BUILDING A COMMON EUROPEAN ENERGY POLICY: DRIVERS OF NEGATIVE AND POSITIVE ENERGY POLICY INTEGRATION IN THE EUROPEAN UNION

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ABSTRACT

The European energy policy integration process has been widely discussed in the academic literature in the last two decades, signaling the rising significance of energy in the integration process of the European Union. While numerous researches are concerned with the potential drivers of integration, they do not account for the qualitative aspect of the outcome, thus fail to establish a connection between the drivers and their effects on the policy outcome. Therefore, the aim of this thesis is to research the drivers behind energy policy integration in the EU and to find out why cooperation in the area of energy policy fluctuated during the European integration process. Looking at selected crucial period of the EU's energy policy integration process, the thesis argues that energy policy integration tends to be driven by major member states, although the increasing role of the supranational body cannot be neglected. Meanwhile, energy policy coordination at the EU-level fluctuated over time as positive and negative energy policy integration also fluctuated, reflecting the changing nature and perceptions of the actors and the aims of the integration.

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INTRODUCTION

Energy is becoming one of the most important issue areas of the 21st century. The oil crises of the 1970s revealed the vulnerability of the energy markets and the European economy against fluctuating energy prices, as well as the overall importance of energy in the global economy, putting energy security in the constant spotlight of political discussions around the world.[1] At around the same time, climate change concerns began to shape political and business decisions, showing that our selection of energy resources not only affect our economic well-being today, but also influences the long-term future of the global population.[2] This realization also brought about a new race for energy resources, opening up the efficiency-driven competition between renewable energy and fossil fuels, while trying to satisfy the ever-increasing global energy demand.[3]

The European Union (EU) is currently the most integrated economic and political block of countries in the world, consisting of a partnership that consists of 28 member states (MSs). Its political and institutional system is historically unprecedented and has been constantly evolving through a series of treaties for more than 50 years, building on supranational and intergovernmental co-operation.[4] Energy was also a crucial part of the European integration process from its foundation.[5]

The European Community for Steel and Coal (ECSC), which was established in 1951, created the first international organization that aimed to control energy on the supranational level, and hence formed a common market for coal and steel between the six founding

[1] S. R. Schubert, J. Pollak, M. Kreutler, *Energy Policy of the European Union*. (London, Palgrave Macmillan, 2016), pp. 99-101

[2] Thijs Van de Graaf, Benjamin K. Sovacool, Arunabha Ghosh, Florian Kern, Michael T. Klare, ed. *The Palgrave Handbook of the International Political Economy of Energy.* (London: Palgrave Macmillan, 2016.), pp. 5-10.

[3] Svein S. Andersen, Andreas Goldthau, Nick Sitter, ed., *Energy Union, Europe's New Liberal Mercantilism?* (London: Palgrave Macmillan, 2017), pp. 14-19

[4] Michelle Egan, "Single Market," in *The Oxford Handbook of the European Union*, ed. Erik Jones, Anand Menon, Stephen Weatherill, (Oxford: Oxford University Press, 2012), pp. 407-418.

[5] Walter Mattli, *The Logic of Regional Integration: Europe and Beyond*, (New York: Cambridge University Press, 1999), pp. 68-108.

members.[6] In the following four decades, however, cooperation in energy policy highly fluctuated and was mostly conducted on the level of member states. Nevertheless, in 1992, the Maastricht Treaty created the European Union, which, for the first time, explicitly listed energy among the most important policy areas on the political agenda and made energy an area of shared competence.[7] Starting in 1996, the EU launched the implementation of the Internal Market Agenda, enhancing liberalization in the electricity and natural gas markets.[8] In 2009, the Treaty of Lisbon, among other policies, made the area of energy policy a formal competence of the EU, giving a new boost to coordinated policymaking and the further harmonization of national political agendas between Member States.[9] Today, the EU is setting ambitious short and long-term energy targets to further increase energy policy coordination between Member States.

The European energy policy integration process has been widely discussed in the academic literature in the last two decades, signaling the rising significance of energy policy. Samuel R. Schubert, Johannes Pollak and M. Kreutler go through the development of energy policy in the EU and provide an insight to the area and its main challenges by examining both its external and internal dimensions.[10] Other researches look at specific policies concerning energy and try to explore national and supranational perspectives on energy policy.[11] Other essays examine energy policy from a geopolitical and political economic perspective.[12] These works mostly provide comprehensive empirical analyses on the policy frameworks and

[6] "Energy Policies of IEA Countries: European Union; 2014 Review," International Energy Agency, 2014, https://webstore.iea.org/energy-policies-of-iea-countries-the-european-union-2014-review (Last Access: 20.12.2018.); "Treaty establishing the European Coal and Steel Community, ECSC Treaty," EUR-Lex, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM%3Axy0022 (Last Access: 21.12.2018.)
[7] Vicki L. Birchfield, John S. Duffield, "The Recent Upheaval in EU Energy Policy," in *Toward a Common European Union Energy Policy Problems, Progress, and Prospects*, ed. Vicki L. Birchfield, John S. Duffield (New York, Palgrave Macmillan, 2011), pp. 1.
[8] International Energy Agency "Energy Policies" pp. 25-26.
[9] Birchfield, Duffield, "The Recent," pp. 2.
[10] Schubert, Pollak, Kreutler: *Energy Policy.*
[11] Vicki L. Birchfield, John S. Duffield, ed., Toward a Common European Union Energy Policy, Problems, Progress, and Prospects, (New York: Palgrave Macmillan, 2011)
[12] Svein S. Andersen et al., *Liberal Mercantilism?*

regulatory structures, while they fail to theoretically conceptualize why and how common energy policy developed over time in the European project. Research on the causes of energy policy integration is also growing. Anastasia Lavrina, Janne Haaland Matláry and Andreas Pointvogl, among several others, analyze the potential drivers of the whole, or selected cases of energy policy integration in the EU from different perspectives and through various theoretical lenses.[13] Nevertheless, they do not offer a comprehensive explanation regarding the dynamics of the energy policy integration process.

Also, these researches mostly focus on the drivers of integration, and do not account for the quality, content and context of the policy outcome. Although theories on regional integration, such as neofunctionalism and intergovernmentalism offer useful frameworks to analyze regional integrations, they focus on different actors and they are not concerned about specific policy areas. Building on these frameworks, Walter Mattli's framework allows for a comprehensive examination of potential players, but it does not account for the qualitative aspect of such integration.[14] However, Fritz Scharpf's concept of negative and positive integration allows for the examination of the different types of integrations in the process, but fails to take into account the potential players.[15]

In this regard, we can observe a considerable gap in the literature on the analysis of the causes and quality outcome of energy policy integration in the EU. Therefore, in my thesis, I research *what drove energy policy integration in the EU and why cooperation in the area of energy policy fluctuated during the European integration process?*

[13] Anastasia Lavrina, "EU Common Energy Policy and the main obstacles for its efficient implementation," https://www.researchgate.net/publication/308635118_EU_Common_Energy_Policy_and_the_main_obstacles_for_its_efficient_implementation (Last Access: 25.05.2019); Janne Haaland Matláry, *Energy Policy in the European Union,* (London: Macmillan Education UK, 1997); Andreas Pointvogl, "Perceptions,realities,concession—What is driving the integration of European energy policies?" *Energy Policy*, Vol. 37, (2009); Matúš Mišík, "The influence of perception on the preferences of the new member states of the European Union: The case of energy policy" *Comparative European Politics,* Vol. 13, No. 2, (2015)

[14] Walter Mattli, "Explaining regional integration outcomes," *Journal of European Public Policy*, Vol. 6 No. 1, (1999), pp. 1-27

[15] Fritz W. Scharpf, "Negative and Positive Integration in the Political Economy of European Welfare States" *Jean Monnet Chair Papers*, Vol. 28 (January 1998)

In order to answer the research question, the thesis employs a theoretical framework that combines Walter Mattli's and Fritz Scharpf's frameworks, which allows for the examination of both parts of the research question. Looking at four critical junctures covering four short periods and their related turning points concerning the European energy policy, this thesis argues that energy policy integration tends to be driven by major member states, although the increasing role of the supranational body is also necessary to promote and propose further integration. Furthermore, through the observed cases, integration fluctuated over time as positive and negative integration also fluctuated mainly due to the varying general interests of major states, but the changing demand side of the evolving energy industry, as well as the differing aims and areas of the integration proposals and the changing role of the supranational institution also played a role in the variation of outcomes.

This research, rather than building a comprehensive account on the European energy policy and establish new historical casualties and patterns, aims to apply a modified theoretical framework to the already established historical content. Therefore, through its findings, this thesis intends to develop a better understanding on *why* and *how* one of the most important EU policy areas evolved, gaining an insight into the EU's integration process from a new perspective. Using the Mattli-Scharpf framework, the research aims to shed new light on the European energy policy integration and therefore contribute to the theoretical literature examining policy integration processes, particularly in the field of energy policy.

The body of my thesis is structured as follows. First, in Chapter 1, I will examine the related literature and introduce my theoretical framework, touching on all necessary concepts and terms. Chapter 2 will be devoted to setting up the methodology and the expected outcomes of the thesis. Through Chapter 3-6, I will analyze the selected critical junctures, establishing the historical background and the policy outcome of the examined periods, then look at the bottom-up and top-down processes to test the Mattli-Scharpf framework and draw up

conclusion on the energy policy integration process. Thus, In Chapter 3, I will look at the period of 1946-1958 and the cases of the European Coal and Steel Community and the Euratom treaty. Chapter 4 will analyze the period of the 1960s and 1970s and will discuss the oil crisis of 1973-74. Afterwards, in Chapter 5, I will examine two important turning points of the 1990s regarding energy policy integration, the First Energy Package and the Maastricht Treaty. Chapter 6 will be dedicated to the analysis of the Third Energy Package and the Lisbon Treaty in the period of the late 2000s. Finally, the conclusion will summarize the findings of the thesis, talk about their implications and look for opportunities for further study.

1. CHAPTER: LITERATURE REVIEW

1.1. Chapter overview

In this chapter, I will review the relevant academic literature in order to establish a framework necessary to carry out the analysis on the energy policy integration of the European Union. Therefore, I will first outline the descriptive literature on the EU's energy policy integration, which I would use to build the main framework around my research question: *What drove energy policy integration in the EU and why did cooperation in the area of energy policy fluctuate during the European integration process?* To this end, I will look at the main turning points in the history of energy policy. I will then summarize the existing literature that attempts to explain the reasons behind energy policy development in the EU. To build a theoretical framework for my research, I will also look at how neofunctionalism and intergovernmentalism can explain the overall EU integration process. Then, I will establish the first part of my framework by looking at Walter Mattli's conceptual frame on the supply and demand side conditions of integration. Afterwards, building up the second part of my framework, I will also examine the theory of positive and negative integration as presented by Fritz Scharpf, which will help me identifying the reasons behind the fluctuating nature of policy cooperation between member states. Finally, I will conclude the chapter.

1.2. Empirical literature on the European energy policy

Ever since the 1970s, energy policy has been increasingly discussed in the academic circles. Although researchers in political science, IR and other social sciences have lagged behind researchers from science, engineering, and economics in addressing energy for decades, the pressing energy challenges of today have opened up a vast research agenda and made energy policy a major area of inquiry in the last two decades.[16] In this regard, within the literature on the European Union, there is an increasing amount of research dedicated to the European

[16] Thijs Van de Graaf et al., *The Palgrave Handbook*.

