



European Natural Gas Market Integration

A Causal Analysis of Drivers and Patterns

Thesis submitted by

ANNE WACHTER

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SUPERVISORS: Andreas Goldthau & Alfred Tovias

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*“[L]et us have the courage of our convictions.
Let us now create a European Energy Community.”*
(Jerzy Buzek and Jacques Delors, 2010)

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List of Abbreviations

ACER	Agency for the Cooperation of Energy Regulators
CPM	Congestion Procedures Management
DG	Directorate-General
EASEE-gas	Association for the Streamlining of Energy Exchange
EC	European Commission
EFET	European Federation of Energy Traders
EP	European Parliament
ETSO	European Transmission System Operators
EU	European Union
GIE	Gas Infrastructure Europe
ISO	Independent System Operator
ITO	Independent Transmission Operator
MUO	Mandatory Ownership Unbundling
NRA	National Regulatory Authority
TSO	Transmission System Operator

Abstract

The purpose of this thesis is to analyze the process of European natural gas market integration in the time period from 2007 to 2013 in order to identify changes in influence on the Commission from both Member State governments and non-state actors. In recent years, energy policy in the European Union (EU) has shifted from an entirely national matter to supranational policy initiative. The liberalization of European natural gas markets is affecting the gas sector in two ways. First, the evolving regulatory framework on natural gas is creating new dynamics of competition between national energy groups, causing the already politically active industry to bulk up its presence in supranational policy-making. Alongside this, new modes of energy governance are evolving on both the European and the national level, leading to the formation of new power relations between the European Commission (hereafter: Commission), Member State governments, and non-state actors.

The study finds that, compared to legislation from the early 2000s, the Commission has gained stronger, independent will towards Member State governments to advance on EU gas market integration. Further, non-state agents have become increasingly active in the political sphere, and developed close working relationships with different Directorate-Generals (DG). Through a comparative analysis using both a supranational ‘policy networks’ and intergovernmentalist approach, this paper aims to make a valuable contribution to the scholarly debate on European integration.

1. Introduction

In recent years, energy policy in the European Union (EU) has shifted from being an entirely national matter to increased cooperative action on the supranational level (Groome 2012). This thesis analyzes the process of European internal natural gas market integration in the time period from 2007 to 2013, using the method of ‘process-tracing’ to explore the activities of the Commission, Member State governments, and non-state agents. European internal natural gas markets in particular have been exposed to the effects of numerous outside-factors. The 2006 Russian-Ukrainian gas crisis, shale gas development in the United States (US), and the outbreak of renewed conflict between Russia and the Ukraine in March 2014 have given rise to new questions with regard to Europe’s security of supply and the need for a common energy policy. At a time when the EU is struggling to develop a coherent strategy to tackle its energy issues, efforts to advance on the integration of its internal natural gas markets have gathered considerable momentum. The question guiding this analysis is *who were the main actors driving and shaping European natural gas market integration in the time period from 2007 to 2013?*

The study of both international and European natural gas markets has produced a fair amount of research in recent years. Different studies on the effects of market liberalization on long-term supply security of natural gas (Austvik 2009), the ability of Europe to formulate a coherent external natural gas policy (De Jong 2013), and general characteristics of European natural gas market integration (Andersen & Sitter 2009) have certainly advanced the understanding of natural gas market dynamics within the EU. However, there appears to be a gap in existing research with regard to the driving forces behind EU natural gas market integration. Per Ove Eikeland (2011) analyses the September 2007 Commission proposal for a third internal energy policy package with the purpose of identifying changes in influence on the Commission from different groups of non-state actors. He finds that transnational policy networks with non-state agents “played a more direct role in influencing the Commission proposal” (Eikeland 2011: 259).

This thesis builds on Eikeland’s research in order to see whether his findings still hold true for the years following the Commission’s proposal. The analysis shows that non-state agents have indeed gained even greater influence on the Commission since 2007. On the other hand, Member States remain skeptical about giving up too much of their decision-making power to the Commission, and continue to lobby for their respective interests. The combina-

tion of ‘policy network’ and supranational perspectives, as proposed by Eikeland (2008: 2011), provides excellent tools to analyze the decision-making process on energy issues in general, and the natural gas market in particular. This thesis seeks to make a valuable contribution to the scholarly debate on European integration by using a pluralist perspective on EU policy-making. Through the comparison of supranational and intergovernmentalist perspectives, the thesis tests both theories with regard to their applicability for integration in the natural gas sector. The study finds that, while intergovernmentalism is still able to explain a large part of EU policy-making on energy, as Member States are still reluctant to shift energy policy entirely to the supranational level, it fails to account for the presence of transnational policy-networks representing the interests of non-state actors from different Member States.

1.1. Research Question

An overview on potential research questions in the field of EU natural gas market integration reveals a long and inexhaustible list that promises important insights into future of European gas markets. The study of European natural gas markets has already produced a fair amount of research. This research paper analyzes European natural gas market integration and the underlying power relations between the Commission, Member State governments, and non-state actors to answer the following research question:

Who were the driving actors behind European natural gas market integration in the time period between 2007 and 2013?

Thus, the *dependent variable* of this study is European natural gas market integration. There exist a number of definitions of European integration, of which some view integration first and foremost as a *process*, while others are more concerned with the *outcome*. Ernst Haas (1958: 16) once defined integration as the process

“whereby political actors in several, distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new centre, whose institutions possess or demand jurisdiction over the pre-existing national states”

This definition includes both the political and the social dimension of integration. In this thesis, the integration of European internal natural gas market policies is understood as the process of formulating a common policy approach to natural gas in order to foster competition and remove barriers to the free flow of gas.

1.2. Hypotheses

In 2011, Per Ove Eikeland published an article under the title *The Third Internal Energy Market Package: New Power Relations among Member States, EU Institutions and Non-state Actors?*, in which he argues that “supranationalism gained a new foothold in energy policies” in the time period from 2003 to 2007. His findings suggest that, while “the Commission used non-state agents and transnational networks in its strategy towards Member States”, “such networks also played a more direct role in influencing the Commission ...” (Eikeland 2011: 259). As mentioned before, this thesis builds on Eikeland’s research in order to see whether his findings still hold true for the years following the Commission’s proposal. The first working hypothesis of this thesis is that *non-state agents participating in transnational policy networks have gained more influence on the Commission and, therefore, can be considered the main drivers behind European natural gas market integration*. This does not imply that Member State governments are considered unimportant for the process of EU natural gas market integration, but rather that they lost ground to the advantage of non-state actors.

In this sense, this thesis draws upon the well established debate between intergovernmentalist and supranationalist perspective. It aims to make a valuable contribution to the scholarly debate on European integration, and advance the understanding of European natural gas market integration. The second working hypothesis is that *a combination of ‘policy network’ and supranationalist perspectives is more suitable to analyze policy-making and –outcomes in the natural gas sector, as it allows for the inclusion of transnational interest groups into the equation*. The purpose of this thesis is not to expropriate the intergovernmentalist perspective of its importance for the study of European integration. Rather, the thesis aims to find a theoretical approach suitable for the analysis of sector-specific policy-making on natural gas.

1.3. Contribution

This thesis seeks to make a valuable contribution to the scholarly field of European integration, and serve as an input for the political debate on the integration of Europe’s internal natural gas markets. On one hand, the analysis uses an innovative theoretical approach to European integration. By using a pluralist perspective on EU policy-making, including both ‘policy network’ and supranational perspectives, and an intergovernmentalist approach, this paper

provides important insights on the feasibility of these theories with regard analyzing policy-making and –outcomes in the natural gas sector.

