

The EEC Commission and European Energy Policy: A Historical Appraisal

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Abstract Tonini's paper focuses on the interrelationship between the attempts to create a common European energy policy, on one hand, and the institutional development of the European Union (and its predecessors), on the other hand. In particular, this paper investigates the EU Commission long struggle for a larger role in energy policy and security, the birth of the European energy policy, and its first outcomes. The EU members have in common a predominance of fossil fuels use and a reliance of foreign gas and oil imports, despite the apparent differences in their energy mixes. Realizing that once united, they would be stronger, in the 1970s member States started to seek common solutions. Markets have so far ensured proper supplies, but the growing tendency for importing from Russia and the Middle East makes governments' intervention increasingly necessary. Given that markets do not function optimally everywhere, and that many fuel suppliers are State-owned companies, State level discussions are becoming more relevant.

This chapter focuses on the interrelationship between the attempts to create a common European energy policy on the one hand, and the institutional development of the European Union (and its predecessors) on the other. In particular, it investigates the EU Commission's long struggle for a larger role in energy policy and security, the birth of an European energy policy, and its first outcomes.

The EU fits no existing model of international relations. It is not a federal nation state—a kind of United States of Europe—although there are plenty who think it should become one. Nor is it just another international organization within which countries collaborate without giving up important elements of sovereignty. The whole European Integration process has been a process of attempts, experiments, successes and failures. This applies to many single European initiatives and policies, including the common energy policy.

Is there any rationale for a common European energy policy? In order to provide a meaningful answer, it is worth remembering that despite apparent differences in

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their energy mixes the member states have in common a predominance of fossil fuel use and a reliance on foreign gas and oil imports. Realizing that once united they would be stronger, the member states started to seek common solutions. The markets have so far ensured sufficient supplies, but the growing tendency to import from Russia and the Middle East makes government intervention increasingly necessary. Given that markets do not function optimally anywhere, and that many fuel suppliers are state-owned companies, state-level discussions are becoming more relevant.

If the European Union is to succeed in increasing its global competitive capacity and to achieve its aim of higher living standards for its citizens, it will need a steady flow of energy supply and it will have to ensure efficient utilization of it. It is therefore absolutely fundamental to the future prosperity of the European economy that there should always be enough energy available to cover the steadily rising demand; this energy should be available on terms that will allow the European Union to keep its costs genuinely competitive, and also afford the less developed areas of the 28 member countries a fair chance to catch up.

From these considerations stems the apparent need for a common energy policy, and the EU member states have thus agreed on the principle of speaking with one voice on energy matters. To date, this has not yielded a transfer of competences to the European Commission, as all the member states are very much attached to their sovereignty in this field. However, the mere agreement on the principle illustrates their awareness of the necessity of a common approach.¹

From a historical perspective, three stages in the development of EU energy policy can be distinguished. In the first period, from 1957 to 1972, energy was not regarded as an issue of great concern. The three Treaties at the origin of the first European Communities (ECSC, EEC, Euratom) contained no word about a common energy policy or a timetable for its introduction. In those years, the energy supply to Western Europe was positively influenced by the following factors:

1. Discovery and exploitation of substantial reserves of cheap new energy in the Middle East and in other parts of the world;
2. Major economies in transportation, including a reduction in costs resulting from bigger and faster ships and increasing reliance on new facilities, such as oil and gas pipelines, methane tankers and high voltage electricity transmission networks;
3. Exploitation of new energy sources in the European Community itself, especially natural gas and nuclear power;
4. Rationalization of the European coal mining sector, through pit closures and productivity increases to adjust production to the changed features of the European energy market.

¹Oliver Geden, Clémence Marcelis, Andreas Maurer, "Perspectives for the European Union's External Energy Policy", Working Paper FG1 2006/17, SWP Berlin, December 2006, p. 3.

To cope with the huge growth in demand, the private oil companies decided to organize their operations on a more elastic basis by diversifying the areas in which they were prospecting and by stepping up production. After World War II, the rapid development of the oil market in Western Europe was complementary to the success of the oil companies in finding new oil fields, notably in the Middle East, under what were exceptionally favourable conditions. Although differently placed one from the other, the seven major companies all had important Middle East oil interests in which the royalty and price structure operated in such a way as to give the companies a comfortable share of the economic rents. In these circumstances, with the oil companies enjoying a high after-tax income and therefore a high cash flow from their upstream operations, it came to seem natural to them to develop the Western European market as a complementary activity which disposed of their oil through refining and market activities, often conducted on a break-even basis or even at a loss. Action by the United States government in the form of import quotas to protect its home production caused the bulk of the increased supply to be directed to Europe.

Throughout the 1960s, downstream operations in Western Europe were not conducted in a profit-hungry way because the upstream operations took care of the profits. The result was that market realizations were lower than they should have been, costs were probably higher, and cheap oil came to dominate Europe's energy supply.² The pressure on prices caused by this increase in supply was further aggravated by the appearance in the world market, alongside the established major oil companies, of new independent operators seeking to carve out a share for themselves by offering extremely low prices to the final consumers. To make matters more difficult, from the late 1950s the Soviet government, which had not operated in the world oil market for years, decided to start selling oil again as the easiest way to earn hard foreign currency.

Cheap imported oil replaced coal, and although this was a period of marked advances in European co-operation this was not reflected in the oil and gas sector. The different energy sources came under a number of separate national authorities and Community institutions, and each member country had its own set of enactments and regulations, particularly regarding pricing, commercial policy, taxation and investment. Throughout the 1960s and the 1970s, the European Communities were working hard to create a Common Market with common rules applying to the main fields of economic policy, but because of government resistance and oil company unwillingness the energy sector was not among these fields and remained "a pocket of resistance to integration".³ Even though numerous policy proposals were made by the Commission or its predecessor, these proposals came to nothing with member states variously rejecting or ignoring them.

²Interview with Georges Brondel, former Head of Directorate General for Energy of the EEC Commission, (in French) by Éric Bussière, Julie Cailleau et Armelle Demagny, Paris, 25 February 2004, in *Histoire interne de la Commission européenne 1958–1973*, Historical Archives of the European Union, Florence.

³European Community Information Service, *Europe and Energy*, Luxembourg 1967, p. 10.

