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**Title of the Thesis: "Europe's Energy Policy and Strategy for the  
Nabucco Gas Pipeline"**

**(M.A. Thesis)**

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*In the Name of Allah*

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## Abstract:

The EU has strategic reserves of different types of fuels in order to decrease its vulnerability to possible crisis in the world energy markets. Long – term security of energy supply requires cooperation with a bigger number of smaller energy suppliers.

The crisis between Russia and Ukraine underlined once again an issue that is of major importance for the EU: The need for a Common Energy Policy at the EU level. Consequently, Nabucco, the EU's natural gas project, became the focal point of discussions.

In order for Nabucco to be realized, a sufficient amount of natural gas must be secured to fill the capacity of the project. Meanwhile, Russia is increasing the momentum of the South Stream Project, which competes with Nabucco, by trying to win over the supplier countries. So far, only Azerbaijan has promised to supply gas to Europe. The EU is not keen on negotiating with Iran, which is pursuing nuclear energy. Iraq, however, with its 7 trillion cubic meters in reserves, shines as an attractive alternative. Turkmenistan and Kazakhstan are other significant countries for the Nabucco Project. Natural gas cooperation between Turkey and Turkmenistan, which had been impeded by Russia, has recently been gaining momentum.

Nabucco is expected to reduce energy dependency on Russia. The aim is obvious: Reaching natural gas sources in the Caspian Region by bypassing Russia. The Nabucco Project will supply 10% of Europe's natural gas.

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## Chapter One: Introduction

### 1.1 Introduction:

Although the European Union's (EU) 27 member states have ceded some national sovereignty (or competency) to EU institutions in a variety of areas including economic and trade policy, energy policy remains primarily the responsibility of the member states. Decisions regarding long-term oil or gas purchases, the development and improvement of energy-related infrastructure, and the use of particular fuels continue to be made at the national level by individual member states. At their March 2007 summit, EU member states moved to boost European coordination to help secure and diversify energy supplies, increase the development and use of renewable and alternative energy resources within the EU, and reduce energy demand and consumption. Although member state governments remain reluctant to cede national sovereignty over energy-security aspects of their foreign policies, they have set binding EU-wide targets for the use of renewable energies and biofuels, and have agreed to ambitious but non-binding energy efficiency and carbon\ emission reduction targets for the year 2020. In addition, member states are considering potentially significant reforms to further liberalize energy markets. Nonetheless, most observers expect member states to continue to retain significant national control over national energy markets and external relations with energyproducing countries. EU heads of State are set to discuss specific policy proposals in these areas at their spring 2008 summit. Europe's renewed interest in energy security has been influenced by both internal and external factors. Internally, steadily rising energy prices, declining European energy production and a fragmented internal energy market have contributed to anxieties over Europe's ability to meet future energy demand. The strain on global demand exerted by the emerging economies of countries such as China and India,



persistent instability in energy producing regions, the threat of terrorist strikes against energy infrastructure, and Russia's apparent willingness to use its energy power for political ends, are all raising concerns in Europe over how to address external influences that could affect future energy requirements.<sup>2</sup> Recent calls for EU-wide energy coordination have been driven by rising European concern about the effects of energy production and consumption on global climate change. To this end, EU member states' recent energy policy decisions center largely on CRS-<sup>2</sup> <sup>3</sup> For more information on the EU's carbon emission trading system see CRS Report RL33581, Climate Change: The European Union's Emissions Trading System (EU-ETS) by Larry Parker. <sup>4</sup> See Energy Overview, Council of the European Commission, June 2006; An Energy Policy for Europe, Communication From the Commission to the European Council and the European Parliament. COM(2007) 1. January 10, 2007.

promoting energy efficiency, developing renewable energy and clean fuel sources, and reducing overall greenhouse gas emissions. As uncertainties surrounding global energy supply and demand persist, issues pertaining to U.S., European, and global energy security are may gain importance in the second session of the 110th Congress. Members of both parties have introduced legislation aimed at increasing energy independence and energy security and reducing carbon emissions. Several of these proposals envision carbon trading schemes similar to those in use in Europe.<sup>5</sup> In several hearings during the first session of the 110th Congress, Members of Congress voiced concern about Europe's dependence on Russian energy resources, and the potential for Russian manipulation of European energy markets. To this end, Senator Richard Lugar has raised the possibility of a more proactive role for NATO in guaranteeing energy security for Alliance members.

