

The EU Looks to Central Asia for Energy Security

Written by Richard Rousseau, Contributor | 16 January 2012

There is a direct relationship between the availability and continuity of energy supplies and economic development. All world economies depend on the availability of energy and sound policies to generate and sustain growth. Global consumption has therefore increased exponentially in recent decades - a tendency which puts the “energy factor” at the forefront of the political and security agendas of the vast majority of states. The European Union (EU) is no exception, and as a body it is now turning more and more to Central Asian countries for additional energy resources as it strives to achieve energy security, diversity, and continuity of supply.

Making informed and appropriate transactions is essential for the efficient operation of any energy policy and for maintaining its desired direction and momentum. Hence energy policy is of paramount importance for a diversity of stakeholders, not only for states. In the event of an interruption in supplies of raw materials or an unsustainable rise in prices, energy-importing countries are immediately faced with production slowdowns, and even stops, which in turn could trigger an economic recession of possibly great magnitude. Alternatively, faced with an excessive drop in the global price of energy or a loss of customers, producing countries - which are then deprived of either their sole or main source of much needed revenue and foreign currency - will have to find other ways to meet their internal and external budget obligations. In both scenarios, it is essential for consuming and producing countries to be able to find solutions to either achieve or maintain an acceptable level of “energy security” in order to guarantee economic well-being and political stability.

The concept of energy security is not new. Winston Churchill pushed energy supply to the forefront of Great Britain’s national security on the eve of World War I, with this motto: “Safety and certainty in oil lie in variety and variety alone.” Ensuring the stability of energy supply continues to be the most important objective in world politics today. The term “energy security” has itself evolved over time, and to such a degree that it now includes various sets of interdependent, multidimensional, and transnational variables: Among the most critical of these are terrorism, political instability, economic conditions in many producing countries, and, finally, the underlying fear that geopolitical rivalry may at some point take a military dimension.

Energy security: the EU’s perspective

The EU has formulated its own specific definition of “energy security.” It describes it as the securing of “the immediate and longer-term availability of a diverse range of energy products at a price which is affordable to all consumers (domestic and industrial) while respecting environmental requirements.” The European energy security concept is based on two fundamental elements: the accessibility and reliability of the flow of raw materials and the economic sustainability of these supplies, both of which are dependent on market conditions. For example, in 2008 the EU had to import over half of its needed energy (53.8 percent).

The energy dependency trend will continue as domestic demand is expected to further increase over the next two years, when it is projected that imports will account for approximately 70 percent of

domestic need. The recent fluctuations in oil prices, tensions over Russian-Ukrainian gas supplies, intense competition for energy resources with China and, finally, the ever-growing attention to environmental sustainability are the main factors fueling the growth of the current sense of energy insecurity amongst European countries. In response, the EU has turned to a complex energy policy founded on the following principles: the diversification of the domestic energy mixture, the diversification of energy suppliers, an overall reduction of domestic consumption, and increased energy efficiency.

This policy must carefully consider the timeframe in which it operates, as this largely determines the nature of future measures. In the short term, “energy security” means having the capacity to absorb sudden increases and decreases in energy demand regardless of the level of actual supply of hydrocarbons. In the long run, however, energy security becomes less a priority if investment projects, aimed at ensuring a continuity of supply and economic and environmental sustainability, are undertaken. Any effective approach must not only take into consideration both these short and long term aspects but also integrate them with other cross-cutting measures, such as the diversification of supply sources, production facilities, and storage and transport networks.

It is necessary to effectively manage the risks inherent in the global energy market through a common – and continent-wide – EU policy. This can be brought about not only through a careful diversification of trading partners but through also a concomitant plan for the continued diversification of energy transport corridors and sources. More generally, because the availability of energy is an essential element of the security of all EU countries (even in the “classic” military application of the word), there must be a constant search to maintain market stability.

It is no coincidence that the EU has made the development of energy markets in general and energy derivatives one of the cornerstones of its foreign policy. First, the EU strongly believes that research and technological development play a major role in diversifying sources of energy. It is for this reason that it has activated the Seventh Framework Programme for Research and Technical Development and the “Intelligent Energy – Europe” programme, committing to a 50 percent increase in annual spending on energy research.

Second, it has also attempted to apply these research programs to developing interactive energy relationships with its neighbors. They are considered essential, as producers of raw materials and trading hubs must work in tandem and be integrated. To this end, the Energy Corridor Optimisation for the European Markets of Gas, Electricity, and Hydrogen project, which was launched in 2005, is intended to further promote the ongoing integration of the European energy market through developing a sustainable, compatible and interconnected infrastructure in keeping with environmental policy.[REF 10]

International dimensions of EU energy policy: Central Asia

More specifically, ensuring a sufficient number of reliable energy links is crucial to achieving the EU’s energy policy goals in Central Asia. The European Commission has produced a policy document, Europe 2020, which aims to provide a framework for a “strong and ambitious” energy policy. The international dimension of this policy is paramount and emphasizes the establishment of a series of partnerships with the major producing and transit countries which have significant quantities of hydrocarbons.

This objective was also confirmed with the publication in September 2011 of another European Commission policy document - The EU Energy Policy: Engaging with Partners beyond Our Borders. This provides for the first time a comprehensive strategy for the EU's external relations in the energy field. Furthermore, it sets out a serious political and economic commitment to Central Asia. It is clear that the EU is gradually constructing a regional policy and providing accompanying investment support.

