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**Once Uniting, now Dividing: the European ~~Common~~  
Corporate Energy Policy**

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## Abstract

The European Union's energy policy has reached a stalemate point. Most, if not all, of the Member States have realized that the present structure of the energy market, that is, being dependent on a few energy sources from a limited geographical area, is highly hazardous. According to the European Commission's recommendations, the only real and sustainable alternative to the present energy situation would be the domestic development of renewable energy sources. Some of the Member States, however, are blocking any further reforms in the integration process of this policy area. What is interesting in these developments is the fact that overall, no Member States can benefit from maintaining the present energy structure in comparison to participating in the development of renewable energy sources.

The fundamental question is then who is the beneficiary of the present energy situation and whose interest is to prevent any further integration of the EU's energy policy? My findings are that besides Russia the beneficiaries of this current situation are the petrochemical corporations, such as BASF, SE, and E.ON AG, whose financial health is greatly dependent on the preservation of the existing structure of this business sector.

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## Introduction

### PUZZLE

The external, undiversified dependence, of European Union (EU) has reached a level that causes serious concerns not only in Brussels but all over the EU. Statistically, the EU is the second largest energy consumer, and the largest energy importer in the world. In reference to one of the rhetorical expressions on the Internet portal of EU Commission's Directorate General Energy and Transport, "if modes of transport are the arteries of our society, then energy is the blood."<sup>1</sup>, the EU needs to sustain its organic development with external transplants.

From an anatomical perspective, this practice cannot be a primary choice if the sustainable well-being of any organism is concerned. To expand the allusion, the present energy structure is similar to the practice of eating only junk food from the same fast-food chain, while knowing that healthy growth primarily requires diversified, home-cooked nutrition.

The puzzling questions that this thesis addresses is why if this organism is aware of its needs for healthy life it does not address them in a coordinated manner and rather responds to short-term urges of its particular parts, as well as what can be done to save the healthy balanced growth of this energy hungry organism – the sustainable economic development of EU.

The EU's economy is increasingly in need of a growing amount of energy, which is gradually covered by importing more and more energy sources, worth around 200 billion Euros by the end of 2006.<sup>2</sup> The domestic production within the EU is clearly insufficient for its energy demands. Consequently, external dependence on energy is persistently mounting. Besides the

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<sup>1</sup> Energy & transport international relations, [http://ec.europa.eu/dgs/energy\\_transport/international/index\\_en.htm](http://ec.europa.eu/dgs/energy_transport/international/index_en.htm)

<sup>2</sup> Eurostat, *External and Intra-European Union Trade*, (2005)

[http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-AR-05-002/EN/KS-AR-05-002-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-AR-05-002/EN/KS-AR-05-002-EN.PDF)

EU dependency on energy imports, the structure of the energy imports is overly focused on a few geographical locations and energy sources.

The EU's permanent interests in the high security of energy supplies, requires that the Union is not over-dependent on a small number of countries, such as Russia and the countries of the Gulf region, that can provide supplies. Due to the unavailability of substitute suppliers, besides focusing on diversification of geographic and product sources that satisfy the European energy demand, the EU has to also focus on progressive strategies and new policies to control consumption, in particular, that of the households. As a third main area, due to its international commitments and the power of rhetorical entrapment as an example setter, the EU has to pay special attention to sustainability of energy supply and consumption by supporting energy sources that are more environmentally friendly than those from fossil fuels.

There is a strong political commitment of European institutions to address the challenges of climate change. The policy recommendations and studies completed by the European Commission have contributed to a growing awareness of the long-term consequences of the ongoing climate change. At the same time, the Commission has also stressed the importance of decisive and immediate policy actions, such as achieving the strategic objective of limiting global average temperature increases. As fossil-based energy production is the main source for greenhouse gas emissions, a joint approach to climate and energy policy is required to increase environmental sustainability and combat climate change.

The promotion of renewable energy plays an important role given the EU's growing dependence on energy imports in addition to the challenges caused by climate change. Since 1997, the EU has legislated minimum percentage targets of gross inland energy consumption for renewable energy to achieve. In 1997, the share of renewable energy in the EU was 5.4%; by 2010 this figure is expected to reach 10% to 12%.<sup>3</sup>

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<sup>3</sup> European Council, *Directive 2003/30/EC*, [http://ec.europa.eu/energy/res/legislation/doc/biofuels/en\\_final.pdf](http://ec.europa.eu/energy/res/legislation/doc/biofuels/en_final.pdf)

The focus of my thesis is directed to the analysis of the EU's common energy policy. What I find puzzling is the fact that the energy policy, which once could unite the Member States, now seems to greatly divide them. It is not the change in the Member States' preferred energy partner list that is puzzling, but the fact that the Member States are divided in the question of energy policy despite their individual interests on the Member State level. As shown by the Commission's green papers and numerous studies, the only way the individual Member States' economies could grow in a sustainable manner is by using renewable energy. The question thus is why this is not done, and what could be done in order to change it.

This puzzle is fortified by the fact that the country which could be expected to profit the most from the present energy structure – Germany suffers from a trade deficit on a national level due to the immense energy imports from Russia.<sup>4</sup> Even though some of the German energy imports from Russia are further exported, there is still a large amount of German money that is poured into the Russian fossil fuel business, which could have been used within the German economy if the money was spent on renewable energy.

In my search for finding an answer to this puzzle I analyze the role that Russia – the single most important energy supplier, plays in the EU's energy policy. Because of its immense energy reserves and massive distribution network, Russia can negotiate with the EU as a community and with its Member States individually from a well-established position of energy monopolist. Mathematically speaking, with the lack of even a lowest common denominator in energy policy in relations with Russia, the EU has difficulties in establishing an institutional framework that could match its Russian partner's mandates, as illustrated through the problems with the ratification of Energy Charter Treaty (ECT). While Russia is

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<sup>4</sup> Eurostat, "EU - Russia Summit: A EU27 external trade deficit of almost 70 bn euro with Russia in 2006" <http://europa.eu/rapid/pressReleasesAction.do?reference=STAT/07/65&format=HTML&aged=0&language=EN&guiLanguage=en>.

further consolidating its monopolistic position by exerting control over the production and transmission, it is outbalancing the position of EU which is maintained as a fragmented energy market. This can be further illustrated by Russian approach and domestically voiced questions why does Russia even deal with EU as whole and why does it not prefer bilateral relations with those countries that are important as energy customers (read Germany).

Since there seems to be an inherent conflict of interests among the Member States concerning their bilateral relationship with Russia, the EU as a community can at most focus on strengthening the balance of its internal energy demand and its domestic capabilities to supply these demands.

Based on the assumptions of structural realists, both the individual Member States and the EU would be much more successful and safer if it invested considerably more political conviction and financial resources into developing its internal capabilities to self-sustain an increasingly more proportion of its own energy-demands. This prolonging of a dangerous, import-obsessed energy *status quo* by the Member States is a puzzling energy policy. One obvious solution to the energy security issue would be to increase the European energy supply from self-sustainable renewable resources. This would not only bypass the problematic foreign policy aspect of energy policy, which the Member States are jealously protecting from common coordination, but it could possibly also solve additional issues such as development of domestic production, thus further supporting EU economy.

The answer that I arrived to is, that the reason why the current energy *insecurity status quo* is maintained is the corporate interest that is tied to the position of particular countries. I illustrate this on the comparison of Germany and Austria.

It is important to note, however, that while there are corporations who make significant financial gains from the present energy situation, conflicts are certain to occur.

One of the forms in which conflicts emerge on Member States level is the appropriate common institutional framework which should be empowered with the necessary mandates to deal with the problem on an external level, the lack of which serves the interests the corporations making large amounts of money from the present energy situation.

If one considers such rational political and economic actors; including Member State governments, or European common institutions, one believes there must be some basis of economic and political motivation behind their support of the present energy market structure. This thesis advocates that the current beneficiaries of energy, namely large chemical or energy corporations such as BASF, SE, or E.ON AG, maintain significant political power which controls the energy policy objectives of national governments throughout Europe, making any political change without their consent in the field of energy policy impossible.

In contrast with BASF and E.ON, the Austrian oil giant, OMV, is financially more interested in the geographical diversification of energy sources. This interest in the change of the present structure of the energy market makes OMV one of the most prominent interested parties in the common EU project of structural reforms in the field of energy policy.

My proposed answer to the puzzle of why the Member States are unable to effect any significant structural changes in the field of energy policy is the financial role of the Russian energy monopolies (e.g. Gazprom) in the operation of some corporations (BASF, E.ON) within the EU boundaries and the influence of these European companies in the political life of the Member States.

Although the interests of all Member States, including Germany, is to form a common EU energy policy, the immense corporate interest is in favor of maintaining the present status quo in the field of energy policy. This is represented on the highest level of the Member States and any common effort to secure the energy supplies will be effectively futile.

The method for testing my hypotheses is comparison of the most similar countries and the corporate actors within them – Germany and Austria. To support my research, in terms of the existing policy formation within EU, I use the European Commission's green papers, namely *Green Paper - Towards a European strategy for the security of energy supply*, and *A European Strategy for Sustainable, Competitive and Secure Energy* as my primary sources of information.

The time period of these papers coincide with the timeframe that I am focusing on in my thesis, that is, between the new millennium and 2006. Besides the other papers and studies on this policy area published by the Commission, these papers carefully reflect on the objectives of a common European energy policy – therefore they provide solid basis for the policy analysis as well as for the existing discourses within the EU.

In contrast with the political goals of the Commission, I also analyze the corporate reports of the corporations mostly interested in the preservation or the reformation of the present structure of the energy market. This is done in order to compare the congruence of formal political discourses with the ones in the corporate arena.

As a secondary source of information, to analyze the broadest discourses I make use of daily publications and analyses that deal with the energy policies of the individual Member States and EU as a community in detail.

Since the present energy market is typically governed by bilateral treaties and corporate decisions whose contents are often not fully made available to the wider public or the academic world, I employ the analytical lenses of structural realist approach, most importantly Kenneth N. Waltz's *Theory of International Politics* to find explanations for the puzzle that Member States are blocking further integration in the field of energy policy, which would clearly benefit each one of them.

Using structural realism on the level of corporations is rather novel, nonetheless firms as actors in IR analysis have been used before.<sup>5</sup> My contribution is thus in analyzing the sovereign states whether they were acting out of their own independent and autonomous interest, and emphasizing the linkages to transboundary corporations uncovered through the structural realist concept.

By applying the structural realist theory to the corporate world, we can better understand the logic that is driving these businesses to preserve the present structure of the energy market and block any significant reform on a community level in this field. By considering these mogul companies as sovereign entities with significant political influence, the present situation in the energy market is not surprising.

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<sup>5</sup> Barry Buzan, *People, States and Fear : An Agenda for International Security Studies in the Post-Cold War Era*. 2nd ed. Boulder, CO: L. Rienner Pub. Co., 1991.

# 1. The Realities of Governance in the Field of Energy Policy

## 1.1 Governance as Political Balancing of Power

The first question that I have to raise in dealing with energy policy is the fundamental principles and the realities of governance. Energy policy, similar to any other EU policy area, is balanced by the political preferences of the individual Member States and the common EU institutions. In order to understand the realities of the energy policy, I need to point out the underlying theoretical approaches to EU policy making. According to Rod Rhodes, Distinguished Professor of Political Science at the Australian National University, the word “governance” is a very complex term. Rhodes claims that political science approaches the field of politics from a more economic or corporate perspective.<sup>6</sup> Thus, the versatility of the concept of governance originates from the diverse contextualization of the distinct acts of governing. From this post-modern point of view, “governance” is conceived as a political organization with its emblematic value judgments, accepted structure of decision-making, characteristic political, economic, and social and cultural objectives. In the collective context of community life, the term “governance”, embraces action by all political bodies, such as legislative bodies (parliaments), executive bodies (governments), and judicial bodies (courts and tribunals).

Similar to nation state level governance, the European Union (EU) has also established its own concept of governance. In the context of the EU political environment, the term “European governance” is defined by “the rules, processes, and behavior that affect the way in which powers are exercised at European level”<sup>7</sup> with special regard to “openness, participation, accountability, effectiveness, and coherence.” According to the definition of the

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<sup>6</sup> Roderik Rhodes, “The new governance: Governing without government”, *Political Studies* 44 (4), (1996): 652-667

<sup>7</sup> European Commission, *Governance*, [http://ec.europa.eu/governance/index\\_en.htm](http://ec.europa.eu/governance/index_en.htm)

European Commission, “these five ‘principles of good governance’ reinforce those of subsidiarity and proportionality.”<sup>8</sup> However, the practical implementation of these general, abstract concepts, such as participation or effectiveness, is challenging. The challenge of European governance is especially intricate in those cases when the interests of Member States radically differ in specific areas. Energy policy is one of the areas where nation state interest can override the commitment to the basic principals of European governance.

