

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

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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 change**
- **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

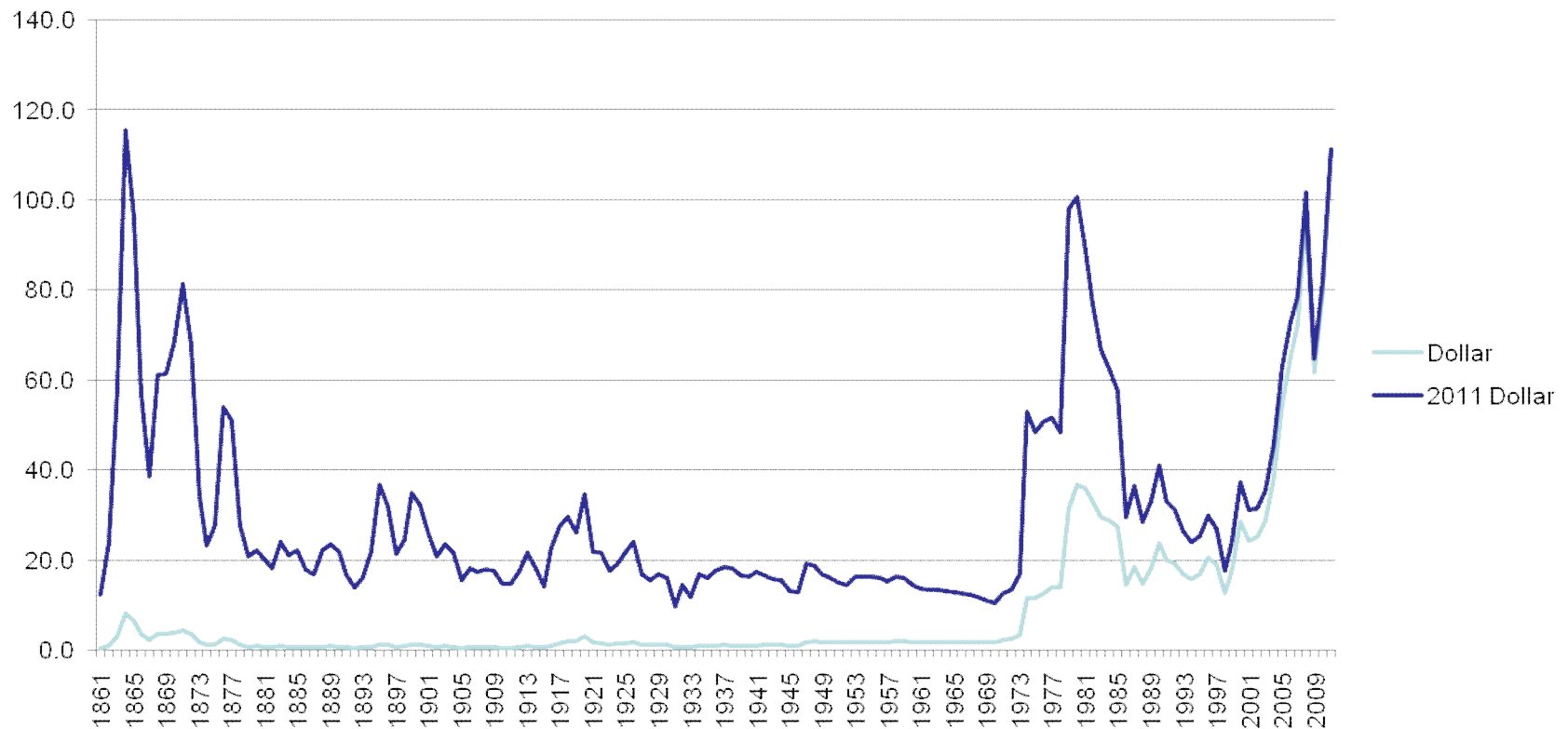
Global oil market

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

Regional/ bilateral gas markets