Union's energy policy. One major approach is focusing on the analysis of the European energy policy structure and its implications. Samuel R. Schubert, Johannes Pollak and M. Kreutler go through the development of energy policy in the EU and provide an insight to the area and its main challenges by examining both its external and internal dimensions.[17]

Other researches look at specific policies concerning energy and try to explore national and supranational perspectives on energy policy.[18] Other essays examine energy policy from a geopolitical and political economic perspective.[19] David Bucham and Malcolm Keay look at the Energy Union proposal in light of the current dynamics of EU integration, also examining the progress of energy policy to date and the challenges the EU need to tackle in order to reach a functioning Energy Union.[20] Besides academic works, numerous studies, as well as official EU websites provide thorough description about the energy policy integration in the EU.[21] All these works signal the rising importance of studying energy policy, especially in the context of the European integration process.

The above-mentioned literature offers a comprehensive overview with regards to the development of the energy policy in the European Union, as well as regarding the implications of such developments from various perspectives. Hence, it mostly provides empirical analyses on the policy frameworks and regulatory structures, while it fails to theoretically conceptualize why and how common energy policy developed over time in the European project. Therefore, in many cases, the literature on the development of energy policy integration fails to assess why intergovernmental measures were approved and implemented and why the EU's energy policy integration happened in a way that led to its current form. This thesis therefore aims to shed

[17] S. R. Schubert et al, *Energy Policy*
[18] Vicki L. Birchfield, John S. Duffield, *Towards a common.*
[19] Svein S. Andersen et al., *Energy Union*
[20] David Bucham, Malcolm Keay, *Europe's Long Energy Journey: Towards an Energy Union.* (Oxford: Oxford University Press, 2015)
[21] For instance see: "Energy strategy and energy union, " European Commission, https://ec.europa.eu/energy/en/topics/energy-strategy-and-energy-union (Last Access: 20.12.2018.)

new light on the integration process by researching what drove the formulation of energy policy in the European integration project.

1.3. Existing research on the drivers of energy policy integration

The existing research on the causes of energy policy integration is also growing. Thus, several studies attempt to explain what the main driving factors behind regional integrations are and thus why such integration happened. Relying on classical realist theory and therefore putting states in the center of the conversation, Anastasia Lavrina argues that due to the different preferences of EU member states, the EU was and is still unable to formulate a common energy policy, since such policy is unable to meet the national interests of all the member states.[22]

Nevertheless, although the research is concentrating on energy policy, it fails to name other potential actors, who may play a significant role in the integration process besides states. Janne Haaland Matláry looks at the EU energy policy-making in the period of 1985-95, analyzing the role of selected governments and the Commission in the integration process.[23] Although Matláry's thorough work is useful in assessing the role of the national and supranational players, the book does not consider the general political and economic environment that could have prompted integration. Also, it does not elaborate on the potential role of bottom-up processes, where non-state actors may influence policy outcomes.

Andreas Pointvogl evaluates energy policy development in the EU-15 by developing energy supply security indexes to assess the role of national energy majors, and therefore to draw on conclusions on member states' policy preferences.[24] Although he provides a useful framework with regards to the national energy industry's reaction to supply security shocks, it only allows for a limited insight into a more complex arena of clashing interests. Similar studies, still centering their research around states, point to the importance of certain group of member

[22] Lavrina, "EU Common"
[23] Matláry, *Energy Policy,* pp. 21-23
[24] Pointvogl, "Perceptions," pp. 5704–5716

states in the formulation of the European energy policy.[25] Other researches apply a broadened view, but only concentrates on certain critical junctures in the integration process, such as the ECSC, Maastricht Treaty or the Lisbon Treaty, or examine different periods that cover a linear development of European energy strategy.[26] Therefore, they cannot offer a comprehensive explanation regarding the dynamics of the energy policy integration process. Also, these researches mostly focus on the drivers of integration, and do not account for the quality, content and context of the policy outcome.

1.4. Relevant theories on regional integrations

With regards to explaining the overall EU integration, the literature offers a much more comprehensive account. The resurgence of the European integration in the 1980s brought about the renaissance of neofunctionalism in the international relations literature.[27] Emphasizing the role of subnational actors, as well as supranational institutions in the integration process, neofunctionalists, such as Haas, Schmitter and Lindberg argue that if there is a demand for regional integration to maximize welfare and reduce transactional costs, sub- and supranational actors can prompt integration and institutionalization processes between states.[28] However, neofunctionalism fails to dedicate adequate attention to the interest of governments and therefore cannot explain how subnational demands for integration become accepted at the

[25] Matúš Mišík, "The influence of perception on the preferences of the new member states of the European Union: The case of energy policy," *Comparative European Politics* Vol. 13, No. 2 (2015), pp. 198–221
[26] Karen J. Alter, David Steinberg, "The Theory and Reality of the European Coal and Steel Community," *Buffett Center Working Paper* No. 07-001, (2007); Gary Marks, Liesbet Hooghe, Kermit Blank, "European Integration from the 1980s: State-Centric v. Multi-level Governance," *Journal of Common Market Studies,* Vol. 34, No. 3 (September 1996); Jacques de Jong, Thomas Pellerin-Carlin, Jean-Arnold Vinois, "Governing the Differences In The European Energy Union - Eu, Regional And National Energy Policies," *Notre Europe – Jacques Delors Institute, Policy Paper* 144 (October 2015); Svein S. Andersen, "EU Energy Policy: Interest Interaction and Supranational Authority," *ARENA Working papers* WP 00/5 (2000)
[27] Thomas Risse, "Neofunctionalism, European identity, and the puzzles of European integration," *Journal of European Public Policy*, Vol. 12 No. 2, (2005)
[28] Philippe C. Schmitter, "Ernst B. Haas and the legacy of neofunctionalism," *Journal of European Public Policy,* Vol. 12, No. 2 (2005); Leon Lindberg, *The political dynamics of European economic integration,* (Stanford: Stanford University Press, 1963)

national level.[29] As a result, it also lacks clear argumentation on why supranational institutions would be more efficient decision-makers than the institutions on the national level.[30]

On the other hand, the other major integration theory, classical intergovernmentalism puts the head of states and governments in the center of its research and therefore allows for the prevalence of the governments' interest in the integration process.[31] Also, the theory emphasizes the bargaining power of big, leading regional states, who can buy off small states with side-payments in case they would refuse to give up part of their sovereignty for regional integration. Consequently, integration becomes essentially the result of a convergence of preferences and interests between the leading states.[32]

For intergovernmentalists, governmental preferences tend to reflect the preferences of the dominant societal interest groups, and therefore domestic business interest is mostly neglected. Also, supranational institutions are mostly regarded as tools for member states to enhance their national interests.[33] By focusing mainly on the major treaties and the interstate bargaining process around them, intergovernmentalists tend to overlook the events preceding and following such bargaining. Therefore, they cannot explain why some integration efforts fail, and how external and other factors besides state preferences may affect policy integration.[34]

Thus, while neofunctionalism emphasizes supranational and national level actors, both traditional and the liberal intergovernmentalism focuses on the bargaining power of interest groups on the subnational level.[35] Although their concept shows that the integration process might be prompted by various actors as a result of exogenous factors, the authors only

[29] James Caporaso, "Regional integration theory: understanding our past and anticipating our future," *Journal of European Public Policy*, Vol. 5, No. 1, (1998), pp. 9
[30] Liesbet Hooghe, Gary Marks, "A Postfunctionalist Theory of European Integration: From Permissive Consensus to Constraining Dissensus," *British Journal of Political Science*, Vol. 39, No. 1 (January 2009), pp. 1-23
[31] Caporaso, "Regional" pp. 10-14
[32] Hooghe, Marks, "A Postfunctionalist"
[33] Stanley Hoffmann, "Towards a Common European Foreign and Security Policy?" *Journal of Common Market Studies*, Vol. 38, No. 2, (2000), pp. 189-198
[34] Walter Mattli, "Explaining"
[35] Hooghe, Marks: "A Postfunctionalist" pp. 12

concentrate on one particular period of the EU integration process. Therefore, the existing literature on the two main integration theories offers a comprehensive account on how the various interest groups of different levels can drive institutional integration processes, but they mostly focus on the overall integration process, rather than analyzing specific policy areas.

1.5. First part of the applied framework: demand and supply side conditions of integration

Building on these structures, Walter Mattli establishes a bridge between the different integration theories and introduce a model examining the demand and supply side conditions of integration to explain regional integration outcomes. Mattli, looking at various international integration schemes, argues that integration happens within a regional block when both the supply and demand side conditions are satisfied.[36] Mattli agrees with the main integration theories that international players reacting to the cost of external changes may demand integration in order to drive down such cost.

However, he also stresses that the supply side conditions, under which "political leaders are willing and able to accommodate demands for functional integration at each step of the integration process" are also necessary to consider. Such political willingness arises when political leaders believe that the national economy would be better off with further integration, and therefore they may sacrifice part of the national sovereignty to keep their political power and ensure the state's economic prosperity. In addition, although as a weak supply side condition, Mattli emphasized the role of a commitment institutions in catalyzing the integration process.[37] For instance, he argues that the success of the EU integration lies in the strong demand force of European businesses coupled with the leading role of Germany as the main supplier of integration, while the European Commission and Council also supplying further

[36] Walter Mattli, "Explaining" pp. 3
[37] Ibid.

integration.[38] As a counter example, the Association of Southeast Asian Nations (ASEAN) lacks the supply of a leading state and a supranational body, as well as the necessary demand of the 'big business' and thus their integration project is less likely to succeed.[39]

Mattli analyzes the integration process on the regional level, while he is not concerned about specific policy areas. Nevertheless, his framework provides comprehensive account on the potential players of integration, I will rely on his model of demand and supply condition to identify the drivers behind the energy policy integration in the EU, and thus answering the first part of my research question: *What drove energy policy integration in the EU?*

However, although Mattli manages to include both supply and demand side conditions into his analysis, he does not account for the qualitative differences in the integration processes triggered by such conditions. In other words, he fails to elaborate if the different constellations of the demand and supply side conditions bring about the removal of economic barriers between the member states, or rather a much more complex integration process, such as the introduction of regional-level common policies. Therefore, in order to develop a clearer understanding on not just the process, but also on the nature of policy integration, as well as to be able to draw comprehensive conclusions with regards to reasons why policy cooperation fluctuated between member states over time, additional theoretical framework is required. Adding an additional theoretical perspective to the analysis would offer a better understanding on the quality of integration that Mattli's conditions can enhance.

1.6. Second part of the applied framework: positive and negative integration

Regarding a more complex analysis on the qualitative aspect of the integration, originally coined by Jan Tinbergen in 1965, the concept of negative and positive integration has been widely used in the literature to explain the quality of the integration processes in the European

[38] Walter Mattli, "Explaining" pp. 16
[39] Ibid. pp. 18-19

integration project, although these research do not focus on the area of energy policy.[40] John Pinder, then later Fritz W. Scharpf and Helen Wallace refer to the term negative integration as the part of economic integration that consists of the removal of national restraints and competition barriers between the member countries.[41]

Meanwhile, positive integration refers to "the formation and application of coordinated and common policies in order to fulfil economic and welfare objectives other than the removal of discrimination."[42] The concept of positive and negative integration therefore allows for the development of a more complex picture about how the fulfillment of demand and supply side conditions contributed to the overall integration process. In this regard, adding this concept to Mattli's demand and supply side framework will help me to answer the second part of my research question: *why did cooperation in the area of energy policy fluctuate during the European integration process?*

1.7. Chapter conclusion

In my thesis, I am researching what drove energy policy integration in the EU and why cooperation in the area of energy policy fluctuated during the European integration process. To this end, I first looked at the broader literature concerning the area of energy policy in the European Union. However, researchers mostly provide descriptive analyses on the development of energy policy integration, while the related literature lacks comprehensive analysis on why such integration happened and what sort of integration can explain the development of the energy policy in the EU.

