Energy Cooperation: the leading light of the revised European Neighbourhood Policy?

Citation for published version (APA):

Herranz-Surrallés, A. (2016). Energy Cooperation: the leading light of the revised European Neighbourhood Policy? The limits of the EU's functionalist extension. In D. Bouris, & T. Schumacher (Eds.), *The Revised European Neighbourhood Policy: Continuity and Change in EU foreign policy* (pp. 241-261). Palgrave Macmillan. https://doi.org/10.1057/978-1-137-47182-6_12

Document status and date:

Published: 01/01/2016

DOI:

[10.1057/978-1-137-47182-6_12](https://doi.org/10.1057/978-1-137-47182-6_12)

Document Version:

Publisher's PDF, also known as Version of record

Document license:

Taverne

Please check the document version of this publication:

- A submitted manuscript is the version of the article upon submission and before peer-review. There can be important differences between the submitted version and the official published version of record. People interested in the research are advised to contact the author for the final version of the publication, or visit the DOI to the publisher's website.
- The final author version and the galley proof are versions of the publication after peer review.
- The final published version features the final layout of the paper including the volume, issue and page numbers.

[Link to publication](#)

General rights

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

- Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
- You may not further distribute the material or use it for any profit-making activity or commercial gain
- You may freely distribute the URL identifying the publication in the public portal.

If the publication is distributed under the terms of Article 25fa of the Dutch Copyright Act, indicated by the "Taverne" license above, please follow below link for the End User Agreement:

www.umlib.nl/taverne-license

Take down policy

If you believe that this document breaches copyright please contact us at:

repository@maastrichtuniversity.nl

providing details and we will investigate your claim.

See discussions, stats, and author profiles for this publication at: <https://www.researchgate.net/publication/310512653>

Energy Cooperation: The Leading Light of the Revised European Neighbourhood Policy? Drivers and Limits of the EU's Functionalist Extension

Chapter · November 2017

DOI: 10.1057/978-1-137-47182-6_12

CITATIONS

8

READS

197

1 author:

Anna Herranz-Surrallés

Maastricht University

44 PUBLICATIONS 574 CITATIONS

[SEE PROFILE](#)

Some of the authors of this publication are also working on these related projects:

Energy Politics, Policy and Governance [View project](#)

French Foreign Policy [View project](#)

Energy Cooperation: The Leading Light of the Revised European Neighbourhood Policy? Drivers and Limits of the EU's Functionalist Extension

Anna Herranz-Surrallés

INTRODUCTION

At no other time has energy figured so prominently in the EU's relations with its neighbouring countries as in the first half of this decade. On the one hand, energy has become closely intertwined with recent critical developments in the EU's eastern and southern neighbourhoods. To name a few examples, energy has been a key aggravating factor in the on-going conflict between Russia and Ukraine, it has fuelled instability in the post-Arab Spring Mediterranean, particularly in Libya, where rival groups continue to battle over the country's oil resources, as well as in the Eastern Mediterranean, where newly discovered off-shore gas

A. Herranz-Surrallés (✉)
Department of Political Science, Maastricht University,
Maastricht, The Netherlands
e-mail: anna.herranz@maastrichtuniversity.nl

fields have become a new irritant in an already conflict-ridden region. This link between energy and instability in the neighbourhood has understandably become a major source of concern for the EU, which depends on the countries of its proximity for about 50% of its hydrocarbon imports.¹

However, on the other hand, as much as energy is part of the problem in the state of affairs in the EU's 'near abroad', it has also become an indispensable part of the solutions envisaged. Given the central role of energy in states' economic performance, energy policy is regarded as a central pillar for boosting employment and economic reforms. Crucially also, the EU has come to endorse the functionalist idea that cooperation in the energy sector bears the potential to trigger broader positive political dynamics and foster regional integration. In that light, energy cooperation has been pointed out as one of the most promising testing grounds for advancing towards the 'economic community' intended as the long-term vision for relations between the EU and its ENP partners (European Commission/High Representative 2011: 9; cf. Blockmans and Van Vooren 2012).

The 2011 review of the ENP marked a step further in the aim of integrating neighbouring countries into the EU's energy market, by prioritising mechanisms for alignment with the *acquis communautaire*, such as the extension of the Energy Community (EnC) towards eastern neighbours, and the proposed Euro-Mediterranean Energy Community (European Commission/High Representative 2011: 10). This meant yet another change of course compared with previous energy initiatives within the Union for the Mediterranean (UEM) and the Eastern Partnership (EaP), which were supposed to compensate the bilateral focus on regulatory convergence of the original ENP with a more pragmatic, decentred and light-weighted multi-lateral cooperation. Given the moot success of earlier attempts at top-down regulatory harmonisation in the energy domain, the renewed emphasis on the aims and mechanisms of what has been named as 'integration without membership' (Lazowski 2008), 'Europeanisation beyond the EU' (Schimmelfennig 2012), or 'EU functionalist extension' (Lavenex 2014) could be seen as a puzzling development. The aim of this chapter is thus to contribute to the discussion on whether the revised ENP has actually meant a change of course in this direction, and if so, why and to what effect.

To this end, the next section presents the analytical starting point by advancing the distinction between *energy governance* and *energy diplomacy*, as concepts that encapsulate different modes of conducting international energy relations. This will help us to map and characterise the dynamics of policy change and continuity at play since the 1990s following the conceptual discussion of Schumacher and Bouris (2016). The following three sections examine the drivers, outcomes and challenges of different modes of energy cooperation developed in the neighbourhood. The first of these three sections addresses the renewed focus of the revised ENP on the extension of *EU energy governance through legally binding mechanisms*, particularly in the eastern dimension. Then the next section examines the more *voluntary and bottom-up forms of energy governance* that have continued to dominate Euro-Mediterranean relations despite the new direction of the revised ENP. Then the chapter explores the EU's involvement in new forms of *energy diplomacy* largely aside from the ENP framework, including efforts of strategic diversification of gas supplies from the Caspian region. The final section concludes by summarising the discussion and the challenges that lie ahead of the revised ENP in the energy field.