## **1.2 Realist theory and the reality behind the obstruction of the further integration of the EU’s energy policy: ~~(Member States)~~ Corporate Greed**

According to Robert Powell, Robson Professor of Political Science at the University of Berkley, “two of the most influential contemporary approaches to international relations theory are neorealism and neoliberalism.”<sup>9</sup> As Powell suggests “it is now commonplace for an article about some aspect of international relations theory to begin by locating itself in terms of this debate”<sup>10</sup>, I position my research comparing the underlying approaches of these theories to international relation affairs. Prescriptively, liberal internationalists believe that international institutions should perform a number of functions the states are not capable or not willing to perform for the sake of promoting peace and building a better future.<sup>11</sup> Because of this fundamentally normative nature of the liberalist approach in the international relations,<sup>12</sup> I approach the European integration in the field of energy policy from a more realist theoretical approach in order to locate the present underlying conflict of interest that blocks further integration in this field of policy.

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<sup>8</sup> *ibid.*

<sup>9</sup> Robert Powell “Anarchy in International Relations Theory: The Neorealist-Neoliberal Debate” *International Organization*, Vol. 48, No. 2 (1994): 313.

<sup>10</sup> Robert Powell “Anarchy in International Relations Theory: The Neorealist-Neoliberal Debate” *International Organization*, Vol. 48, No. 2 (1994): 314.

<sup>11</sup> Tim Dunne, “Liberalism” in *The Globalization of World Politics* edited by John Baylis and Steve Smith (Oxford: Oxford University Press, 2001), 169-170.

<sup>12</sup> Tim Dunne, “Liberalism” in *The Globalization of World Politics* edited by John Baylis and Steve Smith (Oxford: Oxford University Press, 2001), 171.

Due to severe division between the Member States on the issues of energy, the treaties of the EU regulate the common energy policy to be decided on the Member States' level. Since Member State governments have the option and political power to promote or to obstruct the further integration of this policy area, the legislative and technical order of the treaties inherently contain an opportunity for division to be created between the Union of the Member States.

To begin with, some political theorists have fundamentally disputed the nature and the extent of the possible integration of the Member States. The neorealist theory, for example, approaches international politics with a vastly pessimistic view on the success of highly integrated international cooperation. In his work, *Theory of International Politics*<sup>13</sup>, Kenneth N. Waltz asserts that states are fighting for survival. In this continuous struggle collaborations between individual states are restricted to national sovereign interests. Waltz argues that cooperation on international level is only motivated by fears of the relative gains made by other states, and the possibility of relative loss in comparison to other states. Thus, the international political structure is essentially determined to be decentralized, incapable of having central authority. According to this perspective, the only possible way that states maintain realizing their interests is by acting as independent sovereign political units as much as possible. To illustrate his point, Kenneth Waltz rephrases Rousseau's 'stag hunt' parable in *Man, the State and War*:

Assume that five men who have acquired a rudimentary ability to speak and to understand each other happen to come together at a time when all of them suffer from hunger. The hunger of each will be satisfied by the fifth part of a stag, so they 'agree' to co-operate in a project to trap one. But also the hunger of any one of them will be satisfied by a hare, so, as a hare comes within reach, one of them grabs it. The defector obtains the means of satisfying his hunger but in doing so permits the stag to escape. His immediate interest prevails over consideration for his fellows.<sup>14</sup>

<sup>13</sup> Kenneth N. Waltz, *Theory of International Politics* (Reading, Massachusetts: Addison-Wesley, 1979), 36.

<sup>14</sup> Kenneth N. Waltz, *Man, the State and War*, (New York: Columbia University Press, 1959) 167-168.

Through this parable, Waltz emphasizes the fact that the strength of all collective international regimes is equal with the weakest link of the team. Realists give further emphasis to the fact that the strength of the international regimes is further weakened by the behavioral pattern of the states and that they are more concerned about relative than absolute gains. Therefore, the fundamental “question is not whether all will be better off through co-operation, but rather who will likely gain more than another?”<sup>15</sup> According to the realist approach, it is because of this ‘competitive’ concern with relative gains issues that “co-operation is difficult to achieve in a self-help system.”<sup>16</sup> According to realism, self-help and the states preference to relative gains instead of absolute gains are not an inevitable consequence of the absence of a world government. Focusing on relative gains is the game that states have chosen to play. Thus, the essential element that creates the conflict between sovereign states is the fact that they not only want to achieve certain gains but they want to gain something relatively more to the other states.

Among other neo-realist thinkers, Joseph Grieco focuses on the concept of relative and absolute gains. Unlike the neo-liberals, who claim that “co-operation does not work when states fail to follow the rules and ‘cheat’ to secure their national interest,”<sup>17</sup> Grieco believes that “there are two barriers to international cooperations: cheating and the relative gains of other actors.”<sup>18</sup> As far as relative gains are concerned, Grieco goes as far as claiming that “the likelihood of states abandoning international co-operative efforts is increased if participants see other states gaining more from the arrangement.”<sup>19</sup> Similar to Grieco’s theory, John Mearsheimer, an offensive realist, suggests that relative power and not absolute power is most important to states. According to this perspective, sovereign states pursue

<sup>15</sup> Tim Dunne, Brian C. Schmidt, “Realism” in *The Globalization of World Politics* edited by John Baylis and Steve Smith (Oxford: Oxford University Press, 2001), 152.

<sup>16</sup> Tim Dunne, Brian C. Schmidt, “Realism” in *The Globalization of World Politics* edited by John Baylis and Steve Smith (Oxford: Oxford University Press, 2001), 153.

<sup>17</sup> Steven L. Lamy, “Neo-Realism and Neo-Liberalism” in *The Globalization of World Politics* edited by John Baylis and Steve Smith (Oxford: Oxford University Press, 2001), 186.

<sup>18</sup> *Ibid.*

<sup>19</sup> *Ibid.*

security policies that weaken their potential enemies and increase their power relative to all others.<sup>20</sup> To offensive neo-realists, the constant struggle for relative gains “enhances the competitive nature of an anarchic system and makes conflict as inevitable as co-operation.”<sup>21</sup>

According to other scholars of international relations who support the realist explanation when explaining the developments carried out in certain policy areas, the process to reach a consensus on issues of further EU integration have never seemed to be easy, given the hindering difficulties of finding a common ground in such widely dividing issues as energy policy, which has implications for foreign and defense policy, as well.<sup>22</sup> According to Christopher Reynolds, researcher in political science at the Technical University of Munich, although there is an obvious process of convergence in several policy areas, there are historical underlying divergences between the constitutive states of the EU. To begin with, the inherent organic bond between economics and politics in general is clearly manifested both on the national and the international level of policy making. From this perspective, the vital significance of economic effects of the national foreign and defense policy cannot be disregarded when approaching issues of any policy integration. In the case of the European Union, all member States have to balance the economic pro and con arguments case-by-case before committing themselves to engage in a particular policy issue. The approach of the Member States to each issues of any policy matter is fundamentally different if we consider the geographical location or the economic or political environment of the Member States with reference to their political and economic concerns. In the case of security issues Reynolds

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<sup>20</sup> John Mearsheimer, “Back to the Future: Instability After the Cold War”, *International Security*, Vol.15/1. (1990): 5-56.

<sup>21</sup> Steven L. Lamy, “Neo-Realism and Neo-Liberalism” in *The Globalization of World Politics* edited by John Baylis and Steve Smith (Oxford: Oxford University Press, 2001), 187.

<sup>22</sup> Maria Green Cowles, Desmond Dinan, *Developments in the European Union*, (New York: Palgrave Macmillan, 2004), 222-224

points out that “what is a security concern to Italy (e.g. refugee flows or conflict ‘spill-over’ from the former Yugoslavia) may not be such a pressing worry to Sweden.”<sup>23</sup>

Instead of talking about unified countries that represent common interests, however, I propose to examine the beneficiaries of certain divisive political actions under a magnifying glass. What I claim is that the beneficiaries of the egotistic, self-interested actions of the national states are not formulated by the national government acting in the interests of the state as a whole, but in the interests only for the sake of certain interests groups, or even only a few influential corporations. At present, bilateral talks and agreements between Germany and Russia are distinctive examples of opportunities that are utilized for the benefit of a few countries, or rather, few companies, meanwhile dividing the feebly united front of the EU’s common energy policy. Behind these bilateral talks and agreements, there are certain corporations who reap the benefits of the obstruction in further integration of a common EU energy policy. I claim that the Member States’ political leaderships who are making these bilateral deals with Russia are fundamentally influenced in their decision by the corporate interests of their jurisdiction above the national and the common European interest.

My claim in relation with the realist theory of international relation is that we have to view the corporate world as potential states within the states, some of whom are capable of pressing their economic interests on the international political front. My argument is not that corporations possess all attributes that of sovereign states, however, some of them have the financial power and social influence to manipulate national governments. To expand the analogy between the sovereign states and corporations, corporations naturally compete against each other in the arena of market economy where cooperations are similar in nature to that of between sovereign states. According to Barron’s *Dictionary of Business Terms*, market economy is an economic system in which the production, distribution, and exchange is

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<sup>23</sup> Christopher Reynolds, “Irreconcilable Differences?: National Convergence and Divergence in the CFSP”, in ed. Dieter Mahncke, Alicia Ambros, Christopher Reynolds, *European Foreign Policy, From Rhetoric to Reality?* (P.I.E. Peter Lang S.A., 2004), 48.

controlled by corporations and the prices of the commodities are fixed by the relative proportions of supply and demand, thus, the fundamental engine of the market economy is competition.<sup>24</sup> Similarly to the realist theoretical approach to international relations, market economy is considered a social environment where the basic rule of natural selection, that is, ‘the survival of the fittest’<sup>25</sup> dominates coexistence. According to this so-called ‘economic realist’ approach, in this economic game of survival and profit maximization, corporations optimize their operation for meeting such short-term financial expectations as the quarterly or annual reports. In the ever-increasing global competition, corporations are motivated to maximize return on their investment without considering any political or social ideals. Though there are fundamental similarities between sovereign states and corporations, there are also essential differences, such as the legal framework in which each one is subjected to. The underlying point is that although corporations are not sovereign states, so they cannot be direct participants in affairs of international relations and their effects on the actors of international relations are ever more perceptible. Therefore, I maintain my claim that some of these ‘self-helping’ corporations represent such economic and social weight that they can influence the national governments to identify with their corporate interests in the political battles, instead of considering the collective benefit of their entire nation or the benefit of any higher regimes.

To prove my point, I would like to outline the underlying different political behavior of two countries, one of them whose leadership is interested to maintain the present structure of the energy market, that is, depending on Russian fossil fuel, for the sake of a few corporations under their jurisdiction, and the other whose leadership is interested in further EU energy policy integration for the sake of a few corporations under their jurisdiction.

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<sup>24</sup> “market economy”, Dictionary of Business Terms, (Barron's Educational Series, 2000.)  
<http://www.answers.com/topic/market-economy>

<sup>25</sup> Robert Bierstedt, *The Making of Society*. (New York: Modern Library, 1959) 253-273.

On the one hand, German energy corporations are interested in maintaining and expanding their business with Russian energy companies (North Stream). These companies have a significant political influence in the German SPD party. The aim of these market-leading companies is to undermine any structural change in energy market, that is, the further development of a common European energy policy and the further increase of the security of supplies. After discussing the present energy situation in the EU, I would like to point out that these German moguls who are interested in maintaining the present energy structure had enough lobby power to convince Chancellor Schroeder to represent their corporate interests on EU level when he served as the Chancellor of Germany between 1998 and 2005.

On the other hand, there are the Austrian companies (e.g. OMV), who have less focus on the gas import business and even less business interest in the Russian import gas market. Austrian companies are more interested in the further development of a common European energy policy and the further increase of the security of supplies. I will also discuss the political behavior of the Austrian national government in the field of energy policy. I also claim that the Austrian government represented the interest of the powerful Austrian companies under their jurisdiction who happened to be possible beneficiaries of further European integration in the fields of energy market.

I accept the reality of the Intergovernmentalist claim that there are EU policy decisions that are promoted or obstructed by national governments as their self-interest dictates. The energy policy is one of the policy areas where the Intergovernmentalist theory holds strong positions. However, I want to stress the fact that the political reality of these decisions are not created out of national interests of the individual selfish states, but rather out of national interests of the individual selfish corporations whom their national governments may or may not represent on EU level. I argue that both Chancellor Schroeder and Chancellor Schüssel represented corporate interests, however, the interest that the German Chancellor represented

is against the common interests of the EU while the interests that the Austrian Chancellor represented perfectly matches the common EU interest of achieving energy self-sufficiency.

