

**INTERNATIONAL RELATIONS AND
SECURITY OF ENERGY SUPPLY:
RISKS TO CONTINUITY AND
GEOPOLITICAL RISKS**

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Europe's Energy Situation

1. Scarce oil and gas resources and high import dependence (which may or may not be a problem); but good diversification.
2. Fast growing demand for gas and electricity (*increasing* gas intensity);
3. Domestic resource coal handicapped by environmental impacts;
4. Geographical proximity to Russia, recent supply interruptions;
5. World leader in nuclear and renewable energy technologies;
6. Global champion of greenhouse gas emission reductions (ETS);
7. **Unable to choose between objectives, hoping to avoid hard choices through energy efficiency and renewables. Role of prices is unclear.**
8. **Rightly addressed the desire for European energy policy is opportunity for European integration.**

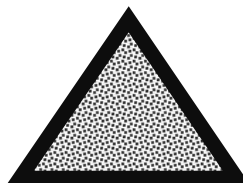
Global Blocks in Comparison

	Europe	USA	China
Population	470	290	1 280
Share of global	7 %	5 %	21 %
TPES (Mtoe)	1080	2 300	1 180
Mtoe/capita	4	8	1
No. of vehicle (million)	229	220	13
Oil consumption (Mbd)	13	22	5
Oil import ratio	77 %	50 %	50 %

Do We Know What We Want?

The Triangle of European Energy Decision-Making

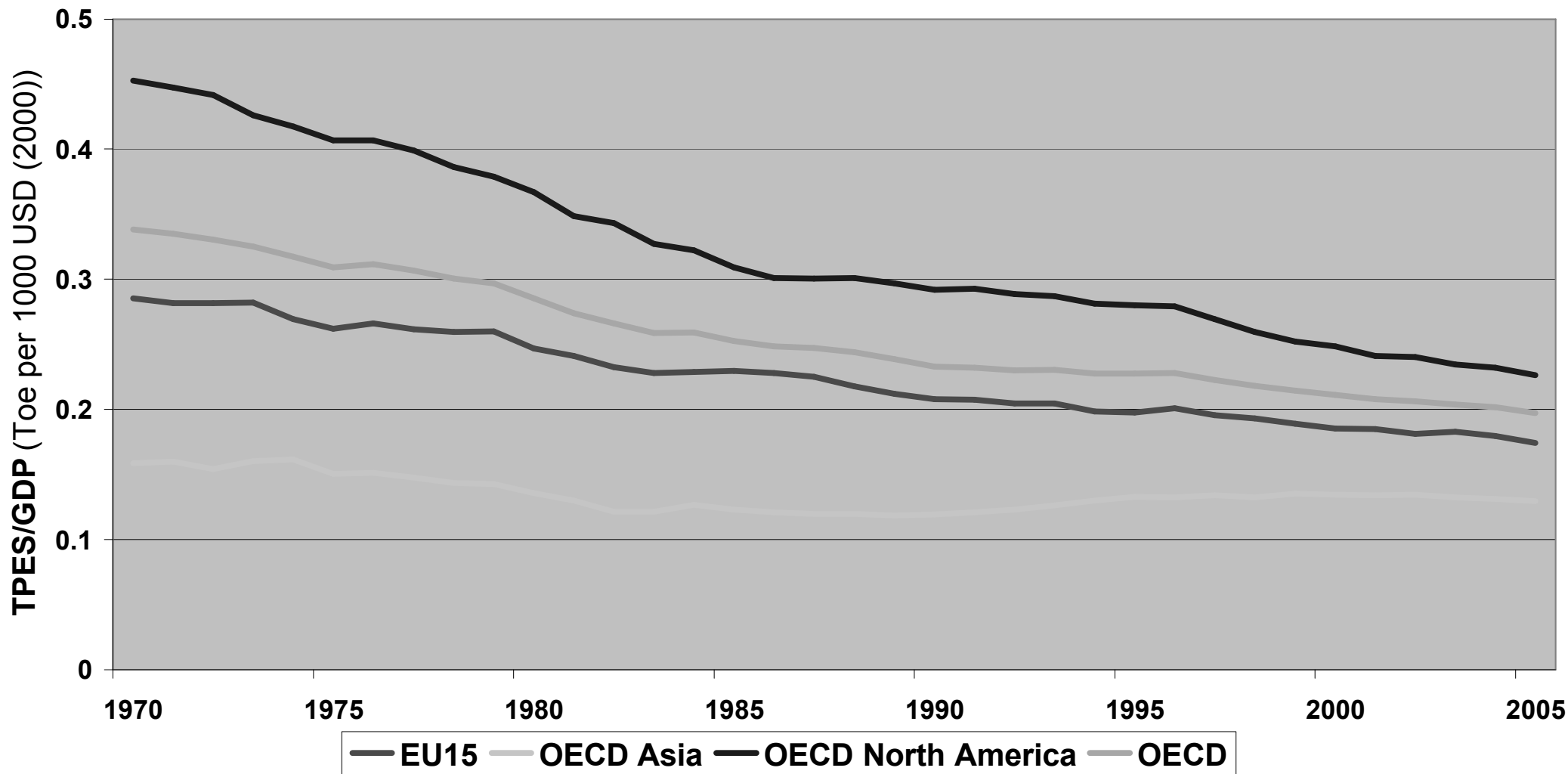
1. Security of supply
(Stability of International Trading System,
Short-term Emergency Storage)