CONTINUITY AND CHANGE: CONCEPTUALISING THE EVOLUTION OF ENERGY COOPERATION IN THE ENP AREA

Existing energy cooperation in the ENP consists of several and partly overlapping frameworks of institutionalised collaboration. The evolution of energy initiatives in the EU's neighbourhood since the mid-1990s has followed an additive and, in some sense, 'dialectical' pattern of change (see Schumacher and Bouris 2016). Several new frameworks have proliferated, adding new layers of cooperation, oscillating between bilateral and regional frameworks, and between centred and decentred institutions. As this section spells out, this evolution can be seen in the light of two different modes of interaction: *energy governance* (institutionalised forms of collective regulation among stakeholders) and *energy diplomacy* (cooperation between state actors to secure strategic energy deals) (see Table 12.1).

Table 12.1 Evolution of the EU-sponsored energy initiatives in the ENP area (1990s–2010s)

EU energy governance <i>Convergence with EU rules, high institutionalisation</i>	International energy governance <i>Mutual regulatory approximation, medium institutionalisation</i>	Energy diplomacy <i>Cooperation in strategic projects, low or no institutionalisation</i>
Multilateral: 2003–: <i>Rome Euro-Mediterranean Energy Platform</i> (REMEF), the institutional complement for EMEF, to secret, among others, harmonisation of energy markets and legislation 2004–: <i>Baku Initiative</i> , a more institutionalised cooperation among INOGATE countries, including harmonisation with EU energy market Bilateral: 2004–: <i>ENP Action Plans</i> , with specific objectives of regulatory convergence in the energy domain, with varying levels of ambition depending on the country 2005–: MoU Ukraine, including a road map for integration into the EU energy market Multilateral: 2010–: Accession of Moldova and Ukraine to the <i>Energy Community</i> (EnC). Proposal for a <i>Euro-Med Energy Community</i> in the ENP Review 2011 Bilateral: 2014–: Signature of first <i>DCHTA</i> (Ukraine, Moldova, Georgia) offered also to some SEMCs (Egypt, Jordan, Morocco, Tunisia)—include specific provisions on energy requiring convergence with EU energy <i>acquis</i>	Multilateral: 1994–: <i>Energy Charter Treaty</i> (ECT) with FSU countries—Regime on trade and investments in energy 1996–: <i>INOGATE</i> with FSU countries—mostly technical assistance in oil and gas infrastructures 1997–: <i>Euro-Mediterranean Energy Forum</i> (EMEF) Bilateral: 1994–2002: Signature of <i>PCAs</i> (Moldova, Ukraine, Georgia Azerbaijan, Armenia) and <i>AdAs</i> (Tunisia, Morocco, Israel, Jordan, Egypt, Algeria, Lebanon)—general provisions on energy cooperation, with no specific commitments Multilateral: 2008–: <i>UfM</i> with the flagship initiative Mediterranean Solar Plan 2009–: <i>Eastern Partnership</i> , including an Energy Security Platform Bilateral: 2008–2013: MoU Azerbaijan, Egypt, and MoU Algeria, with vague provisions on “gradual” harmonisation of energy markets	Multilateral: 2009–2013: Negotiations for an Intergovernmental Agreement for the Nabucco pipeline. 2009–: Mediation in Russia–Ukraine energy disputes 2011–: Trilateral negotiations (EU–Azerbaijan–Turkmenistan) for the Trans-Caspian Pipeline

Source: author's own elaboration

The first international energy initiatives promoted by the EU in the 1990s belonged to the category of *international energy governance*. Their aim was to establish common rules for the protection of investments (through the ECT) and to contribute to modernising energy infrastructures (through INOGATE and MEDA assistance programmes). Although embedded in the ascending market-liberal philosophy of the early 1990s, these measures did not intend to determine the energy sector model of its members or question states' sovereignty over their own resources. This is not surprising given the low integration of energy policy within the EU itself, which started slowly in the late 1990s with the first directives on the liberalisation of electricity and gas networks.

With the second and third energy packages (2003 and 2009 respectively), the EU accelerated the liberalisation process of the energy sector through far-reaching obligations, including non-discriminatory access to the networks and de-monopolisation through unbundling of vertically integrated companies. Following this market-liberal approach, energy security and competitiveness would be guaranteed if producer, transit and consumer countries would all share a transparent and efficient market regulatory regime. In this sense, the acceleration of the EU's internal energy market and the aim of creating a common energy regulatory space with neighbouring countries started being conceived as two sides of the same coin (European Commission 2003). External energy policy was, therefore, growingly understood as a form of *EU external governance*, namely the extension of the EU's *acquis communautaire* towards third countries (Lavenex 2004). Compared to the previously mentioned examples of international governance, EU energy governance is a more demanding form of cooperation, as it requires profound domestic reforms and the acceptance of supranational control over the energy sector. The little attractiveness of this approach among some ENP partners also led to correctives in the form of more de-centred mechanisms, such as energy partnerships with resource-rich countries such as Algeria, Azerbaijan and Egypt (Padgett 2011).

Certainly, the acceleration of the EU's liberalising path was not matched by a similar trend on the global level. Rather, the 2000s were characterised by unprecedented hikes in energy prices and an upsurge in re-nationalisation of energy resources in many parts of the world (Goldthau and Witte 2009), including the EU's main supplier country, Russia. At the same time, the EU's growing energy dependency and gas supply crises of January 2006 and 2009, also prompted the debate on whether market mechanisms alone would be sufficient to meet the challenges of energy security. This led to a growing EU involvement in securing energy supplies

by developing instruments that fit better the category of *energy diplomacy* (Herranz-Surrallés 2015b). This has included EU measures to support the opening up of new supply routes, particularly in the Caspian region, and stepping up efforts to resolve disputes that have direct bearing on the EU's supply security, such as the Ukraine-Russia crisis.

