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National Energy Policies:

Obstacles on the way to implementing a common
European policy?

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Degree of Master European Political and
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Abstract: In March 2006, the European Commission launched the new Green Paper in which energy policy has become a top priority for the EU agenda. Both the lack of massive investments in infrastructure and the non-compliance of the recent Directives to liberalize the gas and electricity markets make evident that something is wrong between national policy and supranational scopes represented by the EC. In fact, this thesis will focus on how the national energy policies diverge to prevent supranational goals set by the Green Paper 2006. The necessity to deep on such arguments is axial to understand the internal and external dimension of the European integration due to the fact that several national models are protecting their national markets and bridging particular interests with external suppliers like Gazprom. In short, this thesis will prove that a review on a clear European approach is needed not only to prevent huge contradictions between member states but to ensure coherence of the CFSP.

Key words: Energy Security, Internal Market, National Champions, CFSP

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Introduction

In the beginning of the new century, the European Union has been involved in multiple historic processes that would modify its political and economical shape in long terms. Among all the multiple areas that have been considered in the EU in the last seven years, there is no doubt that the major challenges seemed to be linked to three structural projects: the introduction of a single currency, the enlargement towards the East and the ratification of a Constitutional Treaty. Despite the fact that these issues are still part of the agenda, the end of the first decade of the new century will prove that the EU is changing focus and concerns.

On the one hand, such turning point can be explained by the intrinsic development of the challenges themselves. In fact, the introduction of the euro is an on-going process that has tended to be more stable, as Slovenia becomes part in 2007 and the euro-zone GDP rates are growing faster; the enlargement to the East has been formally achieved; and the double rejection of the Constitutional Treaty in France and the Netherlands in 2005 has frozen the ratification process for a long while.

On the other hand, this change of focus is linked to international inputs, which is the same, structural transformation in the international system that has obliged the EU to consider new issues as priority in the agenda. The evident increase of oil and gas prices in 2004, the ratification of the Kyoto Protocol (and its implementation) and the Iraq war in 2003 have lead to an enormous reconsideration of the energy policies both in the national governments and the European Union institutions. In other words, energy policy has gradually become the central area to discuss about three interconnected issues: corporate competitiveness, climate change and security of supplies.

In fact, the European Commission concerns about energy policy are clear in the publication of the Green Paper 2000 in response to security of supplies' risks for the member states. However, it would be only through the the Green Paper in 2006 that the European Commission would highlight the need to create an integrated and coordinated approach between three energy objectives: sustainability, competitiveness and security of supplies. Put simply, the Barroso Commission has proposed to achieve the real liberalisation of energy markets (gas and electricity) without harming the environment and the competitiveness of the private companies. The problem of such formula is that it does not change anything in relation

to the European Commission objectives of 2000. Moreover, it can be claimed that it has changed the degree and emphasis of the goal proposed and the political determination of the European Commission to put into practice that objectives, but not the essence. In this line, is legitimate to pose a central question that will guide the entire thesis until the end: Which are the main obstacles for the creation of a European coordinated energy policy?

The main argument that is considered to answer such research question is that the national energy policies divergence prevents the achievement of the EU objectives proposed by the European Commission in the Green Paper published in March 2006. As a consequence, to analyse deeply which the main divergences are between national energy policies, the structure of the thesis will be divided into three separated but interrelated chapters.

The first chapter will aim at showing the process of politicization of the energy issues by the Barroso Commission on the basis of Barry Buzan theoretical approach. Therefore, it will firstly be deepened on why energy has become important for the EU and how the Barroso Commission upgraded the energy policy throughout the last two years (2005-2006). To conclude with the chapter, it will be proposed the empirical evidence that external dependence of the EU and national energy consumption and production mix are heterogeneous not only between the largest member states but also among the Eastern newcomers in May 2004. Indeed, statistical data provided by the International Energy Agency (IEA) and the Eurostat will be used in the last part in order to confirm the trends and the significance that the energy policy has for Europe.

The second chapter will move directly to seek concrete aspects of the national energy policies that are both converging or diverging in terms of the EC's energy objectives. Prior to focus on national and European elements of energy policy, it will be presented the Dieter Helm's theoretical approach that supports the end of the liberal paradigm instruments and welcomes the era of multi-dimensional approach in response to the main externalities: climate change and security of supply. In fact, the chapter will be based on the analysis on the last two variables by assessing the process of assimilation and approximation of new environmental policy instruments (NEPIs) among the member states (for the climate change externality) and the reinforcement of national energy models in line with the lack of investments and uncertainty of energy supplies (for security of supplies).

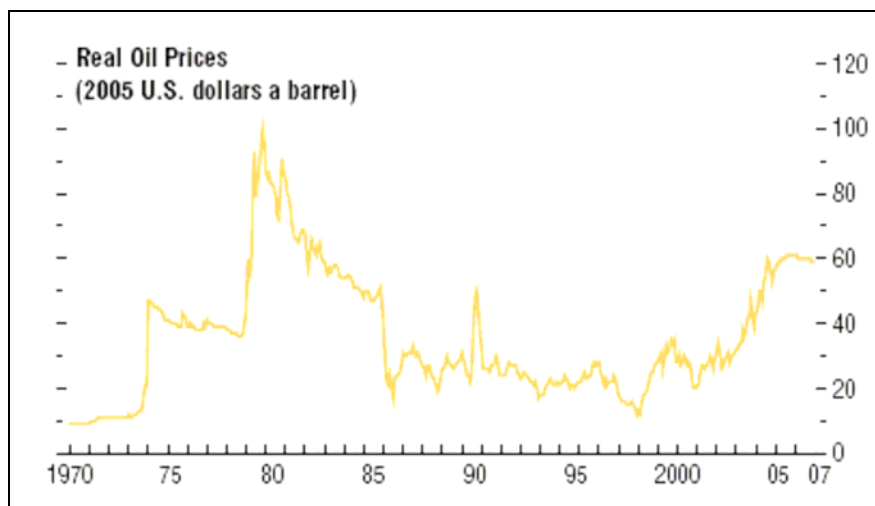
The last chapter will associate the consolidation of the market power and neo-dirigisme models analysed in the previous chapter, to prove that certain national policies not only prevent the energy policy goals of the EC but they go further by influencing on the coherence of the external dimension of the EU, particularly, the Common Foreign and Security Policy coherence. In effect, this chapter will aim to confirm the existence of national energy models that supports the so-called Western ‘national champions’ that prevent the liberalisation of the markets by building bridges with external suppliers, especially, the Russian state-owned company: Gazprom. The confirmation of such increasing external dimension of the EU energy policy will lead to present a case study. The central Asia region case will prove to be an empiric demonstration on how the logics of national policies, in the largest member states, are not compatible with the EC energy policy goals neither do with the vertical and horizontal coherence of the CFSP.

Finally, the conclusion will attempt to resume the main outcomes that derive from the analysis of the national policies to respond to climate change and security of supplies. In principle, this study aims to prove that in both externalities there is no common national ground to create and protect the energy goals proposed by the European Commission. In brief, it is expected to test the hypothesis by confirming the lack of convergence in environmental and security of supplies instruments that prevent the achievement of European energy common policies. Such evaluation will be completed with a general assessment of the EC communication ‘An Energy Policy for Europe’ presented in January 2007.

1. The EU's politicization of energy issues

1.1 Why energy policy in the EU's agenda?

In the last two years, there are three kinds of reasons that explain why the EU is considering the energy policy as a primary target. The first leads with geopolitical factors outside the EU associated with suppliers and consumers. The delicate situation in both, the Iraq's post war instability and the efforts of the Iran's government to continue with its national programme to enrich uranium, has inflamed even more the oil-rich Persian Gulf region. In addition to this, both China and India's enormous economic growth are depending on the increasing rates of hydrocarbons' consumption that tends to push for a race among potential suppliers to feed the biggest players of the system. The second reason is linked to a specific external relationship of the EU and the Russian Federation. Disputes between Moscow and Kiev over gas prices in January 2006 with potential consequences for citizens and industrial consumers, made evident the risk that the EU would face since the dependence of hydrocarbons are in hands of the Russians and its main producer: *Gazprom*. Political leverage from Moscow through this enormous state-own company becomes worse when the oil prices reached a peak of around 60 dollars a barrel (30 dollars more in the period 2002-2005) as the graphic of the International Monetary Fund depictsⁱⁱ.



Source: <http://www.imf.org/external/pubs/ft/weo/2006/01/pdf/c2.pdf>

ⁱⁱ <http://www.imf.org/external/pubs/ft/weo/2006/01/pdf/c2.pdf>, 'Oil Prices and Global Imbalances' (Chapter II) Report presented by the International Monetary Fund. pp-72, accessed February 27th 2007

This enormous pressure that the high prices of hydrocarbons put against the economic structure of the European Union introduces our last point: the role of the fragmented national energy market. The market of gas, oil and electricity are far from being unified and achieve the status of competitive as the speech of the competition commissioner reflects: *“The report confirms that energy markets are not functioning properly. Its disappointing conclusion is that more than a decade after having launched the drive for liberalisation, we are still far from having a single, competitive and well-functioning European energy market”*ⁱⁱⁱ. Wars on takeover bids between the so-called national champions (eg. Gaz de France-ENI) shocked the EU Commission ambitions and thus creating a negative image for the effectiveness of the competition authority that used to reinforce the Commission interests. Moreover, the atomized EU’s energy market was evaluated on the basis of the entry in force of the Kyoto Protocol agreement in the end of 2005. The EU has certainly embarked itself to reduce the green house emissions and thus testing its capacity to lead the global green agenda without the US, China and India. Put simply, the EU’s energy market is under both the intrinsic pressure to become more efficient for its still national-oriented structure and the external pressure of the binding Kyoto’s commitments. In other words, the European internal energy market and the international security dynamics has been playing a more intense role to make react the EU Energy Commissioner, Andris Piebalgs, as follows: *“It is clear that Europe needs a clearer and more collective and cohesive policy on security and energy supply”*^{iv}. In the same line is the Competition commissioner Kroes: *“Europe so badly needs for security of supply”*^v. Such association, energy and security, has gone even further when a report of the Commission to the European Council in 2006 connected the internal and external dimensions as follows: *“The legitimate right of individual Member States to pursue their own external relations for ensuring security of energy supplies is not in question. Nonetheless, the development of a coherent and focused external EU energy policy, drawing on the full range of EU internal and external policies, would enhance the collective external energy security of the Union. (...) This paper considers how the EU external relations, including CFSP, can be used more effectively to pursue, our common objective of securing reliable flows and affordable and*

ⁱⁱⁱ <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/07/4&format=HTML&aged=0&language=EN&guiLanguage=en>, Neelie Kroes Speech January 10th 2007, accessed March 10th 2007

^{iv} <http://www.themoscowtimes.com/stories/2006/01/10/002.html>, ‘Europeans threaten to revisit gas policy’, *The Moscow Times*, 10 January 2006. accessed March 15th 2007

^v <http://www.euractiv.com/en/energy/kroes-renews-calls-split-energy-firms/article-161466>, ‘Kroes renews calls to split up energy firms’, accessed 14 March 2007

environmentally sustainable energy”^{vi}. Such report leads us to a more concrete process: how the EU tried to upgrade the energy issues through the leadership of the Barroso Commission.

1.2 The Barroso Commission upgrades the energy policy

The Barroso Commission is the key institutional actor to understand why several issues related to the energy policy reached the top of the agenda. In fact, Ms. Soewarta, the cabinet member of the DG energy explained in the College of Europe that nobody believed that in only two years period, energy topics will be so important for the perspectives of the actual president of the EU Commission.^{vii} Anyway, many general reasons could have influenced on the Commission to upgrade abruptly energy issues: the low profile Prodi’s former presidency in terms of institutional strength, the need to find a “brand” to gain visibility among the others institutions, the rejection of the Constitutional Treaty in two founding members, the weak Services Directive approved in February 2006, the *lost battle* to maintain the rigidity of the Stability and Growth Pact in 2005 and the mid-term review of the Lisbon Agenda (2005). Alternatively, there are three specific problems that are quite visible for the citizens that cannot be ignored from the EC perspective: the electricity black outs^{viii}, the tsunami and similar natural disasters associated to the environmental global deterioration and the weakness of the EC competition policy to prevent the return of national protectionist policies.

Both the general and the specific reasons’ weight are quite hard to assess. According to Van Ham, there is a key point to be understood: “*It’s about perceptions and temporary trends. For the Commission, the Kyoto environmental compromise has great visibility and was more influent than the rest of the energy issues*” and finally he adds a pragmatic reason by which the EC will be much more supportive of promoting global environmental targets: “*The Kyoto Protocol target promises more than security of supplies. You can have clean energy, promote your image, let the process of technological spin off starts and then, in the end, sell that technology*”.^{ix} Although it is not possible to set a hierarchical table by ensuring the main drivers of such agenda’s upgrade, what is sure is the renew commitment expressed in the EC Green Paper published in the beginning of 2006: “*The energy challenges facing Europe need*

^{vi} An external policy to serve Europe’s energy interest. Paper from Commission/SG/HR for the European Council. S/160/06.

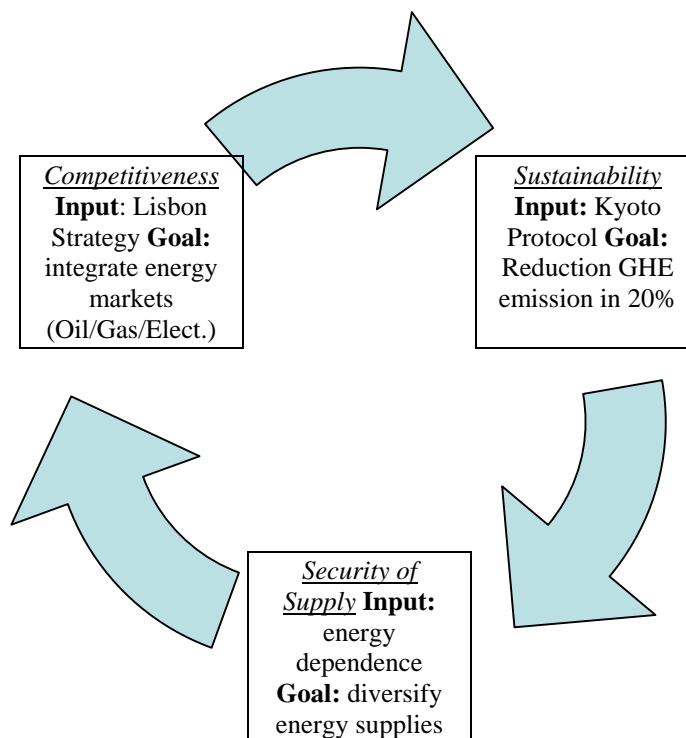
^{vii} College of Europe, S. Soewarta Speech: “Energy for a changing world”, February 21st 2007.

^{viii} See more: <http://www.euractiv.com/en/energy/total-blackout-narrowly-avoided-outage/article-159418>, “Total blackout narrowly avoided after outage”, accessed March 20th

^{ix} Peter Van Ham. Interview. Bruges (Belgium). March 15th 2007.

a coherent external policy to enable Europe to play a more effective international role in tackling common problems with energy partners worldwide. A coherent external policy is essential to deliver sustainable, competitive and secure energy. It would be a break from the past, and show Member States' commitment to common solutions to shared problems^x. This statement resumes the originality of the energy policy by assuming a *break from the past* and thus setting three energy common objectives for the EU: internal competitiveness, environmental sustainability and security of energy supply (See Graphic). All of them should be coherent with the EU external policy. The problem now lies on one question: Can we considered the move of the Commission as a “securitized policy” or there are differences in each goals that explicitly mentioned by the Green Paper?

