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M. PARVIZI AMINEH

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XIX. The EU's Policies of Security of Energy Supply towards the Middle East and Caspian Region: Major Power Politics?*

Femke Hoogeveen and Wilbur Perlot

ABSTRACT

Vast reserves of fossil fuels make the Greater Middle East (GME) region the centre of attention in terms of security of supply considerations of all major energy-consuming countries, most notably of the United States (US), China, India, and of the European Union (EU). Although energy security is on the EU's agenda, the supranational nature of the EU inhibits it to pursue an external energy security policy in the same way as other consuming countries. Its power, mandate, and in many ways preparedness to execute a common foreign policy towards the GME, let alone as specific as a common foreign energy strategy, are limited. This chapter seeks to answer the questions of what role the EU wants to play in the GME region in relation to objectives of energy security, what role it can play in this respect, and whether the EU's Middle East politics can be regarded as major power politics.

INTRODUCTION¹

This chapter starts with an account of the oil crises as the origins of the European Union's (EU's) energy security policy. It highlights how, due to the EU's strategies of diversification, oil imports originating in the Greater

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¹ This chapter focuses on the relations of the EU with major producing countries in the GME region. These are Algeria and Libya in North Africa; Iran, Iraq, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates in the Gulf region; Kazakhstan, Turkmenistan, and Uzbekistan in Central Asia; and Azerbaijan in the Caucasus. Turkey is included in

Middle East (GME) region, especially in organization of Petroleum Exporting Countries (OPEC) countries, significantly decreased in the past decades. Next, it is demonstrated how changing characteristics of the international energy market and of the international political system have added to the importance of the security of energy supply objective and how these changes have at the same time made it harder to attain this very objective. The shift from a buyers' to a sellers' market and the growing acknowledgment of the importance of GME resources are but two of the reasons why energy security features prominently on the political agenda of energy-consuming countries, including EU member states. At supranational level, the EU pursues a host of bilateral agreements, partnerships and dialogues, covering every single country in the GME region. It is argued that the extent to which the EU's formal GME policy serves objectives in energy security is limited, while material policy suffers from asymmetric interests of member states. The final section concludes this study.

ORIGINS OF THE EU'S ENERGY SUPPLY SECURITY POLICY

European Energy Security Policy

Although in some ways European integration has always included “energy issues”—think of the founding treaties of the European Communities on Coal and Steel and on Atomic Energy—EU policy-making related to security of energy supply has gained attention only later. Characterized by strong conflicts between a common policy and divergent national policies, decisions on energy security were initially excluded from the central EU level (Andersen 2000). From the early 1960s onward, the EU's energy security policy has incrementally developed, mostly in response to crises or at the brink of crises.

Security of supply is a general term to indicate the access to and availability of energy at all times (CIEP 2004). Supply can be disrupted for a number of reasons, for, example, owing to physical, economic, social, and environmental risks (EC 2001). The most important crises that have been instrumental in shaping the EU's security of supply policy are of a social

the analysis as an important transit country. Unless indicated otherwise, Iran is treated as a producer country of the Persian Gulf region rather than as a Caspian Sea littoral state. Despite the substantial amount of natural gas reserves in the region, focus in this chapter is on oil. Where necessary, gas data are given. The overall conclusions of the chapter on EU major power politics also uphold for natural gas. This chapter focuses on the current EU of 25 Member States. Sometimes reference is made to the European Economic Community (EEC) and European Community (EC). Although technically incorrect, we consistently refer to the EU and EU Member States.

and economic nature and were all crises in the GME region: (1) the Suez crisis in 1956; (2) the Six Day war between Egypt and Israel in June 1967; (3) the October war or Yom Kippur war and ensuing Arab oil embargo in 1973; (4) and the oil crisis in the wake of the Iranian revolution in 1979. After all these events, a heated debate started about energy availability and decreasing dependency on foreign suppliers. Each time initiatives were taken to come to an EU policy framework on energy security; as a result of national interests and opposition by the United States (US), however, they were without much success. Hence EU crisis policy and directives follow those of the International Energy Agency (IEA), which is part of the Organization for Economic Cooperation and Development (OECD), whose members are autonomous nation states. In this context, the EU has no role as separate actor.

Consequently, the basis for EU energy legislation is weak and in accordance with the principle of “subsidiarity;” energy policy is still largely regarded as member states’ own responsibility (Lyons 1998). Most policy has been developed under the competition chapters of the *Acquis Communautaire*, (e.g., with the introduction of the internal gas and electricity market). Nonetheless, the European Commission (EC) has played and plays an active role in pushing the EU’s common energy security policy, for example, with the EC’s 2001 Green Paper “Towards a European Strategy for the Security of Energy Supply.”

The inclusion of energy in the constitution of Europe provided ground for modest optimism on a common EU energy policy and can be seen as the result of a process of change in European integration. But as the constitution is currently “on hold” and can only come into effect after the ratification of all 25 EU member states, the entering into force is doubtful. As a ratified constitution of Europe will incorporate energy into the EU *Acquis*, the outcome of the present “period of reflection” is important. However, postponed or even non-ratification does not mean that energy policy has come to a standstill. Energy is continuously on the agenda of both the Commission and the Council, even more so since the turbulent beginning of 2006.

The EU’s 2006 Green Paper “A European Strategy for Sustainable, Competitive and Secure Energy” continues in the spirit of the 2001 Green Paper. It identifies security of energy supplies as one of the three core objectives of a common EU energy policy and proposes actions for the next decades (EC 2006).² Of relevance for this chapter is that the EC calls

² “Secure,” “environmentally sound” and “economically affordable” are generally seen as the three objectives of pillars of a consumer country’s energy policy (Hoogeveen and Perlot 2005: 23).

explicitly for the development of an external energy policy, acknowledging that if this were to be followed up for the first time, it would be a “break from the past, and show member states’ commitment to common solutions to shared problems” (EC 2006: 14).