On the other hand, this thesis provides crucial information about the interests and objectives of the actors involved in the policy-making process on natural gas. This could potentially benefit European policy-makers, as well as non-state actors, in their attempt to facilitate the integration process. Understanding the power relations between the Commission, Member State governments, and non-state actors will help all parties involved to identify their potential allies and opponents, thus making the decision-making process more efficient. However, this study underlies certain limitations and cannot provide a full picture of the policy-making process in the natural gas sector. By pointing out these limitations, this thesis raises important questions for future research and thus makes a valuable contribution to the study of European natural gas markets.

1.4. Structure of the Thesis

The thesis consists of seven sections. *Section One* develops presents relevant literature on the topic of European natural gas market integration and points out the gap in existing research to be filled. *Section Two* presents the theoretical approaches used for the analysis in this thesis. *Section Three* introduces the reader to the methodology used for the analysis, and gives more detailed information on the case selection. *Section Four* provides background information on the dynamics of European natural gas markets, lists recent developments, and gives an overview on the existing regulatory framework for natural gas. *Section Five* presents the findings of the analysis on the basis of empirical data. In a final step, *Section Six* briefly summarizes the findings and relates them to the working hypotheses. The thesis concludes by discussing its limitations, including suggestions for further research.

2. Literature Review

The integration of European natural gas markets, which goes along with the formation of a common energy policy, has produced a fair amount of research. The purpose of this literature review is to unpack relevant European integration scholarship related to natural gas policy that will allow a deeper understanding of the challenges and dynamics of European gas market integration. Throughout the literature review, the complexity of natural gas market integration in the EU will be revealed. Further, this chapter addresses existing literature on potential outside-factors influencing gas market integration in the EU in order to offer alternative explanations to the riddle of energy policy's renewed salience.

2.1. European Union Energy Policy

Energy policy is one of the fastest changing policy sectors in the EU. Herman van Rompuy, the current President of the European Council, argued that Europe is currently experiencing an “energy revolution” (European Council 2013: 1). This enthusiasm has spread into academia. Scholars from various academic backgrounds proclaim the renewed salience of energy for European integration (Aalto & Temel 2014). There are two main attributes that need to be considered when conducting research in this field. First, energy policy is largely a national competence with member states transferring only limited power to the supranational institutions: “[t]here is as such no ‘central authority’ and the EU has relatively few ‘hard’ instruments at its disposal to deal with these states” (de Jong 2013: 5). Second, European energy policy is a multi-actor field, involving domestic as well as international players of all kinds. As a result, the field of European energy policy is difficult to survey.

The harmonization of EU energy policy has proven to be a difficult task for the EU and the Member States. The development process of this policy sector is extremely complex, as it comprises EU rules on the internal market – such as competition, state aid, environment, climate change, movement of goods and services - which are connected to various policy fields. Kim Talus' *EU Energy Law and Policy – A Critical Account* presents an up-to-date overview of EU energy law and policy, and a critical analysis of its sub-areas. He acknowledges the importance of energy market harmonization for the general process of European integration, and emphasizes the Commission's “increasing role” (Talus 2013: 39) in this process. The increasingly important role of energy policy for European integration is a commonly adopted position in existing literature (see also: Dinan 2010).

2.2. European Natural Gas Market Integration

Integration in the natural gas sector can effectively be analyzed from two different, yet interconnected positions; the functioning of the EU internal gas market on one hand, and the integration and shaping of the EU's external energy policy on the other. Much of the research conducted on European natural gas market integration is primarily practical. The few theoretically informed studies mainly focus on the external dimension of natural gas market integration, relating it to the concept of 'security-of-supply'. Meyer (2008), for example, applies liberal intergovernmentalism and historical institutionalism to explain the Commission's gradual capture of more competences in the energy field. Aalto and Temel (2014), on the other hand, draw upon the English school to explore energy security and integration within the EU in the case of natural gas. Many of these studies share a common interest. They seek to understand the integration process in the natural gas sector and the new power relations evolving between EU institutions, Member States, and non-state actors. Existing literature provides different answers to these questions, depending on their underlying assumptions about the European integration process in general, and natural gas market integration in particular.

Andersen and Sitter (2009) discuss the concept of differentiated integration which is caused by the heterogeneity of the EU itself as well as a changing external environment. Differentiated integration eventually causes fuzzy liberalization - "universal free-market rules that are open to a wide range of interpretations by governments, companies and the courts" (Andersen & Sitter 2009: 64) - as a common characteristic of the Single Market. For the European natural gas market, this means that it remains uncertain if the EU will manage to set up a regulatory framework which effectively harmonizes distribution practices across Europe. Further, the authors argue that the form of European integration usually vary across sectors as they each "involve special challenges and dynamics and/or because strong organized interests in some member states demand special consideration" (Andersen & Sitter 2009: 80).¹ According to these findings, the European integration is a sector-specific process that can vary across policy fields.

Austvik (2009) analyzes the effects of market liberalization on long-term security of natural gas. He contrasts *neo-functionalism* and *intergovernmentalist* views to get an idea on

¹ Andersen & Sitter (2009) distinguish between four types of European integration: homogenous integration, aligned integration, autonomous integration, and deviant integration. For more information about the specifics of these concepts consults Andersen & Sitter (2009: 67).

whether institutions or Member States are more dominant in deciding on natural gas policy. Using the economic theory of exhaustible resources, the author comes to the conclusion that, if prices drop and security interests in the market appear less dominant, common policies may gradually become more important. He recognizes the EU's current inability to control the supply-side of the natural gas market, but argues that due to its supranational nature the EU is in a better position to solve its security-of-supply of natural gas problems.

An interesting approach to the formulation and integration of the EU's external energy policy is provided by de Jong (2013), who analyzed the ability of Europe to formulate a coherent external natural gas policy towards Russia and Central Asia from the viewpoints of *liberal intergovernmentalism* and *supranational governance*. According to de Jong (2013: 7), coherence is a multidimensional concept that can refer to either the vertical or horizontal integration of policies. Horizontally, it refers to the coordination of member state policies. On the vertical line, it relates to the interaction between member states on the one side, and EU institutions on the other side.

Although these studies provide interesting insights on the process of European integration in the natural gas sphere, most of them highlight the dominance of Member State governments in determining policy outcomes. More recent studies, however, focus on the role of the EU institutions, the Commission in particular, and non-state agents as drivers of European natural gas market integration. Eikeland (2008: 2011) analyzes the negotiations foregoing the adoption of the Third Energy Package to identify fundamental changes in the Brussels policy game. Using the 'policy networks' approach, he argues "EU policy networks have become less stable and more issue-specific, making policy predictions less certain than before" (Eikeland 2008: 50). His study provides an interesting insight into the interactions between the Commission and other state and non-state stakeholders, and will provide important guidance for the research conducted as part of this thesis.