Energy Aims into the Integrated Approach- EC Green Paper 2006



^x European Commission, *Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy*. Brussels, March 08 2006. pp-14

1.3 The politicization of the energy policy and the external dimension

Given the fact that the EU Commission set the common objectives in the Green Paper 2006, it is necessary to revise some notions about the idea of securitization as a process. According to Buzan's theoretical assumptions, there are three types of status for a policy: non-politicized, politicized and securitized. The key part to distinct a policy among the categories will mainly depend on how the state reacts in terms of decision making and resources. The non politicized is defined as the policy that "*the states does not deal with it and it is not in any other way made an issue of public debate and decision*"^{xi}. The politicized category makes the difference when Buzan proposes: "*the issue is part of the public policy, requiring government decision and resource allocations or, more rarely, some other form of communal governance*"^{xii}. Finally, the securitization of a policy goes further and could even imply urgent and non conventional decisions as it is specified: "*the issue is presented as an existential threat requiring emergency measures and justifying actions outside the normal bonds of political procedure*".^{xiii}

On the one hand, this conceptual framework is useful to support the idea that the EC Commission has leaded the *process of politicization of the energy objectives* with an integrated approach in the last three years (2004-2007) with clear inputs since the end of the 2005. On the other hand, the upgrade of the energy policy described before, were neither presented as *existential threats* nor justified through actions that go further the political procedure of the EU. In other words, the EC has tended to politicize the triple energy objectives but it has *never reached the notion of securitization* as Buzan defines it. To test both affirmations, it is important firstly to highlight that the Prodi's Commission had three priorities in its agenda that left apart the energy policy as secondary one: enlargement, institutional reforms (voting procedure) and the appropriate implementation of the euro.^{xiv} The only important inputs of the Prodi's EC, were the Directive 2003/54^{xv} and Directive 2003/55^{xvi} that replaced the first directives to integrate the energy single market in 1996 and

^{xi} Barry Buzan, Ole Weaver, O. Wilde. *Security: A new framework for analysis*, Lynne Rienner Publishers, London, 1998, pp-26

^{xii} *Ibid.*

^{xiii} *Ibid.*

^{xiv} http://www.europa-eu-un.org/articles/en/article_3899_en.htm, EC President Prodi's Speech on Commission Objectives and Achievements, October 12th 2004, accessed March 13th 2007

^{xv} http://www.europa-eu-un.org/articles/en/article_3899_en.htm, Directive 2003/54 concerning common rules for internal market of electricity, 23 June 2003, accessed March 1st 2007

^{xvi} http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/l_176/l_17620030715en00570078.pdf, Directive 2003/55 concerning common rules for internal market in natural gas, 26 June 2003, accessed March 3rd 2007

1998 respectively. The main scopes were to create a more comprehensive legal framework for developing a single, efficient and transparent gas/electricity market and the mandatory rule that imposed each member state to have an independent regulator. Contrary to what expected, the transpositions of both Directives were highly contested by the Barroso Commission as it took actions against member states that have still not opened up their energy market. The Commissioner Piebalgs announced the second phase of infringement procedure of the Directives 2003 (gas and electricity) which goes against sixteen member states by commenting in November 2006: “*Only full and complete implementation of the Directives by the Member States can ensure the establishment of an internal electricity and gas market which guarantees a real choice of gas and electricity supply for all European consumers as of 1 July 2007*”^{xvii}. The four largest member states and six Eastern member states are part of the list while the European Court of Justice (ECJ) already ruled against Luxembourg for electricity and gas and Spain in gas on May and November 2006 respectively.

By the way, the Barroso Commission has benefited from a sort of transition towards the energy policy. This temporal bridge can be found in the European Security Strategy in December 2003 that classified the energy dependence as one of the global challenge by stating: “*Energy dependence is a special concern for Europe. Europe is the world’s largest importer of oil and gas. Imports account for about 50% of energy consumption today. This will rise to 70% in 2030. Most energy imports come from the Gulf, Russia and North Africa*”^{xviii}. Compatible with such concern, the new EC president set its main priority on the basis of the updated Lisbon Strategy in 2005 by introducing the idea that the general framework to become the most competitive global economy will be based on sustainability: “*The Commission proposes to refocus the Lisbon agenda on actions that promote jobs and growth in a manner that is fully consistent with the objective of sustainable development*”^{xix}. In fact, the Commission pushed forward the energy agenda through three key inputs: the proposal for the Directive concerning measures to safeguard security of electricity supply and infrastructure investments (approved in December 2005), the Energy Community Treaty (May 2006) and the Green Paper (March 2006). Not to mention, the Commission recommendation that demands a release of security oil stocks following the supply disruption

^{xvii} <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/06/1768&format=HTML&aged=0&language=EN&guiLanguage=en>, The Commission takes actions against the member states which have still not properly opened up their energy markets, December 12nd 2006, accessed March 3rd 2007

^{xviii} European Council, *European Security Strategy*, Brussels, December 2003, pp.4

^{xix} <http://www.euractiv.com/en/agenda2004/lisbon-mid-term-review-commission-mobilise-member-states/article-134829>, Lisbon Mid-term review: Commission to mobilise member states, January 31st, 2005, accessed March 9th 2006

caused by Hurricane Katrina^{xx}. The next table will summarize the action of each instrument mentioned:

EC Input	Instrument/s & Considerations	Type of Input
<i>Directive concerning measures to safeguard security of electricity supply and infrastructure investment (2005)</i>	Preamble - Absence common policies	More investment mem. states
	Article 6 - Networks Investments	More control from EC
	Article 7 - Reporting elect. supply	
<i>Energy Community Treaty All defined Article 1 (a), (b), (e)</i>	Create a single energy market with neighbours	More Common Approach
	Boost security of supply Southeast Europe	External Dimension considered
	Develop Network Energy Market competition	
<i>EC Green Paper 2006 2.1, 2.2, 2.3, 2.4, 2.5, 2.6</i>	Complete gas and electricity markets	More Common Approach
	Enhance Security of Supply - Solidarity	External Dimension Considered
	Tackle climate change	External Dimension Considered
	Boost Innovation	More investment R&D
	Create Coherent external energy policy	External Dimension Considered

Legal Framework for the politicization of the energy agenda under Barroso Commission 2004_2006

The impulse of the Barroso Commission however cannot be considered as a classic securitization of the energy objectives. The inputs that we have already mentioned are not located further the political bound of the EU procedures as other topic did^{xxi}. The Directive 2005, the Energy Community Treaty and the Green Paper 2006 are emphasising an integrated approach that needs to be followed without ever mentioning that the Union would be threatened by no complying that goals. Consequently, it is much more evident that the Barroso Commission's choice to upgrade the energy issues fit better with the definition of politicization of Buzan, which is the same: the need to take governmental decisions regarding the topic, the allocation of more resources and the implementation of a sort of communal governance. In fact, the Green Paper 2006 tends to create common mechanisms to cope with the obstacles that would prevent the EU to achieve its triple aims (ex. The establishment of a European grid code) and gives special attention to the external dimension through the solidarity concept, environmental commitments and a coherent external policy. The link between internal and external dimensions has never been so clearly expressed regarding to

^{xx} <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32005H0885:EN:NOT>, EC Recommendation of 7 December 2005 on the release of security oil stocks, accessed March 17th, 2007

^{xxi} There is no emergency European Council meeting to discuss the three energy objectives that the Commission proposed in the Green Paper 2006. This fact could be contrasted with the international terrorism and the urgent meeting the EU had after the 9/11 terrorist attacks in the US.

energy matters: *“The first step is to agree at Community level on the aims of an External Energy Policy and on the actions needed at both Community and national level to achieve it. The effectiveness and coherence of the EU’s external energy policy is dependent upon the progress with internal policies and, in particular, the creation of the internal market for energy”*^{xxii}. The external dimension’s relevance is confirmed by putting into practice the Energy Community Treaty which seeks to create a common approach in the EU backyard concerning energy efficiency, security and innovation. The President of the EC did not hide this trend last November, when he affirmed: *“The external dimension of Europe’s common energy policy is so important that I would like to make clear today my intention to make energy a central issue at every EU Summit with third countries throughout 2007”*^{xxiii}. Apart from that and compatible with Buzan’s definitions, the Directive concerning measures to safeguard security of electricity and gas supply encourages the allocation of funds to expand both transmission and distribution system in order to consolidate a vast and interconnected European energy network. Put simply, all the three EC recent inputs will still depend on how the member states will transpose the Directives and follow the future Action Plan 2007 to be considered as an effective politicized issue. In this way, there is a politicization of energy objectives that may not reach the category of securitization as Van Ham clearly commented: *“The member states of the EU do not perceive the energy issues as a real threat. It is temporary. The EU’s citizens need to be shocked as they were after the terrorist attacks in the US. Energy concerns cannot replace that feeling”*^{xxiv}. To sum up, such process of politicization has been supported by clear statistical facts that reflects three general patterns: the energy dependence, the national heterogeneous energy structure and the geopolitical implications of the enlargement, as the next sections will claim.

1.4 General trends of the EU’s oil/gas dependence

The European Union as a whole is energy dependent upon oil and gas. This trend has been confirmed in the last decade as one of the *Euorstat’s report* outlines: *“The first estimate for 2005 shows that the EU depended on imports of 56% of its energy needs. Seen over a longer time period, between 1995 and 2004 energy consumption in the EU25 rose by 11%, production fell by 2%, and net imports rose by 29%. In 1995 the energy dependence rate*

^{xxii} *Ibid*; p.8

^{xxiii} <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/06/711&format=HTML&aged=0&language=EN&guiLanguage=en>, External Energy Policy Conference, Barroso Speech, November 2006. Accessed March 17th 2007

^{xxiv} Peter Van Ham Interview. Bruges (Belgium). March 15th 2007.

stood at 44%”^{xxv}. Put simply, in ten years the EU energy dependence^{xxvi} rose by 12% and thus consolidating its exclusive position as the world largest importer of oil and gas, buying 82% and 57% respectively from outside^{xxvii}. Moreover, the prestigious SWP German Institute affirms that: “the total energy of consumption in the EU is expected to increase by 25% over a 30-year period and if no additional measures are taken, Europe will have to import a projected 71% of its energy by 2030, as opposed to 50% now”^{xxviii}. This overall situation is even more delicate since the oil and gas share as total primary energy supply in 2003 rose by 60%^{xxix} and the main suppliers of such needs are mainly two countries: Russia and Algeria. In fact, apart from the important shares of both countries as suppliers of the EU, the accord between the Algerian group *Sonatrach* and the Russian *Gazprom* in August 2006 has raised fears in the EU energy Commissioner Andris Piebalgs making evident the political consequences of the dangerous quasi-monopoly of the two non-EU nations suppliers^{xxx}.

Secondly, the international perspectives related to energy dependence is not better than the EU’s case if compared to North America and Asia regions consumptions patterns, as the next figure shows. According to the US Energy Information Administration’s report, the year 2015 would initiate a change of the “leadership of consumption” since the Asia grouping, fuelled by the expansionist economies of India and China, will overcome North America (US, Canada and Mexico) and almost duplicate the consumption of Europe in terms of British thermal units (Btu). Moreover, the Asiatic leadership will increase until consuming only 12% less than the North American and European regions *together* in 2030. Nonetheless, the international situation does not necessarily represent a relief for Brussels but a minor aspirin with short-range impact. The enormous energy dependence’s headache can be explained by deepening the intra-EU divergences in terms of consumption, production and energy production.

^{xxv} <http://europa.eu/rapid/pressReleasesAction.do?reference=STAT/06/126&format=HTML&aged=1&language=EN&guiLanguage=en>, Eurostat Report, September 16th 2006, March 10th 2007

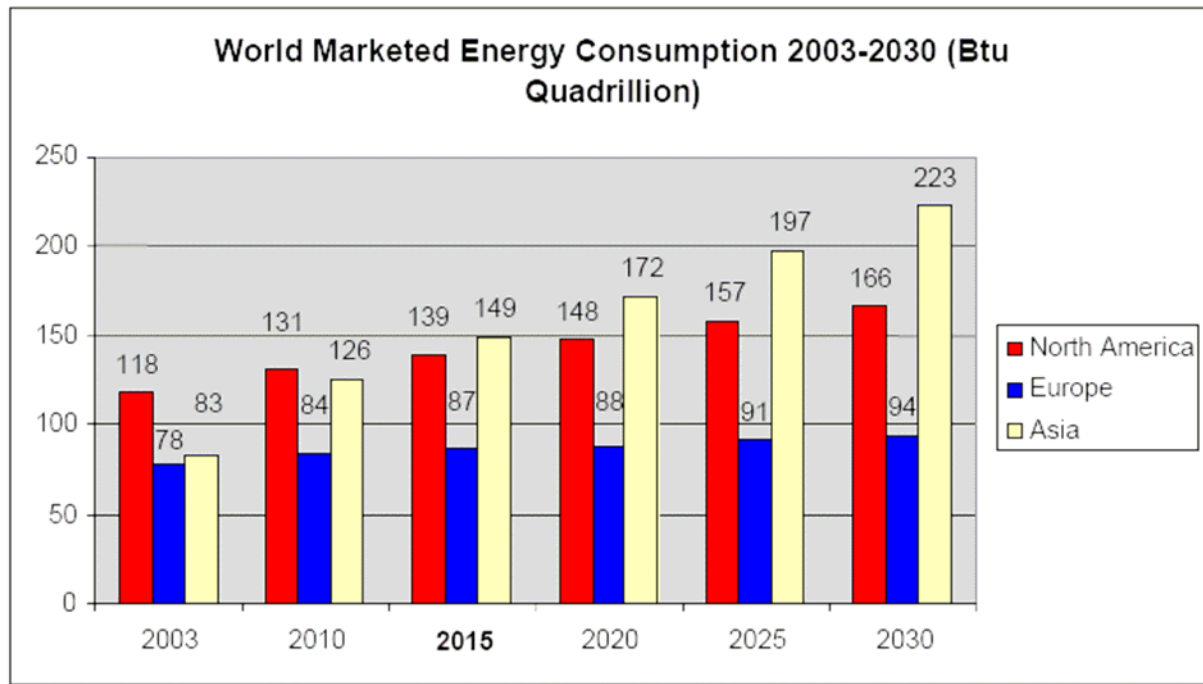
^{xxvi} Energy dependence is defined by Eurostat as “dividing the net imports by the gross consumption, expressed as a percentage”. *Ibid*.

^{xxvii} See more at: <http://www.ameinfo.com/107444.html>, EU to reduce oil dependence, January 11 2007, accessed March 09th 2007

^{xxviii} http://www.swp-berlin.org/common/get_document.php?asset_id=352, German Institute for International and Security Affairs: “Perspectives for the EU’s External Energy Policy”. December 17th 2006. pp. 5, accessed March 09th 2007

^{xxix} *Ibid*;

^{xxx} http://www.eubusiness.com/news_live/1169737235.73/, “EU concerned about Russia-Algeria gas agreement” January 27, 2007, March 11th 2007



Source: *International Energy Outlook 2006*- <http://www.eia.doe.gov/oiaf/ieo/world.html>^{xxx}

1.5 National trends: consumption, production and dependence

There are several differences between the members of the EU. The energy dependence rate ranges from the Danish surplus as net exporter (+58%) to the -105% energy overdependence, which is the case of Cyprus. However, this section will only be concentrated on two key asymmetries: 1) The largest member states (UK, Germany, Italy, France) structural differences in energy consumption and production and, 2) the disparities between the new member states of the so called “Big Bang” enlargement that took place in May 2004.

Starting from the biggest players of the bloc, all of them were part of the world’s top ten ranking of oil importers in 2004 and, by contrary, none of them were in the first ten oil producers as the IEA’s table presents in the next figure. In addition to that, by adding the Netherlands to the EU’s biggest states, the worldwide share of imports rises to 18,4% just behind the US with the 25% of the total.

^{xxx} The OECD European category represents the following countries: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Slovakia, Spain, Sweden, Switzerland, Turkey, and the United Kingdom.

World Oil Importers (2004)			World Oil Producers (2004)		
Country	Mt.	% World Total	Country	Mt.	% World Total
US	577	25%	Saudi Arabia	519	13%
Japan	206	9%	Russia	470	12%
China	123	5,50%	US	307	7,80%
Korea	114	5,10%	Iran	205	5,20%
Germany	110	4,90%	Mexico	188	4,80%
India	96	4,30%	China	183	4,70%
Italy	93	4,20%	Venezuela	162	4,10%
France	85	3,80%	Canada	143	3,60%
UK	63	2,80%	Norway	139	3,50%
Netherlands	60	2,70%	Nigeria	133	3,40%
EU Top Ten Total	411	18,40%			

Source: IEA, Key energy Statistics 2006 Edition

In spite of the fact that the biggest “common dependence” in the international markets is a reality, a more accurate zoom will shade light on the heterogeneous condition of the group. The energy dependence rate between them is far to be similar. The UK is the less dependent member state after Denmark in the EU. France is slightly under the EU media and, both Germany and Italy are largely dependent on energy net imports as the graphic shows.

