

Foreign Policy in Dialogue

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Dealing with Dependency

The European Union's Quest for a
Common Energy Foreign Policy



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Foreign Policy in Dialogue

A Quarterly Publication on German and European Foreign Policy

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Harnisch*

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This internet project on German foreign policy was established in 1998 at the Chair of International Relations at Trier University and is funded by the ASKO EUROPA-FOUNDATION . Its mission is to respond to the increasing interest in Germany's foreign policy by improving research, analysis and teaching in this field through the use of the internet. The project also aims at strengthening the democratic discourse on German foreign policy among researchers and analysts, decision-makers and the wider public. Our information services integrate media perspectives, official documents and secondary analyses.

The project is presently headed by Marco Overhaus. Current staff members are Sebastian Dregger, Michael Lechner, Daniel Tost, Jan Martin Vogel and Peter Klassmann.

Overall responsibility for the project lies with Prof. Hanns W. Maull.

Our Content-Partner for this publication is



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I. Dealing with Dependency. The European Union's Quest for a Common Energy Foreign Policy

Editorial

By Marco Overhaus

Energy security is not entirely new on the international agenda. The “oil shocks” of the 1970s, the Iranian Revolution in 1979 and the Second Gulf War in 1991 had already revealed the industrialized West’s vulnerability in this area. Since then, however, energy has hardly been a topic on the foreign policy agendas of EU member states. Instead, it was widely seen as a competence of economic bureaucracies or private companies rather than a threat to national security. The availability of sufficient and affordable energy sources was assumed. This perception has changed only recently as a result of several developments. The most important is the one most immediately felt by ordinary citizens (and voters): the substantial increase of energy prices, notably oil and gas, which is in turn a result of rising energy consumption in developing and newly industrialized countries (China, India). Moreover, the Russian factor has played an important role in the European context as the country is by far the EU’s most important provider of oil and gas. The “Yukos-Affair” was widely seen in Western Europe as a clear sign of the Russian government’s efforts to regain control over natural resources and to use them as a political instrument in external relations (epitomized by the Russian-Ukrainian gas conflict after the “Orange Revolution” in Ukraine brought a pro-Western president to power). Political stability and reliability of Russia as energy provider is becoming even more salient as the average import dependency of the EU grew after enlargement in May 2004 and is projected to grow even further. Finally, the European Union has taken further steps to liberalize the internal energy market which in turn has also generated political conflicts and opposition.

The EU reacted to these developments by launching a more thorough debate on energy policy in Brussels and among member states. While economic efficiency and ecological sustainability have been on the agenda for some time (in the context of the internal market and of climate protection policy), the external (foreign policy) dimension and “security of supply” has recently gained more prominence. The European Commission set out to develop a common energy strategy which is supposed to integrate all three dimensions and to enable the Union to articulate its energy interests more coherently towards third countries. This issue

of *Foreign Policy in Dialogue* scrutinizes these efforts, and the potential of the EU to develop a Common Energy Foreign Policy, from the perspectives of Germany, France, Poland and Lithuania.

Frank Umbach describes the rationale for a European Energy Foreign Policy. He does not only point to the rising energy dependency of Europe but stresses the political and geopolitical implications of international energy relations which operate in two directions. Firstly, Umbach notes that economic and political crises outside of Europe – in the oil producing countries of the Middle East, Central Asia or in Russia – will have increasingly negative effects on Europe’s own economic and political stability. Secondly, the author points to a trend towards “energy nationalism” which threatens to disrupt the current international order. Producer countries of oil and natural gas use their resources as an instrument for political ends, as has been seen most prominently for Russia. Net energy consumers, such as China and India, will increasingly use traditional foreign policy as a tool to satisfy their energy needs. The author concludes that in this environment EU member states have to reconsider the strict separation of economic aspects from politics, at least when dealing with third countries. Member states have to be careful not to lapse into energy nationalism themselves.

Michael Sander looks at the German external energy policy with a special focus on German-Russian relations. His main argument is that German energy policy has been mainly driven by economic actors. Commercial interests of German and Russian companies (most importantly the monopolist Gazprom) led to a “special relationship” between both countries which is reinforced by Germany’s dependence (though not unique in the EU) on Russian oil and gas. These close ties, Sander claims, had adverse political consequences, as was demonstrated by the conflict between Germany and Poland over the Baltic Sea Pipeline. “Since energy companies have no reason to take care of political questions, better coordination and oversight by political actors of private activity in the energy sector is the only way to make sure that public interests are not neglected.”

Unlike Germany and other EU countries, France is less concerned with the security of energy supply as the country is – partly due to its large nuclear programme – more independent from external energy sources. As *Sophie Meritet* points out, the main challenge for France has been to adapt its distinct national energy model – based on state intervention, public-private energy firms, “*public service*”, and nuclear energy – to the exigencies of European policies and the

internal market. Instead of just being the “black sheep” in energy policy, “France could play a significant role and even try to be a model in the European Union” if it overcomes some “fears” (e.g. concerning deregulation) and highlights its national assets (competitiveness of its nuclear plants, low CO₂ emissions, promotion of renewable energies).

In contrast to France, Poland sees energy policy in the context of the European Union predominantly through the lenses of national security and security of supply, as *Ernest Wyciszkievicz* notes. Again, this perspective stems from the Polish energy situation which is even more characterized by dependency on Russian resources than is Germany. One of the central concepts for Warsaw in the context of the EU is “solidarity” among member states as was reflected in the Polish proposal to create a European Energy Security Treaty (sometimes referred to as “Energy-NATO”). Against this background, Poland was especially annoyed by the Baltic Sea Pipeline project between Germany and Russia as it will circumvent Poland and is seen to detach Polish energy security from Western Europe.

Lithuania shares the peculiar energy situation of Poland and the other Baltic States as the country has to rely heavily on Russia and as “we live on an energy island, which is isolated from the European networks” as Lithuanian Foreign Minister *Petras Vaitiekūnas* puts it in his contribution. Against this background, Lithuania supports a more integrated energy policy of the EU and the creation of more effective instruments in the framework of the Union’s Common Foreign and Security Policy. Foreign Minister Vaitiekūnas emphasizes that commitment “to the principles of cooperation, transparency and broader institutional regulation is typically the strong point of the small.” In the foreign policy context, a critical engagement of Russia and the involvement of the United States are seen as crucial. According to Minister Vaitiekūnas, these components should also be complemented by efforts to restructure the European energy market, in order to decrease the dependence on fossil fuel monopolies, and to pool Research and Development efforts beyond national boundaries.

The authors in this volume agree that at least two assumptions on energy policy need to be questioned in the context of rising international prices and demand as well as political liabilities in those regions on which consumer countries’ security of supply depends. The first assumption is that energy policy is solely an economic domain which is clearly separated from more traditional foreign and security issues. Already today, the EU has begun to integrate energy concerns into its dialogues with important supplier and transit countries. Russia is of central importance here as is stressed in all contributions. The second assumption

that needs to be questioned is that energy policy is the domain of European nation states alone while the European Union is only tasked with aspects of the internal market. Dealing effectively with real and rising dependencies requires more than any single state can deliver.

Towards a European Energy Foreign Policy?

By Frank Umbach

Background: Reasons for a European Energy Foreign Policy

Since the end of the 1990s, international energy experts have stressed the increasing strategic importance of supply security in the triad of goals to which economic efficiency and environmental compatibility also belong. But only in the aftermath of the winter 2005/2006 gas conflict between Russia and Ukraine has the future security of German and European energy supplies become the focus of a broader political debate. It was the result of Russian cutbacks in gas deliveries affecting Ukraine as well as EU member states. The gas crisis has questioned a number of long-standing assumptions underlying Germany's energy and foreign policies.

For many years Germany and the EU have ignored that Moscow has indeed used its energy exports and pipeline monopoly as an instrument of foreign policy to intimidate and blackmail neighbouring states — albeit with little success — since the demise of the Soviet Union. Holding more than 25% of the world's natural gas and hard coal reserves and 6% of the world's oil reserves, Russia has also considerably increased its strategic position in many of the successor states of the USSR and in the new EU member states by buying up utility companies, pipelines, refineries, and infrastructure through Gazprom and other giant energy corporations. By expanding its monopoly positions throughout Eurasia, Gazprom now seeks direct access to customers and end users in the European Union and Germany in order to expand its market share from 26% at present to 38% by 2020. Russia is striving to build a gas cartel with Iran (with the second largest gas reserves), Algeria and other gas exporters which it would be able to dominate beyond just prices.

Other international economic and political conditions, too, have already changed to such a degree that it is useless to assert that “everything went well after all.” Until 2004, observers in Germany also overlooked Asian, especially China's, energy demand and its implications for Europe's foreign and energy security policy. Germany did not wake up to this reality until its industry experienced mounting difficulties with imports of raw materials because China, India, and other states were prepared to pay far more than customary international market prices for them. On March 8, 2005, the Federal Association of German Industry (BDI) held a

congress on protecting Germany's supply of raw materials and energy, its first such event in more than twenty years. Since then, a high-ranking BDI group has been created to address issues of international raw materials and to formulate a national approach to them until the end of 2007.

For the first time in history, the present increase of energy demand in emerging economies like China and India coincides with the trebling of oil prices since 2003 and a crisis of mounting uncertainties about how long oil and gas reserves will last and how many resources will really be available on the future global market. Hence, the present global energy price and supply crisis is very different from past ones. But the economic rise of Asia (above all China) in particular has not only created an enormous regional energy demand, but also raises countless foreign and security policy questions for both regional and global stability and the future world order, as the present international conflicts of Iran and Sudan or China's Africa policies are highlighting.

The recent trends of re-nationalisation of energy policies and concomitant resource nationalism are not only threatening the future global market policy strategies and the WTO order, but are also jeopardising future global investments, energy efficiency and planned production levels. As a result, the supply-demand gap may widen and political factors may increasingly determine access to the oil fields in Africa, the Caspian Basin and the Middle East. In such a political environment, political solutions for regional conflicts will be difficult to find as the present conflict with Iran highlights.

Due to the global demand for oil and gas, rising political instability in many producer countries and the nearing of the "peak-oil" situation is beginning to change the overall balance of power in the relationship between energy producer and consumer states. The emergence of a "seller's market" will lead to a profound change in the nature of competition among consumers that may in turn strengthen re-nationalisation trends in the consumer countries.

The present high energy prices offer a significant increase of hard currency in the state budgets for many producer states. The New York Times columnist Thomas L. Friedman and others have identified a direct correlation and negative impact of average crude oil prices on political freedom, democratisation and the direction of cooperative or confrontational foreign policies. According to the "First Law of Petropolitics", the higher the average oil and gas

prices on the international market, the lower the internal political and economic reform willingness of governments and the more confrontational their foreign and security policies, leading to “petro-authoritarianism”. It explains the present policies of those “petro-ist”-states such as Russia, Iran, Venezuela, Nigeria, Sudan and others, which are highly dependent on oil and gas for their GDP and have either weak institutions or authoritarian systems. They have started asserting themselves domestically as well as in their foreign policy environment by weakening the global democratization trend. This strategic trend, according to Friedman, even has the potential to distort “the whole international system and the very character of the post-Cold War world.”¹ They undercut Western and European security interests as the result of dysfunctional energy politics.

The “Achilles Heel” of the European Economy: The Future Energy Security of the EU

Although, historically, energy questions dominated the negotiations leading to the treaties of Paris (1951) and Rome (1957), the specific institutional provisions were made just for coal and the nuclear industries (leading to the EURATOM treaty in 1957). As regards gas and renewable energy sources, each EU member is free to decide for its own national energy policies.

In 2002, the EU accounted for 16% of world energy consumption with just 6% of the world’s population. In more detail, it represented in 1999 19% of world oil consumption, 16% of natural gas, 10% of coal and 35% of uranium. In 2001, oil was still the dominant fuel for 43% of total EU energy consumption, followed by gas at 23%. It imported 27.5% of its oil demand from Eastern Europe (mainly Russia), 24.6% from the Middle East, 20.5% from Africa and 19.95% from Norway.