Today, new EU policy is formulated in response to increasing oil prices and concerns about the political situation in producer countries. Policy-making and the willingness for European cooperation received an extra boost by the Russia-Ukraine gas crisis in January 2006, which caused diminished gas flows, for example, to Poland, Germany and Austria. Since the crisis is generally perceived as an example of Russian power play with gas and only exceptionally as an economic conflict about prices, it added to a feeling of mistrust towards Russia and of increased vulnerability of energy supplies. Is the time for new policy right? Are there now enough incentives to take EU energy security to another level? Perhaps, but will the attention energy currently receives persist long enough until actual decisions are made at EU-level or will member states revert to national preferences instead? And what kind of energy market should the EU make policy for?

The Aftermath of the 1970s: Formulating Security of Supply Policies

Two fears To date the experiences of the 1970s are a reference point for policy-makers in both consumer and producer countries. The constraints on production imposed by Organization of Petroleum Exporting Countries (OPEC) in the 1970s and its decision to quadruple the price of oil constituted a traumatic shock to the economic and political system of EU member states as well as to the EU as a whole, due to the lack of cooperation and solidarity among member states. From this period stem two fears, which still drive energy security policy.

The first is the fear that political instability in producer countries and regional tensions will lead to a disruption in oil supply. The core of this fear can be found in the 1979 oil crisis. This fear figures prominently in policy documents throughout the world, including the 2006 Green Paper, which reads, “Our import dependency is rising. Unless we can make domestic energy more competitive, in the next 20 to 30 years around 70 percent of the Union’s energy requirements, compared to 50 percent today, will be met by imported products—some from regions threatened by insecurity” (European Commission 2006: 3). In this case it is expected that a supply disruption is not motivated by a producer country’s foreign policy, but the result of domestic—national and regional—struggles for power and influence.

The core of the second fear can be found in the 1973 oil crisis. This is the fear that energy (oil, natural gas) will be willfully used as a weapon.

In this case it is expected that a government of a producer country can actively pursue its objectives by using the country's energy market power and a politically motivated supply disruption can be issued against a consumer country. In the wake of the 1973 crisis, for example, the US feared that the EU member states' import dependence made them too vulnerable to withstand Arab politics thwarting other political and strategic interests.

A consumer country's mere perception of its vulnerability in the event of a supply disruption can thus be sufficient to alter its position vis-à-vis a producer country. To prevent being threatened with a supply disruption, a consumer country's policy may include averting attention from sensitive issues. This part of policy, in which non-energy policy goals come second to energy security objectives is rarely openly addressed, but the call to maintain "good relations" with producer countries could be understood as such. The question to be asked of EU member states is to what extent "good relations" will be allowed to intervene with non-energy policy goals.

The changed and changing role of GME resources The fears stemming from the turbulent 1970s led to the formulation of successful security of supply policies (Hoogeveen and Perlot 2006). The EU member states' policies focused on (1) maximizing indigenous production, for example, in the North Sea; (2) more efficient use of energy; (3) regime to deal with supply disruptions, the IEP within the IEA framework; (4) diversification in the fuel mix, for example, nuclear power stations instead of oil fired power plants;³ (5) diversification to suppliers, for example, more oil from Norway, the Soviet Union, and other non-OPEC, non-Middle East producers; (6) Incorporating energy in foreign and security policy, for example, by building good and strong relations with producer countries (CIEP 2004).

The strategies of the EU to become less dependent on oil have been successful. In 1978 the "EU-19" consumed 13.8 million barrels per day (MMbbl/d) (see Table 19.1).⁴ At the end of 2004, the EU-19 consumed 12.9 MMbbl/d (see Table 19.2), roughly 7 percent below the amount of 1978.

³ France, for instance, invested heavily in nuclear power plants in the 1970s and 1980s to decrease import dependency. At the time, French power generation relied heavily on oil products. The choice for nuclear energy therefore mitigated directly oil import dependency.

⁴ The year 1978 has been chosen because reliable data of the IEA goes back to 1978. It should be noted that there were no big changes in import origins in the years prior to 1978. The EU did not consist of 19 member states in 1978, but for comparison reasons the calculations were made for 19 member states, which are part of the EU today. Due to insufficient data, Cyprus, Estonia, Latvia, Luxembourg, Malta, and Slovenia are not included. These countries together consumed roughly 0.16 million bbl/d in 2004.

Table 19.1

Top-10 crude oil supply origins of EU-19 in 1978 (in MMbbl/d)

1	Saudi Arabia	3,05	22,1%
2	Islamic Republic of Iran	1,70	12,3%
3	Iraq	1,39	10,1%
4	Unspecified others ¹	1,21	8,7%
5	UK ²	1,07	7,7%
6	Libya	0,84	6,1%
7	Kuwait	0,78	5,6%
8	Nigeria	0,76	5,5%
9	United Arab Emirates	0,75	5,4%
10	Soviet Union	0,63	4,6%
	Sub TOTAL	12,18	88,1%
	TOTAL Supplies	13,83	100%

¹ The category unspecified others is mostly Eastern European countries for which no data is available in 1978. These supplies came mostly from the Soviet Union, which should therefore be higher in the top 10.

² The number for the UK is the total domestic production as no detailed export data is available for 1978. The main share was consumed in countries which later form the EU-19, but significant amounts were exported to non-EU destinations such as the US and Canada as well.

Source: IEA 2004 Oil Information. OECD/IEA.

The policy to become less dependent on OPEC production, especially Middle East OPEC production, and develop more indigenous sources was also successful. Table 1 presents the Top-10 crude oil supply origins of the EU in 1978. The rather large crude oil import share from countries surrounding the Persian Gulf and particularly Saudi Arabia is striking, while the United Kingdom (UK) is the only West-European supplier. Soviet Union figures include Russia, Kazakhstan, Turkmenistan, Uzbekistan, and Azerbaijan.