Energy net imports and consumption, 2005

	Gross inland energy consumption			Energy dependence rate* (%)
	mio. toe	% change 2005/2004	toe/capita	
EU25	1637.2	0.0	3.6	56.2
Germany	324.2	-1.1	3.9	65.1
France	257.3	-0.6	4.2	54.5
Italy	181.9	2.4	3.1	86.8
United Kingdom	224.1	-1.3	3.7	13.0

Source: Eurostat STAT/06/126 – Energy in the EU: First estimates 2005

The reason that explains this heterogeneity goes further the aims of this section but it is important to highlight one more point: the type of energy that produces each country partly

explains the differences. The next table shows that France is nuclear oriented, Germany is balanced between gas-gas with some nuclear (only the 35% of French overall production), Italy is a shy producer of oil and gas that rejected the nuclear option and, the UK is the strongest one due to its combined production of the four categories. The British numbers are impressive in the Union since they produced almost the 70% and 44% of both oil and gas, in the overall EU25, respectively. Unfortunately, such contrasts are not only reflecting the potential distinction between the most powerful members of the EU and their energy policies but the introduction of new asymmetries in the eastern side of Europe.

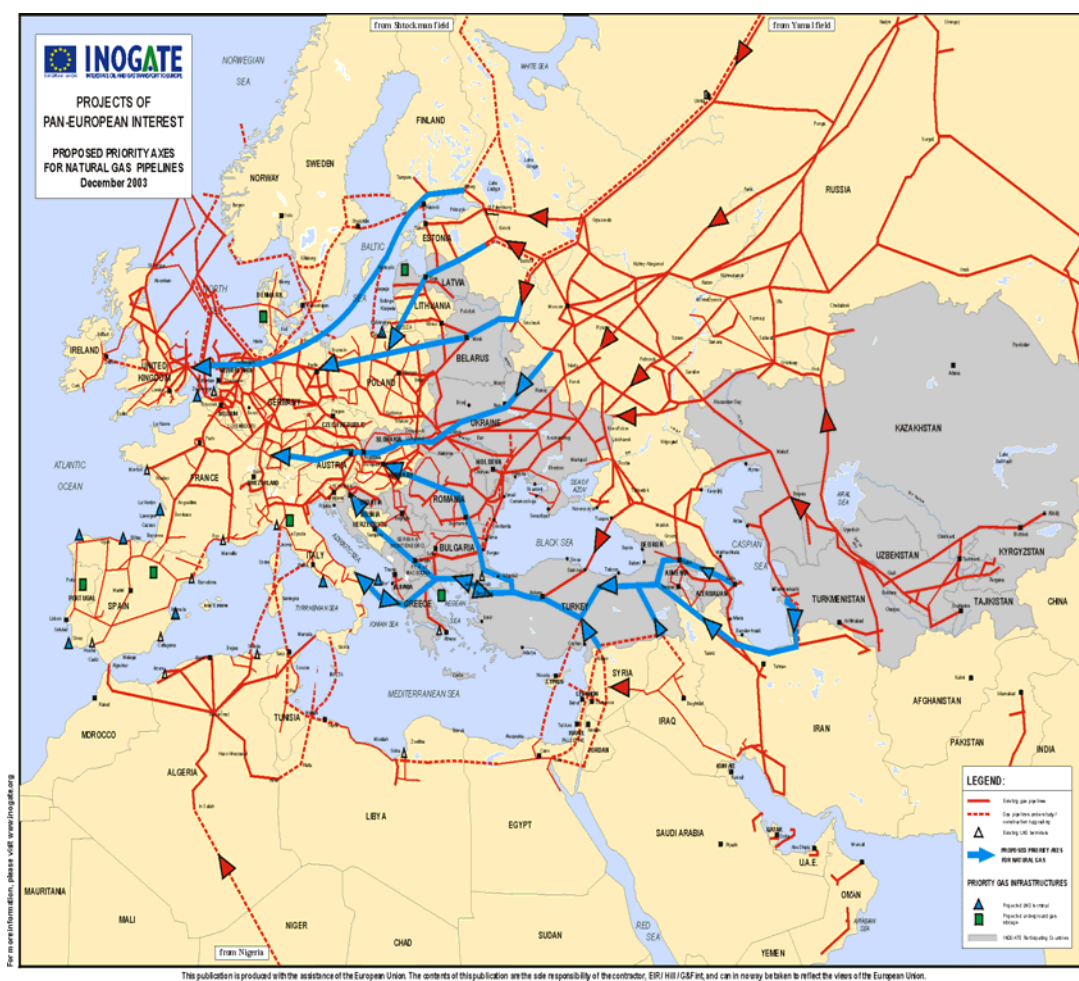
	Energy production 2005 (mio. Tonn of oil equivalent- toe)				
	Total	Crude oil	Gas	Coal	Nuclear
EU25	745.6	121.3	178.8	94.9	239.9
Germany	115.2	3.5	14.2	18.2	39.1
France	118.9	1.7	1.1	0.2	111.4
Italy	23.0	6.6	9.8	-	-
United Kingdom	196.9	84.5	79.4	12.0	20.2

Source: Eurostat STAT/06/126 – Energy in the EU: First estimates 2005

By the way, the ten new members of the EU are reinforcing the two former EU-15 patterns: the dependence of gas and oil linked to Russia as mono-provider and the national consumption and production divergences among the twenty five member states. The first trend is partly explained by Losoncz when he comments the condition of the Eastern countries: “*Dependence on Russian energy in these states remained unchanged, especially in the case of natural gas and oil. In fact, with energy demands expected to rise as domestic production drops, these countries will be increasingly dependent on imports in the long term. They can only tangibly reduce their energy dependence on Russia, and geographically diversify their gas and oil imports, at the expense of costs so big as to be irreconcilable with economic rationality*”^{xxxii}. Moreover, there are three new members such as Poland, Hungary and the Czech Republic that have been playing the role of transit countries between the heart

^{xxxii} <http://www.euractiv.com/en/energy/analysis-energy-dependence-supply-central-eastern-europe/article-155274>, ‘Analysis: Energy dependence and supply in Central and Eastern Europe’ May 16th 2006, March 13th 2007

of the continental EU and Russian's gas pipes networks. The Inogate's map shows how all the networks that feed Germany, Italy and France must transit through Hungary, Poland and the Czech Republic (in red lines) while the blue lines reflects the future proposed priority axes for natural gas. Again, it is the case that Slovakia, Romania and Poland will be the most favourable countries in terms of transit gas actors to Western Europe. Although all of them but Romania have become members of the IEA Agency^{xxxiii}, which means that they cooperate with crisis mechanism to handle oil supply emergencies, the consequent revenues that have been obtaining and will continue to have makes a case for a complicate geopolitical map related to security of energy supplies.



Source: http://www.inogate.org/en/resources/map_gas

Apart from that, the second trend can be easily described by mentioning several key findings of the tables offered by *Eurostat*.

^{xxxiii} IEA members are obliged to keep emergency stocks, equalling 90 days of net oil imports.

	Gross inland energy consumption	Energy dependence rate* (%)	Energy production 2005 (mio. toe)					
	mio. toe		Total*	Crude oil	Gas	Coal	Nuclear	
EU25	1637.2	56.2						
Czech Republic	34.2	37.6						
Estonia	4.6	33.9	EU25	745.6	121.3	178.8	94.9	239.9
Cyprus	2.2	105.5	Czech Republic	21.7	0.3	0.1	5.1	6.4
Latvia	3.5	94.0	Estonia	3.1	-	-	-	-
Lithuania	7.8	63.1	Latvia	0.3	-	-	-	-
Hungary	26.3	65.3	Lithuania	3.0	0.3	-	-	2.7
Malta	:	:	Hungary	9.1	1.4	2.3	-	3.6
Poland	86.2	18.4	Malta	:	:	:	:	:
Slovenia	6.3	55.9	Slovenia	2.9	-	-	-	1.4
Slovakia	18.5	67.8	Slovakia	6.2	0.0	0.1	-	4.9

Source: Eurostat STAT/06/126 – Energy in the EU: First estimates 2005

Although the overall average of energy dependence rate among the newcomers is slightly lower than the EU25 (around 54%), half of them overcome the media ranging from 65% to 105,5% as the Hungarian and Cypriot cases show respectively. The total production EU-25 Eastern share is very low by reaching only the 6,1%, while the composition of energy that they produce is quite diversified. Half of them support the nuclear option, led by the Czech Republic, which overall production rises up to almost the same nuclear volume produced by the UK alone. Again, the only country that produces all type of the four energy sources is the Czech Republic, while the largest producer of crude oil is Hungary that is quite below the line of the biggest countries that produce that sort of energy (France the lowest is 0,3 above).

The last remark lies on the importance of the coal for the biggest players of the region: Poland and the Czech Republic. They consume 56,4% and 20,4% of coal in the overall energy mix and they export 65% and 49% respectively of its production as the next figure shows clearly. Unfortunately, the coal- export oriented economies are becoming weaker since the modernization of both countries has implied structural modifications that influenced in the total output of coal, as the Institute of International Relations Clingendael reports: “During the last decade, the mining industries in both countries (Poland and Czech Rep.) have been restructured, resulting in the closure of unprofitable mines and in a reduction of the workforce employed in the coal mining industry. This has resulted in a decline in output for both industries”^{xxxiv}.

^{xxxiv} http://ec.europa.eu/comm/energy_transport/doc/2004_lv_ciep_report_en.pdf, Study on Energy Supply Security and Geopolitics, Final Report 2004., accessed March 17th 2007

Country	Oil		Gas		Coal		Nuclear		Renew.		Total	
Poland	19,7	22%	10,1	12%	56,4	65%	0	0%	0,9	1%	87,1	100%
Hungary	6,4	27%	10,7	45%	3,3	14%	3,2	14%	N/A	N/A	23,6	100%
Czech Rep.	8,2	20%	8,0	19%	20,4	49%	4,2	10%	0,6	1%	41,5	100%
Slovakia	3,3	17%	6,9	36%	3,9	20%	4,1	21%	1,2	6%	19,4	100%
Lithuania	2,7	31%	2,6	30%	0,1	1%	3,2	37%	0,2	2%	8,7	100%
Bulgaria	4,2	22%	2,6	14%	6,8	36%	4,6	25%	0,5	3%	18,7	100%
Romania	10,9	28%	15,6	41%	6,9	18%	1,3	3%	3,6	9%	38,3	100%
Total	55,4	23%	56,5	24%	97,8	41%	20,6	9%	7,0	3%	237,3	100%

Source British Petrol and EIA <http://www.bp.com/productlanding.do?categoryId=6842&contentId=7021390>

To sum up, the enlargement did not provide more energy security to the EU-15 but more uncertainty in terms of internal divergences rooted in both consumption and production trends. Not to mention the national energy particularities in the Eastern countries that still link their economies with the power of Moscow and its vast network of pipelines in the above-mentioned transit countries. These trends both among the largest member states and the new projections of the new members, make evident that the EC is considering a concrete issue that goes further a political choice. In fact, the next chapter will move to the national energy policies within the end of the liberal approach framework, that will facilitate the comprehension of the convergence/divergence process among the member states and thus reaching a conclusion whether the EU goals are prevented or not.

2. The new energy paradigm: convergence or divergence in the EU member states?

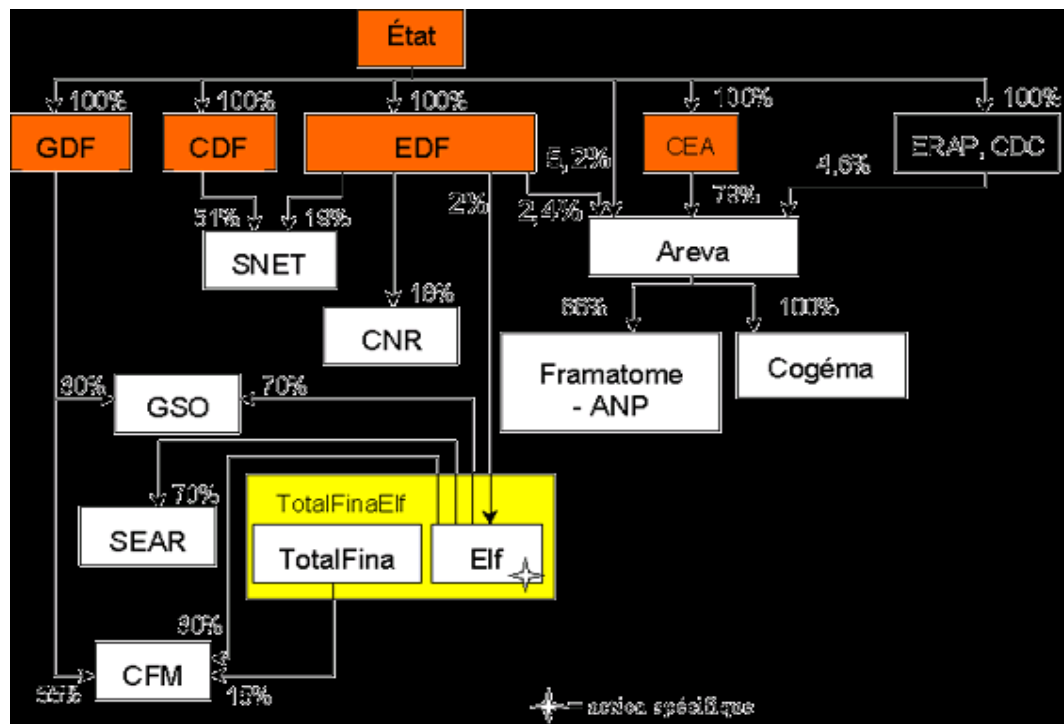
2.1 Shifting paradigm on energy: the end of liberal receipts?

The different national energy policies among the members of the EU are linked to the emergence of a new energy paradigm in the end of the nineties. Although such shift does not necessarily mean that the energy policies were compatible and coordinated before, the increasing pressure to find new mechanisms to respond makes even harder to consolidate a common approach between the member states. In this line, Dieter Helms provides a clear framework to deepen on how the ideas and the policies responses to the new challenges have completely changed in the last decade. That is why, his analysis is useful to be adapted to the European level to distinguish whether the member states have widened or reduced the gap in terms of energy strategies, policies or goals and thus assessing later the external implication with a more accurate perspective.

The originality of Helm's paper is to set clearly both the end and the emergence of a new energy paradigm that in the mid-nineties lead to a more complex picture in terms policy goals and instruments for all the major consumers and importers of energy. In fact, the paradigm that dominates the eighties and nineties in several countries of the EU, partly as reaction of the planning or state-owned approaches of the post war period, can be labelled as the liberal or negative response paradigm which Helms defines as follows: "*One policy paradigm in energy has been provided by set of ideas surrounding privatization, liberalization, and competition development in the 1980's. (...) If a particular outcome is unsatisfactory in some way the answer is more private ownership, the removal of restrictions on trading, and the promotion of competition*".^{xxxv} The clearest case that reflects this change was the UK's shift towards a market-oriented formula that impacted significantly in energy policy instruments by avoiding any kind of plans to shape both consumption and production as its Secretary for Energy declared in 1982: "*It is not even primarily to try to balance UK demand and supply of energy. Our task is rather to set a framework which will ensure that the market operates in the energy sector with a minimum of distortion and energy is produced and consumed*

^{xxxv} Dieter Helm, 'The Assessment: the new energy paradigm', in: *Oxford Review of Economic Policy*. Vol. 21, No.1, 2005, pp.2

efficiently”^{xxxvi}. Nonetheless, it will be explained later that not all the countries, with the exception of Norway and Sweden^{xxxvii}, changed at the same speed and intensity than the UK towards this model. Moreover, the French case is an enormous anomaly of this transition as the graphic makes clear^{xxxviii}. At any case, the divergence among national policies and strategies in energy issues will deal with the consequent differentiation related to the mutation towards such paradigm.



Total share (in percentage) of the French state participation in the national energy companies 2003 (Source Ministry of Economy and Finance of France)

Indeed, apart from national particularities and the French anomaly, the late nineties marked the end of a liberal configuration. In principle, the different modes of energy liberal receipts throughout Europe did not produce effective responses anymore to emerging elements that links the supply and demand sides. Although the first part has already mentioned the main reasons by which the EU has politicized the energy policy, it is also worthy to highlight that the turning point was the result of the gradual and enormous interconnection of issues that involves energy policies. Such interdependence of issues that converges into just one label

^{xxxvi} Nigel Lawson, ‘Energy Policy’, in D.Helm, Kay and Thompson, *The Market Energy*, Oxford University Press, Oxford, 1983 pp.26

^{xxxvii} Norway, UK and Sweden are the only countries to liberalize their energy markets (gas, oil and electricity) before the main EU Directives on gas and electricity liberalization of the nineties entered into force.