The continued regional dialogue on energy between the EU and Central Asian countries is governed by the 2004 Baku Initiative, which was initiated to achieve greater development of the energy markets in the Black Sea, the Caspian Basin and Central Asia through investment in infrastructure and energy efficiency programs. It also promotes the integration of regional markets and intends to facilitate the transit of oil and gas to Europe. In parallel to the Baku Initiative, Europe is committed to the INOGATE program, which aims to improve energy cooperation between the EU, Turkey, and countries of the Former Soviet Union (FSU), with the exceptions of the Baltic States and the Russian Federation and advocates the convergence of Central Asian states' respective markets. The INOGATE program is expected to bring about increased imports and achieve export security by attracting new investment funds. This funded program, while maintaining its focus on the oil and gas sector in Central Asia, also focuses on electricity production, energy efficiency and supporting clean and renewable energy sources. The International Energy Agency (IEA), in fact, forecasts that the Central Asian states together will be responsible for as much as 70 percent of the increase in oil production outside OPEC expected in the next twenty years.

To date, most European interventions in the region have not proceeded as successfully as first anticipated. A limited number of technical projects have actually been implemented and the results of the political dialogue are still unconvincing. Many European companies continue to invest in the region, especially in Kazakhstan, a country which is especially interested in diversifying its income sources and in collaborating with the EU in terms of infrastructure development, energy efficiency and transportation. Kazakhstan's priority is to find efficient and expedient ways to export some of its energy resources to Western markets without having to pass through Russian territory. Its ability to export crude oil has recently increased due to the increased carrying capacity of the Baku-Tbilisi-Ceyhan (TBC) pipeline. For its part, Turkmenistan may test the new European energy policy, as its supply of energy is positioned to play a major role in the so-called "Southern Corridor," which includes the fledgling Nabucco pipeline project.

In April 2008 the European Commission and the Turkmenistan government signed a Memorandum of Understanding on a Strategic Energy Partnership which was devised to greatly increase the amount of gas to be held in reserve for exclusive supply to the EU. The European foothold in this country, however, rests on less than solid ground. For instance, the European Investment Bank, while showing interest in the Nabucco project, has not yet institutionalized its relations with Ashgabat. In addition, The European Bank for Reconstruction and Development (EBRD) is cautious in dealing with Turkmenistan, because that country's political and economic institutions lack transparency. It has not yet offered Ashgabat a Partnership and Cooperation Agreement, although this type of agreement serves as the EU's main delivery instrument for economic and political cooperation – the EU has already signed such an agreement with a majority of regional states.

Challenges: interference, competition, divergence

Central Asia has vast energy resources but is still a poor region, with one of the highest rates of authoritarianism and corruption in the world. The EU policy on energy, beyond pursuing energy

security, should also involve implementing policies designed to reconcile its economic development objectives with the interests of supplier countries in the region. The challenges inherent in this task are numerous and of great magnitude. First of all, the EU still does not show unity of purpose in relation to the Nabucco project, which the European energy consortium of companies estimated the cost to be at 8.3 billion euros in February 2011. This is projected to become the major energy transport route linking Asia with Central Europe. In addition, the EU budget for regional cooperation in the years 2007-2010 was limited to 22 million euros, although a much higher sum should be set aside for the period 2011-2013. It is also questionable whether European credit institutions will be willing to finance the existing regional energy projects given the chronic political instability in the region, characterized by the persistence of the “frozen conflict” over Nagorno-Karabakh and the aftermath of the Russian-Georgian conflict of 2008, this on top the overall dismal financial situation within the EU itself.

Nevertheless, Brussels continues to ask Central Asian governments to make a strong commitment to reforming their political structures in order to bring them more in line with Western political, environmental and technical standards. However, in spite of the best intentions, EU countries should not expect that the governments of the region will allow infringements on their sovereignty. Currently, these countries are not dependent on the EU’s imports or foreign direct investments. It is therefore not a given that additional Central Asian gas will be exported in the EU’s direction, not even in the medium term. The vast majority of the existing gas resources have already been allocated, under contractual agreements, to Russian and Chinese companies, which are indifferent to the internal political situations prevailing in their commercial partners.

Central Asian states’ cooperation with the EU is purely strategic in nature. The entry of another energy competitor into the market strengthens the negotiating positions of these countries in their interactions with China and Russia, thus increasing energy prices, even to the direct disadvantage of European countries. The EU and Central Asia are now faced with a considerable divergence of interests: the “stans” are expecting both millions in investment and to maintain their political neutrality, while the EU is not positioned to provide them financial assistance without some strings attached to it. To provide aid unaccompanied by political expectations is unacceptable for many EU members.

In addition, the EU has emerged as a somewhat unreliable partner, as it cannot speak with one concerted voice on the Nabucco project and many others. It is partially hamstrung when it has to develop a uniform, structured and long-term engagement with Central Asian heads of state. All this certainly complicates the future of the EU policy in a difficult region and threatens to undermine one of the pillars of European energy security: the diversification of the supply of raw materials. To be more present in Central Asia the EU has to capitalize on its previously expressed desire to provide economic, technical, and financial assistance to the countries of the region. Its only remaining room for maneuvers, therefore, seems to lie in staying focused on the strategic support policy for sustain political, social and economic development.

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