

Transatlantic energy relations: A view from Washington

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Abstract

Following the 1970s oil crises, transatlantic energy cooperation focused on stabilising global oil prices. In past decades, however, interests diverged as Europe prioritised sustainability. Because of wide-ranging recent developments, dramatic changes have occurred around the world in how energy is produced, transported and consumed. Based on interviews with US experts, we assess transatlantic convergence and divergence in this new environment and prospects for cooperation. Contrary to conventional wisdom, US experts are concerned about climate change and appear to be softening towards Russia, although they still encourage Europe to develop shale gas, a southern supply corridor, and an internal energy market.

Keywords: transatlantic cooperation; energy security; shale gas; southern supply corridor; climate change

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Introduction

Both Europe and the USA are highly dependent on low, stable global oil prices to sustain economic growth and share an interest in maintaining energy security, which for many years was defined as reliable supplies at affordable prices. Since oil prices are determined by international market mechanisms, which are in turn affected by disparate events around the world, the transatlantic partners suffer the negative effects of price swings regardless of the actual source of their supplies. After the 1970s oil crises, this shared vulnerability served as the cornerstone of transatlantic energy relations.

In the aftermath of the oil crises, Europe and the USA sought to stabilise the global energy system – governing how energy is produced, transported and consumed – through the creation of institutional arrangements, like the International Energy Agency, and protective tactics such as stockpiling. The mutual concern about energy security was also evident in military operations, such as the joint protection of oil tanker traffic during the Iran-Iraq War. This transatlantic coordination, however, was followed by an era of growing divergence. Many European states shifted their focus from the supply security element of energy security to sustainability, particularly on reducing the

environmental impact of fossil fuels through carbon emission reductions. The USA, on the other hand, continued to prioritise supply security and affordability, particularly inexpensive gasoline for the American transportation industry. Despite the growing differences between the transatlantic partners, the global energy system remained relatively stable, even through several wars in and around the Middle East.

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In recent years, however, the global energy system has been rocked by extreme price volatility as well as by investment insecurity and a general sense of uncertainty caused by developments such as increasing apprehension over climate change and the consequent push to replace fossil fuels with renewable energies, political instability in the Middle East, and the rise of China and India as huge consumers.¹ In addition to these developments, the transatlantic partners have experienced their own energy upheavals: the various gas disputes between Russia and the Ukraine caused shortages in Europe and have prompted new appreciation in Europe for supply security, while Obama's election as US president heralded dramatic changes in America's energy and environmental orientation. Around the same time as the 2009 gas disruptions in Europe, the EU-US Energy Council was formed, indicating that the transatlantic partners desired high-level dialogue on energy issues.

In light of these events, now is an opportune time to take stock of the transatlantic energy partnership. Although scholars have considered various aspects of transatlantic energy relations, including security issues,² EU-US cooperation on Russia,³ and the importance of the transatlantic partnership in international energy governance,⁴ the perceptions of the relationship itself by opinion leaders in the transatlantic community have received little attention. To discern the US perspective, guided interviews were conducted and opinion surveys were collected from 23 experts: representatives

¹ For more on the global energy system, see Robert Orttung, Jeronim Perovic, and Andreas Wenger, 'The Changing International Energy System and Its Implications for Cooperation in International Politics', in *Energy and the Transformation of International Relations. Toward a New Producer-Consumer Framework*, ed. A. Wenger, R. Orttung, and J. Perovic (Oxford: Oxford University Press, 2009), 3-25; J. Perovic, 'Changing Markets, Politics, and Perceptions: Dealing with Energy (Inter-) Dependencies', in *Energy and the Transformation of International Relations. Toward a New Producer-Consumer Framework*, ed. A. Wenger, R. Orttung, and J. Perovic (Oxford: Oxford University Press, 2009), 26-58.

² Jeremy Shapiro and Nick Witney, *Towards a Post-American Europe: A Power Audit of EU-US Relations* (London: European Council on Foreign Relations (ECFR), 2009); Carla Monteleone, 'The End of the Euro-Atlantic Pluralistic Security Community? The New Agenda of Transatlantic Security Relations in the Global Political System', in *Perceptions and Policy in Transatlantic Relations: Prospective Visions from the US and Europe*, ed. Natividad Fernández Sola and Michael Smith (Hoboken: Taylor & Francis, 2009), 136-68.

³ 3. András Deák, 'Towards a New Balance with Russia? Russian Energy Challenges and the West', in *Transatlantic Energy Future Strategic Perspective on Energy Security Climate Change and New Technologies in Europe and in the US*, ed. David Koranyi (Washington: Johns Hopkins University, 2011), 247-67.

⁴ Robert Kagan, *America and Europe in the New World Order* (New York: Alfred A. Knopf, 2003); Agt von Chrisoph, 'Buying time: Energy and Art of Sustainable Advancement in Transatlantic Relations', in *Transatlantic 2020: A Tale of Four Futures*, ed. Daniel Hamilton and Kurt Volker (Washington, DC: Center for Transatlantic Relations, John Hopkins University, 2011), 257-86.

of the legislative and executive branches, including current and former Ambassadors, and internationally known advisors and scholars from think-tanks, the security community, non-governmental organizations (NGOs), energy consultancies and universities.⁵ Three of the interviewees were or currently are actively involved with the EU-US Energy Council. To achieve balance, experts were queried from across the US political spectrum.