^{xxxviii} Electricite de France (EdF), Gaz de France (GdF) Charbonnage de France (CdF) was still 100% controlled by the French State in 2003 even if the oil sector was completely privatized (Total has now a technical assistance of the government that does not have influence in the corporate strategy)

(energy policy) can be explained in Europe as a combination of internal weaknesses, emanated on the liberal period, and the significant external pressures posed by a changing international order. In other words, the emergence of climate change and energy dependence as market externalities hit the ill-constructed liberal energy paradigm since Europe started to witness the ageing of assets and infrastructure, the lack of structural investments, the absence of a clear technological choice and gaps in the energy mixes of each member states. Moreover, the elements or new responses that the emergent paradigm would require went well beyond the former one due to the fact that only a multidimensional approach could really embrace the complexity of such. In principle, the multidimensional responses revive, to some degree, not the power of the state as the central actor (as the eighties witnessed) but as an intelligent coordinator between the internal demands and the external pressures. The state would become the principal agency to address and adjust the problems emerging from the most important externalities: security of supply and climate change. Such trend was welcomed by the most influential reviews in the developed countries like the US (NEPDG 2001)^{xxxix} and the EU Green Paper 2000. Put simply, the state would not longer be the basis for a liberal framework or the master planner for consumption and production but the promoter of competitiveness, sustainability and security of supply through multiple intervention modes. New elements of this soft interventionism are defined by Helm as follows: “*Security of supply has re-emerged as a policy concern at the same time as climate change has gradually become an over-reaching priority, and a host of new interventions have been deployed, including carbon related taxes, obligations to purchase specific non carbon technologies, emissions-trading schemes, and subsidies*”^{xl}. Nonetheless, the shift of paradigm that penetrated in the logic of the member states of the EU must be complemented firstly by the Commission input that recognises the energy challenges and new instruments since 2000. In effect, what Helm does not explain is how a supranational entity like the EC would play a role to coordinate progressively a common energy policy. The next part will deal with that point by showing how the EC tends to accept the weakness of its past policies and, in response to such negative trend, the need to become a more effective actor that facilitates the resolution of the liberal paradigm externalities.

^{xxxix} http://www.management.energy.gov/documents/nepdg_3001_3250.pdf, ‘National Energy Strategy 2001’, accessed March 18th 2007

^{xl} Dieter Helm, ‘The Assessment: the new energy paradigm’, in: *Oxford Review of Economic Policy*. Vol. 21, No.1, 2005, pp.3

2.2 The Green Paper 2000: The EC welcomes the multi-dimensional paradigm

The Green Paper 2000 is the key document presented by the EC that made evident the need to face the new energy challenges through a multidimensional approach as described before. Such document has paved the way to a gradual proactive engagement of the EU level that would support a more efficient national strategy to tackle the new external pressures in terms of energy issues. This official document was product of one enormous concern: the energy dependence as a long run trend. In fact, the Commission defined energy of supply as the main problem of the paper that was accompanied by climate change commitments (mainly the Kyoto Protocol) and the gradual integration of energy markets (gas and electricity). Despite the fact that this hierarchy of targets is clear and contrasts evidently the Green Paper 2006, the focus of this part tends to outline two concrete aspects of the Green Paper 2000: the recognition of the end of the liberal paradigm and the alternative instruments to respond to the new multi-dimensional approach in the EU level.

By starting from the recognition of the end of a liberal paradigm, the EC confirmed in the Green Paper 2000 that the energy of supply would be a permanent concern for the economy of the enlarged EU and thus putting enormous pressure to the static energy policies of each member state. This complex scenario would oblige the EC to accept that the EU level initiatives and responses had to be reformulated by embracing a new phase between Brussels and the member states, as written in the document: *“Energy concerns have been a permanent feature since the very beginnings of the European construction. (...) In the ECC treaty, however, the Member States chose not to lay foundations of a common energy policy. Subsequent attempts to include a chapter on energy, during the negotiations on Maastricht and Amsterdam Treaties, ended in failure. (...) Today, Member States are interdependent, both because climate change issues and the creation of the internal energy market. Energy policy has assumed a new, Community dimension. In this context, it is legitimate to question the wisdom of uncoordinated national decisions on energy policy”*.^{xli}

Secondly, the Green Paper has identified the inappropriate responses of several member states that combine different degrees of reminiscent post war planning policies with liberal

^{xli} European Commission, *Green Paper: Towards a European strategy for the security of energy supply*. Brussels, November 2000, pp.13

responses (typical of the eighties and nineties period) and thus creating a big heterogeneous European puzzle figure. The next figure with different VAT rates in the member states proposed by the EC shows perfectly the dispersion of prices that such different fiscal policies related to consumers could promote in the energy markets of the EU. The heterogeneity is such that is even difficult to separate Mediterranean from Nordic or continental groups. The distinction must be made case by case or product by product in terms of energy consumption due to the enormous fiscal divergence.

VAT rates in the Member States — 2000 (products and services as %)

Country	VAT — standard rate	Passenger transport	Natural gas	Electricity
Austria	20	10	20	20
Belgium	21	6	21	21
Denmark	25	exempt	25	25
Finland	25	8	25	25
France	19.6	5.5	19.6	19.6
Germany	16	16/7	16	16
Greece	18	8	8	8
Ireland	21	exempt	12.5	12.5
Italy	20	10	10	10
Luxembourg	15	3/0	6	6
Netherlands	17.5	6	17.5	17.5
Portugal	17	5	17	5
Spain	16	16/7	16	16
Sweden	25	12	25	25
UK	17.5	0	5	5

EC Commission Green Paper 2000- Page 54

The reaction to such messy picture was the proposal of an entire chapter called ‘A new reference framework for energy’^{xlii} that analyzes which instruments could facilitate the implementation of a more Kyoto-friendly policy without widening further the national energy policy gaps. In this sense, it is interesting to notice that the Commission made two central considerations. The first one is based on its own limitation to influence the supply side that belongs entirely to the national competence. In effect, the EC has mainly concentrated its policy on the demand side by enhancing energy saving for both household and industrial consumers and coordinate better taxation and state aid policy. Stabilisations mechanism for

^{xlii} It belongs to Part 2 of the EU Green Paper 2000 already quoted.

VAT revenue, a systemic inventory of state aids and a clearer legislative framework to boost energy efficiency and production of renewable are the concrete instruments selected by the Green Paper. Not to mention eventual mechanisms to facilitate the climate change goals such as the Emission Trade Scheme (ETS) approved three years later^{xliii}. Briefly, such orientation is compatible with the multi-dimensional paradigm due to the fact that post war planning strategies from the EU were not considered optimal anymore for tackling the new challenges. Two clear examples of such failure are both the Directive 68/414/EEC that basically obliges the member states to maintain oil stocks equal to ninety day consumption and the Directive 98/93/EC by which it is a ‘must’ to establish contingency plans for releasing reserves into the market, ensuring supply to particular costumers and creating an Oil Supply Group. The Green Paper 2000, in effect, did not reserve any positive assessment on such planning strategy when it states: *“These mechanism (the Directives) are in no way intended to deal with circumstances such as the present rise of oil. As a result, Community legislation or strategic reserves can have only a limited impact on concerns about energy supply”*.^{xliv}

Finally, linked to the orientation of flexible and multidimensional tools proposed by the EC, the second consideration is even more important because it refers for the first time to the *containment’s function* that a more integrated energy market could have since both national and private strategies might currently hamper unilaterally the Kyoto Protocol targets. Such rationale is expressed clearly in the document when is detailed the second pillar of the new framework for energy: *“The second factor is the establishment of a progressively integrated energy market. It is in the light of that measures have to be adopted to offset the challenge of climate change at European Level. By establishing this energy market, national options or company strategies will have an effect that goes beyond the national level”*^{xlv}. Although this idea of national policies is addressed as a threat for one of the major global targets for the EU, as climate change is, it does not automatically exclude the possibility to undermine other areas that the EU pursues with the same degree of priority. Put simply, the EC recognises through its Green Paper 2000 that private and national actors have the necessary margin of manoeuvre in the energy markets to obstacle one of the EU’s external commitments. In the next lines, it will be assessed firstly how the largest member states energy models differ within the

^{xliii} See more on : http://ec.europa.eu/environment/climat/emission/implementation_en.htm (Directive 2003/87/EC), accessed March 18th 2007

^{xliv} European Commission, *Green Paper: Towards a European strategy for the security of energy supply*. Brussels, November 2000, pp.31

^{xlv} *Ibid*, pp.48

multidimensional paradigm and whether this contrast implies the main source that undermines a European energy policy.

2.3 The energy policy in the member states

The main goal of this part is to prove that national energy policies differ in a sufficient degree to undermine the implementation of common energy goals in the EU. Several kind of analysis could be made in order to confirm that structures, principles, history and political leadership of each member state configures a sort of *uniqueness* of each national energy policy. This kind of comparative method will not be used at all. By contrary, there will a deep search, within the paradigm of multi-dimensional responses inspired in the papers of Dieter Helm, of the source/s that creates the gap between the national players and thus preventing a common approach in the EU level. Hence, it will be an externality response-oriented analysis that will basically cover how the national instruments or logics to face such re-emergent challenges (climate change and security of supply) might eventually mitigate the European common goals in the energy field.

2.3.1 The environmental response of the member states

2.3.1.1 Climate change

One of the primary concerns that could divide the member states is often associated to environmental measures. Domestic, regional and international demands became enormous since the seventies by fuelling the vast majorities of the green parties in Europe and worldwide. In the nineties, the Rio Conference sponsored by the United Nations in 1992 launched the *greening* of the global agenda after the Cold War. Not to mention, the Kyoto Protocol era that leads to the European leadership in the climate change while ending the US primacy in environmental global targets. As a consequence, the main point is to understand whether the EU member states has reacted differently to this global process and to what extent could really prevent a common goal for Europe. The empirical evidence will show the contrary. Despite the particularities and uncoordinated chronological responses of the member states, there is an enormous share ground that makes the EU more compact that imagined.

2.3.1.2 New environmental policy instruments (NEPI's) in Europe

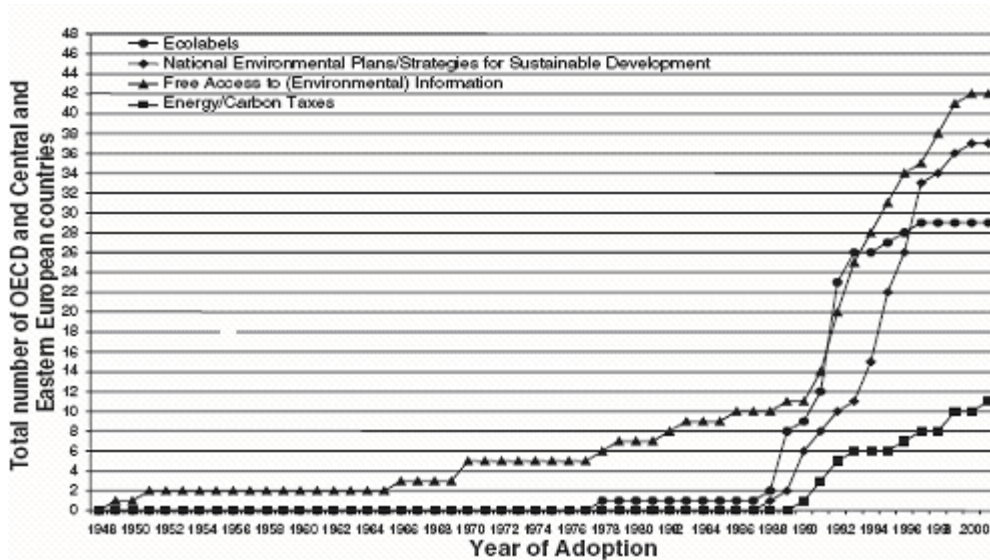
To prove that the EU member states have essentially a large ground of compatible environmental policies, it will be analysed the model of diffusion of the new environmental policies instruments (NEPIs), proposed by Tews and Jorgens^{xlvi}. The instruments that belong to that model are four: national environmental policy plans for sustainable development, eco labels, energy/carbon taxes and free-access of information provisions (FAIs). In fact, such model it will be useful for our goals for three concrete reasons: 1) All the NEPI's are basically voluntary instruments of the national governments that compliments the market oriented paradigm in order to adjust potential externalities as climate change; 2) The massive statistical data provided by the OECD under the model of Tews and Jorgens is the largest one in terms of application of NEPI's in the EU; 3) The solid empiric basis provided by the model can be completed with a more accurate explanation of the different (national members-EU level) logics by deepening the analysis of each element and its European convergence or divergence. In short, it will be used the model as the framework to analyse both: the empirical outcomes linked to the quantitative implementation of NEPI's and the qualitative logics of the spill over of those instruments in the EU.

2.3.1.3 The empirical evidence of the NEPI's

The first impressive remark that derives from the first graphic is an astonishing general convergence among the OECD members and the Central and Eastern countries in eco labels, national plans for sustainable development and FAIs since the very beginning of the nineties. This multi dimensional approach's takes off has partially contrasted the carbon related taxes instrument evolution in which its implementation was steady and less spectacular during the last decade. The following OECD figure shows all these trends that in words of Tews/Jorgens means that: "*A more recent shift in the prevailing policy pattern is the move from a sectorally fragmented and largely legally based regulatory approach to an integrated environmental policy characterised by softer and/or more flexible instruments such as voluntary agreements, eco-labels or ecological tax reforms*"^{xlvii}

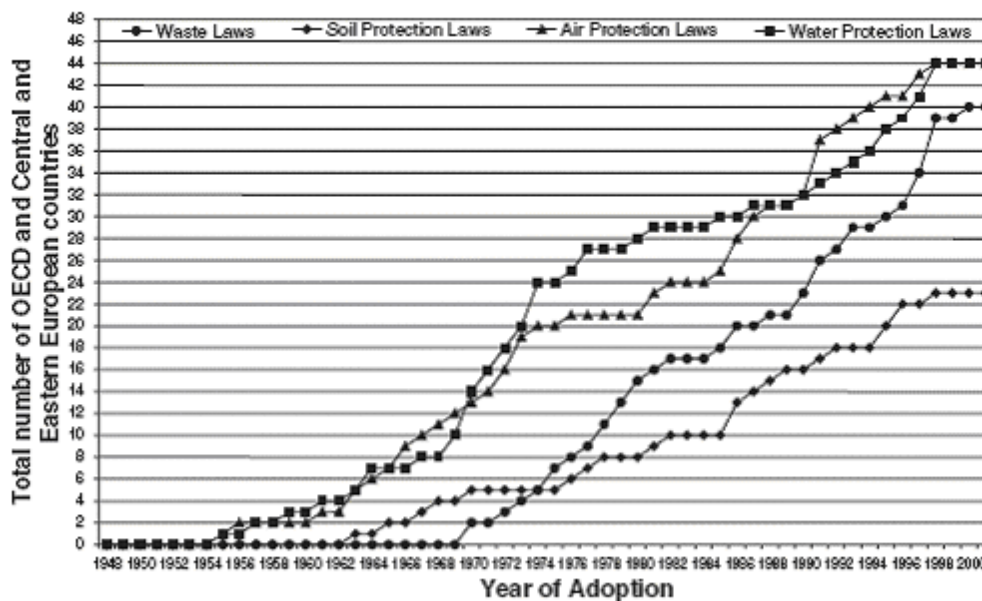
^{xlvi} Kerstin Tews and Helge Jorgens, 'The diffusion of new environmental policy instruments', in *European Journal of Political Research*, vol.42, No.1, 2003

^{xlvii} *Ibid*, pp-569



Spread of NEPI's in OECD countries and Central and Eastern Europe- Source Tews/Jorgen 2003

The second point is that the NEPIs convergence was accompanied by a *greener* legal framework that started to develop since the end of the sixties. On the one hand, the evolution in both categories water and air protection laws were huge since 1968 (already 16 OCDE countries approved a law on that area), while waste and soil protection laws achieved the same degree of convergence later on 1981 and 1991 respectively. On the other hand, except for the soil protection laws that only reach 23 countries, the three remaining categories were considered in the national laws for more than 40 countries of OECD and Central/Eastern Europe by the year 2000, as the second graphic confirms.



Spread of environmental laws in OECD countries and Eastern Europe. Source Tews/Jorgens 2003

To conclude with the OECD macro-statistical outputs, it is possible to affirm, at least, that there are two convergences: multiple NEPIs implemented and national legal frameworks. Indeed, there is no doubt that this general trend could have helped to create a common perception among Europeans and outside the EU borders too. Nonetheless, the problem of this empirical model is the difficulty to prove in which degree the widespread of such legal and practical framework, to face the environmental concerns in the members of the EU, was important enough to consolidate a common European approach. In order to assess more accurately that process, it will be moved to the analysis of each NEPIs across the EU member states.