In sum, energy cooperation in the EU's neighbourhood has diversified over time (see Table 12.1). On the one hand, the EU has been alternating between loose forms of *international energy governance* and more demanding *EU energy governance*. The revised ENP, with its emphasis on the extension of the EnC and creation of the 'EU-Southern Mediterranean Energy Community' (European Commission/High Representative 2011: 10) represents a new tilt towards the latter. On the other hand, the emergence of *energy diplomacy* at the EU level constitutes a more genuine novelty compared to previous policy. Although the revised ENP contained some veiled references to energy and resource security among the key domains of political and security cooperation (ibid.), energy diplomacy has developed largely outside of the ENP framework.

In order to assess the two dynamics further, it may be useful to examine some of the main assumptions regarding the rationale of the actors and mechanisms involved in each model of interaction (see Table 12.2). These concepts and factors are used in this chapter as a heuristic device to assist us in the task of *mapping* out continuity and change and *understanding* its dynamics and limitations (see Exadaktylos and Lynggaard 2016).

Energy Governance

A central assumption in the external governance literature is that actors follow the so-called 'domestic analogy' in their international activity, whereby 'politics prefer to have an international environment that is ordered according to their own principles and procedures' (Schimmelfennig 2012: 10). From a rationalist point of view, the logic behind the *EU's preference* for the extension of its energy market is clear: provide higher stability and transparency for energy markets, and hence new opportunities of investment, higher competitiveness and security of supply (Goldthau and Witte 2009). From a more constructivist perspective, the EU's propagation of market-liberal rules would be less of an instrumental move and more the result of the EU's 'inherent embedded liberal bias' (Van der Meulen 2009: 853), and institutional path dependencies (Mayer 2008). As regards the *mechanisms*, theorists of external governance have conceptualised two main ways in which this functionalist extension of the EU can take place

(Lavenex 2014). One mode is *direct*, namely that alignment with a sectoral *acquis* can be the result of the EU's purposeful action through *conditionality* or institutions that have *legally binding authority* over third countries. The other mode is *indirect*, that is to say, a more bottom-up process of *socialisation* and *learning* fostered by close contact between professionals in transgovernmental networks. Finally, as regards *ENP countries' preferences*, why would countries with no accession perspective comply with the EU energy *acquis*? Prange-Gstöhl (2009) responded to this question with three *P*s: on the rationalist side, the promise of higher *investments* in the modernisation of energy infrastructure, and hence higher security of supply, as well as *independence*, in the sense of avoiding the political consequences of over-reliance on a single supplier. On the constructivist side, rule adoption would be led by *identity* factors, namely the willingness to become an EU member and overall positive perception of the policies of the aspiring group.

Energy Diplomacy

Like other forms of economic diplomacy, energy diplomacy aims to 'pursue national interests through peaceful means' (Okano-Heijmans 2011: 14). Given the strategic role of energy for states' economies, the political flanking of energy deals is not uncommon, particularly when the aim is to gain access to third countries' energy resources or outmanoeuvring competing energy projects and investors. Although the EU's liberal approach to energy is often seen as the direct opposite of energy diplomacy, there are some indications that the EU may be resorting to these mechanisms when its traditional energy governance fails (Padgett 2011). A more constructivist view, however, would point to a more positive view of diplomacy as 'a mode of understanding that privileges the plural character of human existence and seeks to mediate political and cultural estrangement' (Biola 2013: 9). The EU's choice for diplomacy over governance could thus also be driven by the awareness that liberal energy governance cannot be imposed (cf. Romanova 2012), especially bearing in mind the high level of normative controversy that the liberalisation of the energy sector sparked within the EU itself (Belyi 2008). In terms of *mechanisms*, the use of state power may include political backing, legal advantages, economic support or even military assistance (Goldthau 2010). In a more benign formulation, as a trust-building practice, diplomacy also requires dialogue, sense of ownership and communicative action (Keukeleire et al. 2009). As regards *ENP countries' preferences*, third countries are likely to align

Table 12.2 Modes of interaction in the energy domain

	Energy governance	Energy diplomacy
<i>Rationale for the EU</i>	Exploit structural advantages Institutional and ideological path dependencies	Dealing with unfavourable asymmetries of power Belief in equality and different normative standpoints
<i>Rationale for ENP countries</i>	Benefits (economic, geopolitical, elites' own interests) Membership aspirations	Commercial/strategic benefit Trust in the EU as a long-term ally
<i>Mechanisms</i>	Direct functionalist extension (conditionality, legal authority) Indirect functionalist extension (socialisation, learning)	Political/economic/military support Cultivation of trust through political contacts

Source: Author's own elaboration

with EU energy diplomacy whenever the proposed agreement has higher commercial or strategic value than alternative deals. A constructivist take on this point, however, would also lead us to consider the importance of a sense of trust in the EU as a long-term ally (see Table 12.2).

DIRECT FUNCTIONALIST EXTENSION: DILEMMAS OF THE ENERGY COMMUNITY MODEL

The EnC is the most advanced example of energy governance through *direct functionalist extension* of the EU. Instituted in 2005, the aim of the EnC was to create a regional energy market among the candidate countries of South-Eastern Europe and its integration into the EU. Although it was designed for candidate countries, the EnC was later opened to ENP countries and Moldova and Ukraine obtained full membership in 2010 and 2011 respectively. As contracting parties, both countries accepted the obligation to adopt not only existing EU energy rules, but also the future *acquis*, as well as to take part in an institutional setting that includes some elements of supranationalism. As noted by its Deputy Director and Legal Counsel, the EnC is thus 'the first multilateral agreement where both law and institutions are extended in one sector only' (Buschle 2014: xviii). The unprecedented concept of the EnC has been praised as an institution worth extending to all ENP countries and even a model that could lead

to similar sectoral communities (for example in transport or environment) as a way to build a step-by-step neighbourhood economic community (Blockmans and Van Vooren 2012). However, the EnC has also raised doubts about the effectiveness and appropriateness of this model for relations with neighbouring countries.

