

CHAPTER 7

THE 2007 ENERGY PACKAGE: THE START OF A NEW ERA?

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1. INTRODUCTION

The EU quest for an EU energy policy is not one loaded with success stories. This is despite the fact that energy as an issue could be seen as a core business for the EU.¹ It would be interesting and useful to briefly outline some of the developments that have shaped or failed the EU energy policy framework. In doing so, understanding would increase about the meaning of the Energy Package process that was launched in 2007 which might be seen as an important stepping stone to further EU energy policy making.

2. SOME HISTORY ON EU ENERGY POLICY MAKING²

The EU project started with an energy source, with the creation of the European Coal and Steel Community (“ECSC”) in 1952. This ECSC Treaty, signed in Paris in 1951 by France, Germany, Italy and the three Benelux-countries, was a desire to unite these countries by controlling steel and coal which were fundamental to the war industries. It therefore had a strong basis in post WW-II thinking on peace building, using a “peace-through-energy” approach. It was originally a French idea ensuring French economic security by perpetuating access to coal resources in the German Ruhr area, but also showing to the US and the UK that France could come up with constructive solutions, as well as pacifying Germany by making it part of an international project. The aim was therefore a common

¹ When referring to the EU, the European Union, we imply also its predecessors like the EEC and the EC.

² This paragraph draws heavily on: “Europese integratie vergt een energie(k) beleid” by R. Lafeber and J.G. vd Linde (SEW 6–1987) and on Nederland & Brussel, casestudy in “Dertig Jaar Nederlands Energiebeleid” by Jacques de Jong, Ed Weeda et al; CIEP 02/2005.

programme of postwar production and consumption of steel and coal. The ECSC introduced a common free steel and coal market, with freely set market prices, and without import/export duties or subsidies.

When negotiations started on the EEC Treaty (the Treaty of Rome), due to high expectations about the role of atomic energy and the perception of uranium scarcity, again a separate treaty on energy was established for this source, the Euratom Treaty.³ The purpose of Euratom was to create a market for atomic energy for peaceful purposes, to develop nuclear energy and to sell surplus nuclear power to non-Community States. The perceived uranium scarcity was tackled by putting all (legal) ownership of fissile materials into one Euratom body, the Euratom Supply Agency. So, in the 1950s an EU policy was perceived with respect to two energy sources: coal and uranium. The 1950s however saw also another energy source emerging and starting to boom, i.e. oil. The 1956 Suez crisis, when the Suez Canal was closed, suddenly brought oil supply security onto the political agenda and the question was asked if in addition to coal and uranium, a comparable framework for oil would be appropriate.

The negotiation and drafting processes for both the EEC and Euratom Treaties, that took place in the Spaak Committee⁴, were however so much advanced and time was so pressing to complete them, that the incorporation of oil issues, or even a wider idea of combining the respective energy sources into an integrated energy approach, was not feasible. It was decided therefore already in 1957 to request the three executive authorities that were set up under the three treaties to study this option of an integrated energy policy approach. It took them quite some time to produce their report, but in 1962 they finally recommended a true *politique énergétique communautaire*, one coherent European energy policy. By that time however, national interests between the six Member States were already very much diverged. Germany and Belgium for instance opted for a very gradual transition away from coal, whereas in France and the Netherlands oil (and later on the same applied to gas) was considered as becoming more and more important. In addition, both countries saw oil booming industrial developments based on large scale oil imports and the development of a large scale refinery industry in Rotterdam and Marseille. These different positions indeed did make the study in political terms already “dead-on-arrival”. What was politically agreed however was a pragmatic coordination of energy policy and when the three executives

³ President Eisenhower’s 1953 Atoms for Peace program and several already ongoing activities on uranium fuel and nuclear reactor research in France, Belgium and the Netherlands largely inspired this development.

⁴ This Committee under the chair of Belgian Minister of Foreign Affairs Paul-Henri Spaak was the main drafting and negotiating Committee in relation to the EU Treaties, reporting to the six Ministers of Foreign Affairs.

merged in 1967 into a single body, the European Commission, a new momentum was created to continue on this track of coordination.