Although the interviews revealed a range of opinions, consensus around several key energy and environmental points emerged. Contrary to the conventional wisdom, a strong majority of US experts expressed concern about climate change (96%). Many felt that the rhetoric over climate change had affected the timbre of energy dialogue, both within the USA and between the USA and Europe. However, despite the highly public differences between the USA and the EU on emission reduction goals, some experts felt that the two sides might be moving closer to agreeing on how greenhouse gases can be reduced. Thus, although divergence exists over emission reductions and the prioritisation of environmental and climate issues, there may be emerging convergence on how to achieve climate protection goals.

The difference between convergence and divergence on goals versus methods also manifested itself with regards to supply security. Even if the EU now places greater emphasis on supply security – putting it in greater alignment with the USA – there seems to be divergence on how supply security should be achieved. What may surprise some readers is that a more moderate view of Russia as an energy supplier seems to be coalescing in the USA. However, growing European dependence on Russia preoccupied many of the experts, who linked greater supply security for the EU with reducing Russia's influence, whether through supplying the EU with Caspian resources via the Southern Gas Corridor; producing greater quantities of unconventional natural gas; or improving the EU internal market and interconnections. In the next sections, the views of US opinion leaders on each of these topics, interwoven with background material, are presented.

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Climate change: top-down or bottom-up?

Experts repeatedly identified climate change and carbon emissions targets as the primary area of divergence between the USA and EU. Since the beginning of the 1990s, transatlantic cooperation on the issue of climate change has generally been unsatisfying for both sides. The EU states were deeply disappointed when Republicans in the US Senate refused to commit the USA to the Kyoto Protocol during the second half of the Clinton presidency. Later, the Bush administration again rejected the

⁵ The authors would like to thank the Stiftung Deutsch-Amerikanische Wissenschaftsbeziehungen (SDAW/Foundation German-American Academic Relations), which provided Karen Smith Stegen with funding for this research project.

Protocol because of fears that binding emission-reduction commitments would hinder the country's economic growth.⁶

With the election of President Barack Obama, climate change re-emerged on the US' national and international agendas. The USA has started to align its national legislation on climate change with the United Nations Framework Convention on Climate Change to support the development of renewable energy technologies and has increased its activity in the international negotiations on climate change.⁷ However, the EU and the USA still disagree on carbon emission targets and baseline years, a dispute which came to a head during the contentious Copenhagen Summit in December 2009.⁸

Despite Washington's continued reluctance to commit to significant emissions reductions, the majority (70%) of experts interviewed for this article were 'very concerned' that 'the way the world produces and uses energy is causing environmental problems including climate change,' with 26% opting for 'somewhat concerned' and only 4% expressing that they were 'not at all concerned'. Intriguingly, it was suggested during a few interviews that, although the EU and the USA diverge over their specific emissions-reduction targets, convergence may be emerging on other climate change issues. Specifically, US experts felt that the EU is broadening its focus beyond attempting to convince other countries to adopt a top-down emissions control approach.

Indeed, greater EU-US cooperation was in evidence during the 2010 UN conference in Cancun. The participants, including the USA and the EU, agreed upon a package of decisions regarding several key issues, such as forest protection, technology development and transfer, transparency and the launching of a Green Climate Fund for developing countries.⁹ A year later, during the world climate change summit in Durban in November 2011, all participants, including the USA, India and China, agreed

⁶ Mark Ostrhoorn, 'Climate Change and the Future of Clean Energy: Towards Transatlantic Convergence', in *Transatlantic Energy Future*, ed. David Koranyi (Washington: Johns Hopkins University, 2011), 27-54; J.T. Mathews, 'Estranged Partners', *Foreign Policy*, no. 127 (2001): 48-53.

⁷ Paweł Świeboda, 'Climate Policy: The Quest for Policy, Europe and US Multilateralism under Obama', in *The Obama Moment. European and American Perspective*, ed. Alvaro de Vasconcelas and Marcin Zaborowski (Paris: European Union Institute for Security Studies (EUISS), 2009), 111-123; Ostrhoorn, 'Climate Change'.

⁸ In Copenhagen, the EU pledged a 20% emission reduction by 2020 with 1990 as the baseline and the USA pledged a 17% reduction by 2020 with 2005 as the baseline, see UNFCCC, 'Appendix I – Quantified Economy-wide Emissions Targets for 2020', *Copenhagen Climate Change Conference 2009*, http://unfccc.int/meetings/copenhagen_dec_2009/items/5264.php. Although the US' 17% appears only 3% lower than the EU's 20% offer, the different benchmark years means that the US offer was actually only a relative 4% reduction.

⁹ For more see European Union, 'European Union welcomes Cancún Agreement as Important Step towards Global Framework for Climate Action', *Press Releases RAPID*, December 10, 2010, http://europa.eu/rapid/pressReleasesAction.do?reference_IP/10/1699; US Department of State, *Secretary Clinton Welcomes Cancun Agreements*, December 11, 2010, http://blogs.state.gov/index.php/site/entry/secretary_clinton_welcomes_cancun_agreements (accessed June 11, 2012); FCCC, 'Report of the Conference of the Parties on its Sixteenth Session', held in Cancun from November 29 to December 10, 2010, March 15, 2011, http://unfccc.int/resource/docs/2010/cop16/eng/07a01.pdf#page_2.

to coordinate their work on a future legally binding accord, a development described by the EU as 'an historical breakthrough'.¹⁰

The US-EU disagreement on emissions reductions has generated significant media attention but, as asserted by one interviewee affiliated with the US Senate, the climate change rhetoric obscures the fact that the EU and the USA actually share common energy interests. One issue area that affirms this tendency toward convergence is supply security.

Supply security: a strategic or economic issue?

