

Energy Policy between Multilateral Governance and Geopolitics: Whither Europe?

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Introduction

The beginning of 2006 witnessed intensified and increasingly hasty activities on the part of the European Union and its member states to secure external energy supplies for the EU energy market: The Austrian EU presidency put energy security on its agenda, the EU Commission issued a new Green Paper on »A European Strategy for Sustainable, Competitive and Secure Energy« (COM (2006) 317), and an energy summit was organized on March 23, 2006. All this happened in the aftermath of the Russian-Ukrainian gas dispute of January 1 to 4, 2006. Why has this bilateral dispute had such an effect on EU policies and will it result – as intended – in a new multilateral governance structure as promoted by the EU Commission?

This contribution will focus first on the new proposals and review them in terms of their »novelty.« This will be done, second, by reviewing the development of European energy markets and the governance structure that has emerged in the last decade. We shall argue that the EU has undertaken initiatives to multilaterally govern and cooperatively regulate energy trade over the last 15 years and in doing so has responded to new developments in the international energy system. However, as we shall describe, these attempts at »multilateral governance« have faced serious limitations in terms of efficiency. The reason is that energy trade has been widely dominated by geopolitics as analyzed in neo-realist terms by Klare (2001 and 2004), Yetiv (2004), Umbach (2003), Kalicki and Goldwyn (2005) among others. This contribution takes another approach and asks why this policy field – closely related to such policy fields as trade, environment, and climate, where multilateral global governance efforts are concentrated – is scarcely governed cooperatively, despite the growing necessity for multilateral governance. As the German Minister of Foreign Affairs wrote recently: »Energy security will strongly influence the global security agenda in the 21st century [and] we need a cooperative energy

security strategy« (International Herald Tribune, March 23, 2006). The article was entitled »Avoiding Conflict over Fuel« and this points to the risks related to geopolitical zero-sum games in international energy relations.

The present article will show that energy governance is exercised in a tension between power-based geopolitics and multilateral cooperative governance. It aims to analyze the reasons behind this tension, which include the particularities of energy which make it a precarious issue for global governance and even seem to call into question the suitability of multilateral regimes.

The European Commission's Green Paper on a European Energy Strategy

The Russian-Ukrainian gas dispute that took place at the beginning of 2006 shocked the EU because it was hit by shortages in its external gas supply, almost 80 percent of which comes through Ukrainian gas pipelines.

The background to the bilateral dispute was a struggle over prices and tariffs: during the summer the Ukrainian side demanded that Gazprom pay higher tariffs for the export of Russian gas through Ukrainian pipelines to Europe. Gazprom, with the support of the Russian government, in turn demanded 4.5 times higher prices for Russian gas deliveries to Ukraine. Ukraine still enjoyed favorable prices as a post-Soviet state and Russia argued that this was no longer reasonable because of the market status applied to Ukraine by the EU. The dispute as such was nothing new and just the latest in a chain of similar struggles between Ukraine and Russia about prices, tariffs, and infrastructure. However, it also served as a wake-up call for the EU which was hit by the gas shortages that Russia initialized on January 1 to pressure Ukraine into accepting the new price system. For the EU and its member states the shock was profound. Russia's course on gas delivery was predominantly interpreted by the European press as a foreign policy tool against the pro-Western Ukrainian government that came to power after the Orange Revolution in 2003/2004. Until then, particularly in Germany, the predominant discourse had considered Russia mostly as a reliable supplier throughout the geopolitical shake-ups of East-West conflict since the first gas deliveries from the Soviet Union in the 1970s.

As indicated above, the EU and its member states started a number of new initiatives in energy policy, the most concrete outcome being the Green Paper »A European Strategy for Sustainable, Competitive and Secure Energy« of March 8, 2006 (COM 2006 105 final). What is of paramount importance is that the EU Commission proposes a European strategy that builds upon a new multilateral governance structure, or to be more precise: a net of governance structures with an internal EU dimension and an external pan-European dimension but which is also intended to have a global impact. This strategy is directed at balancing sustainable development, competitiveness, and security of energy supply and shall be realized through the EU pattern of multilateral governance at the member-state, internal-market, pan-European, and global levels. The effectiveness of such an energy strategy will therefore be closely linked to implementation on all levels.