Several initiatives were taken in later years, especially on oil and on oil supply, but most of them were blocked by the Netherlands because of the oil interests of the Rotterdam area as an increasingly important international oil centre. Dutch policy makers were therefore more interested in discussing global oil issues in the OECD context. It did not prevent the EU from issuing legislation regarding the oil sector, especially in relation to the need to develop strategic stock obligations (copied from earlier agreed OECD understandings on such stocks) and a mechanism to coordinate government action during an oil supply crisis. It was largely a process of trial and error. The EU dramatically and completely failed however to formulate a real policy reaction to the 1973 oil crisis, although in political terms the December 1973 Copenhagen Summit did produce a statement to formulate such a common energy policy approach. But this did not prevent the US invitation for a February 1974 Washington Energy conference. That conference adopted the successful initiative by US Foreign Secretary Henry Kissinger to establish an automatically triggered Atlantic oil allocation mechanism in case of a clearly defined oil supply shortfall. As a result, the Agreement on an International Energy Programme was developed during 1974 and later that year the Agreement was signed and the IEA (International Energy Agency) was created.⁵ Initially, France refused to join⁶ and the role of the European Commission turned out to be no more than that of a (silent) observer.

EU energy policy on the issues that really mattered was therefore absent for some 15–20 years. Most Member States were happy with that situation as they were able to manage their energy policy issues on the basis of effective coordination within the wider IEA context, bypassing ‘Brussels’ on many occasions.⁷ And where the EU did declare energy policy and take action, they were largely based on preceding IEA conclusions or agreed actions. During the 1980s however new momentum created new opportunities for EU energy policy making. The 1987 Brundtland Report created a political spirit for EU actions on environmental impacts from energy production and consumption. In addition, the 1985 European Com-

⁵ We would like to recall the major role that was played in this process by Etienne Davignon, the IEA’s first chairman; see also his interview in “Dertig Jaar Nederlands Energiebeleid” by Jacques de Jong, Ed Weeda et al; CIEP 02/2005.

⁶ France joined however later on and since the early 1990s it has been an active participant in the IEA.

⁷ It should be noted in this context that it was accepted in general terms that the treaty provisions did apply to at least oil imports, but that case law recognised that that oil possibly was a commodity that should be treated differently due to supply security issues (for instance, the Judgment of the ECJ of 10 July 1984 – *Campus Oil Limited and others v Minister for Industry and Energy and others* – Case 72/83).

mission report “Towards an Internal Energy market” and the wider 1992 Action Programme on its completion did so especially for the electricity and gas markets. From a political point of view it should be noted that for the first time it was accepted that the network bound energy sector was not to be automatically exempted from the competition articles in the Treaty.

In addition to these two politically important action lines, Brussels used its mandates for research and its Framework Programme concepts also for energy technology development. This brought about a variety of programmes supporting national research centres and technology institutes, ranging from energy efficiency, renewable energies, fossil fuels and nuclear energy for many years.

From the late 1980s and driven basically by environmental policies, a number of EU-based actions emerged related to energy and the environment. They focused on emissions and air quality, but also already on action programmes for energy efficiency, co-generation and renewable energy. A real breakthrough emerged in actions mitigating climate change during the mid 1990s. This resulted in effective EU leadership in the framework of the Kyoto Protocol and the establishment of an EU-wide trading system in carbon emission rights. All these environmentally driven energy policy related approaches gave the EU in these areas a concrete face and voice. This was also possible as environmental policy could be legally based on a separate Treaty article.

The drive to complete the internal market, to include energy in the internal market programme as mentioned above and to include the network-based energy sectors had also its direct legal base in the EU Treaty. So there was no discussion any more about the Commission’s mandate to move towards energy market liberalisation, creating an all-EU legal framework for the internal markets in gas and electricity. These actions also resulted in further stepping stones for the Commission as they had major impacts on the industrial structures in the energy sector and resulted in a new paradigm for the role of governments and the public sector in these key energy markets. Fuel supply in electricity generation and the more global issue of gas supply security therefore gradually entered, or better “slipped” into the domain of EU competence.

