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**THE TRANSATLANTIC PARTNERSHIP IN ACHIEVING
 THE EU ENERGY TARGET: DIVERSIFYING OF ENERGY
 SUPPLIES**

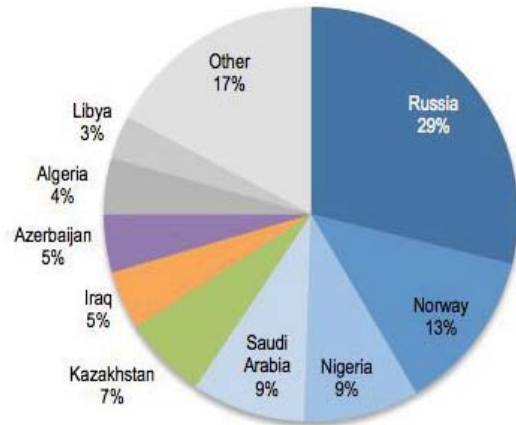
For the EU imports almost half of its energy consumption, policies relating energy security strategies have topped the to-do list of European policy circles. Although, more or less, the Union has managed to provide its people with enough hydrocarbon resources, some disruptions and changing geopolitics have pushed the member states to rethink of new strategies. Thus, currently diversification of energy supplies is at the top of the EU agenda, and Southern Gas Corridor together with US LNG export capacity are the cornerstones in ensuring the Union's sustainable energy supply.

Keywords: European Union, energy politics, hydrocarbon resources, Trans-Adriatic Pipeline (TAP), LNG.

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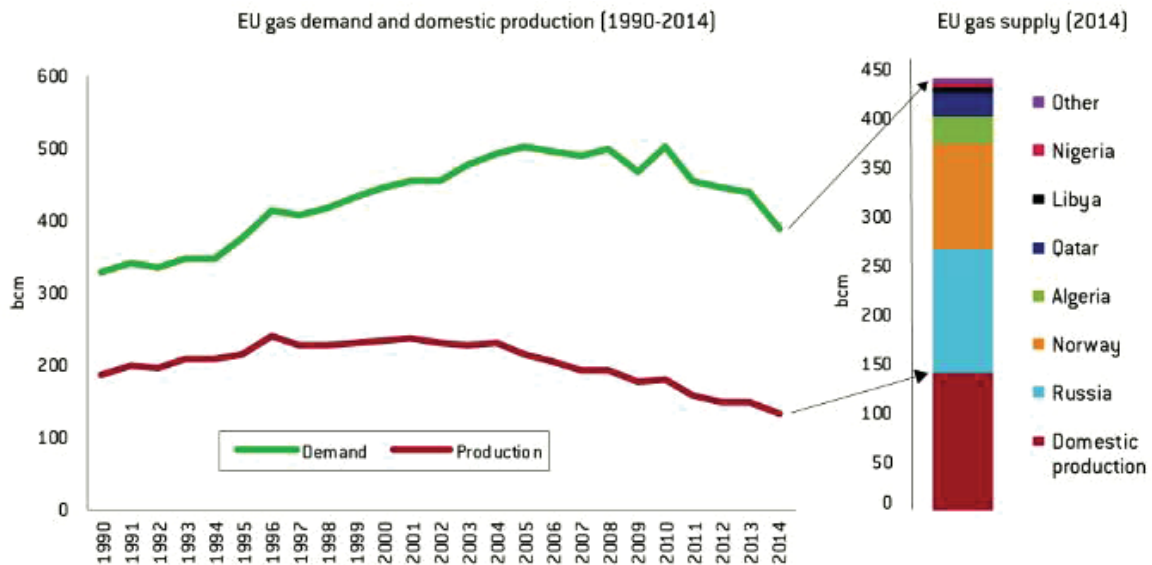
Ensuring a stable and abundant supply of energy has always been a key element of the the European Union level officials' energy priorities. This would not be an exaggeration to asses the fact that the energy strategy of the Union has been successful over the decades since the Member States have achieved to guarantee the long lasting energy supply without a disruption to its citizens in the aftermath of the oil crises of the 1970s until the mid of 2000s. Notwithstanding its efforts to design a coherent and consistent energy policy, the EU, however, still remains as the biggest importer of hydrocarbon resources globally, and has become vulnerable and exposed to external energy shocks recently. It is noteworthy to charge that energy remains as one of the less integrated EU policies due to dispersion of competencies and inconsistency of objectives, absence of an overarching legal framework, and last but not least, conflicting interests among the member states on energy issues. Currently, the Union is obliged to import about 90% of its crude oil and 66% of gas supply [1]. While

the diversification in oil supply routes and suppliers have relatively been achieved (see Figure 1), on the contrary, the shares of Russia, Norway and Algeria in the gas supply are remarkably higher (See Figure 2).

