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# EU ENERGY SECURITY AND THE MIDDLE EAST OIL

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# EU ENERGY SECURITY AND THE MIDDLE EAST OIL

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Approval of the Graduate School of Social Sciences

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# ABSTRACT

EU ENERGY SECURITY AND THE MIDDLE EAST OIL

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This thesis aims to analyze oil as a security challenge for the European Union. The energy security policy is getting more and more important with the decrease of energy sources, which holds and shapes the balance of power in the world. Especially in the future, energy sources will be the key to political strategies. The European nations have created energy security policies in order to protect their benefits. The central argument of this thesis is that although the EU has attempted to create a common EU energy policy throughout its history, it could not escape from the impact of the national energy policy of the member states. The main focus is on the oil policy of the community. Thus, the aim of the thesis is to explore the policies created for oil security, especially in the Middle East, and why the EU could not implement these policies it created.

Keywords: Energy Security, Security of Supply, Oil Policy, National Interest

# ÖZ

AVRUPA BİRLİĞİ ENERJİ GÜVENLİĞİ VE ORTADOĞU PETROLÜ

Ergen, Gaye
Yüksek Lisans, Uluslar arası İlişkiler Bölümü
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Bu çalışma, Avrupa Birliğinin enerji arz güvenliği sorununu incelemeyi amaçlamaktadır. Dünya dengelerini elinde tutan ve biçimlendiren enerji güvenliği politikaları enerji kaynaklarının tükenme tehlikesi yüzünden gün geçtikçe daha da önem kazanıyor. Özellikle gelecekte de enerji kaynakları siyasi stratejilerin en belirleyici unsuru olma yolunda dır. Avrupa ülkeleri de kendi çıkarlarını korumaya yönelik enerji güvenliği politikaları geliştirmektedirler. AB'nin tarih boyunca ortak bir enerji politikası oluşturmaya çalışmasına rağmen üye devletlerin ulusal enerji politikalarından kurtulamaması tezin ana fikrini oluşturmaktadır. Ancak genel olarak topluluğun petrol politikasına değinilmiştir. Bu nedenle bu çalışmanın amacı AB'nin enerji güvenliği adı altında özellikle Ortadoğu'da oluşturmaya çalıştığı petrol güvenliğini ve niçin oluşturduğu yeni politikayı uygulamada başarısız olduğunu incelemektir.

Anahtar Kelimeler: Enerji Politikası, Arz Güvenliği, Petrol Politkası, Ulusal Çıkar

*To My Spouse and My Family …*

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# INTRODUCTION

Why is energy so important? The answer is as simple as the question. Everything in our civilization depends on an energy supply. As a matter of fact, our civilization in this industrial age began together with the discovery of coal instead of wood and other items as an energy source two to three hundred years ago. Energy supports economic well-being, which in turn funds conservation, efficiency, and environmental improvements for sustainable development. Thus, energy provides the basis for increasing the world's health, environment, and standard of living. Therefore, energy security is seen as a key requirement for sustainable development as it is difficult for states to function without secure sources.

With the first oil shock *supply security* or *energy security* came on the agenda of the oil-dependent states. The issue of how far supply security can be equated with self-sufficiency and to what degree countries need to be self sufficient in energy resources is highly debatable. But for countries with only limited resources, decisions regarding the treatment of those resources will most likely be more sensitive than in a country with substantial and diverse resources.

The term *energy security* not only includes a wide range of issues but also many different energy resources. Of all the resources that can be discussed, none is more likely to provoke conflict between states in the twenty-first century than oil. Because of its pivotal role in the global economy and its capacity to ignite large-scale combat, petroleum stands out from other materials like water, minerals, timber and so forth. For most industrial countries, energy security refers to ensuring access to foreign oil supplies at reasonable prices. On the other hand, for the oil producing countries energy security means the physical protection and transport of oil to market for a reasonable price. Therefore the oil's physical security, its delivery to market, and its price are deeply important for both consumers and suppliers.

No highly industrialized society can survive at present without substantial supplies of oil. So any threat to the resources provoke crisis and, in some cases, even provoke the use of military force, especially in the oil producing areas in the Middle East.

Lesser conflicts over petroleum are also likely as states fight to gain or retain control over resource-rich border areas and offshore economic zones. It is predicted that, "big or small, conflicts over oil will constitute a significant feature of the global security environment in the decades to come."[1] As it is, the location of the reserves and the means of transporting them exist in the countries and regions of the world with great political tension: the Middle East, the Caspian Sea, and the Caucasus area. In other words, political tension is influencing energy supply. As a result, oil crises occur. In this respect, oil crises are inevitable. Since the 1960s, an energy crisis and consequent political crisis have occurred every 10-15 years.

This thesis aims to examine EU energy security policy and the Middle East oil. The EU states have cooperated extensively in the realm of trade and economics since the European Economic Community was established in 1957. They now have a single currency and a common market, thus they negotiate in trade matters as one. The EU has become an important economic actor because of this cooperation among the member states. But the same could not be said for the EU's role as a political actor until recently. It can be said that the EU is now starting to take its place on the international political scene. At the December 1999 Helsinki Summit the EU made plans to develop a rapid reaction force (RRF) of 50,000-60,000 troops so that it can use military means to defend its interests in broader Europe. In addition, despite some weaknesses, it has also developed a Common Foreign and Security Policy (CFSP), which often enables it to respond to international events as a single entity.

The European Union needs energy for sustaining its economy and modern, daily life. However, resources existing in European soil and seas are inadequate to meet this enormous need. Europe consumes far more energy than it produces. This makes the European Union highly dependent on imported energy. As it is stated in the Green Paper of 2004, "the EU imports 50% of its energy requirements and if no measures are taken within the next 20 to 30 years this figure will rise to 70%"[2]. In addition,

[1] Klare, Michael T., *Resource Wars; The New Landscape Of Global Conflict,* Henry Holt and Company, New York, 2001, p.27

[2] European Commission, 'Green Paper: Towards a European Strategy for the Security of Energy Supply', COM (2000) 769, (December 20, 2004), http://www.europa.eu.int/scadplus/leg/en/lvb/l27037.htm

reliance on oil imports is expected to increase from around 75% in 2000 to 85% in 2030.[3]

In the history of the EU there have been many attempts to create a common energy policy. Although the EU has come a long way to achieve this aim, there still is no common energy policy. The main reason for this failure can be considered to be the national interest of each member state. However, one might expect that the increasingly integrated European economy, the common challenges of both the environment and international competition, and an active Commission in the energy sector "should be bringing about a convergence of national energy policies, creating the basis for a truly European energy policy"[4] in the near future.

The energy policies have shifted over decades. An emphasis can be seen on fostering national energy resources in the name of energy security in the post-war period. However, the emphasis on supply security and strategic importance recently has gained importance as a result of radical changes in energy markets, technological changes and broader political transformations. As a result, other policy concerns such as the protection of the environment or the promotion of competition have begun to influence the energy sector. These changes have led to a shift in the interests involved in energy policy-making.

Most governments have sought to maintain energy policy as a domestic responsibility. Many regarded energy as too important to leave to international market forces or to surrender too much to co-ordination within intergovernmental arrangements. Daniel Yergin claims,

> *[i]n a world of increasing interdependence, energy security will depend much on how countries manage their relations with one another. That is why energy security will be one of the main challenges of foreign policy in the years ahead. Oil and gas have*

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[3] EU Institution for Security Studies**,** 'Energy as a Security Challenge for the EU', Paris, October 2004, p.8

[4] McGowan, Francis**,** *European Energy Policies in a Changing Environment,* Physica-Verlag, Germany, 1996, p.1

> *always been political commodities. But right now, it is more political than it has been for years.*[5]

The EU policy of oil security will be analyzed in two levels. First, the policies developed within the EU to attain oil security will be analyzed. Second, the impact of oil supply security on the EU's foreign policy towards the Middle East will be discussed. The thesis will demonstrate that despite the current and expected importance of oil for the member states, the EU has not been able to develop an effective and coherent internal and external policy in this area. Thus, the aim of the thesis is to examine the policies created for oil security in the EU under the term 'energy security at a constitutional level' and to analyze why the EU could not implement the policies it created. In order to better understand the evolution of the EU energy policy, the thesis is divided into three historical periods. The first period includes the events between the 1950s until the crisis of the 1970s. The second part covers the events from the 1970s until 1985. And the last part deals with events from 1985 till to the present.

The first chapter of this thesis is devoted to the analysis of the term *energy security* in the international sphere in order to understand EU energy security policy. It consists of two parts. In the first part, a definition is made of energy security and shifts in the global oil supply and demand pattern. In the second part, energy and political agenda are discussed with a special emphasis on EU energy policy and the importance of the Middle East in the oil supply.

Following this background information, the second chapter of this thesis deals extensively with the emergence of energy concern in Europe between the 1950s until the crisis of the 70s. In the first part, there is background information of the historical evolution of oil policy, starting with the formation of oil and the earliest uses in the Middle East, to the European clash of interest in the Middle East from the 19$^{th}$ century until the end of World War I, to finally the oil rivalry among the Major Powers from 1918 until the end of World War II. The main claim in this part is that the roots of national interest of the European countries lie in their history. The

[5] Yergin, Daniel**,** "The war over resources: Energy Security will be one of the main challenges of foreign policy", *Der Spiegel,* 18 July 2006

starting competition among European states can be seen during this period. The second part deals with the historical formation of EU energy policy, starting with the creation of the European Coal and Steel Community, then Europe's energy dilemma, and finally the lack of any coherent energy policy. The main argument in this part is that the roots created in history still dominate the perspectives of the member countries in the form of national interest. Although it had started its formation as an energy community, national policies were dominant during this period.

The third chapter of this thesis mainly deals with the challenges the EEC faced from the 70s until 1985. It starts with the great oil shock and examines the consequences of this shock. The main argument in this chapter is that oil was used as a political weapon in the Middle East by the Arab states against Israel and its supporters. The Arab-Israel conflict led to several supply disruptions, which made the EEC aware of the need of a common energy policy. Unfortunately, despite the great efforts of the EEC, a common energy policy could not be created because of the continuing national interest of the member countries.

The last chapter of this thesis is devoted to the amelioration of European energy policy from 1985 until the present. It begins with the European attempts for a common energy policy and starts with the Single European Act. The member states' policies and the Commission's role are then examined. Next, it focuses on alternatives that were put forward in order to become less dependent on oil followed by bilateral relations and multilateral co-operations between the EU and the Gulf region. In the last part, the chapter outlines new challenges Europe is now facing. The main argument is that a great shift can be seen after 1985 in the union but this is still not enough to create the common energy policy needed. But this shift could be considered a promising start towards a European Common energy policy. The influence of the commission despite the member government's key role can be seen. Policy-making power is transferred from the member states to the EU institutions, especially to the Commission. New energy policies are implemented, such as policies for renewable energy and energy efficiency, and the importance of co-operation and dialogue increased.

# CHAPTER 1
# ENERGY SECURITY

## 1.1 The Notion of Energy Security

With the growing human population, the global demand for many key materials, such as food, water, energy, shelter, and other basic necessities of life, is increasing at an unsustainable rate. During recent decades, the world population grew by over 3 billion people, jumping from 2.6 billion people in 1950 to just over 6 billion in 1999.[6] Unfortunately, population increase accounts for only part of the explosion in demand. The spread of industrialization to more and more areas can be considered as equally important. Energy is the activating source of economies and the vital prerequisite for development. Energy provides the fundamental ingredient of many vital services: transportation, electricity, comfortable indoor temperatures, food preservation and cooking, illumination, communication, commercial and industrial processes, which improve the quality of life and enable economic and social development. Thus, energy can be considered the fundamental driver of growth and development around the world. Indeed, the use of energy has been steadily expanding along with the world economies. At the same time, for less developed countries, energy is both a key enabler of and a hindrance to growth if not available, or only available at high prices. "The traditional areas of concern - supply sources, demand centers, geopolitics, market structures and responsiveness of related institutions - form the core of discussions about the best way to ensure that economies have sufficient energy to meet their needs."[7] A secure (adequate, affordable, reliable, timely, clean and uninterrupted) supply of energy is thus a prerequisite for sustainable development.[8] Energy policies, therefore, constitute the most vital component of both our economic security and national security policies.[9]

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[6]Klare, *Op.cit.,* p.15

[7]The New Energy Security Paradigm, *World Economic Forum*, Spring 2006, p. 7, http://www.webforum.org/pdf/Energy.pdf

[8] "Energy Security", International Energy Agency, 2003

[9] Pamir, Necdet, "The Future Prospects of the Eurasian Corridor: Is There A Future?", paper presented at the conference entitled "Building A Secure Eurasia In The 21st Century" co-sponsored by the ARI Movement, the East-West Institute and the Friedrich Neumann Foundation, 8 – 9 June 2000, Istanbul, Turkey.

In the 21st century the term 'energy security' has risen to the top of the political agenda again. "In its most fundamental sense, *energy security* is assurance of the ability to access the energy resources required for the continued development of national power."[10] In more specific terms, e*nergy security* or *security of supply* can be defined as the "availability of energy at all times in various forms, in sufficient quantities, and at reasonable and/or affordable prices."[11] However, as we are living in a changing political environment the term energy security has also changed, as the 1970s model is no longer sufficient and a more expanded concept now seems necessary. The risks differ, the responses have changed and the implications for solutions are far more complex. Unfortunately, some issues remain the same, such as regional and social turmoil in key producing areas. With the changing environment, global terrorism has become a main problem as it threatens the entire supply system. Since September 11, energy security has received a new focus, with increased emphasis on the physical aspects of security as well as on the more traditional one of supply security. Indeed, the very concept of energy security is taking on wider dimensions. No longer does it mainly encompass just the flow of oil, as it has for more than three decades. It now extends to the entire infrastructure of energy supply that supports the global economy, including offshore platforms, pipelines, oil tankers, long-distance natural gas pipelines, liquefied natural gas (LNG) tankers, storage, transmission lines and distribution systems.

The basic factors to consider for energy security can include:[12]

- Resource Base
- Distribution of the Resources (geographic; ownership)
- Dominancy of the Fossil Fuels
- Cost of Development, Refining and Transportation
- Need for Vast Investment

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[10]Kalicki, Jan H., and David L, Goldwyn (edt.), *Energy & Security: Toward a New Foreign Policy Strategy,* Woodrow Wilson Center Press, Washington, 2005, p.9

[11] United Nations Development Programme, *World Energy Assessment,* New York: UNDP, 2000, p. 113

[12] Lovins, A., *Energy Security Facts*, the Rocky Mountain Institute of the U.S.

- Geopolitical Dimension, Scenarios, Power Struggles
- Choke Points
- Supply Diversity
- Supply – Demand Scenarios
- Alternative Resources
- New Technologies
- Energy Conservation, Energy Efficiency
- Energy Policies

Therefore, designing a reliable energy policy to ensure energy security needs a detailed, professional and systematic approach which takes into consideration all of the above mentioned sub-topics in an integrated manner.

Recently, once again, the implication of the growing dependence on Middle East oil has been raised as a major issue. There is also new attention being paid to the quality and size of the reserves in this region. This has led to questions about the ability of the Middle East not just to increase production, but also simply to maintain production at current levels. Since the Iraq War, Iraq's production has remained vulnerable to sabotage and terrorism. In addition, Iran's nuclear program has been causing rising tensions, which could lead to a new oil disruption. Interruptions are not only seen in the Middle East, but also in Nigeria and Venezuela due to political conflicts. Indeed, the 2002-2003 interruption of exports from Venezuela removed more oil from the world market than the cessation of Iraqi supplies did during the 2003 war. Interruptions, however, may also occur due to natural disasters, like hurricanes in the Gulf of Mexico in 2005.[13]

According to the Cambridge Energy Research Associates, energy security can be defined as an umbrella term that covers many concerns linking energy, economic growth and political power. According to this umbrella, one's benefit depends on one's perspective and position in the "value chain."[14] Throughout the value chain,

[13] The New Energy Security Paradigm, *Op.cit.*, p.8

[14] *Ibid*, p.9,

prices and supply diversity are critical components of energy security. One must remember that in earlier periods oil was used as a "weapon". Therefore there is a concern that gas could also be used as a weapon to gain some political leverage at some time in the future as in the case of the Russian-Ukrainian Gas crisis in December 2005. It is claimed that because the pro-Western presidential candidate, Victor Yushenko, came to power on the back of the 'orange revolution' in December 2005, Russia wanted to punish Ukraine as Ukraine left its backyard. As Ukraine preferred to be in the Western Bloc, it had to pay the same amount that the Europeans paid for Russian gas. As a result, the Ukrainian crisis erupted after Gazprom announced it was quadrupling the price of its gas supplies from $50 to $230 per 1,000 cubic meters.[15]

Today three fossil fuels (coal, oil and gas) make up 90% of world energy consumption. Besides the International Energy Agency many other institutions predict that the usage of these three fossils will increase by 2025-2030 and will consist of 85% of world energy demand. Of these fossil fuels, 65 % of proven world oil reserves are in the Middle East. Moreover, the Middle East oil, especially the Gulf oil, is the cheapest oil to produce. In addition, 40% of proven world natural gas reserves are in this region. In other words, as Ian O. Lesser claims, in the Middle East "oil retains its aura as a strategic commodity, and gas is increasingly seen in this light as well."[16]

Oil was a major driver in the substantial growth of international trade in the past few decades. Oil was a preferred fuel as it was amply available, easy to transport, and widely applied in the new industrial process technologies and products. It can be claimed that oil was at the heart of the post-1945 economic expansion. Now we are in the 21st Century and every day 84 million barrels of oil are used; 47% of this oil is exported from the Middle East. According to IEA, in 2030 oil usage will reach 121

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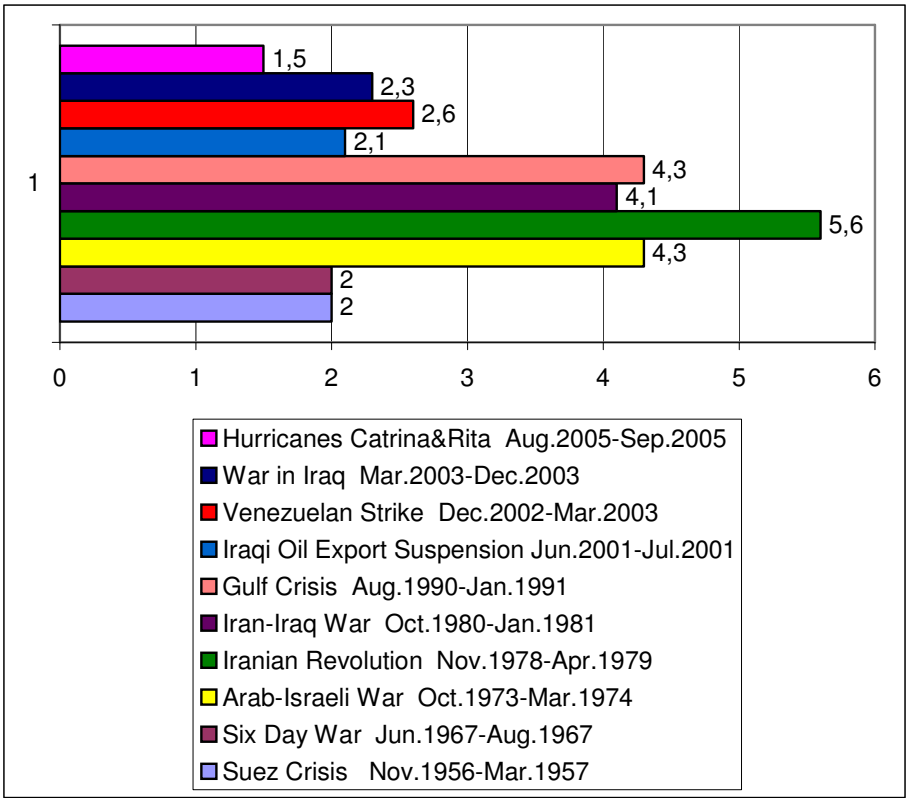
[15] Pamir, Necdet, 'Energy Security and The Most Recent Lesson: The Russia-Ukraine Crisis', ASAM, December 14, 2005, p.11, http://www.asam.org.tr/tr/yyazdir.asp?ID=1152&kat1=&kat2=4

[16] Lesser, Ian O., 'Energy and Middle Eastern Security: New Dimensions and Strategic Implications', Chapter 6, in *The Future Security environment in the Middle East, Conflict, Stability and Political Change,* ed. by Nora Bensahal & Danial L. Byman, Rand Cooperation, Pittsburgh, 2004, p. 199

million barrels per day and the amount of oil transported to other countries will reach 63%.[17] These numbers show the centrality of Middle Eastern oil for the international political economy.

In the past 50 years the global oil markets have experienced nine incidents of supply disruptions of at least 2.0 mbd. The most severe gross supply loss can be claimed to be during the Iranian Revolution, which lasted six months. In comparison, the maximum crude oil disruption from Hurricanes Katrina and Rita reached 1.5 mbd. (see figure 1)




**Source:** International Energy Agency, The New Energy Security Paradigm, *World Economic Forum*, Spring 2006, p.12, http://www.webforum.org/pdf/Energy.pdf
**Figure 1:** Global Oil Supply Disruption

In this respect, according to some experts, we can summarize energy security in some key principals. Daniel Yergin claims that the starting point of energy security is the diversification of energy supply sources. Then comes fostering a relationship

[17] Pamir, Necdet, 'Buzdağı', *Akşam Gazetesi,* 8 Haziran 2005

between suppliers and consumers in recognition of mutual interdependence. After that, creating a proactive physical security framework that involves both producers and consumers is essential. Lastly, providing good quality information to the public before, during and after a problem occurs is necessary.[18]

### 1.2 Energy and the Political Agenda

On the political scene energy security can be considered a vital interest of the major players. In the past few years, oil has made a spectacular return on the international political agenda. Therefore, major consumer countries are deeply concerned again about the future security of their oil supplies. Consumer countries can be claimed to compete increasingly for political influence in order to secure future supplies. The competition among the US, the European Union and Asian consumer countries like China, has become obvious in the last couple of years, and will have a substantial impact on the wider political and economic relations among consumers, and producers.

In recent years concerns about the security of supply were laid down in various policy documents in main consumer countries. For instance, the EU Green Paper on security of supply expressed concerns about the future oil and gas supplies from an increasingly concentrated group of producer countries. Moreover, in 2001, as soon as the Bush Administration was inaugurated, it immediately set out to prepare a new Energy Policy document, which pointed out that the main policy was to encourage domestic production of energy.