2.3.1.4 Qualitative assessment of NEPI's in the EU

According to the model of Tew and Jorgens, the international diffusion of NEPIs can be explained as follows: “*We will argue that a motivation of national policymakers to adopt NEPI's is, to an important extent, influenced by the increasing vertical integration of the international system and intensification of the efforts of international organisations to actively promote new approaches*”^{xlvi}. The main problem of this argumentation is that it does not lead automatically to the idea that the national NEPIs implemented in the member states of the EU could provide the basis for common goals. Despite the fact that the model mentions indicative examples in Europe, it tends to focus on the global dimension and lacks of an accurate distinction between the logics of harmonisation and diffusion of NEPIs in the EU level. Consequently, the scope is to fill the gap between the examples offered by the model and the logics that the NEPIs assumed in Europe to understand if qualitatively there is enough convergence to have a common approach at the supranational level.

2.3.1.5 Harmonization and diffusion

Both harmonization and diffusion are the main mechanism of convergence that the EU presents in terms of NEPIs implementation. The first of them is considered essential for the analysis of the EU, as Liefferink and Jordan confirm: “*Harmonization is very much the core business of the EU. It is undoubtedly the most important mechanism used by the EU to secure*

^{xlvi} Kerstin Tews and Helge Jorgens, ‘The diffusion of new environmental policy instruments’, in *European Journal of Political Research*, vol.42, No.1, 2003, pp.579

national change and, probably, convergence. However, Directives in principle specify the ends to be achieved, but not the means of doing so. For this reason, harmonization will most directly affect the content of national policy. At the same time, the harmonization of policy content may have important ramifications for structure and style too^{xlix}. In fact, this is the case for the convergence of two NEPIs: eco-labels and FAIs. They depict a paradigmatic case that begins with a progressive assimilation to finish with a directive. The rationale of the assimilation process starts when a particular innovative national policy becomes a kind of best practice for the European Commission (the FAIs Swedish laws in 1949 and the introduction of an environmental German label through the ‘Blue Angel programme’¹ in 1978 are clear examples of national pioneers). After a systematic period of comparison and promotion through the EC, several states decide to implement unilaterally similar policies. The process comes to an end when the degree of European consensus is such that converges into a EC Directive. As a consequence, while the harmonization has been produced in eco-labels thanks to the European Council’s decision to introduce the ‘European Flower’ as a EU-wide eco label in 1992^{li}, the Directive on free access to environmental information in 1990 (revised in 2003)^{lii} ensured the harmonisation of the FAIs instruments across the member states. In short, the strongest legally binding instrument of the EU (harmonization) has reached a high degree of convergence on those instruments. Such positive outcome is much more mixed in comparison to the rest of the NEPIs.

Indeed, the national environmental plans and the energy carbon tax instruments are quite special and must be analyzed case by case. They do not follow the assimilation steps but rather an incremental approximation through diffusion that always remains subjected to national competences with general orientations of the EC. In these cases, the concept of diffusion proposed by Liefferink and Jordan is useful to distinguish it from the harmonization one: “*Diffusion refers to the process by which an innovation is communicated through certain channels over time among the members of the social system and includes both imitation and lesson drawing. This may happen for a wide variety of reasons. For instance, in situations of*

^{xlix} Duncan Liefferink and Andrew Jordan, ‘An Ever Closer Union’ of National Policies? The Convergence of National Environmental Policy in the European Union’, in: *European Environment*, Vol.15, 2005. pp.105-106

¹See more on: http://www.blauer-engel.de/englisch/navigation/body_blauer_engel.htm, Blue Angel Site, accessed April 10th 2007

^{li} http://ec.europa.eu/environment/ecolabel/pdf/regulation/regulation880_92.pdf, Council Regulation (EEC) No. 880/92 of 23 March 1992 on a Community eco-label award scheme, accessed April 8th 2007

^{lii} <http://europa.eu/scadplus/leg/en/lvb/l28091.htm>, Directive 2003/4/EC of the European Parliament and of the Council of 28 January 2003 on public access to environmental information and repealing Council Directive 90/313/EC, accessed April 01 2007

uncertainty or in order to increase the legitimacy of domestic policies, states may actively look for foreign examples”^{liii}. Confirming the empiric evaluation of Tews and Jorgens, this definition fits perfect with the situation of the national environmental plans and strategies for sustainable development in Europe, because the pioneer national models were the basis for further development. However, the few national promoters of environmental plans did not follow the steps of best practice by the EC due to the fact that they could include several measures that affect exclusive national competences (e.g education). The alternative is therefore the diffusion of such national models through the EC’s Environmental Action Plans (EAP) as general frameworks to make the national programs more compatible and comparable between themselves. The role of the EC is still fundamental to propose realistic guidelines and give room to general consensus in the EU. Unfortunately, the lack of commitment is a possibility as the current 6th EU EAP 2002-2012 has shown in its 2006 mid-review. According to the Institute for European Environmental Policy (IEEP), several objectives of the current EAP will not be reached by 2012 due to the fact that the environmental policy has been downgraded as result of the relevance given to the Lisbon Agenda.^{liv}

By contrast to this regular result of diffusion, it can be found the last element: energy taxes. Undoubtedly, this is a fiscal instrument that not only depends on the national competence but its impact may differ enormously since each state have different tax base (as the graphic shows in section 2.2). Put simply, this measure implies the most interventionist instrument of all the NEPIs by exerting big pressure to the national governments because it carries the competitiveness/environment trade off. In spite of all these obstacles that could have fostered scepticism among member states, the convergence was leaded by a combination of factors. Firstly, even if the Commission’s proactive energy carbon tax proposal in 1991 (for a 50/50 on both specific CO₂ emissions and general energy such as oil, gas and nuclear)^{lv} found an important drawback of many countries in the Council (Spain, Portugal, Greece, Ireland and UK)^{lvi}, this failure made evident that the process of harmonisation through the Scandinavian

^{liii} Duncan Liefferink and Andrew Jordan, ‘An Ever Closer Union’ of National Policies? The Convergence of National Environmental Policy in the European Union’, in: *European Environment*, Vol.15, 2005. pp.105

^{liv} See more on: http://www.eeb.org/activities/env_action_programmes/IEEPFinalReport6EAP-April2006.pdf, Institute for European Environmental Policy, ‘Drowning in process? The implementation of the EU’s 6th Environmental Action Programme, accessed April 11th 2007

^{lv} See more on : <http://www.american.edu/TED/eccarbon.htm>, ‘The EC Carbon Tax proposal 1991-1992’, accessed April 09th 2007

pioneers would not be enough. The direct consequence was the diffusion of several Nordic countries model which Tews and Jorgens calls 'pusher-by-example strategy'^{lvii}. The result of this peculiar diffusion process is gradual but positive since Germany and Italy has adopted carbon energy taxes in 1999 and even the most sceptical countries have gradually softened its position towards a more convergent policy in energy taxation. For example, the UK has adopted the British Climate Change Levy in 2001^{lviii} and the French president, Jacques Chirac has recognised that a carbon tax in Europe will be inevitable regarding the Kyoto Protocol commitments.^{lix} In short, the carbon taxation is not harmonised but it gained momentum thanks to the role of the EC that tried to impose a wide carbon tax. The importance of that transition is that the EU has partly recognised the national demands to intervene in the market and hence the supranational engagement with the Kyoto Protocol makes even more likely to play a favourable role towards a total convergence of carbon taxes issues.

To conclude this section, it is legitimate to wonder: are the national instruments linked to the environmental issues so divergent to prevent a common approach in the EU level? The answer is no. On the one hand, the general trends of the OECD showed an increasing convergence in the EU instruments and laws and, on the other hand, the logics of the EU governance (especially the role of the Commission) to push towards harmonization or diffusion of the NEPI's (with the exception of national environmental strategies) have built a common ground to boost ambitious agreements as reducing European CO2 emissions by 20% compared with 1990 levels (March 2007), launching the European Climate Change Programme (ECCP) with a range of cost-effective emissions reduction measures and improving the Emissions Trade Scheme (ETS) through a ecological taxation in the EU based on the German system.^{lx} In few words, the climate change as an externality of the liberal paradigm has turned out to be more an area of consensus rather than divergence among the national energy policies of the member states.

^{lvii} Kerstin Tews and Helge Jorgens, 'The diffusion of new environmental policy instruments', in *European Journal of Political Research*, vol.42, No.1, 2003, pp.586

^{lviii} See more on : <http://www.cerna.ensmp.fr/Documents/GM-MG-VaBook.pdf>, accessed April 09th 2007

^{lix} See more on:

<http://www.nytimes.com/2007/02/01/world/europe/01climate.html?ei=5090&en=718095d16a7c2e7f&ex=1327986000&pagewanted=print>, 'France Tells U.S to Sign Climate Pacts or Face Tax', New York Times On Line, February 1, 2007. accessed March 28th 2007

^{lx} See more on : <http://www.euractiv.com/en/climate-change/eu-seeks-fight-climate-change-taxes/article-162583>, Euro Activ on line 'EU seeks to fight climate change with taxes' April 5th 2007, accessed April 11th 2007

2.3.2 The security of supply response of the member states

2.3.2.1 Security of supply and investments as the main source of divergence

As far as the climate change responses in the EU members have been converging over the last years, the alternative key element to explain the difference between national energy policies lays on the re-emergence of security of supplies as externality of the liberal paradigm. The notions ‘re-emergence’ and ‘externality’ are vital both to understand the real impacts of such variable in the beginning of the 21st century and to link it with the lack of investments over the last 30 years. Put simply, the security of supply began to be a top issue on the national agendas after the double oil shocks in the seventies. Countries as France and Germany decided to revise its energy mix by supporting the nuclear power plants apparatus. This trend is clearly commented by a German specialist on nuclear physics by confessing: “*When Europe started its ambitious nuclear programme in the 1970’s, it did it under the shock of the first oil crisis. Oil prices soared and for the first time in history in industrialized countries in the West came to know what it meant to be blackmailed by all powerful cartel of oil producers. The same happened again in 1979. (...) These were the days when Germany intended to build a nuclear power station every year. Three big companies competed to supply nuclear reactors*”^{lxi}. Unfortunately, this period characterized by sufficient-inexpensive fossil oil supply came to an end in the late nineties. In effect, 1999 was the beginning of the steady growth of oil prices that would match the inappropriate national instruments offered by market oriented formulas and a general ageing of existing energy related infrastructure. The most relevant indicators that reflect the double interdependent concern, security of supplies and lack of infrastructure’s energy investments, are the Green Paper on security of supplies prepared by the European Commission in 2000, the statistical forecasts prepared by the International Energy Agency (IEA) and the national energy strategies. The next sections will start by the macro-level analysis (IEA global reports) until reaching the micro-level analysis which obviously is the European national energy policies.

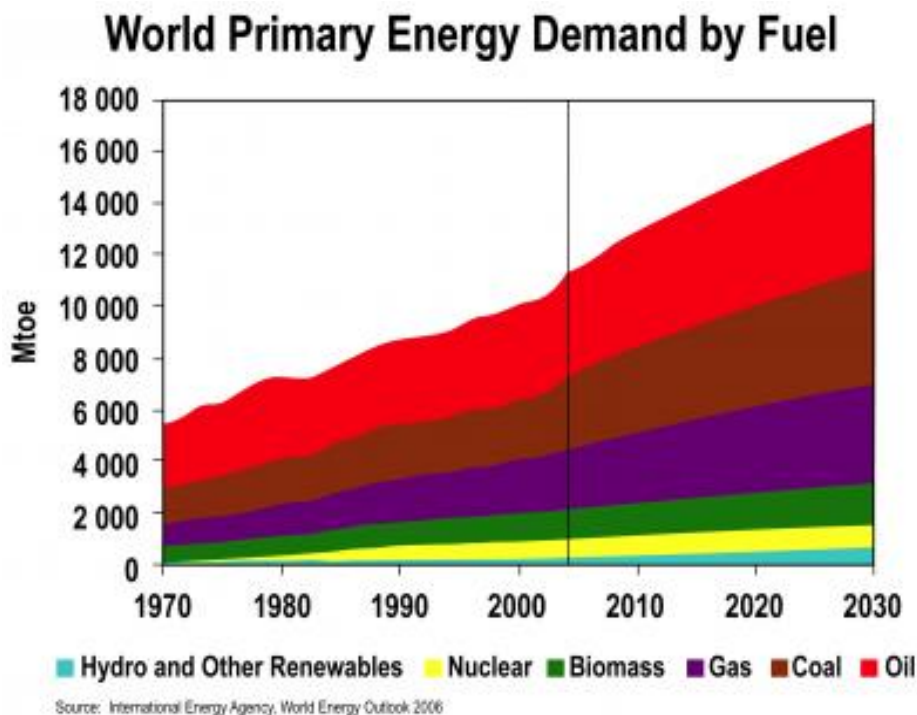
2.3.2.2 The IEA’s global empiric evidence

The World Energy Investment Outlooks published by the IEA are useful reports to show the global trends on energy-related issues. In this case, it will be focused particularly on two domains: the investments implications associated to energy issues both worldwide and

^{lxi} <http://www.world-nuclear.org/sym/1999/pdfs/linkohr.pdf>, World Nuclear Organization: The Uranium Institute 24th Annual Symposium 8-10 September 1999; ‘German Energy Policy’ by Rolf Linkohr, accessed April 8th 2007

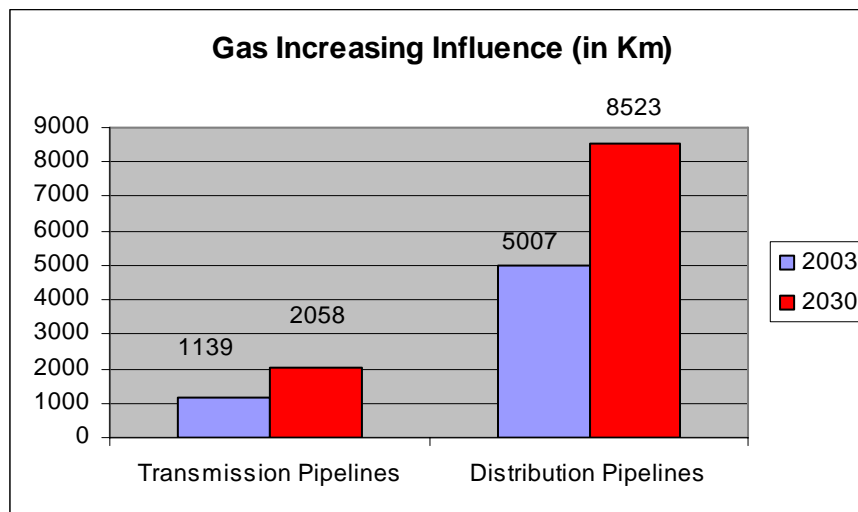
European and the trends of energy demands by fuel. The statistical outcomes will serve as the basis for analyzing the EC paper on security of supplies and the logics of national policies among the member states.

The first figure^{lxii} provided by the IEA deals with the world primary energy demand by fuel. Between 2003 and 2030, demand for natural gas is the most likely energy product to increase up to 2.3% per year. Moreover, the fact that gas consumption will be around 90% higher in 2030 than now; it will necessary boost the construction of transmission and distribution pipelines as the second figure shows. Contrary to such trends, nuclear will progressively decrease with poor impulses to create new plants and oil, even remaining the largest fuel in the global energy mix, will pass from 36% to 35% in 2030. Not to mention, the hydro and other renewable sources that will have little influence on the global energy mix in medium terms.



Source : IEA : World Energy Outlook 2006

^{lxii} <http://www.eurekaert.org/multimedia/pub/3221.php?from=90668>, IEA World Energy Outlook 2006, accessed April 1st 2007



Source IEA World Energy Outlook 2006

Besides the primacy of natural gas and its financial implications to build up new networks of pipelines, the IEA report is clear to address the enormous global need of mobilization of capital to back up equilibrium between demand and supply. In fact, the steady increase of global energy demand will oblige for a cumulative infrastructure investment that ranges from 15 to 16 trillion US dollars over the period 2000-2030.^{lxiii} It is calculated that almost 600 billion dollars per year would have to be replaced ageing infrastructure or be invested on other sources of energy. In words of an IEA's analyst, the main targets for these investments will be: *"The electricity sector will account for the majority of future energy investment spending. Collectively, power generation; transmission, and distribution will absorb 10 trillion dollars. (...) Total investments in the oil and gas sector will each amount to almost 3 trillion, around the 18% of global energy investment. (...) Coal investment will amount to only 400 billion, or 2,5 %."*^{lxiv} Finally, the IEA calculates that the OECD countries will have the lowest investment share per year (0,5%) in comparison to Russia (5%) and Africa (4,1%)^{lxv}.