2. Environmental objectives
(Kyoto Protocol, High Share of
Renewable Energies)

3. Economic Competitiveness
(Liberalization, Nuclear Power
Lisbon Strategy)

Europe's Energy Intensity in Comparison (1970-2005)



A Word on the US

1. The world's largest energy consumer will be decisive for shaping tomorrow's energy world;
2. Moving slowly towards higher Cafe-standards;
3. Growing consensus on carbon-constrained future;
4. Has taken energetic steps in favour of nuclear energy;
5. Ambitious technology initiatives, but great reticence to use fiscal measures;
6. Must be brought on board to strengthen multilateral trading system.

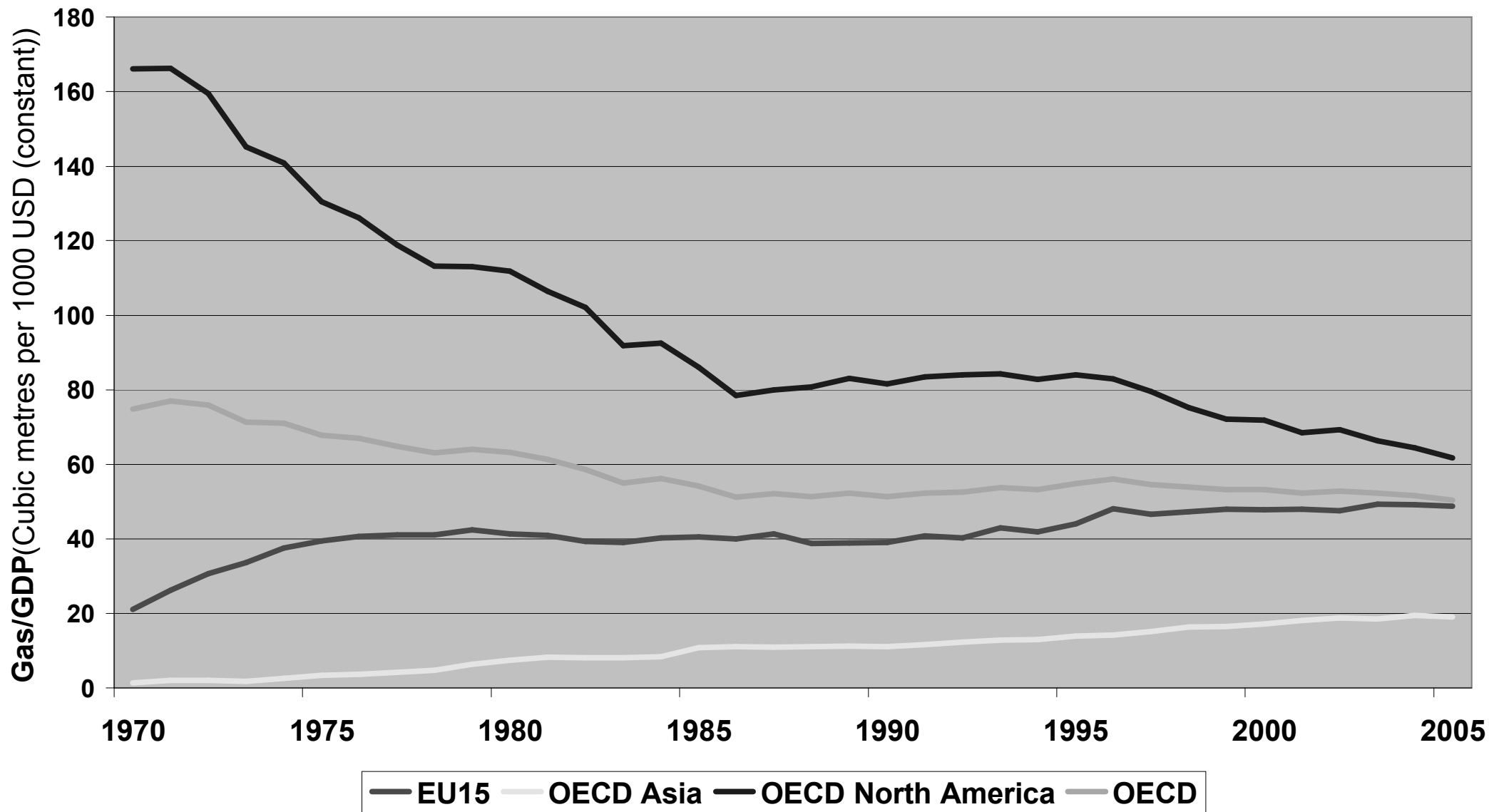
The BTC Pipeline



