

# Transatlantic energy security: Convergence or divergence?

John R. Deni & Karen Smith Stegen

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## Abstract

Recent upheaval in the global energy system – how energy is produced, transported and consumed – has unsettled long-held notions of energy security. For decades, transatlantic cooperation helped undergird the system's stability, but how is the relationship faring in the current era of energy uncertainty? In this special issue, experts from across Europe and the USA, including advisers to the executive and legislative branches of both the EU and the USA, to senior military commanders and to major international organisations and companies, examine various facets of the transatlantic energy relationship and whether it is characterised by convergence or divergence.

Keywords: transatlantic relationship; energy security; renewable energies; shale gas; NATO

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## Introduction

At the height of the 1970s oil crises, the USA and Western Europe turned inwards as they struggled to cope with domestic emergencies. After the crises, however, the transatlantic partners attempted to coordinate their responses.<sup>1</sup> Energy security, traditionally defined as reliable supply at an affordable price, was achieved through a variety of individual state-level and collective multi-lateral strategies, including international institutional arrangements, exemplified by the International Energy Agency (IEA), consumer-producer interdependence and an international oil market.

The success of these cooperative strategies ushered in an era of relative stability in the global energy system. As the USA and Europe became accustomed to cheap, plentiful oil supplies, their already limited coordination fell by the wayside and the transatlantic partners drifted apart. Each side prioritised

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<sup>1</sup> David Koranyi, 'Towards a Transatlantic Energy Alliance: Prospects for EU-US Cooperation in Fighting Climate Change and Promoting Energy Security and New Technologies', in *Transatlantic Energy Futures: Strategic Perspectives on Energy Security, Climate Change, and New Technologies in Europe and the United States*, ed. David Koranyi (Washington, DC: Center for Transatlantic Relations, 2011), xiii-xiv.

different facets of energy security, for various political, economic, cultural and historical reasons. Europeans generally pursued sustainability and trusted in global markets and interdependence to ensure secure supplies. Meanwhile, the USA focused on maintaining the health of those markets by using its economic and military might to ensure a constant and abundant flow of oil to market, for example, by encouraging non-Organization of the Petroleum Exporting Countries (OPEC) production and by patrolling tanker routes.

During the past 10 years, though, the stability that allowed each partner to pursue their previous trajectories has been severely challenged. Uncertainty about energy supplies and about the long-term impact of energy consumption has become rampant and the subject of energy security has received increasing attention

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worldwide, including in Europe and North America. This rekindled interest in energy security – and concomitantly in energy relations – is largely the result of several significant developments that have changed the global energy system.

First, since the beginning of the past decade, oil markets have been both tight and volatile. The increased appetite for oil by developing countries, such as China and India, dramatically drove up worldwide demand, resulting in a 2004 ‘demand shock’ when the increase in oil consumption doubled over that of the decade before. Second, concomitant with the rise in demand were production decreases in some of the world’s major producing countries, caused primarily by political and geopolitical conflicts. In 2002 and 2003, Venezuela underwent an internal crisis regarding its oil industry and experienced a subsequent drop in production, from which it has still not recovered. Following the US invasion of Iraq in 2003, Iraq’s oil production plummeted and the much heralded recovery of mid-2012, with production reaching 2.5 million barrels per day, is still a million barrels per day below Iraq’s 1978 peak.<sup>2</sup> The rise in new consumption coupled with production problems shot the oil price up from \$20-\$30 in 2003 to \$147 in mid-2008. The era of cheap oil appears to have ended, and in mid-2012 prices hovered between \$80 and \$90. In addition, other major producing countries have veered in and out of political crises – Libya, Egypt, Nigeria, Russia and several Gulf states. Almost 80% of the world’s hydrocarbon reserves are now under state control – many of them in politically unstable countries – a situation that creates ‘new worries for the consuming countries’.<sup>3</sup>

