

# On the Path to an Integrated EU Foreign Policy on Energy and Climate

## Working Group on Europe\*

Under the German presidency, the European Union agreed on important, fundamental energy and climate policies. This was achieved both by setting ambitious goals in the fields of reduction of greenhouse gases, expansion of renewable energy resources and increasing energy efficiency levels, and by inserting energy and climate-related elements into the mandate for the reform treaty. In the coming years, there will be heightened efforts to secure resources and energy and to actually achieve both the agreed long-term goals and to implement the new primary rights norms. It will however only be possible to speak in serious terms of an integrated energy and climate policy when promising political steps have been implemented successfully.

What is more, the security questions relating to energy and climate change cannot be viewed in a vacuum. It is simply impossible to address these on a national basis, and they cannot even be addressed solely on a European level. When it comes to energy and climate policy, the EU needs to stand up and be counted as a global player. Unlike policy drafts governing internal matters, the European Union's external energy and climate policy endeavours are not yet based on an integrated structure. For that reason, the EU must aim towards bringing energy foreign policy and climate foreign policy closer together. The debates and decisions of the past few months provide fertile ground for such progress.

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\* The Berlin »Arbeitskreis Europa der Friedrich-Ebert-Stiftung« (European working group of the FES) was established in 2005. Its members come from the German Bundestag, the political parties, federal ministries, representatives of the Länder, associations and scientific institutes. It is coordinated by Dr. Gero Maass.

## The Status Quo in Energy Foreign Policy

Energy foreign policy, be it at European or national member state level, is primarily concerned with security of supply with the defined goal of securing a sufficient volume of imported energy at viable cost. Consequently, the oil and gas source and transit nations are therefore the focal point of policy-making. The key factor for increasing security of supply is the reduction of unilateral dependencies by means of a diversification in source regions, in combination with the use of different transport systems and routes for oil and gas. This is addressed, for example, in the tenets of the EU's Central Asia Strategy, which aims at securing countries in that region as energy partners for Europe while at the same time expanding liquid gas terminals and planning pipelines which could help to divert supplies away from potentially difficult transit states. In addition, the EU always endeavours, in its energy dialogue with other nations, its Partnership and Cooperation Agreement with Russia and its efforts to set up an energy policy early-warning system, to press for application of principles of transparency and investment security in important source and transit nations. One preferred tool in this endeavour is the "Energy Charter" which has not yet been ratified by Russia and Norway. The EU's foreign policy on energy is enhanced by numerous dialogue forums (such as the ones with Russia, the OPEC states, China and the USA) as well as new regional cooperations (in the Black Sea region, in south-eastern Europe and

within the framework of European neighbouring country policies).

Compared with the scope of the challenge and the mass of potential points for negotiation, the EU has only just begun to initiate joint action in the field of energy foreign policy. This is due partly to the fact that in the supply nations they are facing negotiating partners who have gained considerably in self-confidence as a result of constantly increasing raw material prices. Since energy foreign policy is not communitised each member state has the right to a veto. However, even if all the member states were to "speak with one voice", the EU can only negotiate at a limited level when it comes to energy foreign policy. The Union can attempt to influence the framework conditions on the international energy markets in its favour, but the decisive players on the European side are the oil and gas importing companies, since they are the ones making the ultimate investment decisions for physical pipeline projects and liquid gas terminals. When those companies' preferences are at odds with the EU's expressed aims, then the EU is basically powerless. If for example the Hungarian company MOL and the Italian ENI enterprise were to agree with Gazprom the construction of new pipelines for Russian gas, then the Nabucco project favoured by the EU would not be viable for the foreseeable future.

## New Dynamics in the field of International Climate Policy

The main focus of the EU's global climate policy initiatives is on preparation of a follow-up agreement to the Kyoto Protocol which expires in 2012 and the integration of the many processes – especially the G8-eagles dialogue – beneath that umbrella. The EU is a pioneer when it comes to international climate policy, not solely as a result of its comparatively ambitious self-set goal of definitely reducing greenhouse gas emissions by 20% by 2020. By announcing that it would increase that reduction goal to 30% if other established industrial nations and emerging nations were to sign up to the commitment, the EU has, de facto, taken on a leading role in the field of global climate diplomacy. This leading role for the EU is facilitated by the fact that climate policy – unlike energy (foreign) policy – is largely an issue governed by EU institutions. The negotiations in preparation for the preliminary world climate conference in Bali have developed a dynamic thrust in recent months which was hitherto barely believed to be possible. Ultimately, the outcome of the G8 summit in Heiligendamm led to the hope that committed and well-aimed climate diplomacy on the part of the Europeans can make a meaningful contribution to the successor to the Kyoto Protocol by moving towards significant progress in the field of climate policy, even if this takes place with different targets for the industrial and emerging nations and initially, at a regional level, by a system of networked carbon markets. While an ambitious framework agreement

on climate is not enough on its own in order to effectively counter the challenges of global climate change, it would still be impressive proof of the potential for visionary multilateralism with far-reaching forms of global governance which integrate the emerging nations to a much higher degree.

## Energy Efficiency as a Common Denominator of Energy and Climate Foreign Policy

The much praised three-cornered goal of sustainability, competitiveness and security of supply has greatly contributed towards the EU's achievement of a wide-ranging energy and climate policy consensus. The assumption on which this is based, that all the challenges can be met and overcome simultaneously and that all the short-term and long-term partial goals can be achieved without conflict is however unrealistic. The EU's energy strategy and the action plan evolved from it are lacking concrete priorities.