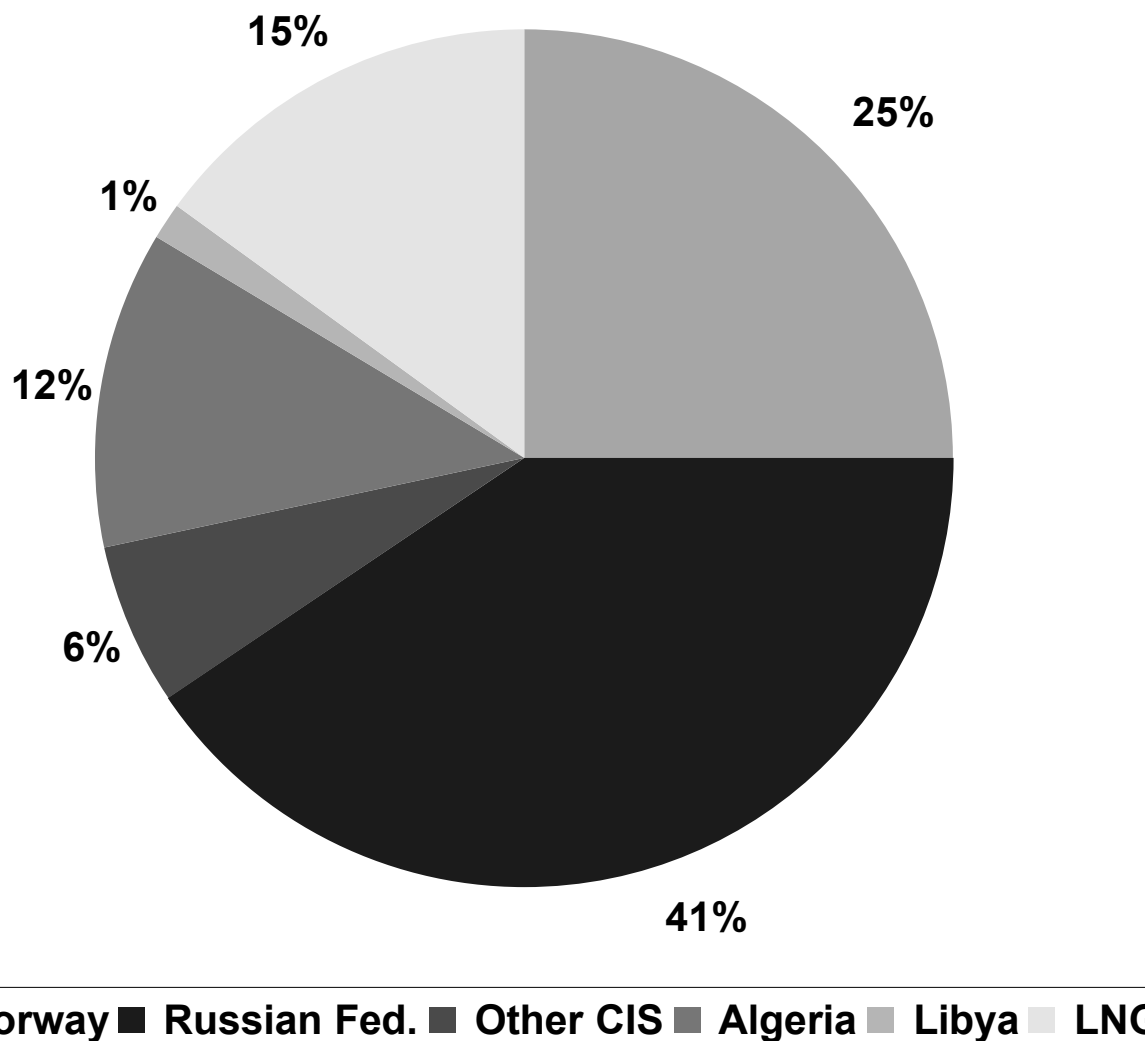
A Word on Nuclear Power

1. Rising gas prices and security of supply concerns make nuclear more competitive;
 2. Renewable energy still too expensive;
 3. CO2 pricing increases competitiveness of nuclear;
 4. New reactors in Finland and France demonstrate economic competitiveness;
 5. Fast-growing Chinese electricity demand opportunity for technology exports;
 6. US Energy Bill provides insurance, subsidies (2,5 cents per kWh) and waste disposal;
 7. Greater realism of European public.
- But: (1) High fixed cost technologies still handicapped by volatile power markets;
- (2) Nuclear technology exports pose proliferation issue.

Europe's Gas Intensity in Comparison (1970-2005)