Finally, the global energy system is being transformed by concerns over climate change. In recognition that hydrocarbon combustion emits greenhouse gases and thereby causes global warming and other measurable changes in the earth’s climate, many developed countries have begun to incorporate energy conservation and efficiency and the promotion of renewable energies into their energy security strategies. As producers rely on long-term demand, the prospect of their major, traditional customers reducing their consumption has given rise to uncertainty and consequently to a

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<sup>2</sup> Daniel Yergin, ‘Ensuring Energy Security’, *Foreign Affairs* 85, no. 2 (2006): 69-82; Tim Arango and Clifford Krauss, ‘Oil Output Soars as Iraq Retools’, *New York Times*, June 2, 2012.

<sup>3</sup> 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), 7.

search for new customers, which introduces further uncertainty into long-established consumer-producer relationships and the global energy system.<sup>4</sup> In sum, as Daniel Yergin posited in 2006, these myriad changes mean that, '...what has been the paradigm of energy security for the past three decades is too limited and must be expanded to include many new factors'.<sup>5</sup> In other words, as the global energy system is in flux, so too are the methods and strategies for achieving energy security.

Given these recent changes and the subsequent heightened focus on energy security – as well as the ongoing reformulation of what energy security is or should be – now is an opportune moment to evaluate the transatlantic energy relationship. What are the areas of convergence and divergence? More importantly, is there reason to believe that the countries of Europe and North America would realise significant benefits from greater convergence in energy security goals and strategies? Even if the transatlantic community believes increased cooperation would prove beneficial, converging goals and cooperative strategies might remain elusive for a host of geopolitical, cultural, bureaucratic, organisational and domestic political reasons. Moreover, whether the transatlantic community can overcome these and other obstacles in an era of budgetary austerity remains to be seen. These questions and issues form the terrain over which the contributing authors in this issue seek to navigate.

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The authors in this issue come from a variety of public and private entities across Europe and the USA – and include university and think tank scholars and energy consultants, including several who have served as advisers to both the European Commission, senior US military commanders, major international organisations and the US Senate – and their combined wisdom and insights offer a unique window into the energy security path unfolding before Europe and the USA. Several of the contributors are practitioners in the energy field – rather than relying solely on secondary data, their articles are enriched by their own experiences and knowledge. Most of the contributions had origins in a May 2011 workshop on transatlantic energy security issues held in Heidelberg, Germany, at the Heidelberg Center for America Studies, an interdisciplinary programme of the University of Heidelberg.

Whether or not the USA and Europe have the capacity or even the willingness to come together to address broad, common energy security challenges depends in part on the degree to which they share similar perceptions. Although it may not yet be possible to speak of a single 'European' perspective in this issue area – or any issue area for that matter – certainly within Europe the trend has been towards gradually increasing levels of or emphasis on collective action when it comes to energy security. For example, in 2009 the European Union (EU) member states adopted the '20-20-20' objectives, agreeing on internal goals for reducing emissions, increasing the share of renewable energies and improving energy efficiency. As will be discussed in several of this issue's articles, agreeing on external energy objectives poses a thorny challenge, but between September 2011 and September 2012 several developments occurred, such as the European Commission's receiving greater EU-wide responsibilities for external policy, which indicate that the general trend – despite occasional retreats – is towards a higher degree of energy solidarity.

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<sup>4</sup> Orttung, Perovic, and Wenger, 'The Changing International Energy System', 3-25; Perovic, *Changing Markets, Politics, and Perceptions: Dealing with Energy (Inter-) Dependencies* (Oxford: Oxford University Press, 2009), 26-58.

<sup>5</sup> Yergin, 'Ensuring Energy Security', 69.

