EU-OPEC Energy Dialogue and the Global Energy Governance

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1 Introduction

In contrast to other areas of human activity such as trade and finance, there is no single organization that covers the whole field of energy; there is no global energy organization.¹ Instead, there exists a complex of energy-related organizations, clubs and forums. The global energy market is governed by so-called “governors”, whose number is estimated as up to 128.² Together they form a “regime complex”, defined as an “array of partially overlapping and non-hierarchical institutions governing a particular issue area.”³

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Global Energy Governance (GEG) is multi-layered and fragmented.4 The discussion on GEG was given impetus by the 2005 G8 summit in Gleneagles, with three transitions in the global energy system having raised interest in how it is governed. The first was growing interest in climate change, climate protection and the decarbonization of the energy system. The second was geopolitical change, including the collapse of the west-east division and the rise of developing countries such as China and India. And the final transition was growing volatility on the oil and gas markets, with alternating periods of rising and falling prices.5 GEG is defined as “international collective efforts undertaken to manage and distribute energy resources and provide energy services”.6

Although the importance of inter-organizational relations has been emphasized numerous times, current research concentrates primarily on relations between the International Energy Agency (IEA), the Organization of Petroleum Exporting Countries (OPEC), the Energy Charter Treaty (ECT), the G7 and the G20.7 The aim of this chapter is to enlarge the scope of such research by taking a closer look at the relations between the European Union (EU) and OPEC – a subject that has not enjoyed much interest yet.8 This may be surprising because the EU is the second-biggest oil consumer in the world, while OPEC still dominates global oil production and trade.

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The EU and OPEC are unquestionably two of the most relevant “governors” of global energy.

Since 2005, bilateral relations between the EU and OPEC have developed considerably, and are now very lively, including consultations and exchanges of views on a regular basis. They have also published joint studies. OPEC and the EU have built efficient channels of communication. But they have not gone beyond these things, a fact which confirms that, firstly, states, not organizations, are the main actors on the energy market, and secondly, members of these two organizations have mostly contradictory interests, which preclude or at least restrict their ability to build and to implement a common policy agenda. One of their few common interests is the stability of the oil market. EU-OPEC relations confirm the paradox of sovereignty defined by McGowan. Due to the globalization of the energy market, states have less control over energy policy, but are still not ready for deeper cooperation.9

The article has the following structure: in the first part, I analyze the roles of the EU and OPEC in GEG. The second part concerns the development of the oil market in the 21st century. In the third part, I analyze the evolution of EU-OPEC relations.

2 EU and OPEC as actors in GEG

The literature on the nature of OPEC and the EU is abundant; OPEC has been especially well researched due to its importance for the energy market and the crucial role it has played in the evolution of GEG.10

OPEC unites most of the biggest crude oil exporters, and together its members control over 70% of proven global oil reserves. Only a few large exporters, most notably Russia, Mexico and Norway, are not OPEC members. Since the organization was founded during the Baghdad conference in 1960, its activities, successes and failures

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have marked the evolution of the global oil market and affected the transformation of the global energy market.\textsuperscript{11}

The literature on OPEC may be divided into two groups. The first group of authors sees OPEC as an economic actor; they try to model its behaviour using economic models. The second group of authors is sceptical about these efforts, and sees OPEC as more of a political organization, with political motives and interests being foremost in the minds of its members.

Most OPEC-related literature concentrates on pricing power. The conventional wisdom and popular argument presented is that OPEC is a cartel.\textsuperscript{12} Shortly after the first oil crisis, Stephen D. Krasner described oil as especially susceptible to cartelization.\textsuperscript{13} Other frequently presented concepts are: OPEC as a “weak cartel”\textsuperscript{14}, OPEC as a loosely co-operating oligopoly\textsuperscript{15} or a “coordinated oligopoly”\textsuperscript{16}, and OPEC as a dominant firm.\textsuperscript{17} This last hypothesis, though, was negatively verified by A.F Alhajji, D. Huettner.\textsuperscript{18} The collapse of


\textsuperscript{13} See Krasner, Stephen D.: Oil is the Exception, in: Foreign Policy, No. 14, 1974, pp. 68-84.