The phrase 'supply security' is used to describe how states attain reliable access to energy resources; it can be enhanced by myriad methods. States can attempt to control foreign-sourced risk, for example, by relying on bilateral interdependence, international institutions and arrangements, diversification of suppliers, military

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intervention and sea lane protection, and international market mechanisms, which help reduce the attractiveness of embargos to exporters. Supply security can also be strengthened through domestic measures, such as improving efficiency, reducing consumption, stockpiling, tapping domestic hydrocarbon sources and diversifying the energy mix, including increasing the share of renewable energies.¹¹

Some of these methods are more appropriate for natural gas and others for oil. With its own sizeable natural gas resources and those of Canada next door, the USA has not had to worry about its natural gas supply security. Europe, on the other hand, has long had to augment its indigenous supplies, primarily through gas pipelines, but it has also diversified by importing more tanker-supplied liquefied natural gas (LNG). To secure oil supplies, both transatlantic partners have benefited from the protection offered by international institutional arrangements (for example, the International Energy Agency). The partners have differed, however, on whether they view supply security as a strategic or an economic issue.

This difference has manifested itself in the EU's faith in economic interdependence and market mechanisms, whereas the USA has seemed more geopolitically inclined: more willing to supplement the

¹⁰ European Union, 'Durban Conference Delivers Breakthrough for Climate (12/12/2011)', *Press Releases RAPID*, December 11, 2011, <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/895&format=HTML&aged=0&language=EN&guiLanguage=en>.

¹¹ See, for example, Daniel Yergin, 'Ensuring Energy Security', *Foreign Affairs* 85, no. 2, (2006): 69-82; and Clingendael International Energy Programme (CIEP), 'Study on Energy Supply Security and Geopolitics' (TREN/C1-06-2002), *CIEP Final Report*, January 2004, http://www.clingendael.nl/publications/2004/200401000_ciep_study.pdf.

invisible hand with military intervention and sea lane patrolling.¹² One scholar of international relations has attributed the differences in transatlantic approaches to security in general to the divergent weaknesses and strengths of the two sides: the USA is militarily stronger, so it is quicker to rely on military solutions. The EU, in contrast, is more likely to rely on its strengths, namely, diplomacy and economic solutions.¹³ Applying these insights to energy security, the EU has traditionally relied on the solutions at its disposal – diplomacy and interdependence, whereas the USA has at times taken a more hawkish stance and has not fully trusted interdependence.

During the cold war, for example, Europe's growing dependence on Soviet energy supplies displeased Washington. After the breakup of the USSR, Russia assumed the USSR's supply contracts to Europe. Concomitantly, new supply sources to Europe emerged – such as Norway, Algeria and Nigeria – and US anxiety lessened. Washington's discomfort returned, however, when Russia became more assertive, in both nationalising its energy industries and exerting energy pressure on customers in the former Warsaw bloc. Russia has been accused of using energy as a political tool in these countries, and some US policy-makers and scholars have expressed concern that the EU would also be vulnerable to political manipulation and influence.¹⁴ United States Senator Richard Lugar, for example, warned in 2008 that increased European dependence on Russia might result in 'less [NATO] alliance cohesion on critical foreign policy issues', because Europe would presumably be attempting to accommodate Russia.¹⁵

However, for other scholars and analysts, the Europe-USSR energy relationship was characterised as productive interdependence, in which the USSR, and later Russia, had proven itself to be a dependable supplier for over 40 years.¹⁶ The first gas from the USSR arrived in Western Europe in the early 1970s, and gas from Russia presently comprises about 36% of all EU gas imports; crude oil imports from Russia account for 31% of the EU's total oil imports. Russia also needs the EU's hard currency receipts, and about 70% of its gas exports and 80% of its oil exports land in the EU.¹⁷ According to the interdependence argument, Russia would not risk its relationship with the EU for the reason that any disruptions would have a negative

¹² See Aad Correlje and Coby van der Linde, 'Energy Supply Security and Geopolitics: A European Perspective,' *Energy Policy* 34, no. 5 (March 2006): 532-43; Richard Youngs, 'Europe's External Energy Policy: Between Geopolitics and the Market' (Center for European Policy Studies, November 2007).

¹³ Robert Kagan, 'Power and Weakness', *Policy Review* 13 (June/July 2002): 3-28.

¹⁴ For an elaboration of how energy can be used as political tool, see Karen Smith Stegen, 'Deconstructing the 'Energy Weapon': Russia's Threat to Europe as Case Study', *Energy Policy* 39, no. 10 (2011): 6505-13.

¹⁵ Richard G. Lugar, 'Opening Statement for Hearing on Oil, Oligarchs and Opportunities: Energy from Central Asia to Europe' (US Senate Committee on Foreign Relations, June 12, 2008).

¹⁶ Angela E. Stent, *Soviet Energy and Western Europe* (Washington DC: Center for Strategic and International Studies, 1982); Jonathan P. Stern, *Oil and Gas in the Former Soviet Union. The Changing Foreign Investment Agenda* (London: Royal Institute of International Affairs, 1993); David G. Victor and Nadejda Makarova Victor, 'The Belarus Connection: Exporting Russian Gas to Germany and Poland', *Working Paper #26*, the James A. Baker III Institute for Public Policy, May 2004, <http://www.bakerinstitute.org/publications/thebelarus-connection-exporting-russian-gas-to-germany-and-poland>.

¹⁷ European Commission, *EU-Russia Energy Relations*, http://ec.europa.eu/energy/international/russia/russia_en.htm.