To assess whether and how Europe and North America share common perceptions in energy security, four authors in this special issue survey the perspectives of energy security experts in what might be considered the two most significant actors on either side of the Atlantic when it comes to energy security, the USA and Germany.<sup>6</sup> As Karen Smith Stegen and Julia Kuszniir make clear in their article, 'Transatlantic Energy Relations: A View from Washington,' the USA prioritises the supply security aspect of energy security and has encouraged Europe to do the same. In contrast, Europe has focused generally on sustainability and has encouraged the USA to also shift towards efficiency and renewable energies, hence creating a stand-off that would seemingly put the transatlantic partners at odds with each other. As US experts in Smith Stegen and Kuszniir's survey indicated, climate change is indeed the most contentious transatlantic issue, but they see convergence – either already emerging or still just inchoate – on other energy issues. As the US experts perceive it, recent events have prompted Europe to align more closely with the US perspective on supply security and the transatlantic partners are in agreement on the need for greater EU diversification and for the development of an internal EU energy market. This convergence does not, however, carry over to shale gas exploration in Europe, which the US experts felt would enhance European energy independence, particularly from Russian gas. At the same time, there appears to be a softening of the American perspective with regard to the role of Russia, with many acknowledging what Europeans have long known – that Russian energy resources are and will remain integral to Europe for the foreseeable future. Even as America takes a more pragmatic stance towards Russia as an energy supplier however, US

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experts remain sceptical of European approaches to climate change and the pace with which Europe lays the groundwork for creating an internal market. Nonetheless, many American experts believe greater convergence in the energy security dimension of the transatlantic relationship is both likely and potentially very beneficial.

Similarly, German experts see increased transatlantic cooperation as beneficial and, with regard to halting global warming, even necessary. However, as Sybille Röhrkasten and Kirsten Westphal point out in their article, 'Energy Security and the Transatlantic Dimension: A View from Germany,' many in Germany are pessimistic regarding the odds of a common transatlantic approach being forged. Indeed, beyond recognising the potential for transatlantic cooperation in general, few German experts identified the USA as a partner for energy cooperation. Additionally, German experts remain concerned that the American emphasis on shale gas as a 'transition fuel' – or as an alternative to conventionally sourced fossil fuels – as well as renewed American interest in nuclear energy come at the expense of the preferred European means of addressing sufficiency and sustainability, namely renewable energies. Despite such differences though – and largely thanks to the Russian-Ukrainian disputes that caused gas shortages in 2006 and 2009 – German experts acknowledge the growing convergence between Europe and America with regard to the importance of supply diversification generally and the so-called 'southern corridor' supply infrastructure specifically.

Indeed, as one US expert related, the EU and the USA appear to be on the 'same page' with regard to the Southern Corridor and Caspian region. Julia Nanay and Karen Smith Stegen explore this

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<sup>6</sup> Germany's position on energy security matters may not reflect the EU view; however, Germany, with its aggressive policies to enact an 'energy transition', is both playing a significant role in and setting the tone for energy debates in Europe.

further in their article, 'Russia and the Caspian Region: Challenges for Transatlantic Energy Security?' arguing that although broad transatlantic objectives for this region may converge, success in terms of achieving those goals is usually contingent upon agreement regarding specific objectives, if not the particular strategies. The EU is highly dependent on Russian oil and gas and has already started to import oil from the Caspian region, and as a result will remain heavily engaged in the region in order to protect its immediate interests there. The USA, on the other hand, receives very little oil and no gas from Russia or the Caspian region, hence American interests are relatively more general – namely, to bring non-OPEC supplies to world markets and to decrease the geopolitical power of Russia and Iran. Underlying the interests of both transatlantic partners are the potentially lucrative plays in which both US and European energy companies potentially could partake (or already are). Nanay and Smith Stegen note that, at the moment, the EU relies on cooperation with its transatlantic partner to help achieve its southern corridor diversification goals, but they also point out that for the EU to achieve greater leverage in the region, it will have to forge a more cohesive foreign policy for energy. Although EU member states have haltingly progressed towards speaking with a single voice when it comes to energy, as noted above, the task has been arduous for two key reasons. First, it entails member states ceding greater decision-making power – in this case, in the energy sphere – to Brussels, something EU members are generally loathe to do. In addition, and perhaps more importantly, greater unity of European action assumes commonality of interests among member states, and so far evidence continues to show that some member states perceive greater benefit in striking their own bilateral energy deals.