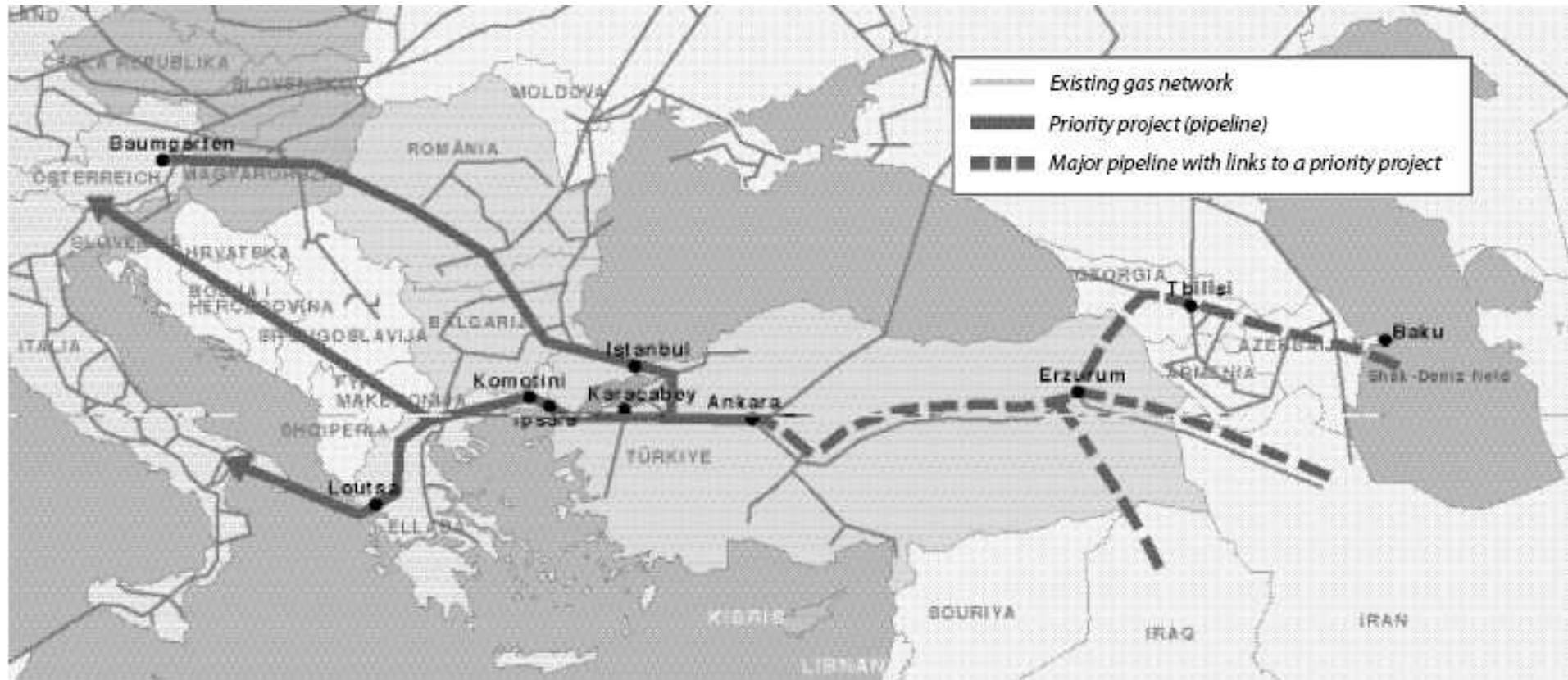


Origin of EU-25 Gas Imports (2005)



Source : BP [2006]

Contours of the Nabuccco Project



How to Respond to Energy Supply Risk?

1. High import dependence is not a problem in stable and liquid markets;
2. Distinguish short-term interruptions from long-term scarcity (e.g. gas)
3. Different policy response for different time frames
 - a) Physical stockpiles and interruptible contracts for the short-run;
 - b) Fiscal instruments to dampen demand and encourage substitution in the medium run; technology policy;
 - c) Technological and geographic diversification as well as adequate infrastructure provision (pipelines, storage) for the long-run.

How to Resist Creeping Bilateralism: A Multilateral Agenda in 5 Points

1. Strengthen energy work of multilateral organisations such as IEA, World Bank, UNFCCC and WTO. Integrate energy trade disputes in rule-based dispute settlement mechanisms.
2. Continue and strengthen Europe's leadership role in the Kyoto process;
3. Improve conditions for private investment in supplier countries; forge consensus with US, Saudi Arabia and China.
4. Stay involved in Energy Charter Treaty process; but switch emphasis from Transit Protocol to investment protection.
5. Strengthen multilateral technical initiatives such as Global Gas Flaring Reduction Partnership, Extractive Industries Transparency Initiative, Financial Action Task Force, IFC *Equator Principles* and Inogate.

External Measures Europe Can Take to Improve Security of Energy Supplies

1. Take intellectual leadership in defence of **multilateral energy trading system**, organise international conference on the issue;
2. Cooperate on securing international **oil shipping lanes**;
3. Limit speculation by improving **market transparency and disclosure**;
4. Provide European actors with the **legal, technical and informational infrastructure** to participate fully in global energy markets;
5. Promote **European champions** able to compete in world markets;
6. Strengthen **investment protection** in upstream markets;
7. Build credibility of **international courts** such as the Permanent Court of Arbitration, Geneva, or the International Court of Arbitration, London.
8. Deepen the **Kyoto Protocol** to reduce CO₂-emissions *and* demand for carbon-intensive hydrocarbons.
9. Appoint **European coordinator** for external energy infrastructures such as Nabucco.

European Policymakers' Most Important Tasks

1. Formulate consensus balancing the conflicting objectives of **low prices, environmental quality and security of supply**;
2. Take the intellectual leadership in advocating a **multi-lateral approach** to open energy markets.

The Kyoto process has shown Europe's capacity to act forcefully if proceeding on the basis of internal consensus and careful external coalition building.