1 Oil Shocks in the 1970s

In 1972, before the oil crisis erupted, the primary sources of energy for the European energy market (composed of the 9 EEC countries) were as follows:

Total primary energy in million tons of oil equivalent		
Coal	231	24.1 %
Hydro and geothermal	12	1.3 %
Nuclear	14	1.5 %
Natural gas	113	11.7 %
Oil	589	61.4 %
Total primary energy	959	100 %
Imports of primary energy	605	63.1 %

Source OECD, *Energy Prospect to 1985*, Paris, 1974. In 1950, the oil share was 14 %

The oil crises of 1973–1974 and 1979 brought energy to the fore as a crucial concern. On three occasions since World War II, Arab members of the Organization of Petroleum Exporting Countries (Opec) have deliberately reduced their outflow of oil in order to influence the settlement of their dispute with Israel. The 1973–1974 reduction in the aftermath of the October Yom Kippur war was the longest and largest: it lasted five months, and Arab oil supplies were reduced from the September 1973 level by 24 % in November 1973, 23 % in December, 16 % in January 1974, 14 % in February, and 12 % in March.⁴ These supply reductions affected nearly ever European country that relied on imports from Opec, despite the fact that only the United States, the Netherlands and a few other nations were specifically embargoed. Countries that imported oil faced two related threats: increases in price and reductions in supply. The price set by Opec in December 1973 created widespread fear in Western Europe that many countries would be simply unable to pay for the oil imports required to fuel their domestic economies, or that they would amass such large payment deficits that they would slide into bankruptcy. At the same time, the reduction in the Arab oil supply created a fear that the quantity of oil on the market would be insufficient to support the desired national production and employment levels. In response, many European governments declared they would make major changes in their national energy systems in order to reduce their need for imported oil. As a consequence, in this second

⁴Estimates from the U.S. Senate Committee on Foreign Relations Subcommittee on Multi-national Corporations, *U.S. Oil Companies and the Arab Oil Embargo: The International Allocation of Constricted Supplies*, a report prepared by the Federal Energy Administration, 94th Congress, 1st Session, 27 January 1975, Washington (DC), p. 7.

stage energy came onto the European agenda, as a problem of oil prices and supplies.⁵

It took the shock of the October Yom Kippur War and the resulting Arab oil embargo to suddenly illuminate the magnitude and consequences of European vulnerability. The impact of this experience was not so much that a modest reduction in oil supplies for a few months threatened disaster, as a dramatic realization at both the governmental and public levels that Western Europe was desperately vulnerable. Not only did the 1973–1974 crisis evoke old memories of war-time privation, but it also brought awareness that, as a result of its oil import dependence, Western Europe ran the risk of seeing its industry, transportation and entire economic life brought to a halt through some future upheaval in the international energy supply system. In short, energy and oil had become security issues *par excellence*.⁶

Since 1974, energy problems in their broadest sense, together with a group of important and substantially related economic issues, have become fundamental European security concerns. Although the importance of traditional military and strategic issues should not be minimized, for most Europeans, including the informed public and even those generally attuned to foreign policy, discussion of European deterrence and defence has tended to become somewhat abstract and removed. By contrast, economic and energy security issues have become pressing and important subjects of great attention in both public and elite arenas. The significance of this change was profound. Not surprisingly, security of supply in an emergency, storage, and diversification of energy sources suddenly became areas of government concern in Europe (and elsewhere).⁷

Instead of stimulating the members of the European Community to greater efforts of cooperation in the face of necessity, the 1973–1974 crisis proved painfully disruptive to the Nine. This recurring ‘downstream’ disunity was a key characteristic of the European Community in the 1970s and its implications for energy security were profound. When the Western companies controlled the level of supply, instead of Opec, oil production gave the Arab states no means of exerting pressure on the West. The modern era of oil politics was ushered in when the demand for oil supplies reached such levels that there was no more shut-in capacity under the control of the major companies, and the Opec countries realized they could advance their individual interests by working together, and they learnt to

⁵In Europe, the northern countries—Britain, West Germany, the Netherlands and Belgium—could be distinguished from southern Europe by their lower dependence on oil (48, 55, 44 and 57 % respectively) and by their domestic coal and gas production. France and Italy (and Japan) used imported oil for 70 % or more of their energy needs and did not produce significant quantities of oil or gas. Edward Krapels, “Oil and Security: Problems and Prospects for Importing Countries”, in Gregory Treverton (ed.), *Energy and Security*, International Institute for Strategic Studies, London, 1980, pp. 40–42.

⁶Robert Lieber, “Energy, Economics and Security in Alliance Perspective”, in *International Security*, Vol. 4, No. 4. (Spring, 1980), p. 144.

⁷*Ibid.*, p. 139.

divide their adversaries. Europe and the West, in turn, faced a new situation: their energy security was no longer exclusively in the hands of multi-national companies, but also in those of governments which had a political—and not only a commercial—objective.⁸

In those years, the political and security implications for Europe of this dependence and vulnerability could be viewed in two ways. First, dependence on imported oil could only be reduced gradually. It would take years to find new oil supplies or to develop alternative energy sources, and in addition most energy analysts did not believe it was possible to reduce the level of energy consumption in the Western economies without retarding—or stopping—overall economic growth. However, the problem of the long-term sufficiency of energy resources became overwhelming when oil imports were disrupted during the crisis.

Nevertheless, in the aftermath of the 1973–1974 oil crisis the problems connected to short-term oil shortages and vulnerability were largely neglected, because the short-term adaptability of the modern European economies was surprisingly great, especially when the crisis was widely perceived to be as such and therefore evoked co-operative behaviour among the European governments. The role of the oil companies during the crisis also needs mentioning. What they did was to maintain an uninterrupted supply of oil from producing to consuming countries. This was the role to which the world had grown accustomed, and which had enabled the producers to see their revenues grow, and the consumers to rely on an assured source of supply.⁹ The benefit of a multinational supply system again proved its worth: the oil companies' ability to replace embargoed Arab oil by oil from other neutral sources was a decisive factor in maintaining the supply to Europe during the crisis. The ultimate risk was that as adaptability was great enough, dependence and vulnerability could not be considered a major concern.¹⁰ Even after the 1973–1974 crisis, the whole structure of European government regulation was based on the implicit assumption that the oil industry was still capable of moving large supplies of oil internationally on a continuous and uninterrupted basis, and was able to invest the growing sums of money required for the maintenance of this capacity. It is true that the producing sector of the oil business outside Europe was then largely controlled by sovereign nations, but even there multinational companies continued to operate in different forms of integration with local governments, through minimal equity holding or through long-term offtake agreements. Many countries in the developing world still had a clear need for providers of services, technology and management. The companies' role was consequently shifting from

⁸Krapels, op. cit., p. 63.

⁹Leo Wesseling, "Present Structure of Europe's Petroleum Market", in Edmond Völker (ed.), *Euro-Arab Cooperation*, Leyden, 1976, p. 76.