In addition to using diversification to enhance energy security, members of the transatlantic community can also increase indigenously sourced energy. In recent

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years, this has roughly translated into an emphasis on shale gas in the USA and on renewable energies in Europe. Marianne Haug explores whether these different focuses will lead to divergence or convergence in her article, 'Shale Gas and Renewables: Divergence or Win-Win for Transatlantic Energy Cooperation?' In 1993, the USA, European and other IEA member countries adopted the IEA's 'Shared Goals' to balance energy security, environmental sustainability and economic competitiveness objectives; however, the transatlantic partners have pursued different methods for fulfilling those goals. Their respective strategies further diverged when technological advances in 'fracking' to exploit shale gas transformed the USA from a net importer of natural gas to self-sufficiency. However, a similar shale gas revolution across all of Europe is unlikely, due to myriad geological, technical and environmental reasons; hence, most European countries are expected to emphasise renewable energies. Rather than viewing these differences as a threat to the transatlantic relationship, Haug concludes that the divergent strengths of both partners – that is, US fracking technology and European renewable technology and policy expertise – will offer new opportunities for transatlantic cooperation. As the new abundance of shale gas will shake up worldwide gas markets and lead to a new demand/supply balance, and as investments in renewable technologies help make them increasingly competitive, Haug argues that energy security of both the EU and the USA will improve.

Energy security has traditionally denoted reliability and price stability, but, as Frank Umbach points out in his article, 'The Intersection of Climate Protection Policies and Energy Security,' concerns about climate change have prompted the broadening of the concept to include environmental protection, resulting in the so-called energy triangle comprised of supply security or surety, economic

competitiveness and environmental/climate sustainability. Underappreciated by most scholars and analysts, however, is that the three energy objectives contradict each other in practice. Surety, for example, could be easily achieved by burning domestic coal – which is still abundant in North America as well as in Europe – but this contradicts the sustainability imperative. States must therefore seek policies that balance the three objectives. Umbach examines how the USA and the EU have attempted to attain this balance and concludes that America, with its view that burning shale gas is better for the climate than burning coal, has miscalculated the overall impact of combusting any hydrocarbons on global warming and thus does not achieve an energy security balance. His analysis of Europe indicates the EU faces a conundrum in the pursuit of balance as well, but in a different dimension of the energy triangle. Despite the fact that the EU has come around to the long-held American perspective of viewing surety in a strategic, even political context – largely because of the Russia-Ukraine gas disputes and the consequent shortages in 2006 and 2009 – Europe remains overly focused on sustainability goals. While both transatlantic partners struggle towards balance in their approaches, it remains to be seen – for cultural, economic and political reasons expounded upon by Umbach – whether they can achieve their commonly held objectives.

Intergovernmental organisations, such as the North Atlantic Treaty Organization (NATO) – billed as the most successful alliance in history – may provide a mechanism or forum through which the transatlantic community might collectively work through some of the thorniest challenges. Indeed, Michael Rühle argues in his article, ‘NATO and Energy Security: From Philosophy to Implementation,’ that

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despite European concerns of overly militarising an otherwise non-military sphere of public policy – as well as a host of member-specific reasons for NATO to tread lightly here – the alliance finds itself virtually compelled by real-world events to address energy security. Increasing attacks on NATO fuel supply convoys in Afghanistan, growing instability among the countries supplying much of Europe with fuel, and greater concern among all allies with the security of transit routes, shipping lanes and other critical energy infrastructure elements have collectively pushed a reluctant alliance into taking on an increased role. Nonetheless, as member states have different sensitivities vis-à-vis energy, NATO is caught between protecting the collective interests of its member states on the one hand and avoiding trespassing on the individual prerogatives of those same countries on the other hand. For example, there remains great division in the alliance over how to treat Russia in an energy context, with some allies viewing Moscow as a strategic partner and others holding a completely opposite perspective.