2.3.2.3 Key elements of the EC on security of energy supply

The IEA's global trends have proved that gas and infrastructure are the central elements that will be taken into account to stabilise the global economy in the next twenty years. In this

^{lxiii} <http://www.iea.org/Textbase/npsum/WEO2005SUM.pdf>, Report World Energy Outlook with statistical data 2005, accessed April 12th 2007

^{lxiv} Faith Birol, 'The Investment implications of global energy trends', in: *Oxford Review of Economic Policy*, Vol. 21, No.21. Oxford Press. 2005, pp.149

^{lxv} <http://www.iea.org/Textbase/npsum/WEO2005SUM.pdf>, Report World Energy Outlook with statistical data 2005, accessed April 12th 2007

line, it will be analyzed the same concerns, on the basis of the security of supply ninety-page paper, published by the EC in 2000^{lxvi}. Two points and one reflection will be highlighted.

The first point is that the EC not only recognised as primary challenge the future investments in energy but it also outlined the negative consequence of the ‘inertia’ of the current energy systems for the next thirty years.^{lxvii} This evaluation implies indirectly that this national inertia was producing some sort of deficit on the necessary investments to cover the European needs.

The second remark leads with the idea that there has never been a debate at EU level in terms of security of energy supplies, above all, the choice of energy sources. In this framework, natural gas is presented as the robust element to diversify the energy sources in the enlarged Europe with incredible rapid growth such as households and electricity markets. Although the EC also recognised the potential dependence of this type of energy, the association between natural gas markets and electricity consumption will be fundamental to understand the political dimensions that lead to divergences between national energy policies. In fact, the gas market in Europe was already under construction in 1999 when oil prices started to rise abruptly. The creation of such market has always depended on massive mobilization of capitals (as the IEA reports showed before) to finance pipelines routes and infrastructure networks. Moreover, the geographic itinerary and the intensity of such network interconnections will be vital to create a common market and, particularly, common approaches. Paradoxically, the EC Paper made clear the failure to create enough convergence, during the liberalisation of the energy markets, to boost financial mechanisms to sustain the future transit pipelines in the name of the EU interest, as it can be noted in the document: *“In the long run the growth in demand and the increase in intra-Community trade **produced by the internal market** will generate a **greater need for transport infrastructure** (intra- and trans-European transport networks, port infrastructure for liquefied natural gas (LNG), **for which financing still needs to be found**. It should be said that the cost of transporting gas differs according to whether it is transported by pipelines or ship (LNG). The transport of gas **requires infrastructure that is very difficult to build in both cases**. The profitability of these two types of transport depends primarily on distance”*.^{lxviii}

^{lxvi} European Commission, *Green Paper: Towards a European strategy for the security of energy supply*. Brussels, November 2000

^{lxvii} *Ibid*; p.2

^{lxviii} *Ibid*; p.45

Put simply, while the EU has promoted the liberalization programme since the implementation of the Single European Act in 1986 and the Maastricht Treaty in 1992, including the energy markets, the need to foster the investments on network infrastructure and interconnection among the member states, was relegated to the national competences and its private sectors. That means that the national governments and private companies related to gas and electricity has been the unique mean to manage the mobilization of capital to invest (in theory) on energy diversification and infrastructure. In short, what did the governments and its national private actors do in the context of multidimensional approach fuelled by the security of supply externality? The answer will be written in the next lines by confirming the hypothesis of this thesis.

2.3.2.4 The clash of national energy models

The clash of national energy models that prevents a common energy approach in the EU is fuelled by three interrelated key concepts: the re-emergence of national legitimacy to use public intervention to secure security of supplies, the priority of gas in the future energy mixes (and infrastructure related-investments) and the role of national energy champions in the largest member states. The first two ideas will be explained separately to show the paradoxical national convergence both on the necessity to provide security of supply and the increasing importance of adopting a proactive policy towards the gas and its networks to balance the energy mix. In fact, it will be proved afterwards *that for the same reason that the majority of national member states* have decided to privilege the same policies (intervention through energy security and the preference of the gas), such process has become the basis to reinforce their national models by protecting the so-called *national champions* and thus creating problems in the external dimension of the EU. In short, the next two parts will deal firstly with the convergence of energy security and the gas priority among national member states and, later on, it will deep on the direct consequences linked to the reinforcement of national champions and external political dimension for the EU.

2.2.2.5 Energy security and the choice of gas across the EU

Since the beginning of the twentieth one century, the vast majority of national member states of the EU have changed in practice the over-simplistic term of security of supply for a more

inclusive one: energy security. Far from being a mere semantic distinction, energy security is a more dynamic and inclusive concept that, not only implies the present provision of regular energy needs to a society (as security of supply regularly is defined), but also focuses on how to deal with that supply in the medium and long terms. In this line, Bahgat provides a clear definition of energy security when he affirms: “A condition in which a nation and all, or most, of its citizens and business have access to sufficient energy resources at reasonable prices for the foreseeable future free from serious risk of major disruption of services”^{lxxix}. The author also includes an indispensable factor in which the energy security is rooted, when he outlines: “Energy security depends on sufficient levels of investments in resource development, generation capacity and infrastructure to meet demand as it grows”^{lxxx}. Put simply, the energy security concept will tend to emphasize two elements: the need to plan how to secure the security of supply in long terms and the necessary capital investments to cover that operation. In response to such process, the national governments of the member states, that had lost the legitimacy to intervene strongly during the liberal paradigm in the eighties/nineties, has opted to monopolise both functions firstly, as main planners of such strategy and secondly, as agencies to promote the necessary investments besides the private sector to create stable conditions of energy supplies. This change can be seen in many official documents and laws in the member states. For example, the Spanish case through its National Electricity and Gas^{lxxi} Planning Programme 2002-2012 based on Law 54/1997 and the Royal Decree 1955/2000 by which the state coordinates compulsory and indicative (non mandatory) planning in a particular way. On the one hand, national binding plans apply for transport infrastructure, the location of power plants, the construction of basic gas pipelines and all the projects that could have a direct impact on the territorial development. On the other hand, the so-called indicative or non mandatory planning which is based on a relative free access to third companies^{lxxii} to the energy market and the provision of statistical and environmental information to boost the private corporation’s investment on the sector. The Italian case has followed the same model by adopting two national decrees (L.55/2002 and L.290/2003)^{lxxiii} in

^{lxxix} Gawdat Bahgat. ‘Europe’s energy security : challenges and opportunities’, in: *International Affairs*, Vol.82, No. 5, Blackwell Publishing, 2006, pp.965

^{lxxx} *Ibid*; pp.965

^{lxxi} <http://www.mityc.es/Planificacion/Seccion/Desarrollo+de+las+redes+de+transporte+2002-2011/>, ‘Spanish Gas and Electricity Planning 2002-2012’ (Chapter I and Chapter X), accessed April 10th 2007

^{lxxii} The free access to the energy market is relative due to the fact that the Spanish state could not authorize the entry for security of installation, environment protection and territorial concerns. See (Chapter 1) Page 4

^{lxxiii} <http://www.parlamento.it/parlam/leggi/elelemat.htm>, Italian Energy latest energy legislation site.

Conversione in legge, con modificazioni, del decreto-legge 29 agosto 2003, n. 239, recante disposizioni urgenti per la sicurezza del sistema elettrico nazionale. Delegha al Governo in materia di remunerazione della capacita’ produttiva di energia elettrica e di espropriazione per pubblica utilita’, accessed April 12th 2007

which it is defined the limits of national-private partnership intervention and the conditions to strength the electricity and gas capacity of the country. Furthermore, the national decree L.239/04^{lxxiv} has become the heart of the revised policy of gas and electricity in response to the EC Directives approved in 2003. This re-organisation has confirmed the public intervention on transport activities, gas pipelines and the management of infrastructure justified by the risk of blackouts and the necessity of massive investments on the sector. In fact, the Italian and Spanish models do not differ from other countries like Germany that, through the national Energy Act in 2005, has increased enormously the federal and regional intervention, as Ehlers explains: “Comparing the old and the new law, a marked formal difference can be observed at first sight: the new Energy Act comprises of 118 sections in stark contrast to the meagre 18 sections of its predecessor. The regulatory approach is also fundamentally distinct: whereas the old law saw deregulation as the way forward to liberalise the network bound on energy industry in Germany, the new law switches to regulation as the new promising paradigm”^{lxxv}. The switching of paradigm in the French case is the fuzziest of all the EU countries because the state has never lost control to plan and accommodate the actors in gas and electricity markets (even during the eighties and nineties). Such particular position is reflected in the French Senate that published an excellent report in 1998^{lxxvi} by explaining the national position in response to the EC’s first try to open the markets. Among other considerations, it highlights that the increasing role of the public powers to plan and organise the energy sector after the seventies oil shocks, was not only successful to provide a basis for national independence but to boost economic growth. As a consequence, the EC’s attempt to liberalise is classified as a “challenge” in the document, sharing the same category of that of climate change. In short, even if the French model of *energy dirigisme* goes further than the other national governments, it shared the same source of legitimacy to reinforce its historical tendency to intervene, as the national law makes evident in its primary goals: secure energy of supplies and maintain the national energy independence.^{lxxvii}

^{lxxiv} <http://www.parlamento.it/parlam/leggi/eleleemat.htm>, Italian Energy latest energy legislation site, Riordino del settore energetico, nonche' delega al Governo per il riassetto delle disposizioni vigenti in materia di energia, accessed April 12th 2007

^{lxxv} <http://www.ieje.net/fileadmin/IEJE/Pdf/NewGermanEnWG.pdf>, Eckhart Ehlers. *The New German Energy Industry Act 2005 – Do Good Things Come To Those Who Wait?*, accessed April 08th 2007

^{lxxvi} <http://www.senat.fr/rap/197-4391/197-4391.html>, Politique énergétique de la France, Rapport 439 (1997-1998)- Commission d’enquete (Titre Premier), accessed March 23rd 2007

^{lxxvii} <http://www.industrie.gouv.fr/energie/politiqu/synthese-loi-13-7-05.htm>, Briefing of the ‘Loi de programme du 13 juillet 2005 fixant les orientations de la politique énergétique’, accessed April 09th 2007

This general political move does not mean that the age of interventionism came back as the post war period witnessed (perhaps with the French exception), but it has created a good position for the state to regain power in the era of the multidimensional responses by fostering a kind of partnership with the private sector. Moreover, this national-oriented formula that applies in the vast energy strategies of the member states has been facilitated, as already mentioned, by the EC's weakness to bridge the liberalisation of energy markets and the increasing demand for massive investment on the sector, as Helms explains briefly: *“European Commission policy towards network utilities has had two broad dimensions: the promotion of liberalisation agenda; and the encouragement of network construction and interconnection. In practice, in the eighties and nineties, the former has had priority, while the latter has been left largely, but not exclusively; to companies and governments”*^{lxxviii}. Such EC's priority to keep on pushing to liberalise gas and electricity markets through weak harmonisation^{lxxix} would tend to produce three negative effects: 1) it created progressively the ground for a lack of convergence in amounts and direction of massive national investments strategies; 2) it moved away from a real EU competitive energy market (electricity and gas) towards the model of regional oligopoly by allowing large series of mergers^{lxxx} and thus reducing the number of players and; 3) it helped to promote both national public and private partnership in order to negotiate bilateral agreements with non-EU suppliers (e.g Gazprom).

The second element that reinforces the effect of energy security and the weak inputs of the EC, is the national preference for gas regardless the previous energy mix that they had in the liberal response period. Although several largest countries such as France, UK, Germany, Italy and Spain which did not share market, geographic position and energy mix structures (as figures of the previous part 1.5 shows), they have opted to give room for a more important weight to the natural gas resource in the next decade. The Spanish energy national programme dedicates a special section to define gas as the main pillar of development (*“El gas vector del desarrollo”*)^{lxxxi} because it bridges short term potential to absorb the increasing electricity

^{lxxviii} Dieter Helm, 'The assessment : European networks-competition, interconnection, and regulation', in: *Oxford Review of Economic Policy*, Vol. 17, No.3 (2001), pp-305

^{lxxix} Weak harmonisation refers both to the Directives of gas and electricity in the late nineties that proved not be efficient as the Prodi Commission recognised since they promote new ones in 2003.

^{lxxx} For example, in Germany, VIAG and VEBA merged to create E.ON which afterwards bought RWE, while in France, EdF expanded its position by acquiring companies in Switzerland, Italy, Germany and some Eastern Europe countries.

^{lxxxi} <http://www.mityc.es/Planificacion/Seccion/Desarrollo+de+las+redes+de+transporte+2002-2011/>, 'Spanish Gas and Electricity Planning 2002-2012' (Chapter I and Chapter X), accessed April 10th 2007

demand without being uncompetitive for the industries. Similarly, the already mention Italian re-view in 2004 and the German Law in 2005, are focused on the development of infrastructure and gas pipelines that could counter-balance the German nuclear phase-out process and the Italian over-dependence of oil sources. Finally, the French case became part of the nuclear and renewable strategy as an equal source to face the future, as the Ministry of the Industry defined it: “*Pour l’avenir et conformément aux orientations définies par le Gouvernement, la production nationale d’électricité intégrera davantage d’énergies renouvelables, et vraisemblablement plus de gaz. La part du nucléaire restera néanmoins importante.*”^{lxxxii} In brief, the national governments’ choice to give priority to gas within the context of energy security, would lead to a negative outcome: the reinforcement of national champions through market power model (Germany, Italy and Spain) or neo-dirigisme (France) that will prevent the EC to follow common energy goals with negative external implications for the EU. This double-process will be the focal point for the next sections in which it will be presented how the national governments defend the national champions and, consequently, this policy could eventually become a problem for the coherence of the CFSP.

^{lxxxii} <http://www.industrie.gouv.fr/energie/politiqu/textes/situationfr.htm>, ‘La situation énergétique française’ (November 2000), accessed March 18th 2007

3. Internal energy market and the external implications for the EU

3.1 Market power and neo-dirigisme models against the EC goals

The market power and neo-dirigisme models share essentially the goal and differ in methods. The goal for both of them is to reinforce the national government legitimacy to plan the direction of the energy policies in national terms. The method varies in relation to the degree of national intervention to control, organise and regulates the energy markets. On the one hand, the market power model is much more a government-energy monopoly (or ‘national champions’) bargains in which the government pushes these mega-companies to invest in a massive way (to secure security of supply), especially in networks related to the gas market, in exchange of protecting their national market’s privilege positions from EC regulations and fair competition in Europe. On the other hand, the companies are strategically obliged to orient its policies towards a higher engagement of investments because otherwise they could face an effective transposition of the already existent directives and thus suffer from the weakness of the national governments’s role as political and juridical shield. Indeed, Helms goes beyond the political analysis by delimitating the economic rationale that implies maintaining energy regional monopolies, when he states: “*The price of market power is investment. And with the ability that market power renders to pass through costs to final costumers, the advantage of the market power is that reduces the cost of capital*”^{lxxxiii}. This means that is cheaper investing more, by following the national receipts in gas pipelines and infrastructure to secure security of supply, rather than neglecting that exigency and accept all the force of the EC regulation and the competition policy. The most controversial example that depicts the whole model was the German E.ON acquisition of its conational Ruhrgas. This merger partly responded to a multi-utility strategy aiming at creating the Europe’s biggest energy company that manages both gas and electricity in one corporation. Objections to impede this merger came from the German Federal Cartel Office and the EC competition authority. Not to mention other national competence authorities, showing the clash and convergence even among market power models as in Italy and Spain. The reasons given by the German minister to authorize the merger was to improve security of supplies and to ensure

^{lxxxiii} Dieter Helm, ‘The Assessment: the new energy paradigm’, in: *Oxford Review of Economic Policy*. Vol. 21, No.1, 2005, pp.11

sustainable international competitiveness.^{lxxxiv} The legal dispute finished with the victory of E.ON that acquired Ruhrgas and hence consolidate the monopoly power in Germany and oligopoly in Europe.

From another point of view, the particular French neo-dirigisme model is also a conflicting formula for the EC's common approach scopes. This model evidently lacks of national-private bargains in the name of monopoly and political legitimacy pay-offs. By contrary, is based on national cultural and strategic choices (since the seventies) that aim to maintain the energy market associated to public goods in which the state protects both via subsidies and soft application of harming European rules, to be competitive in the international market. The state and the nationalism gain enormous visibility as an effective economic formula to compete with other private EU regional oligopolies. The recent example is the national own-state *Eléctricité de France's* abrupt absorption of Suez, orchestrated by the French government in a couple of days, in clear reaction to the Italian ENI's (Gas monopoly) attempt to make an offer to the last one, showing the increasing clash between EU private oligopolies and public ones. In short, the market power model clashes among the countries that applies to the same framework and also against the French neo-dirigisme one. The EC's liberalisation is hacked by the energy giants' players as the creation of decentralise EU gas pipelines' routes by which the massive investments have become an inexorable bilateral issue that promote external negative effects for the EU. In effect, the next part will explain firstly the main features of the bilateral sort of *diplomacy* addressed by the energy monopoly companies in Western Europe with its main external partner, above all Gazprom, to move afterwards to the implications on the EU's external dimesions in terms of the coherence of the Common Foreign Security Policy through a study case.