By 2004, the dependence on producing countries around the Persian Gulf (i.e., Saudi Arabia, Iran and Iraq) and OPEC members in general has been reduced and replaced by supply origins that are perceived to be politically more stable and reliable suppliers (see Table 19.2).⁵ The former

⁵ For comparison: The figures for the share of the top ten import origins in relation to the total imports for the US accounted for 87 percent in 1978 and 90 percent in 200, respectively (while imports accounted for 45 percent and 63 percent of total consumption) (IEA 2002). For China, it was 87 percent in March 2006 (*Petroleum Intelligence Weekly* 2006).

Table 19.2

Top-10 crude oil supply origins of EU-19 in 2004 (in MMbbl/d)

1	Former Soviet Union	3,88	30,0%
2	Norway	2,09	16,2%
3	Saudi Arabia	1,33	10,3%
4	UK ¹	1,28	9,9%
5	Libya	1,00	7,7%
6	Islamic Republic of Iran	0,72	5,6%
7	Algeria	0,38	2,9%
8	Denmark ¹	0,37	2,9%
9	Nigeria	0,30	2,3%
10	Iraq	0,25	1,9%
Sub TOTAL		11,59	89,6%
TOTAL Supplies		12,94	100,0%

¹ Not counting exports to non-EU countries.

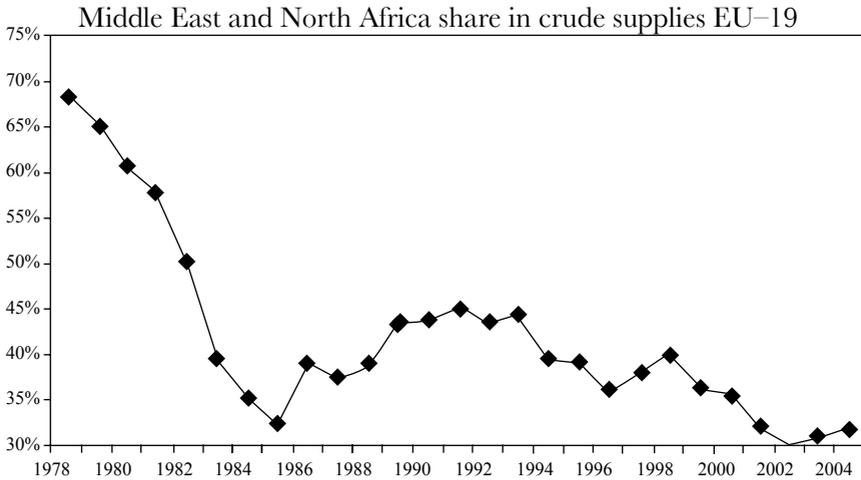
Source: IEA 2004 Oil Information. OECD/IEA.

countries of the Soviet Union and Norway are now first and second supplier, respectively. The increase in imports coming from the Soviet Union was made possible by the end of the Cold War in 1989 and come largely from Russia. Imports from the Caspian Sea to the EU go mostly to Russia, although new projects make direct imports possible.

The changes in crude suppliers is further illustrated in Figure 19.1, which shows the market share of crude supply from countries in the Middle East and North Africa to the EU over time. In 1978, the share of the region was almost 70 percent. In 2004, it had decreased to 4.88 MMbbl/d, representing just 32 percent of crude supplies.

Other (non-EU) OECD countries have followed similar diversification strategies, although with differing results. The share of the region in US crude oil supply declined from 26 percent in 1978 to 17 percent in 2004, or in absolute numbers from 3.99 MMbbl/d to 2.67 MMbbl/d (in 1985 it was just 3 percent or 0.36 MMbbl/d). Japan and South Korea received 67 percent (3.78 MMbbl/d) of crude oil from the region in 1978, decreasing to 50 percent in 1988 (2.29 MMbbl/d). Since these two countries have less diversification options to supplier in their own region, let alone domestically, the figure increased to 79 percent (5.50 MMbbl/d) in 2004.

The two oil crises had serious repercussions, not only for the Western economies and the world at large, but especially in producer countries that were at the root of crises. The sharp rise of the oil price brought economic growth and prosperity in the short run; in the long run it proved to be disastrous. High prices and the successful diversification policies of consumer countries led to an actual decrease of global oil demand from 1979

Figure 19.1

Source: IEA Oil Information 2004, IEA/OECD

to 1983, and only in 1988 did demand reach the level of 1979, of which a growing amount was satisfied by new production areas, which were the result of spurred exploration and production activities all over the world (Bahgat 2003).

By 1985/ 86, the oil market had more than enough production capacity to satisfy demand and as soon as Saudi Arabia decided to increase production in 1986 to win back market share, prices plummeted to only US\$10 (Skinner 2005). The price drop started years of economic stagnation and recession in Middle East OPEC members, prolonged by the unsuccessful attempts to diversify their economy away from oil. The per capita income dropped throughout the 1980s and 1990s, a trend further strengthened by high birth rates, which also impacted other economic variables such as unemployment levels and domestic consumption of oil. The social and political problems rising from this economic downturn are visible today and only recently softened by the return of high prices. Producing countries realized they needed security of demand in the long run to provide economic welfare to their populations. Today this recognized mutual dependency of consumer and producer countries is at the heart of the dialogue between consumers and producers, both bilaterally and multilaterally in the International Energy Forum.

A NEW ERA: A SELLERS' MARKET WITH NEW CONSUMERS AND "OLD" PRODUCERS

Though not the exclusive driver of oil market changes, the impact of energy policies executed by consuming countries during the 1980s on the market cannot be neglected. Producing countries saw themselves forced to cede their market power: the international oil and gas market had become a buyers' market. The market situation to which the EU governments had become accustomed from the mid-1980s was characterized by abundant supplies and low energy prices and allowed them to become more focused on market design and environmental concerns. This has changed rapidly since 2002.

The convergence of a number of factors has caused this change. On the supply side, low oil prices in the 1990s limited the incentives for companies to invest in new production and refinery capacity. Income earned by National Oil Companies was needed to support government budgets, while International Oil Companies were in a process of consolidation and reorganization to increase growth potential and create shareholder value.