The future increase of the EU’s total energy demand will be predominantly generated by gas while the number of oil and solid-fuel power stations will continue to decline. With the EU’s enlargement policies of accepting new East European countries, Europe’s energy dependence has reached even more apprehensive perspectives. Natural gas imports, for instance, may rise from 60% to 90% and oil from 90% to 94% in demand.

¹ Thomas L. Friedman (2006): ‘The First Law of Petropolitics’, Foreign Policy, May-June 2006, p. 28-36 (35).

In November 2000, the EU's Green Paper warned that in the next 20-30 years up to 70% of the Union's energy demand (presently 50%) will have to be imported. The EU's dependence on oil could even reach 90%, for gas 70%, and for coal 100%.

Thus the EU's long-term strategy for energy supply security has, more than ever, to cope with the challenge to ensure uninterrupted physical availability of energy products on the market, at a price which is affordable to all private and industrial consumers. At the same, the EU needs to balance its future energy supply policies with growing environmental concerns, which has become an even more important objective – highlighted by the Kyoto Protocol and in November by the new Stern-Review of the British government.

If no significant changes are made in Europe's energy policy, the total energy picture in 2030 will still be dominated by fossil fuels. Against this background, the EU has called for a mix of energy strategies that include the maintenance of nuclear energy, improving energy efficiency, changing consumer behaviour through taxation and other measures as well as doubling the share of renewable energy in the overall energy supply quota from 6% in 1997 to 12% by 2010 and raising its part in electricity production from 14% in 1997 to 22% by 2010. Energy Commissioner Andris Piebalgs has called for stronger action and has strengthened the EU's energy efficiency efforts in a new "Green Paper on Energy Efficiency" of September 2005.² The European Commission hopes that the EU could save at least 20% of its present energy consumption in a cost-effective manner. This would be equivalent to 60 billion Euro per year or the present combined energy consumption of Germany and Finland. Its energy demand management strategy gives added emphasis to diversification in energy supply, promotion of renewable energies and a neutral look at the nuclear option. In addition, after years of discrediting coal, the EC also views coal as an important energy source in the future which can contribute to enhance security of supply in the EU. It decided to support the technical progress in terms of actual clean burning processes of coal.

Furthermore, the expansion of natural gas as an environmental clean energy source will play both the most important and the most problematic factor in the next two decades for the EU member states. Already today, Europe is the largest natural gas import market and will continue to be the world's champion of gas importers until 2030. But today, almost half of the

² See European Commission (2005): Green Paper on Energy Efficiency. Doing More with Less. Brussels, June 22, 2005.
http://ec.europa.eu/energy/efficiency/doc/2005_06_green_paper_book_en.pdf

EU's gas consumption is being imported from only three countries: Russia, Norway, and Algeria. Given current trends, gas imports would increase to 80% over the next 25 years. In 2030, Europe will have to import some 530 bcm (North America: less than 200 bcm and China/India just 85 bcm). The share of gas in total primary energy demand will rise from 23% at present to 32% in 2030. A growing share of EU gas imports will be shipped as Liquefied Natural Gas (LNG) which would offer a better crisis stability for gas imports. But currently, only France, Spain, Greece, Italy, Belgium and Portugal have LNG import regasification facilities. At present, Europe's combined LNG import facilities can handle just 76 bcm a year. Against the background of an increasing dependence on unstable political oil and gas producer states, the EC has also called for an active and coherent External Energy Policy.

Towards an Energy Foreign Policy of the EU

Since the second half of 2003, the topic of "energy security" and its related foreign policy dimensions have also been discovered by the foreign ministries of major EU member states. In December 2003, energy was included in the EU's global "European Security Strategy" – one of the most important documents of the Common Foreign and Security Policy (CFSP). Moreover, in 2004 the British Foreign and Commonwealth Office published an international "Energy Strategy" with a specific foreign policy view,³ while the Foreign Ministry of the Netherlands finished a similar internal policy document during the summer of 2005. Germany's Foreign Ministry, by contrast, discovered the need for a national and European energy and energy foreign policy only after the Russian-Ukrainian gas conflict in January 2006.

But the numerous differences between various national energy policies and priorities of the EU member states make any coherent international energy security strategy of the EU difficult to implement until it acquires a supranational authority to do so. Despite giving the EU more power and influence in the realm of energy policies in its Constitutional Treaty, it would still have remained a field where member states and the European Commission have to share their competence and authority and thus need to seek better cooperation and coordination of divergent national energy policies.

³ See Foreign and Commonwealth Office (2004): UK International Priorities. Energy Strategy. London, October 28, 2004.
http://www.fco.gov.uk/Files/KFile/Energy_Report_281004.0.pdf

Without the European Constitution in place, however, the national differences in energy policies and strategies increasingly threaten the political cohesion and to undermine the EU's evolving CFSP. Although the EU has established its own energy partnership with Russia, many new EU member states (even France and Great Britain) have voiced criticisms or expressed their concerns about the ever-growing energy dependence of Germany from Russia because it may have unwanted implications for their own energy, foreign and security policies. The controversial discussions of a new underwater Baltic gas pipeline from Russia to Germany and the missing German consultation in advance of Poland, the Baltic States and Sweden have highlighted the unilateralist tendencies in German and European energy policies and the lack of a common and coherent EU energy security strategy. Those policies, justified by narrow-minded national interests, are extremely short-sighted because they also undermine the EU's Common Foreign and Security Policy as such. They also ignore the lesson that any individual EU member state is too weak for establishing itself as a strategic actor in the light of a growing energy resource competition vis-à-vis the U.S., China, Russia, India, Japan and the OPEC.

Against this background and in the light of the Russian-Ukrainian gas conflict, the EC has published a new Green Paper on March 8, 2006. It called once more for a common European Energy Policy which needs to meet three core objectives: sustainable development, competitiveness, and security of supply. Besides initiatives for completing the internal energy market, the Green Paper pays particular attention to the future security of supply in order to ensure solidarity among member states. It has, inter alia, proposed the establishment of a European Energy Supply Observatory and a revision of the existing Community legislation on oil and gas stocks to ensure timely and effective reaction to potential supply disruptions. Furthermore, the new Green Paper stresses the need for a common External Energy Policy ("*Energieaußenpolitik*") as part of the CFSP. In order to cope with the challenges of growing demand, high and volatile energy prices, increasing import dependency and climate change, the Commission believes that the EU needs to speak with a single voice in an age of increasing global energy resource competition. In this context, the EC has proposed concrete ideas and principles for a Common Energy Policy, including a common external dimension. Thereupon the European Council invited the Commission to prepare a set of actions with a clear timetable enabling it to adopt a prioritized Action Plan at its meeting in March 2007. The external aspects of energy security will constitute an important part of such an overall framework and will need to be included within the Action Plan. Commission and High Representative have therefore prepared a common paper on the EU's future External Energy

Policy, which has been welcomed by the European Council on June 15 and 16, 2006.⁴ It calls for an External Energy Policy conducted in a spirit of solidarity by all EU member states and specifies a number of principles of a common European foreign policy “in order to enhance the external security of energy supplies”. Furthermore it recommends enhancing the EU’s energy security by diversifying energy resources and imports of the individual energy resources as well as transit routes in order to create new energy corridors. It proposes to establish a network of energy security correspondents from the member states, the Commission and the Council General Secretariat in addition to the European Energy Supply Observatory to monitor energy security developments around the world. Finally, it also announces new initiatives at the bilateral level towards major energy producers and partners of the EU, such as Russia, Norway, Algeria, Turkey and countries of Central Asia, the Middle East, the Gulf region, Africa and Latin America and to seek common approaches to global energy issues with Japan, China and India.

The European Council also encouraged the inclusion of energy issues into other Community policies and invited the Commission to reinforce the balance between internal and external aspects when preparing the Strategic Energy Review at the end of this year. On October 12, 2006, the Commission adopted a concept paper and Action Plan⁵ for the informal European Council in Lahti, Finland, on October 20. The new paper includes most of the ideas outlined in the Solana-paper of last June. Indeed, at the summit in Lahti, the European Council and its member states were acting towards Russia with a much closer common stance than at any time before.

However, the discussion within the EU during the first half of 2006 has also highlighted a worrying trend of “energy nationalism” within the EU itself. A consequence of foreign bids to create national energy champions ahead of the full liberalization of the EU’s energy market in mid-2007 can be the closing of markets from producing countries to consumers, like Spain, France and Austria. But these problematic trends inside the EU have again underlined why the need for a coherent and coordinated external policy for energy in Europe is seen as imperative for the future of the EU at a time when Europe’s energy import dependency is increasing rapidly.

⁴ See European Commission (2006): An External Policy to Serve Europe’s Energy Interests. Brussels, June 16, 2006.

<http://www.consilium.europa.eu/uedocs/cmsUpload/st09971.en06.pdf>

⁵ See Commission of the European Communities (2006): Communication from the Commission to the European Council. External Energy Relations – From Principles to Action. Brussels, October 12, 2006.

http://ec.europa.eu/comm/external_relations/energy/docs/com06_590_en.pdf

Conclusions and Perspectives

Although after the Russian-Ukrainian gas conflict in January 2006 energy security has forced its way up the European policy agenda, the 25 EU member states have failed so far to forge a coherent European energy security strategy that envisages a clear response to the growing risks of oil and gas dependency over time. The many proposals for improving energy supply security have only little leverage because of the concentration of the remaining oil and gas resources in the politically unstable Middle East where state-owned companies control the resources. But if energy insecurity is rising and the world's energy demand can not be met because of the insufficiencies of the global energy systems, dysfunctional energy policies, or due to failing political stability in oil and gas producing countries, economic and political crises in countries and regions outside of Europe will have increasingly negative effects on Europe's future economic and political stability. Although renewable energies and new technologies (such as fuel cells) are becoming more important, they will reportedly be unable to contribute much to the global energy supply until 2025 or 2030.

In the light of the increasing geopolitical challenges and a development inside of Russia that raises increasing doubts whether Moscow will remain a reliable energy partner for the EU in a world ever more dependent on fossil fuels, it is more urgent and important than at any time before to speak with one voice. Yet, during the last 15-20 years the EU and its member states' energy policies have been increasingly determined by market forces while a separation of energy questions from political factors and strategic developments took place. Ultimately, energy policies have been left to the industry. Business interests, however, are primarily guided by short-term economic benefits in an increasingly competitive environment. At the same time, mid- and long-term national interests of energy supply security have been neglected by both energy companies and national governments such as Germany (see Michael Sander's contribution in this volume). Therefore, the organisation of security for oil and gas supplies can no longer be entrusted solely to the industry at a time when other regions and new/old key players like China and India are already pursuing aggressive national strategies which are determined by geopolitical considerations (including Russia and many OPEC countries) rather than relying on the "invisible hand" of market forces. Whereas the traditional separation of economics from politics has made sense for the internal EU market due to existing common norms and understandings of the overall importance of market forces, energy policies determined outside of Europe are more than ever defined by strategic and

geopolitical interests in the context of national foreign and security policies (particularly in Russia, China, OPEC-countries, the U.S. and others).

Until very recently geopolitical factors affecting the international security of energy supply tended to be of lesser concern in many of the old EU member states than in the rest of the world. In contrast to many EU countries, such as Germany, until the end of 2005, the EC for Transport and Energy and foreign and security experts of the EU have intensified their work and analyses on the EU's future energy and supply security as the publication of two Green Papers on energy security in 2000 and 2006 are highlighting.⁶ Since then, Germany has become a motor for an active national and European energy foreign policy. But a realistic assessment for the EU might still be that an approach of "learning by doing" prevails as it has been thus often in the case of the Common European foreign policy in the 1990s. That means that the EU might have to go through some other painful energy crises and learning its lessons before the political will of the member states will make possible the necessary political decisions for a real and adequate Common Energy and Energy Foreign Policy.