The key element of strategic planning could be considered to be the concern about the security of petroleum supplies since the First World War. Britain was the first major power to suffer from the problem of access to oil in wartime, as it did not possess a domestic supply. Churchill's decision to shift from coal to oil to fuel the warships just before the war was based on military logic, which forced Britain to acquire bases and sources of oil. At the outbreak of war, Britain set out to control

[18] Yergin, Daniel**,** 'Energy Security and Markets', *Energy and Security*: *Toward a New Foreign Policy Strategy,* Jan H. Kalicki and David L. Goldwyn, eds., Woodrow Wilson Press, co-publisher Johns Hopkins University Press, 2005

new oil sources in Mesopotamia, today known as Iraq. Access to oil would play an important role also in the Second World War. As the Axis powers - Germany, Italy and Japan - were desperately short of fuel supplies, the need to secure petroleum sources arose. And unlike the U.S., the European states could not rely on domestic supplies to meet their demand during peacetime. Europe's dependence on Middle East oil dramatically increased with the post-war energy crisis. With the Marshall Plan, announced in June 1947, a shift from coal to oil was seen in Europe, which meant increased dependence on the Middle East. However, the increase of the importance of the Middle East oil occurred at the same time as the rise of Iranian and Arab nationalism, the creation of Israel and the Arab-Israeli conflict.

The issue of energy security was on top of the agenda with the 1973 Arab-Israeli war and subsequent Arab oil embargo. As a result, the European countries took decisions to conserve energy through economic incentives, develop new oil sources outside the Middle East and establish strategic petroleum stockpiles and sharing agreements. Moreover, with Saddam Hussein's sudden invasion of Kuwait in August 1990 and movement of Iraqi troops to the Saudi border, a more serious threat to global energy order emerged. Had Saddam's armies continued into the Saudi oil fields, he would have been able to control oil prices and become a regional superpower. One should not forget the significant role of the Saudi cooperation in how the world might respond.

Given the world's ever-increasing demand for energy and the continuing possibility of supply interruptions, the outbreak of a conflict over oil is just as likely to occur in the future. There are three key factors that will play a significant role in determining the likelihood and location of future conflict over oil – the fact that oil is seen as necessary for success in military conflicts, the fact that demand for oil is expected to increase by 40 mbd between 2003 and 2030 and the fact that the global availability of oil is closely tied to political and socio economic conditions within a relatively small group of countries. When war or political turmoil erupts in these countries, therefore, the rest of the world is likely to experience significant economic hardship.

Of all the world's major oil-producing areas, the Persian Gulf region is the one most likely to experience conflict in the next century. As energy demand rises in the decades ahead, the Gulf is certain to remain the focus of intense worldwide competition as it is possessing nearly two-thirds of global petroleum supplies. Furthermore, the region is driven by a multitude of power rivalries, religious schisms and territorial disputes. These divisions have often triggered violence in the past and are likely to do so again in the future. And because any such upheaval can jeopardize the global supply of oil, intervention by outside powers is an ever-present possibility.

The importance of the Gulf area is mainly because of its geology as an estimated 65 percent of the world's untapped petroleum reserves are located in this area, and many geologists believe that future discoveries will increase the region's net supply. It is claimed that the Gulf's oil reserves are also highly concentrated and located close to the surface, meaning that they are among the easiest to find and develop. Although it is possible that new supplies of petroleum will be found other remote locations like North Atlantic or Siberia, the Gulf area alone can provide the vast amounts of hydrocarbons that will be needed because of the rising demand in the twenty-first century.[19]

The Persian Gulf oil-producing region comprises five major and several secondary suppliers. Heading the list of the major producers is Saudi Arabia; with an estimated 264,3 billion barrels (bbl) in proven reserves, Iran (132.5 bbl), Iraq (with 115.0 bbl in reserves), Kuwait (101.5 bbl), and the United Arab Emirates (97.8 bbl).[20] In other words, as seen in Table 1, reserves can be considered to be a key factor here. With proven reserves of 743 billion barrels of oil, plus an unknown quantity of not yet used supplies, the Gulf states can continue to extract oil from the ground for several decades to come at current or even higher rates of production whereas other major producers have smaller reserves to begin with and tend to exploit their available supplies at a faster rate.

[19] Klare, *Op.cit*., p.54

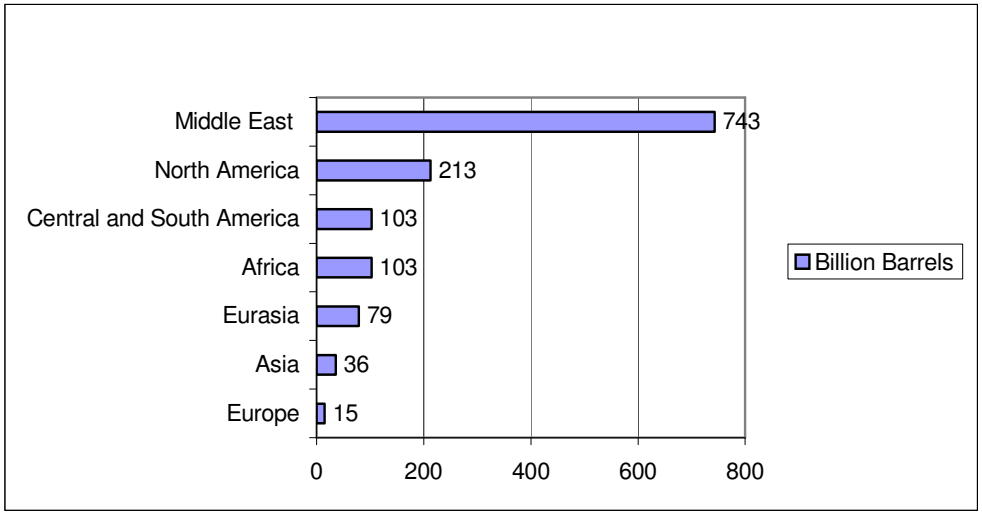
[20] IEO 2006, *Op.cit.,* p.28

**Table 1:** World Oil Reserves by Country

| Country | Oil Reserves |
|---|---|
| Saudi Arabia | 264.3 |
| Canada | 178.8 |
| Iran | 132.5 |
| Iraq | 115 |
| Kuwait | 101.5 |
| UAE | 97.8 |
| Venezuela | 79.7 |
| Russia | 60 |
| Libya | 39.1 |
| Nigeria | 35.9 |
| United States | 21.4 |
| China | 18.3 |
| Qatar | 15.2 |
| Mexico | 12.9 |
| Algeria | 11.4 |
| Brazil | 11.2 |
| Kazakhstan | 9 |
| Norway | 7.7 |
| Azerbaijan | 7 |
| India | 5.8 |
| Rest of World | 68.1 |
| **World Total** | **1,292.50** |

**Source:** "Worldwide Look at Reserves and Production," *Oil & Gas Journal,* Vol.103, No.47 (December 19, 2005), pp.24-25

In terms of reserves, special mention must be made of Saudi Arabia as it is not only the world's leading producer of oil – extracting 8.6 million barrels per day in 1999, or 12 percent of total worldwide production – but is also the very important owner of untapped supplies. With proven reserves of 264.3 billion barrels, Saudi Arabia alone harbors more oil than North America, South America, and Europe combined. Moreover, most geologists believe that continued exploration will result in the discovery of additional reserves, thus enhancing Saudi Arabia's status as the world's leading suppliers of petroleum.




**Source:** "Worldwide Look at Reserves and Production," *Oil & Gas Journal,* Vol.103, No.47 (December 19, 2005), pp.24-25
**Figure 2:** World Proved Oil Reserves by Geographic Region

The fact that Saudi Arabia and other major Gulf suppliers possess such vast reserves of oil also means that they alone can provide production on a large enough scale to satisfy the anticipated increase in global demand. As predicted by the U.S. Department of Energy, if worldwide oil consumption grows from 20.7 million barrels per day in 2005 to 26.9 million barrels per day in 2030,[21] a significant share of the additional petroleum will have to come from the Gulf. In other words, there is simply no other pool of oil large enough to sustain an increase of this magnitude. It is for this reason that all future predictions of supply and demand assume that the Persian Gulf will account for an ever-expanding share of the world's oil requirements. The industrialized world's growing dependence on Persian Gulf energy will lead to many other conflicts. Oil deposits located in contested areas will become increasingly valuable and, as a result, the claimants to these reserves will face greater temptation to seize and occupy them through the use of force. Moreover, as Saddam Hussein tried to do in 1990, ambitious leaders could be tempted to expand their oil holdings by annexing neighboring countries.

In response to this state of affairs, the need for cooperation between superpowers like U.S. and EU has become a priority on the agenda. Cooperation between the U.S. and

[21] *Ibid*

EU is seen as essential to global energy security as they face so many energy challenges and opportunities in common. In this respect, when we examine energy security in the transatlantic context, we see that over the past 55 years relations between the US and EU have broadened and deepened so that today they are strongly linked. Thus, it can be taken for granted that this is a critical period for the transatlantic partnership. The energy debates within the EU and US are so similar in scope that they have found a common cause to join together in a cooperative transatlantic dialogue. By developing a common strategy, they can better ensure the security of energy sources and supply for both Europe and the United States. As a result, at the conclusion of the US-EU Summit held in Vienna, Austria in June 2006 a joint statement was issued which declared that the US and the EU "recognize the strategic role of security of supply, competitiveness and sustainability in the energy sector. In this connection, we strongly reaffirm our commitment to energy security […] and to cooperate to ensure sufficient, reliable and environmentally responsible supplies of energy […]"[22]Moreover, at the Summit, the US and the EU further agreed to cooperate to improve energy security by "enhancing the dialogue with the main transit, producer and consumer countries and by promoting diversification of energy sources and supply routes worldwide, notably in the Caspian sea region, Middle East, and continental Africa […]"[23]Furthermore, transatlantic cooperation on energy security does not just mean working together to promote energy efficiency, the use of alternative fuels or the securing of reliable supplies of energy from a diversified array of energy producers. Security of supply also requires a dialogue on energy crisis management and infrastructure protection. In this context, a military dimension to energy security has begun to be included in the transatlantic dialogue, including a potential role for NATO to play in energy security. Both the EU and NATO have begun to address the issue of energy security and options to secure supply sources, distribution routes and storage facilities, all of which would require

[22] 2006 Vienna Summit Declaration, issued by the United Sates government and the European Union, 21 June 2006

[23] *Ibid*

enhanced multi-national cooperation. In this respect, NATO's role in energy security can be considered complementary.[24]

In conclusion, the need for *energy security* - for access to stable, reliable, diverse and affordable supplies of oil - can be considered a part of the foreign policy of every industrial and industrializing nation. All the major powers of the 21st century are moving to secure access to energy resources. Thus, their bilateral and multilateral relationships, security alliances, international institutions and free market trading system are serving to promote the security of energy supplies. Despite the fact that abundant supplies of gas and coal will provide further diversification in the coming decades, oil will continue to be the principal energy resource for the foreseeable future. Holding all these in mind we will examine in the following chapter how dependent EU is on Persian Gulf oil and what kind of policies it has tried to implement throughout its history.

[24] Morelli, Vince L.,'The European Union's Energy Security Challenges', *CRS Report for Congress,* 11 September 2006, pp.29-30

# CHAPTER 2
# EMERGENCE OF ENERGY CONCERN IN EUROPE: FROM THE 50s UNTIL THE OIL CRISIS OF THE 70s

## 2.1 Historical Evolution of Oil Policy

### 2.1.1 The Beginning: Oil Formation and Earliest Uses in the Middle East

The occurrence of petroleum has a close relation to the thickness and extent of marine sediments, to the relative positions of ancient shorelines, to suitable rock movements and to physical and biological factors that are not fully understood even today.[25] These conditions would be the basis for oil formation and existed in that area of western Asia, which was one day to become southern Anatolia, western Persia, Iraq, eastern Arabia, and the Persian Gulf.

Throughout human history there have been clear surface signs in western Asia of the presence of petroleum. In the Persian Gulf, signs of oil or bitumen marked the crest of the ridge on Bahrain Island and were visible in the desert near Kuwait. Iraq contained the great bitumen deposits at Hit and lighted gas escaped near the future Kirkuk. In Persia traces of oil and bitumen were found in the northwest near Qasr-i Shirin. Deposits of natural asphalt were found near Lattakiya. The use of oil by human beings at that time was inconceivable; therefore, the trifling surface deposits were accepted as no more than minor mysteries of nature. Bitumen was employed by all generations of men in Egypt, Iraq, and Persia as mortar or flooring material by the builder, as domestic water channel lining by the plumber, and as caulking material by the shipbuilder. Bitumen helped in the construction of flood-dykes and was useful for toolmaker and other craftsmen. It also provided flares for lighting and a substitute for wood as fuel. Crude oil was also used as medicine for men and beast. The petroleum was obtained easily from much seepage. Shallow holes were dug by hand. Bitumen was collected from the ground and was taken on a donkey or camel to a place for

[25]Longrigg, Stephen Hemsley, *Oil in the Middle East; Its Discovery and Development*, Oxford University Press, 1961, p.3

melting. Seepages on private land belonged to the landowner, but or when it was on the royal estate it could be leased for an annual payment.[26]

### 2.1.2 European Clash of Interest in the Middle East from the 19th Century until the end of World War I

The warship sent to Morocco by the German Emperor Kaiser Wilhelm on 1st July 1911 alarmed England. Germany was becoming stronger on the sea. The signs for a great war could be seen. England was searching for ways to improve its strength on the sea. As a result, Churchill took an important decision - the English war ships would start to use oil instead of coal. From now on the strategic goal of England would be to control the oil reserves and the security of its transportation.[27] This decision would prove later the strategic importance of oil. Oil would begin to play a great role in shaping world politics. Oil could be considered to be the main factor in decisions to make war or peace, in regional population struggle and in diplomatic maneuvers. It would also play a significant role in ending colonialism and strengthening nationalism in developing countries.[28]

Because of the domestic and industrial needs of the rapidly increasing population the modern petroleum industry can be considered to have begun in the Nineteenth Century. Until then, the animal and vegetable fats and oils had served all purposes but they were inadequate for the needs of growing industry and population. After the first successful mechanical drilling for oil in 1859, the rapid growth of the industry in its modern form could be seen. In Europe the new technique of drilling was applied in one country after another, wherever surface indications of petroleum raised hope of striking oil.

Oil started to control the market after it replaced other liquids that could be burned for producing light. Many companies started to produce oil after the demand for oil

[26] *Ibid,* pp.10-11

[27] Yergin, Daniel, *The Prize*, Touchstone, New York, 1992, p. 12

[28] Öymen, Onur**,** *Ulusal Çıkarlar*, Remzi Kitapevi, İstanbul, 2005, p.228

increased. Thus, in 1859 the number of companies producing oil increased to 34. The production of an oil-based fuel for lamps started first in Eastern Europe: Russia (1873), an area called Galicia (1898), and Romania later all succeeded in production. The appearance of cheap lamps that functioned with this liquid of simple refinery increased the demand for oil in Europe. In 1860, the number of oil wells reached 75. In those years, in Pennsylvania only 450.000-barrel oil was produced. This number increased to 3 million barrel in 1862.[29] As a result, newly specialized companies emerged. In the United Kingdom, for instance, the handling and marketing of imported petroleum products became in themselves an important trade. The oil possibilities in the remote European territories aroused the interest of experts and financiers.

At the same time, in other parts of the world, the oil industry was expanding rapidly. By 1900, the oil industry in America by 1900 had established a primacy in the petroleum trade that was long to endure and was exporting products to the rest of the world. In a short time American crude oil reached Russia and a great demand was seen. As the demand for crude oil increased, the Russians realized that oil could be also found in the Caucasus Mountains. The oil in the Caucasus was known but it was newly discovered that this oil could be used in trade. At the beginning, production of oil was under the control of the state. Within a year private companies drilled their own wells in Azerbaijan. A famous Swiss businessman Robert Nobel and his sons were the forefathers. In 1874 Russia produced 600.000-barrels of oil and in ten years time it reached 10,8 million barrels. After Russia won the 1877-1878 War, they took over Batum Harbor, which had belonged to the Ottoman Empire. The Nobel Firm had the privilege of building a railway between Batum and Baku in order to transport the Azeri oil to the Black Sea. When the construction of the railway was completed in 1883, Batum became one of the most important oil terminals in the world. In 1888, Russian oil production increased to 23 million barrel/year.

It was then discovered that, following Russia, the world's most important oil reserves were in the Middle East. In the Middle East with the rising living standards of the upper class, the need for oil products, especially for lamp oil, was extremely felt. The

[29] Yergin**,** *Op.cit.,* 1992, pp.24-25

Ottoman Empire continued to keep its hold on the Arab vilayets, which covered the modern states of Syria, Lebanon, Israel, Jordan and Iraq. Petroleum enterprises did not exist in the Turkish Empire. Only some humble and primitive local activity in the seepage villages of Anatolia and Iraq were seen. But a still greater amount of oil was possible. So reports of oil occurrences were studied in Istanbul, especially those in Baghdad and Mosul by Serkis Gulbenkian, the son of a wealthy merchant. In the early 1890s he had submitted a report on Turkish oil properties.

It is claimed that the oil potential in Iraq has been known since 1871. The Germans were the first to show interest in the development of Mesopotamian oil although the British had the upper hand in the Ottoman province of Mesopotamia (Iraq). A delegation of scientists was send to Mosul and Baghdad by the Germans; they prepared a very hopeful report of the reserves in that area. Sultan Abdülhamit the II heard of this report and in 1877 included the Mesopotamian land to "Hazineyi Hassa", in other words, to the Sultan's private treasure. The Germans obtained their concessions in 1904 for the projected Berlin-Baghdad railway. But they were not alone. Before World War I, there had been four rivals seeking oil concessions in Mesopotamia. Namely the Germans (German-Deutsche Bank), the British-D'Arcy group (Anglo-Persian Oil Company-APOC), the Dutch-Anglo-Saxon Oil Company which was a subsidiary of the Royal Dutch-Shell group, and Rear Admiral Colby Chester who was representing an American group sponsored by the New York Chamber of Commerce.[30]

The Mesopotamian oil was extremely important for England and its naval force since it was an Island state. Churchill said on 17th July 1913 in his speech at the House of Commons that "we must become the owners, or at any rate." Not only on the sea but also on the land and in the air, oil was very important. Without oil there would be no means to endure a war. England, which only at the beginning of World War I had 827 vehicles, increased the number to 56,000. In 1916, the English Air Force manufactured 250 airplanes. During the war, the production increased and in the end of the war England had 55,000, France had 68,000, Italy had 20,000 and Germany

[30] Kayal, Alawi D., *The Control of the Oil; East-West Rivalry in the Persian Gulf,* Kegan Paul, 2002**,** p.62

had 48,000 airplanes. The more vehicles were produced the more oil was needed in order to use them. Those who were not able to find oil were forced to lose the battle.[31]

In this respect England got worried when the Ottoman Empire and Germany became allies in the war. At the very beginning of the war, the Turks threatened to take the oil in Iran. Therefore England made the Turks move back from this region and formed agreements with the local sheikh of Iran. But this was not enough for England. It had to control Baghdad. Without the US oil, it would be impossible for England and France to win the war. The US had increased its production from 266.000 tons per year in 1914 to 335.000 tons per year in 1917. During these years France was in a very difficult situation because its oil stocks were nearly empty and generally had supplies lasting would only three days. At one point President Clemenceau asked for help from President Wilson and he immediately sent the needed oil. But this was only a temporary solution. In 1918 the US, England, France and Italy held an oil conference. They decided that the reserves should be used together in a harmony.

Turkey would also play an important role in the struggle for the oil in Baku. The Brest Litovsk Agreement signed in March in 1918 ended the fights between Germany and Russia. But this did not stop the Turks from moving to Baku. The Germans feared that the English would go earlier than the Turks to that region and harm the oil reserves. They tried to come up with an agreement with the Russians even though they had been enemies a short time earlier. The Germans would hinder the Turks in their approach to Baku and as a reward they would get some oil from Russia. Lenin agreed, but things did not proceed in accordance with the Germans' plan as the Turks occupied the oil wells in July 1918. As a result, Russia refused to give any oil to Germany.

[31] Öymen, *Op.cit.,* p.298

### 2.1.3 Oil Rivalry among Major Powers from 1918 until the end of World War II

After the end of World War I, the strategic importance of oil increased. Whatever the changing world conditions would be the security of oil and its transportation would always be ranked first of the national interests of the states. The war had ended but not the negotiations for oil. The Prime Minister of France went to England soon after the war and started negotiations with the Prime Minister of England, Lloyd George. How was the Middle East with its rich oil reserves going to be shared?

In the Peace Conference at the end of WWI, Britain and France sat down to divide up the Arab territories according to the oil question. In April 1920, Britain and France reached an agreement at San Remo. According to this agreement Mesepotamia, Palestine and Jordan were mandated to Britain. Syria, the only route that Mesopotamian oil could reach the Mediterranean, and the area now known as Lebanon were mandated to France. Similarly, the production of oil was also divided up. Britain had 50% in the Turkish Petroleum Company (TPC), the Royal-Dutch Shell claimed 25%, and the remaining 5% went to Serkis Gulbenkian. But the Arabs immediately revolted against this agreement, which was a betrayal of the British promise of independence and unification if the Arabs supported the Allies. But their country was divided, their territory mandated and some part of their land promised to other people. All these made the Arab revolt inevitable.

Beside the Arabs, the Americans protested the San Remo Agreement too, as they were worried about their decreasing domestic oil supplies and as they were dependent on foreign oil reserves that were then under British-French control. America claimed that it also had rights to the shares of Arab territory as it had contributed much in the war with manpower, fuel, and material. Therefore, the United States insisted on the principle of an ‘open door’ policy for equal commercial opportunities to the nationals of all nations in the mandated territories. So, in July 1928, a new agreement was reached where the Americans were admitted on equal footing with the other three oil companies. It was first called the 1928 Group Agreement and later the Red Line Agreement. It can be said that this agreement was

just an instrument "to give the United States a stake in the Middle East."[32] In 1940, Standart Oil of New Jersey, an American oil company, offered its partners for renegotiation of the Red Line Agreement. But the partners refused and Standart Oil of New Jersey took a strong stand. Standard Oil argued that since Germany occupied France in World War II, the French part of the agreement should be discarded and therefore the whole restrictive feature of the agreement dropped. After some negotiations among the companies they could not reach an agreement and the Red Line Agreement came to its end in 1948.