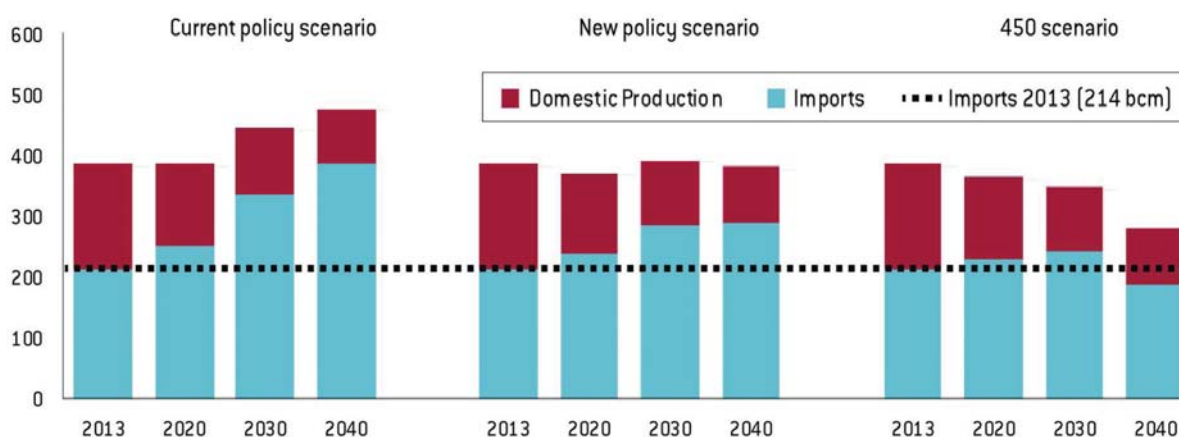


Source: European Commission, DG Energy.
 Figure 1. Share of Total Crude Oil Imports in the European Union by Origin

A good case in point could be that the EU imported 39% of all its gas demand from a single supplier, – «The Russian Bear», solely in 2013 [2]. The hydrocarbon overdependence created shortages strongly hitting mainly eastern member states during the freezing winters of 2006 and 2009 respectively, following cut-off of gas supplies from Russia that run through Ukraine after the latter failed to pay its gas bills [3]. The disruptions breeding from the non-effective management of energy issues were the first wake-up alarm for the Union. The crises in the energy security later followed by the changing landscape of global energy markets caused by severe challenges, namely, the Arab Spring, the recent Russia-Ukraine crisis, the oil price collapse, an upsurge of terrorism, and ups and downs in the consumption patters of emerging



Source: European Commission
 Figure 2. EU Domestic Gas Production and Import Volumes shared by Suppliers



Source: Bruegel based on IEA, 2015

Figure 3. The EU Gas Demand, Production and Import Requirements

economies such as China and many others. Thus a wave of concerns became a major precursor to the acceleration of strengthening energy infrastructure and reinforcement of legislative basis for the energy supply across the EU, and a very vital, yet a controversial term «*energy security*» has occupied a top spot on the Union's foreign policy agenda recently.

Truth be told, this is hard to believe the EU would give up on Russia as its strategic energy partner, specifically, in the light of current realities. The researches underscore the likelihood of growing importing requirements for the EU in years to come as domestic production falls significantly. While the Netherlands experienced gas production volume decline from 70 billion cubic meters (hereinafter, «bcm») in 2010 to 56 bcm in 2014, the United Kingdom shared the same fate by producing only 37 bcm in 2014, 20 bcm less than that of 2010 [6]. Based on numbers provided by the International Energy Agency (IEA), the EU's gas import levels will reach 338 bcm in 2020, and hit 386 bcm in 2040 (Figure 3). Thus most probably, Kremlin will remain as an important supplier of hydrocarbon resources for the European market to meet the supply–demand gap. The EU, however, needs to pursue more satisfying practical application of hydrocarbon ambitions to effectively maintain energy security throughout the continent. Among the priorities thereof, improving the infrastructure, especially for the gas sector, a strong security of supply dimension, and better access to the LNG market top the list.