As stated in the Preamble of the EnC Treaty, the institution was created with the expectation that the adoption of EU rules would foster much needed investments in the energy sectors of the Balkan countries and promote cross-border energy trade and regional cooperation. However, the liberalisation of the energy sector soon proved to be a very challenging process for countries with much lower levels of development than the member states and where energy subsidies are part of the state's industrial and social policy (Karova 2009). Therefore, despite the remarkable introduction of new legislation, the actual implementation of the EU *acquis* has remained partial and slow. The EnC Secretariat even recognised recently that there has been a 'widening gap between transposition and implementation over the years' and that the institution 'is not fit to support contracting parties in reaching the objectives which are equally ambitious as the European Union's, but more difficult to achieve on account of numerous historic relics and socio-economic problems' (Energy Community 2014: 10). In view of this, the EnC extension to ENP countries has been regarded by some experts as premature (Kuhlmann 2014: 143).

Indeed, Moldova and Ukraine are at the lower end of the EnC contracting parties in terms of compliance with the energy *acquis* (Energy Community Secretariat 2014). The case of Ukraine is illustrative. During the Yanukovich government (2010–2014), the implementation of the EnC was selective and often to the benefit of established oligarchs. For example, the decision by the Ukrainian government in April 2011 to end the monopoly of imports of the Ukrainian state gas company Naftogaz was to the benefit of one of the most prominent oligarchs, Dmytro Firtash (Konończuk and Matuszak 2012) and the privatisation reforms undertaken during 2012 were assessed by Ukrainian pro-EU reformers as leading to 'cannibalization rather than competitiveness' (Natural Gas Europe 2013). No progress was made in the elimination of subsidised prices to industry and households, even if this became a central point of EU conditionality in the negotiations of the AA-DCFTA and the International Monetary Fund for disbursing the much-needed loans (Matuszak and Sarna 2013). In sum, although modernisation of the energy sector is badly needed, incentives to comply with the EnC *acquis* have been lacking. The EnC has actually no specific funding scheme available to support projects

of common interest, something that the EnC Secretariat admits 'constitutes a real disadvantage' (Energy Community 2014: 10). At the same time, there is widespread acknowledgment that the EnC has not delivered on its promises to increase investments (High Level Reflection Group of the Energy Community 2014).

Given the weak economic incentives, Ukraine and Moldova's accession to the EnC has to be seen in a broader perspective, where geopolitical considerations play a crucial part. For both countries, membership in the EnC could become a tool for limiting Russia's influence. For example, in compliance with the unbundling rules of the Third Energy Package, Gazprom would no longer be able to keep its dominant position in Moldovagaz, the monopolist gas company that controls the Moldovan gas distribution network. Similarly, EnC rules should act as a bulwark against Russia's ambition to acquire a controlling share of the Ukrainian transit network. However, the Russian government exerted overt pressure on both countries, linking the renewal of gas contracts to the abandonment of the obligations arising from the EnC (Konończuk and Matuszak 2012). In this context, the EnC served Ukrainian and Moldovan authorities more as a geopolitical hedge and bargaining chip in the negotiations of gas contracts with Russia, rather than as a commitment to restructuring the energy sector.

The changes of government in Moldova and Ukraine (in April 2013 and February 2014 respectively) and the convoluted context created after Russia's annexation of Crimea could possibly lead to a more principled compliance with the EnC (Petrov 2014: 197). However, the current mixed constituency of the EnC, including both candidate countries and ENP partners with no clear membership perspective, is a lingering problem. While some of the proposed solutions consist of increasing the EnC's flexibility (High Level Reflection Group of the Energy Community 2014), others emphasise the risks. Given the absence of strong enforcement mechanisms in the EnC, the transposition of the EU *acquis* depends on national interpretations of each contracting party, thus putting the legal coherence of the internal energy market at risk (Lazowski 2008). For this reason, there are also advocates for strengthening EnC institutions and enforcement mechanisms, including the creation of a Court (Blockmans and Van Vooren 2012). The tension between the aim of higher flexibility and the need to ensure a homogenous interpretation of EU law is, therefore, difficult to resolve. In view of these challenges and uncertainty over the EnC's practical results, the EU's promotion of this institution can also be seen as part of its normative scripts and institutional path depen-

dencies. As phrased by the EnC's legal counsel, the value of this institution lies also in that it 'follows the path of European integration process in the tendency to replace intergovernmental relations by the rule of law' and it 'contributes to achieving the overall *telos* of market liberalization and integration' (Buschle 2014: xix).

INDIRECT FUNCTIONALIST EXTENSION: EURO-MEDITERRANEAN ENERGY COOPERATION, STILL A BOTTOM-UP EXPERIENCE?