In addition, the 1990s saw also some failures in the EU’s external energy component. The Dutch-initiated idea of the European Energy Charter to extend East-West energy cooperation resulted in a rather absent EU institutional machinery when the Charter was signed and a separate secretariat was Established. However, via large financial means ‘Brussels’ became visible in numerous E-W support programmes, including ones on energy and nuclear safety. On the other hand, pro-

posals for more and effective EU involvement in strategic oil stocks and oil crisis management failed on a number of occasions. Energy supply security events like the California energy crisis in 2001 and the Italian blackout in 2003 brought back political awareness in supply security issues, especially in electricity. But an overall and integrated energy policy approach was still lacking, despite the efforts by the Commission in its 2002 Green Paper to set a much more integrated approach on the wider energy policy agenda.

The informal October 2005 European Council meeting in Hampton Court (UK) brought however some breakthroughs. Puzzled by the French and Dutch rejection of the draft European Convention and the political inability to discuss budget and agricultural policy issues resulted in the UK Chair (Tony Blair) suggesting the idea of discussing energy issues instead. Based on an interesting discussion⁸, the Council invited the Commission to come up with a new Green Paper with new initiatives and approaches on energy policy. The 2006 Russia-Ukraine gas incident even presented an almost serendipitous opportunity for the EU machinery to set its energy policy records straight. In addition, Al Gore's story on the Inconvenient Truth about climate change, added further political momentum to the EU's energy policy agenda. The Commission's Green Paper, "Fuelling the Future" with a vision for a European Energy strategy⁹, was published in early March 2006 and contained six priority areas: the completion of the internal energy market, solidarity among Member States, a sustainable, efficient and diverse energy mix, meeting the challenges of global warming, a strategic energy technology plan and – finally – a common external energy policy. Generally, political and business receptions tended to be rather positive and during the remainder of the year, and in the now already good tradition of involving stakeholders in the process wherever possible, an extensive consultation process was held. And this resulted in early 2007 for the first time in EU history in an overall integrated package for an EU energy policy.

3. THE 2007 ENERGY PACKAGE

In the package¹⁰ the three dimensions of energy policy were covered, i.e. supply security, the environment and the market, with concrete proposals for all three, underlining the comprehensive character of the package. Its aim is ambitious, i.e. to establish a new Energy Policy for Europe, and is even calling for a new indus-

⁸ Dieter Helm; European Energy Policy: Securing Supplies and meeting the Challenge of Climate Change; October 2005; www.dieterhelm.co.uk.

⁹ http://ec.europa.eu/energy/green-paper-energy/index_en.htm.

¹⁰ http://ec.europa.eu/energy/energy_policy/documents_en.htm.

trial revolution to combat climate change and to boost EU energy security and competitiveness. The package of proposals sets a series of ambitious targets on energy efficiency and renewable energy, and a commitment to cut greenhouse gas emissions by at least 20% by 2020. The package is based on three central pillars:

- A true Internal Energy Market where the aim is to give real choice to EU energy users, whether households or businesses, and to trigger the huge investments needed in energy. The single market is good not just for competitiveness, but also for sustainability and security. Analysis shows that further action is required to deliver these aims through a clearer separation of energy production and supply from energy transmission. It also calls for stronger independent regulatory control, taking into account the European market, as well as national measures to deliver on the European Union's target of 10% minimum interconnection levels by identifying key bottlenecks and appointing coordinators.
- Accelerating the shift to low carbon energy by proposing a binding target of 20% of its overall energy mix to be sourced from renewable energy by 2020. This will require a massive growth in all three renewable energy sectors: electricity, biofuels and heating and cooling. This renewables target will be supplemented by a minimum target for biofuels of 10% of automotive fuels. Research will be crucial to lower the cost of clean energy and to put EU industry at the forefront of the rapidly growing low carbon technology sector. The Commission will therefore come up with a strategic European Energy Technology Plan and will also increase by at least 50% its annual spending on energy research for the next seven years. As nuclear electricity makes up 14% of EU energy consumption and 30% of EU electricity and underlining that it is for each Member State to decide whether or not to rely on nuclear electricity, the Commission warns however that where the level of nuclear energy is reduced, this must be offset by the introduction of other low-carbon energy sources, otherwise the objective of cutting greenhouse gas emissions will become even more challenging.
- Energy efficiency, with an objective of saving 20% of total primary energy consumption by 2020. If successful, this would mean that by 2020 the EU would use approximately 13% less energy than in 2006. The Commission proposes that the use of fuel-efficient vehicles for transport is accelerated, that tougher standards and better labelling on appliances be introduced and that a stricter energy performance of the EU's existing buildings is enhanced together with improved efficiency of heat and electricity generation, transmission and distribution. In addition, a new international agreement on energy efficiency will be developed.