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impact on the Russian economy, which is heavily dependent on oil and natural gas exports, and therefore on its long-term prosperity.¹⁸

In sum, for many years the USA pushed Europe to view supply security as a strategic issue, while the EU preferred to treat it as an economic matter. The EU perception of supply security changed radically, however, after several European member states experienced shortages during the Russia-Ukraine gas disputes between 2006 and 2009. European policy-makers, in response to the gas crises, began promulgating a variety of protective initiatives. In 2008, for example, the EU developed the *Security and Solidarity Action Plan* which calls for creating a common external energy policy and a common internal market, diversifying energy supply, and increasing domestic resources, including renewables.¹⁹ In 2009, the EU adopted the 'Third Energy Package', which provides guidelines for investment in EU energy infrastructure – including by foreign companies, such as Russia's Gazprom – and regulates the market power of European electricity firms by unbundling power generation and retail from ownership of transmission networks.²⁰ The 2009 Treaty of Lisbon specified energy policy as a 'shared competence' between the European Commission and member states and endowed the European Commission with greater responsibilities, for example, the power to negotiate international agreements, particularly with the non-EU countries and regions that are involved in projects of 'European interest'.²¹ However, EU member states are still allowed to sign bilateral agreements with external energy suppliers, such as Gazprom.

Despite Europe's new appreciation for the strategic aspects of supply security – a development welcomed by US experts – it appears, based on the interview data, that *how* the EU should best defend itself is an issue that invites a mix of convergence and divergence. In relation to supply security, four topics arose again and again during the interviews: the EU-Russian energy relationship; the diversification of energy routes through the Southern Corridor and the fate of the Nabucco gas pipeline

¹⁸ W. Eden-Fleig, 'Freund oder Feind?' *ZEIT online*, December 12, 2007, <http://images.zeit.de/text/online/2007/52/abhaengigkeit-deutschland-russland>; Ronald Götz, 'Ruslands Erdgas und Europas Energiesicherheit', *SWP-Studie* (Berlin: Stiftung Wissenschaft und Politik, 2008); Alexander Rahr, 'Putins Energie', *WELT online*, January 3, 2006, http://welt.de/print-welt/article188175/Putins_Energie.html.

¹⁹ European Commission, *Communication from the Commission of the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Second Strategic Energy Review – An EU Energy Security and Solidarity Action Plan* (Brussels: European Commission, November 13, 2008), <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0781:FIN:EN:PDF>.

²⁰ European Parliament, 'Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003 Concerning Common Rules for the Internal Market in Electricity and Repealing', *Directive 96/92/ECEU*, July 15, 2003, *Official Journal of the European Union*, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:176:0037:0037:EN:PDF>.

²¹ For more see Jan Frederik Braun, 'EU Energy Policy under the Treaty of Lisbon Rules. Between a New Policy and Business as Usual', *EPIN Working Paper*, No. 31, February 2011, <http://www.ceps.eu/system/files/book/2011/02/EPINWP31BraunonEUEnergyPolicyunderLisbon.pdf> (accessed June 25, 2012).

project; the promotion of shale gas in Europe; and the development of an EU internal energy market and supporting network interconnections.

A pragmatic approach to Russia?

When US experts were asked to characterise their level of apprehension about 'Russia's role as an energy provider', almost 9% answered 'very concerned', around 69% were 'somewhat concerned' and about 22% were 'not very concerned'. Interestingly, none answered 'not at all concerned'. The anecdotal interview comments ranged from the specific fear that Russia will use energy dependence as a political tool, expressed by an interviewee in the US Senate, to the more diffuse observation that 'The US wants the EU to get away from Russia. It is in the US strategic interest for the EU to become energy independent or energy flexible'. One respondent, a former Ambassador to the Eurasia region, noted that the USA has a history of being anxious about Europe's energy dependence on Russia and that the latest rhetoric issuing out of Washington is reminiscent of how the first Reagan administration spoke in the early 1980s about Russia becoming a major gas supplier to Europe.

The comments of some experts, however, indicate that a less strident consensus may be emerging in Washington; a more pragmatic viewpoint that Russia is, and will continue to be, an energy supplier to Europe. This perspective was exemplified by the

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response of an interviewee who said he was 'somewhat concerned' about Russia's role as an energy provider, but concluded that 'they are going to be an energy provider... whatever we [the USA] say, they are going to be doing it'. The issue for the USA then becomes not the supply itself, but how Europe can best mitigate risk. As another Ambassador commented, the EU's approach of countering non-competitive practices through regulations (such as the unbundling element of the Third Energy Package) is the best way to deal with Russia.

These latter opinions seem to indicate that, just as the EU perception of Russia as a supplier has moved closer to the US' more cautionary viewpoint, the USA may be adopting a more pragmatic and moderate approach. Thus, the transatlantic partners could be coalescing around a perception of Russia as neither as dangerous as some in Washington have posited nor as trustworthy as the EU previously believed. Nonetheless, many of the US experts believed that the EU should be fully prepared to protect itself from disruptions emanating from Russia. Discussions during the interviews revealed, however, that the transatlantic partners do not see eye to eye on how to manage threats. As explored in the next section, although both the EU and the USA back the general notion of acquiring non-Russian gas for Europe through non-Russian pipelines, they have not supported the same routes at the same time.

Southern corridor diversification?

The Caspian region is rich in hydrocarbon resources, containing about 7% of the world's gas reserves and almost 6% of its oil reserves.²² Since the 1990s, Washington has actively supported the Caspian suppliers to develop new oil and gas pipelines, even though the USA is not a direct customer. As Julia Nanay and Karen Smith Stegen maintain elsewhere in this issue, the US' objectives have been to concomitantly support global energy diversification by bringing supplies from Turkmenistan, Kazakhstan and Azerbaijan to world markets, and, from a geopolitical point of view, to reduce the influence of Russia and Iran in the region.