Although the EU has long referred to the aim of integrating the southern Mediterranean neighbours into the internal energy market (European Commission 2003), the mechanisms favoured to attain this goal have been more flexible and bottom-up compared to the EnC approach. Existing cooperation follows the path of *indirect* functionalist extension, driven by private transnational actors and technocrats forming transgovernmental networks (Lavenex 2014: 888). For example, a key building block of energy cooperation in the region is MedReg, an association created in 2007 that gathers 24 national energy regulators from northern and southern Mediterranean states. Its mission is to promote legislative and regulatory harmonisation via capacity-building and specialised training for regulators; the promotion of dialogue with stakeholders and developing guidelines and recommendations. Another relevant association is the more recent Med-TSO, gathering the companies (public or private) that operate the electricity networks. This is complemented by a dense web of stakeholders taking part in EU-financed projects, such as the PWMSP (Paving the Way to the Mediterranean Solar Plan), and industrial initiatives, such as Medgrid. According to external governance theorists, this 'technocratic outreach' through transgovernmental networks can itself promote rule export (Lavenex 2014: 895). While there are indeed signs in this direction, the revised ENP seemed to question the effectiveness of this gradual bottom-up process, by placing the emphasis on the need of stronger top-down institutionalisation (see below).

The stepwise bottom-up approach has brought about some advances in regulatory approximation and sub-regional integration in the electricity sector. The most advanced experiment is the Maghreb region, in particular between Algeria, Morocco and Tunisia, which in December 2003 signed a MoU with the European Commission for gradual integration into the EU electricity market. More recently, in 2010 the three countries

and the EU adopted a joint ministerial declaration establishing a road map to create an integrated electricity market in the Maghreb by 2015 and its later integration with the EU in a West-Mediterranean electricity area by 2020–2025 (European Commission/High Representative 2012). The interest on the side of some southern and eastern Mediterranean countries (SEMC) in regulatory convergence with the EU can be seen as a response to the fast-growing energy demand facing those countries, thus requiring massive investments in new production capacity. In this context, the proposed Mediterranean Solar Plan (MSP) in the framework of the UfM, aimed at adding 20 GW of electricity from renewable energies (solar thermal, solar photovoltaic and wind) by 2020, was also received as an attractive perspective, both for meeting internal demand and possibly also for exporting green energy to the EU (Darbouché 2011). Most countries in the region have actually adopted ambitious targets of renewable electricity and diverse support measures to incentivise the production of renewables (Cambini and Franzì 2013: 187). The EU also contributed to mobilise funding for big solar and wind electricity projects, particularly in Egypt and Morocco, through the Neighbourhood Investment Facility (European Commission 2013). Despite these incentives, however, the legislative and regulatory framework is not yet seen as providing the conditions for boosting investments in renewables and an optimal integration of the market (Cambini and Franzì 2013).

In this context, the revised ENP seemed to question the reliance on bottom-up dynamics only, by proposing the extension of the EnC towards the SEMC or the establishment of an 'EU-Southern Mediterranean Energy Community' (European Commission/High Representative 2011). Although the concept was surrounded by significant ambiguity, the Commission's top officials endorsed the idea of higher institutionalisation along the lines of the EnC. For example, the Commission's deputy director-general responsible for external energy argued for 'following in the footsteps of the Energy Community in South-Eastern Europe, which has proven to be a success' (Barbaso in Meyer 2012). Among other elements, he praised its clear and binding legal framework, its holistic approach and solid institutional setting (ibid). Conversely, regulators and stakeholders regarded the idea of further institutionalisation and centralised control under the European Commission with open scepticism (Tholens 2014: 45ff). For example, MedReg endorsed the concept of a Euro-Med Energy Community, but only as a long-term goal and always keeping its bottom-up logics (MedReg 2011). In a more recent position paper, MedReg

further qualified the concept by referring to a 'Mediterranean energy *community of interests*' (Medreg 2014: 7–8, emphasis added) in which 'the idea is not to have a "one-size-fits-all" approach but to create through different smaller subregional projects a dynamic so that national interests can progressively converge' (ibid.)—a dynamic not fully in line with the idea of an all-encompassing Euro-Med Energy Community, as proposed in the revised ENP.

The EU's insistence on the EnC model may thus be explained again by ideational and institutional path dependencies, reproducing the *relais* of market liberalisation and integration through law. Although a Euro-Med Energy Community along the lines of the EnC could benefit the EU in terms of an additional source of energy supplies and new markets for investments, short-term interests are rather mixed. In the current context, EU member states do not need imports of renewables to meet their green electricity targets. Investment prospects also look quite moot, as exemplified by the recent decision of Desertec to finally suspend the project. In the end, the tension between the EU's preferences for moving towards mechanisms of direct functionalist extension and the actual ability to deliver the appropriate incentives seems to have been resolved in a new proposal for a 'Euro-Mediterranean Energy Hub', adopted in November 2014. This hub will be composed of three platforms (gas, electricity and renewables) steered by different institutions in the region, including the UfM, MedReg and Med-TSO, thus continuing to emphasise the bottom-up character and mechanisms conducive to socialisation and learning rather than conditionality and legal authority.

ENERGY DIPLOMACY IN THE NEIGHBOURHOOD: THE LIMITS OF THE EU'S LEVERAGE

Whenever the aim of functionalist extension has been the main focus of the EU's external energy relations, particularly in the context of the revised ENP, the range of external energy mechanisms has also expanded in recent years to encompass instruments of *energy diplomacy*. The growing energy prices throughout the 2000s and, most notably, rising uncertainty over the reliability of Russia as a supplier created a context where many actors in the EU argued for adopting a more strategic stance and strive for diversifying supplies. The main focus of the EU's diversification strategy has been the Caspian region, in particular Azerbaijan and Turkmenistan. Another promising area under consideration is the Eastern Mediterranean,

particularly the off-shore fields of Israel and Cyprus. Yet, the EU has also had to deal with the immediate security of supply problems raised by the escalation of the Russo-Ukrainian conflict. The activity of the EU on these three fronts shows that it has not been fully able to tap into the different set of skills and resources that energy diplomacy entails.

