

Securing European Critical Energy Infrastructure

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Russia is pursuing an integrated strategy of trying to segment the European market through sweetheart deals with key countries. Britain is a case study of a worst case scenario. NATO and a strengthened IEA should play bigger roles

Today, the threat of politically motivated disruption of gas supplies from Russia and insecurity in key oil producing regions globally have led to a new concern about energy security in oil consuming industrialized nations. A confusion of roles, however, has prevented these risks from being effectively managed. In Europe, disparate organizations, including national governments, European intergovernmental institutions, and elements of the private sector, have all rightly touted themselves as key parts of the solution. However, uncertainties about how to define energy security, who should be responsible for it, and, most crucially, how these disparate organizations should work together have hamstrung these efforts.

To the extent that an energy security system exists today, it is more suited to the challenges of the 1970s than those of today. The oil consuming industrialized countries formed the International Energy Agency (IEA) to coordinate their response to the new market power of OPEC. From their adversarial beginnings in the 1970s, these two organizations have become increasingly interdependent, with producers and consumers informally coordinating oil supply and price management from the mid 1980s. However, the bulk of governmental action on energy security still takes place at a national level. For example, while the IEA is responsible for coordination of strategic stocks, national governments take very different approaches to the size, uses, and management of these stocks. In the name of bolstering their domestic security, these states have in fact reduced the potential effectiveness of the international system of stocks.

The limitation of this current system means that it fails to address many of the key energy security risks facing us today, including:

- 1) The risk of politically motivated gas supply disruptions from Russia to Europe.
- 2) Insecurity in multiple oil producing countries (e.g. Iraq, Nigeria, Venezuela, etc.) leading to significant supply disruption and risk of future supply disruption, pushing the oil market into contango.
- 3) Coordinating a response to disruption of oil supplies resulting from an embargo of Iranian oil exports.

- 4) Coordination of major current and planned strategic oil and gas storage projects globally.
- 5) Sharing of intelligence and response planning for energy security threats among governments, companies, and other key actors.
- 6) Coordinating the security of key nodes in the energy system against potential terrorist attack.

The EU could provide a powerful regional coordination mechanism, providing for an efficient market inside the union and a common approach to suppliers outside the union. However, if the EU fails to force the creation of a single European energy market, it risks facilitating access into Europe for powerful external players, mostly notably Russia, while fragmenting Europe into separate national markets that are too small to ensure their own security successfully and yet unwilling to take the steps necessary to work together.

Britain today is a case study of this worst case scenario. Britain has a liberal market that historically provided very low prices, but lacked the necessary incentives to build and maintain a security margin. As such, British domestic gas storage is measured in weeks of demand, as opposed to months in France and Germany. Thus, in recent years supply crunches in Britain have not been met by releases of stored gas, leading to very high price spikes in the UK market. In principle, these high prices in Britain should provide a financial incentive for continental gas companies to release gas from their storage to Britain. In practice, however, national security concerns in continental Europe trump market mechanisms.

However, poor functioning of the EU energy market is not the only threat to British energy security. The peaking of North Sea gas production means that Britain is now, like continental Europe, largely dependent on imports of gas both by pipeline from Russia and in liquefied form from West Africa and the Persian Gulf. British relations with Russia clearly show the need for a unified European approach. Russia is pursuing an integrated strategy of trying to segment the European market through sweetheart deals with key countries. It is building a pipeline link directly with Germany, cooperating with Italian ENI in Turkey, purchasing stakes in gas utilities in central Europe and the Baltic states, and considering attempting to acquire Centrica in the UK. Russia has presented all of these deals as special relationships that will guarantee the energy security of a particular country over and above the rest of Europe. However, not all of these countries can be a Russian special partner in Europe, and, by pursuing partnership deals with Russia, they are undermining the best option for securing gas flows from Russia: a common European approach to Russia that forces Russia to negotiate with the EU as a block.

Rather than courting Russia individually, the EU needs to present a strong and sensible common energy policy. The EU should first assess whether energy producers of a country compete freely and export on the basis of market conditions and not political concerns. Effective implementation of the terms of the Energy Charter Treaty would be a key component of this test. In the event that a country fails this test, as Russia surely would, with respect, it should be banned from selling gas directly to EU customers. These non-market suppliers should be forced to deal with a single EU gas purchasing board,

staffed by senior European civil servants and gas buyers seconded from major European utilities. This will enable Europe to exploit Russian need for security of demand effectively by matching strength with strength rather than blithely waiting for Russia to begin to abide by European norms that do not serve Russian self-interest.

Finally, the UK has repeatedly seen the threat of insecurity of key energy nodes. The IRA sought to exploit the vulnerability of these key nodes during Operation Airliner, when the IRA came very close to blowing up key nodes in the London electricity system. More recently last winter, Britain came within days of running out of gas after a fire at the Rough gas storage facility incapacitated most of British gas storage. Looking farther overseas, British companies are exposed to the possibility of disruption of energy production and transport due to political instability, international terrorism, or violent conflict in the Caucasus, the Turkish Straits, Nigeria, Georgia, Iran, and Bolivia, among others. Disruption in any of these geographies would directly impact British and European energy security through oil and gas price movements and, potentially, actual shortage of supplies to Europe.

Effective international coordination could go a long way to reduce European exposures to these risks. Just as a common European energy foreign policy is critical in dealing with Russia, a strengthened IEA, with expanded membership and powers, could play a key role in preparing for disruption of supplies, whether due to politics, violent conflict, or, as in the case of the fire at the Rough gas storage facility, simply accidents.

While the IEA coordinates the market response to a potential disruption, NATO needs to take a role in ensuring the physical security of key energy nodes in and around Europe. NATO is the only institution with an explicit security role that includes both European consumers and, through the Mediterranean Dialogue and Partnership for Peace Initiatives, main suppliers to Europe in the former Soviet Union and North Africa. Furthermore, NATO already has the necessary institutions to play a role in energy security. It has established mechanisms for intelligence sharing. Through its Centres of Excellence in Defence against Terrorism and in Special Policing Units, it has the necessary capability to train host country gendarmerie-type forces to conduct energy security operations. Given the key role that the EU and NATO should play in energy security, it is bitterly disappointing that NATO has done little to move in this direction, that the EU is only now beginning to think about a common foreign energy policy, and that the two institutions have no coordination in this area.

Finally, governments need to do more to include energy companies in their energy security planning. Companies have vast resources that they can bring to bear on these problems, but relationships between governments and companies are hampered by mutual distrust and suspicion. Increased intelligence sharing and response planning would greatly improve energy security, but rarely takes place. Similarly, companies rarely know what is expected from them by government domestically or what support they can expect from governments abroad. Government needs to work with industry to clarify their division of labour and avoid working to cross purposes.

While this is a broad agenda, there are concrete steps that can be easily taken today to begin to move it forward. A pan-European energy security advisory council needs to be established including representatives from governments, security services and companies to begin policy coordination. This advisory council should be empowered to coordinate intelligence sharing and conduct a critical infrastructure audit of Europe's energy system and the energy systems outside of the borders of Europe that provide supplies to Europe. This audit can be a basis for dividing labour between national governments, the EU, NATO, the IEA, and energy companies. It would also be a key starting point for dialogue about energy security between Europe and its suppliers. Finally, the advisory council help determine how Europe should treat suppliers who do not themselves accept the market principles that operate within Europe.

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