

TTIP and the “Energy Chapter”

Economic security vs political security

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Introduction

- TTIP → more than just a trade and investment agreement → an agreement to change world politics
- Secretary of State John Kerry:
 - TTIP would “reinforce our common effort to counter violent extremism, support the sovereignty of Ukraine, build energy security and independence for many nations in Europe that currently must rely on one source – Russia, and it will help us address such global problems, such as nuclear proliferation and climate change. That’s what comes out of this kind of cooperative effort and the growth that it will spur”

BREXIT AND TTIP: 2 Questions

- June 23, 2016 → 52% in favour of leaving the EU
- Would the UK leave the EU before the signing of the TTIP?
- and, if so, how Brexit would affect the TTIP negotiation?
- It was believed: without the UK (5th world economy & 2nd in the EU)
→ the EU bloc will lose bargain power against the US.
- The UK → a strong supporter of the TTIP
- TTIP → would go dormant & increasingly European's civil society organizations (CSO) opposing the treaty

Two Events

- On February 2, 2017, members of the House of Commons voted by 498 to 114 to advance the bill that would give Prime Minister May the authority to invoke Article 50 of the Lisbon Treaty
- On January 20th, 2017, the Obama administration left the White House without signing the TTIP,
 - the TTIP: Presidential legacy → pushed for the US Congress to grant the Administration the “Trade Promotion Authority” → ability to present Congress with trade agreements for an accelerated up-or-down vote

The Importance of the TTIP and the US

- The EU need energy security and independence to rebalance the “energy economic security and energy political diplomacy”
- This tradeoff ➔ profound effects on world politics and economic stability (EU)
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The Debate: Should the TTIP include a chapter on ENERGY

- The EU → placed on high priority the inclusion of a chapter covering raw materials and energy
- The US → questioned the need for separating out provisions on energy from trade in goods and services or on investment.
 - The US negotiators → energy was sufficiently covered in other chapters of the TTIP
 - once the TTIP was concluded, energy exports from the US to the EU would be sufficiently facilitated to the EU market.
- Why this reluctance?
- 1. The EU-US Energy Council (Nov 4, 2009) → 1) increasing transparency and predictability, including in licensing; (2) eliminating export restrictions; (3) limiting government intervention in the price setting of energy and prohibiting dual pricing, (4) identifying potential security of supply problems and infrastructure bottlenecks, and creating mechanisms to handle supply crises and disruptions
 - EU-US Energy Council (last meeting on May 4, 2016) → specified that the “Council recognized T-TIP’s potential to foster free trade in energy and low carbon technologies by diminishing trade and investment restrictions, promoting cooperation and regulatory coherence, and enhancing transparency
- 2. FTA → lack energy chapter

Political Diplomacy

- The EU is energy import depended for two reasons:
 - 1. Domestic gas reserves are rapidly depleting with sustain gas demand.
 - The EU is producing just about 34% of its internal natural gas demand and must import the balance from several countries.
 - 2. The EU refining sector has been losing ground according to the International Energy Agency (ISA):
 - Since 2008: fitting refineries have closed and other are reducing processing capacity which a total reduction of processing capacity of 8%.
- Eurostat: The EU is increasing its energy import dependency.
 - Suffered the third largest fall in production from 937.1 million toe produced in 2003 to 790 million toe in 2013 and 771 million toe in 2014.

With Numbers

Main origin of primary energy imports EU 28. Crude Oil			
	2004	2008	2014
Russia	32.5	31.8	30.4
Norway	18.7	15	13.1
Nigeria	2.5	4	9.1
Saudi Arabia	11.3	9.9	9.9
Kazakhstan	3.3	4.9	6.4

Main origin of primary energy imports EU 28: Natural Gas					
	2004	2007	2012	2013	2014
Russia	43.6	38.9	34.9	41.2	37.9
Norway	24.3	28.1	31.2	30	31.9
Algeria	17.9	15.3	13.8	12.9	12.3

Why energy independency?