[40] Jan Tinbergen, *International economic integration.* (New York: Elsevier, 1965)
[41] For a review of the literature, see: John Pinder, "Positive Integration and Negative Integration: Some Problems of Economic Union in the EEC," *The World Today*, Vol. 24, No. 3, pp. 88-110, (1968); Scharpf, "Negative"; Helen Wallace, Christine Re, "An Institutional Anatomy and Five Policy Modes," in *Policy-Making in the European Union*, ed. Helen Wallace, Mark A. Pollack, Alasdair R. Young (Oxford: Oxford University Press, 2009)
[42] Pinder, "Positive" pp. 90

Although research is growing on the potential drivers of integration, these works lack a comprehensive account on the various potential actors and the quality and dynamics of the integration triggered by such drivers. On the other hand, the theoretical literature provides a wide variety of theoretical and empirical argument on the case of regional integrations, including the European Union, and therefore its concepts can be used to develop and employ the same arguments to the area of energy policy. In this regard, neofunctionalism and intergovernmentalism offers a valuable framework to study the drivers of regional integrations from the perspective of various actors.

Based on their arguments, Walter Mattli argues for the necessity of looking at the supply and demand side conditions of integration when examining integration processes, and therefore he offers a comprehensive framework that will help me identify the drivers behind the energy policy integration in the EU, and thus answering the first part of my research question: *What drove energy policy integration in the EU?* However, Mattli and the related literature fails to account for the qualitative aspect of such integration. Fritz Scharpf's concept of negative and positive integration allows for the examination of the different types of integrations in the process and therefore it can also serve as a framework to answer the second part of my research question: *why did cooperation in the area of energy policy fluctuate during the European integration process?*

The following chapter will discuss the methods that will be used to test the 'Mattli-Scharpf theoretical framework.' By looking at the case of energy policy integration in the EU through the such framework, I aim to test the applicability of the two concepts used to describe regional integration to a specific policy area. Also, I aim to shed new light on the European policy integration and therefore contribute to the literature on policy integration processes, particularly in the field of energy policy.

2. CHAPTER: METHODOLOGY

2.1. Chapter overview

In this chapter, I will explain the research design and methodology that I intend to apply to answer my research question. During my research, I will rely on a qualitative-oriented approach, analyzing and interpreting different types of texts, from legislations and policy papers to articles and books in a way described in detail below. Therefore, first, I will discuss the case selection and the general framework for this thesis. Then, I will explain the methodology concerning the bottom-up and then the top-down processes. Based on the employed methodology, I will introduce the expected outcome of the research. Finally, I will conclude the chapter.

2.2. Case selection and general framework

As a result, I will look at selected critical junctures that reflect the enhancement of common European energy policy. These critical junctures reflect four shorter periods of the European energy policy integration process where political and economic uncertainties creating the conditions for integration, prompted or were expected to prompt further integration. Also, these periods are also recognized as major turning points by the literature.[43] Therefore, I will look at the period of 1946-1958 and the cases of the European Coal and Steel Community and the Euroatom Treaty; the period of the 1960-70s and the first oil crisis; the period from the mid-1980s to the late 199s and the cases of The First Energy Package and the Maastricht Treaty; and finally the period from the mid-2000s to the end of the 2000s and the cases of the Third Energy Package and the Lisbon Treaty.

In these periods, I will first draw up the historical background to assess the general conditions of the energy markets and the European integration project, as well as based on the

[43] For instance, see: "Chapter 3" in Schubert, Pollak, Kreutler: *Energy Policy*

Mattlian frame I would see what economic uncertainties and crises were present that could played a role in influencing the demand and supply side conditions of integration.[44]

Secondly, I will employ Fritz Scharpf's concept on positive and negative integration to the selected policy outcomes of the examined periods. Here, I will consider an examined policy outcome a case of negative integration if, according to its provisions, it aims to remove national restraints and competition barriers between the member countries. I will consider it a case of positive integration if the policy outcome aims to go beyond these measures and attempt to establish common policies or delegate competences to the EU-level.[45]

To establish the framework to these critical junctures, I will rely on reports, laws and policy papers collected from the official website of the European Commission and other EU institutions, as well as from the Eur-Lex legal database. As secondary sources, mainly to gain a better understanding on the external and internal events that might prompted or were expected to enhance the integration process, I will look at various journals, books, articles and reviews that cover the economic and political history of Europe from the 1950s, as well as books, journals and articles on the history of European energy policy.

2.3. Bottom-up processes

Building on these critical junctures of positive and/or negative integration, I will examine the major drivers of energy policy based on Mattli's theoretical framework of demand and supply side conditions of integration. Thus, at each turning points, my research will on one side analyze the bottom-up processes, where I will look at role of the domestic industry. Domestic industry or "big business", according to Mattli, is the main player demanding integration by reacting to internal, external and cross-border economic and political uncertainties and events.[46] The research does recognize the multiplicity of domestic actors and interests, but it will only intend

[44] Walter Mattli, "Explaining"
[45] Scharpf, "Negative"
[46] Walter Mattli, "Explaining" pp. 10-12

to focus on the most prominent players in the energy industry of the three examined major member states.

I will try to find evidences on how the main industrial players in these states reacted to political and economic developments and how they reacted in these circumstances to the integration proposals and see if they pushed or did not push for integration in the community. Therefore, I will consider the demand side conditions fulfilled if I find evidences that the domestic energy industry supports further integration. To find these evidences, as a primary source, I will rely on press releases, reports, statements and articles shared by the official websites of the big European energy market players, or media sources, such as 'Financial Times', 'Bloomberg', 'Reuters,' 'EurActive' and other media sources. As secondary sources, I will look at books and journal articles that focused on the role of firms in promoting the general integration process in Europe, or in enhancing common energy policies.

2.4. Top-down processes

On the other hand, my research will focus on the top-down processes, where the interests of national governments and the supranational institution tend to drive the European energy policy integration projects**.** Based on Mattli, political leaders' power depends on "their relative success in managing the economy", thus, they tend to be unwilling to open up for further integration and sacrifice part of their sovereignty if the economy is performing well.[47] However, in case economic difficulties arise, political leaders aiming to secure their own survival are "more willing to accommodate demands by market players for regional rules, regulations, and policies."[48] For reasons of simplicity, I will not follow the changing political leadership and the political orientations of the member states' leaders. Rather, I will consider the standpoints of member states' governments equal to and exchangeable with the opinion of their political leaders and therefore look at the preferences of national governments.

[47] Walter Mattli, "Explaining" pp. 3
[48] Ibid.

Also, as Mattli emphasizes, the presence of a leading state in the community also serves as a strong supply side condition, since it can be a "focal point in the coordination of rules, regulation, and policies."[49] Therefore, based on Mattli's argument, as a second potential driver, this thesis will focus on the role of Germany, France and the United Kingdom in supplying energy policy integration. These major states were recognized as being the most important states by various research.[50] Although this thesis recognizes the limitations of this approach, as all member states may influence and shape the integration process in various ways, researching 28 different perceptions is beyond the scope of this thesis.

To test the role these three major states, I will mostly rely on books, journals and other articles that focuses on the role of national governments in the general and the energy policy integration process in the European Community. In these sources, I will look at the political openness and standpoints of the member states with regards to energy policy integration in the examined periods of the integration process. I will especially focus on and research their energy policy preferences and thus their perceptions on the proposed integration mechanisms to see how these actors satisfied the supply side conditions of integration. Therefore, I will consider the supply side conditions fulfilled if one, some or all examined major states accept the integration proposals.

The third important driver and the second actor in the top-down approach of my research is the supranational institution of regional integrations. According to Mattli, when "political leaders may be unable to supply regional rules, (…) commitment institutions" can also supply and thus enhance successful integration, since they can catalyze the process through introducing and promoting directives and legislation that results in policy integration.[51] In this regard, I will also look at the role of supranational institutions, more particularly at the role of the High

[49] Walter Mattli, "Explaining" pp. 4
[50] For instance see: Andersen et al., *Liberal Mercantilism?*; Birchfield, Duffield, *Toward a Common.*
[51] Walter Mattli, "Explaining" pp. 12-15.

Authority from 1952, then the EEC Commission from 1957 and the European Commission from 1992, which Mattli also recognizes as commitment institution.[52]

This research recognizes the potential role of the other EU institutions, the European Parliament and the European Council and the intergovernmental and political bargaining processes that shaped the outcome of the energy policy integration process. However, to examine a potential driver, which is relatively independent from the other two drivers and can develop its own interests, I will focus on the Commission's role in supplying integration. I will research how the institution initiated integration and how it managed to translate its interest in the eventual outcome. Therefore, here, I will consider the supply conditions fulfilled it the Commission managed to overcome the interests of the major states or the industrial players in translating its proposals in the policy outcome and therefore enhancing positive or negative integration.

To test the role of supranational institution, I will research reports, laws and policy papers collected from the official website of the European Commission and other EU institutions, as well as from the Eur-Lex legal database. As of secondary sources, I will look at articles and books that is concerned with the role of supranational institutions in the policy integration process.

2.5. Expected outcomes

Based on the above described Mattli-Scharpf framework and methodology, this thesis expects that negative integration is more likely to occur when the demand of industrial interest is met with supranational supply, while positive integration is more likely to occur when bottom-up demand, member state supply and supranational supply are all present. Meanwhile, it also expects that the fluctuating nature of energy policy cooperation can be explained by the

[52] Ibid. pp. 14

changing nature of integration caused by the changing constellations of demand and supply side conditions throughout the examined periods.

2.6. Chapter conclusion

Using the above framework, this thesis will analyze correlations between the potential drivers and the quality of integration outcome. Examining the three potential drivers from two different approach will not only provide me with a greater understanding on the positive and negative integration process in the European energy policy integration process, but also will allow me to draw on some conclusions with regards to the most prominent player in promoting energy policy in the EU. Looking at these drivers will also help me identifying if there is a certain evolutionary pattern in the European common energy policy with regards to role of main drivers and their effects on the dynamics of such evolutionary pattern.

These patterns and the findings of my thesis might be visible not due to establishing new historical causalities between events, players and integration schemes with regards to regional integration through analyzing historical data and discourse analysis, since this approach is beyond the scope of my research. Rather, the potential findings and answers may arise from analyzing these historical causalities as they are presented in the existing literature from a new perspective, by combining two well-known theoretical frameworks and applying them to the perceived main turning points of energy policy integration in Europe, which will be discussed in detail in the following chapters.

3. CHAPTER: THE FOUNDATION OF EUROPEAN ENERGY POLICY IN THE 1950S: THE ECSC AND EURATOM TREATY

3.1. Chapter overview

This chapter will examine the cases of the European Coal and Steel Community and the Euratom treaty. In both cases, demand and supply side conditions were mainly provided by state actors, which resulted in comprehensive positive and negative integration in the energy policy of the member states. Examining the period of 1946-1958, I will first look at the historical background of the two treaties to see the conditions that prompted integration between Western European countries. Then, I will briefly introduce the two treaties to see if they prompted negative and/or positive integration. Afterwards, examining the bottom-up processes in the French and German energy sector, I will try to identify the demand side conditions that prompted the integration. I will then move on to examining the supply side conditions, looking from a top-down approach at the role of the German and French government in enhancing positive and/or negative integration. Finally, I will conclude the chapter.

