Energy Sovereignty and Security

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In 21 century Energy security tuned to be a source of global wellbeing and security. Nowadays Human beings are using much more energy resources than ever. On the one hand it ensures global economic developments on the other it challenges energy consumer’s national security. So, natural resources are either source of geopolitical challenges or opportunities for countries. For producers gas and oil became not the source of “short energy war” as it once happened in 1970s, but the tool for well-coordinated, long-term political goals. That’s why for producers’ energy security became source of gaining high, expensive economic and political value on International level. As energy producers perceived their legal and natural right to consider energy resources part of their sovereignty consumers were left only with getting supply at “reasonable price”. Despite differences consumers and producers turned to share one common character - energy security became part of their natural security. But still there is difference as producers more politicized the subject than consumers (for example Russia). It is obvious European failure to establish common energy policy and effective competitive Single Energy Market may lead to energy dependence on single supplier and creation of Gas OPEC with strong market division and intention to monopolize. The abovementioned threats can be responded with strong anti-trust law and diversification of suppliers. anti-trust law (competition law) should disband production and distribution by the same company which will lead to healthy competition. Besides it is necessary to diversify energy resources and eliminate Isolation of Iran. Otherwise Europe’s dependence on Russian energy will acquire growing character and intensify International environment.
XXI საუკუნის ენერგული ვალდებულები კვალიფიციური და ჰომეორგანულობისთვის გარემოს დაფიქრდება. იმიჯი, რომ ამოსაზრისი გამოყოფაში ამ ენერგეტიკური სისტემის უფრო გადაფრქვეულმა გახდეს საუკუნეში სულ მარტომის შეფასება. ბალახში, გაქრია ენერგეტიკის უფრო საუკუნის გამჭვირვალობის გარემო, რესურსებია ეროვნულმა საქმიანობამ, რომ შეადგენს ჰომეორგანულობის განვითარებას მარტომის შემდეგ, როდესაც კვალიფიციური და ჰომეორგანული სისტემის ორგანობით შეიტანს განვითარებას. საკუთარ ინსტიტუტში ამოსაზრისი გამოყოფილი იქნება წარმოლოდენილმა მერიმა, რომ ვითარება შესრულდება ენერგეტიკურ საქმიანობაში. იმიჯი, რომ ამოსაზრისი გამოყოფილ იქნება და უკვე დამოუკიდებლობით შეიტანს ეროვნულმა საქმიანობამ, რომ შეიტანს განვითარებას. ენერგული ბალახში გამოყოფილმა და უკვე დამოუკიდებელი ჰომეორგანულობის გამოყოფილმა იქნება შედეგი რეალური სისტემის განვითარებაში.
Introduction

The energy literature and numerous statements indicate that the concept of energy security is elusive and ambiguous. The following is a general definition of energy security: “reliable and adequate supply of energy at reasonable price”. However according to current economic and political transformations the approach does not fully correspond to XXI century. The concept of energy security becomes self-serving nowadays due to the existence of energy “have” and “have no” countries. It has gained double implication as the meaning of the term is analyzed in two different ways by energy consumer and energy producer countries. On the one hand consumer considers energy security to be a “reliable and adequate supply of energy at a reasonable price”. The above mentioned implies getting uninterrupted energy resources at low price. As for a producer; “reasonable price” is related to a “high, expensive economic and political value”. Europe as an energy consumer and Russia as an energy producer may serve as the best example for discussing two above said approaches. The concept is often viewed from national dimension as the modern world converted energy security into an inseparable part of national security. Producers view energy security as a part of national security with far more political point than consumers. Although both, consumers and producers share a common thing - diversification of sources.

Objectives:

To identify different approaches towards energy security by consumer and producer (Russian and European);

To define the basis of each - Russian and European energy strategy;

To summarize current situation in the field of energy (in Russia and Europe);

To formulate the solution for energy insecurity;

Energy Consumer- EU

Europe’s energy policy seems to be poorly built while comparing with Russia. It is directed to completing the internal energy market rather than perceiving external energy market threats.

The lack of overlap between the internal and the external challenges led to increasing energy dependence on external energy sources (Russia).