Before turning to the prospects for such EU centered multilateral governance, it will be shown in more detail that the EU responded with this strategy to a need for multilateral governance in the international energy trade.

Energy Security and the Changing Rules of Governance

Before pursuing the argument that there is a growing need for multilateral governance, it is enlightening to focus on the history of government structures in the international energy trade. It must be emphasized that energy exploration and exploitation has been a story of permanent conflict – including between consumers and producers: by the former to achieve favorable and (preferably unlimited) access to resources, and by the latter to control access to resources exclusively and completely.

The rules of the energy trade have changed over time. In the second half of the twentieth century oil exporting countries claimed their sovereign rights after international oil companies had lost their strategic and central position due to the processes of decolonialization, nation-building, and nationalization of oil industries, starting in Latin America and the Arab World. OPEC claimed »permanent sovereignty,« referring to the UN General Assembly Resolution on »Permanent Sovereignty over Natural Resources« (Mommer 2000, p. 15). Accordingly, companies exploring and exploiting natural resources such as oil and gas are subject to sovereign national law, taxation, and jurisdiction. The legal and

economic status of the sovereign state has since then strongly influenced the setting of the rules of the game.

Mommer (2000, 2002) has developed a picture of three phases in which the interplay of companies, and consuming and producing countries has changed over time. Beginning with a period of dominance by the international oil companies, the relationship has since shifted to a phase characterized by a more active role for energy-producing countries (for example, reflected in the foundation of OPEC) and a reactive policy established by the consuming countries to secure their energy supply (for example, as reflected in the foundation of the International Energy Agency). This second phase took shape with the oil crises in the 1970s.

What could be observed in the 1990s was a third phase in which governance structures developed by consuming countries (and among those also the European countries) made significant inroads into oil and natural gas producing countries. This third phase, which will be analyzed in more detail below, is characterized by a number of changes in the international political economy of oil and gas. It was pushed mainly by the dissolution of the Soviet Union, which made former closed energy markets in the Central Asian and Caspian region more accessible.

To sum up, governance structures have been steadily in flux, driven by a struggle over the capturing of rents and over prices. As Mommer (2000, p. 1) states, »the game strategically is about prices, and only tactically about the capturing of rents.«

Oil and Gas Supply Security and the Need for Global Governance

The 1990s brought about significant changes in the wider landscape of international energy relations and related policy fields, caused mainly by the end of the bipolar world system. First and foremost, it was possible to address collectively pressing global problems in the environmental and climatic sphere, but also in multilateral trade. A broader need for global energy governance derives from the fact that energy concerns several policy fields. It is thus a cross-cutting issue interrelated with other policy fields such as trade, environment, climate, and social policies, but also has a »hard« security policy dimension that is closely linked to the international political economy of oil and gas.

Oil and gas still form the major part of our primary energy consumption with a share of over 65 percent in the industrialized countries (BP, 2005, p. 30). The price jumps since 2002/2003 have not only been caused by disruptions in Iraq, the political struggle over YUKOS in Russia, strikes in Venezuela, or political unrest in Nigeria. They also reflect structural changes in the energy markets that must be a cause of concern.

World oil demand is rising by almost three percent annually and demand in China and India in particular has risen dramatically. But the last few years have not only witnessed an increase in demand but also a crisis in supply because of the small amount of spare capacity that is left to meet the growing demands and to balance disruptions on the oil market (IHT, 12/08/2004). This is due to the fact that in the 1990s, when oil prices were low, little was invested in new production sites and energy infrastructure. To meet the increasing demand of about 50 percent by 2030, an estimated investment of 105 billion US dollars per year will be needed, according to the International Energy Agency (IHT, 27/10/2004). The chief economist of the IEA states that »the availability of oil in terms of reserves and geology isn't an issue but the problem is whether oil can find the money« (Fatih Birol, IHT, 27/10/2004). This implies two necessities: a governance structure that favors investment and an exchange of information to forecast demand and supply on a global scale.