3.2 The external agenda between energy giants and non-EU suppliers

The market power and neo-dirigisme model by which the national energy champions have been reinforced in their market position, do not only have the national governments as allies to protect them from fair competition and EC regulation. Both models count also with a third external actor that could offer them new projects and competitive advantages to protect its big

^{lxxxiv} See further on the case at: http://www.gasandoil.com/ogel/samples/freearticles/roundup_07.htm, Inez Zenke 'The Merger of E.ON and Ruhrgas: A never ending story?' May 2003, accessed March 8th 2007

market share in Europe. These actors are non-EU companies that are responsible for the supply of gas and build-up of gas interconnections networks. The well-known Russian Gazprom gas supplier is not only an example but a paradigmatic case that proves the intensity, degree and autonomy that such company enjoys with its Western European corporate partners. In fact, the external presence of a Russian half-state-owned company (or classical natural gas monopoly in Russia) may be defined by the five following characteristics:

1. It has created a solid net of corporate solidarity between monopoly powers not through simple partnerships based on short-term contracts but through a real network of bilateral long-term agreements that ranges from exploration and gas pipelines building to cultural and technical agreements. Examples of this trend are the recent German's E.ON and the Italian's ENI long term and wide-issue agreements with Gazprom. On the one hand, the German company has signed two agreements: the *Memorandum of Understanding* (June 2004), to boost cooperation in the companies' strategic projects for gas deliveries as well as production, transmission, marketing and power industry, and the *framework agreement for asset exchange in natural gas production, sales, trade and power industry* (July 2006). In addition to this framework programme, E.ON has recently signed an agreement on prolongation of the existing contracts for gas supply within 15 years (from 2020-2035) as well as an agreement for additional gas supply via the North European Gas Pipelines (NEGP) which bias Eastern European new EU members as transit countries (See Route NEGP)^{lxxxv}. The deputy chairman of Gazprom, Alexander Medvedev, defines these agreements as follows: *"The long-term cooperation in gas business not only provides for meeting current commitments but creates a basis for future development of the present-day infrastructure insuring reliable gas supplies in the decades to come"*.^{lxxxvi} On the other hand, following the same logic, the Italian oil and gas giant ENI, has signed a strategic agreement which allows the Russian company to sell gas directly in Italy in incremental phases starting in 2007 and thus extending its gas supplies from the precedent deadline (2015) to 2035. This commercial cooperation will be accompanied

^{lxxxv} The contract for gas deliveries via the NEGP stipulates that the annual transmission will account for 4 bcm. The total gas transmission during the 2010/2011- 2036 time frame will be up to 100 bcm. See further info on: <http://negp.info/news/news2.html>, The North European Gas Pipeline Website, accessed April 10th 2007

^{lxxxvi} <http://negp.info/news/news28.html>, 'Gazprom and E.ON prolong the existing contracts and sign contract for gas supply via the NEGP' (November 2006), accessed April 15th 2007

by technical know-how transfer from ENI to Gazprom in order to develop the Russian's gas transportation system. Once more, the key element that legitimises such political move in the country is explained by the ENI's CEO: *"The agreement signed today is a major step toward the security of energy supply to our country"*^{lxxxvii};



North European Gas Pipeline (Route operative since 2010)- Source Gazprom.com

2. It has also created special partnerships with the neo-dirigisme model and several countries in the Benelux that do not have national big players to compete with other Europeans energy giants. In fact, the French case shows the oldest (since 1976) and widest type of agreement that Gazprom has obtained, ranging from commercial issues to cultural activities. Similar to a diplomatic agenda, Gaz de France has signed in April 2003 a new agreement on gas pipelines which prolongs the gas deliveries' contract by 7 years (until 2015). They also signed cooperation agreements in differentiated sectors: science, technology, finance, economics, cultural and professional training. Not to mention joint projects on energy saving, operation and reconstruction of gas transmission networks and the FRAGAS Trading House which

^{lxxxvii} http://www.iht.com/articles/ap/2006/11/14/business/EU_FIN_COM_Italy_Eni_Gazprom.php, International Herald Tribune On Line: 'ENI, Gazprom sign energy deal', November 14th 2006, accessed April 15th 2007

is engaged in equipment procurement and retail sale services^{lxxxviii}. At the same time, the Benelux countries have focused their energy policies towards Russia and potential investments on the gas sector. In effect, the Gazprom-Gasunie (the largest Dutch transport-seller gas company) contract signed in 1999 not only ensured gas purchases for more than 80 billion cubic meters until 2020, but paved the way to a broad cooperation in multiple areas such as IT knowledge exchange, planning models development, combined research activities in energy saving and efficiency, exchanging programmes in the field of transmission fees and the use of underground storage facilities, cultural exchange and human resource management.^{lxxxix} In the same line, the Belgian government led by Verhofstadt, is building an enormous gas stock reserve center for Gazprom in Poederlee. The responsibility of this project is under the Belgian company Fluxis that has signed an agreement with Gazprom in order to evaluate the possibility of empower the gas transmission capacity from the national network to Zeebrugge port. In brief, even if Belgium has been traditionally energy dependent on Norway, Algeria and Qatar (Russia accounts only to 2% of gas imports), the government and some medium size companies are turning their investment targets towards Gazprom.^{xc}

3. It is also important to notice that such long-term agreements are bilateral and, above all, parallel. Put simply, there are few projects that involve two European energy companies and Gazprom.^{xc} The vast majority are strictly bilateral agreements that link the Russian supplies and the national consumption market.
4. The fourth feature of this model is that it has reinforced the position of regional oligopoly markets in Europe that goes directly against the two EC's objectives since the beginning of the eighties: liberalisation of the markets and coordinated massive investments intra-EU. In fact, the instruments of these agreements go further than mere commercial targets because they also include financial instruments as call-

^{lxxxviii} See more on: <http://www.gazprom.com/eng/articles/article8927.shtml>, Gazprom Official Website (Partnership Section- Gaz de France), accessed April 12th 2007

^{lxxxix} See more on: <http://www.gazprom.com/eng/articles/article8927.shtml>, Gazprom Official Website (Partnership Section- NV Nederlandse Gasunie), accessed April 12th 2007

^{xc} Christophe Lamfalussy, 'Verhofstadt et Poutine, business d'abord', *La Libre Belgique*, 4 March 2007, p.11

^{xc} The only exception is the consortium created in 2002 by E.ON, Gaz de France and Gazprom to purchase 49% of the shares in the Slovak Gas company called SPP.

options, stock options and swaps. This is the case between ENI and Gazprom call-option agreements or E.ON^{xcii} swap assets in 2006.

5. The last feature is that it has not weakened the root of the market power or neo-dirigisme model: the national governmental support of energy giants in the national market. By contrary, this Russian external big supplier promotes the mobilization of capital needed to cover the security of supply for citizens and industries. In other words, several recent mega-agreements linked to gas development, has been sponsored by the governments and concluded by private corporations. (The Belgian, Italian, French and German cases already seen are sponsored by national governments without exception).

To sum up, five clear features define this ‘national champions’ external policy dimension: gas has become the central element of the agreements; all the contracts will be long term ones (with deadlines between 2020-2035); several aspects as financial, economic and technical solidarity between partners are also contemplated and; an increasing vertical integration of energy companies throughout all the EU-25 market has been reinforced even against the European Commission’s goals to liberalise the sector. In other words, this process has created the basis for certain autonomous energy agenda (separate from the EC) that could hamper the coherence of the CFSP instruments. For this reason, the next section will be concentrated to show briefly the theoretical and legal idea of coherence of the CFSP and then move later into a specific case study that could show the potential inconsistency of external energy policies with other priority areas of the CFSP, particularly, the promotion of human rights.

3.3. Defining horizontal and vertical coherence of the CFSP

The horizontal and vertical coherence in the Common Foreign Security Policy can be found and defined since the Single European Act (1986) and the Treaty of the European Union (1992) introduced the specific legal notions after thirty years of the establishment of the European Political Cooperation that contained only vague principles on the issue. Both SEA’s preamble and Article 30 (5) shade light on the increasing importance that a coherent external policy would play in order to create an efficient common market as Gauttier explains: “*The two faces of the coherent principle are therefore clearly laid down by the SEA. (...) The*

^{xcii} E.ON is the biggest Gazprom external stakeholder with 6.5% of the total value of the Russian company.

search of coherence aims on one hand at providing a declaratory diplomacy with content, often economic, by combining the CFSP with the various other actions of the Union in the field of external relations, and on the other hand attaining harmony between CFSP and the sphere of national action. Vertical coherence between the EU and the Member States, and horizontal coherence between the different pillars of the EU are thus distinguished^{xciii} The Treaty of Maastricht had to cope with the separations of competences in three pillars and, since the CFSP was not allocated to the Communitarian one, Article 3 has become the legal basis to keep horizontal coherence as states: *“The Union shall in particular ensure consistency*^{xciv} *of its external activities as a whole in the context of its external relations, security, economic and development policies. The Council and the Commission shall be responsible for ensuring such consistency. They shall ensure the implementation of these policies, each in accordance with its respective powers.”*^{xcv} Ten years later, the European Security Strategy would confirm the conceptual framework derived from the TEU in terms of horizontal coherence when states: *“More Coherent. The point of the CFSP and ESPD is that we are stronger when we act together. Over the recent years we have created a number of different instruments, each of which has its own structure and rationale. (...) The challenge is now bring together the different instruments and capabilities. (...) Diplomatic efforts, development, trade and environmental policies should follow the same agenda”*^{xcvi}. But it also emphasized the vertical coherence by affirming later: *“Greater coherence is needed not only among EU instruments but also embracing the external activity of the individual member states*^{xcvii}*”*.

The institutional actors involved the process of the CFSP are not less important for our analysis due to the fact that the Commission and the Council are mainly different in nature and scope, above all, in the field of the second pillar's competences, as Hix confirms: *“The Commission became fully associated with the work carried out under the CFSP. The Commission was not granted a formal right of initiative, but was made responsible for implementing some of the CFSP's decisions (for example if a foreign policy has implications*

^{xciii}Pascal Gauthier, 'Horizontal Coherence and the External Competences of the European Union', in *European Law Journal*, Vol. 10, No.1, January 2004, pp.25

^{xciv}The formulation in French, Italian and Spanish in the Treaty is coherence and not consistence. The Irish Presidency clarified this translation by stating that the foreign policy should be: “consistent, coherent and mutually reinforcing”. See more on: Conseil de l'UE. Conference intergouvernementale en vue de la revision des traits. Presidence Irlandaise (1996). (OPOCE) pp-64-66

^{xcv}http://europa.eu/eur-lex/en/treaties/dat/EU_consol.pdf, Consolidated Version of the Treaty of the European Union, accessed March 08th 2007

^{xcvi}European Council, *European Security Strategy*, Brussels, December 2003.

^{xcvii} *Ibid*;

for the EU budget) and was allowed to generate policy ideas.”^{xcviii} In other words, the intergovernmental structure of the Council and the supranational impulse of the Commission, could eventually lead to divergent points of view. The case is much more evident when the EU Commission’s new proposals and communications in the first pillar could influence enormously only if the Council adopts a compatible policy in the external dimension as it can be the case for controversial policy sectors such as services and energy.

3.3.1 The external dimension of energy issues: Central Asia as a case study

This section is dedicated to show a clear case in which two primary external-oriented goals of the European Commission could contradict one to each other. In fact, it will be focused on the Central Asia region as a paradigmatic case study that confirms not only the enormous influence of the ‘national champions model’ have on the external affairs, particularly the coherence of the CFSP, but to what extent they can prevent the EC to achieve its goals set by the treaty.

3.3.1.1 The EC’s goals: promoting democracy and energy alternative suppliers

There are two concrete and external goals of the EC that makes Central Asia a significant case to be analysed and developed:

On the one hand, the first goal is promoting democracy and human rights. This objective is not a mere formality that has been emerged as result of the end of the Cold War but is one of the main objectives of the CFSP instruments^{xcix}. In this line, the EU has signed several Partner and Cooperation Agreements (PCA) with all the Central Asia countries by which the promotion of democracy may be applied through different instruments: political dialogue, political conditionality, provision of aid and sanctions^c. Among such options, the PCA’s includes the human rights clauses that can put off the cooperation in case of violation of fundamental rights. Put simply, the post-communist transformation of these emergent

^{xcviii} Simon Hix, *The Political System of the European Union*, (2nd Edition), Palgrave Macmillan Publications, Basingstoke Hampshire (US), 2005. pp.389

^{xcix} The CFSP instruments’ goals (especially sanctions) are set out in Article 11 of the Treaty of the European Union. Democracy consolidation and respect of human rights are one of the pillars to use sanctions. See more on: http://ec.europa.eu/comm/external_relations/cfsp/sanctions/index.htm, accessed April 14th 2007

^c The EU imposed sanctions on all the Uzbek officials that were involved in the Andijan massacre (Uzbekistan) in May 2005.

republics has not been completely compatible with the rule of law and human right standards. Therefore, the promotion of democracy and full respect of human rights were and will continue to be the axis of the institutional agreements as Ferrero Waldner defined last March, previous to the first ministerial troika meeting: “*The EU enlargement has brought us closer to Central Asia and the time is ripe for a more intensive engagement with the Central Asian countries. That is why the Commission is contributing to the development of a new EU Strategy for relations with the region. At this historic first meeting with all five Foreign Ministers we will discuss the growing scope of our relationship, in discussions covering democratic development, trade and energy*”.^{ci}

On other hand, the second external goal which has recently gained priority in the EC is clearly the diversification of both oil and gas suppliers, as the Green Paper 2006 makes evident on its preamble’s questions: “*How can the Community and Member States promote diversity of supply, especially for gas? Should the EU develop new partnerships with its neighbours, including Russia, and with the other main producers and consumer nations of the world?*”^{cii} In effect, the Commissioner for energy, Andris Piebalgs, has already started to put into practice this policy within the framework of the Euro-Med. The Commissioner travelled to Algeria especially last November (2006) to promote a more coordinated agenda for the German and Portuguese presidencies in order to boost investments in North Africa (particularly a Nigerian gas pipeline) and increase the ministerial meetings frequency among partners in the South-eastern.^{ciii} However, such region is not the only potential market for diversifying EU energy sources and suppliers since several Central Asian states have important gas production and reserves. According to British Petrol Natural Gas report published in 2006, only three Central Asian states produce the 5% of the total gas share for Europe and Eurasia regions, compared to Italy, France, Denmark and Germany production together, that only accounts for the 1.4%.^{civ} These countries are Kazakhstan, Turkmenistan and Uzbekistan that in just one decade (1995-2005) they have boosted their gas production in 130%, 45% and 10% respectively. In other words, Warkotsch explains the re-invigorate

^{ci} <http://www.europa.eu/rapid/pressReleasesAction.do?reference=IP/07/420&format=HTML&aged=0&language=EN&guiLanguage=en>, ‘Ferrero-Waldner to attend EU-Central Asia ministerial Troika’, March 27th 2007, accessed April 15th 2007

^{cii} European Commission, *Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy*. Brussels, March 08 2006. pp.5

^{ciii} Andrew Beatty, ‘EU looks across the Med for secure energy supplies’, *European Voice*, 14 November 2006, p.4

^{civ} http://www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2006/STAGING/local_assets/downloads/pdf/natural_gas_section_2006.pdf, ‘Quantifying energy: BP statistical review of World Energy 2006’ (Natural Gas section), pp 5, accessed April 10th 2007

interest that the EU may have in this region as follows: “*Europe has begun to realise Central Asian resources, which could be linked to the continent through the South Caucasus and Turkey, as an additional filling station. (...) For example, in 2003 the British Commonwealth Office published a white paper outlining foreign policy priorities for the emerging years. Central Asia was identified as important in a number of ways, including enhancing energy security*”^{cv} In effect, the idea of “filling station” makes sense for the EC because it has recently supported the new Caspian gas pipeline (which name is Nabucco) funded by several European companies (Austrian OMV A.G, Hungarian MOL -MOL.BU-, Turkish Botas, Bulgarian Bulgargas and Romanian Transgaz) that will not only start from Central Asia but it would also bypass the Russian territory to feed Western Europe consumers. Indeed, the EC is analysing both: to accept exempt regulated prices for the sale of gas from Nabucco pipeline and to build additional pipelines along the same Nabucco routes.^{cvi}

In brief, the EC has identified Central Asia as a new potential energy supplier that could make easier its objective to reduce structural gas dependence with Russia. However, the traditional goal that was the promotion of democracy and human rights has not disappeared at all. In fact, the external relationships with Central Asia now are clearly twofold: promoting democracy without losing potential partners for securing energy supplies. The cohabitation of both goals will prove to be extremely complicated when it is added the logic of ‘national champions’ that certainly plays an autonomous role that is not supporting neither the promotion of human rights and democracy nor the EC proposals to bypass Russia and its main energy actor: Gazprom.

