

The Obstacles in the Creation of a Common EU Energy Policy

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SIMONA ZAVADCKYTE, NOV 23 2010

Energy today is one of the most important issues on the world politics agenda, since energy is a key element for economy and, hence, the development of a state (European Commission, 2006b). Currently considerable effort is put to develop renewable energy sources. Presently the dominant energy source, though, still remains to be natural hydrocarbons containing oil, gas and coal. Coal was the main energy source for quite a long time starting with the industrial revolution of 18th century, but at the end of 20th century was overtaken by oil and gas – energy sources with higher ecological and efficiency performance. All these fossil fuels are not only limited in stock, but also distributed unevenly through geographical perimeter. While some regions are rich in natural energy resources as for instance Middle East, Russia, Canada, Australia and elsewhere, others such as Europe suffer a lack of natural energy resources and in order to suffice the demand need to import them. Europe and its institutional entity the European Union as the largest oil and gas importer in the world is one of the main players in energy field (Miccinilli, 2007). That aside, the EU is short of internal consistency on energy issue and, hence, lacks a common energy policy. Even though, EU supranational institution – European Commission and some member states (mostly the new members) have recently started to push for coherent energy policy of the EU, any sufficient result has not been reached so far (Umbach, 2007). Some important questions may be raised to analyse this issue. In particular, what prevents the EU from developing a common energy policy? What main obstacles does it face? In order to answer these questions, this essay will argue, that the EU is moving towards a common energy policy under the leadership of its supranational institution, but, currently it is burdened by too strong differences between the member states' energy policy preferences.

The emergence of the European Union was initially based on energy issues that took presence in the principal treaties: the Paris treaty (1951) that marked the establishment of the European Coal and Steel Community and one of the Rome treaties (1957) that led to the establishment of the European Atomic Energy Community. Later on energy gradually lost its prominence on the EU policy agenda, possibly due to overwhelming integration matters in question. Energy issues regained public attention in the EU in 1970s when the oil crisis stroke with skyrocketing oil prices and even more so during the recent Russia and Ukraine conflict over gas that resulted in severe disruption of gas distribution for the EU member states in 2006 and 2009. While the events of 1970s indicated a need to search for alternative to oil in energy resources, 2000s signalled the dangers of dependency on a single energy supply provider (Umbach, 2007).

The EU supranational institution – European Commission was first to notice and draw attention to the precarious trends in the EU energy sector. The European Commission has already issued several documents on energy. First significant effort was made in 2000 with the issue of Green Paper entitled *Towards a European Strategy for the Security of Energy Supply*. The 2000 Green Paper showed an attempt to form a comprehensive energy security strategy for the EU (Bjorkman, 2009). But as the function of Green Papers is only to foster a discussion in the community over important issues and not make any commitment to action, the 2000 Green Paper did not lead to any significant changes in the energy sector. The European Commission picked up the energy matters again in 2006, when it released its second Green Paper called *A European Strategy for Sustainable, Competitive and Secure Energy*. M.Bjorkman (2009) has argued that “if the 2000 Green Paper provides the blueprint for a lofty vision of European energy policy, the 2006 Green Paper, sets the foundation for the shape and direction of the EU's future

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external energy policy". The 2006 Green Paper outlined three main objectives for the EU common energy policy, namely, to ensure sustainability in energy resources usage, competitiveness of energy market and security of energy supplies (European Commission, 2006a). In addition to that, the 2006 Green Paper identified six key areas where action was required to tackle energy challenges, these are: competitiveness and the internal energy market; diversification of energy mix; solidarity; sustainable development; innovation and technology; and external policy (European Commission, 2006a). The progress in these six areas of energy sector was proposed to be tracked and presented to other EU institutions (the Parliament and the Council) by the regular Strategic Energy Reviews. Both the Parliament and Energy Council have in general endorsed Commission's proposals at least after the second Strategic Energy Review in 2009. A common energy policy, however, is still reluctant to develop fully due to uncoordinated and sometimes even incompatible with each other individual member states' acts, that will be explored in more depth later in this essay.