¹⁰Richard Cooper, "National Resources and National Security", in *The Middle East and the International System (Part II): Security and the Energy Crisis*, Adelphi Paper, n. 115, International Institute for Strategic Studies, London, 1974, p. 11.

an emphasis on investment and production to an emphasis on services and technology transfer.¹¹

This new situation, dating from long before the 1973–1974 oil crisis, concerned the changing role and position of the oil companies, as well as the structure of the oil market. Both in the oil-producing and in the consuming countries, the previously rather independent position of the oil companies was tending to melt away. In the former countries, governments stepped into the advantageous production process itself and controlled the oil companies more strictly. In the Western European countries, governments assumed an ever increasing role with respect to the production and marketing of oil and regulated the market more tightly. For, if the production and sale of crude oil was to become a matter of public policy in the producing countries, governments at the end of the pipeline could not stay out of this delicate business for long. Oil and the production, sale and distribution of it inevitably came to affect relations between governments and tended to become a matter of diplomacy and foreign policy itself. Moreover, European governments could hardly avoid interfering with the production and distribution of a resource which was continually becoming scarcer, more expensive and crucial. Unavoidable though these changes may seem to be, they also meant the loss of a ‘non-political’ channel of procurement of the valued resource. From that time forth, everything touching on oil immediately engaged the responsibilities and powers of governments, and occupied the centre of the political stage in Western Europe.

An adaptation of a more directly political nature at the level of Western Europe as a whole should have consisted in closer cooperation and a better coordination of the EEC states’ policies regarding the exploitation of energy sources, and the distribution and consumption of energy—in short, a European energy policy. Necessary though such a policy may have been, and as the problems involved were well beyond the powers of any national government, it would also have represented an achievement of vast political consequences for the European integration process. But the European reaction to the oil crisis, or rather the lack of it, showed clearly how difficult the thing was going to be.¹²

The key factor in the management of the aftermath of the 1973–1974 oil crisis was the difference in vulnerability among the European countries. A related factor was the tendency of some countries to give energy security a lower priority than others. This tendency was an important factor creating divisions among ostensible allies in the 1973–1974 crisis. The newly-acknowledged power of the oil-rich countries to use their oil as a tool of coercion produced a wedge in Western Europe: according to Yergin and Charakova, right from the beginning the Arabs’ plan was to split the consumers by differentiating among them: Britain and France had learned the lesson of 1967, when only countries considered to be pro-Israel were embargoed. In 1973 they avoided expressing support for Israel and even increased

¹¹Wesseling, *op. cit.*, p. 79.

¹²Georges Brondel, “Europe’s Petroleum Market. Alternatives for the Present Structure”, in Völker, *op. cit.*, p. 84.

arms shipments to their Arab clients in an effort to placate the oil-exporter governments.¹³ In October 1973, the selective embargo announced by the Arab Oil Producers (OAPEC) divided the Europeans into three categories: favoured countries (France and Britain) receiving normal shipments; disfavoured countries (the Netherlands)¹⁴ being totally embargoed; and others (the remaining members of the EEC) experiencing phased reductions of 5 % each month. National anxieties about the supply of oil thus predominated during the initial weeks of the crisis. Brussels tried to get the national governments together, but this effort no longer addressed the real problem: ‘getting together’ would not loosen the grip of the Arab producers on the level of the oil supply, and nor could it any longer prevent damage. At best, it would only spread the damage to countries which did not want to get involved in the dispute. In any case, although the oil shortage could be spread evenly, the economic damage varied. In the 1970s, Britain enjoyed a well-diversified energy supply, not particularly vulnerable to any individual producer country, whereas France and Italy had less diversified energy mixes and were terribly vulnerable to their primary suppliers. Britain was in a position to be able to afford to take a hard line against the Arab producers, while France and Italy simply could not.

Having said this, the EEC member states introduced a number of policies to tackle the crisis, including rationing in some countries, none of which was coordinated with other members. On the contrary, crisis deliberations within the EEC Council were marked by disaccord: efforts at cooperation within the Community and other multilateral frameworks were mostly unavailing, and some members of the Community adopted a *sauf qui peut* approach, in the hope of negotiating bilateral deals with particular oil-producing countries.¹⁵ Most strikingly of all, some of the Europeans, including Britain and France, were willing to comply with the Arab boycott of the Netherlands—in flagrant contravention of Community rules. The Arab oil producers warned the European countries not to ‘break’ the embargo on the Netherlands at the risk of being targeted themselves if they disregarded the warning.¹⁶ It took a month before the rest of the Nine quietly moved to support their Common Market partner, and this only occurred after Dutch threats to curtail natural gas exports to France, Belgium and Germany, and a realization that in any case the oil companies were able to successfully allocate the available oil supplies among all the consumer countries.¹⁷

¹³Vessela Chakarova, *Oil Supply Crisis: Cooperation and Discord in the West*, Lexington Books, Lanham (MD) 2013, p. 62.

¹⁴The Netherlands (as well as the US and UK) played an important role in the oil industry until the 1970s through its “parenthood” of oil majors. Royal Dutch Shell, while not government-owned, did closely cooperate with the Dutch government, and government-business cooperation proved to be one of the most important factors in times of crisis in the 1950s and 1960s. Cfr. Chakarova, op. cit., p. 34.

¹⁵Chakarova, op. cit., p. 68.

¹⁶*International Herald Tribune*, November 28, 1973.

¹⁷Robert Lieber, “Europe and America in the World Energy Crisis”, in *International Affairs*, Royal Institute of International Affairs, London, Vol. 55, No. 4. (Oct., 1979), p. 533.

During this period, however, the Community did not prove able to bring about the significant, even radical, changes which the energy situation dictated, particularly with regard to dependence on imported oil. It was prevented from developing a powerful and effective energy policy by internal differences over the questions of floor-prices for British North Sea oil, subsidies for European-produced but costly (twice the world price) British and German coal, the development of nuclear power, and the balance between free-market and state-ruled economic strategies. Nevertheless, it did succeed in taking some small and not insignificant steps in encouraging modest measures of energy conservation, promoting efforts to reduce energy import dependence, and subsidizing pilot projects for energy research and development. But these steps remained limited in scale and impact, and the main results which were achieved in Europe were due primarily to the single national policies. In sum, the Nine succeeded in modestly lowering their energy import dependence from 59 % in 1973 to 55 % in 1978, and they reached a figure of between 48 and 50 % in the years 1985 to 1990.¹⁸

2 The Role of Oil Stockpiles

In addition to putting restraints on domestic energy demand, the 1973–1974 oil shock shed new light on the role of oil stockpiles. They existed—at substantially different levels—in every European country, although their utility for emergency purposes was limited by several factors.¹⁹

Assuming that the minimum oil stock level required by the industry to provide the economy with the necessary kinds and amounts of products is 50 days of consumption, and that a 40 % reduction of oil imports occurred, it is possible to determine the number of days the governments could use stocks to maintain a given level of oil consumption. Oil stocks in the 1970s could even out the differences in economic vulnerability among the European countries. This apparently lay behind the production patterns which to some extent existed; some countries (e.g. France, Italy and Japan) maintained higher stock levels, measured against consumption, than others (e.g. Germany). Certainly, by agreeing in advance how they would respond to a supply cut-off, the European governments could greatly reduce the risk that another embargo would result in the type of conflict and strain in their overall relationship which occurred in the 1973–1974 crisis. Moreover, by demonstrating their collective determination to increase their ability to withstand a supply interruption, they could limit the effectiveness of the so-called oil weapon.