### 1.2 Key Question(s):

What is the main problem of Eu countries for importing of long-term gas from Russia?

### 1.3 Main Hypotheses:

The growing demand of gas in the European markets has forced the European statesmen to import Natural gas in order to meet its day to day needs. The main supplier for the past decades is Russia and its actions which has forced Europe to diversify its import routes to neutralize Russian domination on gas supply and to have a secure long-term gas inflow into the European economy.

### 1.4 Assumptions:

- Russo-Georgian armed conflict in 2008 has shown the fragility of the present energy routes in the Caucasus region.
- Iran and Russia are trying to develop their own pipelines which if they are able to do so, can turn Nabucco into a "pipeline in the air".
- The Caspian route which will inject gas from Turkmenistan has raised some serious consideration in the environmental issues.

### 1.5 Background(s)-(Review of Literature & Bibliography)

Normally from academic works, like, books, articles, websites and etc

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## **1.6-Methodology**

10 The study will use the descriptive and explanatory approach as research method. By utilizing related written researches and academic works, articles, magazines and also

11 internet websites, the study will discuss the Nabacco pipeline.

## **1.7- Methods of Data Analysis**

Using available data and statistics available in the journals.

## **Chapter Two :**

### **۲- ENERGY IN THE EUROPEAN UNION**

#### **۲.۱-The historical background of the energy in the EU**

Energy had a crucial effect in Europe in the past as well as in today. Especially since the creation of the European Union, the effect of the energy in Europe can be more clearly seen. Especially, in the early years of the European Community, during the years of the European construction, it has a vital role. The energy has a unifying feature for the European Union. Especially the coal, steel and nuclear power were the main elements of this unifying power. These elements are the subjects of two important founder treaties of EU; ECSC and the Euratom Treaties. The ECSC was founded by the Paris Treaty in ۱۹۵۱. France, West Germany, Italy, Netherlands, Belgium and the Luxembourg were members of this community. The main aim was to combine the coal and steel resources of the member states for establishing a coal and steel union.

After the Second World War, the energy was indispensable for the Western Europe. As the energy is one of the most important parts of the economy, it was essential for the reconstruction of the continent after the war. At that time; the coal was the most abundant energy in the continent. And also, the coal and steel were the main products of the gun industry. Germany possessed the coal industry and France possessed the steel. The coal and steel productions were problematic issues between France and Germany. In this respect, Jean Monnet recognized that by establishing a coal and steel union, the problems between the two countries can be avoided and the absolute peace in the Western Europe can be provided. This objective was renewed under the Schuman Plan which was launched by Robert Schuman- the foreign ministry of France-. According to this plan; a ‘high

authority' would be responsible of the coal and steel production. ( Macmillan, 1997, pg: 14-1) The establishment of ECSC is the basis of the European Union and it is a significant example for understanding the efficient role of energy in shaping the international politics. long. The coal consumption started to decrease by 1950. At that time, the Middle East started to sell its cheap oil and this cheap oil arrived to the European Market. And, gradually, it started to replace the coal in Europe. At that time, most of the people believed that the sectoral integration can bring a fully integrated political unit.( Ibid ,pg : 16)

this idea was weakened with the failure of a two important initiatives; 'European Defense Community' and 'European Political Community'. After these failures; the efforts for the European integration continued. Especially, the Euratom and the European Economic Community (1957) were quite successful initiatives for the European integration. Moreover, the creation of the Euratom Treaty was a new milestone for organizing the energy issue and increasing its efficiency in the union

In that time, the use of oil was not broadly used, the consumption of coal was declining and in this case, the use of the nuclear power seemed advantageous. However, all the member states were not completely interested in the nuclear issue. They had different intentions for signing this treaty. To illustrate these different intentions, I believe that the cases of France and Germany are appropriate examples. France was quite interested in the nuclear energy contrary Germany was not. Germany was interested in the establishment of a common market. But for achieving this aim, Germany needed France. These different interests show how there was a lack of common approach in the energy field, even at that time .(Ibid,pg : 17)