On the demand side, the economic growth of EU member states and the US late 1990s, and in recent years especially the economic success of China created an unexpected demand growth. Since 1973, production capacity always surpassed demand, but today it barely does. In the past few years, the oil market again turned from a buyers' market to a sellers' market. However, contrary to the 1970s, the current tight market is not the result of a supply disruption, but mostly of a demand shock. The result is a market in which every barrel and therefore every producer of that barrel counts. Political tension in producer countries, whether caused by strikes by Norwegian oil workers or acts of rebel groups in Nigeria, as well as *force majeure* disruptions such as the tropical storms in the Gulf of Mexico, all have an impact on the balance in the oil market.

Catching up on investments in oil production and refinery takes time and security, two things that are especially difficult in the current market and political climate. Uncertainties about the feasibility of new projects, for example, due to war and insurrection, restrains the necessary investments in the area. The pace at which Iraq will recover from the overthrow of Saddam Hussein and will realize its potential as an important oil producer is illustrative. Increases of terrorist activity, globally but especially in the Middle East, cause concerns over the protection of oil production locations, infrastructure, and transport and the costs thereof.

Another important element defining future energy relations is the geographical shift in energy consumption. The decreasing demand for Middle Eastern oil from the EU was replaced in the 1990s by the increasing demand from Asia. Exports from Middle Eastern countries to Asia increased by

almost 4 million barrels per day (MMbbl/d) in the period from 1993–2003, while exports to Europe decreased with about 1.8 MMbbl/d during the same time period (BP 2005). China has become the second largest oil market, with a consumption of almost 6.6 MMbbl/d in 2004, of which 3 MMbbl/d were imported, of which half came from Middle East and North Africa.⁶ China, Japan, and South-Korea combined consumed only 400,000 barrels (bbl) less oil than the EU in 2004, while the EU market will only increase by 0.3 percent annually until 2030, and Chinese oil demand is expected to grow by 2.9 percent per year, reaching 13.1 MMbbl/d by 2030. The oil consumption of India will increase from 2.5 MMbbl/d to 5.2 MMbbl/d. Asia as a continent will have a total demand of 37 MMbbl/d by 2030, which is higher than any other continent (IEA 2005). The relative importance of the EU as a customer of Middle East oil has decreased considerably.

The production of oil will also see more geographical shifts. In the past decades countries such as Norway, the UK, the US and Russia/Soviet Union were in the top ten of largest oil producers. But the bulk of the reserves is located in five countries around the Persian Gulf: Saudi Arabia, the United Arab Emirates (UAE), Kuwait, Iraq, and Iran. Their share in production has been low (30 percent) in comparison to their share in oil reserves (66 percent). Production is expected to level off and decrease in the EU and the US, while remaining stable in China at best. Consequently, oil import dependency for all major importing countries will rise to over 70 percent. Although some regions are still relatively underdeveloped, most notably West Africa and the Caspian Basin, all statistical projections of future consumption show an increasing call for Middle Eastern oil (Amineh 2003).

In the Reference Scenario of the *World Energy Outlook 2005* oil production in the Middle East and North Africa (MENA) will increase to 50 MMbbl/d by 2030, up from 29 MMbbl/d today. The Persian Gulf countries, excluding Qatar, will produce twice as much, from 21 MMbbl/d in 2004 to 43 MMbbl/d in 2030. In the Reference Scenario, it is assumed that investments in capacity is done timely and the political situation is stable. It remains to be seen therefore whether Saudi Arabia will be able to produce 18 MMbbl/d, up from 10 MMbbl/d (IEA 2005: 154). Similarly, it is an open question whether Iraq will reach its potential of 8 MMbbl/d by 2030. For the EU, stability in Iran and the future relations of Iran with the international community are also important because of its large natural gas reserves (second after Russia). It is unclear whether Iran develops suf-

⁶ Japan is the second largest importer of oil after the US, but consumes less than China (British Petroleum 2005).

ficient gas export facilities due to strong domestic demand increases and the desire to keep gas for Iran to secure energy supplies for the very long term. Kuwait and the UAE will substantially increase production, with far less political insecurity than their larger regional neighbors. Both also strive for more cooperation with international oil companies.

The most important producing countries in North Africa are Algeria and Libya. Both have substantial oil and natural gas reserves, and production is expected to increase in the future. Algeria comes from a long and difficult road of civil war and insurrection. The current government is opening up Algeria more and more for foreign investments. It wants to become a member of the World Trade Organization, for which it is making good progress (EIA 2005). Algeria is cooperating with the EU in numerous treaties, dialogues, and the Neighborhood Policy and has extensive bilateral relations with EU member states in the Mediterranean. Libya has more oil reserves than Algeria and is therefore more promising for future oil production. Since President Qaddafi made rehabilitation into the international community possible, numerous consuming countries and international oil companies have shown interest in Libya. Qaddafi is opening up the energy sector for foreign direct investments, which is part of wider economic reforms. Political and social reforms are being put off.

The resources in the Caspian basin are substantial and important for future diversification policies of the EU. However, the EU member states do not have a clear unified strategy towards the Caspian and is therefore barely a real political actor, despite increasing economic ties in the region (Amineh 2003). Other actors are more active in the struggle for influence in the region. China is developing projects with Kazakhstan for future exports going east, which might also include exports from other countries in the region. Russia has become more influential again, while the US seems to be losing ground. Russia's renewed influence means that also in the future a large part of the oil and natural gas coming from the region goes through Russia. Russia might even need to import Caspian gas to fulfill its contract with the EU (Stern 2005). In that respect, the best option for the EU might exactly be a strong Russian influence in the region as long as the relationship with Russia can be strengthened.

The option for future exports out of the region through Iran hardly seems a possibility at the moment. US support for Western routes to Turkey is limited at the moment now that the US is keen on aiding India in its energy security policies and a pipeline through Afghanistan and Pakistan to India might serve as a "peace pipeline."

