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Return to New Perspectives on Shared Security: NATO's Next 70 Years

The Geopolitics of Energy Security in Europe

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Since Russia cut off the gas flowing through Ukraine in 2006 and 2009, energy security has been high on the minds of NATO's member states.

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INTRODUCTION

Since Russia cut off the gas flowing through Ukraine in 2006 and 2009, energy security has been high on the minds of NATO's member states. These crises briefly halted major industrial production in the affected states and caused measurable economic harm. They also highlighted a clear vulnerability on the part of NATO countries, which could be exploited in future crises on the Eastern flank. That is why, although major decisions about individual nations' energy mixes and infrastructure investments are for those states and the European Union (EU) to make, NATO also has a distinct interest and a role to play.

The alliance has established three main priorities regarding energy security. The first is to enhance allies' strategic awareness of the security implications of energy developments. The allies created an energy security section in the Emerging Security Challenges Division at NATO's Brussels headquarters in 2010 and a center of excellence in Lithuania in 2012 to help member states maintain a thorough understanding of how energy and security interact. To this end, the allies consult with one another and partner states, share intelligence, and take counsel from relevant international organizations in the field.

The second goal is to support the protection of critical energy infrastructure, including tankers and offshore energy installations. Such infrastructure is extremely vulnerable to attacks from hostile states. Although this is arguably a national responsibility, NATO has sought to increase its capacity to protect critical energy infrastructure through training and exercises.

TABLE OF CONTENTS

1. NATO's Future Role in the Multilateral Rules-Based Order
ALICIA VON VOSS, FLORENCE SCHIMMEL, EDITORS
2. The Transatlantic Bond and the Tussle Between Cosmopolitanism and Nationalism
PETER ROUGH
3. EU-U.S. Consensus and NATO-EU Cooperation
SVEN BISCOP
4. NATO in the Era of Global Complexity
JAMIE SHEA
5. Wars of Ideas: Hybrid Warfare, Political Interference, and Disinformation
JOVANA MAROVIĆ
6. Web Wars: Preparing for the Next Cyber Crisis
NICOLAS MAZZUCCHI, ALIX DESFORGES
7. Artificial Intelligence and the Future of Conflict
CAN KASAPOĞLU, BARIŞ KIRDEMIR
8. The Geopolitics of Energy Security in Europe
VÁCLAV BARTUŠKA, PETR LANG, ANDREJ NOSKO
9. Military and Environmental Challenges in the Arctic
HENRIK BREITENBAUCH, KRISTIAN SØBY KRISTENSEN, JONAS GROESMEYER
10. The Security Implications of Crime, Terrorism, and Trafficking
THANOS DOKOS
11. The Future of Arms Control and Confidence-Building Regimes
DICK ZANDEE
12. The Future of Deterrence: Effectiveness and Limitations of Conventional and Nuclear Postures
ŁUKASZ KULESA
13. Policies and Tools for Dealing With Nonstate Actors
ALESSANDRO MARRONE, KAROLINA MUTI
14. Strengthening the Role of Human Security in NATO Operations
LINDSAY COOMBS
15. Expanding and Integrating the Agenda on Women, Peace, and Security
ESTONIAN ATLANTIC TREATY ASSOCIATION
16. Adapting the Counterterrorism Toolbox to the Postcaliphate Context
FÉLIX ARTEAGA

17. Conclusion
TOMÁŠ VALÁŠEK

Third, NATO has prioritized enhancing energy efficiency in the military. By reducing the energy consumption of military vehicles and camps and minimizing the environmental footprint of their activities, allies hope to make the energy sector not only resilient but also sustainable. To achieve these goals, NATO should fulfill the pledge it made at its September 2014 summit in Wales to establish common military standards on energy-efficient technologies. The alliance should also elaborate on the concept of green defense introduced in the same year.[1]

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ISSUES AT STAKE

Two scenarios could prompt the alliance to strengthen its situational awareness. The first is that Russia bolsters its position as a major energy supplier, which would pose risks to allied cohesion and the energy security of member states. The second is that the EU transforms itself into a low-carbon economy, which could have a destabilizing effect on the states, economies, and societies of the Middle East and North Africa (MENA).