3.2. Historical background

The Second World War (WWII) left Europe in ruins. For the reconstruction, Europe needed energy. At that time, coal was the most important energy source, which was therefore also an essential part of the economy of the European nations.[53] After WWII, coal provided around 75 percent of the total energy use in Western Europe, while petroleum accounted to only 23 percent.[54] Although the shortage of coal supply was facilitated by the American's Marshall Aid, Western Europe still needed to find a way to cope with the crisis. This was especially true considering the projections made with regards to the future energy demand of the Western block in the early 1950s. envisaging the doubling of the energy need in every ten years, with the

[53] John Gillingham, "Jean Monnet and the European Coal and Steel Community: A Preliminary Appraisal," in *Jean Monnet*. ed. Douglas Brinkley, Clifford Hackett, (New York: Palgrave Macmillan, 1991), pp. 129-162.
[54] Martin Chick, Electricity and Energy Policy in Britain, France and the United States Since 1945, (London: Edward Elgar Publishing, 2007), pp. 7

increasing demand for electricity. The increased import raised a general concern among policymakers with regards to the import's effects on the national budget and also on the security of energy supply.[55] Also, the idea of 'pooling' the supervision of coal and steel production between two old rivals were welcomed by the surrounding neighbors. As a result, on the 9th of May, 1950, Robert Schuman, the French foreign minister proposed that the entire "Franco-German production of coal and steel as a whole be placed under a common High Authority, within the framework of an organization open to the participation of the other countries of Europe."[56]

3.3. Integration outcome

In terms of energy policy integration, one may argue that the European Coal and Steel Community (ECSC) formed in 1951 with six members (West-Germany, France, Belgium, the Netherlands, Luxemburg and Italy) was actually the first international initiative to embrace supranational principles and establish a common market for an energy resource, namely for coal.[57] The ECSC established the High Authority (HA), which aimed to become a supranational supervising institution over European coal and steel production. [58] Although the ECSC failed to create a comprehensive energy policy, only coordinating coal production among the 6 states. Also, despite the original supranational ambitions, the HA "was but a powerful international committee within which separate national representatives urged for separate national policies."[59] Nevertheless, the ECSC managed to establish the positive and negative integration of the European energy policy.

[55] Lawrence Scheinman, "Euratom: Nuclear Integration in Europe," *International Conciliation*, No. 563, (May 1967), pp. 8-11
[56] "The Schuman Declaration – 9 May 1950," European Union, https://europa.eu/european-union/about-eu/symbols/europe-day/schuman-declaration_en (Last access: 15.04.2019.)
[57] International Energy Agency, "Energy Policies"
[58] John Gillingham, Coal, Steel, and the Rebirth of Europe, 1945-1955: The Germans and French from Ruhr Conflict to Economic Community, (Cambridge: Cambridge University Press, 2004), pp. 228-229.
[59] Alan S. Milward, *The European rescue of the nation-state.* (London: Routledge, 1992), pp. 117

The ECSC was followed by the foundation of two other supranational regional institutions in 1957, the European Economic Community (EEC), which attempted to tighten the economic ties between the six member states, and the European Atomic Energy Community (Euratom), also promoting a common policy approach to nuclear power.[60] The idea of Euratom built on the failed attempt of creating the European Defense Community, which sought to create a common European army and place it under a single military and political European authority.[61] However, as it was perceived as a direct threat to national sovereignty, the French National Assembly rejected the plan in August 1954.[62]

Nevertheless, as the French government supported cooperation in atomic energy, the Euratom Treaty gave an opportunity for the member states to develop comprehensive cooperation. It aimed to promote cooperation in research, investment, market access, usage and investment concerning nuclear energy.[63] As a result, the treaty managed to further promote cooperation, as well as negative and positive integration in energy policy.

3.4. Bottom-up processes

France: In 1946, shortly after the end of the Second World War, France nationalized the electricity and gas supply industry, and established Électricité de France (EDF) for electricity and Gas de France (GDF) for gas, which therefore mainly followed the government's energy strategy.[64] Also, the push for integration was mainly driven by economic, political and security concerns articulated at the level of government, rather than by domestically organized industrial interest, thus the French energy industry was mainly excluded from the negotiations of ECSC and Euratom.[65] Although the establishment of ECSC was a rather political-economic decision,

[60] EUR-Lex, "Treaty"
[61] Lawrence Scheinman, "Euratom" pp. 5-6
[62] "The failure of the European Defence Community (EDC)," CVCE, https://www.cvce.eu/en/education/unit-content/-/unit/1c8aa583-8ec5-41c4-9ad8-73674ea7f4a7/bd191c42-0f53-4ec0-a60a-c53c72c747c2/Resources (Last Access: 12.04.2019.)
[63] "Treaty establishing The European Atomic Energy Community. Article 2," EUR-Lex, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:11957A/TXT&from=EN (Last Access: 15.04.2019.)
[64] Chick, "Electricity" pp. 1-3
[65] Gillingham, "Coal, Steel," pp. 228-229

concerning the Euratom treaty, French industrial players and scientific community expressed their interest in atomic cooperation, considering the increasing cost of nuclear research and development.

Also, since France was the major atomic power of Western Europe besides the UK, cooperation in the field of atomic energy was particularly appealing for the industrial interest.[66] Here, French companies could have relied on the financial and technical resources of the other member states, as well as share the expenses of large projects.[67] In this regard, the French interest in the idea of atomic cooperation mainly stemmed from its desire to enhance its economic activity through strengthening its nuclear industry.

Germany: In Germany, the Federal Republic's industrial elite highly opposed any idea of public or supranational control over the competitive potentials of the energy market. Nevertheless, the government perceived ECSC and Euratom as the best plausible start and continuation of the European integration process, on which the work towards the general economic and potential political union can begin.[68] Therefore, once again, the political will of the German government override the domestic political interest in promoting the further integration of the energy policies between the ECSC members.

3.5. Top-down processes

France: The original French plan of coal-steel pooling within the ESCS aimed to increase economic activity in the key heavy industrial sectors, which would have been governed by a strong central authority that limits the power of private industry and the national policy.[69] In this sense, France was ready to supply positive integration and delegate some part of its sovereignty to the first supranational institution, the High Authority in order to gain power and control over Germany's main economic resources, and thus preserve the peace between the two

[66] Scheinman, "Euratom," pp. 7-8
[67] Ibid. pp. 8-10
[68] Ibid. pp. 10-12
[69] Scheinman, "Euratom," pp. 8-10

countries.[70] Concerning the Euratom treaty, since France was the major atomic power of Western Europe besides the UK, cooperation in the field of atomic energy was also appealing for the nation. Since France failed to develop a working cooperation with the other atomic major, the UK, the French government was open to supply integration and deepen the already existing, although negligible relationship with the other ESCS members in this area.[71]

Germany: The same incentives can be observed on the German side. In Germany, the government explicitly prioritized political interests against economic ones by neglecting the massive opposition of domestic industry players. For the government, the Schuman Plan could serve as the basis of refreshing the economic and diplomatic life of the war-torn Germany, providing an opportunity for Germany to regain its lost sovereignty and diplomatic position in Europe.[72] In this regard, by delegating part of its sovereignty to the ECSC's High Authority, Germany aimed to regain its political and diplomatic parity vis-à-vis other Western European countries.[73] With regards to Euratom, although Germany was not enthusiastic about developing cooperation in atomic energy, as it prioritized its coal industry and already launched its own nationally funded nuclear programs. However, it needed the French support for developing the supported common market agenda, and thus was open to supply further integration.[74]

Supranational body: Since the positive and negative integration elements of the ECSC and the Euratom treaty were a result of a demand and supply side push from the states, no supranational institution could establish supply side conditions for integration during the negotiation process of the two treaties.

3.6. Chapter conclusion

[70] Berthold Rittberger, "The European Coal and Steel Community (ECSC) and European Defence Community (EDC)" in *Designing the European Union,* ed. F. Laursen. (London: Palgrave Macmillan UK, 2012), pp. 13-14
[71] Scheinman, "Euratom," pp. 7-8
[72] Gillingham, "Coal, Steel," pp. 228-229
[73] Rittberger, "The European Coal," pp. 12-13
[74] Matláry, *Energy Policy,* pp. 17-19

The ECSC was born on the ruins of WWII in order to enhance cooperation between the Western European nation and thus prevent the continent from future wars. As national industries were mostly controlled by the governments, integration was mostly driven by the demand and supply of the French and German states, which resulted in both negative and positive integration, as ECSC removed several economic barriers, increased peaceful cooperation and established a supervising supranational body, the High Authority.[75]

Meanwhile, the Euratom treaty that came into effect in 1957 was a general reaction to the shortage of coal and oil on the continent, while, developing a common atomic energy policy seemed to be also a plausible way to convince the resisting French policymakers and the energy industry's elite to allow further integration.[76] In this sense, demand partially came from the previously resisting, state-controlled French atomic industry and the government, while it was also supplied by Germany, who still worked on restoring its political and diplomatic power in the European arena.[77] As a result, by partially introducing the free movement of products, eliminating custom duties and promoting cooperation in research and project development, the Euratom brought about another significant step in the progress of both positive and negative energy policy integration.

[75] Gillingham, "Coal, Steel," pp. 230-235.
[76] David Benson, Duncan Russel, "Patterns of EU Energy Policy Outputs: Incrementalism or Punctuated Equilibrium?" *West European Politics*, Vol. 38, No. 1 (2015), pp. 185-205
[77] Tomas Maltby, "European Union energy policy integration: A case of European Commission policy entrepreneurship and increasing supranationalism," *Energy Policy*, Vol. 55. pp. 435–444, (April 2013)

4. CHAPTER: A MISSED OPPORTUNITY OF POSITIVE AND NEGATIVE INTEGRATION: THE OIL CRISIS OF 1973-74

4.1. Chapter overview

This chapter discusses the oil crisis of 1973-74, where, although an occurring crisis could have provided a basis for market players to demand and for governments to supply integration, only the Commission was ready to supply the necessary condition, which resulted in no integration at all. To examine this case, I will look at the period of the 1960s and 1970s. After drawing up the historical background of the crisis, I will look at the integration outcome to see how the Community coordinated its response to the crisis. After, I will look at the bottom-up processes, examining how industrial players in Germany, France and the UK reacted to the crisis, the government's policies and the Commission's proposal to see if demand side conditions for integration were present. Then, I will examine the top-down processes, looking at the Commission, Germany, France and the UK to see their response to the crisis and if they were willing to supply negative and/or positive integration. Then, the chapter conclusion will summarize my findings.