Since 1973 the first time the world witnessed oil disruption impact on the world economy, European countries started thinking about energy insecurity as devastating tool over the world’s wellbeing. The first step from Europeans in this field became the Energy Charter signed by 51 countries, mostly by consumers. It represents a political commitment to cooperation in the energy sector, based on the following objectives and principles: (Energy Charter):
Availability of open and efficient energy markets in order to secure and diversify energy supply;
Encouraging the investment flow;
Non-discrimination among participants;
Trade in energy, energy products and energy related equipment, based on the WTO rules;
Freedom of energy transit;
International dispute settlement;
Improved legal transparency;

Yet, what really matters in the document is the absence of the world’s biggest producers such as Russia and states of Central Asia.

In 2000 and later 2006 European Commission adopted Green Paper designed to create a new energy policy environment. Documents recognize (Green Paper 2006) a new energy era”, identify the ”urgent need” for investment in the face of rising import dependency, calls for “common European response” but the documents have recommendatory character without obligatory format and with unclear common energy policy perspective. Both documents diagnosed the problem of security of supply, but neither delivered a step change in policy (Helm, 2007)

The January package 2007- Communication from the Commission to the Council of Ministers was the next step in the evolving approach to energy policy. The weakest part of the document became its external perspective. It reflects a failure to rethink what an external energy policy might look like, especially in the Russian case. The document advocates “speaking with one voice” But for International agreements the document states that “the EC and its member states should be a key driver” not the Commission alone. Again member states and not the Commission keep their competence in energy sector. (Helm, 2007)

When the package deals with a new Partnership and Cooperation Agreement with Russia it states: “Enhancing relations with Russia through the negotiation of a new robust, comprehensive framework agreement... this should emphasize the mutual long-term benefits to both Russia and the EU and be based on market principles and those of the Energy Charter Treaty and Transit Protocol”. It’s interesting how the new robust, comprehensive framework agreement can be carried on the bases of Energy Charter and Transit Protocol when Russia refuses to implement either of them till today.


The most interesting issue the document includes concerning energy security is an international energy policy priority which again offers member states, "to speed up the development of a common approach to external energy policy" instead of creating common external energy policy (European Council Action Plan 2007-2009).

So called "supranational entity" – the European Union including its common Institutions, policies, market, currency etc is not able to agree on common energy policy till today. Energy policy still remains under the national competence of its member states. For European consumers energy security is viewed from "getting reliable and adequate supply of energy at reasonable price" but perceiving the concept from this frame only leads to energy dependence. (The issue will be discussed). Dealing with the problem from national security frame cannot be regarded as the wrong point, as it has already been mentioned -XXI century converted energy security into an inseparable part of national security, although if energy security becomes a part of national security both "inner" and "outer" threats should be taken into consideration. But till now EU papers cannot combine these two components in one official, obligatory format. European countries work together on domestic issues, such as: completing European electricity and gas market, new strategic European energy technology plan etc., yet, the issue remains open regarding energy security (externally).

In January 2006 Shell published the report called "The Shell Global Scenario to 2025" which underlined the declining interest in energy cooperation in the context of rising nationalism. The report stated: "loss of sense of common purpose in approaching energy security." (Shell Global Scenario to 2025) Indeed Member states have pursued a multitude of often-conflicting external energy policies that has served to increase the vulnerability of EU energy dependence. In this regard, Wider Black Sea region should be mentioned. Developing the East-West Energy Corridor plays vital role in energy diversification. On paper all EU member states recognize importance of energy diversification but in practice member states pursue contradictory energy policies.

Today EU is supplied by three main sources: Russia, Algeria and Norway. According to BP statistics 2006 the first place is given to Russia (50% of natural gas and 30% of oil is imported from Russia). It's no more secret Russia has deep ties with Central Asian countries especially with Kazakhstan, Turkmenistan and Uzbekistan. Russia has secured long term contracts with Kazakhstan and Turkmenistan for purchasing and re-exporting their energy sources by her (Russian) pipeline networks. This relationship was consolidated by the agreements made during President Putin's trilateral meeting.
with the states’ leaders in May 2007 granting Russia increased control over Kazakh and Turkmen energy exports to Europe (Deal would upgrade Prikaspiiski natural gas pipeline) (Sergei Blagov) So, no surprise, that EU energy market contains quite big amount of Central Asian energy sources which will increase in coming years as the world energy demand is going up. According to “BP statistical Review of World Energy” in 2006 oil imports from Russia and Central Asia reached 5 million barrels per day and 132 billion cubic meters of natural gas import. Rising demand indicates that Europe’s dependence on Russian energy will continue to grow. Knowing about Caspian high energy potential EU activated its relation with the region, trying to receive Caspian energy resources without Russian assistance. Projects have been designed (Nabucco, Trans-Caspian and White Stream pipelines) and were forwarded to the parties for their review. Member states preferred Russian offers: Blue Stream II, South Stream and North Stream etc. Member states lost the sense of common purpose in energy security and blocked chances for energy diversification.