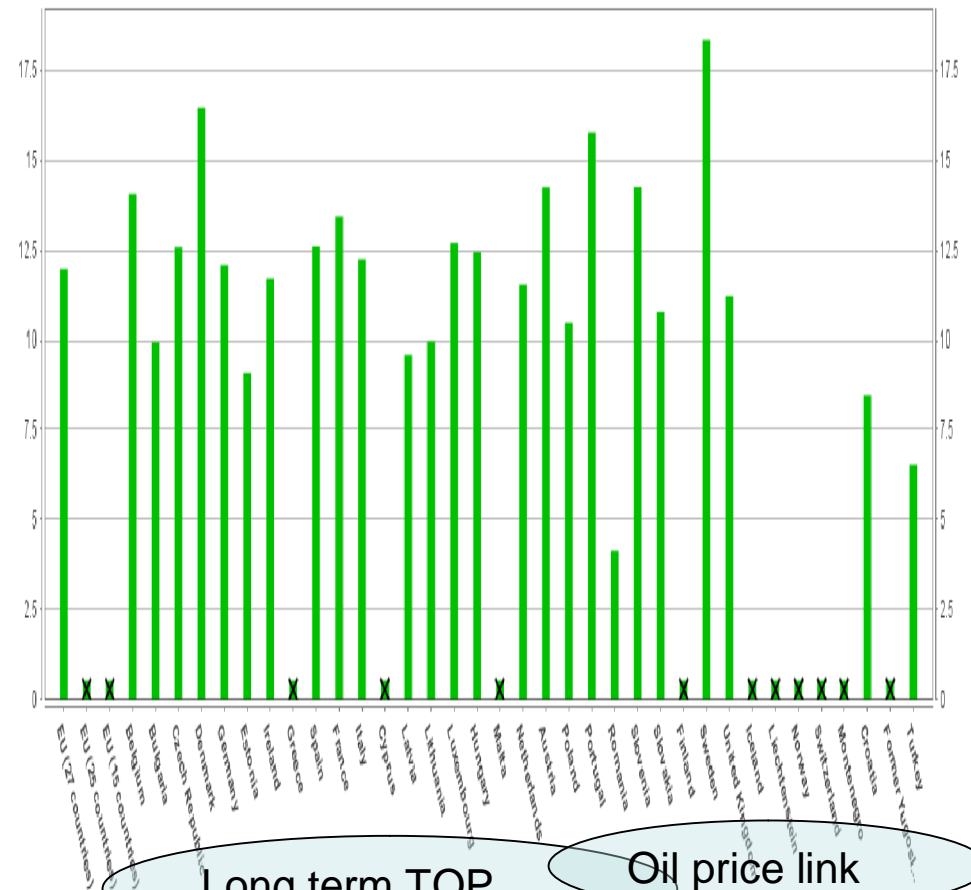
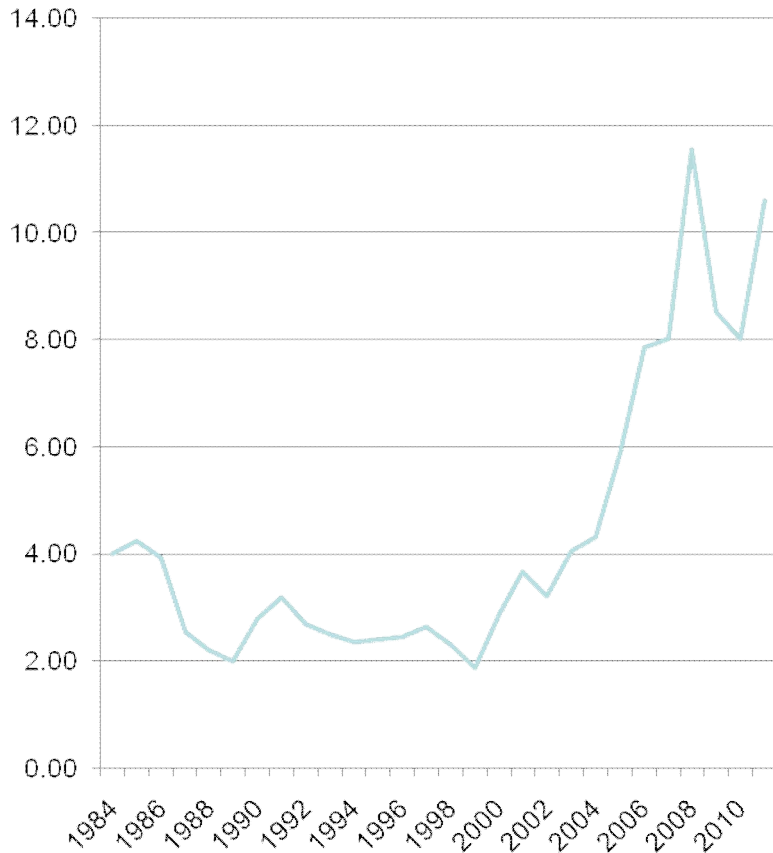
- Long term take off agreements, destination clauses
- Gas price usually pegged to basket of substitutes
- Contingency: LNG / shale gas coming up

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

Long term TOP deals

Oil price link

Destination clauses

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...