The proposals centred on these three pillars however will need to be underpinned by a coherent and credible external policy. An international Energy Policy where the EU speaks with one voice is needed, as the EU cannot achieve its energy and climate change objectives on its own. The EU should also develop effective solidarity mechanisms to deal with any energy supply crisis and it will endeavour to develop real energy partnerships with suppliers based on transparency, predictability and reciprocity. To that extent a network of energy security correspondents has been established and a whole series of concrete measures to strengthen international agreements is proposed. This includes the Energy Charter Treaty, the post-Kyoto climate regime with extensions of emissions trading to global partners, and the approach to extend bilateral agreements with third countries on energy, especially through the European Neighbourhood Policy and a set of comprehensive Africa-Europe partnerships.

4. THE 2007 SPRING COUNCIL AND BEYOND

This proposed energy package was discussed at the Spring Council of the EU, when heads of state and government had their regular meeting. For the first time at that level, energy issues were at the heart of the agenda, and the discussions resulted in a stronger political commitment than had been expected. One could even conclude that the EU demonstrated that it was taking the lead: “You should join us in fighting climate change”, declared European Commission President José Barroso on the occasion. More generally, the Council adopted a new Energy Policy for Europe, which did not simply aim to boost competitiveness and to secure energy supply, but also aspired to save energy and promote climate-friendly energy sources. EU leaders were very firm to set targets of cutting 20% of the EU’s greenhouse gas emissions by 2020¹¹, and to set even a binding overall goal of 20% for renewable energy sources by 2020, compared to the present 6.5%, and a binding minimum target of 10% for the share of biofuels in overall transport petrol and diesel consumption by 2020.

Quoting from the final conclusions¹², the EU Council formulated its Energy Policy for Europe (EPE) underlining the usual three basic objectives of (1) increasing security of supply, (2) ensuring EU competitiveness and the availability of affordable energy, and (3) the promotion of environmental sustainability and combating climate change. This was done in an unprecedented set of details. But it was equally stressed that Member States’ choice of energy mix and sovereignty over

¹¹ The EU will be willing to increase this goal to even 30% if the US, China and India make similar commitments.

¹² http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/93135.pdf.

primary energy sources would be fully respected, and underpinned by a spirit of solidarity amongst Member States. The EPE – summarising the final conclusions – then focused on the following items and priority actions:

- *Internal Market for Gas and Electricity.* A timely and full implementation of the existing Internal Energy Market legislation is absolutely essential. To enhance still existing flaws in the system, the need for effective separation of supply and production activities from network operations (unbundling) is fully endorsed as well as the further harmonisation of the powers and strengthening of the independence of national energy regulators. Additional steps will be taken such as to establish a mechanism for national regulators to cooperate and take decisions on cross-border issues, to create a new mechanism for the coordination of the transmission system operators (“TSOs”), a more efficient and integrated system for cross-border electricity trade and grid operation, to enhance relevant investment signals to contribute to more efficient and secure grid operation, to create increased transparency in energy market operations and to improve consumer protection through the development of an Energy Customers' Charter. What is needed also is to make a medium and long-term forecast for gas and electricity supply and demand in order to identify additional investments required to satisfy EU strategic needs. Maybe even more sensitive is the assessment of the impact of vertically integrated energy companies from third countries (e.g. Russia) on the internal market in relation to the principle of reciprocity. Finally, access issues in relation to gas storage in the EU will be added to the EU agenda and the development of regional cross-border exchanges and regional energy cooperation is further promoted and strengthened.
- *Security of Supply.* Key words here are the spirit of solidarity between Member States, notably in the event of an energy supply crisis together with effective diversification of energy sources and transport routes. This has to be supported by a more competitive internal energy market and the development of more effective crisis response mechanisms. In addition, a number of more specific issues are highlighted, such as the warning capacity provided by the network of energy security correspondents, the improvement of oil data transparency, EU oil supply infrastructure and the EU's oil stocks mechanism that is complementary to the IEA crisis mechanism. As a new element, a thorough analysis of the availability and costs of gas storage facilities in the EU will be made with a view to contributing to a crisis response mechanism. Furthermore an EU Energy Observatory will be established and some specific infrastructure projects will be prioritised on the basis of specific EU actions.¹³