¹⁸Ibid, p. 536.

¹⁹The data shown in Table 1 should be interpreted as only a very rough approximation since stock levels fluctuate to a considerable extent during the year. These estimates should not be considered to provide a realistic assessment of the number of days each country could do without imported supplies. As a rule of thumb, about half of the stocks held should be considered the working inventory of the oil industry. Krapels, *op. cit.*, p. 72.

Table 1 Average month-end stock level for selected countries (1975)

Country	Stock level (million barrels)	Days' consumption
Britain	140	88
France	214	113
Italy	157	83
West Germany	169	73
United States	922	57
Japan	324	66

Source Office of Economic Research, CIA, *International Oil Development: Statistical Survey*, Washington (DC), 1976

However, it was clear that in the EEC there were some obstacles to such success. First of all, some countries were clearly more vulnerable to oil losses than others. Among the EEC members, Britain, the Netherlands and West Germany would suffer less from a given oil shortage than Italy, Belgium and Denmark, because oil constituted a smaller percentage of their total energy requirement. Second, although stocks could reduce the differences in vulnerability among the two groups, few of the European countries seemed committed to significantly increasing their stock. Although the International Energy Agency members agreed to reach a stock of 90 days of oil consumption by 1980, the conclusion that this agreement “greatly reduced” the risk of another embargo assumed that the oil producers would be deterred simply because they would have to hold a given reduction in oil exports a few months longer. On the contrary, the unwillingness to agree to substantial increases in stocks in Europe in the late 1970s was the Achilles’ heel of the agreement, and it implied that many European countries did not take the threat of a significant reduction in oil supplies seriously.²⁰

Estimates of the availability of stocks in Europe varied widely. From the mid-1970s the European Economic Community, the International Energy Agency and various national governments imposed stock guidelines and requirements on the oil companies, but the definition of stocks differed, and an estimate of how much of those stockpiles could be used without replacement in an emergency was not available. In the initial discussion, both at the IEA and the EEC, it was decided to use the standard OECD definition of stock levels, to deduct from this figure the oil used to fill pipelines and held in various industrial facilities, deduct an additional 10 %, and then call the remainder an “emergency reserve”. Later on, it was generally agreed that the IEA definition of “emergency reserve” overstated the amount of oil that could be withdrawn; oil industry managers believed that, as a rule, 40–50 days of oil supplies must be held in stock to allow smooth operation of the distribution system. Thus, the amount of time purchased by oil importers through their stock policies was more limited than a first examination suggested,

²⁰Krapels, op. cit., p. 50.

and once emergency reserves were depleted, there was little the EEC members could do to help one another cope with a large import loss.²¹

As was noted by other observers, these estimates created an unrealistic picture of the situation: “the European governments are giving the appearance of a strategic reserve, but what they are really doing is talking about the oil that is in the pipeline system”.²² Whether the stock levels were adequate, however, depended (and depends) on the level and duration of a supply reduction: the higher the level of oil stocks, the more severe and protracted a disruption of oil imports an economy could withstand. Thus, oil stocks were simply a kind of insurance policy, but there was a financial risk involved in over-insuring. The fear of over-insuring prevented many European governments from building the really massive stockpiles that would materially increase their security against even the most dire prospects.²³

Most proponents of stockpile security benefits argued that the oil producers could not afford to curtail their oil production long enough to exhaust such reserves held by the consumer countries, but in the 1970s the countries most likely to curtail oil production were also those which were generating funds in excess of their immediate requirements (e.g. Saudi Arabia and Kuwait), and much of the oil that was used to fill the storage tanks came from their fields. It was certainly true that the Arab states could best afford to use oil reductions for political purposes, because Saudi Arabia, Kuwait, the UAE and Libya did not need their immediate revenues; they amassed sufficient foreign exchange surpluses to do with less oil revenues for months, if not years, if needs be.

Since the Arab countries had been the only exporters to curtail oil supplies for political purposes, it was thought that the countries most dependent on them (e.g. Western Europe and Japan) were the most vulnerable, and that countries relying more on Venezuelan, Nigerian and Iranian oil were less vulnerable (e.g. the United States and Canada).²⁴ In any case, however, stocks in Europe were valuable because they “bought time”, creating a lag between the day of import disruption and the day the import shortage could not be replaced.²⁵ Nonetheless, it should not be thought that they provided—or even provide today—absolute security against deliberate supply reductions. Rather, oil and gas stockpiles should be considered an element which energy suppliers must take into account if and when they plan any disruption strategy.

²¹Statistical Office of the European Communities, *Energy Statistics Yearbook, 1970–1975*, Luxembourg, January 1976, pp. 32–33.

²²Opinion expressed by U.S. Senator Henry Jackson during his hearing before the Senate Committee on Interior and Insular Affairs, Washington (DC), August 5, 1975.

²³National Petroleum Council, *Petroleum Storage for National Security*, Washington (DC), 1975.

²⁴Article by Walter Levy, *The Economist*, 31 July 1976.

²⁵Krapels, op. cit., p. 48.

3 France as a Case Study

After the 1973–1974 oil crisis, and taking into account energy supplies, an oil-importing government's desire to respect the wishes of its oil suppliers seemed more in the national interest than ever before. France was among the first to allow apprehension about oil supply security to influence her relations with Arab states and to back away from close identification with Israel. This was due to the country's higher dependence on oil compared to other European countries: Germany and the UK had coal reserves and oil was 53 and 44 % respectively of their energy mix. For France, this figure was 62 %.