⁶ See European Commission (2000): Green Paper: Towards a European Strategy for the Security of Energy Supply. Luxembourg, November 29, 2000
http://ec.europa.eu/energy/green-paper-energy-supply/doc/green_paper_energy_supply_en.pdf
 and Commission of the European Communities (2006): Green Paper. A European Strategy for Secure, Competitive and Sustainable Energy. Brussels, March 8, 2006.
http://ec.europa.eu/energy/green-paper-energy/doc/2006_03_08_gp_document_en.pdf

A “Strategic Relationship”?

The German Policy of Energy Security within the EU and the Importance of Russia

By Michael Sander

While holding the Presidency of the European Council in the first half of 2007, Germany has to face some vital challenges concerning the further development of the European Union. Besides the revitalization of the ratification process of the Constitutional Treaty, the development of European Energy Policy (EEP) is one of the central tasks. After active and often frustrating discussions in 2006, Germany is expected to lead the European Union's member states towards a consensus on the priorities of external energy relations and the division of competencies between the Union and its members. In the German case, as probably in other countries as well, it can be expected that the interests and preferences of domestic actors will be crucial to shape energy policy. It is therefore important that the competencies and interests of the relevant actors involved are currently changing. Until now, the maintenance of energy security has been the task of economic actors like Ruhrgas (now: E.ON Ruhrgas) and Wintershall. It can be argued, and has been argued, by several analysts of German energy policy that the dominance of private actors in this field has resulted in several politically costly developments.

One of these developments is the growing dependence on Russian energy exports to fulfil the country's energy needs. This strong reliance on Russian oil and gas, at least compared to other Western European countries, has led some experts to speak of a "special" or "strategic" relationship between Russia and Germany.⁷ In this contribution it will be argued that there is in fact a “special relationship” between Germany and Russia and that this relationship has resulted so far from the interaction of a comparatively small number of political and economic actors. Moreover, it has been mainly driven by economic and private interests rather than by political concerns.

⁷ See for example the speech given by BP executive officer Ian Conn in Berlin on November 23, 2006. http://www.deutschebp.de/liveassets/bp_internet/germany/STAGING/home_assets/assets/deutsche_bp/reden_standpunkte/reden/231106_rede_conn_europa_energiezeitalter.pdf
A critical evaluation of this claim can be found in: Götz, Roland (2006): Deutsch-russische Energiebeziehungen – auf einem Sonderweg oder auf europäischer Spur? Discussion Paper Stiftung Wissenschaft und Politik (SWP). Berlin, November 10, 2006.
http://www.swp-berlin.org/de/common/get_document.php?asset_id=3423

The (Inter-)Dependence of German Energy Relations

The main sources of German energy supply are oil products and natural gas. While natural gas accounts for 27.3% of German energy consumption, the combined percentage of oil products is about 40%. Among the fossil fuels, coal accounts for only 5.2% of the total German consumption of energy.⁸ The consumption of coal is fully covered by domestic resources.⁹

Since oil and gas combined account for 67.3% of Germany's energy use the stable import of both resources is of vital importance to the energy security of the country. Imports from Russia are crucial for both fuels, covering 33.7% of oil imports and 39.1% of gas imports.¹⁰ This is slightly lower than the corresponding figures of the enlarged EU as a whole with 30% of oil imports, but 50% of gas imports, coming from Russia. Despite these figures, the relationship between Germany and Russia is characterized by mutual dependency. Russia is also in need of German energy imports and the inflow of foreign currency as the main sources of its economic growth and as a central factor in the overall economic development of the country. This state of interdependency might become more one-sided, however, if Russia further develops its technology on Liquefied Natural Gas (LNG) and thus acquires a greater degree of flexibility concerning the destinations of her energy exports. This could leave Germany as the weaker party in this context.

Comparing the shares of gas consumption covered by imports from Russia, Germany has an average value of 25%. In Western Europe, only Austria shows a higher dependence with 55% of its gas consumption coming from Russia (France: 28%; Italy: 27%). If compared to the eastern member states of the EU, the bilateral energy relationship seems far less "special" in quantitative terms, however. In Eastern Europe, Estonia, Latvia and Lithuania receive 100% of their gas consumption from Russia, for Slovakia the figure is 99%, and for both Hungary and the Czech Republic more than 70%. The dependency of Poland is more limited with "only" 53% of overall gas consumption coming from Russia. This leads to an average import dependency of the EU on Russian gas of 25% of total gas consumption.¹¹ Since German

⁸ See Bundesministerium für Wirtschaft und Technologie (ed.) (2005/06): Energiedaten. Berlin. <http://www.bmwi.de/BMWi/Navigation/Energie/Energiestatistiken/energiedaten.html>

⁹ See: Schiffer, Hans-Wilhelm (2005): Energiemarkt Deutschland. Köln, p. 30.

¹⁰ Bundesministerium für Wirtschaft und Technologie (ed.) (2006): Kurzbericht. Verfügbarkeit und Versorgung mit Energierohstoffen. Berlin, March 29, 2006. <http://www.bmwi.de/BMWi/Navigation/Presse/pressemitteilungen.did=127764.html>

¹¹ See European Commission (2000): Green Paper: Towards a European Strategy for the Security of Energy Supply. Luxembourg, November 29, 2000, p. 40. http://ec.europa.eu/energy/green-paper-energy-supply/doc/green_paper_energy_supply_en.pdf

dependence on gas imports from Russia is on the European average, but definitely less important than the corresponding figures of the Eastern European states, the notion of a "special relationship" cannot be justified in quantitative terms. It lies more in the nature of private company relations between both countries.

One of the main economic actors in this field is E.ON Ruhrgas (former Ruhrgas; in March 2003 included into E.ON). E.ON Ruhrgas is the biggest provider of natural gas on the German market (639,5 bio. kWh in 2003). With its 5.2 billion cubic metres of gas stock, the company contributes to the reduction of the German and European vulnerability in crisis-situations in a substantive way. It is of central importance, therefore, that the company receives virtually all of its gas from the Russian Federation, mainly from Gazprom. This relationship dates back to the 1970s, when the company, then Ruhrgas, established long lasting contracts on gas supplies with the Soviet Union (conclusion of the treaties in 1970, 1972 and 1974; the deliveries started in 1973). This dependence is framed by the involvement of the company in the governing bodies of its main supplier Gazprom. The most prominent example for this may be the election of E.ON Ruhrgas CEO Burckhardt Bergmann to the board of directors of Gazprom in 2000 (annually re-elected since then). Bergman is the only representative of a non-Russian company within the structures of the gas-monopolist. Since December 21, 1998, Ruhrgas follows a policy of buying into Gazprom. The company now owns 6.5% of Gazprom shares and is by far the biggest foreign shareholder.

A second major private actor in the German-Russian energy relationship is WINGAS. The company was founded with the aim of circumventing the monopoly of Ruhrgas by establishing direct import relations for natural gas. This policy should reduce the costs for the chemical production of the mother company BASF that relies heavily on natural gas. Like its competitor, the company looked mainly to Russia for its gas imports. WINGAS is a subsidiary of BASF-Wintershall (65%). A minority share is owned by Gazprom (35%). The most important involvement of WINGAS in the Russian market is its share in the Yushno-Russkoe gas field in Siberia. In the context of this transaction, Gazprom was allowed to enhance its share in WINGAS to 49%.

Taken together, these processes lead to a growing interdependence between private actors from both sides of the German-Russian relationship. Especially the close cooperation between E.ON Ruhrgas and Gazprom deserves to be characterized as "special". Nevertheless, close

cooperation with Russian companies is not uncommon among European energy companies. A case in point is the cooperation of Eni. The Italian energy company has close relations to the Russian energy industry, and was even thinking about acquiring a stake in the Yukos production unit Yuganskneftegas in 2004. Only recently, Eni planned to get direct access to Russian oil and gas reserves via a swap deal that would offer Gazprom direct access to the Italian energy market in exchange for a stake in the Russian company.

A strong case of economic cooperation in the field of energy could be the integration of the British company British Petroleum into the Russian energy sector via its subsidiary TNK-BP. However, overall energy relations between Russia and Great Britain are more conflictual than it is the case for Italy and Germany. This became especially obvious when the British government strongly opposed, in the end successfully, the entrance of Gazprom into the British market via a stake in the energy company Centrica. Similar patterns can be found for the energy relations between Russia and the Eastern European states, where Poland as well as Lithuania repeatedly blocked Russian attempts to acquire a stake in companies of strategic importance for these countries' energy security. In all cases mentioned above, the central actors were private companies with political actors only in a supportive role.¹²

Concerning the actions of German energy companies, the federal government is supportive to any involvement of private actors into the Russian market and encourages any action in this direction. Within the German government, the main responsibility for the external dimension of energy policy has traditionally been located within the Ministry for Economic Affairs (BMWi). Since the beginning of the Grand Coalition under Chancellor Angela Merkel, the political leadership in the overall field of energy policy is claimed by the Social Democratic Minister for Environmental Protection (BMU) Sigmar Gabriel. This competition between the two bureaucracies and their leading representatives corresponds with a structural cleavage within German energy policy. The departure from the use of nuclear power is seen as one of the central achievements of the Red-Green coalition and is the central effect of the energy policy of the Social Democrats.¹³ This policy has repeatedly been contested by the

¹² It is important to note that the Russian government's stake in Gazprom (51% since 2005) does not necessarily lead to political control on the company's decisions. This is true for two reasons. Firstly, public actors in the Russian Federation are as interested in the realisation of private gains as in the political control of energy resources. Secondly, because of the multi-factional nature of Russian politics the plurality of actors with diverging and often opposing aims leads to reduced efficiency of attempts to exercise political control on energy companies. For German energy companies, the division between private and public actors seems to be clearer. Neither the ownership structures nor the composition of the relevant boards of directors indicate a direct involvement of political actors in the private energy sector (though a closer analysis might be necessary on the issue of elite networks).

¹³ For an overview on the political positions on energy policy see: Schiffer, Hans-Wilhelm (2005): *Energiemarkt Deutschland*. Köln, p. 30.

conservative CDU/CSU (and Economics Minister Michael Glos).¹⁴ Nevertheless, the competencies in the international dimension of energy policy are still firmly concentrated in the hands of the BMWI with the BMU focused on energy efficiency and renewable energies. The Foreign Ministry (Auswärtiges Amt) defines its task as the creation and support of stable international economic relations and positive international conditions for German companies.

The Process of Bilateral Energy Relations between Russia and Germany

The special role of private actors in the process of German-Russian energy relations are reflected in some distinctive features of bilateral negotiation processes. Firstly, it can be argued that there are several processes on the bilateral level that support the notion of a "special relationship". In the context of negotiations on the North European Gas Pipeline (NEGP, now Nord Stream) as well as on the reconfiguration of Gazprom's plans for the development of the Shtockman field, German companies gained most by the decisions of Gazprom. In both cases, the monopolist rejected the possibility of cooperation with companies from other European and/or American countries. If this concerned mainly the distribution of shares within a predefined project in the case of the NEGP holding, the Shtockman-case also had a strategic dimension with the redirection of outputs of the field from the USA (as initially planned) to Germany via the NEGP. It can therefore be argued that the close cooperation of relevant actors in the field of energy policy paid well for Germany. Nevertheless, this process is not without problems, as Russian actors, most prominently President Vladimir Putin himself, use the interdependence between both countries to press for policies in favour of Russian interests.