Two other developments also pose special challenges to energy governance: peak oil production and the shifting geography of supply. First, the peak of oil production will sooner or later be reached (Global Challenges Network, 2002). Even if one takes into account the development of new technologies – for example, extracting oil from tar sands in Canada – it still has to be assumed that the era of cheap oil is over. Yet hydrocarbons make up the majority of our energy mix. This poses a major challenge for equitable and just energy security. Rising prices might fuel consumer competition at the expense of less liquid consumers such as developing countries. These trends will be accompanied by a trend of growing concentration of oil and gas reserves in the strategic ellipsis of Siberia, the Caspian Sea Basin with Central Asia, and the Persian Gulf, whereas the reserves of the OECD (and in particular of the European) countries are depleting: 65 percent of global oil reserves are located in the unstable countries of the Middle East with an R/P ratio of 92 years.¹ However, in

1. R/P ratio stands for the duration of reserves of a country/region if the level of production remains the same. Data: BP, 2005, p. 4.

order to meet the growing demand, the countries would have to increase their production to 250 percent of the current level, a development that would also shorten the duration of the reserves (Müller 2003, p. 5).

Some of these aspects of scarcity are expected to come up for gas as well. Gas demand has been increasing extraordinarily because natural gas is a comparatively »clean« (that is, causing low greenhouse-gas emissions) source of energy. However, gas infrastructure is very costly. With gas becoming a traded and widely available fuel, cross-border energy transport is becoming a major issue for consumer (and producer) security, as the Russian-Ukrainian gas dispute has revealed. Moreover, linking large reservoirs with huge and expanding markets is a major challenge because it requires large greenfield investments. Any decision on a pipeline route, once made, might pre-empt the development of an alternative for a long time to come (Mitchell et al., 2001, p. 90). Therefore the international gas trade involves geopolitical and strategic approaches. In contrast to an (at least virtually) global oil market, the gas market is to a large extent structured regionally because gas either has to be transported through a pipeline infrastructure or transformed into liquefied natural gas which is cost-intensive and requires special infrastructure as well.

Furthermore, the strategic ellipsis is important for gas production since 30.5 percent of global gas reserves are located in Russia, 4.2 percent in the Caspian Region and Central Asia, and 36 percent in the Middle East (BP, 2005, p. 20). The concentration of energy resources in the strategic ellipsis poses special challenges to the governance of the international energy trade because WTO rules are only to a very limited extent applied to the energy trade. With the exception of Russia, the situation in the energy producing countries of the ellipsis is unstable and eroding constantly.

The growing demand, tight supply, and shifting geography of supply, as well as the transport issues, increasingly necessitate forms of international governance on which all parties can rely in order to strive for more equitable energy security. The scarcity of hydrocarbons calls for a new and concentrated push to ensure safe energy, to increase its efficient use, and to raise the share of renewables in the energy mix worldwide. In order to avoid or at least reduce the risks related to energy scarcity, a cooperative multilateral approach that defines energy security as a goal that can only be achieved in encompassing state cooperation is essential. Especially rising demand can lead to competition between consumers and could imply changes in the market power structure in favor of the producing

countries. This might lead to a dependency of individual consumer countries and to an imbalance that can hardly be compensated by the governance structure of the IEA organization whose role is to mitigate the interdependence of the international energy system. The intensifying competition among fossil fuel consumers raises not only energy insecurity but also fuels global instability because of possible conflicts due to finite availability, shifting geographies of supply, and the diverging power of consuming countries. Taking the problems and challenges related to energy production, trade, and consumption together, this requires a set of multilateral governance approaches in the areas of hydrocarbons trade, investments, and transfer of new innovative technologies and know-how concerning alternative renewable energy sources.

Towards a New European Strategy for Sustainable, Competitive, and Secure Energy?