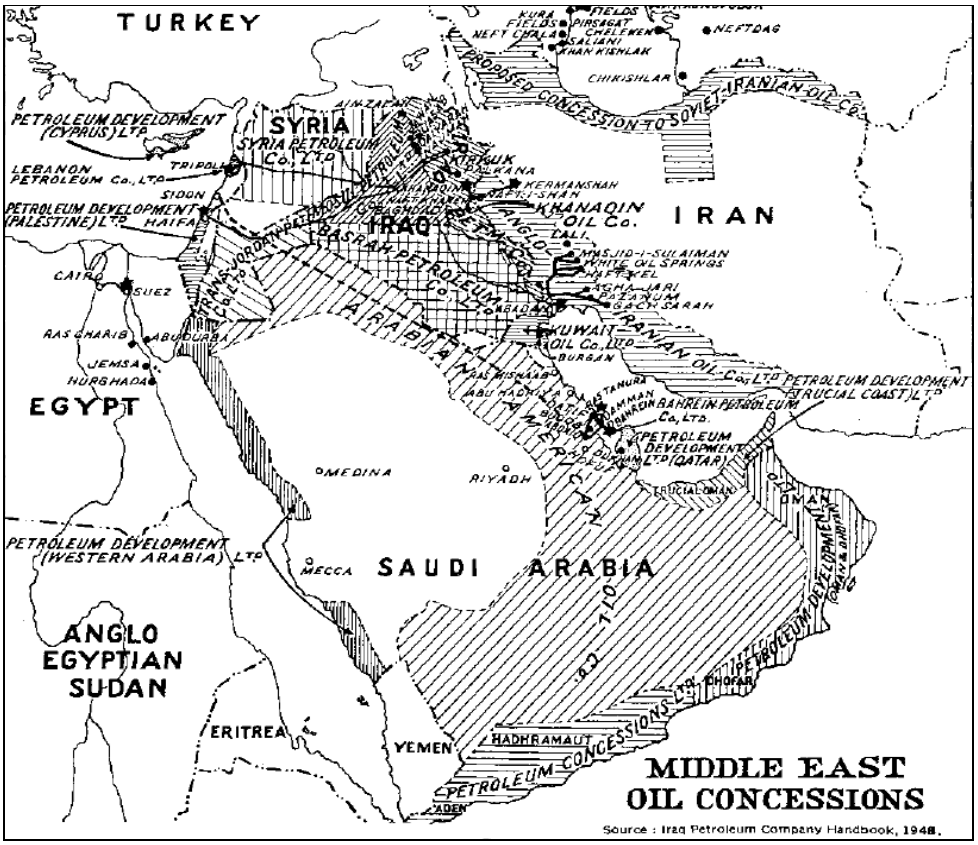
The British were determined not to let the Americans develop the oil of Kuwait by themselves. However, before the British got involved themselves, they wanted to be sure that Kuwait was worth the investment. Thus, they sent their geologists to Kuwait to study the surface geology of the ground. The results of the study were encouraging so in 1932 the British decided to start exploring for oil in the gulf around. However the Sheikh of Kuwait was against this attempt by the British.

As can be seen, the lands of the Ottoman Empire were taken over and divided by Europeans. Edward Mead Earle refers to a document in the English archive according to which England and Germany made a secret agreement to share the lands of the Ottoman Empire.[33]The Ottomans had signed agreements at the end of WWI giving concessions to European countries. But these negotiations had no influence on the countries after World War I had started. England occupied Baghdad, which had been ruled for 400 years by the Ottomans. From then on, the Mesopotamian region would be under the control of the British. This was the only aim of the Ministry of Foreign Affairs of England and this aim had to be reached. Maurice Hankey then the General Secretary of the War Cabinet of England, wrote in his letter to Arthur Balfour, then the Minister of Foreign Affairs that, "Oil will play a big role in the next war as in this war coal played. The most important oil reserves are in Mesopotamia and Iran which should be under our control." Balfour answered that "This oil has to be under our control and I do not care whatever the cost."

[32] *Ibid,* p.308

[33] Earle, Edward Mead, 'The Secret Anglo-German Convention of 1914 Regarding Asiatic Turkey', *Political Science Quarterly*, Vol. 38, No.1, p.24

The United States began to be worried about the plans of the European countries to share the Mesopotamian region among themselves. Would England establish a new Empire on the lands of the Ottomans? If so, the United States would not permit something like that to happen. The United States also had to have a say on this region. In order to seek its own benefits, the United States would allow its companies to explore for oil in this region.




**Source:** Stork, Joe, 'Middle East Oil and the Energy Crisis: Part 1', *MERIP Reports,* No. 20. (Sep., 1973), p. 9
**Figure 3:** Middle East Oil Concession

On the other side, in Turkey, "Misak-ı Milli" was accepted by the Parliament in Istanbul. According to the Misak-ı Milli borders, Mosul belonged to the new Republic of Turkey. This problem had to be solved. On 25 June 1926; Turkey, Iraq and England signed the Ankara Agreement, which draw today's borders between Turkey and Iraq, and Mosul remained in the territory of Iraq. It was decided to give Turkey 10% of the oil income of the Iraqi government for 25 years. It is claimed that

America was not fond of this agreement.[34] These were the games being played at the end of the 19th century and at the beginning of the 20th century.

To sum up, with the first successful mechanical drilling in 1859, oil became more valuable than before. Because of the rapid growth of industrialization, the demand for oil increased. The European states especially became dependent on imported oil, as they owned very limited oil reserves. Therefore, the need to control oil supplies in the Middle East by European countries starts with WWI. Oil became a great power. Thus, whoever controlled the oil would gain power that could shape world politics. As a result competition started among England, Germany and France to control the Middle East. The control of Middle East oil was easily taken from the hands of the Ottomans during WWI and WWII, as it was not powerful anymore. But a common policy could not be seen among the European states. National interests would always come first for the states.

## 2.2 Historical Formation of EU Energy Policy

### 2.2.1 After the War: 1950s

After the Second World War, the pressure for a quick recovery of European countries increased the demand for energy enormously. Immediately after the war, the European Coal and Steel Community (ECSC) was established among six European states in order to stop further disagreements regarding the control of the coal and steel industry in continental Europe. As can be seen from this treaty, the European Union has been dealing with energy issues since its formation. Moreover, energy issues and energy security lies in the core of the idea of forming a European Union. In other words, European Communities and today's European Union started its formation as an energy community. In 1951, with the Treaty of Paris, a common coal policy was established. Afterwards, in 1957, the European Economic Community (EEC) was established with the Treaty of Rome, which created a common market policy. Unfortunately the treaty did not list energy among the

[34] Venn , Fiona**,** *Oil Diplomacy in the Twentieth Century,* London: Macmillan, 1986, pp. 60-62

Community's areas of competence. In the same year the European Atomic Energy Community (EURATOM) was established which created a common nuclear policy.

It is claimed that the EURATOM treaty was formed so that countries could go into competition rather than arrange an energy policy among themselves for a common energy market. The main aim of EURATOM was to provide research opportunities for nuclear energy. Unfortunately, nuclear energy could not improve rapidly. Although EURATOM was established at an appropriate time, the decrease of oil prices in the 1960s weakened it. Another problem came from France, as it was in favor of national control. Furthermore, European technology could be also seen as a negative influence as countries began to prefer American technology, which used pressure water reactors.[35] As nuclear energy created extra costs it was no longer regarded suitable for economic competition. Both building nuclear power stations and rebuilding them in the future was very expensive. The example of Chernobyl made the countries aware of the risks and this caused a conflict in respect to the protection of the environment. The only positive aspect for the environment could be that nuclear power stations did not emit greenhouse gases.

The EEC formed a common energy market for other sources of energies. It covered the competitor sectors and oil, electricity and gas sectors. Therefore the EEC had regulations not only for the markets but also for energy industries and state enterprises. As the EEC did not contain special regulations for the energy sector, the crude oil, natural gas and electricity sectors were regulated according to the general assumptions of the treaty. The treaty also did not contain any constitutional protection for these sectors. When the EEC was established, not any single decision was taken in order to create a common energy policy. The need for a common energy policy occurred with the increasing oil prices.

The first steps for a common energy policy were taken in 1964. ECSC accepted a protocol, which defined the aim of the union for a common energy policy. This aim was to ensure fair competition among different energy sectors, supply security, and

[35] Harrop, J., *The Political Economy of Integration in the European Union,* Third Edition, Edward Elgar, Cheltenham, 2000, pp.146-147

freedom to choose cheap supply and consumptions. In addition, this protocol invited the states for state support for coal and steel production under national subventions. It was not possible to reach common policies other than these.[36] The main reason was that countries were able to provide their needs from cheaper energy sources abroad, and countries, which were dependent to foreign energy sources, differed in their needs. However, a common energy policy was needed in order to provide industries equal conditions for competition and to make their products more competitive.

### 2.2.2 Europe's Energy Dilemma: The Changing Energy Pattern

In the second half of the 18th century, coal became Europe's principal energy resource and remained important until the late 1950s. It can still be considered important in Eastern European countries.

With the end of World War II, Western European countries, especially those having coal resources, focused on rebuilding the old-fashioned coal industry and expanding coal production from indigenous supplies. Unfortunately, the coal industry was not prepared for the increasing energy demand in the late 1950s. Because of the increased imports of crude oil from the Middle East and Africa, this, basic change in Western European's energy structure since the late 1950's resulted in a greatly increased energy dependency and a sudden decline in Western European's coal production.

Both the rising standards of living and the decision of President Eisenhower in 1958 to restrict crude oil imports into the United States changed the energy supply pattern of Western Europe. This increased the quantity of the Middle East supplies in the markets of Western Europe and Japan. This shift towards oil had major results on the strategic and geopolitical situation on a worldwide scale, which added to the political and economic power of the oil exporting countries.[37]

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[36] Hitiris, T., *European Union Economics,* Fifth Edition, Pearson, Harlow, 2003, p.312

[37] Hoffman, *Op.cit.*, p.6

Within time a great change was observed in the energy consumption in Europe. But things changed when the importance of oil and natural gas increased in the world. In the 1950s coal constituted roughly 66% and oil constituted only 10% of the European energy balance. In the beginning of the 1970s, the percentage of oil consumption increased to 60%, and natural gas to 12% but coal decreased to 23%. Because of this change in the energy pattern the dependency on energy imports grew rapidly. Coal remained important in Europe for Germany, France and Belgium, but it was important as an export product, not a source of energy itself. From the 1960s onwards oil constituted the most important energy source among the European countries. Unfortunately Europe did not have any oil reserves. Only some important gas reserves were seen in the Netherlands.[38]

Among the total European energy consumption, 40% was used for domicile, service and agriculture sectors, 28% in the industry sector, and 32% in the transportation sector. Although the use of coal in the domicile, service and agriculture sector increased in 1950s, electricity, gas and oil increased their stakes at the expense of coal in the 1960s because of their easy usage. This replacement of coal with oil and electricity was significant in both the industrial and transportation sectors. In the latter sector, oil was mainly used in highway transportation electricity in railway.[39]

Despite this change in the energy pattern, the pressure for the promotion of coal instead of nuclear energy by ECSC was assumed as a hindrance to the development of a common energy policy. In this battle, few member governments in the EC sensed that oil was on the rise as the dominant source of energy in Europe, and by the time Britain became an oil producer in the 70s, the case for individual national energy policies was entrenched.

[38] Kengel, A. and P. Tibor, *Economics of European Integration,* Akademiai Kiado, Budapest, 2003, p.347

[39] *Ibid,* p.347

### 2.2.3 Lack of Coherent Energy Policy: 1958 – 1972 Period

As stated, the initial intention behind the establishment of the ECSC had been political, which was the creation of peace. In terms of energy policy however, the ECSC lead to the development of a common energy policy covering only coal and steel production in Europe in both its political and its economic implications; it did not lead to a comprehensive energy policy.

Any effort to create an energy policy could not be considered very successful at the beginning of the 50s. Europe first created a policy for coal and within time, tried to form a general energy policy including other sources. In 1959 a committee was established in order to try creating a common energy market. The committee mainly focused on the effects of energy prices on industrial competition and energy supply security. The committee's effort to include itself in creating energy policy however was refused by the European countries. In the1960s it was recognized that there was no balance in the energy policy. Therefore an increase was seen in the efforts to create a more stable policy. In 1962 the committee prepared an energy policy memorandum. Furthermore, the member states reached an agreement on energy problems and signed a protocol in 1964.[40]

In 1968, the commission started again to rapidly develop a common energy policy. According to the commission the hindrance in the energy trade continued. Therefore there was a need for a common energy market. Such a market would provide energy supply security for low costs if the market could be created on the needs of the consumers and the needs of the competitors. However, it was understood that it would be difficult to carry out these suggestions. The main reason of this failure was because of the resistance of the member states.

Within time, because of the need for a common energy supply security, the member states started to come together for a common policy. During this period, Europe

[40] Protocol of Agreement on energy problems, reached between the Government of the Member States of the European Communities at the 94th meeting of the Special Council of Ministers of the European Coal and Steel Community held on 21 April 1964 in Luxembourg (OJ P 069 30.04.1964 p.1099)

failed to create an effective common energy policy despite having pointed out the need for a common energy market in the 1957 agreements. The most discussed topic was the European Energy Policy during this period because of the problems of increasing export dependency and the risk of the lack of fuel. As a result, the community included Directive 68/414/EEC[41] which obliges the Member States of the EC to maintain minimum stocks of crude oil and /or petroleum products at all times. Unfortunately during this period, one could observe regression instead of progress towards a common market in the community.

In conclusion, despite the above-mentioned developments, the EU was unable to create a common energy policy. This was mainly because of the member states' focus on national self-interests. As Pamela and Ian Barnes states, "the reality has been that the dominant hand has been held by the member states, largely because of their ownership of parts of the energy sector and their control over fiscal policy."[42]This fiscal policy blocked all the ways for creating a single energy policy for years. As we will discuss in the next chapter, even during the 1973-74 oil crises, member states preferred to act on their own in order to protect themselves from the crisis. Therefore it can be claimed that due to its nature, energy is not a policy area where the nation-states easily delegate their authority to a supranational body.

[41] Council Directive 68/414/EEC of 20 December 1968 imposing on Member States of the EEC to maintain minimum stocks of crude oil and/or petroleum products (OJ L 308, 23/12/1968 p. 0014-0016)

[42] Barnes, Pamela M. and G. Ian, *Environmental Policy in the European Union,* UK: Edward Elgar Publishing Limited, 1999, p. 229

# CHAPTER 3
# TURBULENT YEARS: FROM THE 70S UNTIL 1985

In the previous chapter, a close look at Europe showed that Europe became more and more dependent upon oil imports because of rapid economic growth and the greater demands industrial technology placed on available fuel resources. In this chapter both the crisis in the Middle East between the 1970s and 1980s and the consequences of these crisis will be examined from the European point of view.

In order to understand the oil crisis that gripped the world during the 1970s and why the use of oil could be effective as a political weapon, we need to know a little of the history of the Middle Eastern politics. Then we will examine how much the 1973 crisis and other tensions influenced Europe, the consequences of these crises, and Europe's response.

## Oil Crisis in the Middle East and Europe

### 3.1.1 1967 Suez-Sinai War: The First Real Attempt to Use Oil as a Weapon

After the establishment of Israel and the first Arab-Israeli War in 1948, the Arab countries started using "the heavily defined 'oil weapon' to achieve their various objectives regarding Israel."[43] Therefore, these use intensified after the establishment of the state Israel in 1948, which was created after World War II by the Allied powers in order to serve as a homeland for the millions of Jews throughout the world.

After Israel's victory in the Six Day War, the Arab states decided to impose an oil embargo against the states that had supplied Israel with weapons during the war. The embargo started against the US, Britain and West Germany in June 1967 and ended in August 1967. However, the Arab states were not able to achieve their main

[43] Yergin, *Op.cit.*, p. 593

objectives with the embargo. The occupied lands were not returned to the Arabs and the targeted countries did not suffer.

In fact, it is claimed that the embargo was a failure as the Arab states lost millions of dollars. Another argument is that it was the closure of the Suez Canal that increased oil prices, not the embargo. The only significance could be considered to be an exercise that helped the Arab oil producing countries in how to conduct the 1973 embargo.[44]In addition, another result of the embargo was that some of the European countries, like Britain and West Germany were punished as they reacted to the war according to their national interest. This embargo was the first signal for the lack of common policy in Europe.

### 3.1.2 1973 The First Great Oil Shock

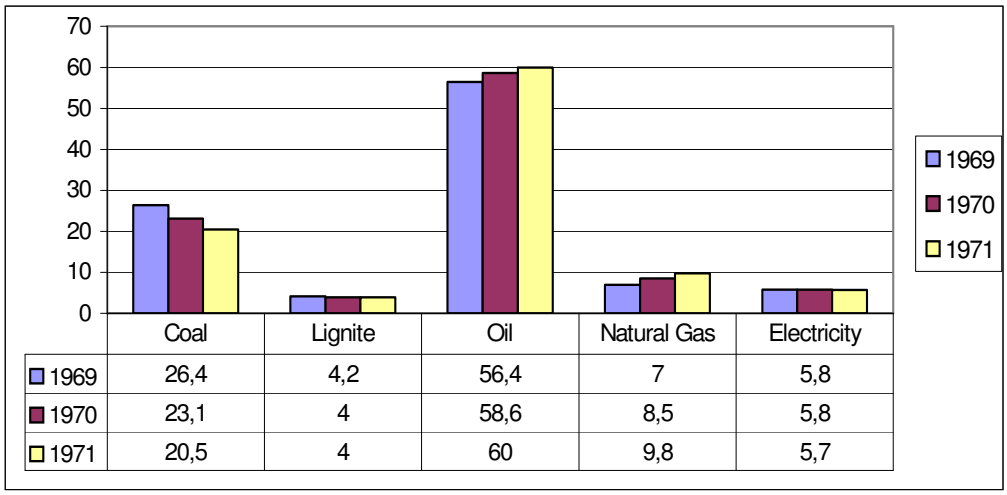
After the Six Day War of 1967 the Arab members of OPEC formed a separate, overlapping group, Organization of Arab Petroleum Exporting Countries, for the purpose of centering policy and exerting pressure on the West over its support of Israel. Egypt and Syria, though not major oil-exporting countries, joined the latter grouping to help articulate its objectives. The Yom Kippur War of 1973 galvanized Arab opinion. The Arab forces, led by Egypt and Syria, retaliated. Attacking on "Yom Kippur", the holiest of Jewish holidays, the Arabs were repulsed but nevertheless succeeded in impressing the Soviet Union. The Arabs renewed their efforts against Israel. Despite the support of Soviet technology, the Arabs again failed to defeat Israel. Furious at the emergency re-supply effort that had enabled Israel to withstand Egyptian and Syrian forces, the Arab world imposed the 1973 oil embargo against the United States, some Western European states, and Japan. The great Western oil companies were suddenly facing a unified bloc of producers.

This embargo, like the previous ones, was also used to pressure the states, which had had a pro-Israel policy toward the Arab-Israeli conflict. The Arab states aimed to 'persuade the international community to apply UN resolution 242 and force Israel to

[44] Alhajji, F., 'The Failure of the Oil Weapon: Consumer Nationalism vs. producer Symbolism', *Bridges,* Spring/Summer, 2004, p.5

withdraw to the 1967 borders.'[45] Despite the UN Resolution 242 and the previous embargoes nothing changed. Although the Arabs could not achieve their political aims, this embargo would be remembered as the most effective one in history. But what could be the reason behind this significant and fearful influence?

By 1970 the demand for petroleum products in Europe had already expanded which lead to an increase in inland sales of petroleum products. Of the total energy consumed in 1970, inland energy consumption of the European Economic Community (EEC) amounted to 847.8 million metric tons of coal whereas oil consumption amounted to 496.2 million metric tons of coal equivalent. While total energy consumption increased by 9.5 percent in 1970, oil rose by 13.1 percent.[46] The dependence on oil was increasing parallel with world technology and industrial development. Figure 5 shows clearly the declining coal consumption from 26.4 percentages to 20.5 percentages and the increasing oil consumption from 56.4 percentages to 60.0 percentages.




| | Coal | Lignite | Oil | Natural Gas | Electricity |
|---|---|---|---|---|---|
| 1969 | 26,4 | 4,2 | 56,4 | 7 | 5,8 |
| 1970 | 23,1 | 4 | 58,6 | 8,5 | 5,8 |
| 1971 | 20,5 | 4 | 60 | 9,8 | 5,7 |

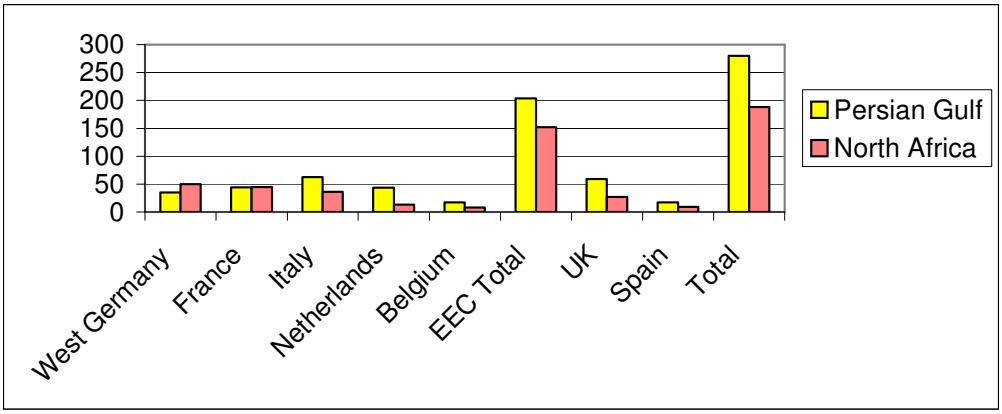
**Source:** *Calculated from: 'European Community,'* Petroleum Press Service, XXXVIII, No.2 (February, 1971), Table 1, p.67
**Figure 4:** Energy Forms; Percentage Share of Inland Consumption European Economic Community

Almost all of Western Europe's oil supplies were imported. In 1970 the majority of crude oil for the European countries was imported from two main regions: the

[45] *Ibid*, p.6

[46] Kayal, *Op.cit.*, pp.11-16

Middle East and North Africa. The European countries in total were importing from the Middle East 280,057 metric tons, from which 203,557 metric tons were imported for the EEC members and from North Africa 188,103 metric tons, from which 152,163 metric tons were imported for the EEC members again. (see Figure 5)




**Source:** *'More Crude for Europe,'* Petroleum Press Service, XXXVI, No.4 (April, 1969), Table II, 142; '*Emphasis on Crude,'* Petroleum Press Service, No.4 (April, 1970), Table II, 136; '*Big Rise in Europe's Imports,'* Petroleum Press Service, XXXVII, Press Service, XXXVIII, No.5 (May, 1971), Table II, 173.
**Figure 5:** Crude Oil Imports by Source – Western Europe (Thousand Metric Tons)

The constraints on production imposed by OPEC during the 1970s and its decision to quadruple the price of oil therefore was a traumatic shock to the European economic and political system. As a result, European countries intensified their national approaches to energy security in order to be better prepared for this sort of crisis. Individual countries searched for alternative sources of indigenous energy with a view to preserving them for national use. They also sought greater degrees of security of supply through special arrangements with energy exporting nations.

The Arab-Israeli conflict can be considered to have triggered a crisis already in the making. The effects of the embargo were immediate and this time more effective than the previous ones. OPEC forced the oil companies to increase payments drastically. The price of oil quadrupled by 1974 to nearly $12 per barrel (75$/m3).[47] This increase in the price of oil also had a dramatic effect on oil exporting nations. For the countries of the Middle East who had long been dominated by the industrial powers, they were seen to have acquired control of a vital commodity. The

[47] Blinder, Alan S., *Economic Policy and the Great Stagflation,* New York: Academic Press, 1979

traditional flow of capital reversed as the oil exporting nation's accumulated vast wealth.