2.3. Alternative Explanations for EU natural gas market integration

The external environment of European natural gas markets has a strong impact on market dynamics and structure, but also on the mindset of market actors and policy-makers. As mentioned before, there is an external dimension to the process of European natural gas market integration. There are several potential factors that could lead to further market integration, and thus provide an alternative explanation for the developments discussed in this

study. One factor is the development of unconventional gas resources, such as shale gas. Some scholars argue that the economic production of shale gas in the US, and potentially some European countries, would have a tremendous impact on international and European gas markets, primarily due to subsequent risings in natural gas supply (Asche et al. 2012; Goldthau et al. 2012; KPMG Global Energy Institute 2012; Medlock 2012; Paltsev et al. 2011; Teusch 2012). Others name issues such as security-of-supply and import dependency as major impact factors for European gas market integration (Dieckhöner et al. 2013; de Jong 2013; Austvik 2009; Ratner et al. 2013; Claes 2009).

A study published by the Massachusetts Institute of Technology (MIT) Energy Initiative with the title *The Future of Natural Gas* discusses the geopolitical aspects of natural gas as a potential pathway to reduced oil dependence for transportation. The study puts forward other potential factors of influence, such as growth in LNG trade or competition for supply from regions that can, due to their geographic location, serve multiple major markets at a time. The implications for the European gas market are difficult to predict. Nonetheless, the European internal gas market has promoted a fair amount of research on three main developments: gas market liberalization, harmonization, and integration. These three highly dependent on each other and provide crucial insights on the development of the internal gas market as a whole. For this reason, literature covering internal market harmonization and liberalization should be considered when analyzing the progress of market integration.

3. Analytical Approach

European integration is one of the most rapidly growing fields of research. Theories on why and how integration takes place, and where it is leading us are manifold. As an entirely new and unique phenomenon, this research field was first claimed by Political Science scholars, but has later emerged into other disciplines. The development of European integration theory can be broadly divided into three phases. The first phase, that lasted roughly from the signing of the Treaty of Rome until the early 1980s (Diez and Wiener 2012), is featured by theories trying to explain European integration. Mainly concerned with its causes and outcomes, scholars of European integration turned away from dominating realist assumptions towards more liberal approaches. From the 1980s onwards, however, the scholarly debate shifted towards analyzing the political system of the EU and its underlying processes. The discussion revolved around, as Thomas Risse-Kappen (1996) put it, the ‘nature of the beast’. Following this period, scholars shifted their focus towards the social and political consequences of European integration. This chapter presents and discusses the two theoretical approaches used in this research paper to analyze the process of European natural gas market integration.

3.1. Policy networks

The concept of ‘policy networks’ is used in three main ways in existing literature: to describe governments at work, as a theory for analyzing government policymaking, and as an instruction for reforming public management (Rhodes 2006). ‘Policy network’ approaches seek to explain policy outcomes by examining how networks are structured. However, there exists no agreed ‘theory’ of policy networks that would allow us to make predictive claims about the European integration process or EU policy-making in general (Ibid.). Peterson (2012 107) argues that, “in order truly to theorize policy network analysis, more (and more thorough) case studies of actual policy effects of governance by policy network are needed”. This paper aims to contribute to the field of European integration theory by using a ‘policy network’ approach combined with tenets of supranationalism. Generally, supranationalism is a method of decision-making in multi-national political communities, in which Member States transfer or delegate power to an authority. This approach is often used to describe the EU, as a new type of political entity.

3.1.1. The upbringing of the concept of ‘policy networks’

The international political development since the early 1990s – globalisation, devolution, and economic liberalization – “gave rise to new and different forms of governance, in which power was increasingly shared horizontally” (Peterson 2012: 105). Ever since, policy network approaches have become more frequent in policy literature. Scholars began to investigate policy networks on the different levels of governance because existing theoretical debates, particularly between intergovernmentalism and neofunctionalism, contributed very little to research on actual EU policy-making, and the complex system which had emerged. Both intergovernmentalism and neofunctionalism are macro-level theories, designed to describe, explain, and predict the process of European integration as a whole, not actual policy outcomes that arise from this process. While international relations (IR) theory mainly focuses on the EU as a political entity, later studies

“have emphasized day-to-day EU policy-making, united in their claim that the growth in scope of policies decided at the EU level has made policy-making more similar to that at the national level” (Eikeland 2011: 246).

The concept of ‘policy networks’ is one such approach, derived from efforts to understand policy-making under the impact of fragmentation of the decision-making process, and increasing interdependence between state and non-state actors (Ibid.). Early ideas on the ‘policy network’ concepts emerged in the 1950s and 1960s “as a critique of the pluralist model of interest groups intermediation and as the basis of the sub-government model” (Besussi 2006, 3) which describes as “a cluster of individuals that make most of the routine decisions in a given [...] are of policy” (Ripley & Franklin 1987: 8-9). Over the years, policy networks have gained importance as a concept on the national, international, and supranational level. They are seen “as a response to increasing interdependence between state and private sector” (Besussi 2006, 4), as hierarchical governance is not flexible enough to address the increasing need for policy effectiveness, efficiency, and equity.

3.1.2. Definitions and general information

Modern governance has evolved into a system of shared tasks and responsibilities between both state and non-state actors. The EU as a new type of political entity provides an interesting ground for research on the development of governance, as it serves as a platform for national and transnational, as well as private and public interests. As mentioned be-

fore, the concept of ‘policy networks’ has no theoretical basis, and some scholars, such as Dowding (1994) argue that they, therefore, have no explanatory power. When combined with another theoretical approach, as in the case of this study, policy network analysis can provide useful insights into the policy-making process, and explain as well as predict policy outcomes.

Table 1 Policy community and policy networks: The Rhodes typology (Rhodes 2001)

<i>Type of network</i>	<i>Characteristics of networks</i>
Policy community/ territorial community	Stability, highly restricted membership, vertical interdependence, limited horizontal articulation
Professional network	Stability, highly restricted membership, vertical interdependence, limited horizontal articulation, serves interest of profession
Intergovernmental network	Limited membership, limited vertical interdependence, extensive horizontal articulation
Producer network	Fluctuating membership, limited vertical interdependence, serves interest of producer
Issue network	Unstable, large number of members, limited vertical interdependence

The term ‘network’ generally refers to a “cluster of different kinds of actors who are linked together in political, social, and economic life” (Peterson 2012: 105). Networks are often loosely structured constructs, which are, however, still able to distribute information, or facilitate collective actions. There exist a number of definitions for the concept of ‘policy networks’, of which some are more extensive and detailed, classifying policy networks with regard to certain characteristics. One of the most commonly used typologies, the Rhodes models (1981), is based on the understanding of the term ‘policy network’ as a “cluster or complex of organizations connected to one another by resource dependencies (Rhodes 2001: 37; after Benson 1982).² He distinguishes between five types of networks ranging along a continuum from tightly integrated policy communities to loosely integrated issue networks, as shown in *Table 3*. One of the strengths of Rhodes model is “that, despite occasional discrep-

² For comparison, Peterson and Bomberg (1999: 8) apply a more extensive conception in which ‘policy network’ is defined as “a cluster of actors, each of which has an interest, or ‘stake’, in a given EU policy sector and the capacity to help determine policy success or failure”.

ancies in terminology, most other models of governance by network are compatible with it” (Peterson 2012: 109). However, Rhodes (2001) himself acknowledges that there are weaknesses in this typology as it does not tell us anything about the actual location of the different types of networks on the continuum.

3.1.3. Criticism and Discussion

Policy network analysis has been criticized on the ground of three specific arguments. First, as already mentioned, the term ‘policy network’ may a useful concept, but lacks an actual model or theory. Proponents acknowledge this criticism, but argue that “theory-building must always start by building on metaphors which abstract from reality, and then point the analyst towards variables that may determine outcomes” (Peterson 2012: 115).