Europe, in contrast to the USA, initially approached engagement with the former Soviet republics with caution and its reticence was noticed by the USA. As one former Ambassador related: 'In the early stages of Caspian energy development, my impression working on it at the time was . . . that Europe was pretty marginal. It was the US government who were the ones solving the problems'. With help from US diplomatic influence and US oil and gas companies, two Caspian pipelines projects were successfully realised in the mid-2000s, the Baku-Tbilisi-Ceyhan oil pipeline and the Baku-Tbilisi-Erzurum gas pipeline, which transport primarily Azerbaijani resources through Georgia to Turkey.²³

In the mid-2000s, however, EU interest in the region deepened due to burgeoning European gas demand and was further intensified in 2006 and 2009 when several member states suffered shortages as fallout from the Russian-Ukrainian gas crises. In 2008, the EU, as part of its Security and Solidarity Action Plan, prioritised development of the Southern Gas Corridor²⁴ and identified several gas pipeline projects which could bring up to 120 bcm of gas per year to the European energy market, including the 31 bcm Nabucco pipeline project, which would be primarily sourced with gas from Azerbaijan.²⁵ According to the European Commission, Europe's annual gas demand is expected to rise from its current level of 536 to 587 bcm in 2020.²⁶ Therefore the gas delivered through the Corridor would satisfy 20%

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of the EU's demand. In 2009, the European Commission designated the Nabucco pipeline as a 'project of European interest' – the foundation for the diversification of European gas supplies and the conduit for

²² International Energy Agency, *World Energy Outlook 2009* (Paris: International Energy Agency, 2009).

²³ Richard Morningstar, 'The Baku-Tbilisi-Ceyhan Pipeline: A Retrospective and a Look at the Future', *Central Asia & Caucasus Analyst*, August 23, 2006; L. Ruseckas, 'U.S. Policy and Caspian Pipeline Politics: The Two Faces of Baku-Ceyhan', in *Succession and Longterm Stability in the Caspian Region*, Caspian Studies Program Experts Conference (Cambridge, MA: BCSIA, 2000); Martha Brill Olcott, *A New Direction for U.S. Policy in the Caspian Region*, Summary, February 2009 (Washington: Carnegie Endowment for International Peace), http://carnegieendowment.org/files/us_caspian_policy.pdf.

²⁴ European Commission, *An EU Energy Security and Solidarity Action Plan*.

²⁵ Jozias Van Aartsen, *Project of European Interest* (Brussels: European Commission, February 2009), http://ec.europa.eu/energy/infrastructure/tent_e/doc/axis/2009_axis_linking_activity_report_2007_2009.pdf (accessed June 11, 2012).

²⁶ International Energy Agency, *World Energy Outlook 2011*, Special Report "Are We Entering a Golden Age of Gas" (Paris: International Energy Agency, 2011), 23.

connecting the Caucasus and the Caspian region into one energy network. Azerbaijan was also accorded special recognition as a potential supplier to Europe.²⁷

Thus, by the end of the past decade, the transatlantic partners seemed to concur that developing a Southern Gas Corridor should be a priority for improving the EU's supply security. This convergence was repeatedly confirmed by the US interviewees and many seemed to share the sentiment expressed by one expert that, with regards to the Caspian, the EU and the USA are 'completely on the same page'. Despite this general agreement, however, several respondents were disappointed that the EU did not move faster in supporting the Nabucco pipeline.

Despite Nabucco's high profile within the EU, many US experts believed that the EU's initial diplomatic efforts came up short. According to one interviewee, 'during the Bush Administration, the US was really leaning forward on Nabucco and the EU and certain major countries in the EU were kind of ambivalent'. And, a former Ambassador to the region conveyed, 'we kept pushing the EU to do more – you know, you've got to do more . . .'. The lack of commitment by either the EU or the Caspian countries to Nabucco meant that it had neither guaranteed supply nor customers and around 2008 and 2009, the US government began to question Nabucco's commercial viability and cool its support.

Meanwhile, on the other side of the Atlantic, European diplomats and ministers finally began high-profile engagement with regional leaders. In January 2011, for example, the President of the European Commission, Jose' Manuel Barroso, and the EU Energy Commissioner, Gu'ntner Oettinger, visited Azerbaijan and Turkmenistan and signed a *Joint Declaration on the Southern Gas Corridor* between the EU and Azerbaijan. Following this visit, the EU adopted a mandate to negotiate a legally binding treaty between the EU, Azerbaijan and Turkmenistan to build a Trans-Caspian Pipeline System.²⁸ These activities were noticed in Washington and, as a former US Ambassador remarked, '. . . finally, with Oettinger and Barroso, [the Europeans] are taking a more active role'.

However, considering the news from early 2012 that plans for the 31 bcm Nabucco pipeline had been scaled down to a smaller 'Nabucco West' pipeline – because of the lack of investors and supply – the EU's stepped up activities seem to have been too little, too late, at least for the original Nabucco pipeline. As Nanay and Smith Stegen detail elsewhere in this issue, recent developments indicate that, even without the original Nabucco pipeline, the EU's prospects for receiving Caspian gas independent of Russia have improved. The unanswerable but tantalising question is whether the EU could have been already importing Caspian gas years ago, if Brussels had more strongly supported the US' efforts.