A common policy implies the existence of coherence, desirably solidarity and in an ideal case unanimity among member states on a given issue, that is reached through the Europeanization – progressive relocation of decision-making to the supranational level (Bjorkman, 2009). Europeanization has already been reached on several grounds: a common foreign and security policy, a common agricultural policy, a common immigration policy, but not yet a common energy policy. Out of the three energy policy aims the European Commission has voiced in 2006 Green Paper the most developed and closest to the fulfilment up to day seems to be the aim for sustainability. The EU has an ambition to establish itself as a driving force in fighting climate changes (The European Commission, 2007). The EU member states collectively and individually have committed to make a 20% reduction of CO₂ emissions by 2020 compared with the level in 1990. Some concrete actions have been taken on this matter. The most important perhaps is the establishment of the Emissions Trading Scheme encompassing all EU member states, that monitors the CO₂ emissions on the EU level and issues limited permits to CO₂ emitting plants. In addition to that, the EU has agreed on the aim to expand its renewable energy sector and reach 20% of total energy consumption; 21% in electricity and 10% in fuels by 2020 (European Commission, 2009). Some states show initiative to pursue renewable energy policies even more genuinely than required by their commitments. For instance, Sweden, Latvia, Finland, Portugal and Denmark have already exceeded collective EU renewable energy targets quite significantly and are expected to be more ahead by 2020, with Sweden aiming for 49% of energy to come from renewable sources, Latvia respectively 42%, Finland 38%, Portugal 31% and Denmark 30% (PROGRESS, 2008). Moreover, a considerable effort is put to promote energy research and the development of efficient and environmentally-friendly energy sources under the 7th Framework Research Programme. In general evidence suggests that the EU member states, even though barely coordinated, appear to share the ground for the sustainability of energy and act accordingly (Miccinilli.M, 2007).

One more aim of the EU energy policy is to develop single energy market in the community. Most economy areas in the EU operate under single market principles. Single market has become a core concept of the EU after the adoption of the Single European Act in 1987, that led to the opening of internal borders for the free movement of people, goods, services and money. Energy, however does not yet work under single market principles, since first there is lack of interconnectedness between member states' (Wyciszkievicz, 2007) and second states still play quite an active role in their energy sectors (Meritet, 2007). For single energy market to operate there is a need of interconnection between the member states that is based on two levels: physical and legislative. On the physical level of energy interconnectedness it is interesting to note, that there still exist energy islands in the community such as the Baltic State, Ireland and Malta, that are either linked only with energy sources outside of community borders or lack these links at all (European Commission, 2006a). In addition to that, there is still limited consent on energy sector laws and regulations as all the member states pursue individual energy policies. Without shared legislative ground and physical interconnectedness of energy links it is extremely hard and even impossible for a single energy market to work (Wyciszkievicz, 2007). More so, not all member states are showing willingness to open their energy sectors for single market, that means privatisation or at least vertical disintegration of single energy companies covering the whole sector into separate energy producing, transmitting and distributing companies (Barysch, 2007). UK and Denmark are the pioneers in this case being the first to disintegrate and privatise their national energy companies and later on to open their borders for other member states' companies. Both aforementioned states are the main supporters of the European Commission in promotion of the single energy market (Barysch, 2007). On the other side of the spectrum is France, that often is called "black sheep" for its reluctance to liberalise energy sector (Meritet, 2007). In France state, even under the pressure of the European Commission, still remains the owner of its

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energy companies. The above analysis, therefore, reveals that there is much more divergence between member states on the single energy market issue compared with the previously discussed question of sustainability.

The last aim of a to be common energy policy is to ensure the security of energy supplies. The EU, as noted earlier, is the greatest energy supply importer in the world and so has a very high dependency on imported energy: currently over 50% of its energy is imported and this number is projected to increase up to 70% by 2020 (Belyi, 2003). When observed, import trends for particular energy resources reveal that the import of gas will increase from 57% in 2006 to 84% by 2030, and oil import respectively will increase from 82% to 93% (European Commission, 2007). Therefore, it is not surprising that the European Commission emphasises security of supply as one of the main objectives for common energy policy. The security of supply can be ensured both through the diversity of the energy mix and the diversity of energy suppliers (European Commission, 2006a). The EU under the Lisbon Treaty legally leaves the right to choose energy mix in hands of each member state. Therefore, the energy mix varies greatly among member states, with some states as Sweden and Latvia choosing renewable energy sources for their energy base; others as France building their energy on nuclear power or as Poland and Czech Republic extracting their energy from coal while many others producing their energy from gas and oil. On the energy mix angle, the usage of local energy forms as for instance local natural energy resources, renewable energy or nuclear power, of course, ensures more security for energy supply, though, at the same might bring about the risks of higher cost of energy or higher environmental pollution.