Turkey remains important for the EU member states as a transit country. Already oil from North Iraq and Azerbaijan (BTC pipeline) reaches consumer markets from the Turkish port of Ceyhan. Oil from Russia and

other countries in the Caspian region might follow to bypass the Bosphorus. In the future, gas from Iran and the Caspian region might reach the EU through Turkey, but that is largely dependent on the Iranian desire to export gas and the Russian and American influence in the region.

Despite the importance of Turkey as a transit country, accession will not enhance the EU's security of supply. The import dependency of the EU will increase, since Turkey is overall more import-dependent than the current member states. The chance that Turkey will not transit gas and oil in the future is slim, since Turkey and the EU are long-term partners, and considering the amount of natural gas Turkey has already contracted, not exporting it would be quite non-economical (EIA 2005b).

SECURITY OF SUPPLY POLICIES REVISITED

The new market conditions have important consequences for security of supply policies that are at the disposal of EU member states. A core element is a well-functioning, transparent, free and open oil market. If the market functions properly, no additional safety measures would be really necessary. Economic reasoning and logic should prevail, leaving no room for politically motivated maneuvering in the market, although a safety net for disruptions caused by instability should be necessary. However, bounded rationality of any country limits wealth maximizing behavior (Van Der Linde 2005a). Perceptions of reality influenced by cultural notions, history, and national experiences impact the choices made, especially when dealing with such a strategic commodity as oil (Hoogeveen and Perlot 2005).

This partly explains policies by China and India to adopt an equity approach to energy supply security. Their state-owned companies buy concessions to produce oil that, in case of a crisis, goes directly to China and India. Such an approach has been tried before, for example, by Japan in the 1970s and 1980s, but without much success. However "resource nationalism" on both the demand side as on the supply side may again be on the rise (*The Economist* 2005). In the EU, the discussions on cross-border takeovers of energy companies and the reactions of the French and Spanish governments hint in the direction of nationalism. Increased nationalism can be found in Bolivia, Venezuela, Russia, and numerous producer countries in the Middle East. Many producer countries have always favored the nationalized molecule flows, but the arrival of strong and influential consumers that do the same can lead to a paradigm shift in the energy sector with consequences for consumer countries such as the EU member states, which rely for a large extent on the international market to deliver security of supply. For the EU a thorough evaluation of its energy policy might be in order (Van Der Linde 2005).

Maximizing indigenous production of oil has had maximum results in the past, but cannot be prolonged to the longer term. The policy of diversification to supplier also becomes increasingly difficult. In the current market the EU does not have the luxury of picking between producers. Diversification in the fuel mix is still possible by introducing more renewable energy sources, coal and nuclear fired power plants, which each come with their own problems and costs. Oil dependency is difficult to offset since no large-scale alternatives for the use of oil products in the transport sector are available.

The geographical shifts in the market make the IEA less effective to deal with supply disruptions. Of course, oil stocks and the sharing mechanisms within IEA will continue to have their function, but as a block of consuming/importing countries, it is becoming less important, since China and India are not members, making them more vulnerable for supply disruption. Similar to the US fear of 1973, IEA members states are worried that China's and India's foreign policy towards the Middle East proper may be especially informed by their energy interests.

Membership of China and India to the IEA could perhaps coalesce consumer countries' interests, although the differences in vulnerability, dependency levels and political outlook can, on the other hand, also limit the IEA to deal with crisis situations. Although International Energy Program (IEP) goes far in depoliticizing implementation decisions, it is not impossible. Disagreements between countries in activation of IEP would seriously threaten IEA legitimacy. Already with the current member states, the political position towards the Middle East differs greatly and so do dependency levels towards certain suppliers (Willenborg et al. 2004). Discussions within the EU continue to create additional stocks of thirty days that do not fall under IEA commitments, although preliminary proposals by the European Commission have not been agreed upon by the European Council (Willenborg et al. 2004).

"It is better to reduce than to produce" is an often-heard statement regarding the solution to energy demand growth. Active demand management for example, by implementing efficiency standards for transport vehicles might change the structure of the automobile market away from larger and heavier vehicles. Binding EU-wide targets have not been possible so far.

Energy savings and anti-oil policies have a problematic side effect. In the short run it might actually threaten security of supply, since these policies hamper the future security of demand for producing countries. Why should these countries invest in new production and export facilities for a product that seems to be unwanted by their clients (Skinner 2005)? The renewed producer power and the increased concerns about security of supply in consumer countries have already led to strong public statements

about producer countries and the announcements of off-oil policies—for example, by president Bush in the State of the Union 2006—which undermine security of demand for producer countries. This threatens constructive dialogues on how to solve the current situation together and puts pressure on producer-consumer dialogues.

That pressure also comes from environmental measures. The EU has ratified the Kyoto Protocol and is working on a post 2012 strategy, making the story of the EU towards producer countries even tougher to sell (Perlot 2005). The EU member states do not only want to reduce oil consumption because they do not trust the producers in the Middle East, and Russia for that matter, they also have to reduce it, because it is “dirty.” The main competitors of the EU for fossil fuels, the US, China and India, either did not ratify the protocol or do not have any commitments to reduce emissions and can therefore give more security of demand to producer countries.

Pressure on the dialogue between Islamic producer countries and the EU is further increased by the heated public debate about Islam in many member states, including questions about oil money going to Muslim fundamentalists. At the same time, Anti-Western sentiments are running high in many Middle Eastern countries, linked to the invasion of Iraq, the continuing Israel-Palestine conflict and the problematic position of Israel in the region.

Due to the new market circumstances, energy is again viewed as a strategic commodity, which needs to be part foreign and security policies, in addition to economic policy. Bilateral relations between consumer and producer countries have always been very important in oil and natural gas and especially the relationship between the US and Saudi Arabia that has for decades provided security and stability in the oil market (CIEP 2004). The extent of strategic bilateral relations is largely determined by the general foreign policy and economic strategy of an actor. EU member states have a different toolset than China, for example, in the manner that companies can be supported in business transaction or supplying military aid.⁷ The US has a long track record of providing military aid; so did Russia during the time of the Soviet Union. Increasingly, China is active in aiding in security issues in the Caspian Basin (Klare 2004). There is no direct link between the EU’s energy interests and its military and security involvement; this is the prerogative of individual member states.