The difference in French reactions to the oil disruptions in 1956 (Suez Crisis) and 1973 illustrates this shift starkly. In 1956, France (and Britain) joined Israel to launch an attack on the Suez Canal, at that time the main passageway for Persian Gulf oil bound for Europe; in 1973 France endorsed the political demands of the Arab states and actively sought 'most friendly' nation status to avoid losing oil supplies. The reasons for France's choice of bilateralism are to be found in its tradition of Gaullist-type policies of political and economic independence. For example, unlike the UK and Germany, the French government had a monopoly on the oil industry. During the 1973 crisis, France was the most fervent opponent of common action within the EEC or the OECD. The French government also signed more bilateral agreements with producers than any other consumer.²⁶

As it turned out, however, these actions did not protect France from oil losses, because oil distribution was still under the control of the oil companies, who refused to favour France over their other customers and claimed that their contractual obligations took priority over instructions from their shareholders, i.e. the governments. Therefore, despite being on the Arab "friends" list, France also experienced supply cuts, mostly due to efforts by the companies to allocate oil equally among the final consumers. At the end of November 1973, they notified the French government that they would reduce oil deliveries by 10–15 %. This reduction never materialized, and between December 1973 and March 1974 the availability of petroleum in France was only about 5 % lower than a year earlier.²⁷

Nevertheless, the French government's reply was not delayed. If up to 1973 the geographic oil patterns were largely dominated by the major oil companies, after the Arab oil disruption some European governments began to consider ways to gain access to oil supplies directly, skipping the mediation of the oil companies. As soon as the embargo was announced, the French government started negotiations with several Middle Eastern oil producers. For instance, in 1974 the French government pursued special supply arrangements with Saudi Arabia and concluded a contract to buy 200 million barrels over three years. This was an unprecedented incursion into the domain of Aramco, the producing company owned by Exxon, Socal, Mobil and Texaco. France was more ambitious still, and sought to make a much larger

²⁶Robert Stobaugh, "The Oil Companies in the Crisis", in *Daedalus*, Fall 1975, p. 189.

²⁷Chakarova, op. cit., p. 63.

arrangement with Saudi Arabia, involving 6000 million barrels over twenty years. This deal was discarded because Saudi Arabia would not give France access to oil on the same terms as Aramco enjoyed, and France was unwilling to build an export refinery in Saudi Arabia and agree in advance to import its products.²⁸

Besides Saudi Arabia, in 1974 France signed agreements with Iraq, Algeria, and Iran. These deals guaranteed the much-needed oil, but they had no effects in terms of lowering the oil price as most of the contracts were signed at very high prices. While they brought a higher level of security to France, they did not alleviate the most nefarious consequence of the 1973 oil crisis—high prices.²⁹

Successive French governments increasingly tailored their foreign policies in the light of the problem of energy security and its economic effects. After this setback, French bilateral agreements with Opec countries usually involved industrial development projects, credits and cultural exchanges, and left oil trade to the established companies. Closer relations with oil exporters were desirable for several reasons. Increased trade would obviously ease French payment problems and might give the oil producers a greater awareness of, and stake in, the importer's welfare. In effect, this could be a kind of economic deterrence against oil disruptions: in general terms, it was intended to make the oil countries more sensitive to economic changes in their customer. It is doubtful, however, whether the increase in import purchases by the Arab countries created significant economic vulnerability to disruptions in those imports. Many of the industrial goods imported by Opec states were components of construction projects that would take years to complete. Thus, a trade counter-embargo by France was unlikely to have as dramatic and sudden effect on Saudi Arabia or other Opec members as an oil supply loss had on Western European countries. Moreover, increased exports to Arab states made a rupture in relations all the more costly for France, by giving the oil producers one more option for influencing the oil importer: the threat of suspending purchases of its exports. Although such a threat was never made, the possibility had to be included in assessing the vulnerability of an oil-importing nation such as France. As with oil supply curtailments, the general trade 'lever' in the hands of Saudi Arabia was the most powerful, because it had the most revenue to dispose of.³⁰

To varied extents, these adaptations brought France into conflict with its allies, and particularly with the United States. France's foreign policy response included three related components:

1. A pro-Arab policy vis-à-vis the Middle East conflict;
2. An effort to establish special bilateral relationships with individual oil-producing states;
3. Opposition to concerted action which would have aligned the oil-consuming states against the oil producers.

²⁸Horst Mendershausen, *Coping with the Oil Crisis*, Baltimore, Johns Hopkins U.P., 1976.

²⁹Chakarova, op. cit., p. 63.

³⁰Krapels, op. cit., p. 59.

With these ends, in the aftermath of the October 1973 Arab-Israeli war France sought to lead the European Community in a direction divergent from that favoured by the United States. Ultimately, this effort failed under strong pressure from the Nixon-Kissinger Administration and due to the priority which most of the Europeans continued to give to their security links with the United States. France even briefly abandoned EEC solidarity with its willingness to comply with the Arab oil boycott of the Netherlands, although the Pompidou government backed away from this position after threats of retaliation involving supplies of Dutch natural gas to France. French opposition also failed to prevent the establishment of what was to become the International Energy Agency. Following the death of President Pompidou and the spring 1974 election of Valéry Giscard d'Estaing, a less Gaullist and more Atlanticist figure from the centre-right, France mitigated its hostility toward the IEA. Despite becoming loosely associated with it through OECD and EEC mechanisms, domestic political considerations caused France to remain outside the Agency.³¹

French policies sought to promote a series of international dialogues in which France would serve as the *interlocuteur valable*, and in which the influence of the superpowers, particularly the United States, would be attenuated or altogether absent. Initially, this took the form of promoting a Euro-Arab Dialogue between the countries of the EEC and those of the Arab League. This, however, was slow to develop because of a diffuseness of topics and of national interests (e.g. division among the Arabs between oil and non-oil producers and the absence of non-Arab OPEC members), long delays involving symbolic political issues (e.g. Palestinian representation), and difficulties in agreeing upon an agenda. French initiatives did eventually lead to the major Paris conference on North-South issues, the CIEC (Conference on International Economic Cooperation), but this ended in May 1977 without significant results.

The French government continued to call for cooperation between oil-producing and consuming countries in order to seek agreement over supply and demand patterns, investment, and other forms of long-term cooperation. While this led to exploratory contacts between representatives of the EEC and OPEC, it did not precipitate dramatic new initiatives.

The French continued to call for dialogue in other forums and sought to promote a "trilogue", grouping Western Europe, Africa and the Arab world, based in part on references to France's historical Mediterranean vocation. Conspicuously absent from this format were both an Atlantic perspective and any role for North America, Eastern Europe, or the Soviet Union. These over-arching diplomatic gestures were also accompanied by tangible individual policies and actions. Among these, arms sales played a particularly important role as a means both of recycling Arab petrodollars to France and of courting certain regimes. For example, during mid-1979 France carried out negotiations with Iraq for arms sales with a potential value of \$1.5 billion and made commitments to deliver Mirage F-1 fighter-bombers,

³¹Lieber (1980), op. cit., p. 147.

missile-launching patrol boats and other advanced weapons system. France also began delivery to Libya of ten missile-launching patrol boats, equipped with surface-to-surface “Otomat” missiles with a range of 160 km—rather more than might be required for a mere coastal defence capability.³²

4 The Euro-Arab Dialogue

The fact that, in contrast with the three earlier Arab-Israeli wars, the October 1973 war did not end in a decisive Israeli victory produced an abrupt rise in morale throughout the entire Arab world. Thanks to feverish diplomatic efforts on the part of Henry Kissinger, American Secretary of State since August 1973, direct negotiations got underway for the first time between Israel and two Arab states, Egypt and Jordan, in Geneva in December 1973. Kissinger achieved a military disengagement agreement between Egypt and Israel, resulting in restoring Egyptian control over both banks of the Suez Canal. In May 1974, together with the diplomatic support of his Soviet colleague Gromyko, Kissinger managed to get Syria, which had been reluctant at first, to accept a similar disengagement agreement with Israel. UN forces were stationed on both fronts between the hostile armies. In the Arab world, tensions grew over whether the Palestinian Liberation Organization, under Yassir Arafat's presidency, should be acknowledged as the sole representative of the Palestinian people. The Jordanian king Hussein bitterly opposed this, but had to give in at the Arab summit in Rabat at the end of October 1974. After this summit, the PLO scored an enormous diplomatic and political success when Arafat was officially invited to the General Assembly of the UN. On November 13, he delivered a speech to the General Assembly.

