The EU, Energy Security and the 2012 Elections in the Ukraine: Just another BRIC in the wall?

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Nick Sitter

Central European University
BI Norwegian Business School
1. EU Energy Policy

Three points about the EU

- **It is a plural polity**
  - Aims: Peace, Prosperity, Democracy
  - Member states are the main actors
  - The 31 states are heterogeneous

- **It is a regulatory state**
  - EU = the “economic constitution” of the member states
  - The EU’s main tools are regulatory: competition policy
  - The Commission (and the Court) as a “regulator of the regulators”

- **It operates in a changing international context**
  - The 1990s was a benign context
  - EU aim: build markets, extend SEM
  - But energy markets are changing...
  - And Russian policy is changing...

Three points about EU energy policy

- **It is a Single Market project**
  - Liberalisation and competition
  - Heterogeneity: states and sectors
  - Industrial policy vs competition policy
  - The role of state-owned companies

- **It has an Environment Dimension**
  - Climate change
  - Health and safety
  - Renewables and energy mix

- **Security of Supply Matters**
  - Energy is a (partly) a public good
  - Supply can be a market failure issue
  - Energy has a public service dimension
  - Energy has a security dimension
2. World Energy Markets: Oil and Gas

Energy market trends

- Increasing demand
- Global economic crises
- Technological chance
- Climate change
- NOCs and monopolies
  - Lack of competition? investment?
- Strategic choices for
  - Companies (NOCs, IOCs...)
  - States (exporters/importers)
  - EU and international organisations
- Resource nationalism?

Oil and gas: price and supply risks

Global oil market

- Textbook case of a global market
- no direct link between producer and consumer
- complex financial risk management mechanisms

Regional/ bilateral gas markets

- Long term take off agreements, destination clauses
- Gas price usually pegged to basket of substitutes
- Contingency: LNG / shale gas coming up
Crude Oil Prices 1981-2011

Source: BP Statistical Review 2012,
http://www.bp.com/sectionbodycopy.do?categoryId=7500&contentId=7068481
EU Gas price (US dollars per million Btu) and for medium sized industry (EUR per Gigajoule, 2010)

Source: BP Statistical Review 2012 for time series; Eurostat for industry price
3. Energy Security and EU Policy Tools

- **Short term security**
  - Practical network interruption
  - Interruptions of supply/price shocks
  - Natural disasters, terrorism etc

- **Medium term security**
  - Efficient pricing (public goods)
  - Social priorities (equality)
  - Duty to supply (public service)

- **Long term security**
  - Supply and demand (energy price)
  - Import dependency (security)
  - Oil dependency (strategic commodity)
  - Resilient + adaptable systems
  - Sustainable (low carbon) economy
  - Managing transition processes

- **Policy tools (short term)**
  - Network regulation and safety rules
  - Oil stocks and gas storage
  - Provisions for emergency measures

- **Policy tools (medium term)**
  - Competition policy, trade rules
  - Investment (‘smart regulation’)
  - State ownership (ex-monopoly)
  - Public service provisions

- **Policy tools (long term)**
  - Investment and trade (supply, data)
  - Energy efficiency (demand, data)
  - Emissions regulation (standards, tax; cap and trade)
  - Diversification: Renewables and nuclear energy (price floors)
  - Redistribution (winners/losers)
4. EU, the Ukraine 2012 Election and the International Political Economy of Energy

• 4 eras of energy:
  • The 7 Sisters: Anglo-Persian, Gulf, Texaco, Royal Dutch Shell and 3x Standard Oil (CA, NY, NJ)
  • The OPEC era (1973-'86)
  • Counter-shock 1986=>
  • The liberal ‘perfect calm’ of the 1990s

• A 5th era?
  • OECD as rule takers
  • BRIC and NOCs
  • Geopolitical fragmentation?

• The Ukrainian Elections
  • East- or West-of centre?
  • Politics AND markets!
  • Re-negotiated bilateral gas deals?
  • Transit rules beyond the Energy Charter Treaty?
  • Beyond the EU’s reach?
  • Beyond the reach of the (EU) regulatory state?

• Just another nail in the liberal coffin...