The effects of the embargo can be claimed to be dramatic on the Western Europeans. With the disruption the bitter postwar years of deprivation and shortages came back. They became aware that their economic achievements of the 1950s and 1960s were precarious. For instance, in West Germany the sugar beet industry was especially very worried, because its season was in full swing. When it did not receive oil in the next twenty-four hours, its entire working would come to a stop and sugar would crystallize in the tubes. This would seriously harm West Germany's economy.[48]

At the same time, the embargo did not affect every state in Europe. Of the nine members of the EEC, the Dutch faced a complete embargo as they had voiced support for Israel and allowed the US to use Dutch airfields for supply runs to Israel. The UK and France received almost uninterrupted supplies as they had refused to allow America to use their airfields and embargoed arms and supplies to both the Arabs and the Israelis. The other six members faced only partial cutbacks. The members of the EEC had been unable to achieve a common policy during the first month of the Yom Kippur War. Europe needed a new policy in the Middle East in order to secure its energy consumption and its economy. They did not benefit from supporting Israel in the regional conflicts. "During 1973 they [European countries] became aware that in many areas they had nobody to turn to but themselves. It was this feeling more than anything else that created difficulties with America when it came to defining future relations."[49]Daniel Yergin claims that

> *[t]here had been discussions about a sharing plan among the Western governments before October 1973, as had been put in place in 1956 and 1967. Each government, however, insisted on a system that would fit its own needs and position.*[50]

[48] Yergin, *Op.cit.,* p. 616

[49] Goldsborough, James O., 'France, The European Crisis And The Alliance', *Foreign Affairs,* p.542

[50] Yergin, *Op.cit.,* p. 620

In addition, according to Yergin, among the European Economic Community members an agreement for emergency sharing did exist but, unfortunately, it was never invoked. Moreover, by having treated each European country differently the Arab exporters frustrated the ability of the Europeans to unite and implement a sharing system agreement.[51]

According to Robert Keohane "[t]he major oil-consuming countries reacted to the crisis in an uncoordinated and competitive way."[52]Most European countries, especially Britain and France, appeased the Arabs. As a result, the Arab restrictions on oil shipments to Europe were loosened. Moreover, despite the OECD's effort to provide information to states; an effective coordination could not take place. The major importing countries each carried out an approach based on self-interest. For instance, France and Britain tried to pressure their oil companies into deliberately giving them different treatment. At the same time, Italy, Spain and Belgium imposed restrictions on exports for petroleum. German companies bid up oil prices on the spot market. As a result, the consuming countries could solve the dilemma via collective action as they tried to save themselves individually. Instead they contributed to the quadrupling of official prices. In other words "[t]he 1973-74 crises illustrates the severity of the dilemma of collective action when uncertainty is high and no institutions for reducing it exist."[53]

At this point in his memoirs, Kissinger made the following observations regarding Europe's Middle East policy:

> *Europe […] wanted the option to conduct a policy separate from the United States and in the case of the Middle East objectively in conflict with us […] with the possible exception of the Netherlands, our European allies were clear about what should follow the cease-fire: American pressure to induce Israel to return immediately to the 1967 borders […] our allies clothed substance in*

[51] *Ibid*

[52] Keohane, Robert, *After Hegemony: Cooperation and Discord in the World Political Economy,* Princeton Univ. Press, 1984*,* Ch. 10, p. 222

[53]*Ibid,* p. 223

> *procedure; they argued that they should, in some undefined way, participate in postwar diplomacy. The European Community's policy placed great stock in gaining the goodwill of the oil producers. Our allies adamantly refused any measure remotely appearing "confrontational," such as forging a common position among the oil consumers.*[54]

In conclusion, the 1973 crisis still reminds people of long lines at the gas stations because of petroleum shortage and high gasoline prices all over the world.

> *[…] Unlike war, where the threat is observable and lines of conflict quickly become apparent, the oil shocks cast up problems that were more insidious - problems of energy security, economic adjustment, and industrial competitiveness.*[55]

Although there had been previous crises, for instance in 1956 and 1967, this crisis turned out to be the most memorable one in history. Oil was used for the first time so effectively as a *weapon* in the international sphere. The term 'oil weapon'[56] emerged in this context. In this respect it will be later understood that this would not be last oil crisis that would shape international politics. The crisis exposed the fact that developed economies were heavily dependent on oil especially from the Middle East (see Figure 6). Moreover, "[t]he embargo signaled a new era for world oil. As war was too important to be left to the generals, so oil was now clearly too important to be left to the oil men."[57]

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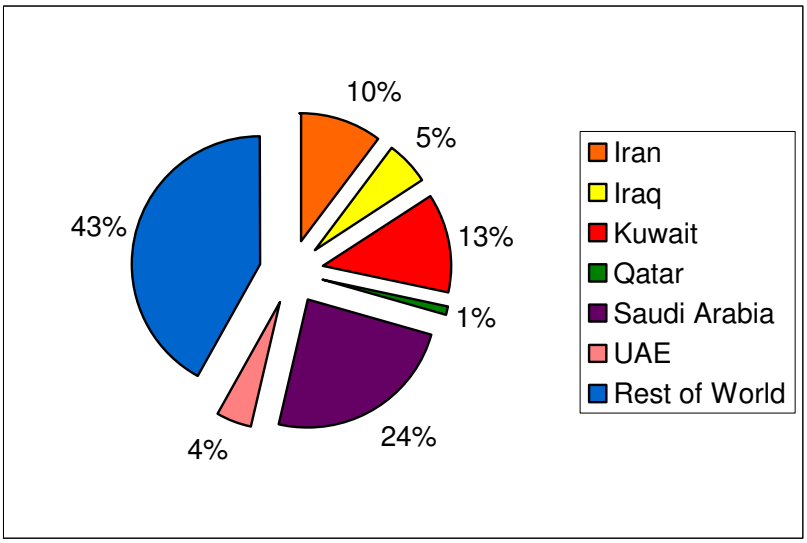
[54] Kissinger, Henry, *Years of Upheaval*, (Boston: Little, Brown), 1982, pp.708-735

[55] Ikenberry, G. John, 'The Irony of State Strength: Comparative Responses to the Oil Shocks of the 1970s,' *International Organization 40*, 1988, p.105

[56] Willenborg, R. Tönjes & W.Perlot, 'Europe's Oil Defences. An analysis of Europe's oil supply vulnerability and its emergency oil stockholding systems,' the Clingendael Institute, the Hague, CIEP 01/ 2004, p.9

[57] Yergin, Daniel, The Prize: The Epic Quest for Oil, Money and Power, Simon and Schuster, 1992, p. 613




**Source:** International Energy Agency, *Middle East Oil and Gas,* Paris, 1995, p.358
**Figure 6:** World Proven Crude Oil Reserves in 1973

After the 1973-4 oil price rises, most oil analysts had expected a surge in exploration aiming to decrease the significance of the Gulf. To some extent this happened, with substantial discoveries in Alaska, the North Sea and Mexico. But what surprised the industry was that, as seen above in Figure 7, much larger reserves were discovered back in the Middle East, especially in the Gulf States. Kuwait alone had nearly three times the oil reserves. Iraq had even more and, together with Kuwait, controlled one fifth of world oil reserves. Saudi Arabia had another quarter. These three territories alone controlled 42 percent of all the world's oil. From Figure 7 it is obvious that 57 percent of world-proven crude oil reserves are in the Persian Gulf area. Therefore, the strategic significance of oil can be considered to be the main reason for the developed countries' worldwide search for other oil reserves. Thus, 'oil today is the only product listed under the national-security clause',[58]such as in the United States.

Arab leaders used the "oil weapon" for political reasons as the dependence of the United States and Western states on Arab oil was increasing. As Eric Davis claims in his article:

> *[t]he growing economic interdependence between the Arab oil-producing nations and the West is most apparent*

[58] Kayal, *Op.cit.*, p.27

> *in the oil market. Were it not for the increasing demand for oil in the West, oil would not have attained such extraordinary significance as a political commodity.*[59]

In each oil-producing country's oil exists in finite quantities. Therefore the Arab states had to embark upon massive development programs to industrialize their societies and to make them agriculturally self-sufficient as soon as possible before their oil sources were exhausted. It is therefore argued that because of this interdependence between the Arab states and the Western states, the possibilities of renewed conflict between oil producers and oil consumers as in 1973 is reducing. It is claimed that all Arab states will become increasingly reluctant to resort to another oil embargo as their investment in programs of economic and military development continues to grow. The costs of a withdrawal of Western investment and technical expertise as a result of an embargo would deal a serious blow to such development programs.[60]In contrast, the first Arab oil embargo and the quadrupling of oil prices in 1973-74 created an important dilemma for all European countries. The question of crude oil availability, which affected every aspect of their social, economic and political fabric, became the main concern especially of the industrialized countries of Western Europe.[61] The European states realized how dependent they were on the Gulf oil. The need for a common policy came on the agenda with this crisis and they took some steps towards an oil policy that will be discussed in the following sections.

### 3.1.3 High Tensions in 1979

Soon after the 1973 crisis the signs for another crisis were seen in the Middle East. In 1978 Iran went through a critical period. It was clear that in the mid-1970s Iran was not able to deal with the vast increase in oil revenues that were coming into the country. The petrodollars were the main reason for economic chaos and social and political tension as the petrodollars were misspent on unnecessary modernization

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[59] Davis, Eric, 'The Political Economy of the Arab Oil Producing Nations: Convergence with Western Interests,' *Studies in Comparative International Development,* 14, 2, Summer 1979, p. 77

[60] *Ibid,* p.92

[61] Hoffman, *Op.cit.*, p.1

programs.[62] Thus in a short time, demonstrations in the streets against the Shah and his men were seen. Soon Humeyni would come to power and a new period would begin in Iran. The new Prime Minister, Mehdi Bazargan, had been responsible for the energy politics in the Shah's regime. The regime change in Iran affected the US and some European countries of course as still %65 of world proven crude oil were in the Gulf. The Iranian Revolution caused a second energy crisis as the new regime resumed oil exports that was also inconsistent and at a lower volume, driving up prices.

In 1978, with a production of 5,3 million b/d Iran was the second largest OPEC producer. Under the Khomeini regime, however, a 2,2 million b/d decrease was seen. This decrease in oil production caused an explosion on the spot oil markets and the world found itself facing a price rather than a supply crisis. According to Louis Turner, one of the "explanations is that the crisis of late 1978 and early 1979 caught the international oil industry unprepared, with oil stocks some 80 million barrels less than would normally be expected."[63] As a result, panic was seen among the companies as some tried to boost stocks as a precaution against continuing disruptions in the industry. Thus, the main reason for the panic in 1979 was that this final shake-up of the institutional structure of the industry caught a number of participants badly unprepared.[64]

According to Daniel Yergin there were five factors that led to panic among the governments. The first was the obvious growth of oil consumption and the alarm it gave to the market. The demand had risen quickly from 1976 onward and it was assumed that it was going to continue to rise. The second factor was the prevention of written arrangements within the oil industry because of the revolution in Iran. The revolution caused interruptions of the contractual flow of supplies. A third factor was the consumer governments' contradictory and conflicting policies. As the IEA

[62] Yergin, *Op.cit.,* p.674

[63] Turner, Louis, *Oil Companies in the International System*, 3rd ed., George Allen and Unwin, 1983. Ch. 10, p. 204

[64] *Ibid,* p. 205

was not enough developed to respond to this crisis, a major international policy during this crisis was the actions taken by governments for domestic reasons. Fourth, because of the upheaval the oil exporters had the opportunity to capture additional profit. Once again they could state firmly their power and influence on the world stage. Therefore, most of the exports used every opportunity to keep pushing the price up and some manipulated supplies to further de-stabilize the market and gain extra revenues. Uncertainty, anxiety, confusion, fear and pessimism all fanned the flames of panic among states.[65]

On 7th April 1980, former American President Jimmy Carter announced economic sanctions against Iran. On 10th April the European Foreign Ministers met in Lisbon but they ignored Carter's call as the Europeans had a stake in maintaining economic ties to the new regime. In those days Western Europe as a whole was importing 650,000 barrels of Iranian oil a day. Exports to Iran were beginning to recover from the shock of the revolution with sales averages of $40 million a month for the British, $60 million for the French and $130 million for the Japanese. In comparison, American exports to Iran in January and February combined had been a mere $1.8 million. Ultimately, the US pressure prevailed. The EEC members, led by West Germany, announced in Luxembourg on 22nd April their intention to implement an embargo on exports to Iran. In addition, Britain proposed to cut off imports of Iranian oil as well. As a result, the European Community imports from Iran tumbled from $829 million in January 1980 to $100 million in October. The EC delayed putting the sanctions into effect until 22nd May in the hope that diplomacy would render them unnecessary. But Britain broke ranks and refused to apply the embargo as had been previously agreed. Although the British were criticized later, even West Germany gave up its support of the sanctions accord. An estimated ten percent of the EC's trade with Iran would have been affected if the accord had been implemented.[66]

At the same time, some companies were more affected than individual states and were hit relatively hard. For instance, BP was receiving 40 per cent of its global

[65] Yergin, *Op.cit.,* pp. 685-6

[66] Shehadi, Philip, 'Economic Sanctions and Iranian Trade', *MERIP Reports,* No. 98, Iran Two Years After. (Jul.-Aug., 1981), p. 16

supplies from Iran "and it was thus forced to plead *force majeure* and to stop third-party sales to other majors such as Exxon and to other refiners."[67] Other companies were taking similar precautions as they were forced to find other alternatives in order to avoid a bankruptcy. These companies could be considered to be inexperienced bargainers and their small demand put them in a particularly disadvantaged negotiating position. As a result, they turned to spot markets or other producer governments directly. So, as Yergin claims "the dominoes began to fall."[68] Deprived of oil either directly by the Iranian disruption or indirectly by the BP's cutbacks, other worried companies used *force majeure* in order to cancel contracts, also.

As a result, the importance of energy prices and security of energy supply was once again on the agenda and once more the EC could not deal with this crisis with a common policy. This time the EC realized that it ought to take more precautions about its energy. Therefore, it adopted a new Resolution in June 1980, which set new objectives for 1990 and decided convergence of energy policies of each member States. According to this new resolution, Member States would follow energy saving policies, would decrease the amount of oil consumption and its import level and would comply with other energy policy objectives of the EC.[69]

### 3.1.4 Iran-Iraq War

On 22nd September 1980 immediately after the Iran Revolution a war began between Iran and Iraq. Unfortunately the main attacks were on the energy sources in both countries. Oil production in Iran nearly stopped and Iraq's was severely cut. At the beginning of the war America did not take sides, but waited. As soon as it was obvious that Iran would win the war, it supported Iraq and Saddam Hussein's regime with credit, weapons and secret information in order to prevent Iran from getting control of the energy sources in Saudi Arabia and Kuwait.[70]

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[67] Turner, *Op.cit.,* p. 205

[68] Yergin, *Op.cit.,* p. 687

[69] Council Resolution of 9 June 1980 concerning Community energy policy objectives for 1990 and convergence of the policies of the Member States (OJ No. C 149, 18/06/80 p.0001)

[70] Klare, *Op.cit.,* p. 48

This was the third oil shock. This shock was different from the previous ones as now the exporters were competing with each other for markets rather than buyers for supplies. Therefore they were in competition in order to pursuit the lowest price. This situation raised a new security question, which was security of demand for the oil exporters. In other words, it meant a secure access for exporters to the market, which was a new concept. Moreover, the prices were again out of control. There was no official OPEC price. "Price would be set, not through arduous negotiating among OPEC countries, but through thousands and thousands of individual transactions."[71]

As daily 4 million barrels of oil were lost, the Iran-Iraq War caused panic again among importing states. The Western Countries began to search for other sources as crises continued to occur and the countries in the Middle East continued to use oil as a weapon. But how could European countries become independent from the oil producing countries? The Western European Countries decided to import more gas from the Soviet Union and become less dependent to oil. But the U.S. was against this policy as it was strategically wrong for America that the NATO countries in Western Europe became dependent on Soviet gas and pay a lot of money to the Soviet Union for this gas. This money would strengthen the Soviet economy and improve their defense industry. In the end, Europe agreed with America to import only 30% of its total gas import from the Soviet Union.[72]

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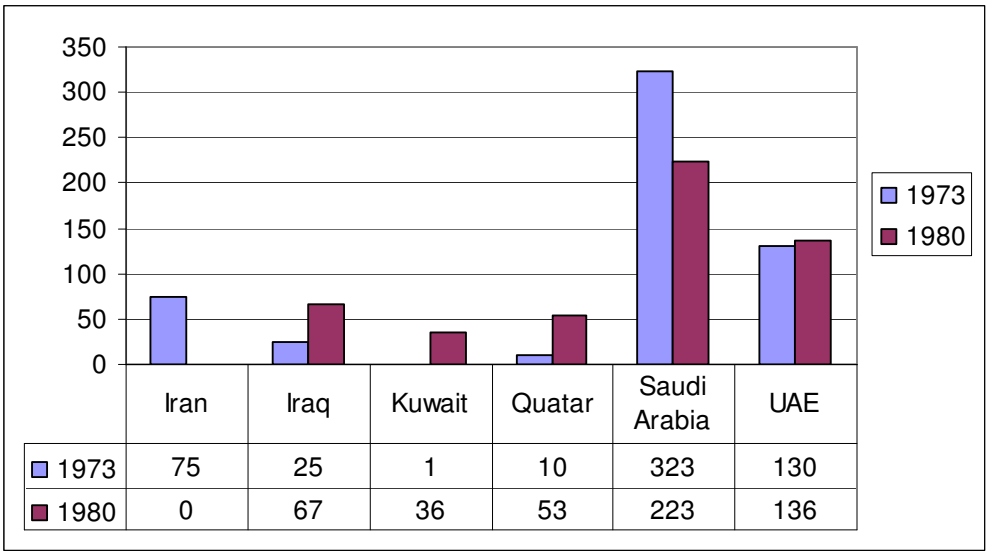
[71] Yergin, *Op.cit.,* p. 751

[72] Öymen, *Op.cit.,* p.346




**Source:** International Energy Agency, *Middle East Oil and Gas,* Paris, 1995, p.384
**Figure 7:** Total Wells Drilled

The Iran-Iraq War not only hindered the production and exportation of oil but also seriously threatened the transportation of the oil in the Gulf. The main aim of Iran was Kuwait, as it could not accept Kuwait's support to Iraq. In 1986 Kuwait asked for support from the US in order to protect its tankers. But the US would soon learn that Kuwait had also asked for help from the USSR. The US did not want the USSR to get control in the Basra Gulf so the US stepped in to protect Kuwait's shipments. On the other side, France, England, Italy, Belgium and the Netherlands sent war ships in order to support the US in protecting Kuwaiti tanks. The Western Countries began putting armed force in the region for the security of oil.

Iran could no longer continue the war and therefore applied to the UN to end the war. Iraq accepted the decision to end the war after a couple of weeks. Iraq felt itself the victor of the war. Kuwait, on the other side, gained more power. By the time new reserves were found in the region and it was found that in the Gulf there remained two third of the World's proven oil reserves. The more the world economy developed the more the need for oil increased.

As a result, it is obvious that European countries did not reflect to the war like the US. Only some of the European countries supported the US in order to secure the oil supplies in the Middle East. With the end of the Iran-Iraq war a new era started as the

relationship among the consuming countries and oil exporting countries changed. As Daniel Yergin points out:

> *[…] important lessons had emerged. Consumers had learned that they could not regard oil […] so easily as a given. Producers had learned that they could not take their markets and customers for granted. The result was priority of economics over politics.*[73]

So with all these challenges and developments in this era the EC needed a supply security policy in order to protect its member states from other challenges. As the conditions were changing all the time, the EC had to be prepared in order to respond to the new conditions and crisis. In other words a crisis mechanism was needed.

## 3.2 Consequences of Oil Price Shocks

### 3.2.1 The Euro-Arab Dialogue (EAD)

Since the beginning of the 1970s, it became clear that Europe's overwhelming economic interests in the Middle East necessitated a political expression. Europe considered economic development in the region as the way to solve political problems in the Arab world. Especially de Gaulle's vision intended to restore to France a dominant role in international affairs by the construction of a strong and united Europe as a counter-weight to American power. After the loss of Algeria in 1962, France's last Arab colony, de Gaulle oriented his foreign policies toward the Arab-Muslim world. During the 1960s, a French Mediterranean policy was expanded, which would work as an economic and political geostrategical unit between the European Community (EC) and the Arab League countries. But Arab collaboration had a price: the Arabs wanted support in the Arab-Israel conflict. In spite of France's efforts to bring its European partners closer to Arab views, many countries were reluctant to follow this path. At that time, the Arab-Israeli conflict didn't provoke any interest or declaration from the EC. Indeed, on October 31, French President Pompidou called for a common European policy on the Middle East. Six days later, at a meeting of the nine European Community (EC) member

[73] Yergin, *Op.cit.,* p. 768

countries in Brussels, the foreign ministers issued a joint declaration on the Middle East in which, according to Al-Mani, they reaffirmed "the ties of all kinds which have long linked the Europeans to the countries of the southern and eastern Mediterranean."[74]

The oil crisis in 1973 strengthened the efforts for cooperation between Europe and the Arab World. In 1974 the Parliamentary Association for Euro-Arab cooperation was founded; its structure was set up at Conferences in Copenhagen (15 December 1973), and Paris (31 July 1974) to strengthen the political, economic and cultural co-operation between Europe and the Arab world. This Association organized regular meetings with Arab leaders and politicians and served as a channel between them and the European governments. Its role was to keep European parliamentarians informed on developments involving the Arab world. The Association was in regular contact with European governments, the Presidency of the European Council of Ministers, and the EC Commission. In other words, it could be considered to be the most powerful Arab lobby functioning through Europe.

Later this body was reinforced by a political, economical and cultural structure, called the Euro-Arab Dialogue or *Eurabia.* The Europeans tried to maintain the Dialogue on a base of economic relations, while the Arab countries tied the oil and business markets to the European alignment on their anti-Israel policies. In other words, economic relations were tied to Europe's political alignment with Arab's anti-Zionist policy.[75] Al-Mani reports that at an Arab summit meeting in Algeria on November 28, the delegates adopted a special declaration directed at the EC countries and asked the Europeans to lift their embargo on arms sales to the Arab world. The Arab leaders declared their readiness to begin discussions with the Europeans as soon as possible.[76]

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[74] Al-Mani, Saleh, *The Euro-Arab Dialogue,* New York: St. Martin's Press, 1983, p.48

[75] Ye'or, Bat, "The Euro-Arab Dialogue and the Birth of Eurabia", English translation of "Le Dialogue Euro_Arabe et la naissance d'Eurabia", *Observatoire du monde juif,* Bulletin no 4/5, December 2002, pp.44-55

[76] Al-Mani, *Op.cit.,* pp. 47-52

In the meantime, the United States proposed that the nations of Europe, North America, and Japan establish Energy Action, a group of senior and prestigious individuals with a mandate to develop within three months an initial action program for collaboration in all areas of the energy problem. They would leave it to the members of the nine whether they prefer to participate as the European Community. France was not ambivalent. On December 20, Pompidou told Kissinger that France would not run the slightest risk of an oil cutoff; it would participate in no group or policy involving any prospect of confrontation. This could be considered to be not only France's point of view but also of the EEC.[77]

The development of those complex ties between the Arab-Muslim world and the EEC was, at its core, conditioned by an anti-Israel and anti-American policy, the Arab ambition being to detach Europe from its Atlantic ally. However, to consider the aim of the dialogue as only to influence European foreign policy against Israel and detach Europe from America would be wrong. Both Europe and the Arab-Muslim countries also aimed at establishing permanently in Europe a massive Arab-Muslim presence via immigration and settlement of millions of Muslims with equal rights for all, native-born and migrants alike. This policy endeavored to integrate Europe and the Arab-Muslim world into one political and economic bloc.