- Two Reasons:
 - 1. To break the energy dependency (crude oil and natural gas) from Russia and others
 - 2. To reduce and eliminate the energy poverty problem

1. To break the dependency

- On October 27, 2005 → the European Union energy policy was approved at the meeting of the informal European Council at Hampton Court.
 - February 2015, the Framework Strategy for Energy Union
 - Energy Union: Energy Union is defined as a “European Priority Project (...) in which five dimensions are closely interlinked: Energy security, solidarity and trust; A fully integrated European energy market; Energy efficiency contributing to moderation of demand; Decarbonising the economy, and Research, Innovation and Competitiveness
 - November 2015, the first report on the state of the Energy Union
 - February 1, 2017 the second report on the state of the Energy Union

Energy independence relies on two pillars

- 1. Resilient infrastructure → launched work on:
 - new interconnectors such as the Trans Adriatic Pipeline (TAP), new liquefied natural gas (LNG) terminal in Poland, France, and Finland have entered in operation,
 - has worked on a third list of Projects of Common Interest (PCIs) to identify those projects which are most urgently needed to contribute to market integration, sustainability, security of supply and competition.”
 - the EU needs to spend about EUR379 billion in investments each year from 2020-2030

- 2. Strong bilateral relationships:
 - with Algeria to reinvigorate talks on the Southern Gas Corridor
 - promote energy reforms in Ukraine
 - engaged in meetings with Russia and Ukraine to ensure stable domestic supply to Ukraine and gas transit from Russia via Ukraine to the EU
 - Energy Council between the EU and the US

The Russian dependency

- Russia: Main supplier of crude oil and natural gas → Diplomatic disputes
- 1. **The Ukraine conflict** → cancellation of the South Stream pipeline project on December 1, 2014 → transport natural gas from Russia through the Black sea to Bulgaria and through Serbia, Hungary, and Slovenia further to Austria.
 - Russia cancelled this project → the 2014 Crimea crisis & imposition of European sanctions to non-compliance with the Third Energy Package → A European Union competition and energy legislation which stipulates the separation of companies' generation and sale operations from their transmission networks.
 - The South Stream project → replaced by the proposal of the so-called Turkish Stream on November 2015 → temporality halted due to the Turkey shoot down of a Russian fighter jet but a final agreement was reached and the Turkish Stream signed off in October 2016. On December 2016, the Grand National Assembly of Turkey voted in favor of the agreement
- **The Nord Stream 2 pipeline** is sparking a debate → Energy Union is just not compatible with the spirit of the Nord Stream 2 pipeline → would concentrate over 80% of the Russian gas imports into a single supply route jeopardizing the diversification original purpose of the Energy Union project
 - AGAINST: Gazprom, has already the dominant role on the European energy market and is the largest gas supplier in the European market
 - IN FAVOR: Western European gas production is in rapid decline → which requires the import of gas from Russia via the Nord Stream 2. → recent increase in gas demand → high utilization rate of the existing Nord Stream pipeline: In 2016, on average 80% of the capacity was in use; in 2017 the average of utilization so far has been 97%.”