Second, critics argue that policy network analysis, unlike most other IR theories, lacks a theory of power. The argument is that policy network analysis the power of Member State governments is not denied but neglected as a determinant of EU policy outcomes. The main counter argument is that, as policy network analysis accounts for multiple sets of institutional actors in the multi-level governance system of the EU, it goes beyond the simple mediation of national preferences which has become a necessity in examining the decision-making process. One last accusation by opponents concerns policy network literature, which is viewed to be vague and caught up with purely academic debates about terminology. Proponents of policy network analysis generally accept this argument, and have been calling for more research on actual cases to which the ‘policy model’ can be applied.

Although the criticism with regard to the lack of an actual theory is valid, the main purpose of this approach is to describe, explain, and predict policy outcomes which arise from the process of European integration (Peterson 2012). Combined with the tenets of supranationalism, ‘policy networks’ is a suitable approach for identifying the driving actors behind European natural gas market integration, as it looks at the linkages between actors rather than at the actors themselves.

3.2. Liberal intergovernmentalism

EU policy studies were long dominated by the debate between intergovernmentalist and supranationalist positions on the European integration process and the nature of EU policy-making. The former views European integration as the product of a “series of rational

choices made by national leaders” (Moravcsik 1998: 18), whereas the latter defines integration as “the process whereby political actors [...] are persuaded to shift their loyalties and expectations towards a new centre” (Haas 1958: 16).

3.2.1. Origins and development

LI has been part of the dialogue on European integration for several decades, acquiring the status of a ‘baseline theory’ (Moravcsik & Schimmelfenning 2012: 67). The approach was founded on the self-criticism of neofunctionalism, and points towards the conception of the Commission more closely in line with modern international political economy views. These suggest that the EC

“is best seen as an international regime for policy co-ordination, the substantive and institutional development of which may be explained through the sequential analysis of national preference formation and intergovernmental strategic interaction” (Moravcsik, 1993: 480)

LI is a ‘grand theory that seeks to explain the broader development of regional integration whereby it links together multiple factors into a single coherent approach. However, over the years the sole dominance of Member State interests has been relativized. The so-called “community method”, in contrast to the intergovernmental method, describes a decision-making procedure that assigns particular roles to the European institutions and describes a particular relationship between them. In a speech in November 2010, German chancellor Angela Merkel suggested the notion of a “Union method”³, as being more in line with current EU affairs. This approach is a combination of the community method and coordinated action by the member states, and is particularly relevant for the energy sector. She further argued that

“a coordinated European position is not necessarily the result of applying the community method. Such a common position is sometimes also the fruit of the intergovernmental method. The essential point is to have this common position on the important subjects.”⁴

This study takes this new method into account when analyzing the process of European natural gas market integration.



³ Speech by Federal Chancellor Angela Merkel at the opening ceremony of the 61st academic year of the College of Europe in Bruges on 2 November 2010 [ONLINE]. Available at: <http://www.bruessel.diplo.de/contentblob/2959854/Daten/> (accessed 1 July 2014).

⁴ Ibid.

3.2.2. Definitions and general information

Moravcsik (1995: 612), one of the founding fathers of intergovernmentalist theory, divides the EC decision-making process into three stages: (1) foreign economic policy preference formation, (2) inter-state bargaining, and (3) institutional delegation. Thereby, an important constraint for the progression of European integration is the “willingness of national governments to delegate [...] political power” (Moravcsik 1995: 621). The theory is based on two main assumptions: states are actors and states are rational in their pursuit of interests (Moravcsik & Schimmelfenning 2012). However, scholars representing this approach distance themselves from corresponding ‘realist’ assumptions. In contrast to realist approaches, LI does not assume national security to be the dominant motivation behind nation state actions. State preferences and identities vary, and national institutions are important actors in the integration process (Moravcsik & Schimmelfenning 2012: 68).

Table 2 The Liberal Intergovernmentalist Framework of Analysis (Moravcsik 1993: 482)

Liberal Theories		Intergovernmentalist Theories	
(international demand for outcomes)		(international supply of outcomes)	
Underlying societal factors; pressure from domestic societal actors as represented in political institutions		Underlying political factors; intensity of national preferences; alternative coalitions; available issue linkages	
			
NATIONAL PREFERENCE FORMATION	→ configuration of state preferences →	INTERSTATE NEGOTIATION	→ OUTCOMES

The fundamental objectives of states are neither fixed nor uniform; they vary among (Member) states and across time and issues. As a result, they “are driven by issue-specific preference functions about how to manage globalization, not linkage to general policy concerns” (Moravcsik and Schimmelfenning 2012: 70). The formation of national preferences takes

place at the domestic level. They then find expression in international negotiations (see *Table 4*).

3.2.3. Criticism and Discussion

The main criticism towards LI is that the theory claims to be able to explain everything, from national preferences to asymmetrical interdependence (Moravcsik & Schimmelfenning 2012: 85), whereas it does not have the capacity to cover all aspects of European integration. However, considering the three stages of decision-making in the EU, liberal intergovernmentalism can be an important tool to analyze national interests and preferences as a driver for European gas market integration; especially with regard to the EU's external natural gas policy. The formation of common interests and the willingness to delegate power to the supranational level are important independent variables in the search for the main drivers of further gas market integration.

As previously discussed in *chapters 1.1* and *1.3*, energy policy is a matter of shared competence between the EU and its Member States. The Lisbon Treaty formalizes the shared ownership of EU energy policy between EU institutions and the Member States in terms of “[a] carefully crafted compromise between national sovereignty over national resources and energy taxation issues, and a shared Union competence for the rest” (Andoura et al. 2010: 3). Nonetheless, energy has been an exceptionally important policy field for the European Integration process (Dinan 2010). As the EU states on its official website, “[t]he prospect of sharply rising energy prices and increasing dependence on imports makes our energy supply less reliable and jeopardizes the economy as a whole”⁵. As a result, EU Member States are interested in protecting their interests, as the access to energy is a vital factor for their economic growth. A basic idea *liberal intergovernmentalism* (LI) is represented in this assumption. Therefore, it can be assumed that Member State interests play an important role in the process of natural gas market integration. LI will help to identify these interests and analyze how far they determined the Commission's actions.

⁵ Official website of the European Union, *Energy* [ONLINE]. Available at: http://europa.eu/pol/ener/index_en.htm (accessed 1 July 2014).

4. Methodology

In order to examine the process of European natural gas market integration, with a focus on policies regulating the internal environment of the gas market, a case study strategy will be used. This chapter presents the case selections, and explains the method of ‘process-tracing’, which is used to analyze the development of gas market policies and the interaction between actors involved in this process.

4.1. Case Selection

By analyzing regulatory changes concerning the internal natural gas market on the EU level, the paper draws a causal link between these milestones and the development of gas market integration. Germany and France have been on the forefront of the debate for many years, as both countries heavily rely on natural gas imports to cover their energy needs. Furthermore, these countries are hosts to large energy-intensive industries, and, therefore, have a vital interest in keeping energy prices low to ensure their industries’ competitiveness vis-à-vis their domestic and international competitors.