The fate of the EU's flagship project for diversification in the Caspian region, the Nabucco gas pipeline (a projected pipeline to deliver gas from Azerbaijan to the EU through Turkey) is indicative of the problems of the EU's energy diplomacy. Despite the EU's political, financial and legal measures to support the Nabucco pipeline, particularly since 2009 (Buchanan 2011; Youngs 2011), the project was finally abandoned in the summer of 2013. Besides the intra-EU divisions, with some members backing a rival project (the Russian-sponsored South Stream through the Black Sea), one of the main problems of the Nabucco project was its design (Finon 2011). The concept initially favoured was a pipeline dedicated to European supply (i.e., independent from the Turkish pipeline system) and with a legal regime guaranteeing non-discrimination and security of supply. However, Turkey was reluctant to accept the proposed transit model, which was akin to the implementation of the EU energy *acquis*, meaning, for example, that the Turkish state-owned company BOTAS would lose control over transmission pipelines or the possibility to extract a portion of transiting gas for Turkish markets at a discounted price (Winrow 2009). Instead of the initial Nabucco concept, Azerbaijan and Turkey eventually reached an agreement in December 2011 on the construction of the *Trans-Anatolian Pipeline* (TANAP) through Turkey, thus rendering the first section of the original Nabucco unnecessary. The EU's support was also not effective in its preferred choice of pipeline to unite the future TANAP with the EU—the *Trans-Adriatic Pipeline* (TAP) to Italy or the *Nabucco West* to Austria. Commercial interests (for example, the interests of the Azeri state-owned company SOCAR to acquire the Greek state-owned company DESFA) and geopolitical concerns by Azerbaijan (avoiding the risk of becoming a direct competitor for Russian gas in Central and Eastern Europe) may have influenced the decision towards the TAP. All in all, the initial idea of Nabucco, as a stand-alone gas corridor based on a multilateral non-discriminatory transit regime, was finally overtaken by several pipelines based on bilateral supply and transit agreements between the (state-owned) companies and state authorities of the countries concerned (Herranz-Surrallés 2015a).

In the Eastern Mediterranean, gas discoveries by Israel and Cyprus between 2009 and 2011 opened yet another alternative for diversification for the EU. However, this potential has so far been thwarted by the various conflicts affecting the region. The discussion on the possible export options is currently a complex jigsaw, as all options would require politically unlikely alliances, such as Israel and Lebanon, or Cyprus and Turkey. Although a future Eastern Mediterranean corridor could mean some additional 15 bcm/year (more than the TAP), the EU has kept a low profile. The USA has been more active, by trying to mediate between Cyprus and Turkey, and between Lebanon and Israel in order to allow for the possibility to exploit the Israeli Leviathan field and seek pipeline export options through Turkey (De Micco 2014a). It has also conducted joint military exercises with Greece, Cyprus and Israel to foster cooperation in protection of off-shore drilling sites and provided US\$ 1 billion to help the Palestinian government to develop the Gaza Marine field as part of the peace plan in the Israeli-Palestinian conflict (ibid.). But it is Russia that seems to have been more successful in filling in the strategic vacuum left by the EU. Given that exports from this region would further challenge its position as main supplier to the EU, Russia has established close relationships with Cyprus and Israel, by giving financial assistance and positioning Gazprom to take part in the development of the gas fields in both countries. In December 2013 the Russian state-controlled energy group Soyuzneftegaz also signed a 25-year deal with the Assad regime in Syria to explore the country's Exclusive Economic Zone for gas and reports indicate that attempts were made also with Palestine (Kashfi 2014).

Finally, ensuring security of supply on the main transit corridor for Russian gas to the EU (the Soyuz and Brotherhood pipelines via Ukraine) has not been an easy task either. The growing gap between the EU and Russia over the appropriate management of the energy sector, together with the break-out of the conflict between Russia and Ukraine in March 2014, have rendered the EU's mediation task ever more difficult. After Russia decided to cut off gas to Ukraine in June 2014, the EU tried to facilitate an agreement between the two parties, as a failure to reach a solution would endanger supplies to Europe during the winter. The EU claimed to have brokered an agreement in late October 2014, the so-called 'winter package' (De Micco 2014b). However, it is difficult to continue seeing the EU as a mere bystander in the energy disputes between Russia and Ukraine, in a context where the EU has been supporting Ukraine's integration into the internal energy market through the EnC and has been

organising reverse flows to ship gas to Ukraine (from Austria, Slovakia and Poland), something that Russia has repeatedly deemed illegal. To be sure, the Commission's defence of the internal market rules has borne some strategic victories, such as Russia's abandonment of the South Stream project in December 2014. However, Gazprom's announcement in January 2015 of its intentions to stop supplying gas through Ukraine and divert transit to Turkey opens yet another challenge with unforeseeable consequences.

CONCLUSIONS

Due to its dual character as a potential catalyst for growth as well as conflict, energy has been moving up in the ranking of priorities of the ENP and addressed by a growing number of overlapping initiatives. In this regard, the revised ENP has not meant a departure from previous 'trends', but just a new step in line with the dynamics of an additive and dialectic pattern of change observed in this policy area. After some attempts at decentred and lighter-weighted multi-lateral energy cooperation in the framework of the UfM and the EaP, the revised ENP placed the emphasis back on extending the EU's *energy governance*, now through multi-lateral institutions such as the EnC. The most significant sign of change discussed in this chapter—the EU's assumption of new functions of *energy diplomacy* traditionally dealt with by the member states—has developed largely outside the framework of the revised ENP. Although both developments indicate a substantial increase in the intensity of the EU's external energy policy, the limits of both modes of energy interaction have also become apparent.