The central actors of these processes are, secondly, private companies with the political actors in a mainly supportive role. This is especially true in the negotiations on the NEGP project where the negotiations between Gazprom on the one hand, BASF and E.ON Ruhrgas on the other where supported but neither initiated nor substantially influenced by political actors from both sides. The NEGP case also displays one of the major problems stemming from the dominance of private actors in the policy of energy supply. By neglecting the Polish anxieties concerning the increased dependence of the country from Russia, the project has led indirectly to a substantive weakening of Germany's political relationship with its eastern neighbour. A similar pattern can be identified for the Shtockman case, where Chancellor Merkel called on

¹⁴ See Glos, Michael (2006): Deutschlands Beitrag zu einer wettbewerbsfähigen, sicheren und umweltverträglichen Energieversorgung innerhalb der EU. Rede des Bundesministers für Wirtschaft und Technologie Michael Glos MdB anlässlich der Konferenz des Wirtschaftsrates der CDU. <http://www.bmwi.de/BMWi/Navigation/Presse/reden-und-statements,did=170904.html>

President Putin to consider the redirection of exports to Germany. Putin promised to support this demand but the decision was finally made by Gazprom.

Thirdly, and perhaps most importantly, Russian actors are the ones who define the framework of the bilateral relationship and formulate the conditions for cooperation. On the transnational level, the NEGP is a case in point. It was Gazprom who turned the project, initially proposed by Finland, into a joint venture firstly with American companies and then with the German actors E.ON Ruhrgas and Wintershall. Moreover, Gazprom has acquired a controlling stake in the holding (51%) while the German companies are both limited to 24.5%. Even more striking in this context are the negotiations concerning the inclusion of the Dutch company Gasunie into the structure of the NEGP holding. The result of the process, which aims for the inclusion of a non-German European company into the framework to stress its European character, was that both Wintershall and Eon Ruhrgas reduced their respective shares in favour of Gasunie while Gazprom gained a share in the British pipeline of the Dutch company. Once again this case exemplifies the dangers associated with the handling of political questions by private actors. The decision came shortly after the British government blocked an attempt of Gazprom to acquire a share in the British company Centrica, which was a Russian attempt to buy into the British energy market. Dominance of the Russian side was also revealed in the case of the Shtockman field, where Gazprom decided to cancel the ongoing negotiations with foreign partners for the development of the field in favour of the unilateral strategy it now follows.

On the international level, Putin himself has repeatedly defined the conditions of bilateral developments. This was obvious in his remarks on the Shtockman-case. Putin offered Germany the role as an energy distributor of Russian gas for the other countries of the EU, adding new fuel to the fears of Eastern European states. At the same time, he rejected any criticism on the politicisation of bilateral energy relations and issued a not-so-implicit threat when he stated that “[o]ur mutual interdependence creates sustainability, reliability and stability....Should our exports be reduced? In this case, we have no problems finding other markets.”¹⁵

This made clear that Russia is willing to use its energy resources and the dependency of Germany as a foreign policy tool to put pressure on the country. The Russian strategy towards

¹⁵ Brössler, Daniel/ Kilz, Hans Werner (2006): SZ-Interview mit Vladimir Putin. Diese Leute sind Provokateure oder sehr dumm. In: Sueddeutsche Zeitung (Online Edition). October 10, 2006. <http://www.sueddeutsche.de/ausland/artikel/274/88186/>

Germany is therefore one of sticks and carrots, combining the offer of a strategic energy partnership with the thread of a political manipulation of that same relationship. Compared to other European countries, the bilateral relationship is characterized by the absence of substantial conflict between German and Russian companies and political actors. Since almost any foreign company active in Russia is at the moment under pressure from government agencies - the tax claim on TNK-BP and the "environmental" problems in the context of the Sakhalin 2 project (Royal Dutch-Shell) being the most prominent examples - the cooperative state of the German-Russian relationship can be characterized both as "special" and "strategic".

German Energy Policy in the European Context

In the European context, Germany supports the establishment of a EEP. On a summit meeting with British Prime Minister Tony Blair on February 18, 2006, Chancellor Merkel called for a common European approach to the foreign dimension of energy policy.¹⁶ Pointing to a similar direction, Minister Glos, in a speech given in November 2006, called for the creation of a European Energy Policy if common interests among all EU member states exist. The publication of an Energy Action Plan at the spring EU Summit 2007 has repeatedly been defined as an important aim of the German Presidency. Within this context, the German energy strategy has three main elements. The first is the liberalisation of global energy markets, the second the further diversification of energy sources and transport routes for imports. The third, and most important, element is the stabilisation of energy relations through constant dialogues and gradual integration with important suppliers and transit countries. These central aims are also anchored in the German position towards the EEP. Internal and external diversification of energy sources is one of the most prominent aims of German policy within the context of a European Energy Policy. Concerning the integration with major export countries, Minister Glos argued that "...mutual interdependencies create security",¹⁷ resembling very closely earlier remarks by President Putin. The extension of the South-East European Energy Community to Norway, Ukraine and Moldova and the integration of energy cooperation with Russia into the framework of a new Partnership and Cooperation Agreement are the most important measures in this context.

The increasing dependence on Russian oil and gas imports is seen as inevitable. According to some experts, imports from Russia could cover two thirds of all German energy imports in

¹⁶ See Merkel will Energie sichern; In: Frankfurter Rundschau. February 18, 2006.

¹⁷ Glos, Michael (2006): Deutschlands Beitrag zu einer wettbewerbsfähigen, sicheren und umweltverträglichen Energieversorgung innerhalb der EU. Rede des Bundesministers für Wirtschaft und Technologie Michael Glos MdB anlässlich der Konferenz des Wirtschaftsrates der CDU.
<http://www.bmwi.de/BMWi/Navigation/Presse/reden-und-statements,did=170904.html>

2020. The political answer of the German government to this forecast is primarily the intensification of the energy dialogue with Russia. In this context, officials from the BMWI constantly criticise the fact that the use of nuclear power will be abandoned under the rules of an informal agreement reached between the government and energy companies in 2000.

The traditional division of labour between political and private actors is still accepted by the most important actors in German energy policy. Minister Glos himself as well as his responsible senior civil servant, Secretary of State Joachim Wuermeling, define the role of political actors as merely supportive, while the substantive actions in the field of energy security should be carried out by private companies. This position is interesting insofar as Wuermeling has himself criticized the weak international position of German energy companies and calls on them to begin a process of "backward integration", meaning the intensified engagement of German energy companies in the production of energy resources.¹⁸

Conclusion

This analysis leads to two substantial conclusions. Firstly, there is a “special relationship” between Russia and Germany which has tangible benefits. On balance it has to be regarded sceptically though. It is true that most features of the German-Russian energy relationship can also be found in the bilateral relationships between Russia and other European countries. Yet, the specific combination of high interdependence and the inclusion of German companies into the Russian market is quite unique. The intensity of this inclusion is higher than for any other European country. Besides the objective factors listed in this contribution, the remarks of President Putin show that the concept of a “special relationship” is also a relevant idea in the foreign policy of Russia.

Secondly, the role of private actors in German energy policy and energy security will remain crucial. Developments after the “gas war” between Russia and Ukraine occurred mainly on the level of objectives of energy policy, placing security of supply higher on the agenda, not on the level of central actors involved. Policy changes of the most important private actors until now are only gradual and will not overcome the long established interdependence with the Russian energy sector. Economic actors are still closely involved in the German decision-

¹⁸ See Wuermeling, Joachim (2006): Rohstoffversorgung im Dialog zwischen Wirtschaft und Politik. Rede von Dr. Joachim Wuermeling, Staatssekretär im Bundesministerium für Wirtschaft und Technologie, anlässlich der Mitgliederversammlung der Wirtschaftsvereinigung Bergbau. Berlin, November 27, 2006. <http://www.bmwi.de/BMWi/Navigation/Presse/reden-und-statements,did=175188.html>

making process in the field of energy policy. This became obvious in the context of the two energy summits that have so far taken place in Germany. They included representatives from the main private actors. The substantial division of labour is accepted, if sometimes criticised, by the political side and the companies play an important role not only in the definition but also in the implementation of energy policy.

These factors have without a doubt influenced German policy towards the emerging European Energy Policy, reflecting established patterns of foreign energy relations without questioning the central role of energy companies. The European Commission has to take these developments into account when carrying forth the EEP. One consequence of this situation could be to intensify work on the internal energy market. A truly liberal market for the EU would offer more possibilities of diversification since energy from different sources would be available throughout the European Union. This could reduce the vulnerability of several EU member states, especially in Eastern Europe. Moreover, the emergence of the European energy market would also reduce the importance of networks between political and economic actors on the national level. Since the strength of the bilateral energy relationship between Germany and Russia is founded on the history of German's policy of energy supply and the contemporary configuration of economic and political actors, it is likely to become weaker in the context of an EEP. A further step in the right direction is the establishment of the High Level Group on Competitiveness, Energy and the Environment that includes representatives from EU member states, private companies and European institutions. This direct negotiation with relevant actors could enhance the traditionally weak European governance structures in the field of energy and thus overcome national modes of policy formation, leading to a stronger regard of common European interests in the long run.

For the German government, the political coordination and oversight of activities by energy companies has to become one of the central instruments of energy policy. The established division of labour makes sense only if political concerns are taken into account. As the case of NEGP shows, the neglect of political concerns can lead to political fallouts which can have costly effects on non-energy issue areas of German foreign policy. Since energy companies have no reason to take care of political questions, better coordination and oversight by political actors of business activity in the energy sector is the only way to make sure that public interests are not neglected.

French Energy Policy in the European Context¹⁹

By Sophie Meritet

Introduction

The debate over a common European Energy Policy, its necessity and its establishment has been going on for a number of decades. The discussions have been recently brought back into the spotlight by the evolution of European energy market fundamentals (basic principles of supply and demand, prices, and quantities), environmental protection measures and the gas-conflict between Russia and Ukraine which also affected Western Europe. Today, a complex equation must be solved: to provide the European Union (EU) with secure and inexpensive energy (which is a strong element of competition), and at the same time reduce greenhouse gas emissions. The current European dependence on imported energy resources is increasing further and the energy sector has entered into a turbulent period in terms of prices and security of supply. These factors create a number of risks and uncertainties in the European energy landscape. They also create a need to think about a common strategy over the long-term. Dealing with tendencies of national economic protectionism, the European Commission in March 2006 presented a Green Paper that provides a basis for discussions on European energy policy. Looking at the diversity of the energy situation within the European Union, the idea itself of a common policy was seen as unrealistic a few years ago. Nevertheless, a shared vision has always existed among member states for the creation of a single energy market.

This paper presents the French perspective towards the European energy policy. In the European energy market's deregulation process, France has sometimes been referred to as the "black sheep", with its national energy model built on strong state intervention, two energy champions (state owned firms EDF and GDF), nuclear power as the main source of electricity, and the French concept of "*public service*". At the same time, France is less dependent on energy imports than other member states. Nevertheless, France is facing the same international demands and developments with the same risks and uncertainties as other EU countries. It needs to diversify its energy mix and improve its security of supply. How can France define its national energy policy within the emerging European context? As the French energy model does not fit neatly into all aspects of the emerging European policy (e.g.

¹⁹ The views presented in this paper can be referred only to the author who is sole responsible for them.

deregulation, renewable energy development) France has therefore been under pressures to adapt. When French energy policy was defined in 2005, the challenge was to protect national interests and take into account the European process. The strategic energy sector is still at the core of all debates in France especially with the upcoming presidential elections in spring and the opening up of the European energy sector to competition in July 2007. This paper focuses on the main French concerns related to energy policy within the emerging European context. It is divided into three related parts. The first section presents the French energy situation to understand the national constraints compared to other member states in the European Union. The second section discusses the national energy policy model in more depth and the final part analyses the position of France towards European Energy Policy. It will be argued that France has been evolving from its position of being the “black sheep” and now displays an interesting position of protecting its national interests while still complying with the European vision.