Regarding inter-Arab relations, the willingness of most Arab oil producers to make use of oil as a political weapon during the October war was viewed by an important sector of Arab public opinion as an impressive proof of Arab solidarity. The effectiveness of the oil weapon was plain to see: most members of the European Common Market began to take a somewhat more balanced attitude to the Arab-Israeli conflict, which in practice meant a greater willingness to also listen to the Arab point of view. To what extent the Western European countries could give a contribution to the search for a peace settlement in the Middle East remained to be seen. Such a specific European role had been repeatedly called for by Egyptian president Sadat and other Arab leaders. Still more significant were the many voices heard in the Arab world since the October war calling for a “Euro-Arab Dialogue”, in order to reach closer cooperation in the economic, technological, cultural and political fields. There was a willingness in Western Europe to enter into such a dialogue. The motive was not solely the painfully-proven vulnerability of Western Europe to the Arab oil embargo, but rather a sincere wish to put aside a long history

³²Lieber (1980), *op. cit.*, p. 148.

of rivalry and mutual suspicion, which for so many centuries had existed between Europe and the Arab world.³³

With this aim, and on a French initiative, the nine EEC member countries attempted to engage in a so-called Euro-Arab Dialogue. On the European side, responsibility for the talks was entrusted not to the Commission but to a special committee dealing with foreign policy cooperation, the Davignon Committee. On the Arab side, the interlocutor was not the Organization of Arab Petroleum Exporting Countries (OAPEC), but the Arab League, a purely political and diplomatic body. In addition to this, the United States, regarding this initiative as a complicating factor in an area where it had assumed major diplomatic responsibilities, succeeded in removing the subject of oil from the agenda of the preliminary meetings, which took place in Cairo and Paris during the summer of 1974.³⁴ The U.S. stance on the Euro-Arab Dialogue as a form of European associative diplomacy is today well known: in March 1974 the EEC Council of Ministers transmitted a policy proposal to the Arab League for the opening of a wide-ranging discussion on cooperation and trade between the two shores of the Mediterranean Sea (later named Euro-Arab Dialogue). The American reaction was harsh and swift: on March 5, George Vest, spokesman for the U.S. Department of State, expressed negative comments on the EEC proposal, claiming that the Department of State “was not consulted. It was informed after it became public”.³⁵ A few days later, the height of the crisis was reached when U.S. President Nixon warned the European countries not to “gang up against the United States”, or they would face a reduction in the number of American troops deployed in Europe.³⁶ In a letter to West German Chancellor Willy Brandt, President Nixon criticized the EEC decision and said that he saw it as an anti-American move.³⁷ The U.S. Senate Committee on Interior and Insular Affairs, in its 1974 study *Implications of Recent Organization of Petroleum Exporting Countries Oil Price Increases*, stated: “Although there will be great temptations and occasional peccadilloes, it is essential that the oil importing nations recognize the futility and potential chaos which would result from competing among themselves. They should especially avoid competition to reduce their trade deficits by worsening the deficits of other oil importing nations, as well as competition that will have the effect of bidding oil prices up”.³⁸

The Secretary of State, Henry Kissinger, made all possible efforts to prevent the European allies from seeking their own oil agreements with the Arab producers and not under the aegis of the United States—a policy which condemned the EEC

³³Leonard Biegel, “The Camel’s Hair Curtain: The Arab World and the West”, in Völker, op. cit., pp. 65–67.

³⁴Guy de Carmoy, *Energy for Europe. Economic and Political Implications*, American Enterprise Institute for Public Policy Research, Washington 1977, p. 105.

³⁵*The New York Times*, March 6, 1974.

³⁶*The New York Times*, March 16, 1974.

³⁷Benjamin Shwadran, *Middle East Oil Crises Since 1973*, Westview Press, London 1986, p. 100.

³⁸U.S. Senate, Committee on Interior and Insular Affairs, *Implications of Recent Organization of Petroleum Exporting Countries (OPEC) Oil Price Increases*, Washington D.C., 1974, p. 12.

member countries to a continuous satellite status. This American policy at times needed the dispatch of high-ranking officials to the Arab governments to dissuade them from any oil agreements that might exclude the United States. In November 1975, on the eve of the Abu Dhabi meeting of the Euro-Arab Dialogue, Kissinger sent his special envoy, Gerald Parsky, to persuade the Arab oil producers to remove the issue of oil supply from the meeting agenda. He was successful, but such diplomatic pressure earned him resentment in Brussels and in some other Western European national capitals.³⁹

This omission left industrial, financial, and cultural cooperation as the main items for discussion, but the final overall task for the dialogue was not an easy one: since the end of the Second World War the global role of Europe and the political situations in the Arab world had changed drastically. The process of political decolonization deprived the European nations of their worldwide powerful position. Although the Arab countries were not colonies in the formal juridical sense, their factual condition was the same and their political independence was completed only after 1945—or even later. This political independence did not include real economic self-rule for the time being and, since the process of human societies adapting to sudden changes is much slower than changes in the ranks of power, in the early 1970s many Arabs still looked upon the European governments as being just as influential as they had been before.

The date for the first meeting was set for July 31, 1974. The EEC participants were the French foreign minister and the chairman of the Davignon Committee. The Arab League participants were its secretary-general and the Kuwaiti foreign minister. The agreed topics for discussion included potential cooperation in science, technology, meteorology, environment, and education. It should be noted that since the Euro-Arab Dialogue was first proposed the richest Arab oil-producing countries had shown no particular interest in it.