The European objectives were to:

- Play a defining political role in international relations in competition with the United States, and independent of its influence;
- Maintain important spheres of influence in the former European Arab colonies;
- Open huge markets for the European Economic Community's products in the Arab world, especially in oil-producing countries;
- Secure supplies of petroleum and natural gas to Europe;
- Make the Mediterranean a Euro-Arab inland sea by encouraging massive Arab immigration into Europe, and favoring Muslim immigrants, mixing

[77] Kissinger, *Op.cit.,* 1982, pp.708-735

Euro-Arab populations by promoting multiculturalism with a strong Islamic presence in Europe;

- Develop a powerful Islamo-Christian symbiosis against Israel, orienting Europe toward Islam, and liberating Christianity from Judaism, which is viewed by some Anti-Semitic factions as the embodiment of evil[78]

At the Damascus Conference of the Arab League on September 14-17, 1974 the Arabs set out the political preconditions for agreements on economic cooperation with the European countries. In this respect the Arab States demanded from Europe:

- The unconditional withdrawal of Israel to the 1949 armistice lines;
- The Arabization of the Old City of Jerusalem, which had been seized by force in 1948 and from which all the Jews had been expelled;
- The inclusion of the Palestine Liberation Organization (PLO) and its leader Arafat in any negotiations;
- Access to Western science and technology[79]

Clearly, a project that was so compromising for Europe could not be set forth in written documents and treaties; the Europeans chose the formula of "dialogue." An institutional structure was devised to study all relevant questions, give directives, and design programs. All meetings, committees, and working groups included representatives from European Community nations and the European Council along with members from Arab countries and the Arab League. Proceedings and decisions took place in closed sessions, with no official minutes. Two presidents, one European and the other Arab, jointly directed sessions. This complicated structure implemented a policy of Euro-Arab association defined at the highest levels by the European Community and member States, hidden behind the inoffensive name, "Dialogue." Henceforth, an associative diplomacy binding the Arab-Muslim countries and the EU developed in international forums and in decisions concerning the Middle East conflict in particular. During Euro-Arab symposiums the oil threat was brandished

[78] Al-Mani , *Op.cit.,* pp. 68-73

[79] Ye'or, *Op.cit.,* p.9

and pressure was exerted on the EU as a reminder that economic relations were inexorably tied to Europe's political alignment with Arab anti-Zionist policy.

The EAD did not succeed in the way the Europeans wanted, however. Europe was aiming only for economic gain while the Arabs were exploiting the economic situation in order to fulfill its political will against Israel. Consequently, the EAD turned into an associative diplomacy in the international sphere. Furthermore, it was a diplomatic recognition of the terrorist attacks against Israel. The EAD led the EU to tolerate the Palestinian terrorists on its own territory. In other words the EAD, which bound the European economy to an Arab political strategy, planning the destruction of Israel, was the Trojan horse of that European drift toward the Arab-Islamic sphere of influence.[80] According to Al-Mani, EAD could be considered a "community of interest": the EAD reflected European concern over energy supplies and Arab concern over Western European recognition of the PLO. Although falling short of achieving formal recognition for the PLO, the EAD did, however, succeed in persuading the Europeans of the need to establish a 'homeland for the Palestinians' and in 'associating' the PLO with future negotiations on the Middle East.

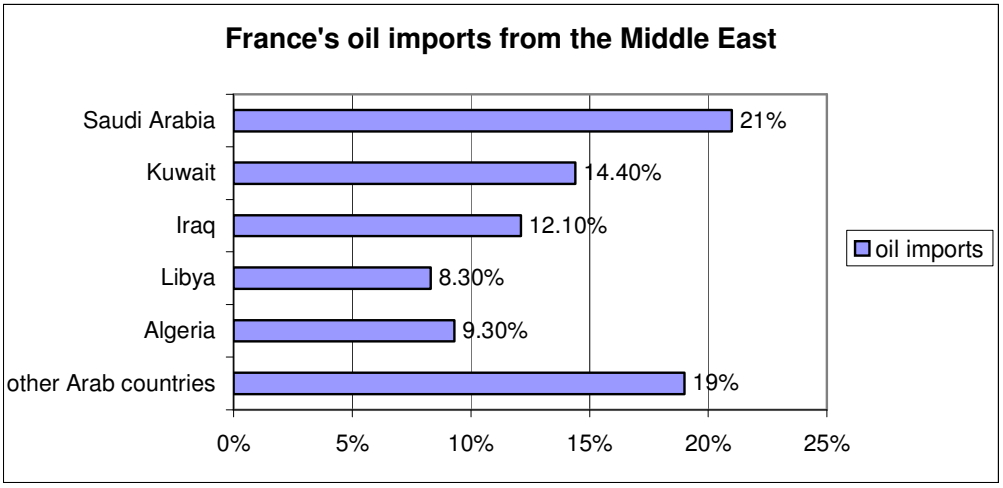
### 3.2.2 EEC Oil Crisis Management

The decision of the Arab oil producers to play the oil weapon caught the EEC totally unprepared. Apart from some minor precautions, the Community had developed no strategy to counter such a cutback in the flow of oil from the Middle East. Therefore, they responded individually. The European states found themselves in a defensive position and unable to bring any influence to the Middle East war.

France, for instance, condemned Israel in its 1967 attack and put an embargo on French arms to the countries in the war zone. But France's general attitude in this October war was a 'wait and see' attitude. France's major concern in the area has been access to oil as 84 % of the country's needs in oil come from the Middle East

[80] *Ibid,* p.39

and North Africa.[81] England had been sensitive to its relations with the Arabs so that the British economy should not be placed at risk. The preservation of oil supplies had become a crucial feature of its diplomacy. A few days after the beginning of the war the British government started an embargo on all arms to the Middle East. West Germany, however, took an active interest in the war.




**Source:** Sus, Ibrahim, 'Western Europe and the October War', *Journal of Palestine Studies,* Vol.3, No.2 (Winter, 1974), pp.65-83
**Figure 8:** France's Oil Imports from the Middle East

One week after the outbreak of the war the EEC issued a common announcement appealing to the countries at war in the Middle East to open the way for real negotiations. The EEC also passed a resolution in order to reach a cease-fire, followed by a quick negotiation. But on the same day, the Arab oil producing countries threatened to reduce oil production by 5% every month unless Israel withdrew from the occupied territories. Surprising enough, the EEC took a pro-Arab resolution. The Nine asked Israel to end its territorial occupation. The Arab world welcomed the EEC resolution. They were hopeful to have changed the policies of European states toward the Arab-Israel conflict by the threat of reducing oil supplies.[82] It could be said that Europe was pressured not only to alter its policies,

[81] Sus, Ibrahim, 'Western Europe and the October War', *Journal of Palestine Studies,* Vol.3, No.2 (Winter, 1974), pp.65-83

[82] Licklider, Roy, 'The Power of Oil: The Arab Oil Weapon and the Netherlands, the United Kingdom, Canada, Japan, and the United States', *International Studies Quarterl,*Vol.32, No.2. (Jun., 1988), p.205

but also to influence the United States. But, as mentioned before, all these could not end the conflict in the area. The only hard action in response to this problem was that the EEC adopted a few Council Directives and Resolutions concerning security of energy supplies and measures to be taken in the event of supply disruptions.

The first directive adopted was the Council Directive 68/414/EEC (amended by Council Directive 98/93/EC). This directive obliged the Member States of the EC to maintain minimum stocks of crude oil and /or petroleum products at all times. These stocks had to be equal to at least 90 days of average internal consumption. Stocks could be in crude oil and intermediate products, as well as finished petroleum products. But the Directive lays down specific conditions for the calculation of crude oil and intermediate products. The stocks had to be kept within the territory of the EU but member states were not obliged to hold all their emergency stocks on their national territory. If they were kept in another EU Member State, than there needed to be an intergovernmental agreement between the two states.[83]The second important directive adopted was the Council Directive 73/238/EEC. This directive required member states to prepare and provide themselves with powers in case of difficulties arising in the supply of crude oil or petroleum products. These powers needed to enable a compulsory development of emergency stocks. Depending on the estimated shortage, the responsible body also needed to have the power to impose specific or broad restrictions on consumption. Furthermore, it should be able to give priority to supplies of petroleum products to certain groups of users and be able to regulate prices in order to prevent abnormal price rises.[84] Another directive was the Council Decision 77/706/EEC and Commission Decision 79/639/EEC. This directive set a European Community target for reducing petroleum products consumption in the event of difficulties in crude oil and petroleum products supply. The target may be set at a ten percent consumption reduction of petroleum products in the European Community as a whole for maximum two months. To protect the unity of the market

[83] Official Journal of the European Communities (OJ), 1968, Council directive of 20 December 1968 imposing an obligation on Member States of the EEC to maintain minimum stocks of crude oil and/or petroleum products (68/414/EEC) Official Journal L 308, p.14

[84] Official Journal of the European Communities (OJ), 1973, Council Directives 73/238/EEC of 24 July 1973 on measures to mitigate the effects of difficulties in the supply of crude oil and petroleum products.

and to ensure that all European consumers bear their fair share of difficulties arising from a crisis, the European Commission may propose several other targets. For instance one of them exceeds a ten percent consumption reduction and can be extended to other forms of energy in the event of a larger shortfall.[85]

The above-mentioned directives could be considered the beginning of a common energy security policy. "Many Europeans are pleading for union. But the nationalism on the Continent is still an ideological factor to be reckoned with by those who see in the EEC an ideal weapon to end the nationalist era."[86]In fact the European states were aware that they were not effective politically in the Middle East during a crisis. They could only act individually. Therefore they tried to establish a common policy in order to protect themselves in times of emergency.

### 3.2.3 International Energy Agency Emergency Systems

In the wake of the 1974 crisis the Euro-Arab Dialogue was established with the support of France, as mentioned previously. Oil still played a great role in the energy market in the European Union. The interruptions of oil supplies following political upheavals in the Middle East in the 1970s and 1980s underscored Europe's sense of vulnerability and led policymakers to find emergency systems against interruptions. The 1973-74 oil crises consequently resulted in the establishment of the International Energy Agency (IEA), with energy security a core IEA activity. Two systems were within the IEA included for responding to oil supply disruption: the Agreement on International Energy Program (IEP) and the Coordinated Emergency Response Measures (CERM) system.

IEA was connected to the Organization of Economic Cooperation and Development (OECD) with the support of the US. In February 1974 all 9 EU member states joined the Washington Conference although at the beginning not all of them were invited.

[85] Official Journal of the European Communities (OJ), 1977, Council Decision of 7 November 1977 on the setting of Community target for a reduction in the consumption of primary sources of energy in the event of difficulties in the supply of crude oil and petroleum products, 77/706/EEC, Official Journal L292, p.9

[86] Sus, *Op.cit.,* pp.65-83

France was not in favor of this conference as France supported the Euro-Arab Dialogue and distrusted of the intentions of the US. Therefore France opposed the provocative position and decided not to join the IEA. Moreover, France succeeded in convincing the EEC countries to engage with EAD instead of with IEA. The conference resulted in the decision on 15th November 1974 to establish the International Energy Agency (IEA) and to sign the Agreement on an International Energy Program (IEP).[87]

The implementation of the IEA meant that the member countries would need to agree on oil crisis management. Under the agreement, countries agreed to certain emergency measures. One measure would be to maintain oil reserves equivalent to at least 90 days of net oil imports. Other measures included restraining demand, allocating oil production among IEA member countries during any severe disruption, and giving advice and operational assistance to industries in emergencies.[88]

Although the IEA had spent time to create the emergency oil allocation scheme, which aimed to hinder the impact of events such as oil embargoes, the IEA was not suitable to deal with the 1979 crisis. This crisis was felt more heavily by a number of companies rather than by individual countries. For instance, Iran was providing 40 per cent of its global supplies to BP, which was forced to stop third-party sales to other companies like Exxon. Unfortunately, the IEA's emergency system was not established to help companies but individual countries. Therefore such companies could only go out into the international market, which resulted in rising oil prices and their steadily spreading economic impact.[89] Some IEA members did call for help but their problems were solved without activating the emergency system. For instance,

* IEA participating countries are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. The Commission of the European Communities takes part in the work of the IEA.

[87] 'Study on Energy Supply and Geopolitics', *Op.cit.,* pp.74-75

[88] Scott, Richard, The History of International Energy Agency; The First Twenty Years 1974-1994, *Volume I Origins and Structure*, OECD/IEA, France, 1994

[89] Turner, Louis**,** *Oil Companies in the International System,* 3rd ed., George Allen and Unwin, 1983. CH. 10, pp.205-209

Sweden applied to IEA in May 1979 to activate the system when its available supplies of oil had fallen more than 7 per cent, which gave them a right to apply. But the Secretariat claimed that special factors, such as a harsh winter, were at work. Furthermore, as the situation in Sweden was improving the Executive Director did not consider it necessary to activate the Emergency Allocation System.[90]

Energy diplomacy had began to move above the level of the IEA even before the fall of the Shah as officials came to together for annual ministerial meetings. It was important that energy should be on the agenda of the economic summits which brought world leaders together once a year. Both the fall of Shah and the Iran-Iraq war drew attention to the IEA's defence mechanism. IEA's reactions were criticised for being too late and not well focused; despite the emergency oil system, it was never activated. The attempt was to reduce oil demand in IEA countries, which was irrelevant to the problem. On the other hand, during the Iran-Iraq War the IEA exhorted its members to take actions aimed at the real problems. One good thing that could be claimed about the IEA during the crisis was its information gathering system, which at least gave policy-makers an idea about was happening. Compared with the 1973, crisis when nobody had an idea what was going on, the 1979 crisis passed without as much panic.[91] Despite this positive aspect, the things that will be remembered about the IEA during the 1979 crisis is "not what it did, but what it did not do."[92]

On July 1984, the Governing Board of the IEA adopted the Decision on Stocks and Supply Disruptions, also known as the Coordinate Emergency Response Measures (CERM) system. This system established a procedure for a discussion process in the event of a difficult oil supply situation. In the decision it was clearly stated that the CERM would be suitable for disruptions which would cause very serious economic damage. Because those disruptions in supplies could lead to "exaggerated crude oil

[90] Keohane, *Op.cit.*, pp.229-230

[91] Turner, *Op.cid.,* pp.210-212

[92] Keohane, *Op.cid.,* p.229

price increases,"[93] accompanied by public panic. It would be important to avoid this exaggerated crude oil price increase. For this reason it could be claimed that a coordinated response system is more reasonable than individual action.

As a result, the panic and incurability during the crises led the Europeans for the quest for a supply security policy. Despite France's hindrance, the European states became members of the IEA, as the policies created by the Community were not well developed enough in order for individual countries to deal with crises on their own.

### 3.3 The Failure of Developing a Common Response

Historically there has been very little energy cooperation at the European level. National policies have been dominated by the need to safeguard supplies by having diverse sources and ensuring the strategic use of domestic resources. Energy policy has been regarded as "high politics"[94] akin to security policy. Since energy is a main factor of production in all economies, its supply is of vital national importance.

Although European states were aware of the problem of the security of their energy supply, the problem was seen as "national prestige".[95] For instance France's interest in controlling the Near East and North Africa had nothing to do with the concern over the security of its energy supplies. A general claim could be that during a crisis each nation had responded according to its philosophy, its institutions, and its interests. Europe was aware that it was powerless to shape the outcome of the Arab-Israel conflict. One reason was that with the withdrawal of England there had been no European presence in that area since 1972. Another reason was that the Arabs made distinctions between the European countries according to their stand on the Arab-Israel conflict. Thus France and Britain refused the request to support the Dutch, as they wanted to avoid a showdown with the Arab countries.

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[93] Europe's Oil Defences, *Op.cid.,* p.39

[94] Matlary, Janne Haaland, *Energy Policy in the European Union,* Macmillan Pres LTD, 1997, p.25

[95]Prodi, Romano & Alberto Clo, *Europe,* The Oil Crisis ed. By Raymond Vernon, Center for International Affairs, Harvard University, New York, 1976*,* p.94

In order to understand the problems Europe had to face during the petroleum crisis and the reactions each individual state showed, one first has to examine the differing domestic constraints of the countries and the resulting national responses which differed accordingly. Thus a unified response could not be seen at the moment most urgently needed, like the 1973 crisis. "The power of the supranational institutions in Brussels to direct or even coordinate action was still minimal, while national governments lacked adequate institutions to handle a problem of that magnitude autonomously."[96] The difference lay in the domestic structure: "the coalition between business and the state and the policy networks linking public and private sectors."[97]Secondly the European energy policy has to be examined in terms of foreign policies. The 1973 crisis could be considered to be the most serious as the oil embargo and the increasing prices were a great threat to their industry and society. However, even this mutual threat could not bring Europe together for a common policy. All European countries were too deeply involved in internal political difficulties which were not directly related to energy.

The first domestic constraint is energy adjustment strategy. According to Ikenberry there are three energy adjustment strategies. One strategy is the *neo-mercantilist adjustment*, which meets energy needs through domestic production while stopping the imports. In other words, the state itself becomes the producer. For instance, the French government chose this adjustment as it drew upon well-developed state institutions and state owned enterprises in petroleum and nuclear energy. A second strategy is called *competitive accelerated adjustment* which accepts higher prices and continues dependence but at the same time tries to make national use of energy more efficient. Germany, for instance, turned towards a larger and long-term effort to keep the national economy in a competitive position. The third strategy is the *defensive market response*, which leads to changes in trading patterns. The American

[96] *Ibid*, p.91

[97] Katzenstein, Peter J., *Conclusion: Domestic Structures and Strategies of Foreign Economic Policy,* Between Power and Plenty ed. by Peter J. Katzenstein, The University of Wisconsin Press, Wisconsin, p.295

government chose this form of market response, which is organized around the price mechanism.[98]

A second constraint is limiting consumption. Depending on the importance of petroleum in the nation's energy supplies, on the balance of payments, and in political relations with the producing countries, measures limiting consumption differ from one country to another. The objective of the governments is to reduce the consumption of oil from previously predicted levels. In all countries a policy emerged, to try to spare the industrial sector by placing restraints on private consumption. As a result, gasoline consumption was widely curtailed. Restrictions such as a ban on Sunday driving were adopted. Restrictions were also applied to heating and lighting, the early closing of businesses and public offices, and the reduction of street lighting.[99] However, it is difficult to explain to what extent governmental policies helped to limit the growth of demand. But a decline in Europe's oil consumption was seen because of the changes in prices, the replacement of oil with other sources of energy, and partly redundant governmental restrictions.

Third constraints are the energy resources of countries as they play a great role in shaping national policy. According to Kohl, the EC countries could be examined in three groups in terms of energy resource endowments. The first group is considered to be the energy rich countries like United Kingdom, which provides oil from the North Sea and has gas reserves and coal deposits, and the Netherlands, which possesses rich offshore gas. As a result of having its own resources, the British had resisted formal commitment within an EC energy policy to increase its exports and to share more oil in a crisis. Similarly, the Dutch had decided not to renew its gas export contracts in order to preserve its resources. The second group, energy poor countries like Denmark, Italy and Ireland, could be considered to have the most to gain from stronger energy policies in the Communities. For instance, southern Italy constantly seeks EC aid as Italy depends on imports for 80 per cent of its energy and 99 per cent of its oil. Denmark and Ireland have few domestic energy resources and

[98] Ikenberry, G. John, 'The irony of state strength: comparative responses to the oil shocks in the 1970s', pp.110-116

[99] Katzenstein, *Op.cit.,* pp.100-101

must depend on conservation and policies of diversifying imported energy sources to reduce their vulnerability. The third and middle group consisted of France, West Germany and Belgium. Although France still has energy strength because of its nuclear program, France imports 98 per cent of its oil.[100]

A fourth constraint is how all-major advanced industrial states developed different strategies to manage the terms of interdependence. Therefore, they differ both in policy objectives and policy instruments. But the main difference stems from their coalitions and policy networks, which has its roots in history. Katzenstein claims "that the contemporary structures of advanced industrial states are rooted in some of the major historical transformations of the past: the elimination of feudalism, the unfolding of the Industrial Revolution, and the building of a modern state."[101] For instance, the British bourgeoisie got rid of British feudalism very quickly as it prevented British entrepreneurial fight to achieve a change that would improve people's lives. Germany's past worried its industrial revolution a lot. For instance, the Prussian aristocracy was active in the German Empire in 1879, which united conservatives in the industrial and agricultural sectors, and pushed Germany toward economic protectionism, the naval arms race, foreign expansion, and World War I. Furthermore, French administrative state system could be considered to be the most prominent feature of French political development. The French king put his aristocratic opponents in a less important position. The landed aristocracy was forced to choose social status over political power. The aristocracy was tried be relegated to a stance of political opposition by the French Revolution, which it was not able to escape. Unlike France and Germany, Italy's status between feudalism and industrialism has to be examined within a territorial conflict between the industrially developed North and a backward South. Southern landowners could not be considered satisfied with the combination of political power and social prestige, which was a characteristic of the Northern aristocracy. The South left an

[100] Kohl, Wilfrid L., 'Energy Policy in the European Communities', *After the Second Oil Crisis Energy Policies in Europe, America and Japan,* Lexington Boks, D.C. Heath and Company, Lexington, 1982, pp.186-189

[101] Katzenstein, *Op.cit.,* p.323

unforgettable mark on the development of the Italian state bureaucracy and party system although its influence remained small in the nineteenth century.[102]

In comparison with the previous year, during the crisis the availability of petroleum in some principal European countries differed only 5 percent. This was mainly as a result of using other energy sources because of the changes in prices rather lack of crude oil. For instance, Germany used its coal reserves and so coal consumption increased by 7.8 per cent and natural gas consumption by 21 per cent. As a result the total consumption of energy in Germany declined by only 2 per cent.[103] Great Britain, for example, followed the same way. Italy, on the other hand, paradoxically managed to register a 6 per cent increase in the consumption of energy of energy during the height of the crisis. The oil crisis, therefore, did not bring on an overall shortage in either oil or energy. The difficulties occurred from the disturbances in the internal distribution of oil products that resulted because of the resistance of governments to the price increases imposed by the oil companies that led to delays in delivery and discrimination against independent companies.