Although individual member state interests may constrain NATO’s role, the potential exists for several allies to benefit substantially from aligning their energy goals and strategies bi- or multi-laterally outside the context of the alliance. In his article, John R. Deni posits that although the time may seem ripe for greater bilateral or multi-lateral cooperation in operational energy security – that is, the energy necessary to prepare for, deploy to, conduct and return from military operations – a host of factors stand in the way. In particular, several European allies with which the USA has otherwise robust bi- or multi-lateral military relationships face institutional, organisational and budgetary restraints that will frustrate any major shortterm efforts at increased collaboration in operational energy security. And in the long run, the absence of an enduring, sufficiently mature energy culture in the USA will hinder American efforts to solidify immediate gains in terms of greater bilateral or multi-lateral transatlantic

cooperation in operational energy security. Although the outlook for convergence of goals and strategies in this niche field of energy security is therefore somewhat pessimistic, Deni argues that there are nonetheless some options the transatlantic community can pursue in order to best take advantage of some currently favourable trends, however fleeting.

Regardless of whether the transatlantic community takes advantage of what may be limited or ephemeral opportunities such as those suggested above, the collection of articles in this issue clearly convey the sense that both within Europe and across the Atlantic, the transatlantic partners face some critical decisions in the short-run. Within Europe, serious questions remain regarding commonality of interests. Yet despite continuing threads of divergence among EU member states, the general trend has been one of greater convergence of interests, greater collaboration, increased European Commission responsibilities and increased pooling of sovereignty within this issue area. Of course this trend is relatively recent, resulting largely from a series of events or phenomena over the last decade, especially the Russian-Ukrainian energy crises starting in 2006, reluctance on the part of some EU members to engage Moscow individually on this score vice a preference for collective action, and doubts in many European capitals over US leadership and capability to lead in the wake of the Iraq war.

Meanwhile, across both sides of the Atlantic, it is obvious that the global energy system is changing dramatically. In whatever new configuration that develops, it is possible that the transatlantic partners will need each other more, to address global

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challenges associated with climate change, learn best practices and share energy technologies, balance new global energy consumers, prevent interdependencies from morphing into predatory monopolies, safeguard critical infrastructure or minimise casualties while lightening the logistical burden on western military forces in harm's way. Whether the transatlantic partners can together successfully navigate these shoals depends in large measure on the degree to which they share similar perspectives or perceptions.

It is possible though that the EU and the USA – with their divergent emphases on shale gas and renewable energies – are already committed to paths that will set them off on two terminally diverging trajectories. This would bode poorly for providing the framework for a transatlantic journey towards cleaner energies or for the development of a transatlantic counterweight to China's and India's new market power. Instead of being big fish in a small energy fish pond, Europe and the USA could risk, by following separate trajectories, becoming small fish in a global fish pond. Together, we invite you to explore these and other topics with the authors in this issue of the Journal of Transatlantic Studies.

### **Notes on contributors**

Dr John R. Deni is a Research Professor of Joint, Interagency, Intergovernmental, and Multinational (JIIM) Security Studies at the Strategic Studies Institute in the USA. He completed his doctoral degree in international affairs at George Washington University in 2005. He previously worked as a political adviser for senior US military commanders in Europe. While working for the US military in Europe, Dr Deni was also an adjunct lecturer at Heidelberg University's Institute for Political Science. He is the

author most recently of the book *Alliance Management and Maintenance: Restructuring NATO for the 21st Century*.

Dr Karen Smith Stegen is the KAEFER Chair of Renewable Energy and Environmental Politics at Jacobs University and an associated scholar with the Bremer Energie Institut, both located in Bremen, Germany. She holds an international MBA and received her Ph.D. in political science from Northwestern University. Dr Smith Stegen began her energy career over two decades ago with a major US energy company. Her recent publications include articles for Energy Policy and Risk Management, and she has been a featured speaker at numerous industry and academic conferences.