

Energy Security within Trans – National Energy Policy

Firms vs Governments,
Producers vs Consumers,
Russia vs the EU

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Page 1: Energy projects tend to require international cooperation in order to be successful:

- Europe/North America: capital and technology
- Asia, Africa, Latin America, Russia/CIS: natural resources
- Wide scope for cooperation, joint investments
- Inter-dependence thesis: “Europe and Russia need each other”

Yet it is energy crisis that tends to make the headlines:

- 1970s oil shocks and the formation of the IEA
 - 1980s Norwegian gas disruptions
 - Iran-Iraq war 1980s
 - Gulf War 1990
 - Iraq invasion 2003
 - Nationalisation of foreign oil companies – Gulf, Venezuela, Bolivia
 - Nationalisation of domestic private oil companies – Russia
 - Reversal of PSAs – Russia, Kazakhstan
 - Gas disruptions between Russia and Ukraine; Russia and Belarus
 - Unprecedented gas disruption in January 2009
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Changing landscape of energy security

Energy – a strategic good and a scarce resource

Energy policy closely aligned to foreign policy (traditionally more visible aspect of producer states' foreign policies but now clearly visible amongst consumers/EU)

Changing conceptions of energy security:

- 1970s: Oil/strategic waterways (Gulf, Suez, Malacca Straits)
 - 2000s: gas/security of transit (Russia, Ukraine, Turkey, Maghreb)
 - Increasing perception or risk
 - From low oil prices to high oil prices-producer power (mid-2000s)
 - Import dependence-consumer vulnerability (less so now, but still sense of vulnerability, esp in the EU)
 - Case study: EU energy islands (Poland, Lithuania) remain between a “rock and a hard place”
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Page 2: Global governance in the energy sector and international energy cooperation

Setting the rules of the game for international energy cooperation

Cooperation is desirable but interests do not always coincide

Energy security is defined differently by countries where energy is abundant, compared to countries where energy is scarce

In the West, particularly the EU, we tend to look at energy in terms of its “secure and unhindered supply to the consumer”. We do not tend to look at it in terms of “secure access to markets for the producer”

Although we have seen efforts to create internationally binding rules for cross border energy cooperation energy, governance institutions tend to focus around countries with common definitions of energy security:

- OPEC - oil producers unite
 - The IEA - defensive bloc of oil consumers
 - The EU 27 – consumer bloc vulnerable on energy imports
 - Gas Exporting Countries Forum (GECF) – a Russian-driven attempt to create an OPEC style organisation in the international gas sector
 - The Baltic to Black Sea Transit Commonwealth initiative was an initiative to better represent the interests of transit states vulnerable to gas supply disruptions and transit avoidance strategies by producer states
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Page 2: Global governance in the energy sector and international energy cooperation (Continued)

There is no WTO in the energy sector. The Energy Charter Treaty (ECT) is the nearest thing we have to the WTO in the energy sector/common set of rules for an enlarged and interconnected Eurasian energy market

However:

- The ECT, while experiencing a very optimistic beginning to its service, has largely failed in realising its objectives and is now a largely irrelevant factor in global energy governance
- Fundamentally, the ECT has not proven effective in creating a common set of rules for the Eurasian energy sector and is ultimately seen as defending consumer interests
- Out of its 51 member countries, there are basically no “heavyweights” among the international energy producing nations. The driving force behind the Treaty’s continued existence today is the EU
- Further, the treaty has not been able to account for “security of transit”, or at least this is how it is perceived
- This was one of the factors leading to the alienation of Russia, as a member of the treaty, and Russian withdrawal from the Treaty last summer

Key point:

- Institutions of global governance in the energy sector promote interests, rather than aim to develop international energy cooperation.
 - This creates scope for disputes, with occasional room for compromise
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Page 3: Producers Vs Consumers of energy

Europe/North America: energy governance on the basis of transparency and legally binding regulatory framework

Many natural resource producing countries in the developing world have different approaches to governance

Incongruent starting point between consumers and producers, but important to note the following:

- Global power shifting to the South and East (rise of BRICS)
 - 2000s – period of high oil price leads to a major shift of wealth from West to East
 - High oil price of the mid-2000s: consumers becoming nervous
 - A.Miller/Gazprom: oil will hit \$250/p/b (producer rhetoric not helping)
 - Producers flex muscles
 - Seven Sisters' market share declining (ie, access to reserves)
 - Global reserves of hydrocarbons increasingly held by NOCs (Aramco, ADNOC, PDVSA, Iran, CNPC, Gazprom, etc)
 - EU import dependency growing/efforts to find new sources of supply highly challenging (ie, Caspian)
 - Consumers: increasingly “every man for himself mentality” (energy companies from producing countries not always in line with national governments, as they seek to enhance their security of supply)
 - EU calls for solidarity but undermined by bilateral energy deals/long term supply contracts in the gas sector
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Page 3: Producers Vs Consumers of energy (continued)

Wider context is mostly political:

- Association of producer countries with rogue governments – Iran, Venezuela, Myanmar (Libya)
 - Risks higher in these countries as governments are not pro-Western
 - Nationalisation and resource nationalism
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Page 4: Russia as a producer: a special case ?