The European Union entered a new era with the first oil crisis. During this oil crisis, the embargo put by the OPEC members showed how the consumer countries are vulnerable against the producer countries. And, European countries realized that they should take some new measures for strengthening their situations. The new efforts, in the energy issue, were launched in 1974 and in 1980 focusing on some new objectives. The 1974 objectives were about taking the essential measures to lessen the risks of being primarily and highly dependent to the oil. We can say that this target was mainly concentrated on the oil. Otherwise, 1980 targets had more economical aims comparing to those of 1974. In these objectives; the primary focus was taking necessary measures to prevent the energy consumption. They highlighted that the oil imports can be a threat for the security of supply.

In this respect, the European Community started to make progress for reducing the level of the imports. Moreover, the commission set new targets in 1986 which should be achieved until 1990. According to these targets; the share of oil and gas in the electricity production will decrease to 10% until 1990, the energy saving relating with the energy efficiency measures should be enhanced, the rise in the domestic production will be developed, the diversification of the new suppliers and the use of the different sources of energy should be promoted, the energy networks ought to be developed. (Gower; 1987; pg 180-187) The development of the energy issue gained a new aspect with the new treaty 'The Single European Act'. This treaty was a crucial step for establishing the common market, removing the barriers for the trade.

However, the new initiative about the common single market didn't cover the issues relating to the energy. It started to include them since 1988. One of the other reforms in the SEA was made in the decision-making procedure. The areas where

qualified majority voting system is using were extended. This reform weakened the member states' veto power to initiate the common policy and to have a common approach in the energy issue. This was an important step for establishing the common energy policy. (Ibid, pg: 19-20)

The security of supply and the creation of the internal energy market remained as two main priorities in the energy field in the EU. The Energy Green Paper 'Towards a European Strategy for the Security of Energy Supply' published in 2000 and the Energy Green Paper 'A European Strategy for Sustainable, Competitive and Secure Energy' published in 2006 became important reference documents which explain quite clearly the priorities of the European Union in this field. The efforts for strengthening the energy policy in the EU have been continued. The latest initiative was to put a separate chapter in the draft constitution however as it is not ratified, this initiative also failed. As it is obvious, since ECSC, there have been gradual initiatives for developing the energy sector and improving the security of energy supply. And these efforts have been continued even today.

### **2.2 - The Common Energy Policy**

It is obvious that in a political union like the EU, having a common approach for the policies is the best way to be organized and to be efficient. The vitality of the energy and its indispensable effects on the politics and on the economics bring itself at the center of many policies. The common energy policy in the European Union is a very problematic issue. Especially, after the fourth and the fifth enlargement; this process became more complicated. In the enlarged EU, the national interests and the approaches toward the new initiatives were diversified. And this diversity of the national interests prevents *"to speak with one voice"* (Brussels, 2006, pg: 14)



. Especially; the idea of a supranational dominance on the national energy policies is the main opposition for a common energy policy. They do not want to lose their interest in their national policies. (Trier;pg:11) For this reason,there is no consensus for the creation of a common energy policy. All the member states have different views about the common energy policy. Some of them are strongly against and some of them have more moderate approaches toward this issue.Unfortunately, the majority of the Union is totally against to have a common energy policy.They do not accept a supranational authority in the energy sector. The main actors of the oppositions and fragmentations toward the common energy policy are the member states and the interest groups. The member states are mainly concentrated on the protection of their sovereignty and their national policies however the interest groups mainly focus on their interests and their benefits. Their lobbying force is very effective. In the energy sector, the interest groups are usually the companies and the associations. Moreover, most of the energy companies are unified and established large scale frameworks in the form of federations.These are the Eurogas,the Europaia, and the CEPCEO.These interest groups are very important for the decision-making process.Especially, about the common energy policy.they can easily influence their national governments, according to their benefits. (Ibid, pg: 95) It is quite clear that not only the national interest but also the interests of the specific groups also affect the initiatives and decisions about the common energy policy. Especially in the last two decades, the commission tried to install the common energy policy in the EU's mechanism. However, each initiative failed and the community authorities could not succeed. In this issue, the most significant initiative was that they tried to put a separate chapter for the common energy policy in the Maastricht Treaty.