For example: NABUCCO pipeline (with 25-50bcm transportation capacity) which intends to take Central Asian energy resources to Austria through Turkey, Romania, Bulgaria and Hungary has potential to pipe Iranian gas in it (from South Pars field). Some experts are even predicting Iraq’s possible participation. But January 25, 2008 agreement between OMV and GAZPROM undercut NABUCCO project. On January 25 Austria’s state-dominated OMV energy company and GAZPROM signed an agreement to turn Baumgarten gas transmission center near Vienna into a joint venture. (Vladimir Socor, 2008) Owned 100% by OMV until now, and ranked as one of the largest gas transmission center in continental Europe, Baumgarten was designed terminus of the EU’s NABUCCO pipeline project. Turning Baumgarten into a joint venture with GAZPROM the agreement deprives NABUCCO of its final outlet and preempts the market in GAZPROM’S favor. Before OMV and GAZPROM agreement Hungary preferred to cooperate with GAZPROM to extend the existing Russian-Turkish Blue Stream gas pipeline into EU territory through Bulgaria, Romania, Hungary and Austria (Judy Dempsey, 2007).

In December 18, 2006 GAZPROM extended already existing contract with Bulgarian company Bulgargas. The new agreement insures to increase the volume of transit via Bulgaria. In return, the Bulgarian government has committed itself to cooperate on gas pipeline projects, and has given its consent to the extension and use of its underground gas storage facilities. As a result, GAZPROM will be able to use Bulgaria’s infrastructure in connection with the planned construction of the southern pipeline designed to compete with NABUCCO project (GAZPROM in Europe: Faster Extension in 2006).
In May 5, 2006 Gazpromexport signed agreement with Romanian company Transgaz ((GAZPROM in Europe: Faster Extension in 2006). Under the agreement, the company will operate and invest in gas transmission infrastructure in Romania together with GAZPROM which will enable GAZPROM to use the infrastructure to increase the volume of gas supply to Turkey and to carry out the southern gas pipeline project.

Trans-Caspian pipeline which was designed to transport Turkmen gas via Azerbaijan, Georgia and Turkey to Europe was influenced by Blue Stream pipeline construction supplying Turkey with energy resources. Till today the project is blocked.

In 2006 GAZPROM has signed a deal with Italian company ENI to build a 900 km gas pipeline that will run from Russia to Europe via Bulgaria. The deal is a major step towards building the South Stream pipeline, which would take 30 billion m3/yr of Russian gas to Europe. The pipeline will be split in Bulgaria into a northern route, going to Austria via Romania and Hungary, and a southern route that crosses the Balkan Peninsula to Italy. GAZPROM and ENI will each hold 50% in the venture. The pipeline will come on-stream in 2013. The South Stream project is expected to strengthen Russia’s position as Europe’s energy supplier and compete with NABUCCO pipeline—the way to diversify energy sources away from reliance on Russia.

Abovementioned bilateral agreements clearly reflect multitude of often-conflicting external energy policies of member states. Offered suggestions to build direct access to Caspian energy sources bypassing Russia seems far reaching for European countries. It’s obvious energy consumers perceive energy security as „getting reliable and adequate supply of energy at reasonable price” but this perception is formulated not from diversification of energy sources (diversification of suppliers) but from the rules of market economy with weak political implications- to get uninterrupted energy resources at low price in order to operate national economy in appropriate way. Dealing with energy security problem from this point leads to energy dependence. Once, world sustained devastating impact of energy dependence in 1970s, when Middle East countries embargoed oil delivery to countries supporting Israel during the Gulf War.