Indeed, to translate its long anticipated ambitions into real practices, the EU has taken several steps by adopting «The 2050 Energy Roadmap», proposing European Energy Security Strategy, establishment of «The 2030 Energy and Climate Framework», and launching «European Energy Union». On the February of 2016, the European Commission published its long-awaited energy initiative, the so-called «Energy Security Package» as well. During his speech at a conference organized by International Energy Agency, Commission Vice President for the European Energy Union, Mr. Maros Šefčovič stated that «*the Package will secure supplies in case of disruption, strengthen cooperation at regional level and improve crisis management at European level. An important element in this proposal will be to bring*

more transparency in gas contracts with third parties and facilitate access of more LNG into Europe» [5].

The role of the U.S in ensuring energy security across the European Union, too, has been very pivotal. The U.S. led projects like Baku–Tbilisi–Ceyhan and the Southern Gas Corridor have proven successful. While the BTC pipeline is already operational for a good while, the SGC is being developed as well, envisaging the transportation of the Azerbaijani gas to the continent through South Caucasus Pipeline (SCP), Trans–Anatolian Natural Gas Pipeline (TANAP) and Trans–Adriatic Pipeline (TAP).

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- The transportation of the natural gas to the Central European gas hub in Baumgarten of Austria through the Trans Austria Gas pipeline with the help of swaps and reverse flows;

- By using reverse flows, it has a potential to reach France and Germany via the Transitgas pipeline of Switzerland;



Source: www.tap-ag.com

Figure 4. The Initial Design of the Southern Gas Corridor; – SCP, TANAP & TAP.

– TAP holds a capability to reach Bulgaria via an interconnector to the Kulia–Sidirokastro line and could connect the planned Interconnector Greece–Bulgaria pipeline (IGB), too;

– The Balkans and South East Europe might be another destination of the Azerbaijani gas thanks to TAP via the planned Ionian Adriatic Pipeline (IAP);

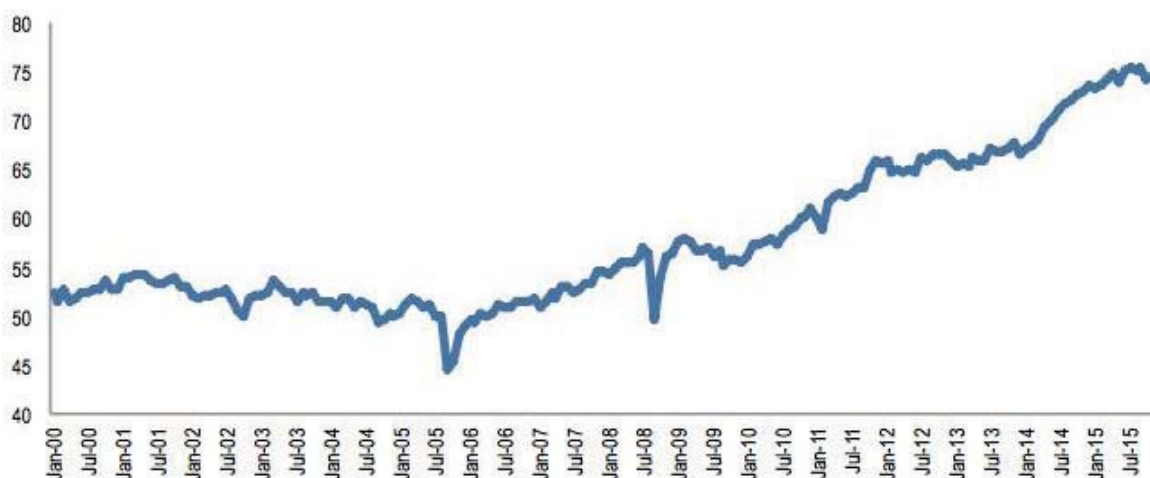
– Yet another vital advantage of TAP is linked to its connection to the Italian Natural Gas Grid which is known as exit point to other European destinations, including Belgium, the Netherlands, and the United Kingdom as well by developing physical reverse flow capabilities (Tap–Ag, 2015).

The potential of unfettered exports U.S. LNG to the Member States in accessing more diversified natural gas resources is growing significantly, too. In the past decade, the U.S. have experienced petrochemical renaissance due primarily to its technological advancements linking horizontal drilling and hydraulic fracturing which allowed engineers to extract gas from tight geological formations. The advancements have transformed the States from a net importer of hydrocarbon resources into a net exporter

to global markets with the natural gas production levels growing more than 50% from 2005 to 2015 (see Figure 5).