the oil prices in the mid-1980s challenged the understanding of OPEC as an effective wealth maximizer. Robert S. Pindyck observed that economic rationality does not apply to OPEC as strongly as was believed in earlier decades, while Robert Mabro became convinced that OPEC does not maximize prices but tries to keep them above the level that would result from a competitive market structure.\footnote{See: Fattouh, Bassam & Mahadeva, Lavan: OPEC: What Difference Has it Made?, Oxford Institute for Energy Studies, MEP 3, 2013, p. 11.} It was also discovered at one point that OPEC members had a tendency to overproduce\footnote{See Blaydes, Lisa: Rewarding Impatience: A Bargaining and Enforcement Model of OPEC, in: International Organization, Vol. 58, No. 2, 2004, pp. 213-237.} and the only way to restore cooperation was a price war.\footnote{See Almoguera, Pedro A. et al.: Testing for the Cartel in OPEC: Non-cooperative Collusion or just Non-cooperative?, in: Oxford Review of Economic Policy, Vol. 27, No. 1, 2011, pp. 144-168.} The quota system introduced in the early 1980s to better manage the oil supply from OPEC countries proved to be ineffective.\footnote{See Moran, Theodore H.: Managing an Oligopoly of would-be Sovereigns: The Dynamics of Joint Control and Self-control in the International Oil Industry Past, Present, and Future, in: International Organization, Vol. 41, No. 4, 1987, pp. 575-607.} Al Nasrawi noticed as early as 1985 that “OPEC is simply OPEC, and to attempt to force it into any of the frameworks of conventional economic analysis is a futile exercise”.\footnote{Al Nasrawi, Abbas: OPEC in a Changing World Economy, Baltimore, 1985, p. 89.} This observation was confirmed almost thirty years later by Cairns and Cal ficura, who wrote that OPEC policy “has too many facets for a tractable mathematical model”\footnote{Cairns, Robert & Califucura, Enrique: OPEC: Market Failure or Power Failure?, in: Energy Policy, Vol. 50, No. C, 2012, p. 571.}

The second group of authors sees OPEC as mainly a political player. Noreng defines OPEC as a representation of raw-material producers.\footnote{See Noreng, Ostein: Oil Politics in the 1980’s: Patterns of International Cooperation, New York, 1978.} OPEC member exports are the result of their budgetary and foreign policy priorities. Oil is an instrument of their foreign policy.\footnote{See Claes, Dag: The Politics Of Oil-producer Cooperation, Boulder, 2001.} In one of the most recent studies, Colgan argues that “The idea of OPEC as a cartel is a ‘rational myth’ that supports the organization’s true principal function, which is to generate political
benefits for its members. One benefit it generates is international prestige.”

Despite the ineffectiveness of OPEC in market management, it has not resigned from this goal and, in face of the shale revolution, is increasing cooperation with non-OPEC exporters. The reason for this is the dependence of OPEC members on income from oil. OPEC is also developing cooperation with its customers. After the 1970s and 1980s, relations between OPEC and consumer organizations were hostile, but during the 1990s they began to improve somewhat, and a dialogue started. One of those customers is the European Union.

The literature on the role of energy in the EU may be divided into two broad groups. In the first, authors concentrate on how energy issues are managed within the EU, studying how the activities of the EU institutions, mainly the European Commission and the European Council, are coordinated. Andrea Prontera argues that the EU has evolved since the late 2000s from a provider state to a catalytic state. A provider state foresees a limited role for public intervention and emphasizes multilateral patterns of energy diplomacy. In the case of the EU, this was manifested on the one hand in the privatization of state-owned enterprises from the energy sector and the liberalization of markets, and on the other hand in the promotion of internal market rules externally. In the early 2000s, the EU began to demonstrate certain characteristics of a catalytic state, where governments are strategic players in a liberalized market environment. They are keen to support certain investments by market participants where they believe these further improve the energy security of the country. Along with national governments, the European Commission has become an important player in promoting energy security.”