Even though the energy and climate policy fields influence each other to a considerable extent, individual decisions and measures do not always support all the long-term goals equally. So far, there have been some significant contradictions. Many of the measures to increase energy supply security have for instance actually been counter-productive from a climate policy point of view, such as the increased use of coal in electricity generation (without CCS technology and combined heat and power) or the

promotion of first-generation bio-energy fuels. If European politicians cannot (yet) decide which long-term goals to give priority to, then they must at least put their weight behind the one which, based on its agreed policy framework, has the most positive effect on energy security and climate protection: the drastic increase in the efficient and rational use of energy. This can lead not only to a reduction in the dependency on imported oil and gas, but also to a reduction in greenhouse gas emissions. It is true that the EU has committed itself to lay more emphasis in its internal policies on the issue of energy efficiency (even though the agreed goal of a 20% increase cannot be made legally binding). In the wider dimension of energy and climate policy, however, the energy efficiency factor has to date only played a minor role.

Giving special priority to the worldwide increase in energy productivity does not mean that in future energy and climate foreign policy will exclusively be concentrated on this one topic. In the fields of energy foreign policy and international climate policy continuing pressure must be exerted to press for the implementation of those projects whose influence does not go beyond the policy area in question, such as the desired diversification of source regions for oil and gas. Pursuing an integrated strategy which increasingly places projects at its heart aimed at fulfilling the requirements of both policy areas is admittedly not a panacea, but it does at least create viable win/win situations and practical negotiative orientation in some domains. In turn, this

diminishes the acute sense of pressure and also facilitates pursuance of cross-sectional projects like increasing energy productivity in all sorts of different political arenas, especially in fields where it is easier to achieve progress. This approach means that where blockades are in force in some arenas these can in part be circumvented by deferring to other arenas where the potential for successful negotiations appears greater. Assuming that this strategy can achieve effective results, this approach might well strengthen fundamental trust in the functioning of multilateral courses.

### Arenas and Pilot Projects of an integrated Energy and Climate Foreign Policy

The European Union's foreign policy with regard to energy is in its infancy as yet. The EU must pursue its policy goals vigorously if it wishes to create trust in the efficacy of multilateral negotiations. It is therefore especially important at this time to also use those arenas and pilot projects which go beyond the classic understanding of external energy security policy but where there is still scope for progress.

In this case, the multilateral Kyoto follow-up approach is by far the best. If it should be possible, by 2009, to get all the Western industrial nations on board and the major emerging ones too, as well as agreeing on much more ambitious emission limitations than before, this would have a significant effect on the development of worldwide use

of fossil fuels. By linking the European emissions trading system to similar initiatives in other regions of the world, this instrument could become far more effective and this would also strengthen the multilateral side of the argument: both by the increased integration of those economic regions and financial markets involved and as a result of the anticipated knock-on effect in other regions. If the current progress being observed in the field of international climate policy is maintained, then the momentum could well be used for future discussions of thematically associated aspects within a committed and multilateral framework, such as fundamental questions of global energy security.

The EU ought to endeavour to implement international energy efficiency initiatives which not only put less pressure on the climate but also make a contribution towards greater European energy security. There is potential for more energy efficiency both in the oil and gas supply countries and in the large-scale consumer nations. The approach to be taken depends here on the addressee. Oil and gas supply countries generally use their domestic resources in a highly wasteful manner. This becomes a particular problem for EU energy security if supply countries do not invest enough in new mining projects and allow their own domestic consumption to rise. It is questionable, for example, as to whether Russia will be in a position, after 2011, to fulfill its delivery commitments to the European energy importers. Framework agreements dealing with extensive European energy ef-

iciency investment in Russia would contribute to securing Russia's gas export capacity. This has to be in Gazprom's interest, since it can earn far greater income from exports than from selling its gas on the domestic market.

While there is theoretically at least a win/win situation to cooperation with supply countries, the EU's dealings with other industrial and emerging nations is much more difficult to manage. For this reason, the EU should not exclusively try to work out an international agreement with these nations, requiring all those involved to improve their energy productivity, which in view of the very high energy consumption levels concerned would contribute to a reduction in demand on global energy markets. Moreover, the EU should follow a course of setting de facto regulatory efficiency standards in the global economy. If the very strictest energy consumption rules for consumer goods (electrical goods, cars etc.) can be applied to the largest single market in the world, then many manufacturers operating in the global market will gear their entire product range to those rules, since it would in many cases not be viable to offer every product category in an energy-saving and an "energy guzzling" version. In this way, the EU could quite simply act as a "global efficiency regulator", spearheading increased energy productivity in other major consumer markets.

## Leading by Example: the EU as a global Model Region

In view of the vast global challenges of energy supply security and climate change which are likely to accelerate in the future, the EU is already in an ideal position to become a model region in an international context thanks to its energy and climate policy commitments. Its ambition of linking resource-saving production with economic prosperity and thereby achieving a consensus between individual nation states is without precedent elsewhere in the global sphere. Europe has mapped out the correct course in its energy and climate policy. The foundations, which now need to be underpinned by collective efforts at nation state level, have been laid. This has been positively acknowledged by the rest of the world and by the EU's own citizens. Then again, it will be all the more difficult to put those unquestionably ambitious aims already drafted into practice. The only way to secure long-term recognition for such efforts is for the EU to demonstrate tangible success in this field.

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