⁷ The EU policy space in which the companies are private and the role of the government is primarily regulative, the possibilities are to some extent limited in comparison to the approach of China and India, at least in a period of time where resource nationalism is increasing (Hoogeveen and Perlot 2005: 22–26).

A NEW GEOPOLITICAL CONTEXT FOR ENERGY MARKETS

The success of and the choice in security of supply policies depend on developments beyond the immediate scope of the energy sector (Correljé and Van der Linde 2006). The concern for energy security comes at a time that the international system is in its biggest state of flux since World War II (National Intelligence Council 2004). A push for intensified globalization, emerging powers in Asia, transatlantic divisions, a politically volatile Middle East, differences between EU member states, an assertive US foreign policy, marginalization of the UN, and a growing perception of insecurity, including the threat of terrorism, the very magnitude and speed of change and the uncertainties that go with it will all be defining features of the world for many years to come.

The economic landscape will change considerably. In an often quoted outlook for the future, Goldman Sachs(2003) calculated that the six largest economies of the world in 2050 will be China, the US, India, Japan, Russia, and Brazil, while the largest European economies, Germany, the UK, France, and Italy, ranking third to sixth in terms of gross domestic product (GDP) worldwide in 2004, will have fallen respectively to the seventh to tenth positions. Although there are many reasons why the prediction did not become full reality, also slower than predicted growth rates in the upcoming countries make it still likely that they surpass the EU member states.

The changing economic balance will reflect in the international system at large. Since the fall of the Berlin wall, Western countries, principles, and ideologies have dominated global political and economic thinking. Coming from this period is the idea that it would not be long before most countries would integrate into a world system based on the political, economic, legal, and social mores of the victors of the Cold War (Van Der Linde 2005b; Hoogeveen and Perlot 2005). The role of governments would become limited to facilitating and regulating markets and political authority to solve and prevent conflicts. Under the new mores, political strivings and national interests would be limited, marking “The End of History” (Van Der Linde 2005b; Fukuyama 1992).

Reality is shaping up differently, however. Countries such as Russia and China, with strong historical traditions different from the Western ideology, seem to have no real interest in adopting the market system mores to the full. And they are not the only ones. Throughout the developing world, resistance to Western dominance and especially lack of trust in the US is increasing. This has become more apparent after 2001 when the US, for national security reasons, began to define more closely the political, legal, and social requirements for integration in the world system, now including notions of freedom and democracy. The US is now more and more perceived as striving to secure its own national interests, and the rhetoric

of the Bush administration, as well as the invasion of Iraq, seems to come close to forcefully imposing the US rule-set. As such, the US has failed to create a dominant position long enough to create a “geopolitical framework that can absorb the inevitable shocks and trains of social-political change while evolving the geopolitical core of shared responsibility for peaceful global management” (Brzezinski 1997: 215).

In the present geopolitical setting, many countries try to seek and find their development model, inspired by the example of China, instead of relying on the Western recipe for development. Instead of going for full integration, these countries opt for “participating in the international economy, but on the condition that the state’s long-term political, strategic, and economic national interests are served” (Van Der Linde 2005b: 13). The distinct difference is that they make their national interests the main motive for their international activities (Hoogeveen and Perlot 2005). As such, it is possible to say that the world today is divided into two types of international systems, one more oriented towards economic efficiency and markets as the leading principle of governance and the other being a system where the effectiveness of national interests promotion and states prevails (Hoogeveen and Perlot 2005).

The trend at the moment seems to be away from the mores of the US and allies in favor of more a national interest-driven international system. As a matter of fact, protectionist flavored discussions on the energy sector among EU member states, the reaction in France on the take-over of Arcelor by India steel giant Mittal, the US political concerns when Chinese company announced that it wanted to take over Unocal, the British government opposing the take-over of Centrica by Gazprom, and the US senators leading the resistance against Dubai Ports World in gaining control over six port facilities in US cities, all show that the former proponents of integration have difficulties themselves adhering to all the rules of the game, confirming to the other countries that they were right all along. These examples stand in a long row of other developments, such as UN Security Council decision-making over Iraq, the lack of progress in the WTO negotiations, the difficult ratification process of the Kyoto agreements, the difficult progress of EU power and gas market liberalization, the unilateral approach of foreign relations of the US after 2001, Chinese relations with developing countries, rising influence of Venezuela, political changes in Latin America, the developments in the Russian energy sector, the lack of multilateral agreement to deal with the Darfur crisis in Sudan, and the lack of a common stance on the international community concerning the nuclear program of Iran and enhancing the nuclear non-proliferation regime (Correljé and Van Der Linde 2006).

Although not an inevitable consequence, the rise of interest-driven economic and political maneuvering on a global level could eventually lead to more tension and conflict between major powers, more political-strategic rivalry for influence and resources. In such a future, the dash for energy resources becomes a real possibility and the means for competition will change. In terms of security of supply, foreign and security policies gain in importance to secure supply while multilateral institutions and consumer countries cooperation lose meaning. Oil-and gas-endowed countries become the focal point of major powers attention. In such a situation elites in the Middle East maintain strong control over oil revenues. In such a future, consumer countries, directly or indirectly, aid reactionary regimes to stay in power and will most often refrain from criticizing social and political reform issues (Hoogeveen and Perlot 2005).

THE EU AND MAJOR POWER POLITICS

Formal Policy: Amalgam of Partnerships and Dialogues

Judging from the range of its external relations, the EU is no less a major power than other sizeable consumer countries. What's more, the EU has formal agreements with all major energy producer countries, including those in the GME region.