4.2. Historical background

In the decades following the founding treaties, member states experienced a significant shift in their energy mix. The previously dominating coal by 1972 only accounted for 22 percent of total usage, while the share of oil increased to 60 percent in the Community.[78] This shift not only reflected the technological advancement in the usage of fossil fuels, but also the increasing import of cheap Middle Eastern oil, which gradually started to replace the less competitive domestically produced fuels.[79] The oil crisis in 1973-74 that was triggered by the Arab-Israeli War and the following tightening of global oil supply also severely affected the then European Community, which by that time besides the six founding members, also included Ireland, the

[78] Chick, "Electricity," pp. 7
[79] Ibid. pp. 8

United Kingdom, and Demark, which joined the community on 1 January 1973.[80] As a result of the crisis, European oil supplies fell by 10 percent, while prices increased by 400 percent and inflation rates increased exponentially, prompting the worst economic recession since the Second World War.[81]

4.3. Integration outcome

The unfolding shortage of oil disrupted the energy supplies of all member states, which could have opened to way for further cooperation on energy-related issues in order to mitigate the short- as well as the long-term effects of the crisis. Although the opportunity was there, the nine members each developed their "energy nationalist" agenda, taking direct control over their energy markets and establishing bilateral contracts with the supplying Arab countries.[82] The Commission managed to implement some directives, such as the creation of 90-day emergency oil stocks in each member state, although it was already required in the member states – including the Community members – of the newly formed International Energy Agency.[83]

Several other directives attempted to safeguard the oil supplies, but mainly due to French and German resistance, the Commission could not move beyond assisting the coordination of national policies and setting future objectives.[84] Therefore, member states mostly relied on national policies to tackle the oil shortages as they failed to coordinate their responses and find a common answer to the immediate and long-term energy challenges of the Community.[85]

[80] "The history of the European Union," European Union, https://europa.eu/european-union/about-eu/history_en (Last Access: 10.04.2019.)
[81] Rainer Eising, Nicolas Jabko, "Moving Targets National Interests and Electricity Liberalization in the European Union," *Comparative Political Studies*, Vol. 34 No. 7 (September 2001), pp. 745-749
[82] John Ikenberry, "The Irony of State Strength: Comparative Responses to the Oil Shocks in the 1970s," *International Organization*, Vol. 40, No. 1 (1986), pp. 105-137
[83] The International Energy Agency was established in 1974 to coordinate cooperation on energy security and other questions of energy policy co-operation among Member countries. For more information, see: https://www.iea.org/about/history/
[84] "Con(76) 20," Commission of the European Communities, Brussels, 16 January 1976. http://aei.pitt.edu/6335/1/6335.pdf (Last Access: 10.05.2019.); Matláry, *Energy Policy*, pp. 18
[85] Francis McGowan, "Putting Energy Insecurity into Historical Context: European Responses to the Energy Crises of the 1970s and 2000s," *Geopolitics*, Vol. 16 No. 3, (2011), pp. 486-511

4.4. Bottom-up processes

The United Kingdom: From the 1960s, as a result of the increasing competitive pressure coming from Middle Eastern oil producers, and the decreasing demand for coal, British coal and oil producers, alongside with French producers teamed up with American producers in calling for protection against the import of cheap oil.[86] As a result, the government moved to protect the domestic industry, increasingly taxing or banning imported energy products, while subsidizing domestic market players.[87]

France: In France, the state-run industry's reaction to the crisis was almost entirely coordinated by the government. As the crisis reached the country, domestic oil companies immediately gave control to the government over the level of imported oil and the management of production, also allowing the government to make long-term, government-to-government contracts with the Arab oil countries. As a result, the existing system of quota import controls had been replaced by a "case-by-case examination of the supply plans of domestic oil companies."[88]

The government also strengthened the production planning and administrating system of the state-run nuclear power sector. Beginning in the 1980s, oil companies also had to create three-year supply plans that had to be approved by the government.[89] As a result, the French industry's reaction to the crisis and to the Community-level potential management mechanisms was once again determined by the government's policy. Therefore, a potential demand for a coordinated industrial response and thus negative integration was overwritten by the government's centralized policies.

Germany: The German industry and government followed a different path, then France. The German government allowed the oil industry to adjust its production and price

[86] Chick, "Electricity," pp. 9
[87] Ibid.
[88] Ikenberry, "The Irony" pp. 118-121
[89] Ibid. pp. 125-132

levels, which created a "free market supply of refinery products," where companies could keep controlling the supply of oil. The rising market prices prompted the decrease of demand for fuels and electricity. Also, the whole energy industry went through a rapid restructuring due to the rising prices, switching from oil back to coal. This restructuring was also helped by various government subsidies.[90] As a result, although the German industry had more space to develop their response to the crisis through free-market adjustment mechanisms, such response was still mainly supervised and dictated by the government.[91] Also, since by the end of 1974 this strategy proved to be successful, the industry did not demand further European integration.

4.5. Top-down processes

France: From 1960 to 1971, France lost half of its coal production, which was almost entirely replaced by domestic oil production, cheap Middle Eastern oil.[92] However, the French government, even before the breakout of the crisis, attacked every proposal attempting to formulate an EEC energy policy, insisting that member governments should have the right to resolve their own energy-related issues.[93] This French blockade was part of its broader political campaign against the rising influence of the US on the European continent, as well as the increasing power of Anglo-Saxon energy companies on the French market. The Anglo-Saxon-dominated oil industry triggered nationalist energy policies in France, such as the *'monopole délégué'*, which offered preferential treatment for national companies and franc zone crude oil.

Also, as a new national priority, the government launched a new wave of developing nuclear power capabilities, which was also strictly supervised by the state.[94] This nationalist

[90] Craig R. Whitney, "West Germans, at a Price, Avoid Oil Crisis," The New York Times, 24.01.1974. https://www.nytimes.com/1974/01/24/archives/west-germans-at-a-price-a-void-oil-crisis-a-surprise-in-statistics.html (Last Access: 10.05.2019.)
[91] Chick, "Electricity," pp. 7
[92] Ibid.
[93] Louis Turner, "The Politics of the Energy Crisis," *International Affairs*, Vol. 50, No. 3 (1974), pp. 404-415
[94] Eising, Jabko, "Moving Targets," pp. 745-749

policy therefore did not allow the Commission to create a common ground for addressing the crisis, but also made France the first member with an explicit energy policy.[95]

Germany: In Germany also, the main aim of the government was to defend its domestic industry and its institutional structure and solve the crisis within its own borders.[96] The government, while letting the market to adjust its oil price positions and productions, it assisted in speeding up such adjustments through strengthening, but not controlling energy companies. Aiming to make industrial players strong and competitive, the government supported the market restructuring towards more competitive mechanisms, instead of erecting protectionist barriers and subsidies.[97] This restructuring, however, was strictly managed by the government, and thus it did not require, nor allow for the Commission's provisions on developing common strategies. Therefore, the German government, turning inward, also refused to supply the further integration of a common energy policy.

The United Kingdom: The UK, along with France, started to pursue the establishment of bilateral agreements, as well as publicly put pressure on the domestic oil companies to discriminate against other members in arranging the oil supplies. It did so in order to secure its domestic political and economic status, while it let the oil companies to deal with the oil shortages and the distributions of the oil supply.[98] As a reaction to the Commission's directives, as Europe's main producers of oil and gas, Britain took the lead in explicitly refusing the development of a common policy and insisting that it could be self-supporting on energy matters. Also, the government insisted that national companies, such as the British Petrol cannot be weakened by any Community-wide policies.[99] Therefore, along with the French and

[95] Turner, "The Politics," pp. 404-415
[96] Eising, Jabko, "Moving Targets," pp. 745-749
[97] John Ikenberry, "The Irony," pp. 105-137
[98] Turner, "The Politics," pp. 404-415
[99] Andrea Ciambra,Israel Solorio, "The Liberalisation of the Internal Energy Market: Is the EU Dancing at a British Tempo?" in *Energy Policy Making in the EU*, ed. Tosun J., Biesenbender S., Schulze K., (London: Springer, 2015), pp. 151-155

Germans, the British insisted on leaving the distribution to the firms and follow their individual policy strategy and thus refusing to supply any form of integration in the area of energy.[100]

The Commission of the EEC: Although the Euratom and the ESCS created a platform for cooperation in the area of coal and nuclear energy, member states thought that oil, which increasingly became cheap and abundant and thus a useful supplement to coal, could be sufficiently managed by the private companies and thus there was no need for intergovernmental strategy. Nevertheless, the EEC Commission, in the years following the attempted Arab embargo on oil after the Six Day War in 1967 and immediately after the outbreak of the 1973 oil crisis, created a set of directives that obliged members to preserve certain amount of their oil stocks in case a crisis would appear. Although these directives represent a form of positive integration strategy, the Commission failed to supply a comprehensive package that could have pushed the Community towards a common energy policy.[101]

4.6. Chapter conclusion

The oil crisis in 1973 pointed out the weaknesses of the EEC's supranational body and the problematic nature of coordinating the nationalist policies of the member states aiming to secure their differing oil supplies and the domestic industrial structures.[102] While ultimately, the oil shortages were mostly managed by the member states, the Commission's role was highly restricted. Nevertheless, the crisis also showed the total lack of a coordinated oil, and thus energy policy, which triggered a new wave of efforts on the Commission's side about the role of a common energy strategy.[103]

Therefore, although the 1973 Arab oil crises could have provided a unique opportunity to quickly advance the unification of energy policy within the European Community, "big

[100] Turner, "The Politics," pp. 404-415
[101] Ibid.
[102] Benson, Russel, "Patterns of EU," pp. 185-205
[103] Maltby, "European Union," pp. 435–444

business" did not demand further integration, as sufficient crisis-management tools were provided by their respective governments. Also, these governments refused to supply any form of integration, as they turned inwards to manage the crisis, relying mostly on their existing, state-controlled energy market structure. The Commission, being the only player willing and trying to supply positive and negative integration, did not have the power to overcome the lack of support from the member states, and thus instead of developing a common energy policy, the oil crisis only resulted in some less important directives aiming to ensure sufficient oil reserves in the member states. Therefore, contrary to the cases of ECSC and Euratom, demand side conditions were not present, while integration was only supplied by the Commission. This combination failed to prompt the further integration of the European energy policy.

5. CHAPTER: INCREASING NEGATIVE AND LAGGING POSITIVE INTEGRATION IN THE 1990S: THE FIRST ENERGY PACKAGE AND THE MAASTRICHT TREATY

5.1. Chapter overview

This chapter examines the cases of two important turning points of the 1990s regarding energy policy integration. The case of Maastricht Treaty shows that when the Commission is the only driver of integration, providing the necessary supply side conditions without state supply and non-state demand won't yield significant integration. The First Energy Package case, however, proved that even if industrial demand is weak, if there is at least one major state to supply integration, the supranational institution is more likely to be able to supply negative integration.

To analyze the cases, I will first look at the general market developments from the middle of the 1980s to the second half of the 1990s. Then, I will draw up the integration outcome of the two cases to see how they advanced the common energy policy. Afterward, looking at the bottom-up processes, I will examine how the market players of the three major countries perceived the proposed integration measures. I will then also see how the European Commission and the major state actors were or were not willing to supply further energy policy integration. Then, I will conclude my chapter.

5.2. Historical background

In the decade following the oil crises in the 1970s, the Iranian Revolution in 1979 and the robust jump in crude oil prices made energy security one the major concerns of the European countries. These developments also strengthened the states' perceptions about the strategic importance of energy issues that had to be controlled nationally. This perception did not change, even though oil prices started to fall in 1986, making energy import cheaper. Furthermore, in the 1980s, Europe experienced the period of stagnant economic growth, rising inflation and increasing unemployment levels.[104] Within the community, going through two additional enlargements by

[104] Nicole Herweg, European Union Policy-Making: The Regulatory Shift in Natural Gas Market Policy. (Cham: Palgrave Macmillan, 2017), pp. 92-94

adding Greece as a new member state in 1981 and Spain and Portugal five years later, the Community faced with an even more increased diversity of interests.[105]

5.3. Integration outcome

The Maastricht Treaty adopted in 1992 was a huge step in terms of Economic integration for the freshly established European Union. In the 1990s, as member states attempted to find a coordinated answer to the worsening economic conditions, the European project as a whole moved towards further integration with the completion of the Single Market and the four freedoms of movement of goods, services, people and money.[106] As a result, in many areas, national policies became partially harmonized and coordinated at a supranational level.[107] However, energy was once again mainly excluded from the negotiations as member states were seeking to preserve their autonomy over energy policy.

Although in the Maastricht Treaty in 1992, the Commission tried to formalize its common energy policy competence and build on the failed proposals during the negotiations of the Single European Act (SEA) adopted in 1986, the UK's and Germany's fear of developing supranational competences led to the rejection of the entire energy chapter.[108] Thus, positive integration could not progress significantly.[109] Despite of the Commission's attempts, in the adopted Treaty on European Union, references to energy were only made by Article 129b promoting guidelines for trans-European networks that "shall identify projects of common interest" and Title XVI that set common objectives addressing environmental issues.[110] Also, Article 130s(2) also stated that member states could veto "measures significantly affecting

[105] "The history of the European Union," European Union, https://europa.eu/european-union/about-eu/history_en (Last Access: 14.04.2019.)
[106] Ibid.
[107] International Energy Agency, "Energy Policies"
[108] Matláry, *Energy Policy*, pp. 60-62
[109] Eising, Jabko, "Moving Targets," pp. 745-749
[110] "Treaty on European Union," European Commission, https://europa.eu/european-union/sites/europaeu/files/docs/body/treaty_on_european_union_en.pdf (Last Access: 10.12.2018.)