EUROPE'S ENERGY DEPENDENCE ON RUSSIA

Russia continues to be the main supplier of gas to Europe, even if it lost the claim to be the world's top producer of gas and oil to the United States in 2018.[2] Russia is the dominant gas supplier for a number of European NATO members. Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, and Slovakia each receive between 75 and 100 percent of their natural gas imports from Russia. Six of these countries also get more than 50 percent of their oil imports from Russia.[3]

Moreover, Russia's importance as a strategic supplier for Germany is increasing as a consequence of the German government's 2011 decision to remove nuclear energy from its energy mix. The electricity baseload previously generated by nuclear power plants, currently provided by lignite-fired plants, is expected to be replaced by natural gas imported from Russia using the Nord Stream pipeline, which bypasses Eastern NATO allies. Overall, Russia's dominant position is a significant constraint on the alliance at times of confrontation and poses a risk to allied cohesion.

Current economic sanctions may be successful in deterring Russia's adventurism in the Baltic. But the measures have a questionable ability to prevent Russia from further expanding its production, including of nonconventional oil and gas. In 2018, Russian oil exports grew by 2 percent and accounted for 13 percent of the global total, while gas exports rose by 5.4 percent, representing 26 percent of the world total.[4]

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Ideally, Russia would act as a standard market player in a liquid and competitive energy market. That may prove an impossible goal, however. Russia has a 40.6 percent share of natural gas imports to the EU and is the cheapest supplier, so there are few incentives for buyers to replace it with another source.[5] NATO members with large buying power, such as Germany, Italy, or France, can exercise their market power and obtain discounts and guarantees from Russia directly. They therefore have structurally different incentives from those NATO members with less purchasing power, which may prefer the EU's internal market framework. This is starkly illustrated in the division of views over the Nord Stream 2 pipeline, which is under construction from Russia to Germany but is opposed by the United States and a number of Baltic and Central European allies.

Being so dominant, Russia has few structural reasons to do anything other than use this power to expand its position further. This is especially true given domestic pressures in Russia to maximize sales of energy resources abroad and use this revenue to subsidize domestic consumption. Therefore, it is unrealistic for NATO to expect to be able to change Russia's approach. Effectively, the alliance's goals should be, first, to have access to affordable energy supplies without being highly dependent on Russia and, second, to have a backup option.

The allies' most powerful tools for countering the monopolistic abuse of power by a supplier are transparency in the energy trade and the EU's market rules. Smaller European allies, in particular, can use these market rules to compensate for a relative lack of buying power vis-à-vis Germany or Italy. In the past, Russian suppliers would use this asymmetry to offer Germany better conditions than the Czech Republic or Bulgaria.[6]

The European Commission, the EU's executive, has the duty to investigate such cases, fine abusers of market power, and seek remedies. This independent regulatory function of the commission provides protection from the corrupting effects of Russia's divide-and-rule policy. The EU does not always apply its market rules uniformly, however.[7] In 2018, the commission accepted the binding commitments of Gazprom, rather than impose a fine on the Russian energy giant, for behavior that clearly discriminated against Central Europe in favor of Germany.[8]

The growing divergence of interests vis-à-vis Russia between Germany and the United States—and, sometimes, within these countries—could have a negative impact on NATO cohesion. If the alliance does not speak with one voice, Russia may succeed in negotiating separately with individual allies and offering them different deals to reward or punish their positions. Russia, which also deploys corruption and the financing of extremist political parties as offensive tools to undermine the West's cohesion and spread its alternative governance model, would greatly weaken security in Europe.

THE FUTURE OF FOSSIL FUELS

In 2007, the EU embarked on an ambitious path toward energy transformation.[9] The union wants to drastically reduce its CO2 emissions, primarily by replacing fossil fuels with clean energy. The pressure on the economies of oil and gas exporters should not be underestimated. For NATO, the push for cleaner energy carries not only many obvious advantages but also a few poorly understood risks.