In terms of foreign policy, the need for creating sound and meaningful political and economic relations between producing and consuming countries arose in order to provide energy security. As a result, this need was a source for multilateral and bi-lateral relations. The oil crisis of 1973-74 resulted in the establishment of the International Energy Agency (IEA). Although no EU members were initially invited, in the end, all 9 EU members attended the Washington conference. So the IEA member countries agreed on crisis management which was an oil sharing mechanism, demand management measures and the establishment of strategic oil reserves of 90 days of internal consumption. But the American approach was not welcomed by all the member states. Therefore, as the French were for closer co-operation with the Arab countries, they organized an EU summit in Copenhagen in December 1973. As a result, the Euro-Arab Dialogue would be started in which oil was prominent on the agenda. But, as this bilateral co-operation was only a

[102] *Ibid,* pp.325-332

[103] Prodi, *Op.cit.,* p.102

"dialogue" without any written document, it was not as effective as it was hoped to be.

Furthermore, the French were also in favor of developing a common EU energy policy. They succeeded to convince the other member states to develop such a policy at the EU summit in Copenhagen in December 1973. "It was, however, clear that a common energy policy was one bridge too far for some of the member states that preferred inter-governmental co-operation rather than intra-governmental co-operation."[104] For instance, the United Kingdom, the Netherlands and Germany preferred the inter-governmental approach because they wanted to maintain sovereignty over their own energy industries. The United Kingdom joined the EU on 1 January 1973, together with Ireland and Denmark, after much political wrangling. Giving up a British energy policy caused a crisis to the British European policy. On the other hand, for the Netherlands, the oil embargo was as traumatic as the level of assistance from the other EU countries was disappointing. Only after they had threatened to reduce gas exports did the oil sharing among the member states changed.

The fundamental division in security of supply policies and foreign policy towards the oil producing countries are still prevalent today. In the end, the IEA and the crisis mechanism was accepted before the acceptance of developing a common energy policy. The EU member states created a situation where the prior treaty obligations towards the IEA effectively took preference over the common energy policy. Thus the development of a common energy policy was severely hindered by the bilateral decisions to join the IEA and IEP first. Thus some resolutions and directives were implemented by focusing on IEP measures in a EU framework in order to bring France under a similar regime without having to join the IEA. To sum up, both national and foreign policies were a hindrance for the EC to create a common supply security in the Middle East. Although some attempts were seen, these can be claimed not to be powerful enough to deal with other crises or challenges.

[104] Clingendael International Energy Programme (CIEP), 'Study on Energy Supply and Geopolitics', Final Report**,** January 2004, p.74

# CHAPTER 4

# AMELIORATION OF EUROPEAN ENERGY POLICY: 1985 TO THE PRESENT

## 4.1 Towards a Common Energy Policy

After 1973 the concern for security of supply loomed large in the directives with the creation of 90-day emergency oil stocks in each member state, which was already in place in the IEA countries. Several directives dealt with other aspects of safeguarding the oil supply, but they only sought to coordinate national policies. There was no role for the European Commission beyond this. After 1985, an energy policy became one of the concerns of the general market program because of the integrative character designed and carried out by the Commission. In this chapter, first of all the influence of the Commission, despite the member governments' key role, will be analyzed. Then, the role of the EU member governments will be examined as member governments could be considered to be the most decisive actors in European and EU energy policy.

External events could be considered the main reason for the increased activity in the EU and the extension of its agenda to include an energy policy. The demise of the former Soviet Union and the opening up of Central Eastern Europe brought new issues onto the EU agenda. In the field of energy this meant that the EU suddenly had to coordinate and formulate a policy to deal with this region and with the restructuring of its energy sector. Furthermore, the increasing importance of an environmental policy in Europe meant that the question of how to integrate environmental criteria into other policy-making, received sustained attention.

Thus in the 1990s the EU's energy agenda consisted of a variety of policy items that related to deregulation, the environment and security of supply. In this chapter the focus will be on the security of supply in the post-1985 period and other policies created in order to be less dependent on oil from the Middle East. Although there had been a marked emphasis on deregulation in the energy policy of many member

states, on the whole the role of national governments had remained strong. This could be considered typical of a sector where security of supply was an ever-present concern as most EU countries were heavily dependent on imported fuel. Oil continues to account for a large proportion of energy consumption of all modern economies. Oil is sold on the world market but the bulk of supplies will continue to come from non-European countries. Security of supply, therefore, remained an important political issue for individual countries as well as for the EU as a whole. In a Green Paper on a common energy policy, which was published by the Commission in early 1995, ensuring security of supply was presented as one of the main problems in the energy field in the years ahead. In addition in the White Paper that followed it, security of supply was again one of the main goals of EU energy policy. Furthermore, in the latest Green Paper, which was published in 2006, one of the main objectives of Europe's energy policy is security of supply.[105] It states that:

> *Our import dependency is rising. Unless we can make domestic energy more competitive, in the next 20 to 30 years around 70% of the Union's energy requirements, compared to 50% today, will be met by imported products-some from regions threatened by insecurity.*[106]

The Council of the European Union underlined the need to enhance security of supply in the Presidency Conclusion dated 8/9 March 2007. It includes *Annex1,* which contains European Council Action Plan (2007-2009), a milestone in the creation of Energy Policy for Europe (EPE). "As regards security of supply, the European Council stresses the importance of making full use of instruments available to improve the EU's bilateral cooperation with all suppliers and ensure reliable energy flows into the Union. It develops clear orientations for an effective European international energy policy speaking with a common voice".[107]

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[105] Commission on European Communities, 'Green Paper on a European Strategy Sustainable, Competitive, and Secure Energy', Brussels, 8.3.2006, COM(2006) 105 Final, http://ec.europa.eu/energy/green-paper-energy/doc/2006_03_08_gp_document_en.pdf

[106] *Ibid,* p. 3

[107] Council of the European Union, *Presidency Conclusions*, Brussels, 8/9 March 2007, p.14

### 4.1.1 1987 Single European Act (SEA)

The Single European Act (SEA) can be considered to be one of the most important turning points of EU's common energy policy history. Until the mid-1980s, the EC was not successful in implementing the Resolutions that had been adopted by the Council. Instead, the objectives stayed on the papers as part of the theory of forming a common energy policy. It was summarily the Member States who blocked the EC from acting on a common energy policy. National interests and priorities, and the differences in energy policies among the member states pawed this way.

Nevertheless, because of OPEC, which was broken owing to the diversification of energy supply and the newly independent Central and Eastern European countries that had entered into the market the EC started to change its energy policy. These new opportunities on energy supply and the environmental reasons made some Member States aware of the need to re-orientate EC energy policy. This new orientation was directed at the creation of a new internal market on energy.

The SEA gave priority to the establishment of an internal market. In other words, it decided not to create a common energy policy, but to take initiatives in energy field for the creation of an internal market and for environmental concerns. Furthermore, SEA did not mention a common energy policy as a separate heading. Instead, for the SEA, the internal energy market was an indispensable part of the common market and the environmental factors were the ones that led the EC to act on energy. Moreover, SEA brought about some procedural changes in favour of certain energy policies. For example, instead of unanimity, a majority vote would be needed for accepting the proposals about internal energy market. Thus the changes made in the SEA allowed the Commission greater independence and also accorded a large role to the EP.

Before the single energy market, each member state insisted on pursuing its own national energy policy because of the strategic importance of the energy market and structural differences among member states. After 1988 it was understood that the energy markets were deeply affected by the single market legislation. Thus, in order

to create a single European market, the energy sector had also be opened. As a result, in 1988, the Commission declared the "White Paper on Energy Policy" which investigated each energy sector in Europe in order to initiate the liberalisation in these sectors.[108]

Free movement of oil products within the union had been ensured before taking initiatives to create a common energy policy. In this context, it was stated in the "EC White Paper on Energy Policy" that the oil industry was generally working according to free market principles.[109] As a result, there was no need for a new directive for the oil sector when deregulation needs could be met by existing rules and regulations. However, there was still a need for the directive, which was to search and develop oil reserves and to open reserves to free competition, including third country companies.

In conclusion, since 1985 a variety of policy areas could be seen in the agenda of the EU. The Single European Act (SEA) marked a turning point in EU policy. Its introduction of qualified majority voting for internal market proposals in the Council of Ministers meant that decision-making would be faster and that no member state wished to be seen as a hindrance in the policy-making process. The institutional dynamism of the SEA and the internal market project was the reason for the dynamism of the EU policy making in the post 1985 period.

### 4.1.2 Member Governments and the Energy Policy-making Process

Throughout its history, the EU Member governments' national interests can be regarded as the main hindrance for a common policy. It can be assumed that member governments' energy interests are mainly arranged prior to the start of the decision-making process at the EU level. Moreover, it can be claimed that they use the EU as an arena for furthering these interests, both at the EU level and domestically. But in recent years, member states have grown upset about their dependency, as it appears to threaten energy security. They have realized that once they become united they would be stronger. Therefore member states have started to seek common solutions.

[108] 'White Paper on Energy Policy', European Commission, COM 88 174, 1988

[109] *Ibid*

France has been the most active in the common energy policy process when compared with Britain, Italy and Germany. It has sought to shape the CEP in a way that benefits its domestic interests and has pursued an offensive international strategy. One can assume that as France saw the prospect of a EU energy policy growing more inevitable, it wanted to constructively influence the discussions and the outcome. Thus the energy ministry once underlined that "Europe [was] in the process of developing an ambitious, realistic external policy- since it is taking national policies and specificities into account- and is at last being pragmatic, since it is opting for concrete cooperation with the main European partners".[110] Overall, France has been able to adjust domestically to the IEM regime as it has sought to impose commercial criteria on publicly owned energy companies and has carried out a certain amount of privatization.

Germany, on the other hand, seems to have no clear domestic energy strategy. Thus, when the Commission intervened in German coal policy, claiming that it was against the competition rules, there was no protest from the German government. Furthermore, the question of supply security has long been left to private energy companies and dealt with not only within the Industry but also by environment ministries. But lately, it appears that Germany has realized that their energy policy is a part of foreign policy. Under Foreign Minister Steinmeier, the security of energy supplies has become a central issue of the government's foreign policy. Moreover, in February 2006, during a summit with Tony Blair, Chancellor Merkel called on EU states to agree on a 15-year strategy for energy supply and security; she said that a long-term EU-wide strategy was absolutely necessary to co-ordinate national approaches on energy sources and market access issues, and that energy should play a greater role in defining the EU's international relations.[111]

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[110] Geden, Oliver; Marcelis, Clemence & Maures, Andreas, " Perspectives for the European Union's External Energy Policy", Working Paper, p. 15, http://www.swp-berlin.org/common/get_document.php?asset_id=3521

[111] Financial Times, "Merkel calls for 15-year EU energy strategy", 17 February 2006

The UK can be claimed to not perceive the need to attribute significant new powers in the area of energy security to the European Commission, or any need for an amended energy chapter in the EU's Treaties. The UK has now agreed to the notion of a European policy on energy but has not really been converted to the idea of transferring control to the EU. The UK's support is foremost in the promotion of the liberalization of markets by encouraging stable investment conditions in producer countries. The British Government also believes there are significant benefits to be gained from developing a more coherent and transparent external energy policy at the Community level.[112]

The presence of the Italian government is pervasive in the energy sector. The government has adapted to the IEM. There are no domestic interests to oppose, as Italy is almost wholly dependent on imports. So it can be claimed that Italy has supported all the IEM measures at EU level but beyond this has played no active role in the process. In comparison, Britain instituted all the elements of the IEM at the domestic level in its own process of energy privatization between 1980 and 1995. Against the wishes of energy sector groups, starting with oil and gas, the British government privatized all public energy companies in 1986.[113]

It is obvious that the policies adopted by the member states differ according to their own interest and benefit. Despite their interest for CEP, they always care for their own interest or how much they can benefit from the IEM policy. The essential element in progressing toward an effective common energy policy is the political will of the Member States. In the Green Paper released on 8th March 2006, the Commission underlined the fact that "Europe has to speak with a single voice on the international scene".[114] Furthermore, according to M. Barroso "the Union has the required size (surface area and population) and required instruments (legislation,

[112] Geden, Oliver; Marcelis, Clemence & Maures, Andreas, *Op.cit.,* p.16

[113] Matlary, *Op.cit.*, pp.133-136

[114] European Commission, 'Green Paper: European Strategy for sustainable, Competitive and Secure Energy', COM (2006) 105, 8 March 2006

budget etc) but it lacks the political will to forge a common European energy policy".[115]

### 4.1.3 EU Actors in the Energy Policy-making Process

In this part we will focus on the energy policy proposals that attempt to format a common energy policy (CEP). This policy-making power would be transferred from the member states to the EU institutions both informally and formally.

The commission can be considered to have the central role of initiating policy. Furthermore, in the policy-making process the commission is also the broker of interests and modifier of proposals. Moreover, beyond this general role, the commission has played an increasingly important role in the development of the international energy market (IEM) towards the CEP.

Two actors are central to understanding the CEP developments the European Council and the Commission. Both the charter work and the merging of energy and environmental policy resulted from decisions taken by the European Council. However the proposal to include a chapter on energy in the revisions to the Treaty on the European Union came from the Commission. A number of CEP proposals on themes such as an oil sharing mechanism, a general policy for supply security, EU membership of the IEA, and so on, came from the Energy Directorate and were often introduced by the Energy Commissioner.

The Commission has pursued a strategy of its own aiming to strengthen its formal and informal competences in energy policy. While launching the IEM the Commission continually worked towards a CEP. There were many reasons for the commission to act. First of all, a strong Commission was needed for the management of an eventual IEM. Second, the Gulf War prompted concern over dependence on imported oil; the demise of Russia made import dependence on gas a renewed problem, and the alarming extent of polluting energy production and use in Central Europe called for a multilateral response from the EU. All these external energy

[115] Geden, Oliver; Marcelis, Clemence & Maures, Andreas, *Op.cid.,* p.11

related events suggested that the EU should design policies to cope with any similar problems in the future. Finally, the need to develop all aspects of the energy sectors in the less-developed EU states called for considerable action on the part of the Commission. As the IEM alone could not solve these problems, the Commission thus had an opportunity to create an energy policy that would transfer power to itself from the national level.

The continual crises in the Middle East can be considered to be the main reason for a proposal by the Energy Directorate. For instance, the Gulf War prompted the suggestion for a EU oil-sharing mechanism. According to this proposal the Commission should be responsible for a 60-day emergency oil stock for Community consumption. Furthermore, the Commission should not only decide when and how to use this oil, but also that it should organize national oil price mechanisms when times of crisis threated the free movement of goods within the EU.[116] Unfortunately this proposal was strongly opposed by interest groups and member states. But the important point is that the Commission proposed to intervene directly in the pricing mechanisms. Moreover, the Commission proposed to apply for membership of the IEA. "It wanted to be classified as a 'participating country' and to be entitled to vote *in place of the member states* on matters 'falling within its field of competence'."[117] Thus the one vote would represent the EU as a single entity. Unfortunately the Energy Council rejected both of these proposals in May 1990. The adoption of these proposals would have given a more central role to the Commission in matter of energy policy.

Three further proposals will be analyzed in detail: a chapter in the Treaty on European Union proposing a legal basis for a CEP, the carbon tax proposal, and a proposal for a policy towards Central Europe. The Commission designed these proposals in a way that seemed to take into account an external policy problem that was common to member governments. But the Commission based these proposals on IEM policies and on the existing energy policy within the EU. For a separate chapter

[116] Matlary, *Op.cid.,* p.58

[117] *Ibid*, p.59

on energy in the treaty, a proposal was made to include the IEM, a policy for a community-wide system of supply security, the integration of energy and environmental policy, and an "external policy, which enhances the Community's standing and influence on the world stage."[118] The Gulf crisis was external event that underlined the need for additional policymaking power in the energy field. The need for a coordinated security-of-supply policy became apparent. The Commission insisted on having a chapter inserted in the Treaty on European Union formalizing a CEP competence. But energy producers who feared that the EU would develop a supra-national role if armed with such a competence (e.g. Britain, Germany and the Netherlands) rejected this.[119] Since treaty amendments require unanimity, one opposing voice was enough for the proposal to fail. As a result, at the Maastricht summit of the European Council in December 1991, the entire chapter was rejected.

The Commission has always attempted to develop a common policy for security of supply, which is an area where IEM proposals clash with national priorities. Therefore, the quest for a formal CEP competence continued. In early 1995, the Commission issued a document called the 'Green Paper on a CEP' which stated that there would be three pillars to the CEP: environmental considerations, security of supply, and the IEM principals. The Green Paper did not suggest a supranational role for the Commission, but it did suggest the need for a CEP that would be based on the interest of the member states. The Green Paper made a careful start on a comprehensive approach to the topic of a CEP. It concentrated on policy needs instead of discussing who would be responsible for what in terms of policy making.

In conclusion, the Commission did not succeed in creating a CEP as member states found energy policy too important to leave the decisions in the hand of the Commission alone; each state wanted to retain control in their own hand. A few member governments, such as Italy and Belgium, strongly favor a formal CEP competence, but France opposed the idea. France considered that the EU should have some role in coordinating policy but that energy policy for the various energy types

[118] *EC Energy Monthly,* December 1990, p.12

[119] Matlary, *Op.cit.*, p.62

had to be left to the member states. The other member states were rather hostile to the Commission's attempts to create a CEP.[120]

### 4.1.4 Renewable or Alternative Energy

The EU tried to adopt new policies in order to develop supply security. One of these policies is the renewable energy policy, nowadays also known as alternative energy, which is a new term on the way for sustainable development and for an environmentally integrated energy policy. Despite the fact that these policies seemed to be the solution to environmental problems caused by energy, there were difficulties and doubts about their share in the energy balance. European Union seems to be on the side of renewable energy, by taking new initiatives and revealing new directives about their usage. Wind energy, solar energy, electricity and nuclear energy are some of the renewable energy types.

It is significant to note that the European Union gives great importance to renewable energy. As it lacks vast fossil fuel resources, it has to import half of its energy needs. In that sense, the renewable sources are indigenous, and therefore they can contribute to energy supply security by decreasing the dependency on imported energy. Security of energy supply is one of the main pillars of EU energy policy, and only increasing the proportion of renewables in its energy consumption can provide this security. Moreover, development of renewable energy sources can contribute to employment creation and regional development objectives of the union, as they are totally indigenous sources. Renewable energy can mostly be produced in rural areas, so it can give boost to rural development. Furthermore, the European Union can also benefit from selling its renewable energy technology, especially to developing Asia. This could create new business opportunities for EU based industries that are world leaders in regards to renewable energy technologies. Lastly, the general European public is sensitive to environmental issues and favors the development of renewables.

[120] *EC Energy Monthly,* June 1995, p.9

The European Union first issued a Green Paper on renewable energy, called "Energy for the Future: Renewable Sources of Energy" in 1996.[121] This Green Paper mainly gives a general framework, rather than making detailed proposals. It basically sets one specific objective for the European Union: to double the gross inland energy consumption from renewables in 2010, from 6% to 12%. This Green Paper considers the advantages and opportunities of using renewables and the obstacles before their development. The opportunities and advantages given by the Green Paper 1996 are still being used as the reasons for encouraging the use of renewable sources in the union.

Besides the advantages and opportunities, there are also obstacles associated with their development. The Green Paper firstly considers the high initial capital costs with long payback periods for revenue. In actuality, the cost curve for most renewables drops rapidly, as there is no additional cost rather than in the production stage. Despite this fact, initial capital is still high for many producers than those related to conventional fuels. This is economically logical, but there should be another economic logic in setting their cost, namely, external cost. According to the 1996 Green Paper, "This is particularly the case due to the fact that fuel and energy prices currently do not reflect the full cost, including the external cost implied for the society for the environmental damage caused by the use of conventional and fossil fuels."[122] Secondly, decision makers in the energy sector, investors, governments and users have minimal access to information about renewable energy technologies on their technical and economic potential. There is still resistance for change from conventional fuels to alternative energy. The problems related to the storage and transmission through connecting to centralized electricity grids is another serious obstacle for which new solutions should be developed. There are also difficulties due to seasonal variations in certain energy sources, such as wind and solar.

Within the initiatives to solve the fore mentioned problems, the European Commission issued the White Paper called "Energy for the Future: Renewable

[121] Green Paper for a Community Strategy; Energy for the Future Renewable Sources of Energy, Executive Summary, 1996, 20.11.1996, COM (96) 576 final **http://europa.eu.int/en/record/green/gp9611/ensumen.htm**,

[122] *Ibid*

Sources of Energy" in 1997.[123] This White Paper made specific proposals on the issue of renewable energy for the EU to proceed. It once more stressed the aim of doubling the energy supply through renewable energy sources in 2011, from 6% to 12%. In this supply, 23.5% of the total electricity production is to be supplied by renewables. In order to achieve this target, the Member States needed to contribute to this policy and try to maximize their use of renewable energy sources.

Beyond all fore mentioned Commission initiatives, the actual legislation of the European Union on Member States starts with the Renewable Energy Directive in 2001.[124] This Directive aims at setting up a framework on the way for achieving a substantial increase in the use of renewable energy sources. Through this Directive, Member States must adopt and publish every five years a report setting the targets for their future Renewable Energy Sources (RES) consumption and showing what measures are to be taken to meet those targets. The Renewable Energy Directive also opens the way for evaluation at community and member state level. At community level, the European Commission will publish a biannual report showing the progress made by each member state to meet their targets. And at member state level, they are required to submit a report in every two years that includes the indicators of success in meeting their targets. Moreover, this Renewable Energy Directive sets a target for the Community, to at produce 22.1% of its electricity the renewable energy sources. In addition to these papers and directives, the Council of Energy Ministers adopted ALTENER Programme for the Promotion of Renewable Energy Sources, in September 1993. Following the ALTENER I, Energy Council adopted ALTENER II in 1998, for the period of 1998-1999.

Despite those actions, proposals of the Commission, and the specific programmes supporting RES development, there are still significant obstacles to the development and wide use of renewable energy. This is mainly due to the unfavorable free market conditions for the renewables. As it was also stated in the Green Paper on RES, their

[123] White Paper, Energy for the Future: Renewable Sources of Energy, 26.11.1997, COM (97) 599 final

[124] Directive 2001/77/EC of the European Parliament and of the Council on the promotion of electricity from renewable energy sources in the internal electricity market (Official Journal L 283 of 27.10.2001, **http://www.europa.eu.int/scadplus/leg/en/lvb/l27035.htm**, (May 25, 2005)

relatively high initial investment costs prevent them from entering into the market easily.[125] These conditions limit the trend towards the renewable energy sources, despite their advantages as being environmentally friendly and indigenous energy.