## 2. Alternatives to the Present Energy Situation

### 2.1 The energy situation

Looking at the EU's energy market from an optimistic perspective, the EU's energy demand has been increasing on a yearly basis at a rate of less than 2% since the mid 1980's, which is noticeably lower than the increase in the gross domestic production of the Union. This fortunate tendency in energy demand is due to the European economy's transition from a heavy industry-based economy to a service-oriented economy. The worrying news is, however, that the households sector has rapidly increased its demand for electricity, transport and heat over this same period, lessening the positive effect of this economic transition concerning the energy demand.

Besides the rising energy demands from the European households, there are alarming structural arrangements of how the Union insures meeting the energy demand. On the one hand, the current energy demand of the EU is covered by 41% oil, 22% gas, 16% coal, 15% nuclear and only 6% coming from renewable sources.<sup>26</sup> This means that around 80% of the energy the EU consumes is from fossil fuels, that is, oil, natural gas and coal. A significant and increasing proportion of this comes from outside the EU. Dependence on imported fossil based energy sources, which is currently 50%, could rise to more than 80% by 2030, or 6% of total imports of the EU.<sup>27</sup> (Figure 1) This increase will only amplify the EU's vulnerability to reductions in supply or higher prices. On the other hand, if the geography is considered, 45% of oil imports come from the Middle East and 40% of natural gas from Russia, which is 80%

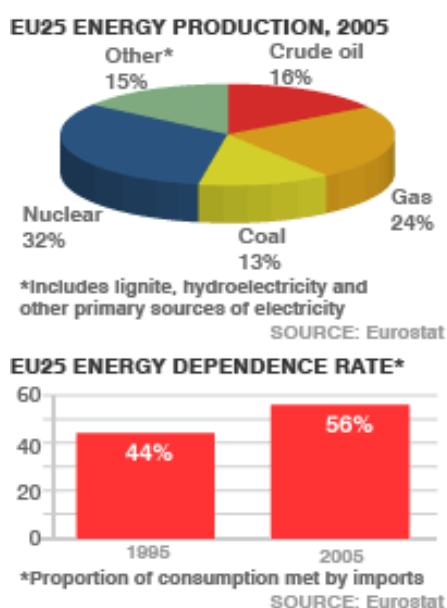
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<sup>26</sup> European Commission, *Green Paper - Towards a European strategy for the security of energy supply*, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52000DC0769:EN:HTML>

<sup>27</sup> European Commission, *Green Paper - Towards a European strategy for the security of energy supply*,

of all the imported gas supplies.<sup>28</sup> Since the international market is gradually dominated more and more by such new players as China and India, the European Union does not have all the means to change the tendencies on the global energy market alone.<sup>29</sup>

**Figure 1. EU25 Energy Production and EU25 Energy Dependence**



As a result of this undiversified energy policy, the European economy and households become extremely vulnerable to imports. These structural weaknesses of the energy supplies are clearly demonstrated by the effects of the dramatic rise in oil prices. The fact that the price of crude oil tripled between 1999 and 2006, and ever since it has remained at this high level,<sup>30</sup> exposes Europe's growing dependence on energy, especially that of oil. Without an effective energy policy, the European Union will not be able to protect itself from the negative effects of an increasing dependence on “foreign energy”, such as losing its control over effective price negotiation and being unable to efficiently maintain the security of the energy supplies.

<sup>28</sup>European Commission, *Green Paper - Towards a European strategy for the security of energy supply*,

<sup>29</sup>European Commission, *A European Strategy for Sustainable, Competitive and Secure Energy*  
[http://ec.europa.eu/energy/green-paper-energy/doc/2006\\_03\\_08\\_gp\\_document\\_en.pdf](http://ec.europa.eu/energy/green-paper-energy/doc/2006_03_08_gp_document_en.pdf)

<sup>30</sup>New York Mercantile Exchange: Light Sweet Crude Oil, [http://www.nymex.com/lscf\\_fut\\_cso.aspx](http://www.nymex.com/lscf_fut_cso.aspx)

## 2.2 The EU's fossil-based fuel (oil and gas) stocks and reserves<sup>31</sup>

Although improvements are in progress concerning energy source diversification, it seems unlikely that the EU's economy will be able to completely eliminate fossil-based energy sources. This tendency is mainly fueled by the transportation sector, which is virtually addicted to oil since 98% of its consumption is covered by oil. The consumption in this sector, which presently consumes one third of all the energy supplies, is expected to grow sharply in the coming years. Another chief supplier to the EU's fossil-based energy addiction is household and industrial heating, which is mainly covered by gas. The combined sum of household and industrial heating accounts for about one third of total energy consumption, which makes it the largest single "sub-category" of the EU's energy demand.

However, if the future perspectives of the EU's fossil-based energy supply are considered, long-term plans are futile because the EU's oil reserves are extremely low. The Community has eight years of known reserves at current consumption rates. All the EU members combined produce 4.4% of global oil output.<sup>32</sup> In the case of natural gas, the EU Member States are even less fortunate owing around 2% of world reserves. One thing is clear, if production continues at its current rate, North Sea oil and gas reserves will be exhausted by 2030, causing fossil-based energy dependence to soar to new record levels. In the case of oil, import can reach from the present 78% to 90%, and in the case of gas, import can reach from the present 40% to 70% by as early as 2020.<sup>33</sup>

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<sup>31</sup> European Commission, *A European Strategy for Sustainable, Competitive and Secure Energy*

<sup>32</sup> European Commission, *Green Paper - Towards a European strategy for the security of energy supply*,

<sup>33</sup> European Commission, *Green Paper - Towards a European strategy for the security of energy supply*

## 2.3 Russia's special role to supply fossil-based energy, in particular, natural gas

The EU does not only depend on energy imports, it particularly depends on Russia for energy resources, Russia being the EU's main supplier of energy products: half of EU gas imports, one quarter of oil imports and even one third of uranium imports. Russia's role is becoming even more critical in the case of its natural gas supply as natural gas is becoming more and more important alternative to Middle Eastern oil.<sup>34</sup> However, there is also considerable potential for oil production in Russia. Because there are on-going negotiations on increasing Russian oil export and even electricity to Europe, the EU's dependence on Russia is becoming more and more tangible.

Realizing this tendency, on the one hand the Commission of the EU emphasized the natural gas supply and Russia's vital role in the EU's external policy dilemma in the case of the energy policy.

*External policy.* Should there be a common external policy on energy, to enable the EU to speak with a common voice? How can the Community and Member States promote diversity of supply, especially for gas? Should the EU develop new partnerships with its neighbors, including Russia, and with the other main producer and consumer nations of the world?<sup>35</sup>

On the other hand, it is also in Russia's interest to engage in rational cooperations with the EU since Russia is at least as dependent on the EU as the EU is dependent on Russia. Statistically, more than half of the Russian oil exports are purchased by the EU Member States, and more importantly, over three-quarters of Russia's total natural gas is exported to

<sup>34</sup> Andrei Zagorski, "Policies towards Russia, Ukraine, Moldova and Belarus." in ed. Roland Dannreuther, *European Union Foreign and Security Policy: Towards a Neighbourhood Strategy*, (London: Routledge, 2004), 79-82.

<sup>35</sup> European Commission, *A European Strategy for Sustainable, Competitive and Secure Energy*

the EU countries.<sup>36</sup> This common realization of interdependence has led the parties to accept each other as equal partners.

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<sup>36</sup> Directorate-General for Energy and Transport, *EU/Russia energy partnership*, [http://ec.europa.eu/energy/russia/overview/index\\_en.htm](http://ec.europa.eu/energy/russia/overview/index_en.htm)

### 3. The Institutional Framework

#### 3.1 Internal market regulations as the basis of external policy

Finding the right institutional framework, however, to execute the EU Member States' common interest in energy policy has never been straightforward. Besides the powers established by the ECSC and EURATOM, there is no clear mandate for a common energy policy. The Energy Charter Treaty, which is meant to be the cornerstone of a common European energy policy, effectively failed due to the Russian resistance to accept the proposed treaty. The EU's common energy platform has been further weakened by some Member States' bilateral treaties with the Russians. Consequently the EU has not been able to develop a common energy policy ever since. Without agreeing on a common institutional framework that mandates both a common energy policy and to act in order to realize the policies, the EU will always lack the necessary means to negotiate and exert pressure. Without the required competence and community cohesion in energy matters, the EU's bargaining power is extensively reduced. The Commission warns that the energy policy "will remain the Achilles' heel of the European economy and its ability to influence dialogue at world level will remain limited"<sup>37</sup> unless the EU Member States succeed to unify their interests in order to gain power to influence the international markets.

Keeping in mind that the energy resource exporting countries, especially oil exporters, can work in strong cooperation in order to maintain a minimum price or even to keep the prices on high levels, it would be in the EU's general interests to integrate its members' isolated energy markets into a single market. This internal development would significantly reduce the influence of exporting countries, plus it would create a technological, legal, political and economic environment that would encourage competition between energy

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<sup>37</sup> European Commission, *A European Strategy for Sustainable, Competitive and Secure Energy*

sources. This competition is particularly vital in the case of natural gas, it being the most one-sided source of imported energy supply as far as geographical location is concerned.

The Commission has already taken constructive steps in order to integrate the Member States' energy market. The Commission has formulated directives, such as Directive 68/414/EEC, amended by Directive 98/93/EC, which enforce Member States to reserve as much energy supplies that can cover their demands at least for three months. According to the directive, if supplies are reduced below this minimum level, the Commission will step in and consult with the Member States. Furthermore, another directive<sup>38</sup> imposes an obligation on Member States to establish emergency plans, "in particular for releasing reserves onto the market, limiting consumption, ensuring supply to priority customers and regulating prices."<sup>39</sup> Besides safeguarding competition on the common market, this directive also appoints the Commission to coordinate Member States to ensure that their actions are synchronized in the case of an emergency.

### 3.2 Representing common interests against third parties

Although external policy is not part of the Commission's mandate, energy policy being a highly economic area of the common market, the Commission has represented the EU's interests against third parties, as Russia, multiple times. Because of this obvious economic nature of the energy concerns, the Commission's role in internal economic harmonization is unavoidable. In order to promote economic cooperation in this field, in the spring of 2006, the Commission proposed to periodically present both the Council and Parliament with Strategic EU Energy Review, covering current issues of the energy market. Through the Strategic EU Energy Review, however, what the Commission can achieve the

<sup>38</sup> Directive 73/238/EEC, [http://ec.europa.eu/energy/gas/internal\\_market/oil\\_gaz/doc/directive\\_en.pdf](http://ec.europa.eu/energy/gas/internal_market/oil_gaz/doc/directive_en.pdf)

<sup>39</sup> European Commission, *A European Strategy for Sustainable, Competitive and Secure Energy*

most is to monitor progress, identify new challenges and propose new policies. Nevertheless, the Commission is aware that any decisions in the case of energy policy will have to be agreed unanimously by the Member States.<sup>40</sup>

Even the High Representative of the Second Pillar, Mr. Javier Solana, admits that it is beyond question that the individual Member States have all the legitimate right “to pursue their own external relations for ensuring security of energy supplies and to choose their internal energy mix.”<sup>41</sup> Mr. Solana has raised his voice in favor of the establishing at least a “lowest common denominator”<sup>42</sup>

### 3.3 Dialogue with Russia, the EU’s most important energy supplier

Naturally, the EU has been in diplomatic relations with the states that provide its energy supplies. However, the relationship with Russia, the EU’s most important energy supplier, is particularly important. A partnership that would work both on Community, as well as national level, would offer security and predictability for the EU Member States. Such negotiations have been going on a regular basis since October 2000, which negotiations should result in a consensus that can replace EU-Russia Partnership and Cooperation Agreement,<sup>43</sup> which has been in force for ten years now, in 2007.

The report on the EU-Russia Summit in Finland by Dan Bilefsky, journalist for the International Herald Tribune, illustrates the lack of a common European mandate to negotiate with Russia. According to his report, it took several hours for the European

<sup>40</sup> On issues concerning energy policy, Article 100 of the Treaty on European Union requires unanimity to “decide upon the measures appropriate to the economic situation.”