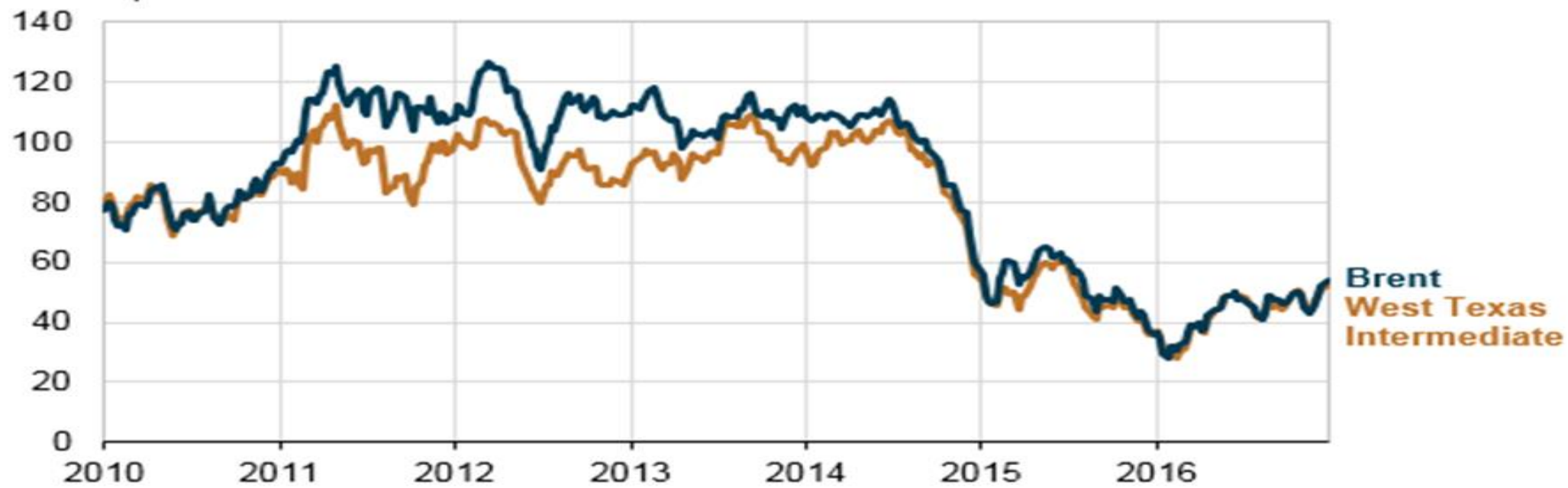
Why the US?

- The US's shale revolution → become energy independent and a new energy superpower
- Eurostat → US has increased its primary production of energy from 1,655,8 million toe in 2003 to 1,881 million toe in 2013.
 - Nonetheless: in 2016 Saudi Arabia exported an average of 1.08 million barrels a day of crude to the US, Venezuela shipped about 733,000 barrels a day and Iraq some 400,000 barrels a day.
- The US passed the Energy Policy and Energy Conservation Act on December 1975 to ban most of US oil exports → after 1973 Arab oil embargo → US Congress on December 18th, 2015 → US shale revolution had undermined the energy security rationale for this ban.

Three positive outcomes:

- It will increase the market for the light, sweet crude pumped out of America's shale deposits, which may eventually give the fracking industry a fillip.
- It will give refineries outside America access to a greater variety of oil, enabling them to operate more efficiently.
- And it will make West Texas Intermediate (WTI), the reference price in the United States, a global benchmark for light, high-grade crudes to rival Brent, an international benchmark that is based on a mix of heavier crudes. That would make oil trading more efficient