The French Energy Situation Compared to Other EU Members

The history of European nations and their respective energy reserves have implied a very high level of energy diversity throughout the European Union. When comparing European countries, it is surprising to notice the differences that exist, depending on the energy mix, industrial organization, the role played by the state, the dependence on imports, and so forth. In France, the history of energy policy has always been characterised by a very strong intervention of the state. Public firms, or controlled by the state, allowed the development of the French energy sector and played a major role in its modernization, in the promotion of independence and in security of supply. The French nuclear program, launched shortly after the first oil crisis, is a good example since nuclear power covers approximately 40% of the French energy needs (whereas the share of nuclear power in the world is about 8% in 2006). This very “hexagonal” and state oriented vision has to change with globalisation of the energy markets, the integration process of the European Union, the multiplication of international uncertainties and also with financial constraints facing states for energy investments.

In contrast to several European countries which benefit from raw materials (coal in Germany and Spain, gas in the Netherlands etc.), France has a poor endorsement with in energy resources. It does not possess many energy resources immediately available: the last coal wells closed in 2004, and the natural gas layer of Lacq provides less than 1% of the national production of primary energy. The nuclear program was a response to the oil crises. France,

like other industrialized countries, reacted to the two oil crises with measures in favour of the security of supply which deeply modified its national energy mix. In 2006, France has 58 nuclear power reactors with an installed capacity of 63 GW (it is the second largest nuclear park in the world after the United States). In order to ensure the security of its energy supplies, France's energy policy has given priority to the development of a national energy supply, most notably nuclear energy and renewable energies.

Among the European Union countries, significant differences subsist on the level of the four following dimensions:

1. *Energy intensity* is a measure of the relationship between energy consumption and national economic production. It varies between the 25 member states. In 2005, the energy intensity varies from 125 for Denmark and 300 for Luxemburg (in Mtoe²⁰, 1995 prices). The new members have energy intensities higher than those in the older member states. The potential for improvement is very high because their emissions of greenhouse gases per inhabitant are higher than the European average (see the contribution of Foreign Minister Vaitiekūnas of Lithuania in this volume). The structure of the French economy is more directed towards the services sector than other industrialized countries, which gives it a comparative advantage on energy intensity (150 for France).

2. *Energy dependence* continues to increase for the whole European Union which makes it more vulnerable. If nothing is done, energy dependence will reach 70% by 2030: 90% of oil needs and 80% of natural gas consumption will have to be covered by imports.²¹ This increase of import dependence can be explained by the imbalance between European reserves (0.6% of oil reserves in the world and 2% of natural gas) and its economic needs. Primary energy production in Europe is forecast to decline while demand is going to increase. This clearly raises the question of future prices and the availability of affordable energy. France still imports half of its consumption of primary energy, against nearly the three quarters before the nuclear program. Today, France produces 138 Mtoe and consumes 276 Mtoe (in 2005). It has thus an energy independence of 50% against 26% in 1973.

²⁰ Million Tons Oil Equivalent

²¹ See Commission of the European Communities (2006): Green Paper. A European Strategy for Secure, Competitive and Sustainable Energy. Brussels, March 8, 2006.

http://ec.europa.eu/energy/green-paper-energy/doc/2006_03_08_gp_document_en.pdf

3. *Diversity of the national energy mix* is the most obvious characteristic to compare member states within the European Union. The “energy mix”, or the combination of different forms of energy used, varies from one country to the next. In certain countries like Greece, energy consumption relies exclusively on imported oil and coal. Some countries are almost completely dependent on energy imports, like Portugal. The new member countries further accentuate this picture of energy diversity with a strong dependence on Russian gas supplies (especially Hungary).

Table 1: Primary energy consumption in 2005

Countries	Total (Mtoe)	Oil %	Natural Gas %	Coal %	Nuclear %	Hydro %
Czech Republic	44.4	22.3	17.4	46.2	12.6	1.5
Germany	324.0	37.5	23.8	25.3	11.4	1.9
Greece	33.5	62.4	6.8	26.8	-	3.8
France	270.0	33.0	15.0	5.0	40.0	7.0
Netherlands	94.7	52.4	37.5	9.2	0.9	-
Poland	91.7	23.8	13.3	61.8	-	0.9
Portugal	23.0	66.6	11.8	16.6	-	4.8
Slovakia	18.2	19.2	29.1	23.6	22.0	6.0
Sweden	49.7	30.4	1.4	4.4	32.7	31.1
UK	227.3	36.4	37.4	17.2	8.1	0.8

Source: BP Statistical Review of World Energy (2006)

Between 1973 and 2005, French primary energy consumption evolved: coal now represents only 5% (15% in 1973), oil share 33% (67% in 1973), gas consumption doubled (from 7% in 1973 to 15% today), electricity consumption was multiplied by the factor 10 (from 4 to 42%) and renewable energies represent 5% of the total. Compared with the other OECD countries, France ranks 7th for CO₂ emissions per inhabitant. The most significant increase in consumption is the transports sector (20% in 1973 to 31% in 2005), while the industrial sector share decreased (from 36% to 24% in 2005) and the residential and services sectors have remained stable (43%).

4. *National energy priorities* continue to dominate European energy debates. The strategic energy sector remains linked to national considerations. Certain countries are interested in nuclear energy development (like Finland) which limits the importation of CO₂. France will

surely not stop its nuclear program and will continue to seek maximum energy independence. A number of governments are opening again the debate over the nuclear option (United Kingdom and Spain) while other governments are looking to protect their coal industry, like Germany or Poland. At the same time, some member states have decided to proceed further with the use of renewable energy sources than laid out in European directives (Denmark, Germany, etc.). At the European level, the goal is that 12% of total energy consumption and 21% of electricity consumption will come from renewable energies by the year 2010. In France, a balance still needs to be found between relying on nuclear power with low electricity generation costs and renewable energies which need to be subsidized to help their development. "Better energy", not just "more energy", is required in this context.

Considering the French energy situation in the European Union, the challenge for the French government and administration was to define a new national energy policy which is more in line with the European process.

French Energy Policy: Definition and Means

Like all the other member states, France has always had its own, distinct energy policy. For thirty years, the government decided on the energy policy in the name of the nation. With the process of European integration, governments lost some of their sovereignty. France is still seeking to define its national energy policy but has to take into consideration new European constraints.

At present, French energy policy is defined by the Energy Act of 2005 which emphasizes French interests through four priority axes. The first two apply to most of the European members. The two last are more specific to France as they underline a higher degree of state intervention.

1. *Energy independence and the security of supply*: This objective is conceived in the short as well as in the long run in quantity and in price. There is a double goal: To limit the exposure of the French economy to fluctuation in energy prices and to ensure the availability of sufficient capacity to cope with problems of energy shortages.

2. *Protection of the environment*: Energy and the environment figure among the most important challenges of the century. In addition to this energy bill, in the "*Plan Climat*"

(2004), France within the framework of its Kyoto commitments decided on measures to save nearly 15 Mt of carbon equivalents per year by 2010 (which means a quartering of CO₂ emission by 2050).²²

3. *Energy at low cost for households and industries:* The price, quality and availability of energy are determining factors in France's competitiveness. This goal relies on our national nuclear program that allows us to have a low electricity production cost.

4. *Social and territorial cohesion:* It is important that the energy policy provides everyone, and in particular the most deprived in society, with access to a quality energy source at a competitive price. This concerns solidarity but also taxation, regulated tariffs, and missions of public service, such as for electricity, obligation of supply, equal treatment of customers, etc.. To achieve these four goals of the Energy Bill, the French government emphasizes four means. The first is control of the energy demand through a series of incentives and programs including an innovative energy saving certificate scheme (white certificates) and tax incentives. Secondly, the government seeks to improve diversity of the energy mix by increasing the use of renewable energies and keeping the nuclear option open (e.g. through the French-German fusion reactor research project). Thirdly, the development of energy grids and storage capacities is meant to improve the safety of France's energy supply. For example, the decree of 2003 relating to the "multi-annual programming of the investments of electricity production" lays down objectives of capacity to be installed. Finally, research and development on energy is supposed to meet long term challenges in terms of energy intensity, development and consumption of renewable energies.

France's Position in the European Union

While France tries to define and implement its energy policy, the government has to face several challenges linked to the European integration process and energy market fundamentals.

European law goes beyond the notion of "state" and the construction of the single market must be done through competition. European requirements have been a shock for the French culture ("Colberto-Jacobine"). They imply major changes of electric and gas industries and,

²² See Ministère de l'écologie et du développement durable (2004): Plan Climat. Paris, December 20, 2004.
http://www.ecologie.gouv.fr/IMG/pdf/plan_climat.pdf

more generally, of all network industries. European regulations imply a complete separation between competitive activities (generation, purchase and supply of gas and electricity) and regulated activities (transmission). Networks are regarded as opened “essential facilities” with third party access supervised by an authority independent of regulation. The directives of 1996 (electricity) and 1998 (gas) initiated the deregulation process and the directive of 2003 provides for the total opening-up to competition. This process has triggered strong opposition from certain members of the French parliament (right and left), who demand the renegotiation of the directive. This opposition reflects several refusals at once: the refusal of Europe, of the markets and of competition for “artificially” maintained protection.

The European process has also led to collective agreements. Member states signed the Kyoto Protocol. They succeeded in setting up the first market of emission permits. This market does not yet function in a satisfactory way but it is a major step in the direction of gas emissions reduction and might eventually lead to a single energy market.

The Green Paper published by the European Commission does not yet reflect a truly common European Energy Policy but it highlights a certain number of principles on which the member states agree to build the future energy system. These principles are to improve energy efficiency, to diversify the energy mix, and to ensure the security of supply. These principles are (or will be) accompanied by precise national objectives with regard to energy saving, development of renewable energies, and security storages. Nothing is obviously indicated on nuclear power but each country preserves its freedom of choice. One cannot at the same time reduce the gas emissions and close the door to nuclear power, as pointed out by L. de Palacio, the former energy commissioner. Against this background, France can evolve from its role of “black sheep” and better fit into the emerging policy of the European Union. French national priorities as described in this contribution have adapted to the European vision: French and European energy policies can be compatible and are not so different after all.

Nevertheless, this process is not easy. Any French energy policy, and any program on energy and the environment, should take into consideration European and worldwide problems. The French political community is conscious of these stakes but is still attracted by the maintenance of a mainly illusory and expensive public intervention policy and forgets that the fundamental key word is European and not “Franco-French”. It is true that politicians are confronted with an electorate rather in favour of the status quo ante. Employees of public companies are tied to their privileges, consumers are against changes and afraid of

competition, and companies talk about delocalisation to obtain regulated tariffs. It is not easy to explain to French citizens that GDF will supply electricity, that EDF will supply gas, that in spite of our nuclear park we pay an over cost CO₂ and that the electricity prices will follow the ones of electricity generated from coal in Germany. These concerns worry politicians, especially in the economic contest with low growth and high energy prices. In terms of European energy policy, various elements must be considered to understand the French position, related to energy companies' status, state intervention, and the transport sector policy. Some of them are at the core of turbulent debates:

- *State intervention on prices and tariffs for electricity and natural gas.* For a long time, the prices of oil products were administered prices. It is still the case for gas and electricity, at least for certain categories of customers. Is it necessary to release these prices? With the deregulation process, the main question is how much flexibility the government can give to energy prices. For some commentators, this question should not exist because energy prices should be competitive and not state regulated.
- *Public utility concept.* Electricity and gas public utilities were very precisely defined by the French law. Their definition remains rather broad but typically French with their “*service public*” missions. Each year, their cost is measured by the French regulatory commission. It might be that *service public* is not up-to date anymore and not compatible with competition.
- *Relations with Brussels.* The European process is inevitable. It is possible that the French opposition could lead to a true crisis between Brussels and Paris before the presidential elections in early 2007.

Conclusion

In spite of the energy diversity of the European Union, a common vision has always been shared by the member states over energy development for the future. The publication of the Green Paper reaffirms the principle of solidarity among them. Completion of the internal market, environmental protection, and security of supply are the common energy battles that call for a common solution. Unity of the 25 member states appears to be the only means to meet the energy challenges of the 21st century. Even if the European Trading Scheme (ETS) is not well functioning, it shows that member states can work together in the same direction in

term of environmental protection. Why should this not also be the case for energy policy? Energy policy still remains the responsibility of member states and decisions vary from one country to another.