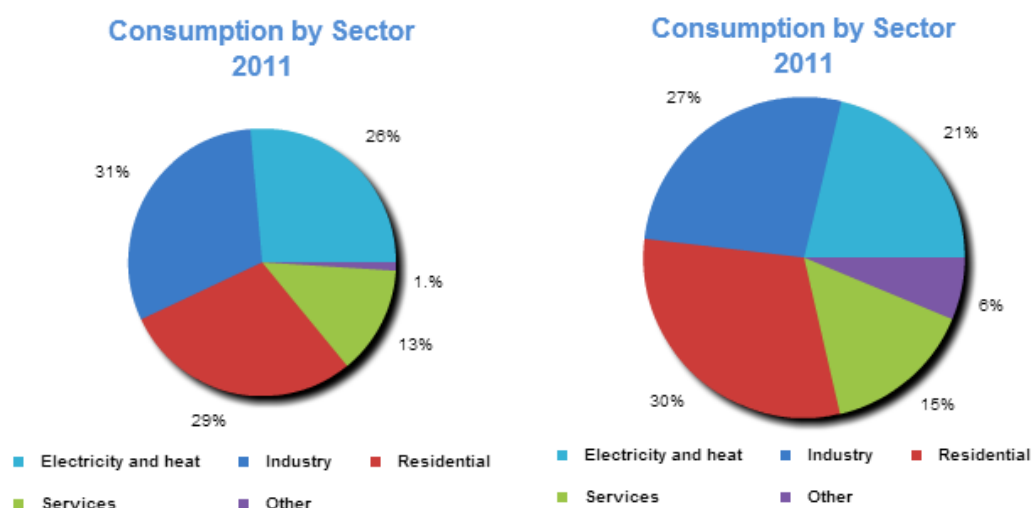
France imports natural gas through a number of cross-border pipelines from Norway, the Netherlands, and Russia. Further, it imports liquefied natural gas (LNG) from countries around the world, such as Algeria, Nigeria, Qatar, and Egypt (U.S. EIA 2014). In 2012, total natural gas consumption in the country was 44.1 billion cubic meters (bcm) of which it imported over 90 percent. Natural gas demand is steadily increasing in the power and industrial sector. Although France has abundant shale gas reserves, it continues to rely heavily on imports. The French government banned fracking - a technique to extract natural gas from under deep-rock formations – in July 2013. Although President François Hollande announced “[t]here will be no fracking in France while I am President” (Pottinger 2014), French oil and gas interests are now pushing for a policy U-turn.

Germany, on the other hand, has no LNG terminals and, therefore, has to rely entirely on natural gas imports through several major cross-border pipeline networks. Most of its natural gas imports come from Russia, Norway, and the Netherlands. After natural gas consumption peaked in 2003, it has been declining mainly due to energy efficiency improvements, with a current annual demand of 87.2 bcm. However, this does not imply that natural gas has become dispensable. The resource is believed to be the country’s main option to cut greenhouse

gas (GHG) emissions, given that 45 percent of the country's power is generated from coal, and reach its 40 percent reduction target in 2020 (Statoil 2014).

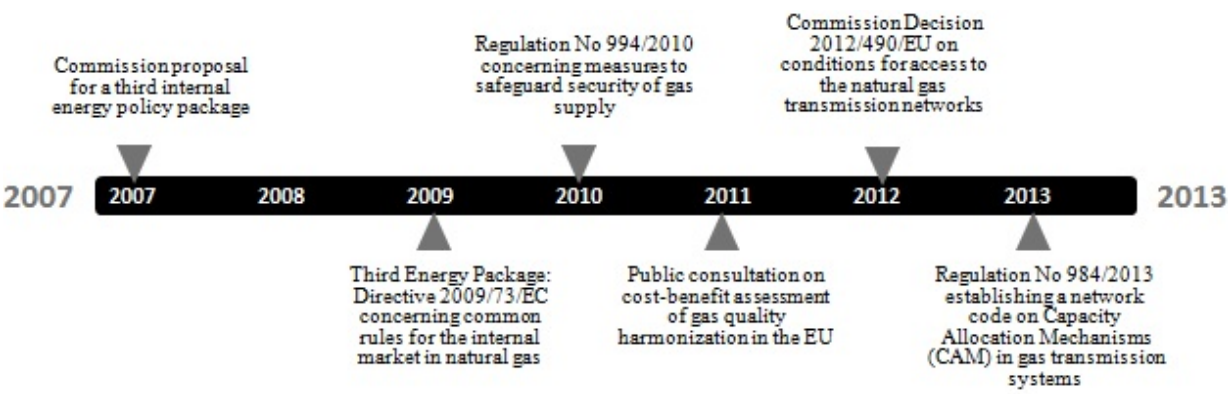
Table 3 Natural Gas Information for Germany and France (2011/2012) (IEA 2013)

Germany		France	
Natural Gas Information (bcm)	2012	Natural Gas Information (bcm)	2012
Production	12.3	Production	0.5
Gas demand	87.2	Gas demand	44.1
Total imports	87.7	Total imports	45.2
of which LNG	0	of which LNG	9
Total exports	18.1	Total exports	2.5
Total storage capacity	19.9	Total storage capacity	12.1
Share of gas in TPES (%)	22.3	Share of gas in TPES (%)	14.6
Self sufficiency (%)	14.1	Self sufficiency (%)	1.1



In the time period from 2007 to 2013, there have been a number of important policy changes concerning the regulation of the internal natural gas market. Table 3 displays the most important regulatory changes during this time period. This research paper, however, focuses on three pieces of legislation or, specifically, the debates surrounding them: the Third Energy Package, Directive 2012/490/EU, and the negotiations preceding a Directive to harmonize EU gas quality. The proposal for a third internal energy policy package in 2007 provides a good starting point for the analysis, as it can be seen as the first serious step taken by the Commission to further the integration of the EU internal gas market. Directive 2012/490/EU provides new congestion management procedures, which affect gas and electricity flows between Member States, and therefore presents an important regulatory change for the integration of the gas sector. Finally, the current debate on the harmonization of EU gas quality is not only an interesting development with regard to gas market integration, but has created new dynamics between the actors involved.

Table 4 European Natural Gas Market Integration from 2007-2013 – A Timeline



Since the Commission’s proposal in 2007, there have been a number of policy initiatives concerning the regulation of Europe’s internal natural gas market. *Table 1* displays the most important policy initiatives for the time period from 2007 to 2013. This thesis focuses on three policy initiatives: the Third Energy Package,⁶ the Directive on conditions for access to the natural gas (hereafter: Directive 2012/490/EU), and the negotiations preceding a Directive to harmonize EU gas quality.

4.2. Process-tracing

The study of European integration has produced a wide range of theoretical approaches on how to conceptualize integration. Definitions of integration vary by theory and are based on the respective underlying assumptions. Many studies are concerned with how to measure integration. A commonly used concept is economic integration. Scholars look at transaction costs or the convergence of prices within a specific sector to capture the status and trend of European integration (Krieger-Boden & Soltwedel 2010; Baltzer 2008). However, this report presents a different approach to European integration. Although price- and cost-models provide useful insights on the economic integration of the EU internal market, these measures only look at the results of EU policy implementation. This report and the subsequent thesis will look at the EU natural gas policy framework as an indicator for European integration. This approach will allow for the researcher to look at the output of EU policy-making, in terms of the actual EU ruling, and its implementation by the member states.

⁶ In particular Directive 2009/73/EC concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC; see European Commission (2009).

