Europe's Energy Dependence in Mid-term Perspective

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The Historical March Summit of 2007 and the EU's Energy Action Plan (EAP)

In March 2007, the European Council has agreed for the very first time on an "integrated climate and energy policy" with an 'Energy Action Plan' (EAP) for the next two years (2007-2009). Although historically energy questions dominated the negotiations leading up to the treaties of Paris (1951) and Rome (1957), the specific institutional provisions were made just for coal and the nuclear industries (leading to the *EURATOM* treaty in 1957). In regard to oil, gas, and renewable energy sources, each EU member state of the European Union (EU) is free to decide for their own national energy policies. These historical circumstances help to explain the lack of a common and coherent energy policy of the EU until today.

Even after 9/11, the EU member states—in contrast to the European Commission which has addressed energy security since its first Green book of November 2000—neither discussed global and regional energy security issues nor defined an appropriate policy framework and according strategies to cope with them. It was only the Russian-Ukrainian gas conflict at the beginning of 2006 that raised increasing doubts in the European public, governments, and parliaments as to whether Moscow will remain a reliable energy partner for the EU. So far, however, the EU has been unsuccessful in persuading Russia to pursue a market-oriented energy policy or in aligning the "EU-Russian energy partnership."

Moreover, due to Russia's re-nationalization of its energy sector and pipeline monopoly strategies, Putin's energy foreign and pipeline policy is in striking contradiction to the EU's policy of liberalizing the European energy (and particularly gas) markets, its neighborhood as well as Common Foreign and Security Policy (CFSP). In addition, Russia's reputation as a reliable energy partner is undermined by the imminent threat of a dramatic gas shortage—confirmed by President Putin himself as well as other prominent Russian government members. Putin's strategy for dealing with the gas shortage by rapidly expanding nuclear energy (building more than forty new reactors in the next twenty years) and coal production for domestic gas consumption won't solve the gas crisis in the short- and mid-term future or provide a sufficient as well as realistic mid- and long-term strategy either.

As a consequence of the Russian-Ukrainian gas conflict of 2006, EU member states agreed *within just one year* to come up with a common energy policy and to make the diversification of energy supplies and a common energy foreign policy a top priority in the years to come. In this light, the EAP favors a liberalized internal market for gas and electricity, enhanced measures for security of supply, and a common approach to an external energy policy with a global dimension.

But the public debates about the results of the Spring Summit have widely concentrated just on the "historic agreement on climate change." This rather narrow focus, however, jeopardizes the much-needed balance within the energy triangle of security of supply, competitiveness, and sustainability.

Furthermore, the still existing lack of coherence of the EU's external energy policy enables Russia to continue the "bilateralization" of energy partnerships. With Russia's traditional politics of "Divide and Rule!," the country is in a powerful position to play off individual European states and their national energy champions against each other as its bilateral energy deals and pipeline projects of 2007 (like the South Stream gas pipeline to undermine the Nabucco-pipeline project, which would break the Russian gas pipeline monopoly from the Caspian region to Europe) with Hungary, Italy, Austria, Bulgaria, and Greece are highlighting.

Diversification: Broadening the Energy Mix and Enhancing Energy Efficiency

Even in the case of the most optimistic scenarios to expand renewable energy sources within the EU-27, the total energy picture in 2030 will still be dominated by fossil fuels. Prior to the Spring 2007 Summit, EU member states were at odds with regard to sovereign prerogatives concerning the national energy mix (especially regarding the question of the future of nuclear energy), the agreement on a binding commitment to increase the share of renewable energy resources, the separation of production and supply activities from network operations, and the agreement on a common European energy policy towards Russia.

Despite these conflicts, EU member states were able to agree on a set of ambitious tasks and targets on their March 2007 Summit:

- Energy efficiency should be increased by 20 percent across the EU;
- The goals of the Kyoto protocol should be exceeded and carbon emission should be reduced by 20 percent by 2020 compared to 1990 (if other industrialized countries such as the USA, India, and China commit themselves to similar policies, the EU would be willing to reduce emissions by 30 percent);
- Additionally, a 20 percent share of the energy mix should be generated from renewable energy sources. Latvia, Sweden, Finland, and Austria have already attained this target, though the Swedish and Finnish success is due to the use of nuclear energy.

Diversification of Oil- and Gas-Imports
The expansion of natural gas as an environmental cleaner energy source may play the most important factor in the next two decades for the EU member states. Europe is already today the largest natural gas import market and will continue to be the world's champion of gas importers till 2030. But today and in contrast to the EU's oil imports, almost half of the EU's gas consumption is being imported from only three countries: Russia, Norway, and Algeria.
Priot to the March summit, the IEA expected that the EU needs to import 488 billion cubic meter (bcm) by 2030 (North America: less than 200 bcm and China/India just 85 bcm). The share of gas in total primary demand would rise from 23 percent at present to 32 percent in 2030. In the future, a growing share of EU gas imports will be shipped as liquefied natural gas (LNG) which would offer better crisis stability for gas imports. But currently, only France, Spain, Greece, Italy, Belgium, and Portugal have LNG import regasification facilities.