To move from a shared vision to a European Energy Policy, large steps are necessary but could be accelerated by a Common Energy Foreign Policy. Foreign policy relates to dialogue with the large exporting countries (Russia, OPEC), with the large consumers (the United States, China, Japan, India) and also with the poorest countries (where more than one billion individuals do not have access to electricity). It would permit the European Union to speak with “one and unified voice” in international energy negotiations. The globalisation of energy-environmental problems makes the multiplication of the international dialogues in bilateral or multilateral forms essential. Which compromises and commonalities can be identified and reached between Paris and the European Union which seeks “to speak as one” on energy and environmental questions? That is the current challenge faced by the French government. France needs to figure out how to be part of the European process while still protecting its national ideas. France could play a significant role and even try to be a model in the European Union. Some national fears need to be overcome (end-users, Unions...) and some national advantages need to be highlighted (nuclear plants, competitiveness, low CO₂ emissions, renewable energies, white certificates, etc.). Thus, France might evolve from “black sheep” to an energy model based on better energy intensity, energy independence, low electricity costs, energy capacities storages and low emissions. France just needs to figure out how to deal with its long history of state intervention in energy sectors. The European energy market is in its move, slowly with recurring national protectionisms, obstacles and contradictions. Nonetheless it is our future.

„One for All - All for One” – The Polish Perspective on External European Energy Policy

By Ernest Wyciskiewicz

The “Three Musketeers principle” is probably the shortest possible way to characterize the Polish attitude towards the European Energy Policy (EEP) in general, and to its external dimension in particular. This simple, but illustrative idea was floated by former Polish Prime Minister Kazimierz Marcinkiewicz at the Davos forum of political and business leaders in January 2006. It is based on the belief that the European Union will be able to meet the challenges stemming from the changing international energy landscape only when acting on the principle of solidarity. It seems, however, that this vision is more a function of current threat perceptions rather than of long-term planning. Polish vulnerability to potential supply disruptions, perceived or real, led subsequent governments to seek new solutions for this acute problem. Hence, opportunities to shape the Community’s policy that came up after joining the EU have become the major asset to be used in ensuring Polish energy security.

The Domestic Setting – “Securitisation” of Energy Policy

A brief outline of energy security questions deserves consideration here for several reasons. Firstly, it gives an idea about how external European Energy Policy as such has been perceived in Poland. Secondly, it enables to reveal a hierarchy of objectives. Thirdly, it seems to be a useful point of departure for the analysis of the current Polish position within the European context.

The term of “External Energy Policy” has hardly been used in Poland. It has always been “energy security”, understood narrowly as “security of supply”, that was of greatest concern to Polish policy-makers. Other aspects of energy security, such as competitiveness and sustainable development, were treated as second-rank issues.

This position stemmed from the immense import reliance on a single dominant supplier of gas and oil, namely Russia. Imports from Russia cover 98% of oil and 61% of natural gas consumption of Poland. But, it is chiefly the gas issue that makes Polish governments feel uneasy and insecure. The bulk of supplies is imported under the long-term contract with the Russian gas monopolist Gazprom. This contract envisaged gradual increases of gas supplies based on the principles of “take-or-pay” and “destination clause” (which prevents the

importer from re-selling the gas elsewhere) combined with the obligation to construct two-branch gas pipelines Yamal-Europe linking Russian deposits of western Siberia through Belarus with Polish and German markets. Due to overestimated gas consumption projections in Poland and the evident unwillingness of Russia to build the second branch, the Polish government reopened the negotiation process. Agreement was finally reached at the beginning of 2003. Reportedly (as the agreement is kept secret), it only resulted in the extension of the terms of the contract from 2017 to 2022 and in a slight reduction of the volumes, so as to avoid excessive supplies which could neither be absorbed by the Polish economy nor re-exported under the existing agreement, but would have to be paid for nonetheless. But this modest success is overshadowed by a serious failure in much more significant areas. Poland fell short of convincing Russia both to remove the “destination clause” and to launch the construction of Yamal II (the first branch has already become operational). The same left-wing government withdrew from the diversification project of the gas pipeline from Norway that was prepared by its right-wing predecessor. With the new Polish government since autumn 2005 the policy of diversification has been set in motion more vigorously once again. In sum, the present Polish approach to External Energy Policy in general stems from the complex domestic environment as well as from the Polish-Russian relationship.

The European Setting

The problem of energy security has repeatedly been raised by Polish representatives during pre-accession talks with its Western European partners. But since the EU’s energy policy has predominantly been focused on internal aspects, such as liberalization of gas and electricity markets, energy efficiency and renewable energy, Polish efforts to “Europeanize” security of supply questions had no impact at that time. The only positive result was a successful lobbying effort that made the European Commission add the Yamal II gas pipeline and the Odessa-Brody-Gdansk oil pipeline to the list of so-called projects of common interest, so as to pave the way for broader financial and political support.

Accession to the EU in May 2004 has not changed the general Polish vision of energy policy. Preoccupation with “supply-oriented” issues has remained to be the main feature of the Polish approach. Attention has constantly been focused on a policy of diversification of sources. Searching for new suppliers has been a key element of energy relations with other countries and a major driving force behind Polish actions in the field of energy. Thus the EEP has in

fact been perceived by Poland through this prism. Ensuring energy security has been recognized as an integral part of pursuing national interests, which is even at the heart of national sovereignty. It should be noted that this view has never been a Polish speciality. It has been widely shared among the majority, if not all, of EU member states.

Catalysts

Three episodes provoked the Polish government to take more active steps at the Community level. Firstly, in January 2004, Gazprom shut the Yamal-Europe gas pipeline for a day as part of a dispute with the Belarusian government. This directly affected the level of gas supplies to Poland which was not even informed ahead of the decision. Secondly, in September 2005, the Russian-German agreement was concluded on the construction of the North European Gas Pipeline (now called Nord Stream) through the Baltic Sea and by-passing the new EU member states. The widely shared opinion in Poland is that this project makes the country even more vulnerable to the dominant supplier's good will. It is now increasingly difficult for Warsaw to pursue its diversification policy aimed at building a gas connection with Norway. Moreover, Poland is now marginalized because of its weakened transit position (and not, as it is often mistakenly claimed, because losing transit fees of which not even a single Zloty has contributed to the state budget so far). The Nord Stream pipeline will also detach Polish and German and more generally Polish and Western European "security of supply", thus undermining European solidarity and the prospects for the emergence of a common External Energy Policy. In Polish eyes, the Nord Stream only validated the illusionary character of the EU's Common Energy Policy and of the EU-Russia Dialogue, which somewhat became a set of bilateral dialogues between Moscow and the largest European consumers of Russian gas (Germany, Italy, UK, France) dressed in a fake "European" costume. Finally, what made Poland "Europeanize" the energy issue was the gas dispute between Kiev and Moscow at the beginning of 2006 which resulted in temporary gas shortages felt in several European countries (including Poland) and which cast a shadow on Russian reliability. It also demonstrated that when several EU countries face a threat to their security of supply, the Community has practically no power to influence the course of action.

It is worth noting that the EU was hit by this short crisis just after the European Commission had been asked by the European Council to prepare suggestions for a Common Energy Policy. Rising dependency on oil and gas imports and increasing vulnerability of the EU to external threats, not to mention the volatile character of energy markets resulting in

skyrocketing oil prices, put pressure on the British Presidency to deal with this issue. The “gas dispute” sparked off a heated debate among EC officials and the majority of member countries who felt obliged to present their views. Poland appeared to be one of the most vigorous actors in this context.

A Multifaceted Approach

Regional efforts

At the very beginning of 2006, along with the developing debate on European energy policy, the Polish government introduced a double-track approach. Firstly, it started to organize a regional “coalition” of Central European countries which are also heavily dependant on Russian supplies. On January 4, at the meeting of the Gas Coordination Group (a body composed of representatives of member states and the industry under the chairmanship of the European Commission), Poland, the Czech Republic, Slovakia, Hungary (the “V4” countries) and the Austrian Presidency jointly proposed to launch a debate on the diversification of energy supplies to Central and Eastern Europe. By diversification they meant gaining access to non-Russian sources and expanding the north-south network connections. At the same time, the V4 members found it necessary that those actions receive political and financial backing from the EU. The Polish delegation also emphasized the need for the EU to develop a common response mechanism for short and long-term crises. Apart from this initiative, at the end of January representatives of Poland, other V4 countries, and Austria, Slovenia, Croatia and Romania decided to draw up a plan to reduce reliance on Russian gas. This plan would embrace the building of gas stockholdings, construction of Liquefied Natural Gas (LNG) facilities in Poland and Croatia and accelerating the Nabucco gas pipeline project. These two events exemplify one direction of Polish activity aimed at “regionalization” of its standpoint by means of searching supporters among those who find themselves in a similar energy situation.

European Energy Security Treaty

The most vivid manifestation of the second line of policy was the Polish proposal for a European Energy Security Treaty which was presented in February 2006 to thirty two countries belonging to the EU and NATO. Warsaw suggested creating a special joint response mechanism in case that energy supplies were threatened. To be as brief as possible, the treaty

was to be a legal framework for mutual energy security guarantees. The direct inspiration of the idea came from two sources – NATO (the Washington Treaty) and the Western European Union (the modified Brussels Treaty). The fact that European newspapers dubbed the idea “Energy NATO” was rather unfortunate and partly led to its failure, at least in its initial shape. The initiative was to be open to all interested countries on the condition that they would commit themselves to solidarity and to mutual help in case of an energy crisis. In order to establish the necessary physical infrastructure to implement the idea, the treaty envisaged the construction of common strategic oil and gas reservoirs and of a joint gas network by developing interconnections between national systems. This proposal was based on one important assumption, namely that energy security as an integral part of national security policy cannot be left to market mechanisms alone. Therefore there is no escape from considering it in political terms. Interestingly enough, the proposal also included the protection of market mechanisms. The authors tried to merge politically-driven state strategies with the market-oriented approach of the European Commission under a NATO-like umbrella, and all of this in a new legal, political and institutional framework. It turned out to be unacceptable to a majority of EU members and the Commission. Though rejected, this Polish proposal fulfilled its broad aim. It sparked off a debate on issues crucial for Poland, such as energy solidarity. Some of the ideas present in the Polish paper - solidarity, improvement of physical interconnections between gas and electricity networks and the need for setting up emergency response mechanisms - could later be found in the EC Green Paper “A European Strategy for Sustainable, Competitive and Secure Energy” of March 2006.

Evaluation of the Green Paper

The Polish position on the Green Paper, as well as on the “New Energy Policy” as proposed by the EU Council, contains some of the issues that have already been raised and adjusts them to the EU institutional, political and financial context. It exemplifies that External Energy Policy in the way it is treated by the EC can only partly be merged with national perspectives. Paradoxically, the European Energy Policy is at the same time a long awaited and unwanted child. The majority of member states, including Poland, back the idea of the Union “speaking with the same voice”. But, when getting deeper into details it becomes obvious that the governments share an inclination to impose severe limitations on what should be allowed to be discussed at the Community level. Governments are unwilling to change the current situation and to transfer considerable powers to the European Commission. In the conclusions of the General Affairs and External Relations Council (GAERC) meeting in March 2006,

devoted to the EC's Green Paper, member states noticeably delimited the boundaries which were not to be crossed by supranational bodies (sovereignty over primary energy sources and choice over energy mix). The Polish government supports this position and sees the intergovernmental approach as more preferable to the Community method. Warsaw is aware that Polish energy interests do not always coincide with the interests of other member states. It becomes clear at this point that the Polish understanding of "European interests" and solidarity is filtered through the lenses of Polish national interests. But again, this is no speciality of Poland, as all EU countries, no less the larger ones, tend to portray their interests as European interests. The distinct characteristic of the Polish situation is the country's high level of import dependency on a single supplier. Poland thus feels more vulnerable than its EU partners and tends to stress "all for one" a bit more than "one for all".