The Green Paper of 2006 mentions *sustainability* as an objective of an EU energy strategy. In fact, this is the dimension in which the EU energy policies have their particular strength. Since the Treaty of Amsterdam, the EU has established environmental objectives as a common goal and indeed environmental protection and the fight against climate change are policy fields in which the EU member states have reached a stable consensus. Therefore, the decisions that are taken on EU environmental policy and that affect energy policies have been the most far-reaching: In order to limit global warming to two degrees centigrade above pre-industrial levels, the EU has undertaken several steps at member-state and Union level to limit and reduce carbon dioxide emissions under the umbrella of the EU emissions trading scheme. The EU is at the forefront of climate protection and promotes the Kyoto Protocol and related mechanisms on a global scale. Moreover, the EU has become a promoter worldwide, linking environmental and climate issues with energy consumption and the use of new technologies. Energy saving and increased or maximum energy efficiency, as well as greater utilization of renewable energies worldwide will have positive effects on the reduction of greenhouse gas emissions, as well as energy security by reducing the use of hydrocarbons. The Green Paper of 2006 takes up these topics by addressing sustainable development, as well as innovation and technology which clearly have an internal EU dimension but also an external global dimension. In 2005

energy efficiency was already the subject of the EU Green Paper on energy efficiency (COM (2005) 265 final) that formulates the objective of increasing energy efficiency by 20 percent.

Whereas the 1990s experienced relatively low energy prices, the last years have seen almost a doubling of oil prices. The price issue has also moved social concerns into the focus of energy policy and the EU Commission has responded by defining the principles of solidarity and competition in the EU as the core of the Green Paper of 2006. The principle of competition is not new, but it is increasingly being promoted as a measure to keep prices low. Competition was initialized with the creation of the single market. The EU reinforced a trend that started in the 1980s and was driven by neoliberalism: liberalization, deregulation, and privatization in the energy sectors in the regional North American and European markets. Liberalization since then has been a source of dispute between the member states and the Commission because the scope and speed of the implementation of directives depended on the member states. It has to be taken into consideration that liberalization was initiated with two directives on electricity (1997) and gas (1998) in a phase when energy prices still were very low and not related to concerns of endangered security. To secure their EU market position, energy companies not only had to consolidate their bases by mergers, for example, but also by opening up new production sites and trade relations. On the one hand the second half of the 1990s saw European energy companies becoming very active in the Eastern European, North African, and Latin American energy markets. On the other hand, the energy companies lobbied their national governments to maintain their protected position in their respective national market as long as possible in order to build up a strong position. In particular, Electricité de France and Gaz de France have pursued this course, but also in Germany, for instance, four electricity companies dominate the market. Many national governments have been reluctant to fully implement competition in recent years and in particular have been slow in setting up national regulators in order to control third party access to electricity grids and pipeline nets. This transport issue has long been perceived as a natural monopoly that requires state intervention. With the paradigm of market liberalization state responsibility has changed in the sense that the state has to effectively regulate and control third party access to the transmission grids and the related service fees. The state has to exercise a regulating influence in order to assure competition in energy markets. The development of *fully* competitive internal

energy markets in the EU is therefore one of the major objectives formulated in the Green Paper of 2006 (COM (2006) 105 final) and it is defined not only in terms of lower prices but also as a contribution to more energy security because well functioning (cross-border) energy transport not only increases cross-border energy trade but also allows application of the principle of solidarity among the member states (that is, alternative supply from other member states in the case of supply shortages).

A large number of member states have been reluctant to fully implement EU directives. In the face of two envisaged takeovers (the Spanish Endesa by the German E.ON and the French Suez by the Italian Enel) national governments have tried to set up barriers. These cases show that the energy sector is still perceived in the EU as a vital and strategic sector for the national economy and equally for national security. The idea to create large national energy companies (»national champions«, big enough to compete in the global market place) has gained strong influence, but of course contradicts the idea of competition and solidarity. Therefore, it is not surprising that the member states rejected the Commission's plans to build up EU regulatory agencies at the energy summit in Brussels on March 23–24, 2006.

The reluctance of the member states to fully implement an integrative internal energy market already puts a big question mark against the Green Paper and the formulated European strategy for energy security. Moreover, it is another clear sign of the reluctance of EU member states to pool competence in energy policy at the Union level. In more concrete terms, so far EU energy policy decisions have been made only within the framework of environment, technology, competition, and internal market policies. Despite the fact that the European Community for Coal and Steel and Euratom stood at the very beginning of European integration, and despite internal energy market developments (albeit with some backsliding), the member states since then have been reluctant to include a chapter on energy in their treaties (Westphal, 2004). The only treaty that – for the first time – includes a chapter on energy is the Treaty Establishing a European Constitution, and this has stalled after the negative referenda in France and the Netherlands.