On the energy governance side, the EU's *direct functionalist extension* through the accession of eastern neighbours to the EnC is a remarkable development in itself. However, the ENP partners' compliance with EnC law is by no means assured. Societal and geopolitical challenges are expected to continue thwarting this process, and with it, also the validity of the EnC model. The adequacy of this instrument for promoting energy cooperation with ENP countries thus remains contested, at least until a clear EU membership perspective is on the horizon. In the southern neighbourhood, the EU's attempt to challenge the *indirect functionalist extension* mechanisms that have dominated energy cooperation by introducing a more top-down Euro-Mediterranean Energy Community was strongly resisted by stakeholders in the region. Therefore, the focus on the EnC model as the way forward seems to be strongly driven by ide-

ational and institutional path dependencies, rather than by certainty over the attractiveness of the EU's energy market model for neighbouring countries. In this context, consideration of more flexible frameworks of international energy governance geared at achieving compatibility of the energy markets, instead of full adoption of EU law and institutions, merits perhaps further attention.

As far as energy diplomacy is concerned, institutional developments have been even more far-reaching. The EU's involvement in securing energy supplies implies assuming a significantly new role compared to the classical market-liberal energy governance. However, the EU's instruments of energy diplomacy have been half-hearted, not only because of intra-EU divergences, but also because the practices and aims underlying the EU's actions have remained dominated by the focus on functionalist extension of its regulatory space. The EU's sui generis energy diplomacy has, therefore, had difficulties in matching the commercial-strategic interests of potential suppliers and transit countries.

Overall, this piecemeal pattern of continuity and change has contributed to intensifying energy cooperation in the neighbourhood, but not yet leading to a significant transformation towards a wide regional energy market envisaged when the ENP was first launched in 2003. The fall of energy prices since late 2014 may increase the attractiveness of the EU energy governance model and the leverage of its energy diplomacy in the future. However, the idea that energy integration could be the leading light towards a deeper neighbourhood economic community will remain a difficult perspective in a context where energy continues to be tangled with deeper conflicts, democratic flaws and socio-economic inequalities.

NOTE

1. The EU-28 imports 88% of the crude oil and 66% of the natural gas it consumes. Russia provides 34% and 32% of the oil and gas imports respectively. Among the countries of the ENP, other relevant suppliers are Algeria (13% of gas and 3% of oil), Libya (8% cent of oil and 2% of gas), Azerbaijan (4% of oil) and Egypt (1% of gas) (Eurostat, data, March/May 2014).

REFERENCES

- Belyi, A. V. (2008). EU external energy policies: a paradox of integration. In J. Orbie (Ed.), *Europe's global role: External policies of the European Union* (pp. 203–216). Aldershot: Ashgate.

- Bjola, C. (2013). Understanding enmity and friendship in world politics: The case for a diplomatic approach. *The Hague Journal of Diplomacy*, 8(1), 1–20.
- Blockmans, S., & Van Vooren, B. (2012). Revitalizing the European 'Neighbourhood Economic Community': The case for legally binding sectoral multilateralism. *European Foreign Affairs Review*, 17(4), 577–604.
- Buchan, D. (2011). Expanding the European dimension in the energy policy: The Commission's latest energy initiatives, *OIES SP No. 23*, Oxford: Oxford Institute for Energy Studies.
- Busche, D. (2014). Integrating energy: Lessons to be learned from the Energy Community. In C. Cambini & A. Rubino (Eds.), *Regional energy initiatives. MedReg and the energy community* (pp. xvii–xxii). London: Routledge.
- Cambini, C., & Franz, D. (2013). Independent regulatory agencies and rules harmonization for the electricity sector and renewables in the Mediterranean region. *Energy Policy*, 63, 179–191.
- Darbouche, H. (2011). Third time lucky? Euro-Mediterranean energy co-operation under the union for the Mediterranean. *Mediterranean Politics*, 16(1), 193–211.
- De Micco, P. (2014a). *The prospect of Eastern Mediterranean Gas Production: An alternative energy supplier for the EU?*, In-depth study (April 2014). Brussels: DG Expo, European Parliament.
- De Micco, P. (2014b). *The Russian-Ukrainian gas deal: Taking the bite out of winter?*, Briefing (November 2014). Brussels: DG Expo, European Parliament.
- Energy Community. (2014). *An energy community for the future—the Secretariat's view*. <https://www.energy-community.org/portal/page/portal/ENCOM/SECRETARIAT/Consultation/Treaty>. Accessed 15 Dec 2014.
- HOME/SECRETARIAT/Consultation/Treaty. Accessed 15 Dec 2014.
- Energy Community Secretariat (2014). *Annual implementation report*. Vienna: Energy Community.
- European Commission. (2003, May 26). *On the development of energy policy for the enlarged European Union, its neighbours and partner countries*, COM (2003) 262 final.
- European Commission (2013). *NIE—Activity report 2008–2013*. Brussels: European Commission—Europaid.
- European Commission/High Representative of the EU for Foreign Affairs and Security Policy. (2011, May 25). *A new response to a changing neighbourhood: A review of European Neighbourhood Policy*, COM (303).
- European Commission/High Representative of the EU for Foreign Affairs and Security Policy. (2012, 17 December). *Supporting closer cooperation and regional integration in the Maghreb: Algeria, Libya, Mauritania, Morocco and Tunisia*, JOIN/2012/036 final.
- Exadaktylos, T., & Lynggaard, K. (2016). Research design in the study of the revised ENP. In D. Bouris & T. Schumacher (Eds.), *The revised European*