Core Issues Related to the Green Paper from the Polish Perspective

Poland warmly welcomed the Green Paper proposals on EU external activities. After public consultations, Warsaw submitted its official position on the Commission's suggestions, including those directly and indirectly related to the external dimension of energy policy. The crucial points have practically been accepted, though they were slightly modified in the course of the European debate. These can be summarized as follows: Solidarity, diversification, energy dialogue with Russia and energy relations with other major producers, transit countries and consumers.

Solidarity is persistently seen as a fundamental principle according to which all member states should pursue their energy policies. To become operational, this principle should be complemented with suitable political, legal and even physical capabilities and institutions. The basic precondition for any shift in the External Energy Policy is the political will to overcome a traditional reluctance of states to cede powers to other institutions in fields which are so strongly linked to national security. From the Polish government's position this could imply injecting more supra-nationalism into the non-market dimensions of energy policy-making (including a stronger role of the European Commission). In the face of member states' opposition it might be more acceptable, however, to put the EU Council in charge, as it would maintain control in the governments' hands. If a political consensus can be reached, legal instruments should be introduced, such as security guarantees and the inter-governmental emergency mechanisms for short and long-term supply interruptions (be they of physical, economic or political nature). There is a wide consensus on the need for creating

such a capability, but there are also divergent views as to the concrete measures to be adopted. The Polish proposal of an Energy Security Treaty touched upon this issue, but did not receive the support of European partners, because it was originally intended to be established outside the EU structures. Its failure was a question of unfortunate form rather than of content. Without a considerable improvement of existing networks and the construction of new interconnections between national systems as well as common strategic gas stockholdings, EU energy solidarity will remain an empty shell.

Diversification is continuously treated by Polish policy-makers as a decisive factor in ensuring energy security. On the external level, Poland pushes for an effective diversification of suppliers in order to reduce its dependence on Russia. However, this policy is to be done by the state, not the European Community, which should act exclusively as a facilitator by providing political and financial backing. Poland has been quite active in recent months in developing new diversification options, notably as far as gas supplies are concerned. The government has been considering two solutions: A Baltic gas connection to the planned Norway-Sweden pipeline and the construction of a LNG terminal. Final decisions are to be announced soon. It is important to note that from the Polish view, completing the internal market should be subordinated to successful diversification efforts which should come first. As former Polish Prime Minister Marcinkiewicz put it, “the problem is to merge liberalization measures promoted legitimately by the EC with the necessity of EU members to comply with the task of providing security, including energy security”. In the opinion of the Polish government, liberalization of the gas market prior to true diversification of supply sources would result in a threat of monopolization of the market by dominant external suppliers, thus affecting energy security and distorting competition. For instance, Warsaw fears that Gazprom, which in fact is not a purely commercial entity but also a Russian foreign policy instrument, might be using its dominant position for taking over energy assets in the EU, especially in Central Europe. No matter if such a concern is justified or not, a precedence of political diversification over liberalization contradicts the European Commission’s standpoint which regards the liberalization process as a top priority and as a prerequisite for the development of a coherent External Energy Policy. Another important point is that Poland calls for the establishment of external transport infrastructure to increase access of non-EU suppliers, emphasizing at the same time that this shall not be done at the expense of any member state’s interests. That is why Poland accepted the Presidency Conclusions of the European Council in June 2006 only after the statement on “full support to infrastructure projects aimed at opening up new supply routes with a view of diversifying energy imports of

sources” was complemented with the final phrase: “which would benefit all Member States”. This extension was to prevent the EU from providing any financial support to projects that contravene security interests of any individual member (like Nord Stream). Such a position stems from the belief that the level of security of the Community as a whole cannot be separated from the security of any single member state.

A fruitful energy dialogue with Russia is, from the Polish perspective, the key issue as regards EU relations with major suppliers. Poland is concerned about Russia’s inclination to use energy as a political tool. Its view is quite clear. The dialogue should be enhanced on the basis of a fair and non-discriminatory treatment, and of a reciprocal opening up of markets. The process of liberalization of the EU gas market should then be accompanied with similar measures implemented on the Russian side. The core issue for Poland as well as for the EU should be to continuously insist on ratification of the Energy Charter Treaty (ECT) and on the signing of a Transit Protocol by Russia. It would ultimately resolve the underlying problem through introducing common rules and standards. No matter how unlikely the ratification of the ECT seems today bearing in mind categorical Russian opposition, the Polish government is going to exert pressure on other EU members to prevent them from watering down the Charter during the forthcoming negotiations on a new EU-Russia framework agreement. Warsaw believes that it is in the vital interest of the Community to persuade Russia to ratify the ECT and notably to approve the Transit Protocol. That is why it has recently blocked the initiation of talks on a new EU-Russia agreement. It insisted that the EC’s mandate for negotiations be more precisely formulated and narrowed to the transit issues and free access to Russian infrastructure. The ECT has been repeatedly raised by both the Commission in its Green Paper and by leaders of other member states (in March 2006 by the EU Council and quite recently during a Franco-German summit). Poland has just framed this issue in a more radical way in order to emphasize that the new Partnership and Co-operation Agreement with Russia is to solve accumulated controversies and not just to ease tensions by focusing on commonalities alone. The result of talks about the ECT and the Transit Protocol will be a real test case for the emerging European External Energy Policy.

Finally, the Polish government also opts for more intense energy relations with other major producers, transit countries and consumers. It warmly welcomed the establishment of the South-East European Energy Community and the idea of a Pan-European Energy Community embracing the countries in the EU’s proximity willing to take part in a “common regulatory framework”. Warsaw proposed to develop an energy dimension in the context of the

European Neighbourhood Policy and it supports tightening relations with key transit countries for Europe, i.e. Turkey and Ukraine, thus linking the EU with the resource-rich but still relatively isolated Caspian region and Central Asia. Both countries appear to be the most natural candidates to be included into the abovementioned framework. Furthermore, the Polish side called for creating a kind of transatlantic energy agenda which would include the United States as a basis for a common Western vision of energy security. However, this ambitious offer was not welcomed in those European capitals where a critical attitude towards U.S. foreign policy still prevails.

Conclusion

Poland has constantly tried to take advantage of its EU membership as a relatively new asset for pursuing its energy interests. The objectives of its policy are obvious: securing stable supplies through diversification of sources while enhancing its position in relation to producers through the development of a common EU approach. The Polish position on the EEP is firmly and directly linked to “security of supply” issues. This vision of the External European Energy Policy seems to be a function of current threat perceptions rather than of long-term planning. But this does not apply to the Polish approach alone, but to all other large oil and gas consumers in the EU. Nevertheless, despite internal diversity a general consensus among member states on the need for a more coordinated external approach seems to have been achieved. Yet, it is still unclear when this policy will be translated into practice. Time will tell if the “Three” or actually the “Twenty-seven Musketeers principle” is attractive enough to motivate all member states to take care of the security of their partners from the EU and of the Community as a whole.

Global and European Challenges for the Foreign Policy of Lithuania – The Case of Energy Security

By H.E. Mr. Petras Vaitiekūnas, Minister of Foreign Affairs of Lithuania

The role of small nations in international politics should not be underestimated. Commitment to the principles of cooperation, transparency and broader institutional regulation is typically the strong point of the small. Lithuania is no exception in this regard. We can make a difference if more transparency and more international regulation are needed, for instance, in global energy markets. On the surface, global energy and Lithuania seem too distant topics to be discussed together. However, everything has become so intertwined in today's complex world that Lithuania also participates, no matter what, in global energy development. Just a short glimpse on the ongoing EU-Russian dialogue reveals the important role of Lithuania in this process.

On the other hand, as we increasingly compete at the level of ideas and innovations, the size of the state is no longer important. Sometimes the small countries must be more innovative to cope with the same challenges as the large ones but at a lower cost. Thus, bright ideas need not necessarily come only from world-class universities. Yet, to promote and implement them it is necessary to concentrate intellectual efforts and to better coordinate research and development activities under overarching goals. This is a challenge to the big and the small and perhaps we should no longer limit ourselves to such conventional notions as “nation state” or “European” and “transatlantic” community, but rather speak of Western civilization.

According to the old Prussian saying, “diplomacy without arms is like music without instruments”. Perhaps, modern Prussians would rephrase it as follows: “Diplomacy without energy is like music without instruments”. Energy has indeed become an inseparable part of European and transatlantic politics. On the one hand, the continued growth of developing markets has substantially increased global demand for energy resources. In Lithuania alone, the economy has been growing by 7.5% on average during the last six years. We all need more oil, gas and new production capacities. On the other hand, the new tunes in the Russia-Ukraine gas dispute last year sent a serious signal. The European Union highly depends on imported energy resources. Nearly 54% of gas and 76% of oil consumed in the EU are imported from third countries. In 2030 imported energy will reach more than 80% for gas and more than 90% for oil. Thus, the question of where Europe will buy energy resources is already here today and will become even more important in the future.

Today Russia's share in European energy imports is substantial and constantly growing. Whether we should welcome or fear this fact is still unclear, as Russia's prospects of becoming a full-fledged free market democracy remains uncertain. We believe that Russia will continue on the path of reforms, thus increasing the role of free enterprise in its economy, including its energy sector. But regardless of whether these hopes will come true or not, it is already obvious that the EU-Russia cooperation will have a huge strategic impact on the European and global developments. Lithuania, as member of the EU and a neighbour of Russia, can play an important role in developing this cooperation.

Challenge 1 – Building a Common European Energy Policy

Our interests in the EU are twofold. First, we need a more integrated energy policy of the EU. Second, we have to create more effective instruments, including the Common Foreign and Security Policy (CFSP), to promote our energy interests more efficiently. The United States can contribute in both cases; we just need to be a little bit more open and self-confident to engage the Americans in this exercise. Lithuania welcomes the debate on energy security within NATO. This topic should be kept on NATO's agenda. Perhaps NATO may not be the primary actor in addressing energy security problems, but the linkage between the flow of vital resources and national security is too obvious to ignore and NATO could certainly add value in assisting national and international efforts in this field.

Building a Common Energy Policy is one of the major topics on the EU agenda. A growing deficit in European energy resources and skyrocketing energy prices stimulate intense thinking in three directions. The first is diversification of supplies by source and geographic origin. Today European generation capacities heavily depend on fossil fuels, like oil and gas. To change this balance is one of the key challenges. Some EU member states have adopted ambitious strategies which should end their dependence on oil by 2020. Others revert to their once suspended files on nuclear energy. In Lithuania, too, discussions thrive on what sort of energy our country will use after the foreseen closure of the Ignalina Nuclear Power Plant in 2009. Not so long ago, an agreement was reached with the other two Baltic States, Latvia and Estonia, to build a new modern nuclear reactor in Ignalina. The ranks of the EU countries interested in this project have expanded since, including Poland and Sweden.

The diversification debate still too much depends on conventional thinking and is overwhelmed by geographic details. The "new" energy projects circulating in the EU are

largely focused on pipelines and other infrastructure. This discussion is of course very important. We must have access to the Caspian Basin and the other energy-rich regions to diversify our supplies. This is especially true for such countries as Lithuania, which imports almost 100% of its energy sources from a single supplier. Without an alternative, we all become extremely vulnerable.

But on the other hand, new pipelines will solve only part of the problems. The greater challenge is to restructure our energy markets so that we no longer depend on fossil fuel monopolies. *We need a breakthrough in energy generation, transmission and accumulation methods.* Europe is taking only its first steps in this direction. Energy is all around us. We only have to learn how to bring it under control and apply it more universally. It is still too early to tell in which fields of research new forms of energy will be discovered (maybe in biology, in chemistry or in mathematics). This brings us back to the topic of Research and Development policies in the European context. These will not deliver a breakthrough unless they are fundamentally reformed. Research and Development policies have to be liberated from national jurisdiction and narrow “national” interests. This is a challenge for the Western community as a whole. New forms of energy generation, transmission and storage may remain under lock in patent institutions for years, if companies or national governments, who sponsored the research, do not want to share their knowledge. Financial profits must always be weighed against the added value in terms of global peace and development.