Daily crude oil spot prices, 2010-16
dollars per barrel

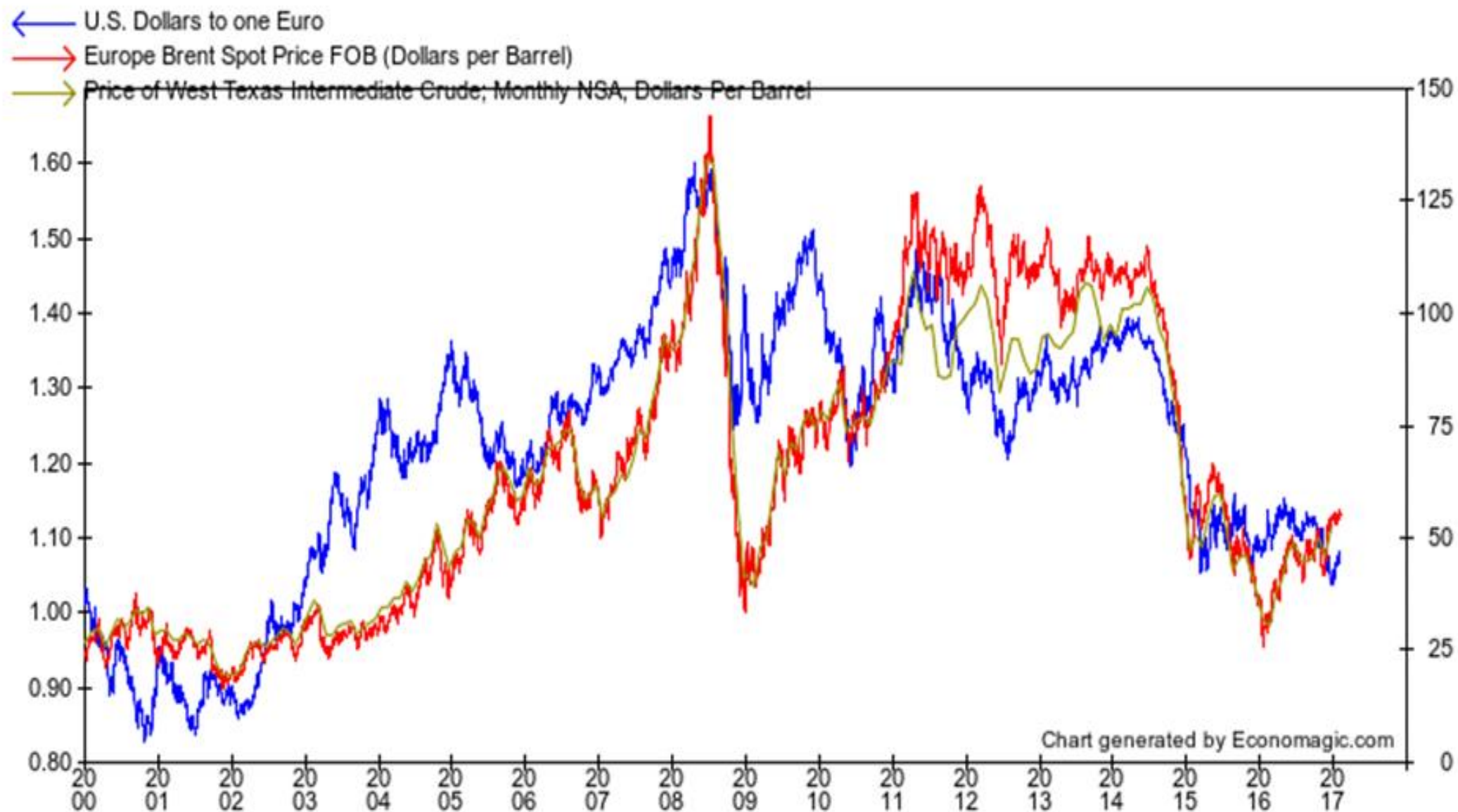


2. To reduce & eliminate energy poverty

- Today without electricity, you cannot exit
- The EU ➔ high number of disconnections over the last years, even in very developed Western European countries
- Not only in our poorer Member States. Even in a country like Germany
 - 350,000 households were temporarily disconnected from electricity in 2015 because they couldn't pay the bill.
- Heating and cooling represents half of the EU's energy consumption and is heavily reliable on fossil fuel which translate into a high import dependency.
- Almost 10% of the expenditure of low-income households is used for energy-related purposes and only 23% of this households in 2015 had sufficient financial means to properly heat their homes to an adequately warm level.
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Economic Security

- In a fast-changing geopolitical environment, a successful Energy Union is crucial to protect the long term economic interest and well-being of Europe and its citizens
- Energy prices and commodity prices have an important effect on economic security performance → Price of energy affects industrial production: increasing the cost of producing.
- The Effect of the Currency: the value of the euro has absorbed the impact of an extremely high energy price
 - What will happen next?



Final remarks

- The EU ➔ break energy dependency
- The US is a new energy producer and exporter
- A NEW TTIP should include energy security
- The EU-US Energy council

THANK YOU