In sum, the proposed European strategy for sustainable, competitive, and secure energy has very limited prospects of being put through because of its already patchy record at the member-state and EU levels. Thus, its internal dimension already reveals certain weaknesses. But the external dimension is particularly important for the security of energy supply as

import dependency has reached almost 50 percent already and is expected to increase to over 70 percent by 2030.

Prospects for a Pan-European Energy Community

The Green Paper on the European strategy for energy (COM (2006) 105 final) also pays attention to the external dimension of the objectives of sustainability, competition, and security. In particular, the two latter demand new efforts. As a result of (gradual) liberalization, the energy markets in the EU, the principles of reciprocity, and equal access are becoming a more pressing issue not only internally but also externally, beyond EU borders. Moreover, the fact that the international energy system is characterized by antagonisms between the different markets, with different features ranging from liberalized to regulated/monopolized markets, and from market prices to regulated subsidized prices, is a major challenge for the management and regulation of the energy trade and investments between market segments.

The idea of a pan-European energy community (COM (2006) 105 final, p. 16) promoted by the EU Commission in 2006 is not new, however. When the European Union started to create a single market the need to define a new governance structure became an issue too. The 1991 European Energy Charter, a non-legally binding political commitment for East-West energy cooperation, was proposed by then Dutch Prime Minister Lubbers at the June 1990 European Council in Dublin. After three years of negotiations, in December 1994, the Energy Charter Treaty (ECT) was finished, which is binding and effective under public international law. The ECT entered into force on April 16, 1998. It is the first economic agreement *and* international regime that tries to unite all the Republics of the Former Soviet Union, the formerly centrally planned Central and Eastern European states, the European Communities, and their member states, as well as Japan, Australia, Norway, Turkey, and Switzerland. Important observers are China and Saudi Arabia.

The ECT aims to manage interdependence and to increase multilateral cooperation in the energy sector under GATT and WTO principles, designed to create an open, diversified international energy market. It is a multilateral agreement on investment and trade, which also provides binding dispute settlement. Among the centerpieces are the transit provisions which apply transit rules to energy networks.

The main objectives, besides building up an energy community, are setting standards for the energy market economy and providing a basis for contractual and trade relations, creating a basis for a »rule of law« which would also allow smaller companies that are not able to negotiate individual agreements with governments to commence activities. It is important to mention that the ECT does not impose privatization or Third Party Access. It also reaffirms national sovereignty over energy resources, namely the rights of national governments to determine the territory to be exploited, depletion and reserve policies, and taxation, and to participate in exploration and production.

Several features have been under discussion and explain why some of the countries are reluctant to ratify the Treaty. The ECT foresees national treatment for foreign investment, a dispute settlement procedure which gives foreign but not domestic investors access to international arbitration against the government, and rights to demand government support for facilities to establish competing transport systems (Mitchell, 2001, p. 118). However, two main partners of the EU have abstained from ratifying the treaty: The US has not ratified it, arguing that the Treaty falls short of the protection of investors' rights in some of its bilateral investment treaties. Russia has refused ratification mainly because of the transit protocol (see following paragraph). The reason is that Russia would have faced a significant loss in its strategic position as a supplier and a major transit country to Europe – a position which it has increasingly used in recent months to gain weight in international relations in a broader sense. The US and Russia (among others) have abstained because the ECT, like any regime, consists of agreed principles, norms, rules, decision-making procedures, and programs that govern the interactions of actors in specific issue areas and alter the overall distribution of power among the key actors by establishing new social practices which operate differently. Herein lies the reason why the ECT has not been working as expected.