The 1970s oil shocks, marked by substantial increases in oil prices, were the spectacular starting point for a much greater economic independence for some Arab nations than had existed since the beginning of the Ottoman Empire. The newly acquired wealth of the Arab oil-producing countries was crucial to reaching a developmental take-off point which could change the existing international balance of power. They clearly preferred their own bilateral negotiations and agreements with individual European countries, especially as their revenues were rising so much and the means of cooperation were under their control. In addition, Saudi Arabia and the other oil-rich monarchies were not interested in being involved in the plans of the Arab League, which was dominated by the oil-poor Arab members.⁴⁰

The management of this new balance of power in the Middle East, as the outcome of the huge transfer of wealth, was imperative and urgent for Western Europe. As Ibrahim Obaid, Director-General of the Saudi ministry of Petroleum observed in 1976,

³⁹Saleh Al-Mani, *The Euro-Arab Dialogue. A Study in Associative Diplomacy*, Frances Pinter, London 1983, p. 125.

⁴⁰Shwadran (1986), op. cit., p. 101.

The Europeans should bear in mind that their future [...] depends on their willingness to orientate themselves to the Arab countries of the Middle East, as much or even more than they do to the United States. This is not to suggest an adversary and less cordial relationship with America, but it should be emphasized that the Middle East is not only a source of the energy which is indispensable for a modern industrial economy like that of Europe, but it also possesses the capital formation which is essential to Europe in order to meet the technological advances and to face the economic and commercial expansion of both America and Japan. I cite this situation only to dramatize the fact that the European interest is different to that of America. [...] The Arab oil producing countries possess the energy, the financial assets and the markets that Western Europe cannot do without. On the other hand, the Arab oil producers in general, and Saudi Arabia in particular, are embarking on huge industrial plans and need technology, machinery, skilled manpower and access to the European markets. [...] In a situation such as this, where each participant can materially contribute to the well-being of the other, fields of cooperation are endless, and their potential enormous, as was illustrated by the Euro-Arab Dialogue conducted so far in Cairo, Rome and Abu Dhabi.⁴¹

From 1974 to 1979, the stumbling block to progress in the Euro-Arab Dialogue was a difference of opinion regarding political issues in the Middle East, notably the Arab-Israeli conflict. In the press statement released at the conclusion of the November 1975 Abu Dhabi meeting it was stated that “The two sides announced that the political aspect of the dialogue must be taken into consideration to allow the dialogue to make progress in an effective manner, conducive to the fulfilment of its aims”.⁴² When in May 1976 a new meeting opened in Luxembourg, the Arab League secretary-general devoted most of his statement to practical issues of cooperation, but the other Arab delegate, the Bahrain Foreign Affairs minister, addressed his entire speech to the Palestinian issue. The atmosphere immediately became tense, and the stalemate was not resolved. Two years later, and after two more Euro-Arab diplomatic gatherings, Qatar’s minister of Finance declared that the Western European countries had been responsible for the failure of the dialogue between the EEC and the member states of the Arab League.⁴³

5 Reviving European Energy Production

The omission of energy topics from the Euro-Arab Dialogue and the oil-rich Arab governments’ draconian approach to energy relations with Western Europe led some European governments and the Commission to look for an indigenous solution to their energy security. In fact, some EEC members had been objecting to the Euro-Arab Dialogue since its inception: Britain, while agreeing in principle to

⁴¹Ibrahim A. Obaid, “Political Preconditions for Cooperation with Western Europe”, in Edmond Völker (ed), *Euro-Arab Cooperation*, proceedings of the International Conference on “Changing Political and Economic Relations between Western Europe and the Arab Countries”, organized by the Europa Instituut of the University of Amsterdam, Sijthoff Publishing Co., Leyden 1976, p. 172.

⁴²*Europe*, November 28, 1975.

⁴³Shwadran (1986), op. cit., p. 110.

the dialogue, had proposed continuous consultation with the United States on the dialogue itself. Therefore, in the late 1970s the northern European countries (UK, Denmark, and the Netherlands) turned to favouring more energy autarky at EEC level. Their analysts were convinced that self-sufficiency in energy was a goal near at hand for Western Europe, and that it was also preferable, in order to ensure a higher degree of economic and political certainty than was likely to exist in a situation in which there was a high degree of dependence on energy imports from the Middle East.⁴⁴

According to these optimistic scenarios, a set of appropriate policies at the national and European levels could end in a high degree of energy self-sufficiency, thanks to the exploitation of off-shore and natural gas resources—in the first instance by using those in the North Sea area. The development of the North Sea fields, however, implied a *compact* between the EEC producing and consuming nations. Only in this case would the potential producers be persuaded to agree to the fullest and most rapid exploitation possible of their oil and gas reserves in exchange for guaranteed markets for all they produced at fixed prices—maintained by this agreement irrespective of the world price of oil. Thus, the importing nations in Western Europe had to agree to give preference to indigenous oil and gas over imported supplies of energy. Moreover, as a matter of priority they also had to make available whatever resources were necessary (finance, hardware, expertise, etc.) to help to develop the North Sea production capacity.

For the potential northern European producers, the basis for such a *compact* at the European level existed. From their perspective, this could lead to the elimination of uncertainty, as exploitation of the new fields would not be undermined by the return of cheap foreign oil. From the oil-importing countries' perspective, the aim was to overcome dependence on external supplies and price volatility of a commodity as essential as oil. In the most optimistic scenario, this policy would enable Western Europe to ignore the OPEC cartel and to refuse to deal with it. Instead, Western Europe could offer a special relationship to non-European energy-exporting countries which were prepared to supply energy products at a level below the internal European price.⁴⁵

6 Further Developments: The Single European Market and the Internal Energy Market

As we have seen, in the aftermath of the 1973–1974 oil crisis the approach of the EEC member states to energy was driven by “non-market” factors, such as interventionist policies to ensure security and diversity of supply. In the 1970s, the EEC

⁴⁴P.R. Odell and K.E. Rosine, *The North Sea Oil Province: an Attempt to Stimulate its Development and Exploitation*, Kogan Page Ltd., London 1975, *infra*.

⁴⁵Völker (1976), *op. cit.*, pp. 114–115.

Commission's role in energy policy was limited mainly to funding certain R&D programmes (notably nuclear fusion) which individual Member States could not finance in full themselves because the costs were too high and the benefits too speculative. Later on, the prospect of revitalizing domestic European production of energy, combined with the creation of the Single European Market (SEM), suggested a rather different logic of how energy security in Europe should be addressed. From the traditional agenda of energy policy stressing measures to limit vulnerability to price increases and supply shocks, the EEC member states moved towards a new strategy based on the dynamics of market forces to allow for greater competition and trade at the European level. This strategy implied a different configuration of power among the different members and institutions of the Community. Whereas the previous energy policy had relied mainly on the national governments and their will to cooperate, with the Commission confined to a goal-setting and subordinate role, in the new market-based strategy the Commission could be more active and utilize its new role under the Single European Act (adopted in 1987) and the SEM (launched in 1988).