Aside from climate change, the main reason for Europe's drive toward new energy sources is a simple economic argument: the EU spends roughly $445 billion each year on energy imports.[10] Replacing oil and gas with either solar, wind, or some new, not yet fully tested renewables makes economic and social sense. The trend toward diversification away from fossil fuels is therefore unlikely to change. Rather than sending $445 billion a year to Riyadh and Moscow, NATO countries could spend that amount on domestic producers and employment at home.[11]

This would have a knock-on effect on the economies and politics of countries that depend heavily on oil and gas exports. These include Algeria, which receives 98 percent of its income from energy, Russia (75 percent), and Saudi Arabia and other Gulf countries (more than 80 percent).[12] The first reaction of many practitioners is to disregard the whole issue. One common argument is that even if Europe abandons oil and gas, other countries will continue to need those resources. But if the EU finds an economically and environmentally viable way to replace fossil fuels, China, India, and other major importers of oil and gas will follow suit. There will still be some demand for oil and gas for chemical, petrochemical, and pharmaceutical production, but it will be far below present levels, and therefore prices will fall.

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The consequences for fossil fuel producers will differ from one country to another. Some will see social unrest, political crises, or even state failure. The latter could result in migration waves toward Europe or the United States. Failed states, particularly if they become a haven for terrorists, could draw allies into a military intervention.

Because not all producing countries will be affected in the same way, NATO will need nuanced, country-specific policies and analyses for each state to stay ahead of possible risks. Yet it can be safely assumed that no exporter will be happy to lose income. In 2018, Saudi Arabia, Russia, Iraq, the United Arab Emirates, Iran, and Kuwait each recorded over $50 billion in revenues from oil exports.[13]

Russia stands apart from the rest in terms of risks. As a nuclear power, it is a country whose possible economic collapse all allies should fear. Two decades ago, worries that internal instability in Russia would cause nuclear weapons, material, and know-how to fall into the wrong hands prompted the United States to financially support the continuous work of nuclear laboratories and scientists in the country. It is hard to imagine Russia ever agreeing to a similar arrangement now or in the future.

RECOMMENDATIONS

Allies, especially smaller ones, should avoid the misperception that they can get special benefits by dealing with Russia on a bilateral basis. This is a flawed view that makes states vulnerable. The EU’s market-based approach and transparency serve as a line of credible defense, especially for smaller and more susceptible member states. If the market rules are followed and the exceptionalism of Germany and France is curtailed, the elites of smaller European allies will be more resistant to the lure of corruption.

Internally, allies should refrain from employing aggressive economic measures, such as punitive tariffs, against each other, because doing so undermines political cohesion. Such measures stifle economic growth, weaken mutual trust in the alliance, and make allies less willing to buy U.S. liquefied natural gas, which would diversify their sources and strengthen their energy security.

Energy trade should become an opportunity to build trust in NATO’s neighborhood, overcome differences, and foster interdependence. Allies should avoid undermining the security of their neighborhood by supporting pipelines that bypass Ukraine or Belarus and therefore make them more vulnerable to energy blackmail. NATO should use the energy trade market as a chance to stabilize energy-transit countries and bring them into cooperation agreements. Potential risks could be managed through shared oversight or by

European countries taking responsibility for energy supplies at the Russian-Ukrainian border and supporting Ukraine in dealing with its domestic governance problems.

Understanding the economies and political systems of oil and gas exporters is essential, because it could help avoid strategic surprises in the future. For example, allies underestimated the importance of former Libyan strongman leader Muammar Qaddafi's handouts to the population in keeping the country together. A state breakup similar to that seen in Libya could happen in other oil- and gas-producing countries in North Africa and the Middle East if incomes from energy exports diminish substantially.

Finally, NATO (and the EU) should support the transfer of new energy technologies to oil-importing countries. Dependence on oil imports is especially high in Africa, where only a few countries, such as Algeria, Angola, Libya, and Nigeria, are exporters. Most will benefit if a domestic replacement for oil is found and their resources are spent on improving the well-being of local populations.

NOTES

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