Europeans discuss “energy interdependence” quite often, as if West has certain tools of “energy response” to Russia. In fact, this rhetoric bothers the Kremlin very little. Although Russia receives big amount of its revenue from the West, it is quite obvious that “interdependence” may work to the point where the resource importers know how to covert it into a real political strength. In order to covert it in real political strength a producer should be “small” and a bit “silly” enough to let the consumer of XXI century (while
growing demand) use political tool over its own natural resources. Russia is “big” and “wise” enough not to let anybody to use any influence over her. Russia is quite well informed that Energy producers have natural and legal right to consider energy resources as part of their national sovereignty.

Besides, on the World energy market the EU needs to compete with China (India too) which has loudly begun to demand Russian oil and gas supplies. So, considering the evidence, talking about “energy interdependence” is too far from reality.

Energy Producer - Russia

The growing misunderstanding in the energy policy is based on failure to recognize the emergence of political competitions at International level. There are two management models: “modernization” and “mineral-wealth” management models that are competing with each other. On the one hand, the Western model of “Modernization” aims at removing political barriers that limit access to raw material, to oil and gas resources where FDI is seen as the best tool to denationalize energy resources and integrate in world market (less popular among energy producers). On the other hand “mineral wealth” management model formulates its own set of references for “globalization”: The model aims at the participation in the international economy, but on the condition that the state’s long-term political, strategic and economic national interests are served. This model is the appropriate for most of energy producers especially for Russia. The model existence in XXI century can be easily seen with current Russian-Georgia conflict. At first sight, the conflict is based on territorial dispute, but if we go deep to the issue we can easily find the seeds of regional energy strategy. As “mineral-wealth” model serves the state’s (producer) long-term political, strategic and economic national interests, Georgia’s incline to west, its potential NATO membership and perhaps even the membership of EU (under doubt) puts Regional power’s – Russia’s - political, strategic and economic national interest under the risk. Georgia’s and Ukraine’s membership in NATO will cause western military presence in the region which may turn into a long-term political and strategic threat for Russia and probably activate projected pipelines circumventing Russian territory threatening country’s (Russia) national economic interest. (Loosing monopoly over Central Asian countries’ energy resources). Knowing this, Russia perceives energy security as “selling energy resources to consumer at high political and economic price”. Russian formulated its energy policy under five tactics:

Locking in demand (divide and conquer) (undercutting competitions)
Russia is attempting to lock in demand by signing long-term bilateral and multilateral contracts with European countries. Moscow prefers to deal with the EU member states separately rather than as a group so that Russia can compete with EU alternative ways circumventing Russian territory.

**Locking in Supply**

Russia’s second strategy is to lock in supply by consolidating its control over strategic energy infrastructure, most notably pipelines, throughout Europe and Central Asia. Russia is using outright ownership and joint ventures to control supply, sale, and distribution of natural gas and is buying up major energy infrastructure, such as pipelines, refineries, electric grids, and ports.

In 2004, GAZPROM had invested $2.6 billion in 23 major joint ventures, including buying a 50 percent stake in Slovrusgaz in Slovakia, 48 percent of Europol Gaz in Poland, and 30.6 percent of Eesti Gaas in Estonia (Judy Dempsey, 2004).

On May 2007, at the summit in Turkmenistan three countries Russia, Turkmenistan and Kazakhstan agreed to build the Prekaspiski gas pipeline to carry gas from Turkmenistan to Russia via Kazakhstan (Ariel Cohen, 2004). With this agreement Russia tries to lock supply opportunity to Europe, as EU before the agreement planned Trans-Caspian pipeline intending to circumvent Russian-control routes from Caspian basin.

**External Consolidation**

Russia is also consolidating control of oil and gas supplies throughout Central Asia, particularly signing long-term exploration and supply agreements with Turkmenistan, Uzbekistan and Kazakhstan to preempt independent export arrangements with the West.

**Internal Energy Strategy Completion- Elimination of Existing Gap Between “Business” and “Politics”**

Through the marginalization of the oligarchs Russia regained control over the political landscape. Using a combination of tax laws, licensing and wielding control over GAZPROM Russian internal energy strategy finalized with success. GAZPROM turned to be successfully chosen instrument regaining Russian “membership of the global board of Directors.”