This new role and strategy for the Commission was closely related to the revitalization of the EEC: the Single European Act strengthened supranational authority in a number of policy areas, although not specifically in relation to energy policy. Such initiatives represented a form of political spillover, where resourceful actors exploited new opportunities within a new institutional framework.

The creation of a unified European market opened the way for a number of initiatives in the energy sector as part of a general deregulation policy. This was an area covered by new rules of majority decision-making, and where the Commission gained a stronger role. In this perspective, the question was not whether national energy sectors performed well in relation to various national objectives, but whether the organization of the industries was consistent with the principles of competition policy.⁴⁶

In 1988 the Commission published its Single European Market (SEM) proposals, which were intended to create a unified internal energy market without barriers to internal trade and competition. The authority for this was the preceding Single European Act, under which the Member States agreed to complete the common market by extending EEC competition rules into previously excluded areas, including energy, transport, telecommunications and public procurement. The overall SEM strategy was to deregulate many aspects of the Community economy where existing controls proved to be unnecessary barriers to trade. Partly as a reflection of past energy policy failures, however, the Commission did not include energy on the initial agenda for SEM. The prospects for successful Commission initiatives in the field of energy were assisted by changes brought about by the Single European Act and in the overall revival of the Community's profile following the

⁴⁶Svein Andersen, "Energy Policy: Interest Interactions and Supranational Authority", in Svein Andersen and Kjell Eliassen (eds), *Making Policy in Europe*, 2nd Edition, Sage Publications, London 2001, p. 109.

“eurosclerosis” of the early 1980s. Undoubtedly, the SEM programme played a major role in restoring confidence in the Community and Commission as the forum for European economic restructuring. In this context, it even became possible to address difficult sectors like energy.

There were signs of a different policy towards energy prior to the 1992 proposals. At the Community level, from the early 1980s onwards there were attempts to regulate national pricing policies and, while the moves failed, they indicated a rekindled Commission interest in this issue. The Commission was also increasingly interested in curbing energy-related subsidy policies. In some member states it sought to control the provision of cheap energy supplies to particular industries (as in the case of Dutch support to its horticultural industry with cheap gas sales).⁴⁷ At the national level, in some cases governments had reshaped their energy strategies: since the early 1980s the British government made an explicit move to rely on market forces to determine supply and demand. A major plank of British policy was deregulation, with attempts to introduce competition into the supply of gas and electricity. Similar policies were under review in other EEC member states, although these were often less ambitious. These changes in some national political economies was not confined to the energy sector: the 1980s were a decade in which for many Western European nations a tendency to disengage replaced the tendency to intervene.⁴⁸

The changes in energy balances in the priorities of member state policies and in the approach and prerogatives of the Commission meant that the idea of a market-oriented energy policy was back on the agenda in the late 1980s. Even if the SEM architecture was not an attempt to introduce a coordinated energy policy, it put into force a set of competition rules for the energy sector. On a strict interpretation basis, these new rules could give free rein to short-run market forces and, by banning subsidies and other forms of state intervention, they could dismantle the apparatus of national energy policies.⁴⁹

The Commission's new approach to energy policy was presented in the 1988 *Internal Energy Market* report, which set out the potential benefits of a unified energy market in Western Europe. According to this report, such a market would increase security of supply by increasing the integration of energy industries, and would provide lower energy costs for the final consumers and greater complementarity among the different supply and demand profiles of the member states. The 1988 report revealed that the Commission was determined to implement an internal energy market and would scrutinize all the obstacles to its development. From the time the report was published, the Commission began to put the new

⁴⁷On the Commission's investigation into cheap gas supply, see EEC Commission, *14th Report on Competition Policy*, Office for Official Publications of the EEC, Luxembourg, p. 152.

⁴⁸Dieter Helm, John Kay and David Thompson (eds), *The Market for Energy*, Clarendon Press, Oxford, 1989, pp. 32–40.

⁴⁹Francis McGowan, “Conflicting Objectives in European Energy Policy”, in Colin Crouch and David Marquand (eds), *The Politics of 1992. Beyond the Single European Market*, Basil Blackwell, Cambridge (MA), 1990, pp. 127–128.

strategy into practice. It introduced directives aimed at improving price transparency, increasing the coordination of investments and encouraging greater trade in electricity and gas. The pace of these changes was not only helped by changes in Commission decision-making procedures (notably the majority voting procedures allowed by the Single European Act), but also by the prospect that the Commission could use its own powers under the 1957 Treaty of Rome to investigate and reform the European energy sector. In this respect, the Commission was following the same model it pursued concerning other utilities, such as air transport and telecommunications. As the momentum of the SEM in these sectors increased, so did the determination to apply it to energy.⁵⁰

7 Conclusion

When a common energy policy finally started to emerge, it was partly because the traditional energy actors—the national governments and the oil companies—were loosing their exclusive control over the energy arena. After the 1970s oil shocks, and more clearly in response to the 1980s “eurosclerosis”, there was a real change in the balance of power in the Community. In this sense, the emergence of a common energy policy demonstrated the momentum of European integration. The Commission was far more involved in energy policy-making than was previously the case, and its proposals were harder for the member states to ignore. This outcome was in no small part due to the overall single market debate. The success of the internal energy market agenda owed much to the favourable circumstances in energy markets and to the balance of power between states and the market in the EEC. There are those who underline that the revived role of the Commission would not have been possible without some of the reassessment of national economic policies which occurred in the member states during the 1980s. It is worth recalling how much the single market programme was in fact a response to “eurosclerosis” and the perceived failure of the economic policies of the previous decade.⁵¹

The initiatives aimed to the internal market and environmental protection were based on supranational authority, which the Commission tried to extend to the energy sector. As noted before, the internal energy market was part of a wider strategy of “integration by deregulation”, a key aspect of the Commission’s programme to reinforce the economic and physical infrastructure of the Community. Deregulation was largely a phenomenon of the 1980s in Europe, a response to specific circumstances in particular sectors, as well as to the overall political climate. After the 1980s, some conflicts emerged between the different energy policy agendas. A certain degree of mismatch emerged between the new proposals and the way in which energy policy had been pursued in the past. Choosing between

⁵⁰Ibid, p. 129.

⁵¹Crouch and Marquand, *op. cit.*, p. 137.

policies was a challenging task for the Commission and national governments, with all of them working to determine how the balance should be struck. In some cases, the prospects of the deregulatory thrust policy were sacrificed in the energy sector, when the “cost of Europe” proved politically less acceptable than the economic “cost of non-Europe”.

Recent developments in EU energy policy demonstrate how interests in the sector have been overwhelmed by actors invoking different policy contexts within the general framework of EU development, based on broader and more robust supranational authority. It is the dynamic interaction between several policy contexts and the impetus of the more general development that explain the direction of EU energy policy.



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