²⁷ European Commission, Prague Summit on Southern Corridor. The Declaration, May 8, 2009, <http://www.eu2009.cz/en/news-and-documents/press-releases/declaration---praguesummit--southern-corridor--may-8--2009-21533/>.

²⁸ European Commission, The Joint Declaration on the Southern Gas Corridor (Baku: European Commission, January 13, 2011), http://ec.europa.eu/energy/infrastructure/strategy/doc/2011_01_13_joint_declaration_southern_corridor.pdf; European Commission, 'EU Starts Negotiations on Caspian Pipeline to Bring Gas to Europe', *European Commission Press Release*, Brussels, September 12, 2011, http://europa.eu/rapid/press-ReleasesAction.do?reference_IP/11/1023&format_HTML&aged_0&language_EN&guiLanguage_en.

In sum, although the EU and the USA converged on the importance of the Southern Corridor, their uncoordinated efforts vis-à-vis the 31 bcm Nabucco pipeline resulted in a timing mismatch. No one can know whether the originally planned longer and larger Nabucco pipeline would have come to fruition if the EU and the USA had synchronised their diplomatic pressure, but the lack of coordination most likely did not help.

Transporting non-Russian resources through the Southern Corridor, via the Nabucco or any other non-Russian pipeline, would increase Europe's supply security

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by diversifying its foreign sources and transit countries. States can also improve security by becoming less dependent on imports, for example, by ramping up indigenous fossil fuel production.²⁹ This approach is highly vaunted by US experts: in response to the survey question, 'Should we use indigenous energy sources, including hydrocarbons, to gain energy independence?' 78% replied 'yes'. With the recent US shale gas 'revolution' still very much top of mind, there seemed to be consensus in Washington that Europe should also promote exploration and production of its shale resources.

A shale gas revolution in Europe?

Technological innovations in the USA for tapping unconventional gas, which Marianne Haug explains elsewhere in this issue, rapidly expanded US domestic energy production and transformed the USA from a net importer to a self-sufficient gas giant with export potential. Although controversies have erupted in the USA over the environmental impact of shale gas extraction, as one of the interviewees stated, America has focused more on the potential of shale gas to replace coal in power generation and thereby dramatically reduce US greenhouse gas emissions.

According to a study of the US Energy Information Administration (EIA), Europe's technically recoverable shale gas reserves amount to 639 tcf. These are located primarily in the UK, France, Sweden, Germany, Bulgaria, Hungary and Romania, with the largest deposits, about 187 tcf, in Poland.³⁰ Many international energy companies, including Total, Exxon Mobil, Shell and Chevron, have already received exploration licenses or are actively involved in exploration.³¹

Expressing an opinion that seemed to be widely shared among the interviewees, one US expert flatly stated: 'The US thinks unconventional gas is an opportunity for the EU to get some energy independence. Unconventional gas could be a game changer for Europe'. Although the experts did not believe the EU could become completely self-sufficient, they did believe that the production of shale

²⁹ Yergin, 'Ensuring Energy Security'.

³⁰ US Energy Information Administration, *World Shale Gas Resources: an Initial Assessment of 14 Regions outside the United States 2010*, April 2011, <http://www.eia.gov/analysis/studies/worldshalegas/pdf/fullreport.pdf>, 4.

³¹ Alice Tallents, 'European Gas Supply and Demand, and the Outlook for Shale Gas', *Analysis*, no. 3 (May 2011), http://oilgas-info.jogmec.go.jp/pdf/4/4368/201105_043a.pdf (accessed May 15, 2012), 10-12.

gas, particularly in Central Europe – which is heavily dependent on the Russian gas giant Gazprom – would help break Gazprom’s dominance and exert some price pressure on it.

Despite the shale gas euphoria in the USA, many EU member states and the EU Commission itself have shied away from embracing exploration and production of shale gas in Europe. The causes for European reluctance range from environmental concerns to doubts over cost competitiveness (European shale gas is deep underground and more technically challenging, thus more costly to extract) to entrenched interests (Électricité de France produces 95% of its electricity from nuclear and hydro power) to the lack of an integrated European pipeline system. Some countries, for example, France and Bulgaria, have prohibited the exploration of shale gas. Romania and the Czech Republic have recently expressed concern about the economic and environmental consequences of shale gas production and have announced the possibility of outright moratoriums on hydraulic fracturing. Other European countries, however, have been very receptive to shale gas production.

The British government actively supports shale gas extraction in the UK and is currently working on a new gas-fuelled power generation strategy, but these plans may run afoul of the UK’s very active environmental NGOs. On the continent, Poland has responded favourably to developing its shale deposits, to both enhance its

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supply security and to diversify its coal-dominated power-generation sector. The first drilling tests are under way and the commercial production of shale gas is expected in 2014.

Because the EU has not promoted the shale gas industry and most of the major EU countries have either outright rejected or expressed little interest in shale gas exploration, the US experts did not perceive ‘Brussels’ as the most suitable counterpart for dialogue. As one expert put it, shale gas does not belong to the transatlantic dialogue. Rather, the USA is dealing directly with the individual member states that are potentially receptive. A different expert rendered the situation thus: ‘We try to sell Poland on shale gas. We try to sell Romanians, Hungarians, whomever. We are not going to Brussels to talk about shale gas. If we did, they would not listen to us’.

As mentioned above, in addition to the commercial, technical and environmental reasons that may forestall a US-style shale gas revolution in the EU, another complicating factor is the EU’s lack of an internal energy market and interconnectors. Separate from the shale gas discussions, the EU’s progress, or deficiency thereof, in getting its ‘own house in order’, was also a topic that engrossed US experts.

