconnection of gas markets, especially in CEE (Now « PCIs »)
 - Antitrust cases EU utilities, Gazprom

- **Focus 2: Diversification of sources of imports away from Russia**
 - Support for LNG projects
 - Nascent “energy diplomacy”
 - 2011: mandate to negotiate treaties on gas delivery commitments with Turkmenistan & Azerbaijan
 - Support for Southern Corridor/Nabucco project. Objective 10% of EU imports via this route
 - Financial support for other infrastructures in region: Medgaz pipeline between Algeria and Spain (on stream since 2011)
- **Focus 3: Integrate non-Russian neighbourhood into EU energy market & its rules**
 - C.f. extension of Energy Community to EaP countries = export of *acquis communautaire*
 - Less rules-based - Mediterranean Solar Plan (2008 then integrated into EU Neighbourhood Policy)

What works and what doesn't?

- What has worked best?
 - Although imperfect: focus on domestic energy market rules and Energy Community w Ukraine/Moldova
- What has not worked:
 - Grand infrastructure projects: Nabucco, current overcapacities w Medgaz pipeline
 - Cost-benefit analysis insufficient: supplies not key problem, especially in a world of LNG and shale gas – persistent fragmentation of national EU gas markets is issue & stagnant demand
 - Political price for above projects

Options for the EU to shape its energy world

- Key principles:
 - Joint EU vision /coordination on energy mix and on the role it will want to give gas vs coal in electricity markets in coming years
 - Rules over discretion, markets over politics
 - EU Treaties (article 194) = seek solutions where EU has clear competencies i.e. competition and trade policy
 - EU « diplomacy »: facilitating /preparing and accompanying the process of establishing working frameworks for EU business on global markets ;
 - Also possible role: prepare ground for relations with new energy partners in future (LatAm, SS Africa...)
- Domestic:
 - finalise market integration and competition agenda
 - CEE, Baltics, Balkans – must be fully integrated into EU gas networks quickly (single regional market connected to other market zones in EU)
- Neighbourhood:
 - No 3rd party exemptions for import supply projects that do not significantly add to supply diversification
 - Energy Community : continue & assess regularly

- Global:
 - Adapt governance structure of energy markets to 21st century:
 - Seek single EU representation in IEA
 - Integrate China and India into IEA process
 - Strengthen multilateral rules for exports, trade, and investment in energy (fossil but also innovative energy technologies/R&D) in WTO, TTIP.... Focus on binding rules not declarative “summitry” c.f. China BIT?
 - Support modernisation and expansion of Energy Charter Treaty, especially in Southern Neighbourhood
 - Bring Russia back to the discussion table on ECT rules after antitrust and current investor arbitration (GML vs Russian Federation under ECT law) rulings are made in 2014
 - Middle East – quid EU foreign policy in a world of US “retreat” from region?