(their) choice between different energy sources and the general structure of (their) energy supply."[111]

Moreover, building on the quickly progressing single market agenda of the community, the Commission, starting from 1988, made several proposals for the creation of an Internal Energy Market (IEM).[112] The idea of IEM aimed to set an agenda for the harmonization of rules and technical norms, address the opening up of traditionally state-controlled markets for external competition and remove tax related fiscal barriers.[113] The document included for the first time electricity and gas among the market liberalization elements besides coal and oil and envisioned a single energy market that enhance negative integration between member states.[114]

However, conflict between member states – particularly Germany and France, – and the Commission arose around different issues, which resulted in a prolonged negotiation process. The First Energy Package that included Directive 98/30/EC for gas and Directive 96/92/EC for electricity significantly advanced the negative integration of energy markets, but they were still much less ambitious than the initial Commission proposals.[115] The Directives launched the gradual liberalization of the electricity and gas markets, granting third party market players access to the highly closed domestic markets. However, this access was strictly limited, as external market players were not allowed to contract freely with domestic suppliers or costumers, since it was still up to the member states to decide who is eligible to enter the market.[116] Therefore, these moderate versions served as a discretionary program for national

[111] Ibid.
[112] Matláry, *Energy Policy*, pp. 46-51
[113] "The internal energy market, Commission working document, COM (88) 238, final, 2 May 1988" Achieve of European Integration, http://aei.pitt.edu/4037/ (Last Access: 21.12.2018.)
[114] Maltby, "European Union," pp. 435–444
[115] "Directive 96/92/EC," EUR-Lex, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A31996L0092 (Last Access: 12.02.2019.);"Directive 98/30/EC," EUR-Lex, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.1998.204.01.0001.01.ENG&toc=OJ:L:1998:204:TOC (Last Access: 12.02.2019.)
[116] Eising, Jabko, "Moving Targets," pp. 745-749

liberalization, rather than an international process, causing asymmetrical market openings and divergent implementation strategies.[117]

5.4. Bottom-up processes

Germany: In Germany, the state still exercised major control over the coal and nuclear sector, the oil sector was based on free-market rules, while the gas sector remained divided between private and state-owned companies. Despite the volatile market conditions, concerning the IEM, German companies were particularly concerned about the third-party access proposal and the impact of the competition policy on the coal sector. Responding to the pressure coming from industrial players, Germany voted against the first drafts of the directive, despite the Commission's efforts to modify the proposal.

However, some domestic industrialist interest groups, including the 'Kronenberger Kreis' group, did support free market access to increase internal competition. Their pressure influenced the government to eventually make compromises and accept the first energy package. However, as result of the German 'shared market' energy system, demand side pressure was limited and divided, and the eventual outcome of the IEM and the Maastricht Treaty was mainly supplied by the government.

France: Despite the German and British market restructurings, France kept its state ownership over the main energy market players. From the middle of the 1990s, oil companies had been partly privatized, as the government sold its shares in Elf Aquitaine, an oil and gas company in 1994, and reduced its share to 5 percent in anther oil major, Total.[118] However, as the government still kept strong control over the energy market, demand side conditions were still mainly represented by the interest of the government.

[117] Per Ove Eikeland, "The Long and Winding Road to the Internal Energy Market – Consistencies and inconsistencies in EU policy," *FNI Report*, No. 8 (2004), pp. 14
[118] Matláry, *Energy Policy*, pp. 36-39

The United Kingdom: The energy industry in the UK went through a significant restructuring between 1980 and 1990, due to the Thatcher government's comprehensive privatization program. State-owned oil, gas, electricity and coal companies were privatized, while nuclear remained in the hand of the government. Certain regulations concerning fiscal measures, licensing, and environmental control remained in place, but complying with the Commission's aims, the British government opened up the markets for competition. However, the liberalization process and the Community-level regulations were highly opposed by the traditional energy majors, including British Gas, British Coal, National Power and PowerGen.[119] Therefore, although the demand for integration was lacking on the side of the domestic market players, the government managed to overwrite their interest and supply the necessary conditions for IEM and the Maastricht Treaty.

5.5. Top-down processes

Germany: In the early 1990s, Germany was mostly occupied with the reunification process, which also involved the restructuring of East German energy industry, especially the subsidized energy industry. In order to avoid any sudden potential economic shocks from the liberalization process, such as unemployment and social turmoil, Germany, alongside with France, instead of aligning its policies with the Commission's proposals, embarked on subsidized energy programs to increase production and decrease dependency.

As a result, the government refused the inclusion of an energy charter in the Maastricht Treaty, as it would have given the power to the Commission to gain competence over domestic energy issues. Also, in order to protect its energy market, Germany pushed hard to limit the scope of the IEM, especially in terms of third-party access and system unbundling.[120] As a result, Germany refused to supply the necessary conditions for enhanced negative and positive integration.

[119] Matláry, *Energy Policy,* pp. 29-31
[120] Eikeland, "The Long" pp. 22-27

France: As French coal, oil and gas production fell considerably in the 1970-1980s, the French government launched a comprehensive centralized nuclear program, prioritizing the countries security of energy supplies with regard to the availability and the price of energy.[121] The French, insisting on maintaining such developments and the traditional state-planned energy industry policies under control, refused any policies that would have harmed their heavily subsidized industry.[122] Also, as it feared that handing competence to the Commission would fasten the forced liberalization of the energy markets, the government also hesitated to accept the inclusion of an energy chapter in the Maastricht Treaty. However, due to the pressure form the Commission, France initiated a gradual privatization program of the energy sector in 1994, while it managed to limit the scope of the IEM. As a result, the French government did not supply further integration.[123]

The United Kingdom: The UK, although being almost entirely self-sufficient in gas and oil, due to the influence of the various Thatcher administrations from 1979 onward, endorsed neoliberal policies, which allowed for the early liberalization of its energy market. As a result, the UK became compatible with the IEM idea and began to support negative integration measure.[124] However, the country remained generally Eurosceptic, and thus along with the Germans and French, the British also held back the Commission from gaining competence in positive integration measures in the Maastricht Treaty, as they feared the supranational body's involvement in domestic energy strategy-building.[125] As a result, it refused the inclusion of an energy chapter in the Maastricht Treaty and thus did not supply positive integration.[126]

[121] Sophie Meritet, "French energy policy within the European Union framework: From black sheep to model?" in *Toward a Common European Union Energy Policy.* ed. Birchfield V.L., Duffield J.S. (New York: Palgrave Macmillan, 2011), pp. 69-71
[122] Eikeland, "The Long" pp. 22
[123] Meritet, "French Energy," pp. 69-72
[124] Eikeland, "The Long" pp. 23-24
[125] Francis McGowan, "The UK and EU Energy Policy: From Awkward Partner to Active Protagonist?" in *Toward a Common European Union Energy Policy*, ed. John S. Duffield, Vicki L. Birchfield, (London: Palgrave, 2011), pp. 195-200
[126] Ciambra, Solorio, "The Liberalisation," pp.155-157

The Commission of the European Community: The main supranational institution in the 1980s mostly relied on the existing measures for market harmonization to introduce energy-related policies. However, it remained powerless in influencing national energy strategies.[127] Although in the Single European Act in 1986, the single internal market strategy became a focus point of integration process, "partly as a reflection of the past energy policy failures, the Commission did not include energy in the initial agenda for the Single European Market."[128]

In 1988, however, the Commission introduced a working paper on the Internal Energy Market (IEM), attempting to completely liberalize the electricity and gas markets of the member states by granting third party access to all markets, increase competition and remove trade barriers.[129] The Commission, navigating between the French and German opposition and relying on the British support and its own formal power in competition legislation, managed to push through a limited IEM by the middle of the 1990s.[130]

Similarly, the Commission's role as a policy entrepreneur was also strengthened under the SEA.[131] However, on the Maastricht Summit, despite the Commission's efforts, due to the strong opposition of Britain, the Netherlands and Germany, a chapter on energy in the final text and thus the establishment of a formal EU-level competence for a common energy policy was refused.[132] As a result, in the case of the Maastricht Treaty, the Commission was unable to supply positive integration. In the IEM, member states once again showed differing standpoints on the proposed changes. Nevertheless, the Commission was able to establish the necessary

[127] Matláry, *Energy Policy*, pp. 21-23
[128] Francis McGowan, "The single energy market and energy policy: Conflicting agendas?" *Energy Policy*, Vol. 16, No. 6, (1989), pp. 550
[129] Eikeland, "The Long," pp. 30-32
[130] Maya Jegen, "Energy policy in the European Union: the power and limits of discourse," *Les Cahiers européens de Sciences Po*, No. 02/2014, (November 2014), https://www.sciencespo.fr/centre-etudes-europeennes/sites/sciencespo.fr.centre-etudes-europeennes/files/cahiers_europeens_2014_02_maya.jegen_.pdf (Last Access: 20.12.2018.), pp. 6-8
[131] Ciambra, Solorio, "The Liberalisation" pp. 157-159
[132] Matláry, *Energy Policy*, pp.

supply side conditions for negative integration, although it greatly relied on the support of the British support.[133]

5.6. Chapter conclusion

The sluggish economy and the high oil prices pushed the community towards extended cooperation, which led to the adoption of the Maastricht Treaty in 1992 that completed the Single European Market and increased the power of the Commission. Although the Commission tried to formalize its common energy policy competence in the Treaty and thus enhance positive energy policy integration, demand for positive integration was completely lacking on the demand side. Also, the UK and Germany, being afraid of delegating competences to the Commission, refused to supply any positive integration. Thus, the Commission's attempt to drive positive integration failed, as state supply and non-state demand were almost entirely missing from the perspective of the examined players.

In the case of the First Energy Package aiming to liberalize the member states' gas and electricity markets, the Commission attempted to introduce a comprehensive negative and positive integration agenda. However, demand from German and French energy market players were limited, as their respective governments still exerted control over the policy processes. In the UK, although the liberalized market players did not support the Package, the government's interest overwrte their interest and supplied the necessary conditions for the IEM. It took almost 10 years to adopt the First Energy Package, and its scope was highly limited due to the lack of supply for a comprehensive package from the side of Germany, France and the market players. Nevertheless, the negative integration package, ultimately driven by the UK government represented a significant step towards further policy integration. Therefore, contrary to the case of the oil crisis, as one of the major states was willing to supply integration along with a stronger

[133] Patrick M. Crowley, "Is there a Logical Integration Sequence After EMU?" *Journal of Economic Integration*, Vol. 21, No. 1 (March 2006), pp. 1-20

Commission, negative integration could take place, while conditions for significant positive integration were still lacking.

6. CHAPTER: TAKING ENERGY INTEGRATION SERIOUSLY IN THE END OF THE 2000S: THE THIRD ENERGY PACKAGE AND THE LISBON TREATY

6.1. Chapter overview

This chapter will examine two important energy policy integration cases of the late 2000s. On the one hand, the case of the Third Energy Package of 2009, where, similarly to the first package, at least the supply of one strong state paired up with domestic demand was a necessary, but sufficient condition to achieve negative integration, but due to the increasing role of the Commission and the increasing environmental concerns, the package also managed to include positive integration measures. On the other hand, in the case of the Lisbon Treaty in 2009, both bottom-up demand and top-down supply side conditions were present, which resulted in positive integration.