Despite the obstacles, there are EU countries like Germany and Denmark, which succeeded in implementing the use of renewable energy in a short period of time. Germany has realized a rapid increase in renewable energy capacity over the last decade. "At the end of March 2000, Germany had a wind capacity of 4635 megawatts, more than ten times that of the UK despite much more favorable conditions in Britain."[126] Germany issued a law that made investment in renewable energy very attractive. Climate change policy and ambitious domestic targets of 25% reduction in $CO_2$ emissions in 2005 gave a boost to renewable energy in Germany. Furthermore, Denmark is another success story, particularly with regard to wind power. Over the past decade, Denmark has become the world leader in wind tribune technology through the support of Danish government. Denmark set an ambitious target for the proportion of wind power in total electricity production at 50% of the by 2030. The Danish government supports this project with an electricity production subsidy.[127]Denmark currently meets 20% of its electricity use from wind energy.[128]Unfortunately not all the EU countries benefit from using renewable energy sources. Although UK has one of the best potentials for renewable energy in Europe, particularly for wind and wave power, the government has neglected renewable energy, as the UK is also rich in fossil fuels. However, there has seen a shift in direction, and a support system for RES has been established. In order to develop the share of renewables in energy balance, state must subsidize the renewable energy sources as a priority area in order to raise its proportion in general electricity consumption. This is the only way to proceed with sustainable development, particularly for developed nations. On the other hand, Member States do not prefer to continue establishment of nuclear power plants, particularly after

[125] Green Paper for RES 1996, *Op.cit.,*

[126] Lenschow, Andrea, *Environmental Policy Integration*, Greening Sectoral Policies in Europe, London, 2002., p.187

[127] *Ibid,* p.187

[128] Parfit, *Op.cit.*, p.89

Chernobyl (1986). Only France, the United Kingdom and Finland have not taken a decision to stop nuclear energy. However, except for Finland, they have no plans to establish new nuclear power plants.

In conclusion, the European Union has to take into consideration the renewables and nuclear energy by bringing safety standards and with a solution to nuclear waste when forming its energy policy. Both Member States and the EU must establish a legal framework regulating the research and development for renewables, their production, subsidies and their use. As they are the most probable alternative to fossil fuels, they would also be the cornerstones in creating the common energy policy of EU. According to Grant, Matthews and Newell, "Efforts to promote renewables are […] also undermined by the continued use of subsidies to fossil fuels."[129]

### 4.1.5 Energy Efficiency

*Energy efficiency,* another policy adopted by the EU, addresses in achieving Kyoto targets, in securing energy supply for the union and providing savings for the EU economy to achieve a sustainable energy policy. Energy efficiency means reducing energy consumption without reducing the use of energy consuming vehicles or plants. In other words, it tries to ensure a better use of energy through less energy intensive methods, techniques or behaviours. According to the Green Paper on energy efficiency, "according to numerous studies the EU could save at least 20% of its present energy consumption in a cost-effective manner, equivalent to €60 billion per year, or the present combined energy consumption of Germany and Finland."[130]

The European Union started to take initiatives about energy efficiency earlier than other energy related issues. However, the EU could not succeed in achieving its established targets for energy efficiency. "In 1986, the Council set a target of improving European Union energy efficiency by 20% in the period to 1995. By the

[129] Wyn, Grant, Duncan Matthews, and Peter Newell, *The Effectiveness of European Union Environmental Policy***,** London, 2000, p.131

[130] Green Paper on Energy Efficiency or Doing More with Less, COM (2005) 265 final, 2005, p.4, **www.europa.eu.int**

end of 1995 it was clear that this objective would not be met."[131] This was the first target and it was revised by another target due to its failure. In 1998, the Commission set a more reasonable target; it would be possible to save 18% of total energy consumption between 1995 and 2010. The EU developed SAVE Programme to achieve these targets. SAVE I ran from 1992 to 1996. SAVE II Programme started in 1996 and ran till 2000. Unfortunately, SAVE II enjoyed the same failure of SAVE I Programme; it has produced many studies but few tangible results. In 2002, the SAVE Programme was included in the Intelligent Energy for Europe 2003-2006 Programme. Moreover, for the realization of energy efficiency in the Union, there has been issued an action plan and several directives. Among them the "Energy Efficiency Action Plan", adopted in 2000, is the most comprehensive one.[132] In this plan, the European Commission set out the policies and measures for greater energy efficiency.

To initiate greater efficiency the Council and Parliament adopt some other directives and regulations in the field of energy efficiency. In 1996, Council and Parliament adopted a directive on the energy efficiency conditions of refrigerators.[133] According to the directive, only fridges that meet the allowed minimum standards for their energy consumption levels would be able to enter into the European market. In 2001, the Council and Parliament issued a regulation on community energy efficiency labeling for office equipments called "energy star". This labeling was not binding, but voluntary. Therefore, it would be valuable in free market in choosing the right equipment to use. In addition to this directive, the Commission proposed a new directive for the buildings that consume 40% of the total energy consumption in the EU according to Commission research. Council and Parliament adopted this directive in December 2002.[134] The directive takes measures to better use of energy for the buildings.

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[131] Barnes, *Op.cit.,* p.238

[132] Communication from the Commission, Action Plan to Improve Energy Efficiency in the European Community, COM (2000) 247 final, Brussels, 2000, p.15**,**
**http://europa.eu.int/eur-lex/en/com/cnc/2000/com2000_0247en01.pdf**,

[133] Directive 96/57/EEC

[134] 2002/91/EC Directive

The European Commission announced a new Green Paper on energy efficiency in July 2005. This Paper brings out some policy measures to achieve greater energy efficiency. It proposes the establishment of Annual Energy Efficiency Action Plans at a national level. Such plans might identify measures to be taken at national, regional and local level, and subsequently monitor their success both in terms of improving energy efficiency and their cost-effectiveness. The 2005 Green Paper aims at: 1) giving citizens better information: through better targeted publicity campaigns and improved product labeling; 2) improving taxation to ensure that the polluter really pays without increasing overall tax levels; 3) using public procurement to "kick-start" new energy efficient technologies, such as more energy efficient cars and IT equipment; and, 4) using new or improved financing instruments, both at Community and national level, to give incentives to both companies and householders to introduce cost-effective improvements. Lastly, it aims at going further regarding buildings, where an existing Community Directive applies, and possibly extending it to smaller premises in a manner that ensures cost-effectiveness and minimum additional bureaucracy.[135]

To sum up, the European Union has taken measures and initiatives to promote energy efficiency that is crucial for EU objectives in several policy areas such as supply security, environment, and foreign affairs. The EU could not, however, be successful in implementing its policy. Therefore, union starts new programs to provide more energy efficiency to achieve its target.

## 4.2 Foreign and Security Policy: Bi-lateral Relationships and Multilateral Co-operation

As mentioned in the previous chapter, foreign and security policy can be regarded as an important part of safeguarding the security of an energy system. Creating sound and meaningful political and economic relations between producing and consuming countries can prevent a situation in which countries engage in acts that harm each other. Therefore, foreign policy should be a tool of crises prevention. To secure

[135] Green Paper on Energy Efficiency, 2005, *Op.cit*

energy supply, dialogue and stable relations with producer countries are extremely necessary. Close cooperation of suppliers and consumers is the only means to achieve such a degree of transparency, stability and predictability, which enables both producers and consumers to trust in the free interplay of supply and demand in the global oil and market. Security of supply and security of demand are two sides of the same coin. In this part we will examine the relationship and policies between the EU-Gulf Cooperation, EU-Mediterranean and EU-OPEC.

### 4.2.1 Gulf Cooperation Council (GCC)

In 1989, the six countries of the Gulf Cooperation Council* (the State of the United Arab Emirates, the State of Bahrain, the Kingdom of Saudi Arabia, the Sultanate of Oman, the States of Qatar and the State of Kuwait) and the European Community prepared a written cooperative agreement aimed at strengthening their relations in a contractual and institutional form. The areas of cooperation were the economy, energy, industry, trade, services, agriculture, fisheries, investment, science, technology and the environment. In this respect, Council Decision 89/147/EEC of 20 February 1989 was adopted.[136]Why did the two sides wished to strengthen their ties?

After the failure of the Euro-Arab Dialogue the need for another dialogue, or cooperative agreement, arose again. When we examine the reserves in the six GCC countries, we can see that they contain huge quantities of proven reserves of crude oil. In early 2004 around 478 billion barrels of crude oil were estimated, representing about 42% of the world's total. When looking at the undiscovered petroleum resources in the region, the US Geological Survey (USGS) argued in 2000 that the GCC has an undiscovered crude potential of some 162 billion barrels, or about 17% of the world's total.

*GCC was created by Saudi Arabia in response to the outbreak of Iran-Iraq war in 1981.

[136] Council Decision 89/147/EEC, OJ L 54 of 25.02.1989

**Table 2:** Oil Reserves in the GCC

| Country | Crude Oil Proved Reserves, Early 2004 (billion barrels)(1) | Crude Oil Undicovered Resources, 2000 (billion barrels)(2) |
|---|---|---|
| **Bahrain** | 0.1 | 1.6 |
| **Kuwait** | 96.5 | 4 |
| **Oman** | 5.6 | 5.2 |
| **Qatar** | 15.2 | 5.4 |
| **Saudi Arabia** | 262.7 | 136 |
| **UAE** | 97.8 | 10.1 |
| **TOTAL** | 477.9 | 162.3 |
| **% of World** | 41.6 | 17.3 |

**Source:** (1) BP Statistical Review of World Energy, June 2004
(2) USGS, World Petroleum Assessment, 2000

When we examine the EU we see that it is a major trading bloc that relies heavily on the export of manufactured products. While, the economies of the GCC countries are dominated by the energy sector. Oil and petroleum make up 95% of total exports by GCC countries.[137]Therefore, for the GCC countries, high world energy prices lead to high profits. But for the EU is just the opposite true as energy is an input that contributes to production costs. So, the EU favours low energy prices.

In the field of energy, a working group was created that met for the first time in 1992 in Brussels and for the second time in 1993 in Abu Dhabi. It reported directly to the Joint Cooperation Committee.

Compared to the importance of their reserves, the share of the GCC countries in the European oil supplies is limited. Therefore, an "oil dialogue" between the EU and the GCC might concern a review of market conditions and the prospects of GCC oil exports towards the EU. We see, though, that the EU is not directly dependent on GCC oil exports for three main factors: the fact that oil reserves in the GCC are exploited less than in other oil producing countries, the fact that the EU is diversifying its primary sources of energy and relying less on oil, and the fact that the EU is the preferred destination for oil from Russia, the Caspian and North Africa while the Gulf oil is mainly directed to the East or the US.

[137] Saleh, Nivien, 'The European Union and the Gulf States: A Growing Partnership', *Middle East Policy Council Journal,* Volume VII, October 1999, Number 1, http://www.mepc.org/journal_vol7/9910_saleh.asp

As a result, all these factors have limited the direct dependence of the EU on GCC oil exports. But unfortunately the market for oil is global. As a result the EU is dependent on GCC oil production and exports because the GCC member countries are the major suppliers of the world; they are essential for the orderly functioning of the global oil market. Therefore, the EU is aware of its need for better cooperation with these countries from the Gulf. Despite its limited dependence on GCC oil, however, Europe already expects to have a voice in Gulf and wider Middle East affairs. If and as Europe becomes more capable, that voice will become louder and more insistent.

### 4.2.2 Euro-Mediterranean Partnership (EMP)

The Euro-Mediterranean partnership (i.e. the European Union and the countries of the Southern Mediterranean) with the Arab Republic of Egypt, the State of Israel, the Hashemite Kingdom of Jordan, the Republic of Lebanon, the Kingdom of Morocco, the Republic of Tunisia and the People's Democratic Republic of Algeria began in 1995 with the Barcelona Process. The partnership, which implies reciprocity, solidarity and co-development, was intended to establish political, economic and social cooperation.

As part of the Euro-Mediterranean partnership process, a new generation of bilateral agreements were set up between the European Community and its Member States, of the one part, and the Mediterranean partnership countries of the other. The European Union concluded seven Euro-Mediterranean Association Agreements between 1998 and 2005. Adherence to democratic principles and fundamental rights are an essential element of the association agreements.

The association agreements share a similar structure and were intended to promote the following:

- Regular dialogue on political and security matters, providing an appropriate framework conducive to developing close relations between the parties.
- Trade, with the gradual liberalization of trade in goods, services and capital.

- Social, cultural and human dialogue. These areas, which include science, culture and finance, would be subject to particular cooperation.

The association agreements provided for a number of areas in which cooperation between the parties could be established or promoted. The essential points among the main recommendations included strengthening, modernizing and diversifying the structures of industry, agriculture and fisheries, transport, energy, education and training, scientific and technological cooperation, telecommunications and information technology.

In other words, the partnership between the European Union and the Mediterranean states was set up in the 1990s in order to facilitate trade relations. So far, only limited process has been made. The goal of this process was to help speed up the pace of economic reforms and growth in the Southern Mediterranean countries. A deeper level of integration between the EU and these countries would facilitate investments in the Mediterranean economics, including their energy industries. Moreover, the general aim was to turn the Mediterranean basin into an area of dialogue and co-operation guaranteeing peace, stability and prosperity. But the co-operation envisaged has had limited success.

The main reason that "made the Europeans take steps towards a European Mediterranean policy was the economic security considerations in the field of energy."[138]As the dependence on southern Mediterranean oil supplies is increasing, increasing European investments in the energy sector have made the Europeans vulnerable to any instability, civil war or conflict in the region. The EU has progressively developed its own doctrine on conflict prevention and crisis management. The Arab countries contend that the EU has to play a more significant role in Mediterranean conflicts, especially the Arab-Israel conflict. They consider its

[138] Tayfur, Fatih, 'Security and Co-operation in the Mediterranean', *Journal of International Affairs,* Volume V, Sep.-Nov. 2000, http://www.sam.gov.tr/perceptions/Volume5/September-November2000/VolumeVN3FatihTayfur.pdf

role will not be restricted to the function of conflict prevention rather than conflict resolution.[139]

As a result, despite the crucial importance of the region, the EU institutions have recognized that the Barcelona process has not made sufficient progress. The main problem arouse from the nature of the EU as an external policy actor, with its "dual decision-making process"[140] (i.e. namely intergovernmental and supranational) and competences, and its inability to act in a unitary manner.

### 4.2.3 Organization of Petroleum Exporting Countries (OPEC)

Energy can be considered a source of a variety of multi-lateral co-operation initiatives. In 1960, Venezuela, Iraq, Iran, Kuwait and Saudi Arabia established the Organization of Petroleum Exporting Countries (OPEC). In the 1960s more oil exporting countries joined, including smaller exporters, and in 1974 13 countries were members of the organization.[141]The countries organized in OPEC wanted more control over their oil industry and income deriving from oil exports.[142]

The EU currently imports around 40% of its oil from the Organization of Petroleum Exporting Countries (OPEC). Concerned about growing global competition for access to scarce oil resources, the EU held its first bilateral meeting with OPEC on 9 June 2005 (EurActiv 10/06/05). In the dialogue they addressed oil prices and greater data transparency on stocks and investment needs, especially for refineries in consuming countries. The OPEC delegation promised the EU sufficient oil supplies and prices ranging between 35 and 55 dollars a barrel.

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[139]Marquina, Antonio, 'Security Concepts, Institutions and Strategies for Co-operation Partnership and Conflict Prevention in the Mediterranean, *UNISCI Discussion Papers*, Mai 2003, pp. 10-11 http://www.ucm.es/info/unisci/Marqselim.pdf

[140] Balfour, Rose, 'Rethinking the Euro-Mediterranean Political and Security Dialogue', *Institute for Security Studies Occasional Papers,* No 52, May 2004, p.7

[141] OPEC's member states are: the 5 founding member states: Iran, Iraq, Kuwait, Saudi Arabia and Venezuela, member countries that joined later: Algeria, Ecuador, Gabon, Indonesia, Libya, Nigeria, Qatar, and the United Arab Emirates (UAE). In the 1990s Ecuador and Gabon decided to leave the OPEC.

[142] Clingendael International Energy Programme (CIEP), 'Study on Energy Supply and Geopolitics', Final Report**,** January 2004, p.71

The 3rd and latest meeting took place on 7th June 2006 in Brussels. The partners agreed on a number of initiatives aimed at boosting cooperation through joint actions. They welcomed the meeting as a further step in constructive dialogue between petroleum producers and consumer countries and recalled that oil price volatility affects economic and social development in both regions. They reaffirmed their mutual interest in stable, transparent and predictable oil markets, served by adequate infrastructure. The representatives exchanged information about their respective future energy strategies especially based on security of supply and security of demand.[143]

## 4.3 New Challenges in the Middle East

### 4.3.1 Gulf War

Besides the above-mentioned developments Europe faces new challenges during this period. The 1990 energy crisis is considered to be the mildest and briefest of the various crises as it lasted only six months. Iraq's army invaded Kuwait on 2nd of August 1990. The threat that Saddam would harm the oil reserves in Saudi Arabia doubled the world oil prices. The Iraqi invasion of Kuwait was followed by the United Nations embargo against Iraq's oil export, which had the effect of removing approximately 4 to 4.3 mbd from world supplies of crude oil. These lead to a dramatic run-up in prices was seen in the world crude oil markets as a reaction to the threat of war in the Gulf and in case of the loss of oil from Iraq and Kuwait. Thus, the price of $24/barrel on the day of invasion 2nd August, moved steeply higher in the following weeks peaking at $40.42 on 11th October.[144]

But why was this crisis affecting the world oil market? Before the Gulf Crisis, Iraq was producing 3.4 million barrels of crude oil per day. In 1989 Iraq had regained its peak production. Even in July 1990, Iraq's oil output accounted for just 5.7% of world production. In terms of proven oil reserves, however, Iraq is second only to

[143] Further Steps Forward in the EU-OPEC Energy Dialogue, 7 June 2006 http://www.opec.org/opecna/Press%20Releases/2006/3OPECEU.htm

[144] Lieber, Robert J., 'Oil and Power after the Gulf War', *International Security,* Vol. 17, No. 1, (Summer, 1992), p.163

Saudi Arabia, which proves Iraq's great importance in the world oil system. (See Table 3) According to the Table 3, with 260 billion barrels, the Saudis hold approximately 26% of the world total. Iraq has 100 billion barrels, which is equivalent to 10 percent and is closely followed by the United Arab Emirates with 98 billion barrels, Kuwait with 97 billion barrels and Iran with 93 billion barrels. On the other hand, the next largest group of producers, like Venezuela, the Soviet Union, and Mexico fall in the 51-59 billion barrel range. The United Sates, for its part, has only 26 billion barrels, or only 2.6% of proven reserves.

**Table 3:** Proven Oil Reserves

| Country | Billion barrels | Percent of world |
|---|---|---|
| Saudi Arabia | 260,3 | 26,3 |
| Iraq | 100 | 10,1 |
| United Arab Emirates | 98,1 | 9,9 |
| Kuwait | 96,5 | 9,7 |
| Iran | 92,9 | 9,4 |
| Venezuela | 59,1 | 6 |
| USSR | 57 | 5,8 |
| Mexico | 51,3 | 5,2 |
| United States | 26,3 | 2,7 |
| China | 24 | 2,4 |
| Libya | 22,8 | 2,3 |
| Nigeria | 17,9 | 1,8 |
| Algeria | 9,2 | 0,9 |
| Norway | 7,6 | 0,8 |
| Indonesia | 6,6 | 0,7 |
| India | 6,1 | 0,6 |
| Canada | 5,6 | 0,6 |
| Egypt | 4,5 | 0,5 |
| Oman | 4,3 | 0,4 |
| Yemen | 4 | 0,4 |
| United Kingdom | 4 | 0,4 |
| Others | 32,9 | 3,1 |
| **WORLD TOTALS:** | **991** | **100** |

**Source:** Based on data from *Oil and Gas Journal,* December 30, 1991

The significance of Iraq's position, especially in the crisis, thus becomes more evident. On the 2nd August 1990 Saddam had not only the control of both its own reserves and those of Kuwait and also directly menaced Saudi Arabia. Iraq, thus, was in position to dominate 56% of all proven reserves.[145]

[145] *Ibid,* p. 160

Saudi Arabia saw Iraq as a real threat to its oil reserves. As a result, Saudi Arabia would let 250.000 American soldiers be stationed on its soil until the Iraqi threat would end. Another 250.000 soldiers came later too. America would do anything in order to provide security for the oil in the Gulf. On 29th of November UN Security Council would pass resolution 678. This resolution gave Iraq time until the 15th of January to withdraw from Iraq. Otherwise they would do anything to achieve this aim. This opened the way for a military intervention. The diplomatic negotiation did not change things. As a result, on the 12th of January the American congress passed war power resolution, which allowed President Bush to go to war. The U.S.-led coalition began a massive air war to destroy Iraq's forces, military and civil infrastructure. Iraq called for terrorist attacks against the coalition and launched Scud missiles at Israel and at Saudi Arabia. On 24th February, the main coalition forces invaded Kuwait and Southern Iraq and over the next four days, encircled and defeated the Iraqis and liberated Kuwait. When U.S. President George H. W. Bush declared a cease-fire on 28th February, most of the Iraqi forces in Kuwait had either surrendered or fled.[146]

Fears existed that terrorism or war could further reduce supplies of oil from the region. In order to offset the potential shortfall, sufficient oil production increases became available. Almost 80% of this production came from Persian Gulf states and from other member countries of OPEC. Saudi Arabia, however, proved to be the greatest source of increased production. In response to the sharply higher price of crude oil, a reduction in world demand of some 1 mbd was seen. Despite the decision by the United Sates and other IEA countries to make available additional oil from stocks, world oil supplies remained adequate.

To sum up, it is claimed that no real oil crisis developed. The shortfalls from Iraq and Kuwait were effectively offset. In January 1991 oil prices fell below $20 per barrel and returned close to their pre-invasion levels. However, the most important role without doubt was played by Saudi Arabia, which helped to overcome the crisis

[146] Yergin, *Op.cit.,* pp. 770-776

without severe disruption. According to Lieber "had the Saudis been unable or unwilling to respond as they did, the history of the Gulf crisis would have been far different."[147]At the moment of crisis the U.S. ability to mount a military operation was extremely problematic. But the American deployment succeeded because they had the full cooperation of the Saudi government, access to Saudi ports, and the use of vast infrastructure of modern airbases. Without these supports it would have been difficult for the Bush administration to drive out the Iraqi invaders out of both Kuwait and Saudi Arabia.

With this crisis the U.S. once more understood the need for the cooperation with IEA countries for dealing with a future crisis. The need for an agreement on earlier use of strategic stocks in the event of a potential crisis arose. Both the United States and the IEA were slow to decide to announce stock draw downs in the 1990-91 crises. By acting earlier they could have hindered the kind of market panic that drove prices to over $40 per barrel. Their announcement of a willingness to use the strategic reserve in August or September 1990 could have reduced the price spike significantly and thus reduced its negative economic effects.[148]

Although the war was a decisive military victory for the coalition, Kuwait and Iraq suffered enormous property damage, and Saddam Hussein was not removed from power. In fact, Saddam was free to turn his attention to suppressing internal Shiite and Kurd revolts, which the U.S.-led coalition did not support, as there were concerns over the possible breakup of Iraq if the revolts were successful.

In 1993 the United States, France, and Britain launched several air and cruise-missile strikes against Iraq in response to provocations, including an alleged Iraqi plan to assassinate former President George H. W. Bush. An Iraqi troop buildup near Kuwait in 1994 led the United States to send forces to Kuwait and nearby areas. Continued resistance to weapons inspections led to bombing raids against Iraq, and trade sanctions imposed on Iraq remained in place, albeit with an emphasis on military-

[147] Lieber, Op.cit., p.166

[148] Öymen, *Op.cit.,* p. 353

related goods until the second Gulf conflict. As in the previous challenges in the Middle East only some European states responded to the war or supported the US.