<sup>41</sup> Commission/SG/HR, An External Policy to Serve Europe’s Energy Interests, [http://ec.europa.eu/dgs/energy\\_transport/international/doc/paper\\_solana\\_sg\\_energy\\_en.pdf](http://ec.europa.eu/dgs/energy_transport/international/doc/paper_solana_sg_energy_en.pdf)

<sup>42</sup> Javier Solana, Towards an EU External Energy Policy, (2006) [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/discours/91788.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/discours/91788.pdf)

<sup>43</sup> Katinka Barysch, “EU – Russia Relationship: The EU Perspective.” in ed. Debra Johnson, Paul Robinson, *Perspectives on EU – Russia relations*, (London: Routledge, 2005), 23-25.

officials just to agree on who would be the one that talks with President Putin at dinner. “In the end, EU officials said they tentatively opted to let Finland present the bloc's concerns to Putin and for European Commission President Barroso to field Putin's questions.”<sup>44</sup>

The disharmony between EU Member States is exemplified by other political struggles that have marked the energy negotiations with Russia. First of all, Germany's, especially that of Schroeder's SPD political party, exceptional relationship with Putin's Russia seems to resist all EU criticism. The agreement between Chancellor Schroeder and President Putin to construct a new North European Pipeline on the bottom of the Baltic Sea in 2005 was a clear sign that Germany wants to maintain its tight bilateral relationship with Russia over possible community interests. This German attitude accords with the Russian preference not to commit itself to deal with all EU Member States under the same economic and political conditions. President Putin has expressed his standpoint numerous times that his country wishes “to deal bilaterally with the EU member states on energy issues.”<sup>45</sup> This is one of the underlying reasons why Russia has never ratified the EU Energy Charter that it has signed. This Energy Charter would require Russia to provide access to energy supplies and pipelines on equal terms for all EU Member States.

The EU-wide discontent with this Russian “divide and rule” policy is most clearly indicated by the Polish veto against a mandate for the EU to negotiate a new partnership deal with Russia which was supposed to replace the current EU-Russia Partnership and Cooperation Agreement. Launching negotiations for a new framework agreement would require a unanimous decision by all EU Members. The practical exercise of the Polish national veto points to the importance that individual member states play in the European energy policy.

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<sup>44</sup> Dan Bilefsky, “ Putin rejects EU demands that Russia ratify energy charter” *International Herald Tribune* October 20, (2006) <http://www.ihf.com/articles/2006/10/20/news/eu.php>

<sup>45</sup> Valentinas Mite, “Russia: Poland Holds Up EU Partnership Talks” *RadioFreeEurope/RadioLiberty* November 14 (2006) <http://www.rferl.org/featuresarticle/2006/11/c5bd7c33-b982-4360-9617-62bb2ffb8ac3.html>

The individual Member States always played a significant role in the EU's negotiation with Russia. The energy dialogue was launched in 2000 by two sovereign nation state leaders, Presidents Chirac and President Putin, besides the support of the President of the European Commission at that time, Romano Prodi. Member States were also regularly consulted about the dialogues in the Council through updated reports from the Commission. The Commission has presented over forty reports to the Council on the bilateral working group meetings with its Russian counterparts.<sup>46</sup> Besides the Commission working group meeting, the EU has had eighteen top political level meetings Russia. Although the EU side was represented by the Commission on these meetings, it was the national administrations that were charged with defining priority sectors for cooperation and common areas of interest with Russia in the working groups. During these meetings, the President of the European Commission, the High Representative for the Common Foreign and Security Policy, and President of the European Council all tended to be present at these meetings, which expresses the European division between the several mandates that are necessary at some stage in these meetings.

The Commission, the High Representative for the Common Foreign and Security Policy, the Council and several nation state leaders have contributed greatly to form a unified common European bargaining position against Russia. As Javier Solana warns, however, "if we are not able to promote a unified and substantive position on this issue, partners (author: such as, Russia) will run rings round us. It has already come pretty close to that on occasions."<sup>47</sup> Mr. Solana's advice could not be timelier as Russia has not ratified the Energy Charter Treaty, including an effective Transit Protocol. Without an authoritative common mandate, none of the EU institutions or representatives can guard and defend the common interest of the EU Member States. Political and economic steps, however, have to be

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<sup>46</sup> European Commission, *The Energy Dialogue between the European Union and the Russian Federation between 2000 and 2004*, [http://eur-lex.europa.eu/smartapi/cgi/sga\\_doc?smartapi!celexplus!prod!DocNumber&lg=en&type\\_doc=COMfinal&an\\_doc=2004&nu\\_doc=777](http://eur-lex.europa.eu/smartapi/cgi/sga_doc?smartapi!celexplus!prod!DocNumber&lg=en&type_doc=COMfinal&an_doc=2004&nu_doc=777)

<sup>47</sup> Solana, *Towards an EU External Energy Policy*

implemented in order to maintain some energy security and supply the EU's economic development.

Besides the European political elite's warnings, the importance of the fierce competition between Member States, such as Germany and Austria, in the field of energy policy is further signified by Wall Street billionaire George Soros, who spoke in an interview with the Financial Times about the need for solidarity in the EU facing Russia, an "emerging petrol superpower."<sup>48</sup>

I think we have to recognize that Russia is an emerging important petrol superpower that is using its natural resources as a way of re-establishing its power and influence in the world, maintaining the rulers of the Kremlin in power and also using the control over the pipelines to bribe the neighboring countries to submit their gas reserves to the control of Gazprom. So this is the reality and the Kremlin has become much more aggressive in this pursuit of policies than it had been when it was the centre of the Soviet Union because the Soviet Union consisted of bureaucrats who were risk averse. The people who are in power now, they are adventurers - that's how they got there. And therefore they are prepared to follow adventurous policies. So Europe, in particular, needs to get its act together and develop a unified front in negotiating with Russia because otherwise Russia has the monopoly power through its control of a sufficient portion of the gas supplies and is using that as a monopoly power.

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<sup>48</sup> Chrystia Freeland, James Politi, "Transcript: George Soros interview" *Financial Times*, March 7 2007 <http://www.ft.com/cms/s/269b437c-ccca-11db-a938-000b5df10621.html>

## 4 Steps that have been taken and steps to be considered

### 4.1 Regional Cooperations

Besides the internal steps, namely the preparation to create a single European electricity grid and the setting up of emergency gas stocks to be shared by members in the event of a disruption in supplies, the Union has already taken ‘external’ steps in order to answer the challenges raised by the present energy market situations. As an important institutional step, the EU, including its latest Member States, Bulgaria and Romania, plus seven countries of the ex-members of the former Yugoslav Republic, have established a single Energy Community.<sup>49</sup> Besides the permanent full members of this special Community, there are participants and observers to this organization, such as Turkey, Syria, Georgia, Moldova, Ukraine, and Belarus, all of which have strategic importance to energy supply to the EU. The aim of the Energy Community is to form a platform of common rules on energy and harmonizing the present discrepancies among the Member States’ legislation and policies. First of all, the EU will profit from the greater security of the oil and gas supplies transiting these countries. Secondly, the non-EU member countries’ energy markets will operate more efficiently by adopting EU conform rules. After this policy harmonization is achieved, the consumers of these non-EU countries will also benefit from the more competitive, open-market oriented environment as far as energy is concerned. Due to the relative success of this cooperation, Brussels proposes the development of new gas and oil pipelines into the heart of the EU from North Africa, the Middle East and the Caspian region.

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<sup>49</sup> Energy Community, <http://www.energy-community.org/>

Besides the Energy Community, the EU has also entered agreements in the forms of the EU-Maghreb and the EU-Mashrek partnership deals with the aim to widen its regulatory framework into a truly pan-European energy Community. The positive effects of the Energy Community and similar partnerships, however, will be dependent on the speed of the EU's energy market integration. This market liberalization and integration process becomes more and more urgent since the Commission's green paper on the EU's energy market, published in March 2006, has repeated its position for several years now that "Europe has not yet developed fully competitive internal energy markets."<sup>50</sup>

#### 4.2 Improving energy-efficiency

The first essential policy area that the EU and the members of the Energy Community have to be focusing on in order to balance the energy demand and the energy supply is to control the fossil fuel based energy consumption. According to Brussels plans, there would be a European energy regulator and a EU energy observatory to advise of any problems ahead. In order to reduce the overall use of energy, therefore, the EU plans to save 1% of the common energy consumption from 2007 up until 2016 by promoting the use of energy-efficient devices, such as "lighting, heating, hot water, and ventilation."<sup>51</sup> With the intention of improving energy efficiency, the EU has decided to develop energy performance standards and requirements for both large-scale industrial and private buildings, which is an astonishing 40% of the total energy consumption of the EU, and small-scale energy-using equipments, such as drillers, mixers, coffee makers, and other household appliances.<sup>52</sup>

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<sup>50</sup> European Commission, *A European Strategy for Sustainable, Competitive and Secure Energy*

<sup>51</sup> *Overviews of the European Union Activities: Energy*, [http://www.europa.eu/pol/ener/overview\\_en.htm](http://www.europa.eu/pol/ener/overview_en.htm)

<sup>52</sup> European Commission, *Green Paper - Towards a European strategy for the security of energy supply*

Besides decreasing the avoidable use of household energy, transportation, representing 32% of the total energy consumption of the EU,<sup>53</sup> is also very important area where policies and practices that serve the better utilization of the energy have to be implemented, as well. It is common knowledge that almost all means of road transportation, in particular cars, are intensely using hydrocarbon fuel. So in order to rationalize energy consumptions of road vehicles and reduce exhaust pollution, traffic management and urban planning have to be improved by greater use of high-quality public transportation. This improvement will not only serve the purposes of the EU's energy policy, it will also contribute to the development of more sustainable urban environments, which is another declared EU goal.

#### 4.3 Diversifying the sources of energy

However, the pace and the intensity of the energy demand reduction, at least, presently does not seem to be ultimately enough to end the rapidly increasing demand for energy. Nevertheless, the current structure of the energy supply, that is, the energy demand is covered by 79% fossil based, 15% nuclear and only 6% are renewables, raises serious concerns.<sup>54</sup> Fundamentally, the EU has to diversify in the sources of energy it is using, thus, the EU needs to start using less fossil based energy in all sectors of its economy. The EU already has plans to turn its focus on more on renewable energy sources, such as “wind, biomass, hydro and solar power and bio-fuels from organic matter”<sup>55</sup> in order to supply its domestic energy demand from the domestic market. In order to turn into “a hydrogen-based economy”, the EU set a target on the share of renewable energy sources. According to this target, the EU wants

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<sup>53</sup> *ibid.*

<sup>54</sup> European Commission, *Green Paper - Towards a European strategy for the security of energy supply*,

<sup>55</sup> *Overviews of the European Union Activities: Energy*

to obtain 15% of its energy from renewables by 2015, around half of which should be acquired from biofuels, most importantly biodiesel and bioethanol.<sup>56</sup>

Another possible alternative to fossil-based energy would be nuclear energy; however, it does not seem very probable that this type of energy will experience renewed increase. Given the present political context, signaled by the decisions of some Member States to abandon nuclear power developments, it seems probable that the share of the nuclear energy from the EU's "energy pie" will not effectively change until 2020. However, if the competitive position and the public acceptance of the nuclear energy in comparison with other energy sources are improved, there might be positive changes concerning nuclear energy. In order to win public support for nuclear energy, long-term solutions to the problems of nuclear waste management and extensive measures to guarantee the safety of nuclear facilities have to be implemented. According to the Commission, without such resolutions, the share of the nuclear energy from total energy supply is predicted to diminish from the present 15% to around 8.1% by 2020.<sup>57</sup> Nuclear energy does not seem to be a real alternative to fossil-based energy as far as the security of resources is concerned since the EU needs to import the decisive majority, that is 95%, of uranium, the basic ingredient of nuclear energy.. Given that the EU barely possesses 2% of the world's natural uranium reserves, which share even shrinks on a constant basis, nuclear energy presently does not seem to be the way forward for the EU. One sign of the decreasing popularity of the nuclear energy is Germany's plan to phase out its nuclear plants.<sup>58</sup>

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<sup>56</sup> European Commission, *Communication from the Commission – "An EU Strategy for Biofuels"* - COM(2006) 34, 8.2.2006., [http://ec.europa.eu/agriculture/biomass/biofuel/com2006\\_34\\_en.pdf](http://ec.europa.eu/agriculture/biomass/biofuel/com2006_34_en.pdf)