For Russia, the main obstacle to full application of the ECT is the Protocol on Transit which is a centerpiece of the treaty and simply not in Russia's interest. The Russian policy is in line with the strategy of Gazprom, the Russian natural gas monopolist and operator of the Russian gas pipeline network. The treaty would oblige Russia to implement the principles of freedom of transit without distinction concerning the origin, destination, or ownership of the energy and of non-discriminatory pricing. But Russia has a very favorable position in the area of energy transit, despite

its dependence as a net purchaser upon energy transit in the neighboring countries, such as Belarus, Ukraine, Poland, and the Czech Republic. Moreover, Russia has anticipated the struggle for market share in the European gas market with Central Asian states, which are all members of the ECT but which are dependant on Gazprom's pipeline network if they want to export their gas to European markets. To keep this status quo, in 2002 Putin suggested the creation of a Eurasian gas alliance among the post-Soviet gas producers. This »Gas OPEC« was de facto realized thanks to Russia's good bargaining position by the conclusion of bilateral treaties between Russia and Kazakhstan, as well as Russia and Turkmenistan. Cheap gas from Turkmenistan was also used to end the Russian-Ukrainian gas dispute over prices in January 2006 for the moment.

In doing so, Russia has managed to maintain its quasi-monopoly as the major energy supplier (and transit country) to the EU in the East. Until the Russian-Ukrainian gas dispute, this extraordinary and strategic position had not been an issue of articulated deeper official concern in the EU, despite the fact that members of the scientific community have been warning about becoming too reliant on Russian gas (Müller 2003; Umbach 2003; Westphal 2004). At the same time, the pressure on Russia to ratify the ECT has been very low, also because of diverse agendas in the EU member states. As a consequence, the first attempt to create a pan European energy community in the early 1990s was rather weak because of Russian non-ratification. As the EU and its member states were core signatories of the treaty, this throws up the question of the consequences for the EU.

Towards a Common External Energy Policy?

In 2000, a decisive year for EU energy trade, the Prodi Plan announced that gas imports from Russia should be doubled to 240 billion cubic meters by 2020. In the same year, the European Commission's Green Paper »Towards a European Strategy for the Security of Energy Supply« (COM (2000) 769 final) tried to start a debate on the security of energy supply in Europe. The 2000 Green Paper had identified four interrelated risks to be commonly addressed: (1) Physical risks deriving from disruptions, (2) economic risks related to price increases, linked to (3) social risks, and (4) environmental risks (COM (2000) 769 final, p.65/66). Yet this Green Paper mainly focused on the internal dimension and the

demand side to reduce the risks of energy supply dependency and explicitly makes energy saving a key to its intervention to reduce the risk of energy dependence. However, the member states still either rejected the Green Paper as an attempt to pool sovereignty on the Community level or neglected the content of the paper altogether. The story of the 2000 Green Paper is very telling in regard to the current 2006 version as it has had only a limited effect on the internal dimension and this in regard to environmental issues, energy efficiency, and climate policies.

In regard to the external dimension, the Commission initialized the EU-Russia energy dialogue. To a certain extent, this dialogue became »necessary« since the ECT was not working as expected. Its success was limited, not only because of the fact that it had brought more tactical results concerning day-to-day issues than answers to strategic questions concerning the building of an energy space. On central issues such as market harmonization and market transparency the strategies of the EU and Russia have diverged, but the meager results of the dialogue can also be attributed to the fact that especially the large member states have regarded it mainly as the Commission's approach and have preferred to pursue their own bilateral strategies thereby responding to the Russian preference for bilateral exclusive deals. The North European Gas Pipeline through the Baltic Sea illustrates this because it exemplifies an increasing trend for national approaches on the part of EU member states in order to secure their energy supply. The maintenance of or (as in the German case) the movement towards national policies have weakened attempts to deepen integration in such a vital policy field. This is becoming even more evident at a time when a more concerted approach would be required, as the Russian-Ukrainian crisis has shown.

There have been no serious attempts at pooling EU and national efforts to encourage Russia's ratification of the ECT and to strategically coordinate energy policies, in particular in regard to infrastructures, as proposed by the Commission. Instead, the member states have pursued bilateral energy strategies that have even promoted a rift between the old and new member states, as in the case of the North European Gas Pipeline which was mainly backed by the German Schröder government. Without doubt, such an infrastructure project can guarantee future deliveries to Germany and the Western EU member states, mainly because of the need to amortize the necessary large investments. However, this project is undermining a major principle of enhanced energy security: diversification of energy supply.

