

2011

# The Upheaval in EU Energy Policy

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## Recommended Citation

Duffield, John S. and Birchfield, Vicki, "The Upheaval in EU Energy Policy" (2011). *Political Science Faculty Publications*. 31.  
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## **Introduction: The Recent Upheaval in EU Energy Policy**

John S. Duffield and Vicki L. Birchfield

Although two of the three original treaties on which the European Union (EU) is based explicitly concerned sources of energy, the EU and its predecessor institutions have exercised relatively little competence in the area of energy policy over the years. During the past decade, however, the EU has arguably made unprecedented strides toward the creation of a common energy policy, as exemplified by the European Council's adoption of an ambitious and relatively comprehensive energy Action Plan based on the European Commission's Communication "An Energy Policy for Europe" in 2007 and the subsequent approval by the Council and the European Parliament of a number of concrete measures to implement the plan. In late 2009, energy policy per se became a formal competence of the EU with the entry into force of the Lisbon Treaty.

This book takes stock of these important recent developments. In particular, it addresses the following questions:

- How much progress has actually been made toward the establishment a common EU energy policy?
- What conditions and events explain this recent progress?
- What remains to be done before the EU can be said to have a truly common energy policy?
- What obstacles stand in the way of and what are the prospects for creating such a policy?

This introductory chapter sets the stage for our analysis by first describing the evolution and limitations of EU energy policy from its origins in the first European communities. It then provides a more detailed overview of the recent developments in EU energy policy that serve as the impetus for this volume. A third, brief section summarizes the limited existing literature on the subject and the approach employed here. A final section lays out the organization of the volume and of the individual chapters.\

### **A. Historical Background: the Long-Standing Absence of a Common EU Energy Policy**

In the beginning, energy policy was at the heart of the institutions out of which the European Union (EU) eventually evolved. Indeed, it could be said that the EU began with a common energy policy. With the passage of time, however, these initial institutional arrangements became less and less relevant to the energy needs and concerns of the member states, and for many years they were never replaced or supplemented by more relevant arrangements. This marginalization of energy policy stands in stark contrast to – and is especially puzzling in light of - the considerable progress that was made toward European integration in other policy areas, especially the closely related common market. Until and through much of the 1990s, energy policy remained largely an orphan of the integration process.

The European Union traces its origins to the establishment in 1952 of the European Coal and Steel Community (ECSC). At the time the Schuman Plan was proposed in 1950, coal accounted for more than 80 percent of the energy consumed in what became the original six member states, with oil a distant second at 10 percent, and most observers expected that coal would remain the most important fuel well into the future. With its entry into force, the treaty establishing the ECSC created almost overnight a common market in coal (as well as steel).

With just a few exceptions, it required the immediate elimination of all restrictions on trade, including import and export duties, quantitative restrictions (quotas), discriminatory prices and transportation rates, and state subsidies. To facilitate the achievement of the common market, the treaty also endowed the High Authority of the community with unprecedented supranational powers. The High Authority could break up cartels, impose fines, guarantee loans, influence investments, and, in certain circumstances, fix prices, limit output, and allocate supplies (Diebold 1959).

In 1958, the ECSC was complemented in the energy field by the creation of European Atomic Energy Community (Euratom). At the time, the atom was expected to become a major additional source of energy, especially after the Suez crisis cast doubt on the reliability of Middle East oil supplies. Thus Euratom was intended to promote the growth of the nascent nuclear industry. Nevertheless, within its area of application, the powers of Euratom were much more modest than those of the ECSC, being largely limited to the financing of some common research programs and a common supply policy carried out by a Nuclear Supply Agency based on the principle of equal access. For the most part, the member states were otherwise left free to promote national nuclear industries as they saw fit. (El-Agraa and Hu 1984; Black 1977).

About this time, the ECSC began to be less relevant to the energy needs and concerns of its members. The institutional limitations of the ECSC were starkly on display during the coal crisis of 1958/1959, when the recommendations of the High Authority for addressing an acute excess of supply were blocked by the member states. More fundamentally, however, the ECSC was increasingly marginalized by the rapidly rising use of oil. In 1960, coal's share of energy consumption among the Six had declined to 60 percent, while that of oil had risen to more than

one-quarter. By the middle of the decade, oil had surpassed coal as the most important fuel supply. And by 1970, the shares of a decade earlier had been almost exactly reversed, with oil accounting for 60 percent of primary energy consumption and coal for just 25 percent, with natural gas rapidly catching up.

Yet the institutional powers of the evolving European communities were never updated to reflect this tectonic shift in the energy mix. In particular, the community institutions were never given any explicit jurisdiction over oil and, later, natural gas, not to mention any general competence in the area of energy policy.

