

EU'S ENERGY POLICY: A QUEST FOR RELEVANCE

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The relevance of any EU energy policy will hinge on clearly identifying the mounting risks, with an uninhibited analysis of Russia's manifold challenges, and calling for the development of an energy security strategy, with diversification of supplies as its centerpiece. The twin goals must be the opening of direct access via the Black Sea region to the eastern Caspian shore and ensuring national or Western control (as opposed to Russian or Russian-shared control) of energy transport systems.

Policy coordination with the United States is indispensable to the success of the EU's supply diversification efforts. For its part, the United States needs to issue clear political signals to Caspian countries, energy companies, and investment capital markets. It also should reinstate the abolished position of Caspian energy policy coordinator, which proved its value in streamlining regional, European, and U.S. efforts at the government and private-sector level to complete the energy corridor's western components.

Although Western companies have found and are extracting oil and gas from Caspian countries, Russia holds a near-monopoly on the transit routes to consumer countries from the eastern Caspian shore, where the great bulk of reserves is concentrated.

This situation has no precedent and no parallel in the world of energy and geopolitics. Russia, the world's second-largest producer and exporter of oil (behind only Saudi Arabia), and global leader for gas, absorbs the oil and gas output from the eastern Caspian basin. As a result, Europe -- the main potential consumer of Caspian energy -- is sliding into a dual dependence on Russia: for Russian supplies as well as for Russian transit of supplies from this region. Such dependence on a single, powerful transit country is economically draining and politically risky to consumer and producer countries alike.

Any effective EU and Euro-Atlantic strategy would recognize that eastern Caspian oil and gas and their west-bound transit via the Black Sea region are key to diversification away from dependency on Russia. Such recognition is long overdue and yet seems far from the grasp of policymakers even now. Policy prescriptions in Brussels thus far tend to focus mainly on diversifying the types of energy being used and less on diversifying the oil and gas supply sources in general or obtaining direct access to Caspian reserves in particular. While conservation and saving, greater use of renewable energy and non-fossil fuels, interconnection of energy systems, and additions to storage capacity on EU territory are all necessary measures, they do not address or address only marginally the core problem: steady growth in hydrocarbon requirements and rapidly growing dependence on Russian and Russian-mediated hydrocarbon supplies.

The EU ought to make clear that monopolization of access to eastern Caspian hydrocarbons is unacceptable -- a principle that can also form a basis for EU-U.S. policy

coordination -- and that the EU has legitimate, indeed pressing, interests in obtaining direct access.

A credible EU policy would need to demonstrate that the EU means business in the Black Sea and Caspian regions. Brussels must include energy supply and transit as high priorities in the mandates of its special representatives for the South Caucasus and Central Asia and of its delegations in Ukraine, Georgia, and Kazakhstan. The EU can also propose launching and institutionalizing discussions with Turkmenistan and Uzbekistan on commercial development of their energy deposits and a European alternative to the Russian monopsony.

The list of priorities in terms of transit projects is a long one due to long-time complacency in Brussels and key capitals. Gazprom's general offensive has amply vindicated the original Western rationale for a trans-Caspian gas pipeline from Turkmenistan. By the same token, it underscores the need for adding gas volumes from Kazakhstan to Azerbaijani gas in the Shah Deniz-Erzurum project. The Nabucco pipeline project from eastern Turkey to Austria (originally conceived for Iranian gas primarily) has already been declared officially a EU priority. It can prove its viability on its own but can also be integrated with the trans-Caspian and/or the Shaz Deniz-Erzurum projects, ensuring their access to central Europe.

The planned Kazakhstan-Azerbaijan oil transport system, which will pump additional volumes into the Baku-Ceyhan pipeline, needs to advance soon from the stage of tanker shipments to the stage of laying an undersea pipeline. To break Russia's monopoly on oil transit from Kazakhstan's Caspian coast, it will also be necessary to shift a part of the volumes from the Tengiz-Novorossiysk pipeline (CPC) into the trans-Caspian oil transport system. Such rerouting would provide the United States and European companies in the Tengiz and CPC consortiums with an alternative export outlet, enabling them to resist Moscow's extortionate demands on their operations. The EU can reach out to post-Orange Ukraine by supporting the Odessa-Brody oil pipeline's originally intended use for Caspian oil and the line's extension into Poland. It should also recognize the general European interest in preventing a Russian takeover of Ukraine's gas transit pipelines.

Before the end of 2006 the EU Commission will officially table specific proposals for action at the level of individual member states and the EU level, taking into account suggestions from member governments, energy companies, analysts, and neighbor countries. The Commission's proposals should highlight the Caspian basin and Black Sea region, if the EU wishes to seek a credible common policy and external strategy for supply diversification.