The Euro-Mediterranean Partnership, or Euromed, covers the relationship with Algeria and Libya and has an observer status. The European Neighborhood Policy, which also includes Euromed countries since 2004, has an agreement with Azerbaijan. The EU-Central Asia Partnership & Cooperation Agreements involve also Kazakhstan, Turkmenistan, and Uzbekistan; and the EU-GCC Cooperation Agreement channels the relations with the members of the Gulf Cooperation Council, Saudi Arabia, Bahrain, Kuwait, Oman, Qatar, and the UAE. In addition, the EU-OPEC dialogue links the EU with the OPEC member countries. Since Turkey was acknowledged as a candidate EU country and entered into accession negotiations, the 40 years bilateral relations stand a chance of being reinforced in an even more formal way and significantly change the borders and neighboring countries of the EU.

“Making the EU a factor in the Middle East” is the slogan of the EU's external relations with the Gulf Cooperation countries, Iraq, Iran, and Yemen.⁸ Since “The South and East Mediterranean and the Middle East

⁸ The EU & the Gulf Cooperation Council Countries, Iran, Iraq & Yemen, http://ec.europa.eu/comm/external_relations/index.htm.

is an area of vital strategic importance to the EU,” it is therefore a key priority target.⁹ “To support their political and economic transformation,” the EU remains committed to working with the countries of Central Asia (Amineh and Houweling 2004/2005: 226–7).

The Energy Charter Treaty (ECT), designed to build an energy bridge between East and West, aims to establish a legal framework in order to promote long-term energy cooperation. The Treaty’s most important provisions concern investment protection, trade in energy materials and products, transit and dispute settlement. The ECT has been ratified by Kazakhstan, Turkmenistan, Uzbekistan, and Azerbaijan.¹⁰ Russia, however, has signed but not ratified the treaty and, given the country’s objections to some of the treaty’s provisions, is not likely to do so.

Do these agreements enhance the EU’s energy supply security? Do they enforce the Union’s power and strengthen the EU’s major power status?¹¹ Perhaps so; however, the crucial point to realize when one would evaluate these dialogues and their impact on security of supply is the difference between the EU’s representation in partnerships and dialogues and its mandate in external energy policy.

Recall that the European Commission has never been granted competence in external energy matters, neither can it dispose of a common foreign and security policy within which external energy policy might be developed further. In its 2001 Green Paper, the Commission regrets that in external energy matters “the EU lacks the means to negotiate and exert pressure. The Union suffers from having no competence and no community cohesion in energy matters” (EC, 2001: 28). These statements are sometimes insufficiently understood by countries outside the EU or understood all too well. Despite the many agreements concluded by the EU, the European Commission is not the government of the EU and Brussels is not its capital. In the EU’s “bilateral” relations, in which the 25 member states are represented as one party, this clearly leads to a discrepancy between formal policy in which the EU is presented as an actor that can enforce policy upon its member states and material policy in which it becomes clear that

⁹ The EU’s Mediterranean & Middle East Policy, http://ec.europa.eu/comm/external_relations/index.htm.

¹⁰ See <http://www.encharter.org>.

¹¹ The EU is not the only organization or group of countries to engage in formal dialogues. To name but a few, OPEC has also held a Round Table of Asian Oil and Gas Ministers and is in the process of establishing a formal dialogue with China and Asia Pacific Economic Cooperation (APEC). The Shanghai Cooperation Organization is an important organization linking the Caspian countries to the East. Its members are Russia, China, Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan and official observers (perhaps at the time of publishing, full members), India, Pakistan, Iran, and Mongolia.

the Union's policy goes as far as its members want it to go, which is not always that far.

Material policy?

The US and China have promoted energy supply security as a priority in their foreign and security policy and so have many EU member states. The UK, for example, launched a cross-government international energy strategy aimed at energy security in 2004. The Netherlands has issued a new energy strategy in response to a governmental council's advice on energy and foreign policy. Other member states have taken similar initiatives. National interest promotion is an understandable response to the pressure of geopolitical changes and the sense of uncertainty and insecurity regarding energy supply. However, the interconnectedness of the EU member states in a more and more unified energy market means that one country's national approach can have consequences for neighboring or other countries. Theoretically, then, a common EU energy policy should offer more advantages than a national one.

The process of European integration has been and still is an ongoing Herculean task to merge twenty-five sets of policies, economic, foreign, security and other categories into one. The accession of ten new member states in 2004 has made the decision-making process even more difficult and slower. There are obvious historical and cultural differences between the member states and differences in preferences, including in the energy sector. Where UK and Netherlands have an open and liberalized electricity market, France and Germany dawdle to implement relevant EU directives to create "national champions" which in the single EU market will become the European champions. Further illustration can be found in the earlier mentioned reflexes of the Spanish and French governments on the possible take-overs of Endesa and Gaz de France, which goes to show that even among member states, when strategic interests are considered to be at stake, bounded rationality and perceived threats dominate the discussion. National interests, especially interests regarding a strategic commodity, do not add up to European interests. Reaching the objective of a common energy policy through the general process of harmonization of 25 policies, then, offers little hope.

Differences in energy security risks between the member states were reaffirmed by the Russian-Ukraine gas crisis. The "old" member states have been diversifying away from the Persian Gulf for years in favor of Russia, while the former communist countries that became members in 2004, such as Poland and the Baltic states, want to become less dependent on Russia and consider the rising assertiveness of Russia in the international arena as a considerable threat. The need to distance oneself from Russia and find

a safe harbor within the EU was for a number of countries, for example, the Baltic States, the reason to apply for membership. It also explains the Transatlantic orientation of some of them, while “old” Europe is hesitant and unsure about its relation with the US. It is therefore not surprising that Poland calls for an energy NATO, while the Netherlands dismisses such an idea and calls for more dialogue. In this view, we can only speculate what the accession of Turkey might mean for EU decision-making on energy and the Middle East. Turkey brings a new set of interests, risks, and preferences to the table, while the EU already has a hard time defining a common position and does not speak with one voice on Middle Eastern politics.