However,this proposal cannot be succeeded.It failed because of thestrong

oppositions of member states. (Ibid,pg: 60) This initiative is very significant because this is a clear attempt to transfer an important share of competence in this issue to the Union. The common energy policy is indispensable for ensuring the security of supply. The different priorities and interests among the member states prevent to have an integrated approach for the supply security. To illustrate, the target of 30% for the renewable energy became a controversial issue because of the concerns of the some member countries. According to this target; the share of the renewable energy will be 30% in the total energy consumption in 2020.

However, there are some concerns about this target in the Union. The main reason of these concerns is the different interests of the member states. The rise in the share of renewable energy will increase its share in the electricity production. And this situation is considered as a threat by the member states which produce the electricity from the nuclear energy and the coal.

These members are mainly France, Finland, Hungary, Poland, Czech Republic and Poland. This opposition is a perfect example for showing why EU does not have a common energy policy. The national interests and the priorities are different between the member states and this situation prevents to have a common approach in some specific issues which are quite important and efficient for the union. However, these kinds of concerns are quite detrimental for the union and its security of supply. If the member states don't respect the targets put by the commission and they cannot have a common approach in this issue, the import dependency cannot be decreased and the security of supply cannot be ensured.

As it is quite clear above, it is very difficult to have a common approach in a union with 27 members. All of these members have different national interests and most of them prefer preserving their own priorities. This situation can have a quite negative outcome for the security of supply. In such a strategic issue, if the

countries continue to have their own strategy for ensuring their security of energy supply, the current challenges will continue and even the situation will be worsened in the future.

### **2.3 Energy situation in the European Union**

The European Union, despite its political and economical powers, has a vulnerable energy situation. This vulnerability arises essentially from three main reasons. These are limited energy reserves and insufficient indigenous production, the rise in the energy demand and the high import dependency especially for the fossil fuels. These reasons are essential challenges for the security of supply. Therefore, ensuring the security of supply is quite necessary for strengthening the energy security of the European Union. The limited reserves are mainly concentrated on the oil and the natural gas. These fossil fuels are not equally distributed in the EU. Some of the areas are in a more advantageous situation than the others. Especially, the member states which possess oil and natural gas reserves have more chance to strengthen their security of supply. However, almost all of them cannot meet its energy demand and are dependent to the imports. In the European Union, each energy source has a different situation. Some of them are more dominantly used and some of them are more abundant than the others. Some of them are more conveyable for the environmental protection while the others are more harmful.

For a better analyze of the EU's energy situation, it can be relevant to analyze two important indicators; the share of the energy sources in the total consumption and the share of the energy sources in the indigenous production. According to the 2006 data; the share of the solid fuels is 18%, the share of the oil is 34%, the share of the natural gas is 24%, the share of the nuclear power is 10% and the renewable energy's share is 7% in the total energy consumption. (ch Service; 2006;

pg:6 ) Otherwise in 2003, the share of the solid fuels is 22%, the share of oil is 16%, the share of the gas is 21%, the share of the nuclear energy is 29% and the share of the renewable energy is 12% in the domestic energy production. (www.ec.europa)As it is clear, the energy consumption is higher than the energy production. Especially the oil and gas consumption levels increase the vulnerability of the energy situation in the EU. Furthermore, in the European Union, each energy source has its own advantage and disadvantages for the consumers.

### 2.3.1- Oil

Oil is not only an energy source but also an important political and economical tool. It has strong effects both for the producer and the consumer countries. In the European Union, the oil consumption is indispensable. It can be relevant to stress that the oil is one of the most important instruments influencing the international economy and politics. *The dramatic price rises experienced in recent years, and heightened awareness of the role of hydrocarbon combustion to global environmental change, have returned energy, and petroleum, to the centre of political debate.* (www.ec.europa) This statement clearly shows how the oil and the price changes affect the international politics. Oil has a special position in the European energy market. It is the predominant energy source in the domestic production and consumption. The oil is mostly consumed in the transport sector. According to 2004 data, for the dispersion of the sectors in the energy consumption, the transport is in the first rank, the second one is the industry, the third is the households and the fourth is the commerce. (Ibid ) Especially the large share of the oil for the EU. However, this high oil consumption cannot be met by the transport sector in the total consumption shows the importance of the domestic