



BULLETIN

No. 57 (652), 30 April 2014 © PISM

Editors: Marcin Zaborowski (Editor-in-Chief) • Katarzyna Staniewska (Managing Editor)
Jarosław Cwiek-Karpowicz • Aleksandra Gawlikowska-Fyk • Artur Gradziuk • Piotr Kościński
Łukasz Kulesa • Roderick Parkes • Patrycja Sasnal • Marcin Terlikowski

Energising TTIP: A Step towards Better EU Energy Security

Maya Rostowska

The crisis in Ukraine has put the EU's energy security at the forefront of the transatlantic agenda. The Transatlantic Trade and Investment Partnership (TTIP) has the potential to expedite U.S. gas and oil exports to the EU, reducing its energy dependence on Russia. This will require negotiators to pay special attention to energy when negotiating the deal, while being careful not to give away too much in return for oil and gas. However, this is not a solution that will bring immediate results, so the EU should undertake other steps to boost its energy security.

EU Energy Insecurity. In the wake of the events in Ukraine, Europe's search for alternative energy suppliers has become more urgent. The EU is dependent on imports for 54% of its overall energy consumption and for about 70% of its natural gas and 85% of its petroleum consumption. The EU is particularly dependent on Russian gas (ca. 30%) and oil (ca. 35%). With Moscow's annexation of Crimea, this situation is becoming untenable for many Member States, as fears regarding Russia's future actions and Western reaction to these grow.

As a result, the EU has more resolutely turned its attention to its energy security. The EU Council on 20–21 March was largely dedicated to progress towards closer cooperation on energy. Although climate policy was supposed to be top of the agenda, events on the EU's eastern border pushed energy security to the forefront of the discussion. Member States have been tasked with preparing strategies for reducing their reliance on external energy sources. Steps are being taken to build links between power networks in different Member States and third countries to promote energy solidarity. The EU is also continuing its support for the Southern Corridor and renewable and alternative fuels.

Importing energy from the United States, in a bid to diversify its energy suppliers, is also being considered. Europeans were eyeing the possibility of importing U.S. liquefied natural gas (LNG) even before events unfolded in Ukraine. The American shale gas revolution has caused energy prices to fall in the U.S.: EU gas prices are now around three times higher than those of the U.S. The current geopolitical situation has made the U.S. seem like an even more attractive potential supplier of gas and oil. Given domestic restrictions in the U.S. on energy exports, there are voices on both sides calling for energy supplies to be included in the EU–U.S. Transatlantic Trade and Investment Partnership (TTIP), which is currently being negotiated.

U.S. LNG—A Solution to Europe's Gas Woes? With the advent of the shale gas revolution that has increased gas production and cut prices, the U.S. is perceived as a possible supplier that could help the EU reduce its dependence on Russian gas. In 2013, gas prices at the U.S.-based Henry Hub averaged \$3.7 Btu, i.e., \$132 per thousand cubic metres (tcm), while German average import prices were about \$400 per tcm. The U.S. Energy Information Administration predicts that the United States will become a net exporter of LNG by 2016, and an overall net exporter of natural gas by 2018. Meanwhile, the EU only uses about one-third of the capacity of its regasification terminals, meaning it has the capacity to increase LNG imports. This could also be a significant boon to Member States with access to this infrastructure in their negotiations with Gazprom. The dependency cuts both ways: around 65% of Russia's gas exports go to the EU.

Currently, U.S. natural gas exports are limited by the 1938 Natural Gas Act, according to which exporters must apply for licences, which have a lengthy approval process, although they are easier to obtain for export to territories with

which the U.S. has a free trade agreement (FTA) that ensures so called national treatment of American gas. So far, approval has been granted to 20 projects for export to countries that have an FTA with the U.S., and seven non-FTA projects (e.g., Japan). But it is not yet clear whether TTIP would ensure national treatment of U.S. gas and thus qualify projects for export to the EU via the faster licence process.

Even if TTIP creates the legal framework for U.S. LNG exports to Europe, these may not start for a long time. U.S. LNG terminals, which were designed to import gas, will have to be converted for export. The gas pipelines necessary to transport the shale gas extracted in the central United States to terminals on the coast will also need to be built. As a result, the first batch of U.S. LNG exports would make it to Europe in 2015 at the earliest (possibly to Italy, following Enel's deal with Cheniere Energy this month), and the bulk of it would not be available for export until 2018.