Moreover, this project widened the gap between old and new member states in the energy sector. It raised concerns in the new member states in regard to an anticipated significant reduction of their energy security. The Eastern European transit states have to face a de facto loss in their leverage as a transit country, a status that was regarded as the main bargaining chip in the negotiations about prices and as insurance against vulnerability in relation to Russia. Consequently, Eastern European countries such as, first and foremost, Poland, the Baltic States, but also Ukraine and Belarus face a weakening of their position.

The prevailing bilateralism in the external dimension and the increased nationalism in the internal EU dimension made it easy for Russia to sideline the ECT in the negotiations with the EU: For instance, in 2004 a package deal between the EU and Russia covered an extension of the Partnership and Cooperation Agreement to the new member states and negotiations on a protocol for the accession of Russia to the WTO. The ratification of the Kyoto Protocol by the Russian Federation was a success with regard to global governance on tackling climate change but the major issues in the energy field, such as the monopoly of Gazprom, equal access to Russian markets, and the future of the ECT, were never seriously part of the agenda.

It was only in the aftermath of the Russian-Ukrainian gas crisis that the ECT process and the negotiations on the transit protocol were put on the agenda again (COM (2006) 105 final, p. 15). Of course, this is an important step but it has to be considered that the ECT process has been under way since 1991 and the EU has undertaken several steps to encourage Russia's approval of the ECT, for instance in the EU-Russia energy dialogue – currently the EU is trying to promote the issue in the context of the G8.

The 2006 Green Paper on energy security not only urges an intensified dialogue with major energy producers but also with other energy consuming countries and advocates striving for cooperation and consultation in multilateral forums, such as the UN, the G8, and the IEA (COM (2006) 105 final, pp. 16/17). When taking not only the history of the ECT and its promotion by the EU member states but also the EU member states' policies within and towards the IEA into account, a common EU energy policy still seems to be some way off as the EU member states could not agree on common control over crisis stocks in the past. The »re-surgence of economic nationalism with energy seen as a strategic sector« (Barysch 2006) calls into question the creation of a single fully liberalized energy market and this weakens not only the market position of the EU,

with its 450 million consumers, significantly but also common external energy policies. It can be doubted that the Ukrainian-Russian gas dispute will serve as a »radical EU energy shake up« (International Herald Tribune, January 5, 2006, p. 3) and as a catalyst for a common EU energy policy. Jonathan Stern makes the point in stating that it will require years to reach an agreement in the EU and that »by then everyone will have forgotten this three-day event« (ibid.). Amidst a heated debate on energy security and a growing demand for cooperative governance at the EU level and beyond, there still seems to be a strong national reflex to keep energy security a prerogative of the nation state.

Energy Security: Multilateral Governance Prevailing over Geopolitics?

The EU Commission has undertaken new steps towards multilateral governance in the energy trade, and the member states too have at least agreed upon a more concerted approach to managing external supply. What then are the prospects for multilateral governance directed at energy security, keeping in mind the difficulties of transferring sovereignty in a policy field that is so sensitive even in the EU? This question is reasonable if one assumes that it lies in the very nature of the EU as an integration system between inter-governmentalism and supranationalism to build upon multilateral procedures, thereby exporting decision-making procedures and rules beyond its borders.

What has become apparent (again) over recent years is the fact that energy governance takes place in a field of tension between governance based on market and institutions (and the rule of law) on the one hand, and state-centered, power-based geopolitics on the other. The latter represent spaces dedicated to accumulating influence. They are structured by hegemony and thus capable of resulting in regional blocs and »empires« (Clingendael, 2004). The multilateral governance approach aims to manage *interdependence* on the basis of anonymously and equally applied rules and an access to resources and investment moderated by market mechanisms, along with strong involvement of private companies. The geopolitical pattern seeks to secure exclusive access to resources, mainly by political and military means.

This spectrum of policy approaches conducted between the two poles of multilateral governance and geopolitics can be explained by the spe-

cific characteristics of the energy issue: energy is an ambivalent »good« in being both a strategic good and a commercial good, as well as a service. The »properties of issues ... (pre)determine the ways in which they are dealt with« (Rittberger/Zürn, 1991). In what follows, it will be argued that the very nature of energy as a strategic good, once instrumentalized for foreign policy goals, impedes multilateral governance as it calls into question in particular the suitability of the energy issue for multilateral regimes. Moreover, the geography of the distribution of reserves and the need to transport oil and gas over long distances bring geographical considerations into politics, often resulting in traditional geopolitics.