In the second group, authors focus on certain areas of energy policy, namely: the creation of an internal energy market, the interdependence between energy policy and climate change policy, and energy security.30

In the 21st century, energy security has come into the forefront of the political thinking of EU leaders, and is now one of the organization’s major foreign policy challenges.31 The major factor determining this has been the repeated conflicts over gas between Russia and Ukraine in 2008/2009, since these have affected several EU members. The outbreak of the conflict in Ukraine in 2014 only exacerbated this, as is strongly reflected in the current literature on EU energy security.

One of the most influential publications on EU energy policy was written by Andreas Goldthau and Nick Sitter. In EU energy policy, they argue, it is continuity that dominates. They characterize the EU as a regulatory state that owes its market power to a large single market and whose competition policy reaches beyond its external borders. Interestingly, unlike most authors writing on EU energy policy, Goldthau and Sitter devote a whole chapter of their book to the role of the EU on the oil market. They argue that EU policy attempts to restrict market failures.32 The EU’s main activities focus on the supply of gas. LNG terminals have been built around Europe, and partnerships with LNG producers are sought. Also, the construction of new gas pipelines has been prioritized. The EU strives to promote its market value in the neighbourhood (Energy Charter Treaty). Finally, the EU invests in new technologies (renewables) and promotes them to reduce the importance of fossil fuels.33 Generally, EU energy policy has been resilient in respect of European

integration, especially in the context of the security of the energy supply.\(^{34}\)

The 21\(^{st}\) century has been seen as a revival of energy diplomacy defined as

“[...] the way countries give their energy companies a competitive edge in bidding for resources by using the state’s power: consumer countries strengthen their supply situation by diplomatically flanking energy contracts, whereas producer countries use diplomacy to enhance access to markets or reserves.”\(^{35}\)

As shown by Goldthau and Sitter, the EU prefers regulation over direct involvement in bilateral energy deals. Despite its promotion of certain infrastructure projects, the term energy diplomacy is still rarely used in the context of the EU.\(^{36}\) This is a consequence of a polarity of opinions on EU energy diplomacy, as to whether it should evolve towards a more geopolitical stance and an erosion of the market-liberal energy paradigm,\(^{37}\) or that it should remain rooted in that paradigm.\(^{38}\) A symbol of the emerging energy diplomacy of the EU may be the adoption by the Foreign Affairs Council on 20 July 2015 of Council Conclusions on EU Energy Diplomacy, which includes an EU Energy Diplomacy Action Plan. In it, four pillars of EU energy policy are set out: 1) “Strengthen strategic guidance through regular high-level engagement”; 2) “Establish and further develop energy cooperation and dialogues”; 3) “Support efforts to enhance the global energy architecture and multilateral initiatives”;

\(^{34}\) See Buchan, David: Energy and Climate Change: Europe at the Crossroads, Oxford 2009, p. 79.


and 4) “Strengthen common messages and energy diplomacy capacities.” Interestingly, neither OPEC nor any of its member states are directly named in the document, unlike other major EU energy partners such as Russia or Norway. Neither does the European Energy Security Strategy from 2014 mention OPEC.

3 The market situation in the first and second decades of the 21st century

The EU and OPEC are among the most important institutions on the oil market. In this century, OPEC is responsible for over 40% of the global oil supply. The EU, on the other hand, was responsible for over 17% of global consumption in the first decade of the 21st century. That share fell to 13.5% in 2017 due to reduced demand within the EU (an increase in efficiency) and growing demand in Asia. Despite its falling share, the EU is still the second-largest oil consumer in the world – behind the USA, but ahead of China.

The EU and OPEC may be defined as organizations that unite countries having conflicting interests. EU members are oil net importers, while OPEC unites exporters. In the first few years of this century, the worry that the world would soon reach a maximum level of oil production (peak oil) became widespread, and even the prospect of wars over access to energy resources began to be discussed. Due to the fast-rising demand in Asia and falling production in non-OPEC countries (the USA, UK and Norway), the reserves controlled by OPEC gained in importance. It was believed that only OPEC members had the potential to raise production and assuage the worries of oil importers about energy security (or at least security of supply). Control over oil resources gave OPEC members power in international relations. But in the second decade of the 21st century, the

42 See ibid, p. 15.
situation changed. The shale revolution in the United States and a slowdown in demand growth resulted in overproduction. The emergence of shale oil changed the balance of power on the market, with both producers and exporters being seen as victims of the shale revolution. For consumers, such as the EU, the emergence of shale strengthened their market position. Although the hopes that it would be possible to replicate the US shale revolution in Europe were not fulfilled, and the shale revolution remains essentially a US phenomenon, it did lead to a price drop that benefited all consumer countries.