¹³ EU coordinators will be nominated for the Power-Link between Germany, Poland and Lithuania, connections to offshore wind power in Northern Europe, electricity interconnections

- *International Energy Policy.* A common approach to external energy policy has to be sped up, involving consumer-to-producer as well as consumer-to-consumer and consumer-to-transit countries, dialogue and partnerships including through organisations such as OPEC. To that effect, the EU emphasises as essential elements for further developing its one voice model, the creation of a new partnership and cooperation agreement with Russia, intensifying its relationship with Central Asia, the Caspian and the Black Sea regions, strengthening partnership and cooperation with the USA, China, India, Brazil and other emerging economies, ensuring the implementation of the Energy Community Treaty (development and extension to Norway, Turkey, Ukraine and Moldova), making full use of the European Neighbourhood Policy and enhancing further energy relationships with Algeria, Egypt and other producing countries in the Mashreq/Maghreb region, building a special dialogue with African countries on energy and using Community instruments to enhance in particular decentralised renewable energies and generally energy accessibility and sustainability in this region, as well as energy infrastructure of common interest and – finally – continuing actions within the context of the UN system.
- *Energy efficiency and renewable energies.* The EU is aware of the growing demand for energy and increasing energy prices as well as of the benefits of strong and early common international action on climate change. But it is equally confident that a substantive development of energy efficiency and of renewable energies will enhance energy security, curb the projected rise in energy prices and reduce greenhouse gas emissions in line with the EU's ambitions for the period beyond 2012. The need to increase energy efficiency is translated into the firm objective of saving 20% of the EU's energy consumption compared to projections for 2020. This objective will be implemented by the EU Action Plan on Energy Efficiency¹⁴, outlining priority areas in energy-efficient transport, minimum efficiency requirements for energy-using equipment, energy-efficient and energy-saving behaviour of energy consumers, energy technology and innovations and energy savings in buildings. This action plan will be complemented by National Energy Efficiency Action Plans and by the proposal for a new international agreement on energy efficiency. On the development of renewable energies beyond 2010, a legally binding target will be set at a 20% share of renewable energies in overall EU energy consumption by 2020, supported by the 10% binding minimum target for the share of biofuels. The binding character of this second target is subject to production being sustainable and second-generation biofuels becoming commer-

between France and Spain, and the Nabucco pipeline, bringing gas from the Caspian to central Europe.

¹⁴ http://ec.europa.eu/energy/action_plan_energy_efficiency/index_en.htm.

cially available. From the overall renewables target, differentiated national overall targets will be derived on the basis of fair and adequate allocation, taking account of different national starting points and potentials, including the existing level of renewable energies and energy mixes. In order to meet these targets, a new comprehensive EU-wide framework has to be developed, where it is understood that the EU system for emissions trading will have to play a central role.

- *Energy Technologies*. A European Strategic Energy Technology Plan will be developed focusing *inter alia* on substantial improvements in electricity generation efficiency and clean fossil fuel technologies, on strengthening R & D (research and development) and developing the necessary framework for environmentally safe carbon capture and sequestration (CCS) deployment. This is further enhanced by the intention to have by 2015 up to 12 demonstration plants of sustainable fossil fuel technologies in commercial power generation. On nuclear energy, it is stated again that it is for each and every Member State to decide whether or not to rely on nuclear energy, but the need for further improving nuclear safety and the management of radioactive waste would still be able for research programmes to call on the EU's research funds and a continuation of the internal EU discussions on nuclear safety and waste management.

All in all, it has to be noted that the EU Spring Council meeting really has made a politically speaking important and interesting step in terms of the development of an integrated EU energy package.

5. IS THE EPE THE BREAKTHROUGH IT PROMISES?

The proof of the pudding is, as always, in the eating and the EU's record of further implementing political packages is full of devils-in-the-details. There is no reason why it should be different this time. The September 2007 proposals for a "third legislative package"¹⁵ for the gas and electricity markets are proving this point again. A couple of comments should be made in this context.