Energy policy is regarded as a vital and strategic policy area, as exemplified even in the EU. The high priority put on the issue can be explained by the fact that energy is a major input into national economies, even a factor of production. Energy is a policy field of great strategic importance: whether energy will be steadily available at reasonable prices greatly influences a state's economic competitiveness, domestic capacity, and power. Energy availability also strongly affects the wealth and security in and of a state since a disruption in energy supply constricts the defense capability of states. Changes in energy prices have drastic effects on wealth allocation and distribution nationwide and internationally.

Taking this into consideration, energy is an essentially ambiguous good because it can be considered as both a genuine commodity, tradable on the basis of purely commercial considerations, as a service (for example, transportation), and as a strategic good to be used as a foreign policy tool (for example, during the oil crisis 1973–74). Indeed, the limited availability of energy in the face of growing demand, a twenty-year oil price high, and the growing concentration of production in the aforementioned strategic energy ellipsis make it a highly profitable commodity. It takes up the center of important domestic and international struggles, where visions of energy as a »strategic« and »commercial« good both coincide and compete. It allows energy to be used as a strategic good or – under a normative view – a good that needs to be used for the »greater good« or »public welfare« in a state. Reflecting the very nature of the energy issue, the international political economy of oil and gas is characterized by two political approaches to governing the energy trade: as a commodity embedded in a liberal market economy and, on the other hand, by the desire to keep it as a strategic asset.

Energy relations in general are characterized by the intrinsic tension between cooperation and conflict: while there are mutual gains to be re-

alized from international trade, there are also intrinsic elements of tension. In addition, both sides – the producer as well as the consumer – face the dangers of becoming too dependent on the other side and this can cause conflicts (Westphal, 2003, p. 2). The understanding of energy security from the consumer's perspective relies on geographical diversification of energy supplies, diversification of energy sources, and predictable, stable, and low energy prices. Thus, the key economic concerns of energy importers are managing disruptions and minimizing energy costs. The supplier side is interested in stability of demand and improving terms of trade. Moreover, there is an inherent tendency to strengthen one's own market position to the point of establishing monopoly status to the supplier's own favorable ends. Whereas the buyer of energy has an interest in competition on the supply side in order to keep prices low, the producer has an interest in competition (only) on the demand side. This is because energy prices have highly redistributive effects. This is why Mommer emphasizes that »the game is strategically about prices, and only tactically about the capturing of rents« (2001, p. 1). However, rents play a decisive role, too, and because of the high impact of revenues for the state budget and the ideological and politicized meaning of energy resources, many states are reluctant to open their market to foreign investment. Foreign investors demand minimum standards in terms of market, legal, and political reforms.

Therefore, as long as energy trade has to be realized between different market segments, under different portents, governance approaches relying on multilateral governance that builds upon market institutions and international law will display shortcomings. Moreover, the redistributive effects of energy prices, together with the increase in demand and the geographical concentration of hydrocarbons in a few countries and areas of the world has resulted in a power shift away from the consuming countries to the producing countries. This is the decisive development for the international political economy of oil and gas because the growing competition on the consumer side allows producing countries to question its own interdependence with particular consuming countries and instead perceive the relation as one of asymmetrical dependency to its own ends. Yet the management of interdependence has always been a major incentive to engage in multilateral governance initiatives and to agree on regimes. The EU can act in order to engage energy producing countries in interdependencies in enhancing trade, economic, political, and socio-cultural cooperation and by engaging these countries in political

dialogue and a web of mutual responsibilities, for example, with regard to environmental and climate issues.

In Lieu of a Conclusion

Despite the ambiguous characteristics of the issue energy there is a continued and persistent demand for political cooperation. In regard to changing governance structures the EU can act as a large and liquid energy consumer (with 450 million inhabitants) in favor of multilateral governance. It has to pursue a role which is not *in competition* with other consumers but *in cooperation* and also political dialogue in order to avoid highly competitive and conflictive politics and instead to link the energy trade with policy issues such as the environment and climate which are perceived as public goods. There is an argument that energy security is not divisible, but can only be achieved collectively.

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