**Power in Action**

Russian-Georgian war demonstrated that Russia is quite prepared to use force in pursuit of its interest. By means of this action Russia once again reminded the world that post-Soviet political crisis is over. Russia’s relative ability to take military action in a cluster of energy-important countries around its borders is, (without any inclination that Russia will use force abroad, the only target can be its “near abroad”) at present, much greater than ever.

In practical term, the World is not only shaped by globalization and dem-
ocratic values but by classic power politics (Realpolitik)

Challenges for European Countries

Europe can face the following threats: 1) Increasing energy dependence and Russian dominance on European energy market; 2) Russian application of energy sources as “political leverage”; 3) Russian market strategy (partnership with potential competitors) – Gas Exporting Countries Forum;

Russian application of energy sources as “political leverage”

Who knows how Russia will use its fundamental and newly gained competitive advantage. There are risks that cannot be easily ignored. During recent years, a particularly disturbing factor had been Russia's increased use of energy as a tool for achieving foreign policy goals. For example:

Permanent political tension with Ukraine and energy supply cutoff in 2006 motivated by Ukraine’s Western orientation

Similar tense situation with Georgia in 2006

Shutdown of oil supply to Lithuania after Lithuanian Mazeikiu Nafta refinery was sold to a Polish company rather than to Russian bidders;

Refusal to build the initially planned second line of Yamal-Europe gas pipeline through Poland, substituting it with Nord Stream gas pipeline via the Baltic Sea, which turns out to be at least five times more expensive in capital cost and about one-and-a-half times more expensive in terms of the gas transportation staff;

Gas Exporting Countries Forum

Possible Russia-Iran cooperation in Gas OPEC threatens appearance of new collective strength on International arena. Current Russian-Iran intensive ties underline existence of strategic cooperation based on their long term foreign policy goals. Their “friendship” is driven by two primary motivations: energy and security (against US). Worldwide Russia and Iran rank the first and the second in term of gas reserves. So, in future they can not only secure their income from gas export and raise their status on the global gas market, but can also raise their impact on International politics. Kremlin support (believing in Iran’s good intention) of Tehran's nuclear program once again reminded the World about growing importance of their cooperation. Russia and Iran can divide energy power (gas) among each other if Gas exporting countries Forum turns into OPEC like organization, where according to length of their reserves Russia will take first place and Iran the second one. Besides, as Iran has less financial potential-comparing with Russia- to activate energy production at full scale- Iran may let Russian rich investors (or company like GAZPROM) to operate in unexplored fields, drastically increasing Russian “energy management”. This threat is now underway as on July 21, 2008 Russian gas monopoly GAZPROM signed Memorandum on cooperation in oil and gas
production and transportation with the National Iranian Company with whom many European companies refused to work. So this official cooperation gives chance to Russian company GAZPROM to strengthen its positions over Iran’s energy resources. This new Russian investment was put in Iranian Pars field one of the biggest gas fields in the world, which is expected to produce more than 750 million cubic meters of natural gas a day by 2014 (Kostis Geropoulos, 2008).

Finally, like OPEC, Gas OPEC can manipulate with prices and production volume. OPEC even today manipulates with production volume - as Russian market has lost 18 percent of its value since Russian invasion in Georgia (RTC,2008). OPEC cuts its production (not very high) in order to increase the price of oil. These two events can’t be regarded as coincidence- most of energy producers still try to work together (Current Russia-Venezuela military training in Caribbean Sea)( Russian Strategic Bombers in Venezuela for Training,2008).

The means to respond to external energy challenges
Double liberalization or protectionism
Diverse European energy market - access to alternative sources of energy
( De-Russification of Central Asian energy resources; Renegotiation of relation with Iran)
Common Energy Policy (Prevent member states from reaching individual deals undercutting the viability of EU plans to bring alternative suppliers of energy to Europe)