### 4.3.2 The US Intervention in Iraq

The Gulf War ended with Saddam in charge in Baghdad. In spite of great difficulties Saddam had been able to recover and reestablish control over most of Iraq. The regime in Baghdad continued to pose a serious threat to U.S. interests in the Gulf region. Washington's hope of a change in the Iraqi leadership and of a friendlier regime in Baghdad did not appear likely.[149]

After the Gulf War, Iraq faced a very strict embargo. This embargo was to eliminate the weapons of mass destruction although later, for many years, the United Nations and the International Atomic Energy Commission searched for the mass destruction weapons but no trace could be found. The embargo mostly affected civilians. Many children die in the hospitals due to lack of medicine. According to the United States Development Program, Iraq had the lowest life expectancy and adult literacy rates among the eight Persian Gulf states. Furthermore, Iraq was the only country where the infant mortality rate is on the rise.[150] Only the government supported the Iraqi citizens and as a result, the citizens became more dependent on the Saddam Hussein regime. Moreover, the Iraqi oil industry had been the victim of political and military conflicts. The economic sanctions, imposed since 1990, contributed substantially to the deterioration of the Iraqi oil industry. Baghdad had not been able to develop production capacities to levels compatible with its huge reserves or to construct and upgrade its pipeline systems.

An armed conflict in the mid-90s grew in Northern Iraq between the Kurdish Democratic Party (KDP), ruled by Mesut Barzani, and the Patriotic Union of Kurdistan (PUK), ruled by Celal Talabani. Mesut Barzani asked for help and Saddam Hussein sent a troop to Northern Iraq in order to stop the armed conflict there. The

[149] Bahgdat, Gawdat, 'The United States and Iraq', *American Oil Diplomacy in the Persian Gulf and the Caspian Sea,* University Press of Florida, 2003, p.75

[150] *Ibid*, p.81

lives of the Iraqi people who had collaborated with America were in danger in this region. Then with the events of September 11th, the United States moved toward a doctrine of first strike, pre-emptive war to eliminate threats to U.S. national security. Attacks of September 11th, showed the fragility of the geopolitical situation of the Middle East and its implications for oil security.

All these political and military changes led the US and Western countries to one thought: would it be possible to provide security for the transportation of oil which the industrialized world is getting more and more dependent from the Middle East? How would it be possible to hinder the insecurity and instability in the region? Until the occupation of Kuwait by Iraq, these up and downs had continued. After this occupation, the US understood that there was a limit in diplomacy and decided for military intervention. In fact this was not surprising as "both during the campaign and after the elections, the foreign policy team of George W. Bush [had] been giving the message of being 'though on Iraq'.[151] Also after this intervention some politicians and scholars started to mention that the US had to keep soldiers in this region for the security of oil. Besides this problem another problem occurred. Some scholars claimed that the production of oil would decrease but the demand for the oil would increase by the European countries and Japan. China was also included into this market, which would lead to competition between states.

All these developments led the US to intervene into Iraq. As there was no evidence linking Saddam to the September 11th terrorist attacks, the reason was that Iraq had ready to use weapons of mass destruction. Although the UN and Atom Energy Agency could not find any trace of these weapons the US and the UK proved that Iraq had the weapons. The press was given information to report to say that Iraq had weapons President Bush and Tony Blair, the Prime Minister of England, emphasized this message. Nobody mentioned oil. The US Minister of Armed Forces claimed before the war that events had nothing to do with oil. Those who thought in this way were those who did not understand the situation.[152]But "Bush's regime-changing war

[151] Altunışık, Meliha Benli, 'The Breakdown of the Post-Gulf War Middle East Order?', *Perception,* June-August 2001, p.53

[152] Klare, *Op.cid.,* xiv

in Iraq is widely seen as an oil war—a grab for the second-largest petroleum reserves in the world."[153]Another interesting point is that although the Iraqi government buildings were all damaged, the Ministry of Energy building, which had geologic facts about the region, was protected by the U.S. troops very strictly.[154]

The United Kingdom, Spain, Italy, Denmark and the Eastern European countries supported the United States. France, Germany and Belgium opposed the war of liberation in Iraq and tried to rally Russia, forming a new axis against the US. What is more, France even created troubles in NATO. The French Minister of Foreign Affairs traveled all around the world for rallying countries against America and the United Kingdom. Whatever the diplomatic language, he behaved like an opponent.

As a result, the question of invading Iraq divided Europe. In fact, this hurricane revealed some very deep differences about the vision of Europe, which had been carefully hidden until now. Although it appears that the EU is beginning to look at developments within the Gulf with more concern, including identifying regional security as having a direct impact within Europe proper, current arrangements remain predictable on bilateral relationships. Moreover, it seems that the EU simply is not quite ready to take the proper initiative.

### 4.3.3 Assessment of the Challenges on European Energy Policy

Officially no CERM has ever been activated yet. However, it cannot be denied that the presence of the institutional framework for the CERM discussion process supported the preparation of the IEA contingency plan, which was activated on the day Gulf coalition forces began its military campaign for the liberation of Kuwait on the 17 January 1991. The Coordinated Energy Emergency Response Contingency Plan made 2.5 million additional barrels of oil available per day from 17 January to 6 March 1991. Two million barrels came from participants' oil stocks, 400,000 barrels

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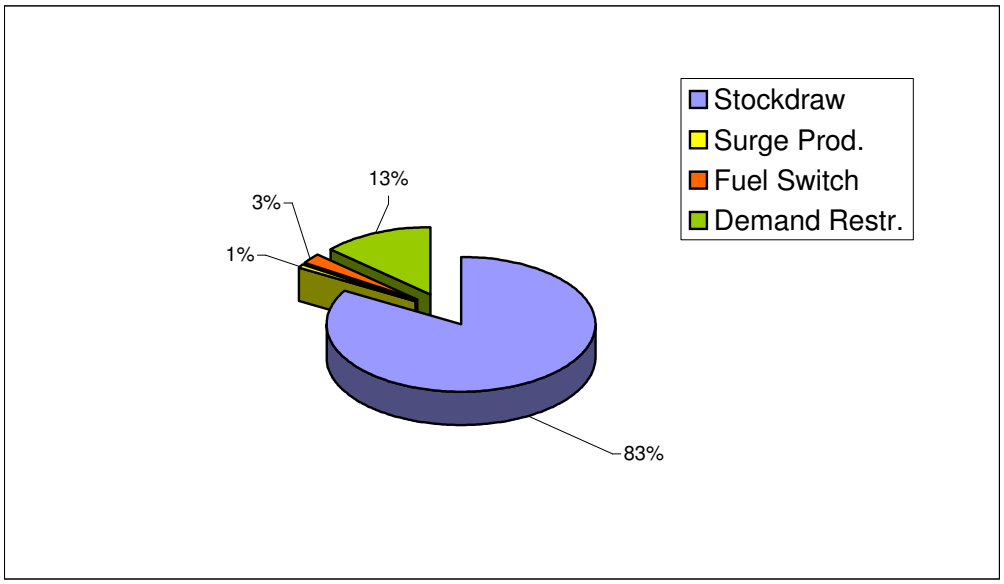
[153] Alkadiri, Raad and Fareed Mohamedi**, '**World Oil Markets and the Invasion of Iraq', *Middle East Report*, Summer 2003, www.merip.org/mer/mer227/227_alkadiri_mohamedi.html

[154] Pamir, Necdet**,** 'Irak: Hem Gözden, Hem De Gönülden Irak Mı?', *Stratejik Analiz,* Şubat'05,p.53

from demand restraints measures, and 100,000 barrels from fuel switching. All IEA countries including Finland, France and Iceland adopted the plan.[155]




**Source:** Willenborg, Robert, Christopher Tönjens and Wilbur Perlot, *Europe's Oil Defences*, January 2004, p. 39
**Figure 9:** Second Gulf War
*First Gulf War 1991: in anticipation of possible supply shortfall activation of IEA Contingency Plan on outbreak of war (17 January 1991) to make available 2.5 md/d of oil.

The lessons learned from the first Gulf War for a rapid and effective tool both to address national supply needs and to contribute to the joint response to calm the market could be claimed to be stockdraw. The experience in 1990-1991 led the Governing Board in 1995 to decide that the IEA's primary response measures would be CERM, which would be a market-oriented response that emphasized stockdraw.

The difference between the IEA and EU emergency systems is the basis of its calculation of the 90 days. The IEA uses the total net oil imports of the preceding year for each participating country concerned, whereas the EU uses the domestic consumption of products for each of its member states as the basis of its calculation of the 90 days. Moreover, in calculating the stocks held by its members, the IEA applies a 10% reduction for unavailable stocks, whereas the EU applies no reduction for unavailable stocks.

[155] Europe's Oil Defences, *Op.cit.,* p.39

We have to remember that the two systems do not compete with each other but are instead complementary. The IEP foresees an automatic and clearly defined mechanism for the obligations, which member countries have to fulfill in case of oil supplies disruption. The EU does not handle any specific thresholds for the activation of emergency measures. In other words, obligations, which would arise from the EC systems, are automatically fulfilled by the activation of the IEP mechanism.

Since the IEA's founding and the implementation of the emergency systems, 30 years have passed, and unfortunately the oil market has since changed. At the same time the nature of possible disruptions to EU oil supply has also changed. It is believed that a new oil crisis caused by a political boycott is no longer likely. Instead, instability in producer countries, terrorist acts causing harm to oil replacements, and the possibility of major accidents significantly influencing oil supplies pose bigger threats. The current emergency systems in the IEP were not planned to counteract such threats.

With the invasion of Iraq by the U.S. and coalition forces, the EU started bilateral relations with Iraq. The EU has played an active role in Iraq's reconstruction process since May 2003. In 2004 the Commission announced a strategy for Iraq - "The EU and Iraq: a Framework for Engagement".[156] This strategy showed the EU's interest for greater engagement with Iraq. The strategy is based on three key objectives: the development of a secure, stable and democratic Iraq; the establishment of an open, stable, sustainable and diversified market economy; and Iraq's political and economic integration into its regional and the international system. One month after the formation of the first elected government in Iraq, the first EU Troika visit to Baghdad took place in June 2005. During this visit the EU underlined its intention to intensify the dialogue with Iraq. Moreover, preparations for the opening of a Commission Delegation in Baghdad are also progressing.[157]

[156] European Commission, 'The EU and Iraq: a framework for engagement', COM (2004) 417/1 of 01/06/2004

[157] 'EU Policy Objectives in Iraq', http://ec.europe.eu/external_relations/iraq/intro/

To sum up, the directives and resolutions accepted by the European Community could not prevent European states from suffering because of the challenges during this era. The European states continued to act individually in times of crisis. Although EU tried to develop some bilateral policies with the region, (e.g. the GCC, Mediterranean, OPEC and Iraq) both the lack of unanimity and its weak policy made the EU unable to cope with the crisis by itself. Member states' national interest always came first in energy policy.

## CONCLUSION

History shows that there has been very little energy policy cooperation at the European level in energy crises. Instead, the member states relied on a national policy dominated by the need to safeguard supplies by having diverse sources and by ensuring the strategic use of domestic resources. Energy policy has been regarded as "high politics"[158] akin to security policy. Therefore, national energy policies have clearly dominated European energy policy since the Second World War, and in major ways has limited what is possible in the EU context in this field. An understanding of the role of national governments in this area is therefore essential to any analysis of EU energy policy. Since energy is a main factor of production in all economies, its supply is of vital national importance. In the last 20 years the EU has been trying to develop a common energy policy. Ensuring supply is not only a question of diversification of having more than one supplier; it also requires consideration of the political stability of the suppliers. With oil there is also a need to be concerned about dependence on any one region, mainly the Middle East. Security of supply has been a primary concern of national energy policies, and it is now becoming a prominent one on the EU agenda.

In this context, this thesis examined the relationship between EU energy security and Middle East oil, both at domestic and foreign policy levels of the union. Most of the necessary precautions, decisions, directives or bilateral dialogues were taken, adopted or started after a serious oil crisis in the Middle East. All these developments, however, can play a limited role unless the EU creates a common voice among the member states.

Oil and oil products dominate EU energy balance, of which 41% is imported. This situation gives rise to a number of problems for the EU in the short-term. The first one is the price of oil and gas and their impact on European economy. Lives of millions of companies are dependent on prices over which the EU does not have direct influence. Secondly, there is always a risk of an energy cut from the exporting

[158] Matlary, *Op.cit.,* p.25

nations. Consequently, the EU economy is at risk at any time. According to the Green Paper[159]:

> *The current energy demand is covered by 41 % oil, 22 % gas, 16 % coal (hard coal, lignite and peat), 15 % nuclear energy and 6 % renewable. If nothing is done, the total energy picture in 2030 will continue to be dominated by fossil fuels: 38 % oil, 29 % gas, 19 % solid fuels, 8 % renewable and barely 6 % nuclear energy.*

What makes the EU dependent on external energy supplies is the huge amount of imported fossil fuels. In the EU's energy balance, 78% of oil and 36% of natural gas is imported. And with the enlargement it is foreseen that in 2020 this will rise to 90% in oil and 70% in natural gas.[160] As it is understood, EU is becoming more and more dependent on fossil fuels, namely solid fuels, oil and natural gas. Predictions for 2030 are the highest, reaching 60% in total dependency on fossil fuels. These figures are crucial, as the EU does not have vast indigenous fossil fuel resources. Even worse, limited indigenous reserves will not last forever as it is foreseen that North Sea oil will be used up by 2050 at the latest.

There is another problematic area that makes the oil and natural gas supply even more insecure. It is that high amounts of oil and gas are imported from one single supplier. In natural gas, EU is highly dependent on Russia (40%). In oil, it is dependent on the Middle East (45%).[161]Therefore, instability of these regions, especially the Middle East, created a high risk fore the security of the EU's energy supply. The European Union has to secure its energy supply in the short-term. However, in the long-term, there is the problem that the world oil reserves will be totally depleted. In the worst case, the peak production in oil reserves would be

[159] Green Paper…, **http://www.europa.eu.int/scadplus/leg/en/lvb/l27037.htm**, p.3 (December 20, 2004)

[160] *Ibid*

[161] *Ibid,* p.2

reached in 2021, and the reserves would be totally depleted by 2075. In the most optimistic scenario, peak in production would be reached in 2112[162].

In order to tackle the problem of security of supply, the European Union has been taking some initiatives through different actions and treaties. However, it is uncertain if these initiatives will bring a thorough solution to the problem. What the EU has done and has planned in order to secure its energy supply can be summarized in two points. First, the EU has focused on creating to create a common energy policy. Such a policy includes the necessity of holding minimum stocks of crude oil and/or petroleum products, diversification of energy resources and rational use of energy. Secondly, the EU has used its foreign policy tools in securing its oil supply.

Concerning the minimum stocks of crude oil, in 1968, for the very first time, all member states were required by a Council Directive to maintain stock of oil for 65 days. The Directive stated that "the member states are required to maintain at all times, within the territory of EU, stocks of petroleum products at a level corresponding to at least 65 days' average daily internal consumption in the preceding calendar year"[163]. A new Directive amended this Directive in 1972 through which the amount of minimum stock of oil was increased to 90 days' average daily internal consumption. The reason for this Directive was the fear of instabilities in the Middle East. The oil crises of 1973, '79 and the Gulf War of 1991, all originated in the Middle East made this initiative a necessity. After the Gulf War, even further steps were taken. In 1998, a new Directive amended the previous one. This Directive enabled each member state to maintain the required stock of oil in territory of any member country. Moreover, for the healthy measurement and control

[162] Kızılkaya, Dr. Ertuğrul, Dr. Cem Engin, "Enerjinin Jeopolitiği: Dünya Üzerindeki Jeo-Ekonomik Mücadele", **Sosyal Bilimler Dergisi,** İstanbul Üniversitesi, p. 200, **http://www.manas.kg/pdf/sbdpdf9/Kizilkaya.pdf**, (09 September, 2005)

[163] Council Directive **68/414/EEC** of 20 December 1968 imposing an obligation on MS of the EEC to maintain minimum stocks of crude oil and/or petroleum products**,** **http://www.europa.eu.int/scadplus/leg/en/lvb/l27045.htm**, (December, 20, 2004)

of the stock, each member state is now obliged to establish a *stockholding agency* that will make the system more effective.[164]

As a second solution to the security problem, the European Union has to diversify its energy resources. This will decrease the dependency level of EU on imported energy. In this context, the use of renewable energy, coal and nuclear power, all which can be produced within the EU, has been emphasized. Among them, renewable energy or alternative energy consists of pure natural energy resources, which cause very little pollution, namely hydroelectric power, solar energy, and wind power. Their positive aspect is the fact that these can be found in nature in abundance. Unfortunately, the initial start-up cost is too high to make them attractive investments. A second option for the diversification could be the old energy of Europe, coal, which constitutes 27% of the EU's electricity generation. But it is now unfavourable due to its pollution, its a lower calorific value, and its impracticality to transport and stock when compared with hydrocarbons.[165] Coal's one important advantage, is its lower and stable price. The third option is nuclear energy. "It produces only a negligible quantity of $CO_2$, and thus helps in the fight against climate change."[166] However, it is at the same time the most controversial energy type. Although it makes a positive contribution to the Union's energy supply security, European public is strongly against nuclear energy. Nuclear power reactors are seen as dangerous potential bombs in the eyes of the public due to the Chernobyl Disaster of 1986. There is also the serious problem of waste management. Aside from burying it, which is not safe itself, alternatives to dispose of nuclear waste. Therefore, no member state has plans to build new nuclear power stations, except Finland. But the debate in using nuclear energy in Europe came on the agenda again and seems to stay for the coming days.

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[164] Council Directive 98/93/EC of 14 December 1998 amending Directive 68/414/EEC imposing an obligation on MS of the EEC to maintain minimum stocks of crude oil and/or petroleum products, **http://europa.eu.int/eur-lex/lex/LexUriServ/LexUriServ.do?uri=CELEX:31998L0093:EN:HTML**, (December, 20, 2004)

[165] European Commission,'Energy: Let Us Overcome Our Dependence', Luxembourg: Office for Official Publications of the European Communities, 2002, p.4

[166] *Ibid,* p.21

European Union is also promoting rational use of energy and energy saving through some actions in order to secure its energy supply that in other words is called energy efficiency. It is described as reducing energy consumption without reducing the use of energy-consuming plant and equipment.[167] In that sense, inefficiency in energy refers to the loss of energy due to lack of commensurate technology in transport of energy and on the use of energy. In this context, the EU developed an action plan through some programmes in order to make energy use efficient.

Another development can be considered the role of the Commission towards a common energy policy. The Commission started to have an active role in the early 90s. It is clear that it played an important role in the development of the International Energy Market towards the Common Energy Policy. The energy directorate proposed some proposals in which the Commission would have greater role and responsibility in the energy policy of the union. In addition, the Commission put forward some proposals that would give it more power in decisions concerning energy security. Unfortunately, the Energy Council rejected these proposals as it would have given a more central role to the Commission in the filed of energy security as member states consider energy policy too important to be give to the hands of the Commission alone. Therefore, the energy field is an area for competition between national and supranational interests in the EU.

The last point is about the usage of foreign policy tools in securing energy supply. Programmes that include aid to specific regions for specific needs and international agreements are major foreign policy tools the European Union uses for securing its energy supply. European Union has to develop its relations with third-world countries who hold significance owing to their energy resources or geo-strategical positions on the transport lines of vast energy resources to Europe. In order to secure its energy supply, the EU also gives technological assistance to third countries. These tools are considered helpful in improving international cooperation concerning energy. The Middle East is one of the regions, which is a major energy supplier of

[167] Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions. Action Plan to improve Energy Efficiency in the European Community, COM (2000) 247, **http://www.europa.eu.int/scadplus/leg/en/lvb/l27033.htm,** (December 20, 2004).

the European Union. As mentioned before, in order to secure energy supply, dialogue and stable relations with producer countries are extremely necessary. The first attempt for a dialogue was the Euro-Arab Dialogue, initiated after 1973 oil crises. However, the Arab-Israel conflict prevented the development of this dialogue. The EU maintains relations with the Gulf oil producers through various bilateral and multi-lateral dialogues instead. EU-GCC cooperation came on the agenda for oil dialogue in 1989. The Euro-Mediterranean Partnership came to force in 1995 in order to establish political, economic and social cooperation. The latest dialogue started between the EU and OPEC in 2005. They reaffirmed their mutual interest in stable, transparent and predictable oil markets. Moreover, after the Iraq intervention the Commission announced a strategy for Iraq in order to illustrate the EU's key objects for the development of a secure, stable and democratic Iraq, the establishment of an open, stable and sustainable market economy, and Iraq's political and economic integration into its regional and international systems. The EU has played an active role in Iraq's reconstruction process since May 2003.

Energy policy in Europe remains a national concern and important differences between national policies persist, despite the fact that most of the member states encounter broadly similar problems and challenges. The attempt by governments to maintain their independence in policy-making has survived partly because of the very important interests at stake in this field and the power of the interests involved in the energy sector. When important national interests have been at stake, member states have been reluctant to abandon national policies and practices, which protect their own fuel industries influenced by lobby activities of oil companies. Yet the strengthening role of EU institutions can no longer be dismissed by member states. Governments have to take more consideration of the European dimension to energy matters. Secondly, the foreign policy of the EU, despite the attempts for dialogues with the Middle Eastern states, can be considered to be rather weak. All the agreements for cooperation and better relations stay written on paper and cannot be applied. Again, the main reason can be claimed to be lack of a common voice within the EU. The EU mainly relies on the US for the protection of its oil interests in the Middle East. The EU simply appears as not quite ready to take initiative to do this itself.

In conclusion, security of energy supply is a priority for the EU if she needs to be more independent in energy as dependency may create serious problems in possible energy crises due to instabilities of the stated regions. The EU has to provide the security of vital resources for securing its economy and daily lives of its citizens as well. The planned actions for the mission can also be appreciated for the sake of their effects on developing international cooperation, custom of rational use of resources and protecting the environment.

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Council Directive 73/238/EEC of 24 July 1973 on measures to mitigate the effects of difficulties in the supply of crude oil and petroleum products

Council Directive 77/706/EEC of 7 November1977 on the setting of a Community target for a reduction in the consumption of primary sources of energy in the event of difficulties in the supply of crude oil and petroleum products

Council Resolution of 17 December 1974 concerning *a new energy policy strategy for the Community* (OJ C 153, 09/07/1975 p.0001-0002)

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Council Resolution of 13 February 1975 concerning *measures to be implemented to achieve the Community energy policy objectives adopted bye the Council on December 1974* (OJ C 153, 09/07/1975 p.0006-0008)

Council Resolution of 9 December 1975 setting *a short-term target for energy saving 1976/77* (OJ C 289, 17/12/1975 p.0001-0002)

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