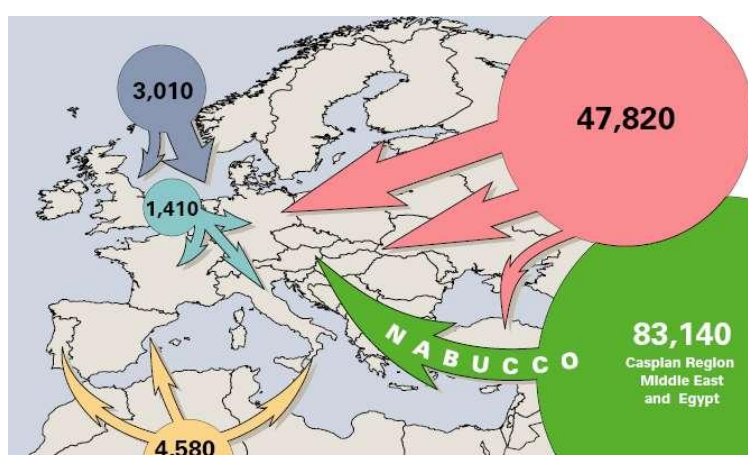
<sup>57</sup> European Commission, *Green Paper - Towards a European strategy for the security of energy supply*,

<sup>58</sup> "Germany renounces nuclear power" *BBC News* 15 Jun (2000)  
<http://news.bbc.co.uk/1/hi/world/europe/791597.stm>

#### 4.4 Nabucco: Further geographical diversification

Realizing the difficulties of a fundamental and methodical reform in the field of energy, EU policy makers also considered steps simply aiming the further diversification of the fossil fuel energy sources. With the intention to meet this objective, the EU's plan is to further invest in the already existing pipelines that link Azerbaijan, Georgia and Turkey and expand this network to Europe, for instance through the Nabucco natural gas pipeline, which would ultimately end in Austria and the emerging Turkey-Greece-Italy pipeline. The Nabucco pipeline would be connected at Baumgarten to the existing pipeline structures in Western Europe allowing further exports to anywhere from Germany, Austria, France or Italy. If these natural gas projects successfully develop, they can emerge as a Southern energy corridor of infrastructure that will create an alternative to Gazprom's massive network of gas pipelines, which are presently under massive expansion in Northern Europe. Such a Southern energy corridor can change Eurasia's strategic map by providing the EU with a large volume of natural gas supplies that could allow diversification away from a deepening reliance on Russian as both supplier and network provider.

**Figure 2: Eurasian potential alternatives to Russian fossil fuel networks<sup>59</sup>**



<sup>59</sup> Nabucco Web-Presentation 2007, Nabucco Gas Pipeline International GmbH [http://www.nabucco-pipeline.com/cms/upload/Partner\\_Logos/Nabucco\\_presentation\\_web\\_Feb\\_2007.pdf](http://www.nabucco-pipeline.com/cms/upload/Partner_Logos/Nabucco_presentation_web_Feb_2007.pdf)

Presently, the EU's single most important energy project to promote geographical diversification is the Nabucco pipeline project, which is backed by Botas, a Turkish energy group, OMV, Hungary's MOL, Bulgargaz and Romania's Transgaz. Nabucco Gas Pipeline International was established in 2004 and is seated in Vienna. The plan is to bringing natural gas to Europe from Iran, Azerbaijan, Kazakhstan, Turkmenistan and Egypt while avoiding Russia. The length of the planned pipeline is around 3,300 km, starting at the Georgian/Turkish and Iranian/Turkish border respectively, leading to Baumgarten in Austria. EU Energy Commissioner Andris Piebalgs, who regularly secured political backing from the European Commission for the Nabucco, projected in 2006 that with a maximum annual capacity of 31 billion cubic meters of natural gas, supplies from the region could account for between 10% and 15% of the EU's natural gas consumption in 2025.<sup>60</sup>

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<sup>60</sup> Neil Dennis "European stocks higher as oil sector rallies" *Financial Times* (London, England) - June 27, 2006 Tuesday

## 5. The Legislative Perspective

In 2006, distressed by a surge in energy costs and the realities of gas shortages, the European Commission made an attempt to seize control of energy policy from national governments. The move follows the decision by Britain, who conventionally has the greatest reservations because of fears that Brussels would take control of its North Sea oil, to yield control over energy policy to Brussels when output of North Sea oil and gas has gone into sharp decline. Realizing the building momentum behind more integrated legislation of the energy policy, José Manuel Barroso, the President of the Commission, started to make energy policy one of its political priorities: “We must have an approach to match this new reality — the EU can no longer afford 25 different and uncoordinated energy policies.”<sup>61</sup>

From a historical point of view, it is worthwhile to note that two out of the three treaties establishing the European Communities are about energy: the ECSC and the Euratom. These treaties were adopted to guarantee regular and sufficient supplies of energy in the Community. In the Treaty establishing the European Economic Community, nevertheless, the Member States decided not to institute a common energy policy. Furthermore, all efforts to include a chapter on energy, during the negotiations on both the Maastricht and the Amsterdam Treaties, failed. Only the preamble to the Amsterdam Treaty refers vaguely to an energy policy. The idea of security of energy supply appears, though, in Article 100 of the Treaty on European Union, which demands both the geographical and the product diversification of the various sources of the energy supplies.

Presently, there is a heated debate as to whether it could be in the economic interest of some Member, lobbyists, or other influential interest groups not to form a common energy policy in order to maximize their special access to energy supplies. Representatives of the

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<sup>61</sup> “Quotes from Jose Manuel Durao Barroso” *European Media Monitor*  
<http://press.jrc.it/NewsExplorer/entities/en/189.html>

parties who encourage closer cooperation between Member States in the field of energy policy argue that Member States are becoming more and more interdependent, mainly due to environmental factors, as climate change affects all the Members of the Union. Given the objectives of sustainable development and respecting environmental concerns as agreed by the Member States in Articles 2 and 6 of the Treaty on European Union and the Amsterdam Treaty, energy supplies must be ensured in order to provide “for the good of the general public and the smooth functioning of the economy.”<sup>62</sup> In order to secure environmentally friendly energy products at reasonable costs for both private and industrial consumers, the European Community must act together as laid down in one of the Commission’s green papers, *A European Strategy for Sustainable, Competitive and Secure Energy*, published in 2006.<sup>63</sup> Although, the Draft Treaty establishing a Constitution for Europe includes a section (Section 10 on energy, Chapter III, Title III, “Policies in other specific areas”), This section still maintains that Member States have sovereignty over choosing the source and structure of their own national energy supply.<sup>64</sup>

This is significant as the fundamental decisions concerning energy policy is left to the discretion of national governments within the EU. From a European governance perspective, this precludes that any EU wide decisions regarding energy policy can only be legislated in the Council. European governance in its present form is structured in a way so that any changes to energy policy are only possible if all Member States can gain economic advantages from a new agreement or, at the very least, are not disadvantaged by a new agreement. No doubt, the Council’s decision on energy policy is mainly fuelled by economic considerations and not by European solidarity. One wonders how the Council can incorporate the economic rationale of all the Member States given the current process of European

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<sup>62</sup> European Commission, *Green Paper - Towards a European strategy for the security of energy supply*,

<sup>63</sup> European Commission, *A European Strategy for Sustainable, Competitive and Secure Energy*,

<sup>64</sup> *Draft Treaty establishing a Constitution for Europe*,

[http://europa.eu/constitution/futurum/constitution/part3/title3/chapter3/section10/index\\_en.htm](http://europa.eu/constitution/futurum/constitution/part3/title3/chapter3/section10/index_en.htm)

integration. As national governments are subject to the bargaining power of their constituency, the governments of Member States must work together to neutralize those economic powers with advantage under the present energy infrastructure.

Although there is constant pressure on Council members to reach a strong consensus on a sustainable energy policy, national political pressure is what makes the Council's decisions significantly different from all other participants, such as the Commission or the European Parliament. Since national governments are the most directly affected parties in the policy formation procedure on the political front, national political interests and short-term national considerations are always inevitably present in the procedure. Therefore, the present structure of the procedure gives the Member States options to potentially reject any given new policy.

The underlying impediment in forming a sustainable common European energy policy is the current institutional structure of decision-making in Europe. "Already within the existing Treaties the Union must start adapting its institutions and establishing more coherence in its policies."<sup>65</sup> Given a shift towards a politically more coherent union, a more consistent legislative framework must be created to realize changes in the policy-making procedure. "However, the Commission alone cannot improve European governance."<sup>66</sup> Change requires a joint commitment and action by all the European Institutions and Member States, in particular national governments, which have a crucial role in this context.

Within the present context of political space, European institutions are empowered to promote and advance "an internal market characterized by the abolition, as between Member States, of obstacles to the free movement of goods, persons, services and capital"<sup>67</sup> Besides this general principle, according to Article 3 of the TEU, "the activities of the Community

<sup>65</sup> European Commission, *European Governance: White Paper, 2001*, [http://ec.europa.eu/governance/white\\_paper/index\\_en.htm](http://ec.europa.eu/governance/white_paper/index_en.htm)

<sup>66</sup> *ibid.*

<sup>67</sup> Treaty on European Union, Article G, 3) <http://europa.eu.int/eur-lex/lex/en/treaties/dat/11997D/htm/11997D.html>

shall include, as provided in this Treaty and in accordance with the timetable set out therein: (u) measures in the spheres of energy,...”<sup>68</sup>. Then again, this specific reference to the energy policy is loosened up by stating that Member States are solely bound by the general principle of internal market harmonization in the field of energy policy. Article 4 of the TEU identifies the area where Member States have to cooperate with each other in the area of energy policy, namely, economic policies must be “conducted in accordance with the principle of an open market economy with free competition.”<sup>69</sup> Thus, energy policy of the Member States is only restricted by the principles of the free movement of goods, persons, services and capital.

The strength of the Member State positions on their sovereignty concerning energy policy is illustrated by the Commission’s latest green paper<sup>70</sup> on energy policy. This green paper considers that the efficiency of the EU’s energy policy is exclusively dependent on the success of the strengthening the openness of the internal energy market. However, approaching common energy policy from the perspective of competition does not guarantee that all Member States will be able to maintain their energy market in a sustainable manner. There is an obvious political preference from the Commission’s side to encourage Member States to find and maintain a sustainable supply of energy for themselves. However, it is up to the Member States themselves to adopt these recommendations or choose otherwise. It is clear that some of Member States are more loyal to the present configuration of the energy market.

Besides the recommendations proposed in its green papers, the Commission has formulated directives, which Member States must incorporate into their national legislation. In May 2003, Directive 2003/30/EC was formulated, which incorporates several previous community agreements including Articles 174 and 175 of the TEU, Article 251 of the TEU, proposals from the Commission, the expressed opinion of the European Economic and Social

<sup>68</sup> Treaty on European Union, Article 3

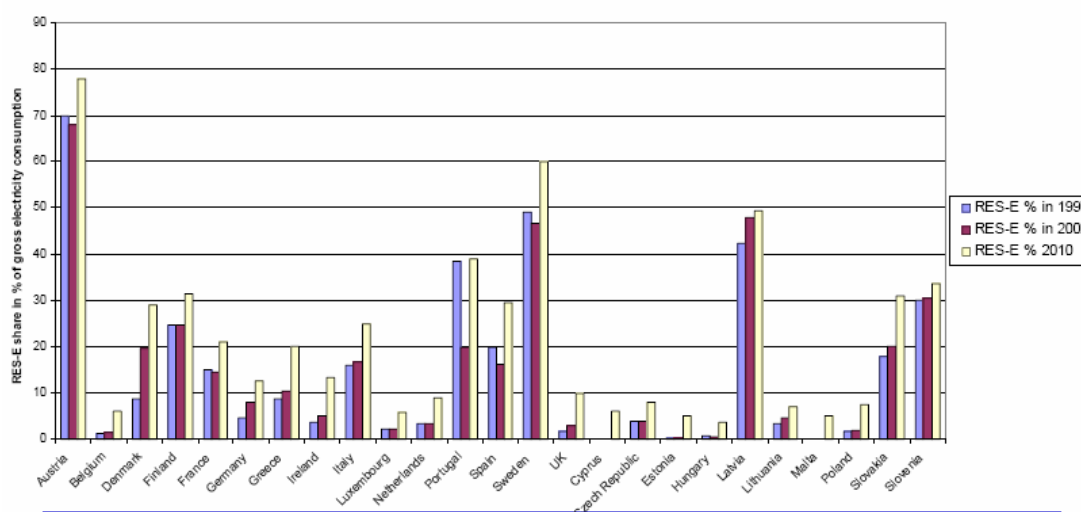
<sup>69</sup> Treaty on European Union, Article G, 4)

<sup>70</sup> European Commission, *Green Paper - Towards a European strategy for the security of energy supply*

Committee, the accepted community strategy of the Council meeting at Gothenburg on sustainable development in June 2001, and the Commission White Paper on European transport policy for 2010.<sup>71</sup> Article 2 of this Directive defines concrete steps which the Member States must follow, including that members need to ensure a minimum proportion of biofuels and other renewable fuels and have a set national minimum target of 2 % by the end of 2005 and a further minimum target of 5.75 % by the end of 2010. Although significant steps have been taken in order to realize these tangible goals, political division behind this agenda is still hindering the unity behind current energy policy.