There are also political and commercial hurdles to trade. The move to ease the way for LNG exports to the EU may not be popular within the U.S., as it is likely to push up domestic gas prices, affecting energy-intensive industries. Transport costs are also likely to push up the price of U.S. gas exported to the EU, making the price difference with Russian gas marginal. Further, the final destination of U.S. LNG exports will be decided by American energy companies according to commercial interests—they would go to the highest bidder, not to the firmest ally. As a result, U.S. LNG is likely to go to Asia, as LNG import prices there are about 50% higher than in Europe.

What's Oil Got to Do with It? While the issue of U.S. LNG exports to Europe is hitting headlines, oil has been less prominent. Although the EU's total petroleum consumption is steadily falling (from 15 million barrels per day in 2005 to 13 million bpd in 2012 for the EU27), it continues to be very dependent on oil. It is especially dependent on Russia, which provides about 35% of EU oil imports. The U.S., meanwhile, is on its way to becoming the world's biggest oil producer. It currently produces 7.8 million bpd and has built up hefty reserves: Strategic Petroleum Reserves are currently at double the required level of 200 days' supply.

There are commercial incentives to make EU–U.S. oil trade easier. U.S. energy companies are ready and raring to export oil, which brings bigger returns for shareholders than gas. Parts of the European energy industry—such as the refining sector, which in 2012 exported 349,000 bpd of gasoline to the U.S.—are also keen to see an energy chapter in TTIP, hoping the deal will do away with cumbersome regulation. Moreover, the technical barriers that hinder gas exports do not apply to oil. Transporting oil is much cheaper and more flexible than gas, as oil can be poured and carried by tankers. Oil markets are also more fluid than gas markets, as oil contracts are short-term.

But there are obstacles to U.S.–EU oil trade. In the U.S., maintaining high oil reserves has been a sensitive issue since the 1970s oil shock. The resulting 1975 Energy Policy and Conservation Act and 1979 Export Administration Act made acquiring an export licence for crude oil very difficult. The low number of crude oil export applications can be linked to the vague nature of the legislation, which grants export licences only to projects deemed to be in the “national interest” and approved by the Department of Energy. Moreover, while the administration has been moving to relax restraints on gas exports, almost no U.S. crude oil has gone to a foreign market in the last decade.

Conclusions and Recommendations. The U.S. has prospects as a potential alternative supplier of both oil and gas to Europe, and could help reduce the EU's dependence on Russian energy in the medium term. Including a section on energy in TTIP could boost FTA licensing procedures for U.S. LNG exporters and clarify the legislative situation for potential crude oil exporters, encouraging them to apply for licences.

However, TTIP may not be the fastest vehicle for ensuring the EU's energy security. Following the fourth round of talks (10–14 March), negotiators have yet to agree whether energy should have a dedicated chapter. Moreover, public opinion in Europe is increasingly turning against TTIP in general,¹ and its energy aspect in particular, with green activists worried that the deal may reduce environmental standards in Europe. It seems unlikely that the deal will be agreed on “one tank of gas” as was previously hoped.

Nevertheless, steps can be taken to ensure that once agreed, TTIP will in fact boost EU–U.S. energy trade. In particular, the deal should provide national treatment of U.S. gas exports. The text should also ensure U.S. crude oil exports to the EU will be deemed to be in the “national interest.” However, Brussels should be careful not to give up too much for the sake of energy in TTIP. In particular, the EU should safeguard its health and consumer protection standards. Poland should promote a domestic debate on the energy aspect of TTIP in order to establish its priorities.

In the meantime, Poland should continue to promote the idea of forming an “energy union,” which would improve EU energy solidarity. The 28 Member States should strive to integrate in the field of energy by creating the market and energy transportation infrastructure necessary for EU energy security. As U.S. gas will be unable to satisfy its energy needs, the EU should also seek to develop ties with other potential suppliers, such as Australia. Further, the EU should continue to diversify its energy sources and improve energy efficiency.

¹ S. Płóciennik, “German Scepticism on TTIP: The Need for a Polish Correction,” *PISM Bulletin*, no. 44 (639), 27 March 2014, www.pism.pl.