The EU-28’s import dependency on petroleum and petroleum products grew from 74.1% in 1995 up to 86.7% in 2016. Despite that, the EU does not see oil dependence as an immediate threat to its energy security – a consequence of the interdependence between market participants, and the “availability of oil stocks, and the ability to trade and transport oil globally”. In the context of oil, for the European Commission the biggest threat is the long-term dependence of the transport system on imported oil. That system is currently fully dependent on petroleum products, and replacing them will require time and huge investments; nevertheless, this “is essential for meeting the European Union goals of decarbonization and energy security”.

It is also important to remember that, although OPEC members are collectively the most important suppliers of oil to the EU, with a 40% share of EU imports, it is the Russian Federation that is “the EU’s most important energy supplier”. This is not only because Russia is the biggest single supplier of oil to the EU, but primarily

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43 See EU energy in figures. Statistical Pocketbook 2018, p. 70.
45 See ibid, pp. 10-11.
because Russia is the dominant natural gas supplier. In 2017, the EU’s three most important OPEC oil suppliers were Iraq, Saudi Arabia and Nigeria.48

4 EU–OPEC cooperation

In 2004, contacts between the EU and OPEC intensified. The Dutch EU presidency and the European Commission on the one hand, and the president of OPEC on the other, agreed to open an EU-OPEC Energy Dialogue. The first EU-OPEC High Level Meeting took place in Brussels in June 2005. In a joint press release, the two sides declared that they were interested in building “an effective framework enabling an exchange of views on energy issues of common interest”. Of course, the main area of interest was the oil market. The hope was that this exchange of views should contribute “to stability, transparency and predictability in the international oil market”. The goal was to increase “transparency in financial markets and their impact on the oil market”. The first High Level Meeting resulted in several important declarations. Both sides declared their readiness to cooperate both when prices are high and when they are low. They agreed that “extreme prices in either direction, over a sustained period, could create problems for both producers and consumers”, and so they set market stability and reasonable prices were a common goal. They also agreed to work towards increasing data transparency, and identified three areas of mutual interest: energy policy, energy technologies, and energy-related multilateral issues.49

Over the next decade, the EU-OPEC Energy Dialogue became an important forum for exchanging views. The press releases issued after regularly held summits announced important information, not only on the development of bilateral relations, but also on broader market developments. During the second EU-OPEC High Level Meeting, the EU and OPEC welcomed the formal inauguration of


the International Energy Forum’s Secretariat in Riyadh, and the official launching of a Joint Oil Data Initiative (JODI) database for improving data transparency.\(^{50}\) During the third High Level Meeting, the phrase ‘security of supply and security of demand were two faces of the same coin’ was used for the first time by OPEC and the EU. It was to be repeated in future press releases as well, showing that the two organizations have tried to build non-confrontational relations and to consider the interests of other side in the policies of each of them.\(^{51}\) During the fourth High Level Meeting, the EU-OPEC dialogue itself was praise for having

“[…] helped strengthen key channels of communication across the two groups, and its accompanying joint roundtables, workshops and studies provide the facility to take an in-depth look at specific topics.”\(^{52}\)

The two sides reassured each other that they were interested in market stability, which is important in the interdependent global economy.\(^{53}\) During the fifth High Level Meeting in June 2008, OPEC and the EU praised the Jeddah Energy Meeting as an important example of producer-consumer dialogue. That meeting took place as oil prices achieved historical record-high prices.\(^{54}\)

The sixth High Level Meeting took place in the middle of the global economic crisis.\(^{55}\) The seventh High Level Meeting was held after the economic crisis had started, growth in oil demand had slowed,


\(^{53}\) See ibid.


and prices had fallen, as was clearly reflected in the press release issued at the end of the meeting. The fact “that the global economy is emerging from the crisis” was indicated, but it was also stated that there were strong differences between different regions. The document again discussed the need for market stability. During the meeting, the two sides also discussed the issues of renewables and sustainable development, and agreed that “fossil fuels would continue to meet most of the world’s energy needs, with oil playing the leading role”, in the decades to come. The eighth High Level Meeting took place during a time of political unrest in certain North African countries, some of which are important oil suppliers.