An integrated EU energy market?

‘I believe’, said one of the Ambassadors interviewed for this article, ‘that more important than any particular pipeline, whether it be Nabucco or scalable Nabucco or the Italy-Turkey-Greece interconnector – more important than any of them is what Europe does internally on the energy market’. Because none of the US experts who discussed this issue expressed a different opinion, it may be the one topic on which an undisputed consensus appears to hold. Indeed, the sentiments conveyed by the quote above were expressed by interviewees from a wide variety of organisations and backgrounds.

In recent years, the EU has stated that one of its main energy security priorities is to develop an efficient and flexible internal energy system based on interconnected gas and electricity networks. Such interconnection would improve supply security in the case of disruptions – regardless of whether they were caused by nature, accident or political manipulation – by allowing supplies to move from non-affected to affected areas. An interconnected market would also facilitate the integration of renewable sources into the electricity grid and would help overcome the volatility challenge presented by renewable sources: electricity produced from winds in the north or from solar in the south would be able to flow to areas where renewable electricity was less available.³²

Presently, about 60 gas connection points and eight electricity sub-markets are already operating in the trans-European network.³³ To facilitate the development of internal networks, the European Commission has designated a number of cross-border gas and electricity interconnections as ‘projects of European interest’ in the framework of the Trans-European Energy Network (TEN-E).³⁴ Although most of these projects have progressed successfully, the trans-European gas and electricity networks and comprehensive integration are still underdeveloped.³⁵

The challenges to developing an internal market are manifold and include the lack of regulatory harmonisation for unbundling production and retail as well as the lack of new rules for retail markets;³⁶ the orientation of gas and electricity markets to the

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member state level, which means system operators are under the control of national vertically integrated companies;³⁷ insufficient financing because the fragmented and uncertain regulatory environment undermines capital-intensive investment in interconnectors;³⁸ and different pricing schemes due to a lack of coordination among the various electricity and gas retail markets. Moreover,

³² Lionel Kapff and Jacques Pelkmans, ‘Interconnector Investment for a Well-functioning Internal Market. What EU Regime of Regulatory Incentives?’ *BEER no.18* (2010), Department of European Economic Studies, Natolin, <http://www.coleurop.be/content/studyprogrammes/eco/publications/BEER/BEER18.pdf> (accessed June 11, 2012).

³³ Arianna Checchi, *Gas Interconnectors in Europe: More than a Funding Issue* (Centre for European Policy Studies, April 9, 2009), <http://www.ceps.eu/book/gas-interconnectorseurope-more-funding-issue> (accessed June 12, 2012); Kapff and Pelkmans, ‘Interconnector Investment’.

³⁴ Checchi, ‘Gas Interconnectors’.

³⁵ Checchi, ‘Gas Interconnectors’; Kapff and Pelkmans, ‘Interconnector Investment’; European Commission, *2009-2010 Report on Progress in Creating the Internal Gas and Electricity Market* (Brussels: European Commission, June 9, 2011), http://ec.europa.eu/energy/gas_electricity/legislation/doc/20100609_internal_market_report_2009_2010.pdf.

³⁶ European Commission, *2009-2010 Report on Progress*, 3.

³⁷ *Ibid.*, 17-23.

³⁸ Checchi, ‘Gas Interconnectors’; Kapff and Pelkmans, ‘Interconnector Investment’.

numerous periphery regions – such as the Baltic States, the Iberian Peninsula and Italy – remain largely isolated from the rest of the European market.³⁹

The development of an internal energy market is hampered by the overarching issue of sovereignty that plagues many of the EU's efforts to harmonise the practices and standards of its 27 member states. Despite a flurry of recent directives and legislation from Brussels to both coax and compel energy integration, the cost and scale of the investments necessary to create an internal market put the timeframe for its achievement into the long- rather than medium-term. Several interviewees seemed frustrated by the EU's slow movement and stressed the need for integration to attain energy security. One US expert said:

We think that security also involves things like strengthening electric supply grids so that you could use more nuclear and/or renewable power to displace gas-fire power. We think security also includes work on energy efficient buildings and industry so that you would need less natural gas to heat and cool your buildings and run your industry, for example.

However, most of the interviewees expressed the opinion that EU officials do not want to talk about EU internal issues with the USA. As one interviewee related:

The EU wants to talk about external issues impacting Europe, such as Nigeria or the Mediterranean and it is very hard to talk about competition in the EU market or improving connections between countries, which is what the US would like to talk to Europe about. The US wants to talk about these issues because the EU's security and diversity of supply is in the US' strategic interest and the solutions are driven by EU internal dynamics.

Conclusion: looking elsewhere?

The interviews with US experts revealed several areas in which they perceived transatlantic convergence occurring, which would seem to indicate that the relationship has improved in recent years. For example, despite continued disagreement over setting targets to limit carbon emissions, the transatlantic partners have found common ground on ways to facilitate reducing emissions. According to several interviewees, the climate debate within Washington has become so acrimonious that Republicans and Democrats no longer discuss it. Given this intra-Washington stalemate, convergence between the USA and the EU on how to hinder warming may be the only positive outcome that the Europeans, at the moment, can hope for.

One area in which divergence seems to be lessening is supply security. After experiencing several energy crises, the EU appears to have moved closer to the US perception that supply security is a strategic matter. The EU is far from fully aligning with the US' geopolitical posturing, but it has become more willing to take proactive and defensive measures to protect itself from disruptions. What is not clear is whether the EU's new stance towards supply security will extend beyond gas pipelines to other aspects of energy. A topic on which clear transatlantic convergence

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³⁹ European Commission, *2009-2010 Report on Progress*.

exists, however, is the importance of creating a Southern Gas Corridor (notwithstanding the earlier disconnect on the Nabucco pipeline).