As mentioned before, it is the general aim of this research to identify the drivers of European natural gas market integration. Focusing on the time period between 2007 and 2013, the analysis will look at recent regulatory and structural changes on the EU internal gas market in order to learn more about what has caused further market integration. Process-tracing is a fundamental tool of qualitative analysis and provides an analytical framework to describe political and social phenomena and evaluate causal claims. Collier (Collier 2011: 823) defines process-tracing as “the systematic examination of diagnostic evidence selected and analyzed in light of research questions and hypotheses posed by the investigator.” This method is appropriate when analyzing trajectories of change and causation, while paying close attention to sequences of independent, dependent, and intervening variables. It should be emphasized that the objective of causal process tracing is to “explain the outcome in the small number of cases being examined rather than to generalize beyond them to a larger universe” (Hall 2013: 22). Process tracing has experienced a renaissance in Political Science, and had a profound impact on the research field. More researchers tend to use mixed-method designs, “as skepticism rises about whether statistical analysis alone can reveal causal relationships” (Ibid.: 28).

5. Background

The purpose of this chapter is to create a basis for the following analysis. As European gas markets have changed fundamentally over the past decade, the chapter provides background information on these changes, as well as the current regulatory framework governing European gas and electricity markets.

5.1. The Newfound Resilience of Natural Gas Policy

European gas markets have changed fundamentally in the past couple of years. As mentioned in the introduction to this thesis, recent developments have drawn Member States' attention back to the state of affairs on their internal gas markets. Since Russian forces entered Crimea earlier in March 2014, policy-makers and international observers have been debating the impacts the stand-off over Crimea might have for the EU (Kennedy 2014).⁷ Poland's Prime Minister Donald Tusks cautioned Europe against the EU's excessive dependence on Russian natural gas supplies. In an opinion piece published in the *Financial Times*, he calls for the creation of a European energy union based on solidarity and common economic interest:

“[R]egardless of how the stand-off over Ukraine develops, one lesson is clear: excessive dependence on Russian energy makes Europe weak. And Russia does not sell its resources cheap – at least, not to everyone [...] Europe should confront Russia's monopolistic position with a single European body charged with buying its gas [...] Therefore I propose an energy union [...] Whether in coal, steel, uranium, credit or gas, the principal idea of the EU has always been to bring Europe together, deepening our security and establishing fair rules where the free market is lacking” (Tusk 2014).

The idea of a new EU treaty to embark on a common energy policy has been advocated by high-level institutional officials, such as former European Commission President Jacques Delors in 2010 (European Parliament 2010). Renewed tensions between Russia and the Ukraine were only the tip of the iceberg. Three previous developments have not only altered the structural organization of these markets, but induced EU Member States to turn their attention back to the functioning of their natural gas sector. First, as gas trade across the globe

⁷ While writing this thesis, the Crimean Peninsula was absorbed by the Russian Federation, but has not been recognized by the vast majority of the international community as a part of Russia. International observers remain worried about how the aftershocks of the Crimea Crisis will affect European-Russian energy relations (Katakey 2014).

increased, so did state interdependence (Arentsen 2012). This development has led many European countries to rethink their natural gas dependencies. Second, the European Financial Crisis slowed down economic activity. Tighter credits, lower profitability, and less need for capacity have affected investment in energy-supply infrastructure, particularly in the natural gas and oil sector (International Energy Agency 2009). Finally, European gas markets have experienced profound structural changes due to a major shift in policy. After the abolishment of legal monopolies in the electricity and gas sector in the 1990s, three directives aimed at unbundling vertically integrated electricity companies and third party access to distribution networks, further liberalized the internal natural gas market. However, as the European Commission states in its benchmarking report from June 2011, “a truly single energy market is far from complete” (European Commission 2011a: 2).

5.2. The Existing Regulatory Framework

The process of liberalizing and integrating the European natural gas market, which can be traced back to the mid-1980s, has been very slow. The Single European Act was a precondition for the creation of a common European internal market, and was followed by numerous pieces of legislation to advance integration in various policy sectors. The Commission only acquired competence in the energy sector with the adoption of the Lisbon Treaty in 2009 (Talus 2013).⁸ The EU now has an energy provision - Article 194 TFEU (Treaty on the Functioning of the European Union) – that allows for EU action in this area. The article states that EU policy on energy

“shall aim, in the spirit of solidarity between Member States, to: (a) ensure the functioning of the energy market; (b) ensure security of energy supply in the Union; (c) promote energy efficiency and energy saving and the development of new and renewable forms of energy; and (d) promote the interconnection of energy networks”.

However, it also clearly states that such measures should not affect the Member State’s right to “determine the conditions for exploiting its energy resources, its choice between different energy sources and the general structure of its energy supply” (TFEU 2012: art. 194).

EU energy markets in general and the EU natural gas market in particular are now governed through primary EU Treaty law, and secondary EU law. The European gas market is mainly shaped by three legislative acts introduced by the EU between 1998 and 2009: Di-

⁸ See European Union (2012).

rective 98/30/EC and 2003/55/EC,⁹ concerning common rules for a truly competitive internal gas market within the EU, and the Third Energy Package, a legislative package consisting of two Directives and three Regulations for the internal gas and electricity market. As this research paper focuses on the time period between 2007 and 2013, only the third legislative package will be considered for the following analysis. The key obligations under the current regulatory framework for electricity and gas as defined by the Third Energy Package are (Talus 2013: 67-68):

- Member States must ensure that new facilities for production, transport, and distribution of electricity and gas are authorized on a non-discriminatory basis;
- third party access (TPA) regulations, necessary due to the ‘natural monopoly’ character of gas and electricity sector, demand effective and non-discriminatory access for competitors;
- different degrees of unbundling, ranging from the unbundling of accounts between the ‘neutral transmission’ and the other, competitive, activities of the transmission operators to ownership unbundling, due to the ‘natural monopoly’ character of the transportation market and transmission operators.

As can be noted, the main objective of current legislation is “to guarantee fair competition, sufficient investment, access for new market entrants and the integration of gas markets” (European Commission 2009: art. 16). Mandatory ownership unbundling (MUO) was one of the most important policy measures included in the Commission’s proposal, as it was aimed at hindering European energy suppliers in discriminating in terms of access to their gas and electricity networks, and created a lot of debate between the Commission, Member States, and national producers. The basic idea of MUO is to separate production and distribution in order to create a competitive market environment.

Other important efforts towards further natural gas market integration to be considered in this paper are the Commission’s work on the harmonization of gas quality in the European gas market, and the modification of existing congestion management procedures in the gas sector. The overall objectives of these efforts are to ensure a free flow of gas, to facilitate newcomers’ access to transmission capacities, and to make more efficient use of existing capacity (European Commission n.d.).

⁹ See European Commission (1998) and (2003).

6. Analysis

The following chapter applies the ‘policy network’ and intergovernmentalist approach to the process of European internal natural gas market integration in the time period from 2007 to 2013. More specifically, it looks at the process of shaping interests and formulating common policies in the natural gas sector. Did non-state agents operating in transnational policy networks gain clout on the Commission with regard to gas market integration policies in the period from 2007 to 2013? Or did Member State interests regain strength, and continue to dominate the debate on European natural gas market integration?

The findings presented in this chapter indicate that transnational policy between the Commission and non-state actors have gained more clout on the decision-making process which, in turn, has led the Commission to gain stronger will towards Member States. It appears that the ‘policy network’ approach combined with the tenets of supranationalism provide a useful tool to analyze European integration in the gas sector, while intergovernmentalism fails to account for sector- and issue-specific decision-making and, thereby, for actor dynamics specific to this policy area.