The process of pooling the competences of all European states, large and small, in Research and Development is already under way. We also see a growing discussion in the other two sections of the EU’s so-called “reflection on energy” – energy efficiency and the development of a Single European Energy Market. Lithuania seeks active participation in both. For us, energy efficiency is a sore subject. Compared to our GDP, Lithuania uses two times more energy than the EU average and three times more than, for instance, Denmark. The Soviet legacy is only part of the reason for this. We also need a closer look at how and where we consume energy. Buildings and energy systems have to be renovated; people should be encouraged, through taxes and education, to save energy. Membership of the EU has opened access to EU funds which can help the government in this respect.

The EU as such originated in the European Coal and Steel Community and in EURATOM. One of the primary tasks of these communities in the early 1950s was to regulate energy relations in Europe. They later developed and transformed into the Single European Market

which now ensures free movement of people, goods, services and capital across the European continent. In modern times, coal has been replaced by oil and gas which raise new forms of dispute between member states as well as in their relations with third countries. But the key challenge remains the same. Europe has to restructure its energy market so that European nations cooperate rather than compete with each other in pursuing their vital energy needs. Liberalization and integration of the energy markets is a promising step.

For Lithuania, integration has a much deeper sense than for many other EU members. Together with Latvia and Estonia, we live on an energy island which is isolated from the European networks. Our grids are connected only with each other and the former Soviet republics. This situation severely curtails our possibilities of participating in the European energy market. We need bridges to reach the European mainland. Two important projects have been developed to connect the Baltic States to the rest of the EU. One is a power bridge between Estonia and Finland which has already been completed and connects our countries to the Nordic energy grid. The other bridge should connect Lithuania and the other Baltic States to Poland and Central Europe. Our recent contacts with the new Polish government have raised new hopes that the Lithuanian-Polish Power Bridge project will gather momentum in the near future.

The latest proposal by Ukraine's Prime Minister Yanukovich to extend the planned Odessa-Brody-Plock oil pipeline to Lithuania opens up new opportunities to our integration into the European pipeline system. The project bears a strategic importance to the whole of the EU as it provides an alternative access to the Caspian oil fields. We expect that this project will receive full support from the European Union and the other interested parties. Unfortunately, these integration efforts were largely ignored by the Russian-German deal to build a gas pipeline under the Baltic Sea waters. Nord Stream's construction raises a lot of controversies, including the possible environmental impact of the project. The construction work will free sediments from the seabed. Possible risks include destruction of wartime explosives that may still lie at the ground. It is too risky to start construction of the gas pipeline under the Baltic Sea waters without first having done an environmental impact assessment of the project.

The lack of infrastructure is not the only reason limiting Lithuania's access to alternative energy fields. We also suffer from the lack of will in some transit countries to ensure free and safe transit. In some cases, pipelines are even used as political instruments. The solution to this problem lies, perhaps, not so much in "enhanced" or "privileged" dialogues with transit

countries but in their transformation into free market democracies, where politics and commerce are strictly separated. Europe and the broader transatlantic community need a clear and focused policy, based on democratic values and free market principles, to achieve this goal.

Challenge 2 – Promoting Principled and Mutually Beneficial Relations with Russia

Russia is a historical, and now a geographical, neighbour of Lithuania. Throughout centuries our relations have seen ups and downs which now form the foundation of our relationship. We seek to share our experience of cooperation with Russia with our European and transatlantic partners, using not only our membership of the EU and NATO for this purpose, but also concrete examples of bilateral and multilateral cooperation. Lithuania's role in maintaining the transit between Russia and Kaliningrad is just a case in point.

Russia without doubt is a European nation. It is our shared interest that Russia smoothly integrates into the European community which is firmly committed to the elimination of conflicts on the European continent. However, the growing tensions on Russia's European borders raise the question as to where Russia under its current leadership is actually heading. Perhaps, the Russian people and the Russian administration should be more clearly separated in our policies towards Russia. We should make our point to the Russian society that Europe and democracy is not a threat to them. Europe wants to embrace the Russian people and is open to further cooperation. Our will has been demonstrated on many occasions, including the issue of transit to Kaliningrad. We should continue this policy by facilitating people-to-people contacts, business cooperation and academic exchange.

Meanwhile, we should not shy away from asking the Russian administration what they have done to embrace Europe. When will she ratify the European Energy Charter and its Transit Protocol? When will she withdraw, as promised, her troops from Moldova and Georgia and conclude border treaties with Russia's neighbours? Not to ask these questions would in fact mean to write Russia off as a European nation. From this perspective, Lithuania is one of the most sincere friends of Russia.

Challenge 3 – Strengthening the Transatlantic Community

Europe can make its voice better heard if it raises difficult questions in cooperation with America. During the enlargement process, European and transatlantic policies were going firmly hand in hand. This success repeated itself in Ukraine during the “Orange Revolution”. We believe that our cooperation which evolved in our relations vis-à-vis Belarus will also continue and produce concrete results. Russia should be no exception to this. Only the scope of the challenge, given the diversity of our interests, will be much bigger.

However, the question is left open whether the transatlantic community is well suited to meet new challenges. NATO is providing Lithuania with collective instruments of dialogue and action. The EU is also America’s key ally in coping with such security challenges as Iran’s nuclear ambitions. Lithuania, too, maintains a very active partnership with the U.S., which is helping us both to address the most persisting security issues in the region and beyond.

But beneath this surface, the momentum of cooperation is slowing down. Every minute which is spent in the U.S. consular office waiting for an American visa can be better spent at developing U.S.-Lithuanian relations, but is not. Every dollar spent on acquiring an American visa can be spent otherwise – for example, investing in security and stability in our neighbourhood. It is not surprising that under such circumstances people so easily buy theories which are not true - like the one telling that Americans come from Mars and Europeans from Venus. We should tear down these barriers as quickly as possible. It is time to start thinking, in practice, of ourselves as one community and one civilization.

II. Book Review

Textbooks on German Foreign Policy I: Sven Gareis, Deutschlands Außen- und Sicherheitspolitik, Opladen, Verlag Barbara Budrich, 2005.

By Sebastian Harnisch

Sven Gareis' monograph on German foreign and security policy is a welcome contribution to the growing number of textbooks on this topic. As in other realms of International Relations, the market for textbooks has expanded for two reasons. The first is market consolidation as German scientific publishers have adapted to the "more common European book market"; the second reason is the so called Bologna process which forces German universities to streamline and modularize their (formerly much more idiosyncratic) course programs.

From a consumer's perspective, market expansion calls for transparent and accessible criteria to evaluate the comparative advantages of a product. Although these criteria may differ, e.g. lecturers and students have a different understanding of the utility of "additional suggested readings," certain common standards should be upheld: 1. Is there a red thread or encompassing perspective (theoretical or systematic) which guides the reader through the book? 2. Is there a (critical) reflection of this perspective, pointing to different theoretical approaches on German foreign policy leading to differing empirical foci and judgments? 3. What is the empirical scope of the study, does it contain the "most important policy areas" and enough "historical depth" to inform students? 4. What is the didactic quality? Is the prose well edited and easily accessible? Does it contain useful additional information such as references to web-links, graphs, boxes on key terms, quotations, study questions, index etc.?

If judged by these four criteria, Gareis' book succeeds in one category (empirical breadth) and covers two more effectively (reflection of perspectives and didactic quality) while falling short of an encompassing theme. The strength of the book therefore lies with the descriptive narrative of what Gareis calls the basics of German foreign policy (terms and definitions, polity and politics of policy-making, historical patterns, unification as a turning point, interests in German foreign policy) and issue areas (European Union, NATO, United Nations, use of force, anti-terrorism policy, crisis and conflict prevention). Gareis is best when covering and summarizing the historical pattern of Germany's post World War II reflexive multilateralism or the use of force in the 1990s. Based on his own work on security policy and the United Nations, he gives us a brief but substantial introduction to Germany's integrated

defence posture after 1955 (p. 57-60) and its UN policy, focussing on the current reform of the Security Council (p.157-163). In addition, these chapters also feature valuable graphs and info boxes. For instance, Gareis visualizes the strategy of providing alliance cohesion through the deployment of NATO allied troops along the eastern German border as if they were part of a “pearl necklace” (*Perlenkette*).

However, the lack of an empirical chapter on Germany’s foreign economic and trade policy reflects the authors “security bias” that does not fit well with the German government’s wide definition of security. While this negligence is treatable for consumers – through additional readings – the reader clearly misses a systematic approach to the topic. If the author holds that the Basic Law (norms and procedures) and historical patterns of conduct (multilateralism, *Westbindung*, process of unification) somehow form the “basics” of his later policy account, why does he not say more openly that historical institutionalism (or any other institutionalism) is his starting point (p. 29)? Even if Gareis does not subscribe to a theory-driven approach in this work, his treatment of theories (p. 23-29) and their subsequent selective invocation suggest to the reader that there can be “description of the facts” without a transparent and systematic reflection which “facts are more important than others”.

As a consequence, Gareis’ main hypothesis that there is more continuity than change in German foreign and security policy (p. 46) comes as a surprise to the reader. First, because the author stresses the conceptual change in security policy and the functional change in defence policy (p. 16-20 and Chapters 7, 9 and 10). Secondly, the surprise is all the more discomfiting because the reader cannot trace this step. There is no systematic treatment of central terms of scientific analysis in this textbook. While some terms are defined (security, international politics, etc.) others (such as identity, risk, continuity/change, supranationality) are not. This negligence comes at a high price, because the reader does not systematically learn where change is imminent in German foreign policy (e.g. at the polity-, politics- or policy-level) or where it comes from. *En passant* Gareis refers to the term “Europeanized foreign policy” (p. 121) but neither does he explain the term nor does his earlier rather extensive treatment of the German-French motor (p. 94-100) indicate plausible sources for this “change”. In a similar vein, Gareis posits that the opposition of the Schroeder government vis-à-vis the U.S. led intervention in Iraq constituted “counterbalancing” (*Gegenmachtbildung*) (p. 143), but Gareis does not provide transparent criteria for his readers to evaluate this judgment. German students may remember that the Red-Green government opened German air space for U.S. missions during the Iraq intervention for U.S. re-supply and

bombing missions, how will they define the term “counterbalancing” in the future? If the term counterbalancing from now on also encompasses active German military cooperation, such as the patrolling of U.S. bases, than one might wonder what Gareis would make of Turkey’s rejection in 2003 to allow the U.S. the invasion of Iraq through its territory.

In a nutshell, this textbook offers more description than perspective. Several chapters may be usefully integrated in an undergraduate course reading list, but the monograph itself provides little help for students or lecturers that try to “understand” the ebb and flow of continuity and change in German foreign policy.

III. Online and Offline Resources Related to the Contributions

This section contains relevant documents which our authors refer to in their respective contributions. The indicated internet sources (URLs) were checked on December 27, 2006. We do not claim to give a full compilation of all relevant sources on the issue at hand.

1. Official Resources and Documents

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Energy Charter Treaty
<http://www.encharter.org/index.jsp>

European Commission: Energy
http://ec.europa.eu/energy/index_en.html

European Council: Transport, Telecommunication and Energy
<http://www.consilium.europa.eu/showPage.asp?id=413&lang=en>

German Federal Ministry of Economics and Industry: Energy
<http://www.bmwi.de/English/Navigation/energy-policy.html>

German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety
<http://www.bmu.de/english>

Nord Stream
<http://www.nord-stream.ru/ger/>

Organization of Oil Producing Countries (OPEC)
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Heisig, Johannes (2006): Zwischen allen Stühlen - Deutschland und die Reform der Vereinten Nationen. In: Welt Trends 14(52), p. 108–116.

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