3.3.1.2 The ‘national champions’ and Gazprom parallel agenda

The energy national giants’ interests in Western Europe have little or nothing to do with both EC’s goals in Central Asia. Naturally, it cannot be expected that private or state-owned gas companies could support actively the human rights and democracy promotion on secondary areas. However, the creation of alternative gas pipelines and massive investments on networks in order to bypass the Russian territory, as Nabucco project is, are not part of these giant’s

^{cv} Alexander Warkotsch. ‘The European Union and Democracy Promotion in Bad Neighbourhoods: The case of Central Asia’ in: *European Foreign Affairs Review*, Kluwer Law International, 2006. pp-524

^{cvi} http://www.caucas.com/home_eng/depeches.php?idp=1188&PHPSESSID=062210998d59e60bfe03f55944b1009b, ‘EU supports new Caspian gas pipeline bypassing Russia’, *Caucasus News*, 27 July 2006, accessed April 14th 2007

strategies. By contrary, it will be proved that they follow an autonomous agenda that are fully compatible with Gazprom's global strategy in Central Asia even if it is contrary to the EC's energy diversification and human rights goals.

The first key issue to understand the compatibility between Russian interests and the European energy giants is through the *global presence strategy*^{cvi} presented by Gazprom. In such official position, the company emphasized, as one of the four principles that guides its action, the need to diversify and expand business activities (including new markets, transmission routes, products), and high efficiency projects ensuring development of high value-added products. To achieve that goal, the company has set a list of major projects that will reinforce its global presence in which several Central Asian countries play a significant role. The document makes evident the importance of such commitment by stating: "*Utilizing gas of Central Asian origins. In order to minimize Gazprom's investment burden and optimize gas flows within the Unified Gas Supply System of Russia (UGSS), the work is underway to include gas from Central Asia countries in the Gazprom resource portfolio*".^{cvi} In fact, there are many existing projects that link the Russian company with Uzbekistan, Kazakhstan, Turkmenistan by which is promoted joint ventures, electric exploration and a wide range gas production sharing agreements.^{cix}

The second point derives from the first one and makes evident the link with the European energy giants. Put simply, Gazprom's global strategy has an enormous financial dimension that the Russian state cannot provide in short terms. Building new pipelines, training the technicians and projecting large scale programmes in Central Asia will require again significant mobilization of capital, as Dempsey reported on the International Herald Tribune in comparison with the NEGP: "*The financial significance of Europe cannot be overestimated. Without foreign participation to spread risk and costs, President Vladimir Putin could not have given Gazprom the approval to build a pipeline that will snake through the Baltic Sea to deliver gas directly from Russia to Germany for the first time, bypassing the Baltic states, Poland, Belarus and Ukraine. Aside from this pipeline, said Burckhard Bergmann, chairman of the Germany company E.ON Ruhrgas, Russia would also need foreign investment to cover the estimated costs of €330 billion, or \$405 billion, to maintain its*

^{cvi} <http://www.gazprom.com/eng/articles/article8523.shtml>, 'Gazprom official Business Strategy', accessed April 12th 2007

^{cvi} *Ibid.*

^{cix} *Ibid.*

energy sector over the next 25 years^{cx} In other words, Gazprom ensures security of supply and companies in Western Europe share risk and investments to back up joint projects that Gazprom would never be able to do it by its own. Completely contrary to Nabucco's project in which the idea is bypassing Russia, the NEGP is reflecting the model supported by national champions in Western Europe that tends not only to have Russia as the main partner but to bypass the Eastern Europe as transit countries.

The third point is that there is a huge concentration of massive investment of particular energy giants in Central Asia region that could eventually make difficult to punish the same governments that authorize these companies to produce enormous benefits. One clear example of this trend is AGIP KCO, a company completely owned by the Italian ENI, that works as the single operator of appraisal development and future production operations in the Kazakhstan sector of the Caspian Sea in the name of seven international companies under the North Caspian Sea Production Sharing Agreement^{cx}. The contract is not a regular commercial one but extends over a territory of 5.600 km² and includes the enormous Kashagan oil field, the first large-scale offshore petroleum development in the Republic of Kazakhstan, as well as the Kashagan South West, Aktote, and Kalamkas discoveries. Three European energy-related giants are part of the consortium as the next figures show:

Companies	Participating Interest
Eni S.p.A. (Agip Caspian Sea B.V. - Operator)	18.52%
JSC NC KazMunayGas (KMG Kashagan B.V.)	8.33%
ExxonMobil Kazakhstan Inc.	18.52%
Shell Kazakhstan Development B.V.	18.52%
Total E&P Kazakhstan	18.52%
ConocoPhillips (Phillips Petroleum Kazakhstan Ltd.)	9.26%
INPEX North Caspian Sea, Ltd.	8.33%

Source: Eni Website 2006

In short, the bilateral investment of these companies creates a concentration of interests and capitals between energy giants and the Central Asia governments that are difficult to untie at

^{cx} Judey Dempsey, 'Gazprom and EU : An uneasy alliance', *International Herald Tribune*, April 16 2006, pp-7

^{cx} http://www.agipkco.com/en/about_kco/location_en.htm, AGIP KCO website information, accessed April 15th 2007

the moment of imposing sanctions by the EC. Warkotsch explains such contradiction and eminent disruption to the vertical coherence of the CFSP: “A *specific feature of European investment in Central Asia is their concentration in their energy complex. Main investments partners are in Britain (British Petrol), Italy (Agip), the Netherlands (Shell), and France (Total). For example, in Kazakhstan around 80-90 per cent of total European Foreign Direct Investment – amounting to about 1 billion euro per year- is allocated to the energy sector. It can hardly been ruled out that choice of democratisation instruments is influenced by such energy issues, tempting the EU refrain from the employment of negative conditionality or even sanctions*”^{cxii}.

To sum up, the global strategy of Gazprom is tightly dependent on the financial back up that the European energy giants can offer to it. Such strategy will include major projects in several central Asian countries in which the Russian company will attempt to increase the gas reserves and potential production not only to reinforce its global position in the market, but to ensure energy supplies to continental Europe. As a consequence, energy giants as ENI, E.ON and EDF are trying to reinforce their market position in two ways: by embracing long term contracts with Gazprom and by investing unilaterally in many projects developed in Central Asia. Such logic might threaten the vertical and horizontal coherence of the CFSP and prevents the liberalisation of energy markets, as one of the main goals set by the Commission.

Firstly, the CFSP’s vertical and horizontal coherence could be threat due to the fact that, even if the EU’s traditional task to promote democracy in the region is still recognised by the EC, it does not seem to be reflected in the practice of several national governments of the member states. Indeed, for several large countries such as Italy, France and Germany, the need to secure energy supplies is becoming more important than promoting democracy and liberalising the gas and energy market. The long term gas-contracts with Gazprom, the NEGP and the massive investments on central Asia (e.g Agip KCO) have showed the major political orientations of such governments.

Secondly, it is not a coincidence that the European Parliament has recently had a controversial debate to push the EU to consider the central Asia region not only exclusively as a source energy, as Beatty reported: “*Members of the European Parliament have warned that EU*

^{cxii} Alexander Warkotsch. The European Union and Democracy Promotion in Bad Neighbourhoods: The case of Central Asia, in *European Foreign Affairs Review*, Kluwer Law International, 2006. pp-524

plans to boost ties with central Asia will fail if the Union sees the region only as a source of energy and neglects human rights and governance. UK centre-right MEP Martin Callanan said the EU energy needs could not be met, in the long term, by ignoring human rights”.^{cxiii}

In the same line, the EU sanctions that were imposed to Uzbekistan after the Andijan massacre^{cxiv} of May 2005, does not seem to lead to a strong commitment towards the promotion of democracy as far as the Council did not take strong positions as noticed by Deletroz: *“In November 2006 the Council of Ministers decided that the sanctions would be prolonged for six months and reviewed after three months. It was very hard for observers not to see in that decision a tendency towards softening the sanctions as no clear review criteria were mentioned”*^{cxv}. One of the possible answers to that lack of precision of the Council of Ministers, could be founded in the national energy policies (and its ‘national champions’ models) that this section has exclusively shown in relation to the central Asian case. In one sentence, national energy policies counts not only to prevent a common energy policies in the EU but to influence in the external dimension’s instruments set by the treaty.

^{cxiii} Andrew Beatty, ‘MEPs won’t let the EU bypass human rights for energy’, *European Voice*, 14 February 2007, p.2

^{cxiv} See more on: <http://www.hrw.org/campaigns/andijan/>, Human Rights Watch, The Andijan massacre in Uzbekistan in 2005, accessed April 14th 2007

^{cxv} Alain Deletroz, ‘Europe’s reason without reason’, *European Voice*, 14 February 2007, p.9

4. Conclusion

4.1 General remarks

The general remarks will deal with the major outcomes of the study as a whole. Far from analysing the results of each chapter, it will be concentrated on the major reflections that derive from the validation of the hypothesis before delineating the perspectives on the basis of the EC communication called ‘An Energy Policy for Europe’^{cxvi}.

Firstly, the unexpected result that partly rejects the initial hypothesis is the large convergence of climate change response throughout the member states. The European Union through the EC has played a progressive and effective role to diffuse and harmonise the new environmental policy instruments that are vital to create a common ground in the supranational level. Such positive result can be contrasted with the security of supply response of the member states that confirms the hypothesis. In this case, the role of the EC is not enough due to the fact that the liberalisation of energy markets and the gas interconnectivity through harmonization is not leading necessarily to a common approach.

Secondly, the consequence of the partial failure of the Commission to intervene and coordinate the national energy policy in terms of energy supply has indirectly led to a complicate scenario. The national governments in several countries have supported their ‘national champions’ models to secure security of supply. That prioritization of such objective is accompanied by a bilateral agenda that many energy giants are reinforcing with the main external supplier: Gazprom. The engagement between the Russian monopoly and the Western energy companies has both financial and political dimensions that hinders the EC’s goals to liberalise the markets (gas and electricity) in short terms and coordinate a strategy to diversify energy of supply in the supranational level.

Thirdly, the role and degree of intervention of the Commission is axial to determine the future of the energy policy in Europe. In fact, the reaction of the Barroso Commission through the politicization of energy issues (2005-2006) is not a minor response but a significant step forward based on empirical data linked to energy dependence and structural energy heterogeneity in the enlarged EU. Moreover, it reflects the increasing need to implement a

^{cxvi} http://ec.europa.eu/energy/energy_policy/doc/01_energy_policy_for_europe_en.pdf, Communication from the Commission to the European Council and the European Parliament ‘An Energy Policy for Europe’, accessed April 19th 2007

coordinated approach that must envisage a more clear input of the EC in the era of multidimensional approach. In this line, the EC's explicit acknowledgement of the external implications that energy policy has had, is an inexorable condition to review the failures of the past. The new policy must start by creating a real competitive and transparent energy market and ensure the national governments the necessary financial and legal support to provide energy supply. The new policy should offer guidelines to create a proper gas pipeline plans that corrects potential contradictory routes as Nabucco and NEGP are. In short, the energy policy has gained an autonomous field in the external dimension of the energy dependent economies. As far as the EU will be included in this category, the coherence of international long term contracts, the cooperation with energy partners, the agreements with transit countries and the sources of investments to feed infrastructure will have to be coherent with the liberalisation process of gas and electricity. The task of monitoring and coordinating must be a responsibility of the European Commission in full respect of the integrated approach already proposed in the Green Paper 2006. In words of Robert Cooper, that presented recently in the College of Europe his opinion on the topic: *"It will take around fifteen years to have a common voice in energy policy in the EU. We need first to create a common interconnected gas and electricity market and then it will be possible to speak with one voice"*^{cxvii}.

4.2 Perspectives: A personal evaluation on the EC Communication 'An Energy Policy for Europe'

The communication known as 'An energy Policy for Europe' is a particular document that contains the EC measures that will be adopted in order to face the triple challenge of the integrated approach described in the Green Paper 2006. The next evaluation will be focused only on the projects that linked the energy policy and the potential results that could have in the medium terms. Therefore, the climate change and competitiveness goals will be left apart of the assessment. In this sense, it must be outlined two major initiatives of the Commission that are not only original but are addressed to the source of divisions already described in the study: investments on infrastructure and the international coherence with energy actors. The first element is considered deeply by setting five priorities: *"Identifying the most significant missing infrastructure up to 2013 and ensuring pan-European political support to fill the gaps; Appointing four European co-ordinators to pursue the four of the most important priority projects: the Power-Link between Germany, Poland and Lithuania; connections to*

^{cxvii} Robert Cooper College of Europe Conference 'How foreign policy happen : Could Europe become a great power?'. April 4th 2007

offshore wind power in Northern Europe; electricity interconnections between France and Spain; and the Nabucco pipeline, bringing gas from the Caspian to central Europe; Agreeing a maximum of 5 years within which planning and approval procedures must be completed for projects that are defined as being "of European interest" under Trans-European Energy Guidelines; Examining the need to increase funding for the Energy Trans-European networks, particularly to facilitate the integration of renewable electricity into the grid; Establishing a new Community mechanism and structure for Transmission System Operators (TSOs), responsible for co-ordinated network planning."^{cxviii} In other words, the EC is trying to set multiple measures in which the notions of "European interest" and "pan-European support" is emerging for the first time in order to make a convergent gas pipeline's networks compatible with the EU geopolitical status and not only with particular interest of few member states. The document makes explicit the problem already identified in this thesis: *"There are signs that this lack of progress (of liberalising markets) is leading Member States to impose generalised caps on electricity and gas prices. Depending on the level at which such price caps are set and whether they are generalised in nature, they can prevent the Internal Energy Market from functioning and suppress price signals that new capacity is needed, leading to underinvestment and future supply crunches"*. Such analysis and the consequent framework proposed by the EC to tackle the obstacles, have no precedent and are necessary to coordinate better the regional preferences and national demands after the last two enlargements towards the East.

The second distinctive element that presents the document deals with the external energy dimension. It recognises clearly the broad implications that energy policy has for the foreign affairs by stating: *"Energy must become a central part of all external EU relations; it is crucial to geopolitical security, economic stability, social development and international efforts to combat climate change"*^{cxix}. It also outlines the importance of implementing mechanism to reinforce the European position with international partners such as the *"network of security correspondents which will provide an early warning system and enhance the EU's capability to react in times of external energy security pressure"*^{cxx}. Finally, it

^{cxviii} http://ec.europa.eu/energy/energy_policy/doc/01_energy_policy_for_europe_en.pdf, Communication from the Commission to the European Council and the European Parliament 'An Energy Policy for Europe' pp.9, accessed April 19th 2007

^{cxix} *Ibid*; pp.17

^{cxx} http://ec.europa.eu/energy/energy_policy/doc/01_energy_policy_for_europe_en.pdf, Communication from the Commission to the European Council and the European Parliament 'An Energy Policy for Europe' pp.9, accessed April 19th 2007

provides a long list of priorities for the next three years in which is important to remark three of them: the creation of new financial instruments (establishing the Neighbourhood Investment Fund), the improvement of the conditions to invest in international projects through European coordinators and the establishment of a comprehensive Africa-Europe partnership^{cxxi}.

To conclude, the review of the strategies and the priorities by the EC communication on energy policy is naturally positive for the future. In this context, the emerging notion of 'European interests' is axial to legitimise a more active role of the EC and thus implementing original mechanism as early warnings and new financial institutions oriented to energy security. However, all the proposals must be coordinated with the leading states in which the 'national champions' models are operating. Put simply, due to the magnitude and duration of the contracts that linked commercially and financially Gazprom and several energy giants in the EU, the EC will achieve a common energy approach only when the so called "Pan-European interest" will be able to provide certainty of security of supplies to the governments in a real trans-European gas pipeline network.

^{cxxi} *Ibid*; pp.17

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