On **renewable energy** it should be noted that the ambitions of a 20% energy share in 2020 and a 10% biofuels share in transportation are very ambitious. Despite the fact that biofuels development is to be based on second generation technology dramatic impacts of a biomass-boom are to be avoided. There will be impacts on the food chain, on food pricing and on biodiversity. This technology is not

¹⁵ http://ec.europa.eu/energy/electricity/package_2007/index_en.htm.

expected to become mature before 2015. More generally on the 20% share, large efforts will be needed in the other two demand sectors, i.e. heating & cooling and in electricity generation. As to the latter, renewables will have to compete with gas, clean coal and nuclear and it depends very much on firm economic availabilities and assurances at the time of the investment decisions, as to what choice will be made. The cost of carbon and the relevant mechanism to assure forward pricing are critical in that context. Once decisions have been made, the resulting capacity will be there for several decades, influencing total capacity requirements. Similar considerations will play a role in heating & cooling. From a political perspective it is as important to see how the “burden-of-renewables” will be shared between the Member States and if and how the EU will manage to decide on an EU-wide support scheme, including its consistency with the prevailing market designs and models. A more realistic view of this policy might therefore result in slower progress in renewables, be it in the firm direction that is decided upon.

The role of renewables has a direct impact on the development of the **energy mix**, especially in power generation. The EPE has formulated a policy on clean coal, including a strong approach in the direction of carbon capture and storage. Here again, the road is loaded with many policy, technical and regulatory uncertainties, but as there is a strong international dimension in pursuing this option, the EU and other industrialised countries will succeed. On the gas side we should note that, as gas is still the most attractive and relatively fast and easy pursuable option, gas-in-power will further increase in the EU. But, here comes the external dimension, as gas will increasingly have to be imported, notably from Russia and a limited number of LNG-suppliers. Global competition will increase in the gas market together with strong geopolitical dimensions, both in producer regions as in transport flow. This should give further rise to seriously considering the other non-carbon source, i.e. nuclear power. It is however deplorable that the EU has failed to include nuclear in its EPE. At least the discussion at EU level needs to be organised on this source as its use or non-use will have major impacts on the overall EU energy mix and the effectiveness of its energy policy. In such discussions, EU relevant issues as to the appropriateness of the prevailing market designs should be considered, together with more sensitive issues such as the ones on EU solutions for final waste disposal and confidence building approaches to the sensitive technology steps in the whole nuclear fuel cycle. Reflecting on energy storelines up to 2050 is impossible if nuclear is neglected.

Energy **supply security** to the EU means basically the external dimension. External relations will dominate steady and secure energy flow to the EU, especially in oil and gas. The EPE is referring to this condition by stating that a “one voice” model for the whole of the EU is needed in pursuing reliable energy trade rela-

tions. A number of instruments are available to the EU to support that policy, but a blueprint and strategy for implementing that vision is still lacking. It is as yet unclear what the stakes are and what concrete proposals are being developed, as it is unclear if and how the globalising energy markets and energy issues will be addressed in multilateral, regional or bilateral settings. Unclear as well is the question about whose voice it is that will be heard on behalf of the EU and what are the coordinating mechanisms to define a meaningful and effective message from this voice.

The internal market issue is perhaps the easier one to address. The EU Commission published its so-called “**third package**” on energy market designs several months after the political declaration of the EPE. This package is further boosting relevant design issues, especially when it comes to cross-border markets and their integration. Rules for more effective cross-border trade and enhancement of market transparency, together with expansion of independent regulatory authority are rational and useful. The more controversial ideas and proposals to increase and assure competition by the obligation of either divestiture in vertically integrated industries might create strong political sentiments slowing down the decision-making process. Especially the option to ownership unbundled transmission infrastructure or, alternatively, to have such infrastructure operated by full independent new entities, has the impact to influence political and national emotions, both on the pro and the con side. An even more sensitive political one is the proposal to prohibit controlling network ownerships by non-EU entities. Especially this idea is interpreted as being principally directed at Russian state owned gas-company Gazprom. And here we see a direct linkage between internal market design and direct energy supply security.