In order to realize the differences that the Member States represent in the field of energy policy, their current market position has to be considered as well. The following chart expresses the differences between Member States use of renewable energy for the production of electricity. Although this is only one sector of the energy market, it represents the wide differences between individual countries and regions.

**Figure 2: Renewable Energy Sources EU 25: Electricity<sup>72</sup>**



<sup>71</sup> European Council, *Directive 2003/30/EC*,

<sup>72</sup> European Commission, *The share of renewable energy in the EU: Overview of Renewable Energy Sources in the Enlarged European Union* [http://ec.europa.eu/energy/res/legislation/share\\_res\\_eu\\_en.htm](http://ec.europa.eu/energy/res/legislation/share_res_eu_en.htm)

One of the latest developments in the area of energy policy took place during meeting of the Council of the Heads of States in early March 2007, which was preceded by an agreement between the energy ministers of Member States in late February 2007. The ministers have agreed to set a target reaching a 20% share of renewable energy in the energy market. The Council of Ministers further indicated that half of the renewable energy products must be attained in the form of biofuels, as defined in Article 1 (2) of the Directive 2003/30/EC. A few weeks after the memorandum of understanding was signed by energy ministers, the Council of the Head of States reached a political deadlock as some Member States rejected the idea of defining mandatory minimum market share levels of the renewable energy sources in the national energy markets. Illustrating this problem, in opposition to a mandatory legislation in the field of the common energy policy, Hungarian Prime Minister, Mr. Ferenc Gyurcsány, stated that he agreed with the political goal of increasing the market share of renewable energy products, in particular the share of biofuels. Nonetheless, he rejected the mandatory adoption of these goals.

As a result of the division between Member States, the EU is unable to create mandatory legislation for the entire European community. The absence of a common strategy to implement the necessary legal framework in the field of energy policy is reflected in the language of the Conclusion of the Council meeting from March 2007. “The Action Plan sets out the way in which significant progress ... can be achieved.”<sup>73</sup> Therefore, the Council does not define the necessary steps that all Member States have to take in order to become more energy self-sufficient. What it does is that “it fixes highly ambitious quantified targets on energy efficiency, renewable energies and the use of biofuels”<sup>74</sup>, these targets unfortunately do not become mandatory objectives.

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<sup>73</sup> European Council, Presidency Conclusions 7224/07  
[http://www.consilium.eu.int/cms3\\_fo/showPage.asp?id=668&lang=en&mode=g](http://www.consilium.eu.int/cms3_fo/showPage.asp?id=668&lang=en&mode=g)

<sup>74</sup> *ibid.*

Despite the “softness” of the legislation, the conflict between parties is signified by the declining minimum recommended limit of the share of renewable energy. The Commission’s green paper, *A European Strategy for Sustainable, Competitive and Secure Energy*, published in 2006, recommended that the EU Member States should cover 25% of their energy demand from renewable sources. In early 2007, the Head of States considered 20% as the highest recommended minimum, a proposal that is still debated by some Member States that wonder of this goal is achievable.<sup>75</sup>

Therefore, the best way the Commission can influence the change in the energy sector from an import-dependent, fossil-based business towards a more self-sufficient, renewable based business would be by providing an open market environment for competitive products. However, the players of the energy sector seem to resist even some of the most fundamental principles of the European community, such as open market. For example, last year the Dutch company Gasunie, which is building the BBL pipeline linking the Netherlands and the UK, received immunity from competition rules in the operation of its BBL pipeline. In order to start the construction of the BBL, Gasunie demanded exemptions from a number of European rules related to competition. Gasunie argued that the exemptions were necessary given the economical justification of the investment in BBL. Energy regulatory authorities in the Member States, including those in the U.K. and the Netherlands, along with the Commission granted that exemption. Nonetheless, it is through exemptions, that the Commission has virtually allowed Gasunie to maintain its exclusive rights to the pipeline, thus preventing any competition. At the same time, the Russian gas monopoly giant, Gazprom, increasingly prevented others from using the North European Gas Pipeline, as well. Gazprom, along with German partners E.ON and BASF, claim exclusivity rights to gas supply via the North European Gas Pipeline under the same economic rationale as Gasunie had used. According to

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<sup>75</sup> European Commission, *Green Paper - Towards a European strategy for the security of energy supply*

Alexander Medvedev, Gazprom's deputy chairman, "his company, along with E.ON and BASF, should be able to use the pipeline exclusively until the investment pays back."<sup>76</sup>

Although EU regulations require all companies interested in supplying gas to have free access to existing pipelines, even if other firms own these pipelines, more and more exceptions have started to emerge using the corporate argument of economic reasoning. Even though these energy moguls appear resistant to both national and Community competition regulations, they find ways to resolve their disagreements outside of the Community legal framework. The International Herald Tribune reported that Gazprom and Gasunie are set to sign an agreement in which the Dutch firm will gain a stake in the North European Gas Pipeline in exchange for Gazprom gaining a stake in the BBL pipeline and thus acquiring direct access to the British market.<sup>77</sup>

On the one hand, Member States have difficulty finding a common ground in the field of energy policy. On the other hand, even EU institutions seem reluctant to intervene in the political arena in order to promote a shift towards a more self-sustainable energy policy. In order to better understand the rationale behind this policy area, the political power of these companies have to be considered, as well.

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<sup>76</sup> "Gazprom Seeks to Prevent Third Parties from Taking Part in North European Gas Pipeline" *MosNews* <http://mosnews.com/money/2006/06/09/gazprompipelineaccess.shtml>

<sup>77</sup> Judy Dempsey, "Gazprom strikes deal with Dutch", International Herald Tribune June 8, 2006 <http://www.ihf.com/articles/2006/06/08/business/oil.php>

## 6. The Political Significance of the Energy Sector

### 6.1 Corporate Realism: BASF, E.ON (Germany) vs. OMV (Austria)

As argued above, the single most important source of the EU's energy market is fossil fuel. Out of all the fossil fuel products, gas is presently the most important. Therefore, gas naturally plays an important role in the EU energy policy. Among the major energy corporations, many of them are greatly interested in the gas market. In accordance with the EU common energy policy interests, changes in the present energy structure, in particular that of the gas market, have to be realized. Since changes in the energy structure would have great influence on all of these companies, the EU energy policy greatly polarize their attitude toward the common European energy policy.

From the perspectives of relative gains, BASF and E.ON are both beneficiaries of the present energy structure. The ever-tightening relationship between the Russian corporations and these German corporations provide the German partners with a competitive advantage in comparison with their European competitors in the energy market. In parallel with the realist approach to international relations, the relative gain of the present energy market for these corporations motivate them to abandon the common effort to effect changes in the energy structure. On the other side of the business world, OMV is not enjoying the advantages of a bilateral relationship with a strong Russian partner. OMV's main focus is outside of the Russian controlled territories, thus, any changes in the present, strongly Russian dominated European energy market will likely positively influence OMV's finances and corporate interests.

Although the corporate world is not a direct subject of international relations theory, the realist approach to the domain of international relations can be applied when analyzing the construction of corporate behavior in the financial domain. The importance of the relativistic

approach to this realm of social existence, however, is as important as in the realist theory. Stockholders are at least as much interested in the performance of the stocks relative to each other as they are interested in the stocks' performance in absolute numbers. The corporate world's objectives of profit maximization and spectacular annual performances relative to other stocks, create an environment comparable to what neo-realist would describe as a self-centered grouping of self-helping entities. The importance of relative gains is well exemplified by the practice that corporate reports are primarily expressed in percentage grows and not in absolute numbers. This practice makes it possible for analysts to compare stocks on the basis of their performance within a sector and make predictions on their future growth perspectives. The effect of this corporate behavior on national governments can further amplify and fuel their inclination to approach international affairs where they have to prioritize relative gains to other sovereign states.

## 6.2 German corporate interest in further dependency on Russian fossil fuel

Given the economic importance of the energy sector, those parties who take economic advantage of the current structure of this market are likely to possess considerable political influence both on the nation state and Community levels. In order to reveal the political importance of the present beneficiaries of the current energy supply policy structure, this paper will refer to the social and political influence of two German energy companies, namely BASF SE and E.ON AG. BASF (the largest chemical company in the world). The BASF Group comprises more than 160 subsidiaries and joint ventures and operates production sites in 41 countries. At the end of 2006, the company employed more than 95,000 people, with over 47,000 in Germany alone.<sup>78</sup> E.ON is one of the major public utility companies in Europe. Having an especially strong position in the energy service sector. E.ON is comparable to

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<sup>78</sup> BASF, *Corporate Report 2006*, <http://berichte.basf.de/en/2006/unternehmensbericht/?id=YwFenACDcbir-LQ>

BASF in regards of both annual revenue and number of employees.<sup>79</sup> The power that these companies have over policy-making well demonstrates the pressure that corporations can practice on the political elite.

When needed, BASF uses its membership in the German Trade Union Confederation (DGB) to apply pressure on the government, in order to receive support for its external economic policy. The way political pressure is built up is complex in nature. Given the active participation of the company's 28,000 German trade union member employees, an agreement was signed between the trade union and the management of BASF on July 2004 promising a constant salary bonus for all trade union members. What has to be highlighted is that the amount of this bonus depended on the economic success of BASF.<sup>80</sup> Thus, the economic well being of the workers became dependent to a certain degree on the German government's support for the company's success. As the growth of the company's financial health is increasingly dependent on its international performance, the German government's external economic policy has become more heavily influenced by the company's financial result.

The company has made significant achievements in the global economic arena, such as the signing of the strategic cooperation agreement with the Russian gas giant Gazprom on April 12, 2005. The agreement includes cooperation in the exploitation of the Yuzhno Russkoye gas field in Western Siberia and the laying of a gas pipe on the bottom of Baltic Sea, starting from the Russian port of Vyborg and ending at the German port of Greifswald. Yuzhno Russkoye is one of the world's largest gas fields with reserves that can supply the annual consumption of more than 10 million households. The 1,200km pipe, from Vyborg in Russia to Greifswald in Germany, will carry 55 billion cubic meters of gas a year – over an incredible 10 percent of EU consumption at present levels – with gas deliveries to start in

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<sup>79</sup> E.ON, *Annual Report 2006*,

[http://www.eon.info/?user\\_page=3&user\\_country=en&sub\\_page=8&sub2\\_page=1](http://www.eon.info/?user_page=3&user_country=en&sub_page=8&sub2_page=1)

<sup>80</sup> Simon Araloff, "Schroeder - Putin Pact: Germany and Russia divide Europe again" *Axis*, <http://www.axisglobe.com/article.asp?article=73>

2010. In fact, active cooperation between Gazprom and BASF brought control over the European power market, its price policy and sales volume to the Russian power giant. Gazprom already had provided one-third of natural gas deliveries to Germany and about a quarter of all gas deliveries in the EU. The deal between BASF and Gazprom transformed BASF into the largest supplier of natural gas on the European continent, which has had significant political effects on national politics.

Besides BASF, there is yet another German corporation whose revenue is greatly dependent on importing Russian natural gas to the EU market, known as E.ON Ruhrgas AG. E.ON purchases Russian gas from the manufacturers, delivers it to the German border and from there its consumers and distributors move it further into the Western portion of the European continent. The contract between BASF and Gazprom in 2005 seemed to harm E.ON's market position and, accordingly, may increase competitive opportunities for BASF. Nonetheless, E.ON has continually made deals with its Russian partners, further deepening its financial dependency on its Russian partners.

On the same day that BASF and Gazprom signed their deal, E.ON and Gazprom also signed a memorandum of understanding on the exchange of assets in the sectors of gas production, gas sales, gas trading, and power. E.ON is will acquire one-quarter of the shares in the Yuzhno Russkoye gas field in Siberia, in whose exploitation BASF is also involved.<sup>81</sup> Through the minority stake in Yuzhno Russkoye and construction of the North European Gas Pipeline, as agreed with Gazprom and BASF, Russian gas will become even more important as European gas demand continues to rise and western European production declines. The memorandum was put into effect by signing a framework agreement almost a year later. According to E.ON's CEO, Wulf H. Bernotat, the gas volumes from the stake in Yuzhno Russkoye and from existing gas fields in the North Sea are becoming more important to the

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<sup>81</sup> "E.ON and Gazprom Strike Deal on Yuzhno Russkoye", *Rigzone*, [http://www.rigzone.com/news/article.asp?a\\_id=34089](http://www.rigzone.com/news/article.asp?a_id=34089)

companies portfolio which already amount to roughly 15% of the E.ON's gas supplies.<sup>82</sup> Shortly after BASF and Gazprom agreed to build the North European Gas Pipeline on the bottom of the Baltic Sea, Gazprom and BASF signed a deal with E.ON to provide a stake in the construction of the North European Gas Pipeline. Thus, the North European Gas Pipeline Company became a joint German-Russian venture, with Gazprom holding 51% and BASF and E.ON each 24.5 %.