While the EU is showing attempt to diversify its energy mix, especially with the promotion and expansion of renewable energy section, the main energy sources still remain gas and oil, the first one predominantly used for electricity production and the second for transport (European Commission, 2007). Therefore, energy supply imports currently and in the near future will remain inevitable. The share of imported energy supplies varies among the member states. Some states as the Baltic States are 100% dependent on their gas and oil imports, while others as the UK and Denmark that have access to the North Sea natural resources are currently net exporters of energy supplies (Bjorkman, 2009), though the North Sea natural energy resources are expected to be very limited and to run out in a couple of decades. There are also significant differences in the ways how oil and gas are imported. While oil has more flexible methods for import, gas at the moment can only be imported through a pipeline system. Moreover, the EU imports its gas from only three suppliers, Russia, Norway and Algeria, of which Russia presently is the main supplier covering 42% of the EU gas imports (Bjorkman, 2009). The EU – Russia relationship, however, is mutual, since the EU is the main Russia's gas export destination. The energy supply distribution disruption during the Russia – Ukraine conflict, signifies that Russia may not be a trustful partner that uses its energy resources for political leverage. (Bahgat, 2006). In this case Russia's energy policy may be seen as a threat to the member states' national security, especially as Russia has not yet ratified the Energy Charter Treaty and hence, may escape the legal enforcement for the breaches of the treaty (Leal-Arcas, 2009). Other scholars note that current and more so future Russia's limited fulfilment of its commitment in energy sector may come not from its unwillingness or political play, but from its physical inability to suffice the demand (Goldthau, 2008) especially due to increasing consumption of energy by the rising powers China and India. So how do member states react towards Russia? The EU member states that are entirely dependent on energy supply imports from Russia such as the Baltic States and other Eastern European states as for instance Poland try to voice the possible dangers at the EU level and quest for a common energy policy. Other bigger and more powerful states, as the case of Germany, attempt to tackle the Russia energy issue individually by prioritising their own interests over the shared community interests. An excellent example here is the development of new pipeline projects. Most of the member states support the Nabucco project, which would bring gas from Central Asia and Middle East through a new pipeline projected to pass through Turkey and South – East member states. This project through the connection to the new gas source in Central Asia would clearly help to diversify energy supply sources for the EU (Leal-Arcas, 2009). Germany, on the other hand, develops bilateral Nord Stream project with Russia that is supposed to deliver Russian gas directly to Germany through a new pipeline under the Baltic Sea that will pass by the Baltic States, Poland and other nearby states. Denmark is the only supporter of the project and even wants to join it. Other member states, especially those located on the shore of the Baltic Sea are against the project due to its environmental dangers and threat for national security. The Nord Stream project instead of strengthening the EU unity and ensuring the security of energy supplies will have a reverse result by leaving the Baltic States and other Eastern European states more vulnerable, since it will increase their dependence and expose them to the will of Russia even more (Bjorkman, 2009). Therefore, on the grounds of security of energy supplies, the

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policies of the member states indicate not only that their acts diverge quite significantly, but also that at times they may be harmful to other member states.

The European commission, the driving force for a common EU energy policy, admits that energy policy is a long term goal (European Commission, 2007). Some steps have already been made to europeanise the EU energy sector and the most progress can be seen in the in the fulfilment of environmental sustainability aims, where states not only share the same goal but even, as analysis have shown, put additional effort to it. The fulfilment of other aims is more problematic and controversial. Much work still needs to be done on the single market issue to enhance the interconnectedness between the member states. Moreover, there are great enthusiasts for a single energy market, as UK and Denmark, though; it is much harder to reach this goal with distinctive laggards such as France, who prefers to retain its energy sector under public ownership and protection. The security of supply provides even stronger case for the clash of member states preferences. The EU member states appear to be sharing the understanding that it is extremely important to ensure the security of energy supplies, however, they differ on the choice of whether this goal should be achieved through common and coordinated action or individually. Poland, with the support from the Baltic States, is the greatest promoter of a common action. It has often voiced requests for EU to speak in one voice over energy issues and has even made a proposal for a European Energy Security Treaty (Wyciskiewicz, 2007). Germany, on the other hand, pursues the most individualistic and self-interest driven approach towards the insurance of the security of energy supply. That clearly manifests in the development of the bilateral Nord Stream project between Germany and Russia.

To conclude, in the times when energy is one of the main issues in the world there is a great need for such a powerful entity as the EU to speak with one voice and develop a common energy policy. The EU with the active role of the European Commission is moving towards a common energy policy. Up to day, though, the sufficient level of the common action has not been reached. The main obstacle for a genuine development of a common energy policy, the essay has argued, is the strong differences between member states preferences for a common energy policy. Most of the new member states support the European Commission's initiative to develop a common energy policy. Old and more powerful states, France and Germany in particular, are keener on pursuing individual policies in the energy sectors. Only the future will show if member state are be able to overcome these differences and allow the implementation of the European Commission's initiative for a greater level of energy issue Europeanization.

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Date written: 2010