Even without taking Russia's own present gas crisis into account, it will hardly be in the position to increase its gas exports beyond 200 bcm by 2030. With other words: The EU is forced to diversify its gas imports regardless of the use of energy resources as an instrument for Moscow's foreign policies and geopolitical objectives. At a first glance, the EU seems in a very favored position: Unlike any other region of the world, the EU is geographically surrounded by many gas-exporting countries within a range of 3,000-3,500 km, which can be connected by pipelines. However, most of them are considered as politically unstable and most of them have stronger economic-political ties to Russia (Iran, Algeria, Turkmenistan, Uzbekistan, and Kazakhstan).

Given the March Summit results and agreed targets, new studies predict a much lower gas import of the EU until 2030. Between 2005 and 2006, the IEA had already reduced its forecasts of the EU's rising gas imports in 2030 from 530 to 488 bcm imports. In the future, they might decrease further to 350-400 bcm (214 bcm in 2004). Many new EU member states are now already increasing their own coal production and consumption which has become cheaper than to import Russian gas. It also coincides with their supply strategies to reduce their dependence on Russia and to diversify their gas imports.

Negative Tendencies since the March Summit of 2007

Russia's present energy foreign policy and pipeline diplomacy is most visible in its efforts to undermine a common European policy toward Central Asia. Moscow is currently trying to torpedo the Nabucco-pipeline project, which is of crucial importance for the EU's energy security and the diversification of its gas supply. By circumventing Russian pipelines, the EU's Nabucco project would result in a declared "loss of money and strategic influence" for Russia. From Moscow's perspective, it could even trigger "a geopolitical" and "energy crisis." But towards those Russian threat perceptions and argumentation, German and EU policymakers need to take into account the following two important facts:

- Independent gas pipelines from the Caspian region to Central Europe would force Russia to invest in the exploration of new gas deposits in their own territory. This, in turn, would secure long-term Russian as well as European gas supply.
- The Russian focus on gas imports from Central Asia has economic and geopolitical reasons and is a major factor for Russia's emerging "gas crisis." By not playing in the Russian "Hinterhof" in order not to complicate its relations with Russia further, Moscow has thus become a less reliable energy supplier for Europe in the mid- and long-term future—a fact still overlooked by the EU and Germany.

Positive Developments

Equally overlooked is the fact that the EU has successfully proceeded with a number of pipeline and LNG projects as well as increased future deliveries from Norway to import non-Russian natural gas sources with a combined addition of more than 100 bcm. They will give the EU more leverage and bargaining power vis-à-vis Moscow. Moreover, if the EU will successfully reduce total European energy demand by 20 percent by 2020 and obtain 20 percent from renewable energy sources, it would significantly reduce the EU's overall energy demand as well as its gas demand and imports from Russia.
Even Germany—despite its policy of *Verflechtung* (building interlinkages) with Russia—has strengthened its diversification of gas imports. In the future, companies like E.on Ruhrgas or VNG, which all have close business ties to Gazprom, will import much more gas from Norway and LNG for the first German LNG terminal, being built in Wilhelmshaven. Furthermore, Germany's second largest energy company, RWE, has become an official member of the Nabucco-gas pipeline project—highlighting Germany's newly declared strategic interest to seek closer energy cooperation with Central Asia and the Caspian Region (CACR).

Conclusions and Perspectives
Due to the environmental obligations of the Kyoto-Protocol, phasing-out nuclear energy programs in important EU member states, and increasing depletion of oil and gas fields in the Northern Sea until 2020, the EU will become much more dependent on oil and particularly gas imports from outside Europe—mostly from unstable countries and regions in the Middle East, Central Asia, and Africa. Despite new energy saving measures and the promotion of renewable energy sources, the fossil fuels of oil, gas, and coal will remain the primary energy sources in 2025.

The EU's internal disagreements vis-à-vis Europe's main energy supplier Russia remain the most serious problem of the envisioned common energy foreign policy. Despite EU-member states recognizing the need to envisage a clear response to the growing risks of oil and gas dependency over time, they basically still follow narrow-minded national interests by supporting their "national energy champions" at the expense of other EU member states and the EU's declared common "Energy Action Plan."

The EU's declared energy foreign policy in general, and its new Central Asian strategy in particular, will either further complicate EU-Russia relations, or, given the EU's consideration of Russia's energy and security interests, put into question the EU's Central Asia and diversification strategy of oil and gas imports from the Caspian region. However, the EU cannot forego diversifying its imports of natural gas from the Caspian region because (1) the Kremlin is exploiting energy dependencies as a means of foreign policy, and (2) Russia alone cannot meet the forecasted EU's natural gas demand until 2030. Furthermore, in the light of the EU's wider energy foreign and security interests, it has no alternative than to extend and to deepen its relations with CACR.

On the more positive side, the EU is actively diversifying its gas imports. However, only western Europe, thus far, seems to benefit from the diversification of pipelines from North Africa and new LNG terminals. If the Nabucco-pipeline will not be implemented, the new EU member states in eastern Europe will largely remain dependent on Russia. In this case, a common regional and liberalized EU energy market (particularly for gas) seems hardly realistic. It will rather be fragmented and fractured, undermining the objective to create a liberalized European energy market. Moreover, it would also have inevitably negative consequences for the EU's Common Foreign and Security Policies (CFSP) and speaking "with one voice" towards Russia and other important energy export countries. Of course, such a fragmented and fractured regional energy market would also be in the future the best playing field for Russia to "divide and rule" the individual EU member states and their energy companies—but it is not in the EU's long-term strategic interest.

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