Despite these signs of growing convergence, the US experts seemed frustrated both by the glacial pace at which the EU develops a common energy market and by Brussels' unwillingness to explore the diversification opportunity presented by indigenous shale gas. Indeed, quite a few experts indicated that the USA, to promote shale gas in Europe, has bypassed Brussels and focuses its efforts on individual countries. This raises the question: where does the 'transatlantic energy relationship' transpire?

Many of the interviewees did not view Brussels as a strong partner. Indeed, not one expert attributed the recent convergences to purposeful and coordinated efforts by Brussels and Washington. It seems to the US experts that lower-lever dialogue, for example, between think-tanks, research centres, policy working groups and between American and European businesses, is more fruitful than Brussels-to-Washington dialogue – a view that was shared not just by think tank advisors and consultants but also by representatives of the executive and legislative branches. The relatively new EU-US Energy Council was also not seen as a conduit for supply security alignment, but was viewed quite positively in terms of providing a forum for technical innovation and exchange and also for electric mobility standardisation, which would be a boon for motorists and industries on both sides of the Atlantic. In terms of global decarbonisation and the transition to green economies, the work of the EU-US Energy Council could potentially have far-reaching implications: such a transition will require strong support, which the transatlantic partners could provide if they coordinated their efforts.⁴⁰

According to the US experts, if the USA wants to achieve government-to-government results on supply security issues, it needs to talk to the individual countries such as Germany, France or the UK, which are seen as more responsive. As one interviewee concluded, this is necessary, 'because at the end of the day, it's those major capital's political-economic interests that matter'. Several experts felt that the USA had more in common with the Central and Eastern European (CEE) countries than with Brussels or with some of the major member states. One expert related that the USA is 'encouraging them [the CEE countries] to coordinate as much as they can on all of these European issues so that they will have more say in Brussels to get what they need'. As the US sees greater alignment with these countries, one could also surmise that by encouraging them to approach Brussels, the USA has found a way to have its own voice heard 'through the backdoor'.

Nonetheless, the pessimism expressed by US experts over achieving significant results from Brussels-Washington dialogue belies the value they attach to the transatlantic energy relationship. This sentiment was exemplified by one expert's statement that:

the transatlantic energy relationship is really very important and it's not just a one-way street, not just helping the Europeans achieve energy security; particularly when you get into the technology areas, there's mutual benefit. And, our economies are so interdependent . . . energy security on both sides of the ocean obviously helps the economies and that is a positive thing.

⁴⁰ Kirsten Westphal, 'Energy in an Era of Unprecedented Uncertainty: International Energy Governance in the Face of Macroeconomic, Geopolitical, and Systemic Challenges', in *Transatlantic Energy Future*, ed. Koranyi, 127.

Another expert added an international dimension to the importance of the relationship by noting that, because of the rise of China and India as big consumers,

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the USA now has less leverage in the global oil market. The expert went on to note that the changed dynamics highlight the importance of the transatlantic relationship: the USA needs an ally to increase diplomatic pressure on producers and to balance the new consumers as well as coax them to reduce consumption.

It seems that some feel the USA needs the EU, but do the Europeans need the Americans? The results of parallel interviews with German experts, presented by Röhrkasten and Westphal in this issue, indicate that the USA is almost irrelevant when it comes to energy and environmental matters. As Röhrkasten and Westphal note, it could be that German experts are momentarily preoccupied by Germany's internal dynamics, namely Germany's decision to phase out nuclear energy and to enact an energy transition (the 'Energiewende') from fossil fuels and nuclear power to renewable energies. However, US officials should take note: as Germany is the energy and environmental leader in Europe, the views of its experts may be indicative of future trends throughout Europe. The seeming unimportance of the USA on energy and environmental matters to German experts could also mean, as Marianne Haug intimates in her article in this issue, that the EU and the USA now exist in two different energy worlds. What could this mean for future convergence or divergence?

As the EU and the USA each confront the recent changes in the global energy system, they will seek partners that will best help them cope and thrive. Interestingly, China has been mentioned as a possible new ally for the USA and for Europe. The author of a recently released book on the geopolitics of transatlantic relations warns that, unless the Europeans overcome their fragmentation and become a strong partner, the USA-China relationship may replace the transatlantic partnership.⁴¹ And, at a recent conference in Beijing, the director of an energy and environmental NGO suggested that China and Germany should co-lead the way in renewable energy innovation and deployment (and thereby also in climate change mitigation) for developing countries and developed countries, respectively.⁴² The transatlantic energy relationship seems to teeter between convergence and divergence: if the USA and Europe are heading towards greater unity, as indicated by the US interviews, then their cooperation could help pull the rest of the world forward, particularly towards multilateral decarbonisation and green energy. However, if they are starting to follow two different trajectories – inhabiting two different worlds – then they may develop new relationships with states more closely aligned with their worldviews.

Notes on Contributors

⁴¹ Stefan Fröhlich, *Future Perspectives for Transatlantic Relations*, <http://www.aicgs.org/site/wp-content/uploads/2012/06/AICGS-Washington-Froehlich.pdf> (accessed June 19, 2012). This comment was in reference to energy security among other broad issues.

⁴² Hal Harvey, Director of the American Energy Innovation Council and Climate Activist, telephone interview by Karen Smith Stegen, June 28, 2012.

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