In order to illustrate the political weight of these deals, I want to point out that a few months after this deal and shortly after his resignation from the political frontlines, former German Chancellor Schroeder was taking over the presidency of the supervisory board of the Northern European Gas Pipeline Company (NEGPC), which is the consortium that is responsible for building and operating the Baltic Sea pipeline. In view of German economic and political circumstances, Schroeder's personal involvement in the Hannover agreement between BASF and Gazprom and his involvement in running the consortium can be considered as a political move to split the DGB united front against the Sozialdemokratische Partei Deutschlands (SPD). In effect, providing both BASF and E.ON with a long-term prospective contract, the Social Democrats neutralized two of the strongest trade unions in the country, and also split DGB lines. Through the deals with Gazprom, the SPD had become stronger.

It is a commonplace argument that corporations are accountable to their stockholders in providing them with profits. Both BASF and E.ON have a competitive advantage to shareholders given their investments on the Russian energy market. Since stockholders are dependent on the financial health of the companies whose stock they own, corporations can also place political pressure on national government to influence their political decisions. Thus, the EU's energy policy has become more than just a political issue as the interests of

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<sup>82</sup> E.ON, Annual Report 2006,

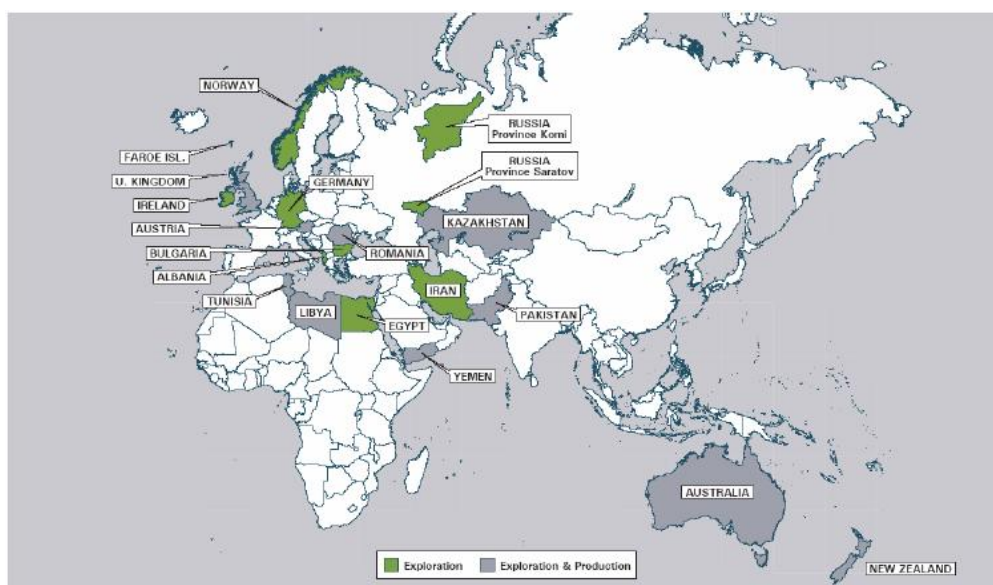
influential corporations have to be considered as well by Member State governments. Therefore, the dependency of these colossal corporations on importing energy products from Russia has had enormous social and financial implications to the whole European economic, political and social dimension as well.

### **6.3 Austrian corporate interest in the diversification of the energy products and the diversification of the geography of supplies**

Unlike E.ON and BASF, the Austria based OMV have stronger business interests outside of the borders of Russia than within those borders. One of the most telling signifiers of this fact is that OMV's 940 million barrel of oil equivalent (boe.) out of its 1289 million boe. of proved oil, NLG and natural gas reserves as of December 31<sup>st</sup> 2006 and 75 million boe. out of its 118 million boe. of production in 2006 was located in Romania.<sup>83</sup> Furthermore, OMV's strongest connection to the Russian market represents relatively little significance in the overall financial health of the company. According to OMV's reports, only one-third of the company's gas supplies, which business branch altogether, only compromises 10% of OMV's annual sales, is delivered from the territories of Russia to OMV's distributive pipelines, which amount consequently accounts for only around 3% of the company's annual sales. OMV's relative independence from the Russian market is further demonstrated by the fact that over half of OMV's oil demands are satisfied by its own production capacities, mainly by its production in Romania. In addition, the rest of the demand is delivered from geographically diversified locations, including Norway, the Middle East and even the far away New Zealand. From a business interest perspective, it is even more important that OMV has not yet started any fossil fuel production within the territories of Russia so far.

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<sup>83</sup> OMV Facts and Figures [http://www.omv.com/smgr/portal/jsp/index.jsp?p\\_site=HU&ref=redirect](http://www.omv.com/smgr/portal/jsp/index.jsp?p_site=HU&ref=redirect)

**Image 3. OMV worldwide activities (supply)<sup>84</sup>**

Due to OMV's fundamental interest in the Romanian production and the fact that majority of its sales is realized in the Central European region, including Austria, the Czech Republic, Slovakia, Hungary, Slovenia, Croatia, Bosnia-Herzegovina and Serbia, OMV's has a vital focus on the Central Eastern European market. Production and sales is further diversified in 2006 by OMV's acquisition Turkish gasoline retail, Petrol Ofisi. According to OMV's CEO Wolfgang Ruttensstorfer, this geographical diversification further stabilizes the security of energy supplies.

Achieving the leading position in the Turkish retail and commercial business was an important strategic step. The gas division will be further internationalized and expanded as a third pillar of our Group. For our customers this leads to an increased security of supply of this important commodity.<sup>85</sup>

Besides the geographical diversification of supplies, the OMV CEO also considers the diversification in the energy sources equally important. In his speech on sustainable development, Ruttensstorfer pledges that he sees "sustainable development as an essential

<sup>84</sup> *ibid.*

<sup>85</sup> OMV Annual Report 2006, [http://www.omv.com/cgi-bin/ud\\_download\\_sec.pl/OMV\\_Annual\\_report\\_06\\_e\\_.pdf?BV\\_SessionID=@@@0581161802.1180375094@@@&BV\\_EngineID=ccccaddjkkkgmjhcefecefgdhfdgi.0&\\_oid=6119954&\\_type=OMV\\_DOCUMENT&\\_mgrPath=/smgr&\\_realFileName=secure/omv/omv\\_document/DOC\\_20070418102630/4625d731\\_000017942\\_0a0cc810.pdf](http://www.omv.com/cgi-bin/ud_download_sec.pl/OMV_Annual_report_06_e_.pdf?BV_SessionID=@@@0581161802.1180375094@@@&BV_EngineID=ccccaddjkkkgmjhcefecefgdhfdgi.0&_oid=6119954&_type=OMV_DOCUMENT&_mgrPath=/smgr&_realFileName=secure/omv/omv_document/DOC_20070418102630/4625d731_000017942_0a0cc810.pdf),

precondition for maintaining OMV's long-term competitiveness and as a tool to strengthen the identification and differentiation of our company.”<sup>86</sup> According to this new concept of the company, “OMV aims to move away from positioning as a pure oil and gas company towards that of an energy group with renewable energies in its portfolio.”<sup>87</sup> In order to achieve this goal, OMV invests in the development of renewable energy, including biofuels, biogas, research on hydrogen, the reduction of greenhouse gas emissions in the extraction of fossil fuels and industrial processes and the enhancement of energy efficiency. In June 2006 the OMV Future Energy Fund was established, aiming to identify projects in the field of renewable energy within the OMV Group, provide assistance with their implementation and financially support them with funds of more the 100 million Euro.<sup>88</sup>

Similarly to BASF and E.ON, the social importance of OMV is significant considering its 60,000 employees.<sup>89</sup> Besides OMV's direct influence to society through employment, OMV's is indirectly affecting both Austria and Central-Eastern Europe's political landscape through its immense economic weight. OMV comprises over 10% of the capitalization of all shares listed on the Vienna Stock Exchange and also over 10% of the trading volume of the Vienna Stock Exchange. Due to its excellent performance, OMV is recently the major driving force behind the excellent performance of the Vienna Stock Exchange, that is, double-digit annual growth.<sup>90</sup> The economic and social significance of OMV is also signified by the fact that over 50% of OMV's stocks are free-floating. To the satisfaction to the large number of OMV stockholders, OMV even outperformed the average gain of the FTSE Global Energy Index, which comprises the world's top 30 oil and gas companies.<sup>91</sup> Through the economic role that OMV plays in Austrian and other Central-Eastern European economies, OMV's

<sup>86</sup> OMV Corporate Social Responsibility, [http://www.omv.com/smgr/portal/jsp/direct1.jsp?p\\_usr=ext&p\\_doc=cc&p\\_site=global&p\\_cid=-159073&p\\_mod=cleadin&p\\_nid=-159073&p\\_lvl=3](http://www.omv.com/smgr/portal/jsp/direct1.jsp?p_usr=ext&p_doc=cc&p_site=global&p_cid=-159073&p_mod=cleadin&p_nid=-159073&p_lvl=3)

<sup>87</sup> *ibid.*

<sup>88</sup> OMV Annual Report 2006

<sup>89</sup> *ibid.*

<sup>90</sup> Vienna Stock Exchange, <http://en.wienerborse.at/>

<sup>91</sup> FTSE Global Energy Index, [http://www.ftse.com/Indices/FTSE\\_Global\\_Sector\\_Index\\_Series/Values.jsp](http://www.ftse.com/Indices/FTSE_Global_Sector_Index_Series/Values.jsp)

political preference is similarly significant to the governments in concern, similar to the political preferences of BASF and E.ON in German policy making, including foreign and EU integration policy.

#### **6.4 The difference in the political orientation of Chancellor Schroeder and Chancellor Schüssel, the Austrian EU Presidency**

The clearest representation of the difficulties of the further European integration in the field of energy policy was the different policy priorities of Chancellor Schroeder, leader of Germany and that of the Austrian EU Presidency under Chancellor Schüssel. During the first half of 2006 Austria was responsible for defining the policy program of the EU. The Austrian Presidency indicated that under its leadership, energy policy would be based upon the fundamental principle of sustainability. One of the proposed main aims of the Presidency was “to achieve an economically optimal supply of energy sources and raw materials, taking account of security of supply, cost-efficiency and environmental and social acceptability.”<sup>92</sup> During the Austrian Presidency, the Austrian Energy Minister, Martin Bartenstein, constantly declared the importance of the promotion of alternative and renewable energy sources. “We want Europe to become a world champion in energy efficiency and renewables”<sup>93</sup>, emphasized Bartenstein, adding legislative support to the development in new technologies such as biomass and biogas were “necessary”.

In addition to legislative recommendations, the Austrian Presidency emphasized the importance of monitoring the Member States’ prospects of achieving the national indicative targets set in the relevant directives, the global indicative target and any unequal treatment of energy sources. In the process of monitoring the Member States, Austria promised to pay a

<sup>92</sup> “Austrian Presidency reveals its energy policy” *Issue 11 ENS NEWS* Winter (2006)

<sup>93</sup> EU considers common energy policy amid national sovereignty concerns, <http://www.euractiv.com/en/energy/eu-considers-common-energy-policy-amid-national-sovereignty-concerns/article-153252>

special focus on the development of the Biomass Action Plan, which was announced at the final quarter of 2005. The European Commission's Biomass Action Plan is intended to contribute to ensure that the quantities of biomass required to achieve the EU's overall target for a doubling of the share of renewable energy sources in primary energy consumption, from the current approximately six per cent to twelve per cent by 2010, are actually mobilized. The Austrian leadership decided to recommend that the Biomass Action Plan should take the form of a Communication to the European Parliament and the Council and contain recommendations for measures to increase biomass use for energy purposes in the EU 25.