This lacuna was not the result of a lack of interest in the matter or a lack of trying. Every decade from the mid-1950s and to the mid-1990s saw at least one effort to establish a general European energy policy, but none of these came to fruition. The issue of bringing about integration of the conventional energy sector was raised at the 1955 Messina conference, which was intended to revive the integration process after the failure of the European Defense Community the previous year, but it was quickly dropped in favor of a narrow focus on atomic energy (Diebold 1959, 646). In the early 1960s, the member states tasked an Inter-Executive Working Party on Energy with defining a community energy policy, but the resulting memorandum on the subject was not translated into explicit policy (Black 1977, 181). Then in 1968, the recently merged Commission, on its own initiative, presented its “First Guidelines for a Community Energy Policy,” which laid out the case for such a policy and offered a number of concrete measures for creating a common market in the energy sector, but the Council of Ministers could agree on only a set of general principles (CEC 1968; Black 1977, 182-83). Thus, according to one assessment, “by the mid-1970s, efforts to establish a comprehensive

energy policy [had] resulted only in agreement in principle on what the parameters ought to be, without any agreement so far on a set of substantive policy instruments” (Black 1977, 165)

This lack of authority greatly limited the ability of the community to deal collectively with common energy problems, especially those posed by the oil shocks of the 1970s. Prior to the first oil shock, the community had adopted the requirement that members maintain at least 65, and later 90, days of oil stocks. The European response to the 1973 Arab oil embargo and production cutbacks, however, played itself out largely within the framework proposed by the United States, and all the community members but France would subsequently rely primarily on the IEA’s emergency oil sharing mechanism. And although, following the first oil shock, the community adopted ambitious long-term goals for energy production, consumption, and imports, it was never able to agree on concrete measures for achieving them.

Similarly, the following two decades saw several proposals for but no concrete actions toward the establishment of a common energy policy. In the early 1980s, the Commission drew up several communications that indicated the need for more joint action in the field of energy (CEC 1983). During the negotiations over the Treaty on European Union in the early 1990s, the inclusion of a new chapter on energy was proposed but not acted upon. And in 1995, the Commission prepared a White Paper on energy policy that contained a number of detailed guidelines. One again, however, the initiative languished in the face of indifference by or opposition from member states.

Instead, as new challenges and opportunities arose in the energy field, the community actors were forced to take a piecemeal approach, making use as best they could of the powers they did possess in related areas, especially for market liberalization but also, increasingly, in the

environmental realm. Employing these imperfect tools, the EU was able to make some noteworthy progress, especially with regard to the creation of a single internal energy market. Following the adoption of the Single European Act (SEA), the Commission presented a first set of draft directives and regulations meant to apply the principles contained in the SEA to the energy market, although it took a decade for the Commission's efforts to culminate in the adoption of directives to open up first national electricity and then gas markets. In addition, some progress was made in the environmental arena, with a 1990 agreement to stabilize CO<sub>2</sub> emission, a program to promote energy efficiency, and a 1997 white paper for promoting renewable energy sources. But the principal proposal to reduce the environmental impact of energy use, a carbon/energy tax, was dropped in the face of strong opposition by member states

### **B. Recent Developments: Upheaval in the 2000s**

The EU's relative neglect of energy policy underwent a profound change in the first decade of the 21<sup>st</sup> century. Those years saw a veritable explosion of proposals, directives, and regulations that touched upon almost every aspect of energy policy. The decade concluded in 2009 with the adoption of an energy chapter in the Lisbon treaty, which brought energy policy for the first time fully within the competence of the community organs.

The first part of the decade saw continuing efforts to create a single energy market. The high point of these efforts was the adoption of a second package of directives calling for full opening of the gas and electricity markets for all customers in 2007 and legal unbundling of supply and transmission functions. On the environmental side, during these years, the EU also adopted directives to promote electricity generation from renewable sources, biofuels, and greater energy efficiency in buildings, and to establish a path-breaking emissions trading system

intended to reduce greenhouse gases. With regard to the external dimensions of energy policy, the EU initiated an energy dialogue with Russia and negotiated a treaty extending the internal energy market to Southeastern Europe.

In the middle of the decade, these somewhat scattershot efforts were replaced by a more integrated approach to energy policy. In 2006, at the invitation of the national leaders, the Commission prepared a Green Paper that laid out a comprehensive general strategy for obtaining “sustainable, competitive, and secure energy” (CEC 2006). The following year, the Commission presented a more detailed energy policy Action Plan that was adopted by the heads of government that March (CEC 2007; Council 2007). This plan established three ambitious goals: to reduce greenhouse gas emissions, to increase the share of renewable energy in EU’s overall energy mix, and to reduce overall energy use in the EU all by 20 percent by 2020. Then based on the Action Plan, the Commission developed an “energy and climate package” of specific measures designed to achieve those goals, which was presented in 2008. These initiatives on the part of the Commission were largely matched by the efforts of the Council and the Parliament, which adopted numerous implementing directives and decisions between 2006 and 2009. Those years saw, among other things, a revision of the ETS and a third package of energy market liberalization measures as well as other concrete policies to promote renewables, energy efficiency, the construction of energy infrastructure, reductions in greenhouse gas emissions, and the security of energy supplies. While much remained to be done, this flurry of activity was capped by the ratification and entry into force in late 2009 of the Lisbon Treaty, which for the first time brought energy policy explicitly into the remit of the EU. Although energy policy



remained a shared competence between the EU and its member states, no longer could initiatives by the Commission be questioned as lacking a legal basis.