Increasing size and liquidity of the national energy market made the officials in Washington rethink of the energy strategy that banned the exports of crude oil and natural gas. Industry lobbies pushed the Congress to remove the crude oil ban in the December of 2015, and first two cargos from Texas reached the waters of the EU not long ago. Other than that, two cargos of the U.S. LNG were headed to Southwestern Europe, landing at Portugal's Sines and Spain's Mugaros terminal in April and July, respectively [4].

The impact of American energy resources on the energy security of its European allies are clear: oversupply of resources would diminish the gas prices across the continent, and the Union could use this strategy to achieve a bargain chip and more flexible contracts with the major suppliers. In the meantime, the availability of US LNG will help create more diversified energy sources, specifically, in Central and Eastern Europe. To assess that the steep rise in US oil and gas production and its transportation to the EU market will be a significant contributor in the short run, however, might sound unrealistic. First and foremost, the



Source: EIA Short–Term Energy Outlook
Figure 5. The U.S. Natural Dry Gas Consumption



Source: LNG 2015, Gas Infrastructure Europe 2015
Figure 6. LNG Terminals in the European Union

EU Member States lack enough number of LNG import terminals with Spain only being an exception (Figure 6).

Currently, Spain has 6 LNG import terminals but its limited gas connections with France does not allow it to meet EU energy security requirements (European Parliament, 2016). To use large gas reservoirs of Spain for trading purposes seems to be a more logical choice. Second, with the gas prices depressed, Gazprom offering quite competitive prices, and the Asian markets being more profitable for the US energy companies, importing the US LNG would not be an attractive option for the Union in reducing external dependency on particular suppliers.

Transportation of the US gas to the European market, now, has more speculative reasons and gains as by storing the US gas in LNG facilities of the EU in times of non-competitive market prices and using it until prices rise is a more rational approach [4]. For geopolitical imperative being crystal clear, in the medium and long term, however, with the construction of new LNG terminals in Europe and improved internal interconnections, could the commercial conditions be also met, US exports of natural gas to the EU can play an important role in advancing the European market [4]. It is believed by the policy makers that every single molecule delivered to the EU from the other side of the Atlantic equals to a molecule subtracted from another supplier that holds a big market share and leads to overdependence. The International Energy Agency calculations suggest that between 2014 and 2020, the regional gas trade will increase almost by 40% hitting 780 bcm by 2020 [4]. It is planned that the LNG ought to account for 65% of that increase in the market. With liquefied gas supplies representing an important energy security consideration, the European Commission adopted a strategy on the EU's LNG and storage with an aim to make the European gas system more competitive, diverse and flexible. The document sets out three main issues crucial for the key Energy Union objective of a resilient gas market, and effective use of LNG which go as follows:

– Necessary infrastructure that will allow all Member States to benefit from access to liquid gas hubs and thus international LNG markets; in this respect, the importance of the swift implementation of the relevant Projects of Common Interest (PCI) cannot be underestimated;

– Complete the internal gas market, which will send the right price signals for the right investments and attract gas where it is needed;

– Intensifying dialogues with current and future suppliers and other major LNG consumers (EU Commission).

Thus, LNG is a strong energy alternative in the EU's adaptation process to avoid over dependence on its major suppliers. While in facing common challenges of the Union's energy security area, the establishment of the Energy Union with its five dimensions of which security, solidarity and trust top the list was of great importance, further actions need to be done in achieving the energy target fully. Wider energy cooperation with the US, and the countries in the Caspian periphery, along with the enhanced internal energy infrastructure would ultimately improve the security of supply, enlarge the market, and create more competitive business environment. At the end of the day, consumers of energy in the EU would enjoy lower prices and more diversified energy routes and supplies.

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Трансатлантичне партнерство в досягненні енергетичної мети ЄС: диверсифікація енергопостачання

ЄС імпортує майже половину свого споживання енергії, політика, пов'язана зі стратегіями енергетичної безпеки, очолила список європейських політичних кпі. Хоча, більшість ментів, Союз зумів надати своїм людям достатню кількість вуглеводневих ресурсів, деякі зриви і зміна геополітики спонукали держави-члени переосмислити нові стратегії. Таким чином, в даний час диверсифікація енергопостачання знаходиться на вершині порядку денного ЄС, а Південний газовий коридор разом з експортним потенціалом США зі з'ясування природного газу є наріжними каменями в забезпеченні сталого енергопостачання Союзу.

Ключові слова: Європейський союз, енергетична політика, вуглеводневі ресурси, Трансатлантичний трубопровід (ТАТ), ЄПГ.

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