Besides increasing energy efficiency and promoting the use of renewable energies, the Austrian Presidency also made its priority to diversify or even internalize the external costs of energy generated from non-renewable energy sources. In order to achieve improvement in the diversification of the external energy supplies the Austrian Presidency supported the priorities in relation to external energy relations made *under the UK Presidency, namely the creation of the South East Europe Energy Community*. From the very beginning, the secretariat of this Community, where Austria has a permanent seat, was intended to be transformed into a permanent body with its base in Vienna when an international treaty comes into effect. This means that Vienna is hosting a fourth major international energy institution, alongside OPEC, the International Atomic Energy Agency and the Renewable Energy and Energy Efficiency Partnership.

It is also worth noting that the previously mentioned Green Paper titled *A European Strategy for Sustainable, Competitive and Secure Energy* was completed during the Austrian Presidency. At the publication ceremony of the Green Paper, Energy Minister and Council President Martin Bartenstein asserted that "Europe needs a new common energy policy". He also expressed his hope that the Green Paper laid the foundation for this and would provide the basis for a secure, sustainable and competitive energy supply in Europe by promoting the

use of alternative energy and renewable energy sources. According to Bartenstein, the Green Paper is particularly important in this context to facilitate a European internal energy market. To that end, the general conditions for investment in cross-border gas and electricity transmission need to be improved, which in turn calls for extending the powers of the energy regulators. Although several other European leaders had recognized the necessity of these steps, there was no political consensus on their realization. At the press conference closing the informal meeting of the EU Heads of States at Hampton Court in 2005, Jacques Chirac admits that, in the ever more tangible realities of global warming, he and his colleagues feel the necessity of a common European energy policy, “which we haven’t got.”<sup>94</sup> Political analysts often identify Chancellor Schroeder as personifying the blocking elements of a further European integration in the field of the energy policy.<sup>95</sup>

The political legacy that Schroeder seems to be most talked about after leaving office is his fostering the signing of a deal to build the Blue Stream gas pipeline linking Russia to Germany via the Baltic Sea, which deal was finalized just before his leaving office in 2005. This legacy became even more tangible by Schroeder taking up a job with a subsidiary of Russian gas giant Gazprom overseeing the signed project after leaving office. Following Chancellor Schroeder in the German government, Chancellor Merkel’s emphasis on the diversification of the geography of energy supply and the diversification of the energy products further highlights Chancellor Schroeder’s distinctive political commitment to specific corporate economic interest in the field of energy policy. The similarity between the Austrian Presidency’s and Chancellor Merkel’s political position on the promotion of further process of European integration in the field of energy underlines Chancellor Schroeder’s personal responsibility of previously obstructing this process. Observers say that Merkel, in

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<sup>94</sup> Press Conference given by Jacques Chirac following the Informal Meeting of the European Union Heads of States and Government at Hampton Court

<http://www.diplomatie.gouv.fr/actu/bulletin.gb.asp?liste=20051031.gb.html&submit.x=5&submit.y=5&submit=consulter>

<sup>95</sup> Araloff, *op.cit.*

contrast with Schroeder, is wary of depending heavily on Russia for oil and gas and seems to have made it a priority to guide the EU towards greater energy security during the six months Germany holds the Presidency.<sup>96</sup>

Chancellor Schroeder, who pointedly wanted to keep energy as a national competence, thwarted a common European approach. During his time of power, Germany pulled away from a community approach, developing its bilateral relations with Russia to such an extent as to have, in effect, a “special relationship”. During Schroeder’s chancellorship, Germany had started to go through its planning to phase out its nuclear technology, which provides 30% of Germany’s electricity supplies. In mid 2000, the German Government reached a historic agreement with energy companies, namely RWE, VIAG, VEBA and Energie Baden Wuerttemberg, for the gradual closing down of the country’s 19 nuclear power stations, which means that Germany has become the first leading economic power officially to announce its intention to phase out the use of nuclear energy. According to the agreement, Germany’s last nuclear plant could go off-line by 2020.<sup>97</sup> Nevertheless, instead of supporting a sustainable method of replacing the nuclear technology, Schroeder took the position not to replace nuclear with renewable energy sources, but by gas. Thus, the increase in Germany’s dependence on energy imports gained political support.

The fact is that when Schroeder made these decisions, Germany was still far from achieving its own commitment to reduce CO<sub>2</sub> emissions by 25% in 2005 as compared with 1990. According to Rolf Linkohr, who served as President of the European Energy Foundation, at that time, the measurable energy savings were mainly due to the complete collapse of the industrial system in East Germany following reunification and the subsequent replacement of outdated power stations with modern ones. In West Germany, where there

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<sup>96</sup> Merkel’s energy message marks shift in ties with Russia [http://www.eubusiness.com/news\\_live/merkel-russia.6](http://www.eubusiness.com/news_live/merkel-russia.6)

<sup>97</sup> “Germany renounces nuclear power” *BBC News*

were no considerable changes in technology, CO<sub>2</sub> emissions were rising again without a turning point in the structure in its energy market.<sup>98</sup>

This commitment on the German side to support gas power plants greatly divided the European community. Chancellor Schroeder attributed a special role to the energy policy in Germany's foreign policy. The EU Member States considered the ever-closer cooperation between Germany and Russia as a way to increase the Russian and German corporations market share in the EU energy market. This political aiding of Russian corporations by the German government has created a negative atmosphere during the EU summits where the issue of energy policy was concerned. According to political analysts, the British government is cautious about being exposed to Russian dominance or even monopoly on the European energy market. According to energy experts, it was only a couple of years ago when Britain started importing any gas, but it is predicted that by 2020 up to 90% of it could be imported as the North Sea oil reserves will be ultimately exploited. Russia is the most obvious source for the bulk of the necessary replacement of these fossil energy products. For the British and the rest of the EU Member States, the only possible alternative to the Russian fossil fuel was and still is renewable energy. According to industry specialists, without forming common alliance in the research, development, production and distribution of these new sustainable energy products, economic and technological efficiency will be seriously risked.<sup>99</sup> This necessary unity is risked by Schroeder's letting the German corporation interests maintain the present energy market structure, taking the German political elite in a private path with Russia, whose interest is to keep and increase the market of its abundance of fossil fuel energy products.

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<sup>98</sup> Rolf Linkohr, German Energy Policy <http://www.world-nuclear.org/sym/1999/linkbio.htm>

<sup>99</sup> Mark Mardell, "Europe diary: The gas man" *BBC News* 19 October (2006)  
<http://news.bbc.co.uk/2/hi/europe/6062044.stm>

## Conclusions

In the situation when the levels of energy sources imports exceed 50% of supply, and there are insufficient strategic long-term energy reserves or domestic supplies, the answers that the EU as a community has to find gain on urgency. These answers are required not only for political and social urgency, but economic needs as well<sup>100</sup>.

The EU is facing the dilemma whether it is strategically prudent to accept the mounting increase in its dependence on external energy sources. Moreover, it is facing a dilemma of increased dependence on limited amount of suppliers, thus fueling a monopolistic market with energy supplies. This dilemma is not only fueled by the considerations of political dependence and limited maneuver scope, but also in terms of plain economic risk stemming from the unbalanced portfolio.<sup>101</sup>

From this perspective, the energy policy becomes more than just an economic question of containable prices, it develops into a wider socio-political security question of continually maintaining supplies that meet the European energy demand<sup>102</sup>.

On the one hand, none of the EU's institutions, or the individual nation states in the fragmented market position, seems to be capable to match the bargaining position of Russia – a monopolist in the making. Achieving unity among the Member States will be even more challenging, given the fact that Germany wants to maintain its special bilateral relationship with Russia for several possible economic and political reasons. On the other hand, the present situation, that is, the extreme level of European reliance on imports from limited geographical regions and types of energy supply is essentially hazardous for the EU's safety in general.

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<sup>100</sup> Veer, Jeroen van der, ed. *Shell Global Scenarios to 2025* Royal Dutch/Shell Group, June 28, 2005.

<sup>101</sup> Arthur D. Little Optimal results [http://www.adlittle.com/industries/energy/Energy\\_Risk\\_0606.pdf](http://www.adlittle.com/industries/energy/Energy_Risk_0606.pdf)

<sup>102</sup> Deese, David A. . "Energy: Economics, Politics, and Security." *International Security* Vol. 4, no. No. 3 (Winter, 1979-1980): pp. 140-153.

This vulnerability is well exemplified by the present energy crisis caused by the Russian cut of its oil supplies via the Druzhba (“Friendship”) pipeline because of a trade row with one of the main transit country, Belarus,<sup>103</sup> or an alleged technical difficulties on the supply connector to Lithuanian refinery. Although the Commission made an attempt to calm down panic that could result in energy prices going up in these countries, it is well known that none of these countries have supply reserves of all their needed prime energy supplies for more than the required ninety days or any real alternative to the Russian energy supplies. The resolution to the conflict between Russia - the supplier, and Belarus - the transit country, however, does not necessarily ended with the agreement presently in force.

Due to the lack of an effective external strategy of the energy policy, the EU and its institutional representatives have to realize that the only real solution to its Member States’ dependence on imported energy sources is to intensively promote the development of energy resources sustainable within its geographical borders. Although the execution of this commitment for the EU to supply its own energy demand seems to be evident, the transmission to a self-sustainable state will not be drastic or radical.

Energy supply diversification that is provided for by European domestic production will evolve over a period of time, and diplomatic efforts will have to be invested to maintain the possibly most stable energy supply to all Member States without discrimination. Being exposed to economic and political forces that are completely independent of the EU’s political realm will never create a secure zone for the EU as far as energy is concerned. Thus, diversification in geography of imports cannot be a long-term alternative to the development of diversified domestic, sustainable and renewable energy resources, accompanied by the sensible energy saving practices.

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<sup>103</sup> Bálint, Deák, “Szünetel a Barátság, jöhet az Adria”, *Origo* 08 January (2007)  
<http://www.origo.hu/uzletinegyed/hirek/hazaihirek/20070108elzartak.html>

Looking at the energy situation from a legislative perspective, on the other hand, it is the Member States who control the energy policy of the EU via several channels. First of all, the legislative structure of the current energy policy enables Member States to define the economic and political orientation of their own energy policy. Secondly, the configuration of the energy market also restricts Member States to commit themselves to ideal political objectives without considering the economic impact of these commitments to the corporations whose political power is significantly increasing.

European institutions, in particular the European Commission, have formulated several directives and recommendations that can serve as a guideline for the EU community on its way of becoming self-sustainable in the area of energy. The Commission has endorsed numerous policies that would favor energy from renewable energy sources, including the 2001/77/EC renewable electricity directive or the 2003/30/EC biofuel directive. These directives combined with the Commission special reports on the developments made in the field of energy, such as COM(2004) 366 final or SEC(2004) 547, define a favorable development line through quantifying national targets for consumption of energy from renewable sources or guaranteeing access to transmission and distribution of energy from renewable sources.<sup>104</sup> However, the targets that these directives define are not living up to the ambitions of many proponents of alternative energy. In addition to the inherent weakness of common policy in the energy sector, some Member States have made great efforts to avoid committing themselves legally to more ambitious political goals.

Since energy policy is one of the policy areas where Member States wish to maintain significant national sovereignty, a fundamental change in the legal framework of energy policy making seems to be unlikely without political pressure from the constituencies of Member State governments. Presently, however, these constituencies along with the national

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<sup>104</sup> European Commission, *The share of renewable energy in the EU: Overview of Renewable Energy Sources in the Enlarged European Union*, [http://ec.europa.eu/energy/res/legislation/country\\_profiles/2004\\_0547\\_sec\\_country\\_profiles\\_en.pdf](http://ec.europa.eu/energy/res/legislation/country_profiles/2004_0547_sec_country_profiles_en.pdf)

governments are more influenced by the corporations who enjoy the benefits of the existing structure of the energy market. This corporate interest is what is driving the common European energy policy toward a direction in which no Member States will benefit in either the short-term or the long-term. Although both the Member States and the EU are losing on the preservation of the present energy structure, many corporations, especially BASF and E.ON, are in a winning position in the current energy market. So the answer to my research question, that is, what is blocking the further integration of the EU energy policy, is the short-term financial gains of specific corporations.

Thus, instead of analyzing the sovereign states as if they were acting out of their own independent and autonomous interest, I found it important to apply the structural realist concept to transboundary corporations, who are more and more active on the international political front, as well. By applying the structural realist theory to the corporate world, we can better understand the logic that is driving these businesses to preserve the present structure of the energy market and block any significant reform on a community level in this field. By considering these mogul companies as sovereign entities with significant political influence, the present situation in the energy market is not surprising.

Since many politically influential corporations are still making immense amount of money on Russian imported fossil fuels, the EU institutions will have a hard time making any changes in the direction of a safer, greener and more sustainable Europe, despite the fact that the interest of every single Member State would benefit from such a European landscape.

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