Russia is not simply an energy producing country; it is also the chief successor state of the Soviet Union and a major Eurasian power , which brings with it a certain “political baggage”

Message: **Russia’s energy relationship with Europe predominantly viewed in a wider-context**

There is still a certain anti-Russian flavour in the West. Many factors have led to this:

1. Stereotypes and myths still exist:

- Cold War warrior still in power in the West
- Ex-Warsaw Pact states now in the EU (revenge syndrome)
- Diaspora Balts and Ukrainians
- Russia is the former-“Red Menace”

2. Practical issues/debate:

- Rolling back of democracy in Russia under VVP
 - Georgia war August 2008 – can we trust Russia !
 - Energy as a political weapon – VVP Dissertation
 - Moscow’s restrictions on sovereignty of CIS states
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Page 4: Russia as a producer: a special case ? (continued)

This creates an-anti Russian bias in many of the key terms we use in the energy security discussion:

- Reliability (is Russia reliable ? we don't question Norway or Algeria)
- Diversification (diversification away from Russia)
- Dependency (we should not be too dependant on Russia)
- Energy security (consumer side)

This is a reflection of the fact that the Brussels-Moscow energy partnership remains characterised by lack of trust, fear and suspicion (particularly after Jan 2009 gas disruption)

The result: Europe seeks to “fortify itself” – a flurry of activity in Brussels:

- Develop internal energy market and (possibly) keep out the “bad boys”
 - Invest in underground gas storage
 - Reverse flow infrastructure
 - Diversification of supply routes
 - LNG capacity increase
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Page 4: Russia as a producer: a special case ? (continued)

However, is EU energy security really under threat ?

- The problem is that there is a structural imbalance in EU energy dependence
- Western Europe in largely good position vis a vis diversification and energy security
- Central and Eastern Europe far more vulnerable
- Brussels institutions become a space for the promotion of national energy security interests
- EU solidarity in terms of external energy policy goes nowhere
- The NABUCCO Pipeline – did the “rats jump ship” ?

Political message:

- We are now paying the political price for the big-bang EU enlargement of 2004 (energy security was not really a news item in the EU prior to 2006)
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Page 5: State Owned Enterprises (SOEs)

The cross border energy sector is increasingly becoming the domain of the SOE:

- SOEs are not the same as private companies
- They serve a different purpose and work on different incentives
- Most NOCs are SOEs – responsible to the state
- Most IOCs are not SOEs – responsible to their shareholders
- IOCs respond to market incentives
- SOEs respond to mixed incentives

Bureaucrats in business:

- The role of bureaucrats and diplomats
 - Gas agreements driven by high level state officials, taking into account political objectives
 - Ie, Gazprom-ENI, Gazprom-BOTAS – who leads the delegation on the Russian side inter-governmental agreements ?
 - Multiple political factors going into the negotiation process for gas agreements (Russia-Ukraine, Russia-Turkey)
 - Inevitable politicisation of energy (different to other economic sectors)
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- **Page 6: Eurasian oil and gas pipelines as a case study – politics or economics ?**

Page 7: Where do we go from here ?

More questions than answers


- Since governments do not seem to have the answer for our energy security concerns, can the market decide for governments ?
- Last year, the US overtook Russia as the world's largest gas producer – how will shale gas impact upon Russia's market position over the EU ?
- will Russian domestic gas demand pick up in the future and compete with the export market ?
- Key question: how long will the gas glut last ?
- Key question: will gas demand return to pre-2008 levels ?
- Will Ukraine remain the key transit corridor for Russian gas to Europe, or will it be super-ceded by Nord Stream or South Stream ?
- Can Brussels, Moscow and Kiev learn to work together ?

A note of caution:

- Experts feel that the gas oversupply will last for some time

Followed by a note of optimism within pragmatism:

- However gas will remain a major part of the solution for European energy demand for the foreseeable future
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Thank You for your Attention

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