Double liberalization or protectionism

Over-arching liberalized market structure needs to be built both in EU and Russia. While Western investors’ rights to control an asset are limited by 49% shareholding rule in Russia, in Europe Russian gas company GAZPROM creates joint ventures with 50% share (e.g. GAZPROM & OMV joint venture). Europe should either manage to liberalize Russian energy market which is not possible in nearest future as till now Russia consistently refuses to sign up to any kind of binding agreements such as the Energy Charter or protect their market from foreign dominance (strengthening anti-trust law and esp. “Ownership unbundling”) -not letting vertically integrated joint ventures (esp. national & foreign) to have full scale capacity of production and distribution simultaneously. The double activation by the same venture negatively effects competition. Market fragmentation along national borders, high degree of vertical integration and high market concentration are the roots of the lack of a healthy market competition (Memorandum of 3rd energy package). It’s obvious vertically integrated network operators have no incentive for develop-
ing the network in the overall interests of the market and hence for facilitating new entry on supply levels. On the contrary, they have an inherent interest to limit new investment and strong competition.

In addition, it is important to pay attention to the existence of long-term energy contracts. Long-term contracts can be both good and bad. On the one hand, they offer purchasers guaranteed supply, and better management of the risks related to adverse price movement. But it is vitally important that the benefits of this security are not outweighed by the negative impact on effective competition. Unhealthy competition leads to one-party dominance. So, insufficient unbundling of network and supply activities decrease competition. Effective separation of supply and production activities from the network is a key for better-functioning energy market and security of supply.

Alternative energy sources

Diversification of energy suppliers minimizes absence of market competition, protects EU against potential dominance from single external supplier and improves security of supply. For Alternative scenario Caspian energy resources (not Russia, as she is already one of the biggest energy suppliers for EU), mostly from Central Asian countries could serve as perfect example. Plus to Central Asian countries Iran with the largest gas reserves after Russia can be huge energy supplier for Europe.

Common Energy Policy

EU member states have to recognize that their parallel "energy protectionism" fails to provide effective energy security for the Union. Bilateral deals with only one energy supplier led to growing dependence on one, single source, which will affect not only one country but the Union as a whole. For example Germany has made step which put the country heavily dependent on Russian gas without having the corresponding power to require its Russian partner to take steps such as liberalizing its own markets. If Russian gas shortages occur it will create stress not only on Germans energy market but such shortages could cause widespread economic disruption across the Union (considering Germans high contribution to the EU budget). With the establishment of Common Energy policy European countries will together diversify energy sources and spread liberalized market rules over external energy suppliers in order to insure security of supply.
Conclusion

Natural resources became either geopolitical challenges or opportunities for countries in XXI century. Energy security became self-serving depending on energy producers’ and consumers’ different interests. For producers gas and oil became not the source of “short energy war” as it once happened in 1970s, but the tool for well-coordinated, long-term political goals. That’s why for producers’ energy security became source of gaining high, expensive economic and political value on International level. As energy producers perceived their legal and natural right to consider energy resources part of their sovereignty consumers were left only with getting supply at “reasonable price” - uninterrupted energy resources at less fluctuated price. Despite differences consumers and producers turned to share one common character - energy security became part of their natural security. But still there is difference as producers more politicized the subject than consumers. Producers recognized existence of both internal and external threats, but consumers could not follow the same path. It could be explained by consumers’ different nationality. Talking with “one voice” still remains a problem for European countries which can be regarded as the weak link in their energy strategy, while for producers like Russia mixture of inner and outer threats became less difficult (considering current political turmoil in Middle East and increase on demand).

European failure to establish common energy policy and effective competitive Single Market for energy in Europe may lead to energy dependence on single supplier with “political leverage” and creation of Gas OPEC with strong market division and intention to monopolize. The abovementioned threats can be responded with strong anti-trust law (a bit protectionism is needed) and diversification of suppliers. As double liberalization is far from reality (Russia will never agree with Transit protocol and never liberalize market, at least in nearest future) anti-trust law (competition law) should become strict enough to disband production and distribution by the same company which will lead to healthy competition, Second way to somehow decrease dependence on Russia should be Caspian hydrocarbons and elimination of Iran Isolation. Otherwise Russia influence over Central Asian resources may repeat over Iran by means of Gas OPEC. Moscow makes plenty of noise about selling its gas to China and Japan instead of Europe. But it will be some time before Russia can build planned infrastructure to do that. In addition, Europe can also find third way - renewable energies especially nuclear energy which so perfectly works in France. So energy insecurity can be dealt only with mixture of energy tools (diversification of suppliers, unbundling and renewable energies).
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