As a final and more general comment on the EPE, we note that the basically integrated energy policy character, covering supply security, the environment and market issues, will gradually evaporate when it comes to implementing proposals. The third package does hardly refer to the other two policy objectives and will largely be discussed and decided upon in a sector-oriented political setting. The environmental package is due to be proposed early 2008, following probably a similar path in decision-making. Unclear is what will happen with the external dimension as such and how the two other policy objectives will be integrated with it. This is the more pitiful as the EU needs to define an effective strategy for its relations with Russia, where energy could be used as a bond.¹⁶ The EPE therefore, although containing a number of interesting integrating elements does not yet

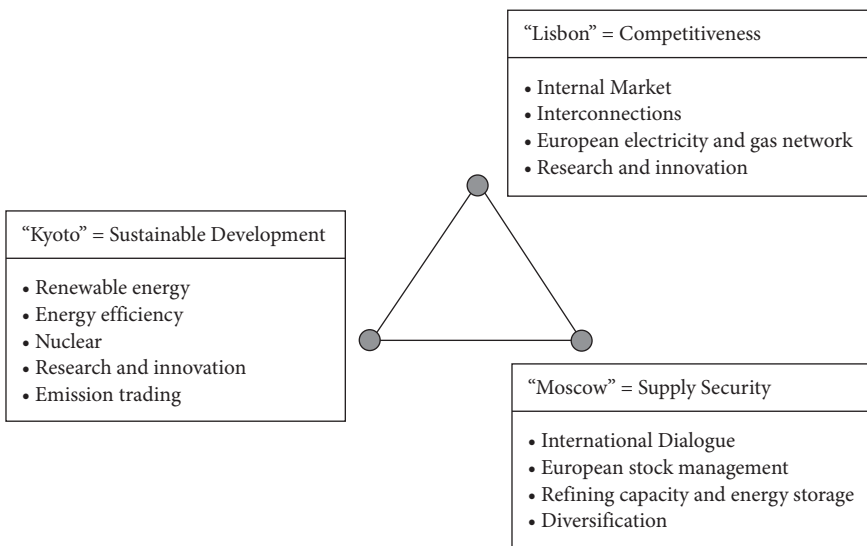
¹⁶ See also the CIEP-paper “Energy as a Bond: Relations with Russia in the European and Dutch Context” by Susann Handke and Jacques de Jong (http://www.clingendael.nl/publications/2007/20071200_ciep_energy_jong.pdf).

provide the clear policy framework that would help us in further assessing the role of the EU in the four conceivable worlds that have been described in our four storylines.

6. CONCLUSION

We conclude that the EPE could be seen as an intelligent balancing act within the larger energy policy triangle, where the objectives of supply security, efficient markets and environmental friendliness are the major policy competitors. Or, putting it more directly, in today's terms, it's the fight between Kyoto, Lisbon and Moscow, as it is indicated below.

THE THREE CHALLENGES



Interestingly, this apparently simple statement leads to a more fundamental remark. The EPE does show that strong EU policies can only be developed under the condition that Member States are less reluctant to give up their sovereignty to the EU for the reason that they are convinced that the EU can deliver to their societies either a desirable political and social contract, or external relations that suit the strategic interest of the Member States. Why is this so? In areas where the EU touches the core competences of the national State, beyond its economic com-

petences, decision-making at EU level has always been very cumbersome.¹⁷ In the case of EU energy policy making the Member States are not only invited to agree on a common energy framework in which the public interests of security of supply and the environment are secured at the EU level. In that case they are also challenged to agree on restructuring their energy markets beyond the economic efficiency rationale alone. This is particularly true for securing oil and gas flow, where government-to-government relations are a crucial part of business-to-business deals.

Since the EU is not a government, Member States have fundamental doubts that the abandonment of their strategic external energy interests to the supranational level of the EU will be able to deliver security for their societies. As long as these doubts are a fact of life it will not be possible to resolve the fight between Kyoto, Lisbon and Moscow as we called it, and replace that fight by a straightforward and loud, crystal clear single EU voice. Perhaps the fact that Member States are more willing to speak with one voice in climate change policy matters might be seen as a precursor to change in the future cooperation of the Member States in all energy matters.

¹⁷ External Energy Policy; old fears and new dilemmas in a larger Union; Coby van der Linde in "Fragmented Power; Europe and the Global Economy; Bruegel, 2007.