On the other hand, Member States still pursue their individual national interests when it comes to energy policy. They seek to protect their vital resources and are reluctant to develop a ‘community position’ on natural gas matters. Talus (2013) recognizes this as a substantial problem for the future of European gas and electricity market integration. As past mistakes in the liberalization process have allowed the emergence of powerful national energy companies through mergers and acquisitions, these companies can now “directly and, through their home state, effectively, have their say in the integration process and the progress towards liberalization” (Talus 2013.: 292). Further, large Member States, such as France and Germany, “have been unwilling to accept the loss of regulatory powers on a national level or the break-up of their national pride: large and powerful energy companies”.

6.1. ‘Policy networks’ and the EU natural gas market integration process

This part of the analysis investigates the formation of policy networks between the Commission and non-state agents, such as national energy groups and transnational associations, and their influence on European natural gas market integration. From a supranationalist perspective, the Commission is to be treated as an independent actor and policy initiator. In

this sense, the combination of these two approaches, guided by the method of ‘process-tracing’, allows for the analysis to investigate the policy-making process on natural gas from a new perspective.

In the 1990s, the EU introduced a ‘consensus procedure’ for internal energy market policy development providing for interest-group interaction with EU institutions and national governments (Eikeland 2011). While major energy-consuming countries were interested in the financial benefits that were expected to come with a single-energy market, the Commission required technical and operational advice from actors running the national energy systems. The two Directorate Generals (DG) most involved in law-making in the energy sector were DG TREN¹⁰ and DG COMP¹¹. Previous to the Commission’s proposal for a third energy policy package, DG COMP had been relatively inactive as its role in the energy sector was limited (Eikeland 2011). However, since certain policy measures, such as MUO, were expected to have a significant impact on the competitiveness of national energy companies and also entailed implications for European energy consumers, DG COMP got more involved in energy policy.

DG TREN and DG COMP acted as the major contact point for national and transnational non-state actors wishing to get involved in the decision-making process on the future of the internal natural gas market. They developed close working relationships with various transnational associations representing both consumer and producer interest. As an example, a quite stable relationship developed between DG TREN and Eurelectric, a Brussels-based euro-federation representing the supply side interests vis-à-vis EU institutions (Eikeland, 2011). Other euro-federations, such as the European Transmission System Operators (ETSO), and the European Federation of Energy Traders (EFET), represent the interests of transmission system operators and energy traders. While these three organizations refused to take a position on MUO consumption-side organizations lobbied the Commission in favor of MUO (Eikeland, 2011). Industry associations, such as BusinessEurope, were concerned about the monopolistic nature of vertically-integrated national energy companies and had high hopes in MUO to expose these companies to competition, thereby having a positive effect on energy prices.

¹⁰ Directorate General for Transport and Energy, now part of DG Mobility and Transport.

¹¹ Directorate General for Competition.

Interviews with Commission staff and key stakeholders in Brussels conducted by Eikeland (2008) “initiated a shift in the relative influence of energy suppliers and consumers on the Commission from 2003 to 2007” (2011: 257). However, links between Commission officials and energy-consuming industries appeared to be stronger and more stable, as DG COMP pushed for MUO internally. Nonetheless, transnational policy networks representing consumption-side interests were not able to fully realize their goals. In 2009, the European Parliament’s (EP) industry committee and the Czech presidency of the Council negotiated a compromise which allows Member States to choose between three options of unbundling, which essentially gives Member States a way around mandatory unbundling (Saunders & Gray 2008). President of the EC José Barroso criticized the new regulations for not being “strong enough to contain the almost gangster-like domination of the sector by energy oligopolies” (EurActiv 2009). The relatively weak framework was the result of supply-side policy networks backed up by their Member State governments successfully lobbying the Commission, as well be discussed in more detail later on.

Another interesting development that came with the adoption of the Third Energy Package was the creation of Agency for the Cooperation of Energy Regulators (ACER), whose purpose it is to foster cooperation among European energy regulators (ACER n.d.). This, again, shows the Commission’s interest in including non-state agents in policy activities in the gas and electricity sector. In general, the Commission appears to have gained a clearer independent will to push for the integration of Europe’s energy market, giving rise to the assumption that supranationalism has gained footing in energy policies.

In 2010, the Commission together with Marcogaz, the Technical association of the European gas industry, carried out a pilot project to harmonize the quality of European natural gas. This work was done in cooperation with Gas Infrastructure Europe (GIE), the European Association for the Streamlining of Energy Exchange (EASEE-gas) and other stakeholders involved in the process (European Committee for Standardization, n.d.). Non-state agents representing consumer and producer interests vis-à-vis the European institutions actively participated in the decision-making process. The objective of the project was to provide best-practice learning and solutions for the implementation of gas quality harmonization. Besides the national bodies of participating countries, a coordination group composed of ACER, the European Network of Transmission System Operators for Gas (ENTSOG) and the European Committee for Standardization (CEN) is supporting this project. The increasing involvement

of non-state actors in this matter can be interpreted as the result of stronger relationships between these agents and EU institutions.

Associations representing the infrastructure industry in the natural gas sector, such as Gas Infrastructure Europe (GIE), generally welcome to Commission's initiative to harmonize gas quality across Europe. In their response to DG ENER's public consultation on this matter, GIE argued that "harmonised specifications across EU are key to creating effective interoperability of networks facilitating a free trade of gas by lifting local gas quality barriers" (GIE 2011: 1). Participation by non-state organizations in the public consultation held in 2011 was tremendous, as this issue is of vital interest to national energy producers.

A similar development can be observed for the public consultation preceding the adoption of Directive 2012/490/EU on the modification of congestions management procedures (CMP). The Commission received responses from fifty-five organizations, both supply-side and transmission system operators (TSO) (European Commission 2011b). As the aim of the modified CMP is to improve access to contractually congested cross-border gas networks, there is a need for cooperation between national regulatory authorities (NRA) and TSOs.

Thus the findings indicate that non-state actor participation has further increased in the time period from 2007 to 2013. Over time, the Commission developed a close working relationship with both national and transnational non-state agents. Supply- and consumption-side organizations form policy networks to realize their respective goals vis-à-vis EU institutions. On the other hand, the Commission relies heavily on their technical and operational advice, resulting in situation which is mutually beneficial for both sides. As non-state actors were able to increase their influence through the formation of policy networks, the Commission appears to have gained stronger will and more clout towards Member States which indicates a shift of power and competence from the national to the supranational level. However, one should not overestimate the institutional power of policy networks, as they appear to be relatively unstable and issue-specific, as membership changes depending on the respective interests at stake. The following chapter analyzes the development of Member States' influence on EU decision-making.

6.2. Member State interests and EU natural gas market integration

The second part of the analysis looks at the formation of interests between Member State governments, and how they influenced EU policy-making on natural gas. Liberal intergovernmentalism assumes a three-step integration process which starts with Member States defining their interests on the national level. In a next step, these interests are discussed in interstate forums and decided upon in a bargaining situation with other Member States. Final decisions are then delegated to supranational or transnational institutions to secure the desired outcomes. As the analysis will show, Member States indeed shaped their interests with regard to natural gas policy on the national level in cooperation with national energy groups which they are trying to protect from accentuated competition. They also used interstate forums, such as the Energy Council, to bargain with other Member States over their interests. However, they were not able to simply delegate the implementation of their desired policy options to the Commission, as the institution had developed an agenda of its own.