To examine these cases, I will first look at energy markets from the mid-2000s, where energy supply shocks, the global financial crisis and the increasing energy dependency urged member states to consider further cooperation. Then, I will briefly examine the integration outcome of the Third Energy Package and the Lisbon Treaty. Afterwards, I will look at the bottom-up and top-down processes in the three major countries and at the role of the European Commission to assess the demand and supply side conditions for integration. Finally, I will conclude my chapter.

6.2. Historical background

In the second half of the 2000s, while oil prices and thus energy commodity prices in general were still on a gradual rise, crises also disrupted the energy markets. Energy disputes broke out between Russia and the Ukraine in 2006 in the wake of the "Orange Revolution" then between Russia and Belarus in 2007, which resulted in short-term disruptions in Europe's gas supplies, highlighting the vulnerability of the EU's energy supply and infrastructure system to supply-

shocks.[134] As almost 80% of the Russian gas export towards the West transited Ukraine, in January 2006, gas supplies sharply dropped along the Austrian, Italian, Polish and German gas lines, affecting most of Europe's energy markets.[135] Furthermore, outside Europe, China and India as the major emerging countries experienced a heavily increasing demand for energy, which also contributed to the uncertainties about the global energy supply-demand balance and the global energy reserves.[136]

Within the EU, in 2004 and 2007, a total of 12 new member states joined the European Union. The New Member States (NMS), especially in the Central and Eastern European region, brought in a more fossil fuel-based energy mix, while they were also heavily dependent on Russia as their primary gas supplier.[137] Since natural gas in most of these countries dominated the national energy mix, energy security was always a high priority for them.[138] These interests provided another incentive for the EU to further develop its energy strategy.

Meanwhile, energy dependency was also on the rise, as Europe imported 54% of its energy needs.[139] In 2008, the unfolding global financial and economic crisis after the collapse of the housing market in the United States also severely impacted the development of a European energy policy. Energy-related investments fell as prices and demand collapsed, which once again highlighted the vulnerability of the European energy sector.[140]

6.3. Integration outcome

[134] McGowan, "Putting Energy," pp. 498-505
[135] Schubert, Pollak, Kreutler: *Energy Policy*, pp. 118-119
[136] Mišík, "The influence," pp. 206-210
[137] International Energy Agency, "Energy Policies"
[138] Per Ove Eikeland, "EU Internal Energy Market Policy: Achievements and Hurdles," in *Toward a Common European Union Energy Policy*, ed. John S. Duffield, Vicki L. Birchfield, (London: Palgrave, 2011), pp. 26-28
[139] "Securing your energy future," European Commission Press Release Database. 13 November 2008, http://europa.eu/rapid/press-release_IP-08-1696_en.htm?locale=en (Last Access: 21.05.2018.)
[140] "Europe's energy position, markets and supply," European Commission, Market Observatory for Energy, Directorate General for Energy, Brussels, 2009, https://publications.europa.eu/en/publication-detail/-/publication/cc84513b-71c0-45c9-aca1-a3f5818a6e5c (Last Access: 20.05.2019.)

In the second half of the 2000s, the European energy agenda was mostly dominated by crisis-related policy topics.[141] As a reaction to the market dependence on Russian gas, the unfolding crisis and the volatile European energy market conditions, in June 2009, the Commission replaced the two implemented energy packages with a more comprehensive one.[142] Although the negotiation process once again brought about several compromises from the Commission's side, the Third Energy Package, consisting of Directive 2009/72/EC for electricity and Directive 2009/73/EC for gas, managed to further integrate the EU's energy and the environmental objectives.[143]

The package also aimed to reinforce security of supply, require further market liberalization, promote more cooperation among national regulators, and create a European Agency for the Cooperation of Energy Regulators (ACER) to promote the regional integration of the energy markets.[144] Although ACER was designed to be a European regulator supervising national issues, in the adopted package, its power was limited to cross-border issues, while national regulators preserved their existing rights.[145] Nevertheless, the third package still managed to push negative and positive integration further, pressuring the member states to liberalize their energy markets.

Furthermore, in 2005, at the Hampton Court informal European Council of October 2005, member states endorsed a further positive integration turn by agreeing that the European Union needs to define and build a common European energy policy.[146] As a result, in March

[141] Philipp Thaler, "The European Commission and the European Council: Coordinated Agenda setting in European energy policy," *Journal of European Integration*, Vol. 38, No. 5, (2016), pp. 577-580
[142] Mehmet Baha Karan, Hasan Kazdagli*:* "The Development of Energy Markets in Europe," in *Financial Aspects in Energy*, ed. A. Dorsman et al., (Berlin: Springer-Verlag Berlin Heidelberg, 201), pp. 13-14.
[143] Jegen, "Energy policy," pp. 6-8
[144] "Mission & Objectives," ACER, https://www.acer.europa.eu/en/The_agency/Mission_and_Objectives/Pages/default.aspx (Last Access: 21.05.2019.); For further information, see: https://www.acer.europa.eu/hu/Lapok/default.aspx
[145] Eikeland, "EU Internal"; Joseph Dutton, "EU Energy Policy and the Third Package," *EPG Working Paper*: No. 1505, (July 2015); Karan, Kazdagli*:* "The Development"
[146] "Report on the Implementation of the European Security Strategy," European Council, Brussels, 11 December 2008, https://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/reports/104630.pdf

2007, the Council of the now 27 European Union Member States adopted the first "energy action plan."[147] The action plan, building on the Commission's "An energy policy for Europe" strategy, identified three major challenges that became the central elements of the common European energy policy: sustainability, competitiveness and security of supply.[148]

This formulating common strategy was clearly reflected in the adopted Lisbon Treaty in 2009, which became the first founding treaty that included specific provisions on the EU's intervention in energy policy matters.[149] The Treaty, for the first time, explicitly included energy policy as an area on its own. Article 194 of the TFEU aims 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."[150] Nevertheless, it also highlights that decisions over Member States' energy mix will be not affected.

As a result, although energy policy gained a formal status for the first time in a major European treaty, states preserved the right to determine the conditions under which they manage their energy resources and supplies. Thus, the Lisbon Treaty once again did not transfer any substantial competences to the supranational level, but by establish a common approach, it clearly managed to enhance positive integration between the member states.[151]

6.4. Bottom-up processes

[147] "Countries," European Union, https://europa.eu/european-union/about-eu/countries_en#tab-0-1 (Last Access: 15.05.2019)
[148] Susanne Langsdorf, "EU Energy Policy: From the ECSC to the Energy Roadmap 2050," Heinrich Böll Stiftung, 2011, http://archive.gef.eu/uploads/media/History_of_EU_energy_policy.pdf (Last Access: 15.05.2019.); Marc Ringel, Michèle Knodt, "The governance of the European Energy Union: Efficiency, effectiveness and
acceptance of the Winter Package 2016," *Energy Policy*, Vol. 112, (2018), pp. 209–220
[149] Giancarlo Cotella, Silvia Crivello, Marat Karatayev, "European Union energy policy evolutionary patterns," in *Low carbon energy security from a European perspective*, ed. Max Gruning, Patrizia Lombardi, (Elsevier Academic Press, 2016), pp.13-42
[150] "TFEU Artcile 194," EUR-Lex, https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:12008E194:EN:HTML
[151] Ringel, Knodt, "The governance" pp. 14-16

Germany: Despite the economic developments of the late 2000s and the increasing pressure from the Commission, the German energy industry kept its previous position by rejecting the proposed liberalization process, while cautiously supporting the promotion of renewable energy. During the negotiation of the third energy package, two major market players, EON and RWE agreed to sell off their electricity and gas transmission networks in order to avoid the potential fines pursuant to the Commission's anti-trust cases.[152]

Despite this observable softer approach, German companies opposed further market liberalization, fearing that the Commission would abolish the hierarchical governance structure of their domestic and regional energy markets that arguably "holds down recurrent and asset specific transaction costs in downstream gas and electricity distribution networks."[153] The gas market disruptions caused by Russia had also limited effect on the German industrial players' opinion, since they could mitigate the associated costs of disruptions through their long-term strategic partnership with Gazprom and relying on local coal, renewable and nuclear resources.[154]

France: Similarly to Germany, the French national energy champions, who were still mostly controlled by the government, resisted the third energy package, while generally supporting the environmental aspects of European policy, reflecting the priorities of the government.[155] In this regard, the two traditional champions, GDF and EDF remained ambivalent towards the EU's internal energy market strategy and were not severely affected by the gas supply shocks, as gas's position remained low in the energy mix and the share of Russian gas import also stagnated.[156]

[152] "Antitrust: Commission initiates proceedings against RWE Group concerning suspected foreclosure of German gas supply markets," EC Press Release Database, Brussels, 11th May 2007,http://europa.eu/rapid/press-release_MEMO-07-186_en.htm?locale=en (Last Access: 20.05.2019.)
[153] Dutton, "EU Energy," pp. 16
[154] Pinar Ipek, Paul Williams, "Firms' strategic preferences, national institutions and the European Union's Internal Energy Market: A challenge to European integration," *European Integration online Papers (EIoP),* Vol. 14, No. 15, (2010), http://eiop.or.at/eiop/texte/2010-015a.htm (Last Access: 20.05.2019.), pp. 15-16
[155] Meritet, "French energy," pp. 158-160
[156] Ipek, Williams, "Firms' strategic," pp. 22-23

The United Kingdom: Energy firms in the UK remained open towards the internal energy market and – encouraged by the British government – they promoted the EU-level support for nuclear power and 'clean coal' generation.[157] As industrial players already built their strategies on market mechanisms, rather than long-term strategic partnerships, they were less reluctant to support market liberalization proposals and the Commission's common energy strategy. Also, major British firms, such as BP, did not have strategic partnerships or long-term contracts with Gazprom, and due to the low dependency on foreign resources, the gas market shocks did not have a significant effect on the British market.[158] Therefore, as transaction costs and external threats were low, the Commission's proposals for promote positive energy policy integration in the third energy package and the Lisbon Treaty could be fit both in the industry's and the government's strategy.[159]

6.5. Top-down processes

Germany: The German government, mostly aligning its voice with its domestic industrial elite, still refused to support comprehensive energy market liberalization. Although the government sought to increase market competition, it also aimed to preserve the strength of its national champions to help them efficiently competing and negotiating with other powerful European and external players. Despite the market developments, as EON Ruhrgas became the largest foreign shareholder in Gazprom, the government insisted on keeping up the good relationship with Russia, and therefore assisted in the exclusion of the informally known 'Gazprom clause' from the Third Energy Package.[160] This clause would have required an agreement between a

[157] McGowan, "The UK," pp. 199-207
[158] Eikeland, "EU Internal," pp.45-46
[159] Ipek, Williams, "Firms' strategic," pp. 23
[160] David Buchan, *Energy and Climate Change: Europe at the Crossroads*, (New York: Oxford University Press, 2009), pp. 16

third country and Brussels "if a company wants to buy shares in a (European) transmission system operator and required external suppliers to be open to EU investment.[161]

Also, Germany successfully forced the Commission to soften its proposal concerning the breaking up of the powerful, vertically integrated national energy giants and thus Germany and France did not have to sell off their distribution networks, but they could place them under and independent body.[162] On the other hand, the government remained supportive of the Commission's initiatives on energy efficiency, renewable energy and climate policy in the Lisbon Treaty, however, along with France, it also refused the inclusion of any binding systems in the Commission's proposals.[163]

France: The French government, building on its national Energy Act introduced in 2005, continued to oppose market integration, as it insisted on keeping its control over its nuclear power market, producing cheap and thus competitive electricity for the market.[164] Joining Germany and Italy, French policymakers helped to block the Council's voting on the Commission's original third gas directive proposal and to remove the 'Gazprom clause'.[165] As a result, the French energy market remained mostly closed, despite the Commission's procedures against the French companies.[166]