### **C. The Scholarly Study of EU Energy Policy**

Given the renewed significance of energy to the economic well-being of industrialized and industrializing countries as well as its increasing importance to the environmental fate of the planet, it is vital to take stock of these developments and to explore their implications. How much progress has in fact been made toward the establishment of a common EU energy policy? What factors account for this recent progress? And what are prospects for further movement toward a truly common EU policy in this area?

Despite the importance of the subject, surprisingly little has been written on EU energy policy, perhaps reflecting the limited formal competence that EU institutions enjoyed in this area until very recently. To be sure, the 1950s and 1960s saw a number of studies of the ECSC and Euratom. But the only comprehensive single volume in English on the subject since then, Manne Haaland Matlary's "Energy Policy in the European Union" (1997), appeared more than a decade ago and thus does not address the important developments of the 2000s at all. David Buchan's recently published *Energy and Climate Change: Europe at the Cross Roads* (2009) represents a welcome corrective to this general neglect of the topic, but it still suffers from some limitations. Primarily a journalistic account, it is not grounded in the broader literature on European integration and contains few citations to other scholarly works on various aspects of EU energy policy.

In addition, we contend, the subject consists of too many, often highly technical topics for any single individual to cover it with authority. Hence the approach employed here: to bring

together in a single volume a number of scholars with in-depth expertise in each of the main policy areas as well as the energy policies of the leading EU member states. In this way, we are able to offer a thorough scholarly analysis of how much, or how little, progress the EU has made toward the construction of a common energy policy in the past decade and what obstacles remain to be overcome. In seeking to offer the most comprehensive empirical analysis to date of this most complex of subjects and to answer as fully as possible our set of guiding questions, we deliberately avoided imposing a common theoretical framework across the various chapters, nor did we attempt to test different explanatory or analytical models of EU integration or policy making. Instead, our approach is empirically grounded, policy analytic in nature, and comprehensive in scope as we examine both the internal and external dimensions of the EU's emerging energy policy as well as the supranational and intergovernmental processes which are shaping its development.

#### **D. Organization of the Book**

The core of the book consists of 11 chapters divided into three sections. The first section examines recent developments in six key policy areas: market liberalization, external energy policy, EU energy relations with Russia, emissions trading, renewable energy, and energy efficiency. Each chapter in this section addresses to varying degrees the following questions:

- What actions have been proposed and what actions have been taken by the EU and member states?
- How much progress has the EU actually made in this issue area? What are the limitations of what the EU has done? How far is the EU from having a common policy in this area?

- Why were these particular policies proposed? What obstacles has the EU faced in making progress? What considerations have motivated EU bodies and member states in both furthering and impeding the creation of a common policy in this area?
- What are the prospects for further progress in this area? What obstacles remain?

The second section contains national perspectives on recent developments in EU energy policy. It focuses on the three states that have traditionally been most important in the promotion or hindrance of the development of common EU policies: France, Germany, and the United Kingdom. Each of these chapters addresses the following questions:

- What has been the country's general attitude toward a common EU energy policy?
- What energy issues has the country sought to address through the EU, and how has it sought to do so? What energy policy initiatives has it resisted and why?
- What have been the underlying determinants of the country's policy toward a common EU energy policy?
- What are the implications of the country's domestic politics for the development of a common EU energy policy?

The third section of the book evaluates recent developments in EU energy policy in terms of how the inherent cross-cutting nature of the policy arena itself contributes to or impedes the achievement of the traditional functional goals of energy policy: security of supply, environmental sustainability, and economic competitiveness. One chapter focuses exclusively on the EU's climate change policy examining both the internal and external aspects of EU policy making in this area and the challenge of balancing domestic competitiveness and global

leadership in environmental sustainability. Another chapter offers an analysis of the policymaking process at the EU level with a goal of teasing out how each of the core EU institutions has contributed to energy policy formation and its relative coherence (or lack thereof), given the varying degrees of competence and authority, dimensions of intergovernmentalism and supranationalism as well as competing institutional interests and policy preferences. These two chapters also address the following broad questions:

- What particular challenges does the EU face?
- To what degree do the policies adopted so far address those challenges?
- What more needs to be done to advance EU interests?
- What further policy developments are feasible or realistic?

A concluding chapter, co-authored by the editors, provides an overall assessment of the progress that has been made toward and the future prospects for the development of a common EU energy policy. Drawing on the insights of the individual chapters, it considers both the internal and external dimensions of this strategic policy area. Our focus is on the tensions and the complementarities between national policies and the efforts of the EU to produce a coherent energy policy as well as to assert itself as a global leader in addressing the problem of climate change. As such, we hope this volume will serve to advance both the scholarly literature and inform ongoing policy debates.

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