- Neighbourhood Policy: Continuity and change in EU Foreign Policy*. Basingstoke: Palgrave Macmillan.
- Finnon, D. (2011). The EU foreign gas policy of transit corridors: Autopsy of the stillborn Nabucco project. *OPEC Energy Review*, 35(1), 47–69.
- Goldthau, A. (2010). Energy diplomacy in trade and investment of oil and gas. In A. Goldthau & J. M. Witte (Eds.), *Global energy governance: The new rules of the game* (pp. 25–47). Washington, D.C.: Brookings Institution Press.
- Goldthau, A., & Witte, J. M. (2009). Back to the future or forward to the past? Strengthening markets and rules for effective global energy governance. *International Affairs*, 85(2), 373–390.
- Herranz-Surrallés, A. (2015a). An EU's emerging energy diplomacy? Discursive shifts, enduring practices. *Journal of European Public Policy*. doi:10.1080/13501763.2015.1083044.
- Herranz-Surrallés, A. (2015b). European external energy policy: Governance, diplomacy and sustainability. In A. K. Aarstad, E. Driessens, K. E. Jørgensen, K. Laatikainen, & B. Tona (Eds.), *Sage handbook of European Foreign Policy* (pp. 911–925). London: Sage.
- High Level Reflection Group of the Energy Community (2014). *An energy community for the future*. Vienna: Energy Community Secretariat.
- Karova, R. (2009). Energy Community for South East Europe: Rationale behind and implementation to date. *EU Working Paper RSCAS 12/2009*.
- Kashfi, D. (2014, January 14). Why Russia is looking to secure a \$1 billion energy deal with the Palestinians: Russia's latest move in the Eastern Mediterranean. *International Business Times*.
- Keukeleire, S., Thiers, R., & Justaert, A. (2009). Reappraising diplomacy: Structural diplomacy and the case of the European union. *The Hague Journal of Diplomacy*, 4(2), 143–165.
- Kononczuk, W., & Matuszak, S. (2012, March 28). Ukraine & Moldova and the Energy Community. *OSW Analysis*.
- Kuhlmann, J. (2014). Enhanced sectoral multilateralism: Will the energy community lead the way to a new European Neighbourhood Policy? In C. Cambini & A. Rubino (Eds.), *Regional energy initiatives. MedReg and the energy community* (pp. 141–157). London: Routledge.
- Lavenex, S. (2004). EU external governance in 'Wider Europe?'. *Journal of European Public Policy*, 11(4), 680–700.
- Lavenex, S. (2014). The power of functionalist extension: How EU rules travel. *Journal of European Public Policy*, 21(6), 885–903.
- Lazowski, A. (2008). Enhanced multilateralism and enhanced bilateralism: Integration without membership in the European Union. *Common Market Law Review*, 45(5), 1433–1458.

- Matuszak, S., & Sarra, A. (2013). From stabilisation to stagnation. Viktor Yanukovich's reforms. In *OSW Point of View*, 32. Warsaw: Centre for Eastern Studies.
- Mayer, S. (2008). Path dependence and commission activism in the evolution of the European Union's external energy policy. *Journal of International Relations and Development*, 11(3), 251–278.
- Meyer, M. (2012, January 3). Interview with Fabrizio Barbato, deputy director general, European Commission EU proposes 'Energy Community' to Southern Mediterranean states. *EuroPolitics*.
- MedReg. (2011, March 4). *MEDREG response to EC public consultation on the external dimension of the EU Energy Policy*.
- MedReg (2014) *MEDREG Strategy 2020–2030. A contribution to the establishment of a Mediterranean energy community*. http://www.medreg-regulators.org/Portals/45/documenti/MEDREG_Strategy_2020.pdf. Accessed on 8 Jan 2015.
- Natural Gas. (2013). *Ukraine's National Energy Strategy: 'Open and Fair Competition'?*. <http://www.naturalgaseurope.com/ukraine-national-energy-strategy>. Accessed 25 Apr 2013.
- Okano-Heijmans, M. (2011). Conceptualizing economic diplomacy: The crossroads of international relations, economics, IPE and diplomatic studies. *The Hague Journal of Diplomacy*, 6(1), 7–36.
- Padgett, S. (2011). Energy co-operation in the wider Europe: Institutionalizing interdependence. *Journal of Common Market Studies*, 49(5), 1065–1087.
- Petrov, R. (2014). European legal space and application of the European Union's 'energy acquis' in Ukraine and Moldova. In C. Gambini & A. Rubino (Eds.), *Regional energy initiatives. MedReg and the energy community* (pp. 175–191). London: Routledge.
- Prange-Gstöhl, H. (2009). Enlarging the EU's internal energy market: Why would third countries accept EU rule export? *Energy Policy*, 37, 5296–5303.
- Romanova, T. (2012). Legal approximation in energy: A new approach for the European Union and Russia. In K. Kuizemko, A. V. Belyi, A. Golthau, & M. F. Kعاتing (Eds.), *Dynamics of energy governance in Europe and Russia* (pp. 23–44). Basingstoke: Palgrave Macmillan.
- Schimmelfennig, F. (2012). Europeanization beyond Europe. *Living Reviews in European Governance*, 4(3). <http://europangovernance.livingreviews.org/Articles/lreg-2012-1/download/lreg-2012-1Color.pdf>. Accessed 15 Dec 2014.
- Schunacher, T., & Bouris, D. (2016). The 2011 revised European Neighbourhood Policy: Continuity and change in EU Foreign Policy. In D. Bouris & T. Schunacher (Eds.), *The revised European Neighbourhood Policy: Continuity and change in EU Foreign Policy*. Basingstoke: Palgrave Macmillan.
- Tholens, S. (2014). An EU–South Mediterranean energy community: The right policy for the right region? *The International Spectator*, 49(2), 34–49.

- Van der Meulen, E. F. (2009). Gas supply and EU–Russia relations. *Europe-Asia Studies*, 61(5), 833–856.
- Youngs, R. (2011). Foreign policy and energy security: Markets, pipelines and politics. In J. S. Duffield & V. L. Birchfield (Eds.), *Toward a common European Union Energy Policy* (pp. 41–60). New York: Palgrave Macmillan.
- Winrow, G. M. (2009). *Problems and prospects for the 'Fourth Corridor': The position and role of Turkey on gas transit to Europe*, OIES NG No. 30. Oxford: Oxford Institute for Energy Studies.