Nevertheless, in light of the market disruptions and the Commission's clean energy push, France was open to promote its nuclear energy strategy, especially when the Commission raised concerns about the aging nuclear power plants in the EU.[167] Also, in terms of climate change and related environmental policy, the French government stood behind the

[161] "3rd Energy Package gets final approval from MEPs," Euroepan Parliament, 29.04.2009. http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+IM-PRESS+20080616FCS31737+0+DOC+XML+V0//EN (Last Access: 22.05.2019.)
[162] Ipek, Williams, "Firms' strategic," pp.
[163] Friedemann Müller, "Germany and Energy Security Policy: Technical versus Political Modes of Intervention," in *Germany's Uncertain Power: Foreign Policy of the Berlin Republic*, ed. Hanns Maull, (New York: Palgrave Macmillan, 2006), pp. 169–184
[164] Ipek, Williams, "Firms' strategic," pp.
[165] Euroepan Parliament, "3rd Energy"
[166] Meritet, "French energy," pp. 152-153
[167] Ipek, Williams, "Firms' strategic," pp. 20-21

Commission's proposals and the inclusion of such concerns and an energy chapter in the Lisbon Treaty.[168]

The United Kingdom: The British government, favoring market-based European energy policy, promoted energy diversification and the reduction of the EU's dependency on external supplies, especially on Russian gas, while also promoting nuclear power and 'clean coal' as the solution to climate change. As a result, the UK became the main partner of the Commission in encouraging market opening and climate-change goals, while opposing German and French efforts in limiting the scope of the Third Energy Package.[169]

The British government maintained its position even in light of a report by its national energy regulator warning of an energy supply shortage by 2015 due to the enduring effects of the financial crisis and the reducing domestic nuclear and coal power generation.[170] Moreover, the UK would have been open to support the inclusion of binding targets for renewable energy development in the Commission proposals, but the pressure from other member states prevented such resolutions.[171] Therefore, as the UK already had a liberalized market, it was open to supply the further negative and positive integration of the European energy policy.[172]

The European Commission: From the point of the European Commission, the rising environmental concerns, as well as the political and economic development in Europe provided an opportunity to aim for a great push in positive energy policy integration through the formulating Lisbon Treaty and the Third Energy Package. Realizing the strong tendencies of market players and governments to protect their energy markets, the Commission initiated discussions through Green papers to enhance cooperation. The 2006 Green Paper on "European strategy for secure, competitive, and sustainable energy" successfully served as a basis for

[168] Meritet, "French energy," pp. 152-153
[169] McGowan, "The UK," pp. 200-204
[170] Ipek, Williams, "Firms' strategic," pp.
[171] Ciambra, Solorio, "The Liberalisation" pp. 160-162.
[172] McGowan, "The UK," pp. 206

further discussions on European energy policy and establish a framework for the three different areas and a community-wide energy policy.[173] It also helped the Commission in its effort to include energy policy provisions in the Lisbon Treaty.[174] Also, signaling the rising power of the supranational body, the Commission launched several infringement procedures against member states, as well as antitrust proceedings against Gazprom, Eon, RWE, GDF Suez and Eni, forcing them to comply with the already implemented directives.[175]

6.6. Chapter conclusion

Despite the worsening market conditions and the various crises in the second half of the 2000s, the UK's and the Commission's ambition to supply comprehensive positive and negative integration measures were restricted by the interests of powerful member states and their industrial elite. The third package of energy liberalization was adopted in 2009 after a long period of negotiations, as the French and German government aimed to protect their concentrated markets and thus refused to supply comprehensive negative integration measures but was open to supply positive integration in climate and environmental policies. Demand for negative integration once again mainly came from the UK, which helped the Commission to also strengthen its supply position.

As a result, the Third Energy Package could achieve further negative integration, but due to the increasing role of the Commission and the increasing environmental concerns, the package also managed to include positive integration measures. Meanwhile, as the industry and the states were ready to demand and supply a member state-controlled, but common approach

[173] "GREEN PAPER: A European Strategy for Sustainable, Competitive and Secure Energy," Commission of the European Communities, Brussels, 8.3.2006, http://europa.eu/documents/comm/green_papers/pdf/com2006_105_en.pdf (Last Access: 20.05.2019.); "An energy policy for Europe," EUR-Lex, Brussels, 10.1.2007. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52007DC0001 (Last Access: 20.05.2019.)
[174] Mišík, "The influence," pp. 206-210
[175] Ciambra, Solorio, "The Liberalisation" pp. 157-159.

to energy policy. contrary to the failed attempt in the case of Maastricht Treaty, the Lisbon Treaty could enhance positive energy policy integration.

CONCLUSION

The aim of this thesis was to research the drivers behind energy policy integration in the EU and find out why cooperation in the area of energy policy fluctuated during the European integration process.

The idea of building a common energy policy in the European Union was present from the beginning of the integration process after World War II, but became particularly important in the past three decades, as energy and climate change became crucial political and economic issues. Although energy policy integration process is examined thoroughly and from various perspectives in the existing literature, it lacks comprehensive research on the causes, quality and the fluctuation of the integration process.

This thesis aimed to find the drivers of integration through applying Walter Mattli's framework on the demand and supply side conditions of regional integration to four important periods of the European energy policy integration project, looking on the one hand at the top-down processes and the role of the supranational institution and the three major states (Germany, France and the UK). On the other hand, I looked at the bottom-up processes and the interests of the energy industry in these major states. In order to measure the quality of integration in the four examined period, as well as to answer the second part of my research question, I applied Fritz Scharpf's concept of negative and positive integration to the examined policy outcomes of the examined periods.

Using the Mattli-Scharpf framework, I attempted to combine two widely used theoretical frameworks to shed new light on European energy policy integration and therefore contribute to the theoretical literature examining policy integration processes, particularly in the field of energy policy. This research, rather than building a comprehensive account on the European energy policy and establish new historical casualties and patterns, aimed to apply a modified theoretical framework to the already established historical content.

While numerous researches deal with the potential drivers of integration, they do not account for the qualitative aspect of the outcome, thus do not build a connection between the drivers and their effects on the policy outcome. In this regard, the Mattli-Scharpf framework examines *which* player (industrial interest, governments or supranational 'commitment institutions') demanded and supplied, thus drove energy policy integration in the European integration project. Adding a new layer to the existing theoretical approaches, it also shows how certain constellations of demand and supply leads to negative and/or positive integration and thus demonstrate why energy policy integration fluctuated during the integration process.

Looking at the four integration periods and their integration cases, this thesis showed in Chapter 2 that in the early 1950s, energy policy in the ECSC and Euratom Treaty was mostly driven, thus demanded and supplied by the two major states, Germany and France, which allowed for the enhancement of comprehensive positive and negative energy policy integration in both treaties.

As described in Chapter 3, almost two decades later, the oil crisis of 1973 brought about the potential of another great progress in the integration process. However, as energy majors did not demand integration and governments did not supply it, and the Commission being the only driver of integration, the Community failed to significantly advance its common energy policy agenda.

The same outcome was observed and described in Chapter 4 in the case of the Maastricht Treaty in 1990, where the Commission aimed to supply comprehensive integration, but the lack of big business demand and state supply resulted in very limited positive integration. The other case from the 1990s period, the First Energy Package however, demonstrated that even if industrial demand is weak, if there is at least one major state to supply integration, and the supranational institution is also ready to supply, negative integration is more likely to occur.

In Chapter 6, looking at the late 2000s, the Third Energy Package, similarly to the previous packages, was once again the case of negative integration backed by a strong supply from the Commission, which also required the supply of at least one of the major member states, but due to the increasing role of the Commission and the increasing environmental concerns, the package also managed to include positive integration measures. Meanwhile, despite the failed attempt in the case of the Maastricht Treaty, the Lisbon Treaty could bring about a significant step towards positive energy policy integration, as the bottom-up demand was met by top-down supply from both the major states and the supranational institution.

Looking at the various outcomes of the examined cases, this thesis observed that positive energy policy integration can occur if supranational supply is met with major states' willingness to supply, while bottom-up demand – although as I showed, in certain cases they overlap with government interests, – is also present. Meanwhile, negative integration was possible if supranational supply met with bottom-up demand and also the supply of at least one major state. When only the supranational body was able to provide the supply side condition, no significant integration occurred. These findings overlap with the expected outcomes of the thesis, where I argued that negative integration is expected to occur when the demand of industrial interest is met with supranational supply, while positive integration is more likely to occur when bottom-up demand, member state supply and supranational supply are all present.

As a result, this thesis concludes that the applied framework and methodology demonstrated that energy policy integration tends to be driven by major member states, although the increasing role of the supranational body is also necessary to promote and propose further integration. Furthermore, through the observed cases, integration fluctuated over time as positive and negative integration also fluctuated mainly due to the varying general interests of major states, but the changing demand side of the evolving energy industry, as well as the differing aims and areas of the integration proposals and the changing role of the supranational

institution also played a role in the variation of outcomes. These findings overlap with the expected outcomes, where I argued that the fluctuating nature of energy policy cooperation can be explained by the changing nature of integration caused by the changing constellations of demand and supply side conditions throughout the examined periods.

Therefore, the applied framework and methodology offer a clear answer to the first part of the research question, *what drove energy policy integration in the EU?* Concerning the second part of the question, *why did cooperation in the area of energy policy fluctuate during the European integration process,* the applied Mattli-Scharpf framework demonstrates that the fluctuation can be explained by the changing quality of energy policy integration, which was driven by the different constellations of the demand and supply side conditions of integration.

These findings suggest, although various strong limitations and interpretations were introduced, that Mattli's framework on the demand and supply side conditions of regional integration can be useful in analyzing specific policy areas. For instance, Mattli suggested that integration is more successful if demand and both strong and weak supply side conditions are present.[176] In the case of energy policy integration, where industrial demand, major state's supply and the Commission's support met, integration also occurred. Also, as Mattli argued that the lack of 'big business' demand and leading state supply makes integration highly unlikely, the case of the oil prices showed that where only the Commission supports integration, thus only weak supply side conditions are present, no significant integration will occur.[177] However, although it would need further research, the increasing legislative power of the European Commission might signal that the role of commitment institutions in the integration process can evolve. Meanwhile, Scharpf's framework on positive and negative integration was

[176] Walter Mattli, "Explaining," pp. 13-14
[177] Ibid. pp. 15.

straightforward and could be properly used to explain the integration outcomes of the observed periods.[178]

The findings and the used approach of this thesis may contribute to the existing literature by examining the causes and quality of energy policy integration through the prism of a new theoretical framework. Also, the applied framework might help further identifying the actors that ultimately drive the integration process in different policy areas, and therefore the thesis might contribute to the general and policy-specific literature on European integration.

Although further research is needed to extend the research to the whole period of energy policy integration, the thesis might also show that as the general regional integration also progressed and the supranational body's position strengthened, more comprehensive positive and negative integration was more likely to occur. On a similar point, the findings of the thesis may imply that in the future, positive integration will be more likely to occur, as the stronger supranational body and the negatively integrated market is more likely to be willing to supply positive integration.

In this regard, it would be interesting to research the cases of the Energy Union, the Energy Roadmap 2050 and their related directives in the presented framework. Further research could examine in depth the evolutionary patterns of the different integration objectives and examine how integration was demanded and supplied in environmental policy, climate policy and internal market policy. Also, due to the strong limitations of this thesis, the role of other EU institutions, such as the European Parliament and the Council, as well as the role of the other member states, especially the CEE countries after 2004, were not considered in this research, but would be interesting to examine through the used theoretical framework.

[178] Scharpf, "Negative and Positive"

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