During the ninth High Level Meeting, a divergence of interests again became more visible. In his keynote speech, the EU Commissioner for Energy, Günther Oettinger, discussed the potentially adverse effect of high oil prices on the global economy, especially since global economic growth was fragile at that time. At the same time, he suggested that oil producers were not investing enough in “production capacities, which may lead to future supply bottlenecks”. Hani Abdulaziz Hussain, the Kuwaiti Minister of Oil, argued that price volatility on the market was the reason for the uncertainty in the global economy and excessive speculation. He spoke in favour of stronger regulation of financial markets and better oversight of the “paper market”. The OPEC Secretary General, Abdalla Salem El-Badri, underlined in his speech the importance of stable prices for long-term investments. He confirmed that exporters understood the worries of importers over the security of the oil supply, but underlined that exporters also expect security of demand.

During the tenth High Level Meeting in 2013, much more attention was paid to issues such as climate change, environmental protection, diversity of energy sources to satisfy future energy demand,

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and sustainable energy for developing countries.\textsuperscript{59} During the eleventh High Level Meeting, one of the topics discussed was non-conventional energy resources. Representatives of OPEC predicted that North American tight oil production may rise in the coming years. At the same time, they expressed the view that production would stabilize around 2017-2019, and then enter into a decline. In almost ritual style, the OPEC delegation reassured its European partners that the market was well supplied.\textsuperscript{60}

The twelfth EU-OPEC High Level Meeting in March 2016 was held in completely different circumstances. Since the last meeting, the price of oil had fallen by 70\%, investments had declined, and in consequence, employment in the petroleum sector had dropped significantly. The two sides shared the view that a radical reduction in investments could lead to an undersupply on the market in the future. They also shared concerns over the adverse consequences of price swings. Another issue discussed was the Paris Agreement adopted in December 2015, which both sides welcomed.\textsuperscript{61}

Apart from these regular EU-OPEC High Level Meetings, other events in the format of Round Tables took place, at which various specific issues were discussed. In 2005, an OPEC-EU Workshop on the Impact of Financial Markets on the Oil Price was held; in 2007 there was a Round Table on Energy Policies, and in 2008 a Round Table on Carbon Capture and Storage. Over the next decade, further Round Tables were organized that resulted in the publication of joint reports: in 2014, a report entitled “Petrochemical Outlook: Challenges and Opportunities”, and in 2016 another report entitled


“Prospective for Future Production of Non-Crude Liquid” was published.

5 Conclusions

EU-OPEC cooperation has become an important element of the GEG regime complex. The diversified formats of EU-OPEC cooperation are a part of a broader trend of rising inter-institutional cooperation. Since 2005, EU-OPEC High Level Meetings and other forms of cooperation have made a lively exchange of views possible, and have been held regularly regardless of whether oil prices have been high or low.

As the above outline of events shows, cooperation between OPEC and the EU has followed the evolution of the market in the 21st century. At first, discussions between them concentrated on security of supply, rising and volatile prices, and the future of the oil supply. Later, market instability and the consequences of high prices during the global economic crisis, and then the unstable economic situation, especially in Europe, became the main subjects of interest. There has been an observable increase in the relevance of climate change, environmental protection, sustainable development, and the decarbonization of energy in the EU-OPEC dialogue. During the last two High Level Meetings, the consequences of the emergence of tight oil for the oil market were discussed. At the most recent High Level Meeting, there was extensive discussion on the consequences of the oil price collapse for the future of the oil market and the energy security of exporters and importers.

EU-OPEC cooperation is a symbol of both institutions’ growing understanding of their interdependence. The press releases issued at the end of High Level Meetings show that both groups of countries are seeking to find a way to balance their various interests. Aspects such as market stability are underlined. But this, of course, does not eliminate the fundamental difference between the EU and OPEC: the EU seeks to reduce the long-term importance of oil for its econ-

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omy, while OPEC wants to maintain the relevance of oil to the global economy in the coming decades.