The Lisbon Treaty itself did not entail a major change in European energy policy. However, Article 194 grants the EU a clearer role to secure energy objectives, such the proper functioning of the internal natural gas market, and security of supply (House of Lords 2008). The inclusion of energy policy into the Treaty paved the way for the EU to adopt a stronger, more independent position towards stakeholders, and provided the means to form a common approach on energy regulation. Some Member States, such as France, took a strong stance in favor of including energy policy into the new Treaty. French Secretary of State for European Affairs, Jean-Pierre Jouyet, said “there there was not yet a European energy policy because there was no legal basis for one, and indicated that the new treaty may be able to address this” (EurActiv 2007a). As previous attempts to include energy policy references into the European treaties failed, some scholars claimed that Member States were reluctant to hand over decision-making power to the supranational level. The inclusion of energy provision into the Lisbon Treaty shows a change in mindset of Member State governments. Although some Member States, including Germany, were initially against taking this step, they eventually agreed to take energy into the legal basis of European integration (Mišík 2010).

EU Member States continued to play a dominant role in the negotiations preceding the proposal of a third energy package. The Commission identified national vertically integrated gas and electricity utilities as a challenge to real market opening, and gave DG COMP permission to start proceedings against import/export monopolies (Eikeland 2011). However, as

Member State governments and national energy groups were skeptical of the effects of market competition in the energy sector and regulatory intervention on behalf of the Commission. In 2007, the Commission proposed a third legislative package with MUO at the top of priorities against warnings by the Energy Council not to include this policy measures (Ibid.). A group of Member State countries headed by Germany and France opposed MUO, arguing that “that large integrated companies are in a better position to negotiate contracts with powerful external suppliers such as Russia's Gazprom” (EurActiv 2007b). These countries hosted large vertically integrated energy groups, and lagged behind in implementing previously adopted energy policies requiring unbundling (Eikeland 2011). Further, they feared Russia's Gazprom to take advantage of the situation by acquiring national networks on sale and increase their influence in European natural gas markets.

The Commission put forward a proposal for a third legislative package in 2007, suggesting two options to deal with vertically integrated national energy firms. Although ownership unbundling was still included in the proposal, the Commission suggested a second option in which companies would be allowed to remain full owners of their network, but would receive a set price from a fully independent system operator (ISO) for letting competitors use it (EurActiv 2008). The Commission had decided to give in to the opposition from France and Germany, and offered this second option as a compromise. However, the opposition of Member States was still not quite satisfied with the Commission's proposal and continued to refuse MUO as well as the Commission's ‘fallback’ ISO model.

The German-led campaign experienced a setback in March 2008, when Germany's largest energy company E.ON announced that it would sell parts of its transmission grid in order to avoid antitrust investigations led by DG COMP (The Economist 2008). Just weeks before, France, Germany and six other Member States had submitted a letter to the Commission, arguing that the “Commission's proposals to unbundle vertically-integrated energy firms will not achieve their desired effect in terms of more grid investments and lower energy prices” (EurActiv, 2008). Further, the letter stated that fair competition could be achieved without full ownership unbundling or ISO oversight “by ensuring a number of safeguards concerning the independence, management and investment decisions of TSOs” (Ibid.). Finally, Member States represented by their members of parliament were able to negotiate a third option in response to the successful efforts of Germany and France to build a coalition against full ownership unbundling. The Independent Transmission Operator (ITO) model allows inte-

grated companies to keep full ownership of their gas and electricity grids as long as their management is subjected to outside supervision (EurActiv 2008). The Third Energy Package was adopted by the EP and the Council in July 2009, and entered into force in September 2009.

EU Member States presented themselves as strong, dominant actors during the negotiations of the Lisbon Treaty and the Third Energy Package. Germany and France both participated in the pilot project carried out by MARCOGAZ in 2011. Germany is particularly interested in harmonizing gas quality over Europe, as, for example, “gas supply from Germany is of a different and more varying quality than the Danish North Sea supply” (Energinet 2013). However, this project showed features of the previously mentioned “union method”, as Member States and the Commission formed a common position and aim to advance together in this matter. As mentioned before, this common position might be the result of the intergovernmental method and the continuous involvement of Member State governments in energy policy affairs.

Member States were less active, however, with regard to the negotiations preceding Directive 2012/490/EU on CPM. Only six public authorities participated in the public consultation held on CPM in 2011 (European Commission 2011b). Scholars from the intergovernmentalist school might argue that Member States only are only reluctant to transfer power to the supranational level when they see their vital national interests at stake. This argument does not hold true in this case, as both France and Germany should be more invested in the decision-making process on this matter. Congestion is located especially between Germany and the Netherlands and between balancing zones within Germany and France (ACER, 2013). Just like the formation of policy networks, Member State involvement in the decision-making process with regard to European natural gas market integration appears to be issue-specific.

7. Conclusion

This study has shown that supranational policy networks have gained a new foothold in European natural gas policies. The combined approach of ‘policy networks’ and supranationalism proved to be a suitable method to analyze the decision-shaping process in the gas sector in the time period from 2007 to 2013. Both supply- and consumption-side organizations developed a closer working relationship with the Commission; particularly with DG COMP and DG TREN. Furthermore, the Commission lived up to its role as a policy initiator, and developed more clout towards Member State governments. However, liberal intergovernmentalism can still explain a great deal of European energy affairs, as Member States remain reluctant to shift their competences in the gas sector to the supranational level, and continue to shape their interests on the national level, often in cooperation with national energy groups. Furthermore, the Energy Council is still an important and powerful interstate forum in which Member States bargain over their respective energy interests. As was shown in the analysis, the Energy Council warned the Commission repeatedly not to include MUO in the Third Energy package proposal.

As a result, the *first working hypothesis* adopted for this study can only be partially verified. Although non-state transnational actors have gained influence on EU policy-making in the energy sector, Member States remained to play a strong role and continue to lobby for their respective interest with regard to European natural gas market integration. Further, policy networks remain relatively instable and issue-specific, which makes it difficult to establish permanent cooperative relationships with the Commission. EU institutions recognize energy companies’ influence on their governments. In case of the Third Energy Package and the negotiations regarding MUO, the Commission hoped that its transnational network with industrial energy consumers, which appeared to be pro-MUO, would help to make this position more present in national debates.

The *second working hypothesis* can be verified, as the ‘policy network’ in combination with the supranationalist perspective approach proved to be suitable tool for the analysis of policy-making on natural gas. Although liberal intergovernmentalism, particularly in its attenuated form, can still explain certain aspects of policy-making in the natural gas sector, it fails to account for a couple of important factors. Politically active transnational associations representing cross-border interests and a strong, independently operating Commission that is

willing to work against EU Member States in the pursuit of its interests fall out of the equation.

In conclusion, this study shows that applying a pluralist perspective in studying the formation of EU natural gas policies allows for a more detailed understanding of sector-specific policy outcomes. While the ‘policy network’ approach grants non-state agents in networks with the Commission a potentially stronger, more independent role in EU policy-making, the liberal intergovernmentalist approach focuses more on the power relations between supranational institutions and Member States. In the fast-changing environment of the European gas sector, it is almost impossible to make predictive assumptions about future developments in this sector. The analysis of power relations between the Commission, EU Member States, and national and transnational non-state actors falls short in explaining all potential drivers behind European natural gas market integration. International political and economic developments will continue to have an impact on EU energy policy. Nonetheless, this study provides useful information to both scholars and policy-makers that could help them to advance in the regional integration process.

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