The many aforementioned regional cooperations do not have a clear strategic agenda attached to them. These initiatives are based on the EU’s strong points of economic leverage, trade balance, promotion of technological innovation and soft diplomacy, and their most important goal is to promote stability and peace. This may also explain why the EU insists in regional policies, as is the case with Central Asia, instead of focusing on bilateral treaties, which would in fact be the preference of most countries in the region. Still, the non-confrontational approach based on carrots rather than sticks can raise goodwill and thus offer advantages, especially in comparison with the US. But the EU is not, or at least less than other major powers, used to selling its strong points. When it did use its soft power, such effort went largely unnoticed, undermining public confidence in the EU as a potential superpower.

For most non-Europeans, the EU’s influence comes from its affluence, its continuous peace and prosperity. The EU is a global player in areas such as trade, finance, agriculture, and humanitarian aid (Van Ham 2005); as an economic bloc and as an energy-consuming region, the EU cannot be neglected at the moment. This position needs to be sustained, however, by implementing the Lisbon strategy to become the most innovative and competitive economic bloc, according to chairman of the European Commission, Jose Manuel Barroso (2005). Progress so far gives reason to believe that the strategy will not succeed.

The EU as a project is fully embedded in the multilateral post-1945 world system. The changing geopolitical landscape will force the EU to extend the economic process at least to a project in which the strategic use of state and economic power becomes an option (Hoogeveen and Perlot 2005; Van Der Linde 2005b). Next to sustaining its economic leverage, it has the range of capacities in political or military leverage. However, foreign and security policy are typically policy areas in which goals and strategic interests of member states highly differ and are therefore not often commonly pursued. EU member states pursue their own strategic interests and sometimes prefer certain bilateral relations over common multilateral

ones. In some international organizations, a few member states hold specific decision-making powers that they do not want to concede to the EU, partly because they would lose influence—for instance, trading in three UN Security Council votes for one—and partly because they want to play an autonomous role in international politics.

The transfer of competences from the member states to the EU in the areas of foreign, security, and energy policy seems very unlikely in the short term, if only because the populations of many member states are wary of more supranational control: anti-“Brussels” sentiments. Many political leaders are careful not to proceed too quickly with the political unification of the EU. Perhaps such a process is overall incompatible with the EU (Correljé and Van Der Linde 2006). It can be a super-power, but never a super-state, as are other actors with a central government that determines both internal and external policy (see also De Wijk 2005).

CONCLUSION

Historically, EU energy supply security policies have been event-driven. Towards the GME region these were mostly policies formulated at the time of or as a result of a crisis. The EU as an actor never positioned itself strategically to secure common long-term energy interests, and the few occasions that prompted a possible common approach, such as the Arab-Euro dialogue in 1973, the will of and alliance with the US proved to be stronger. Many individual countries have tried to make their mark in the region but since the 1970s, with the possible exception of France and Algeria, without much prevail.

As a result of successful diversification policies, the position of the EU as a customer of GME, especially the Gulf, energy products have decreased. Long-term outlooks, however, predict that the EU's dependency on this region's oil and natural gas resources is bound to increase, which also holds true for every other large consumer country. While it has one of the weakest growth rates in oil demand, the EU has to make a comeback into a buyers' market. Add to this the fear for dependency and the related policy jargon that hampers communication and the commitment to sustainability goals and it is easy to see how the EU is not an interesting energy-trading partner for the future.

Formally, the actor EU knows which policy responds to this situation. Formally, by promoting the full implementation of the Lisbon strategy, the actor EU wants to reposition itself as the most innovative and most competitive economic power and thus as the most attractive trading partner. Formally, by engaging in dialogues, the actor EU emphasises the meaning of mutual interdependence between consumer and producer countries. Formally, the EU presents itself as a thinking and acting power.

In the meantime, politicians and policy-makers in the EU member states assess the consequences of the geopolitical changes and the ensuing consequences for their national interests, which are not similar to European interests. In the current and future international energy market with its increased role of GME resources and competition between consumer countries, which seems to be evolving around a new and, for the EU, 'alien' rule-set, the natural reaction of EU member states is to refocus on national interests and it is likely that member states will put more emphasis on their promotion. This approach obviously nullifies the common supranational approach envisaged by the European Commission.

In addition, if the member states are able to overcome their differences of opinion, today the EU's energy and foreign policies, by agency of the same member states, would still lack the balanced competences necessary to make a difference. The most developed competences lie in the field of the internal market and competition, while competences in the field of security of supply and foreign policy are weak. This has consequences for the EU's actions vis-à-vis other actors. The lack of unison coming from the EU, combined with the lack of proper instruments, does not go unnoticed outside of the EU. Despite appraisal for what the EU succeeds in doing and the power of the EU as a brand of prosperity and peace, the EU fails to exploit these strengths towards the GME region to gain strategic advantages, as a major power should.

If the EU wants to fulfill a meaningful task in the GME region and with the same secure energy interests, politicians and policy-makers of the EU member states and in the European institutions have the difficult task of ignoring the nationalistic reflex. The EU member states should then create more political room to maneuver for the actor EU. They should maintain their defense for the market-based system while designing policies to become partners with areas and countries that do not adhere to the same rule-set. They should strengthen relations with Russia and remain an ally to the US. They should exploit the benefit of not being and not being seen as a superpower, while maturing their external foreign policy instruments. Such a balancing act might be difficult, but would be the only way to create a robust position for the EU as an actor.

The combination of international economic geopolitical changes and increasing energy import dependency might be enough incentive for the EU to reach a common energy policy, and in its wake a more unified stance in the GME region. However, the "threat" of the international changes and resistance, within member states, to economic reforms and ceding more decision-making competences to "Brussels," might mean that governments or populations of EU member states will block any meaningful progress. Despite economic integration and greater dependence on one another, the

EU then is not ready to act as a unitary actor, while it might face a world in which such a role is more and more asked for, including in its relations with the countries of the GME. Can the EU become a major power in the future? History and current trends suggest that for the time being, the answer is “No.”