RE-ENERGIZING THE TRANSATLANTIC RELATIONSHIP

Why Energy Cooperation Will Strengthen the US-Europe Relations

Transatlantic Policy Symposium 2019 at Georgetown University

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Abstract

This article argues that the discourse on shared liberal values is distracting policymakers and pundits from what truly defines and upholds the transatlantic relationship, namely, common strategic, security, and economic interests. By highlighting energy cooperation as a future key area of the relationship and by providing recent examples of positive developments on the energy front, this article contends that the transatlantic relationship will continue to expand and intensify.

The Strategic Nature of the Transatlantic Relationship

If you were to define the transatlantic relationship and the underlying supposed liberal values it is built on, I am not sure I would be able to do so apart from offering some vague reference to democracy or the rule of law. While we certainly share a similar sense of democracy and in a broader sense, liberal values, America and Europe (acknowledging that values within Europe diverge too) differ in various subtle ways that lay bare the fact that our cultures are maybe more apart than we would like or make them to be. For example, as a Swiss person, and I am aware that this serves only as a single data point, the US has quite a distinct take on the freedom of speech, privacy, voter rights, gun laws, social welfare, death penalty, or the rehabilitation of criminals, just to mention a few topics.

This difference matters because when we talk about “transatlantic”, I would argue that pundits and politicians on both sides of the Atlantic usually mean more than just a mere description of a security alliance. As Madeleine Schwartz aptly suggests in her article, “Atlanticism was the basis for a security mission, NATO, but it was also meant to describe a culture: the supposed affinity of the US and Europe.” Many Americans trace their roots back to Europe and Europeans happily consume Hollywood. And yes, we are allies. But I would argue that we are not (or no longer) friends.

To me, this whole notion that the transatlantic relationship and with it the prosperity of the world are built on shared liberal values becomes questionable, at least in today’s world. It might have been that during the early days of NATO, Bretton Woods, and the Marshall Plan that things had looked differently and US and European policymakers were honestly convinced that their shared way of thinking would spread across the globe and guide it. China and others beg to differ. The world has changed since, but the idea of supposed transatlantic dominance has remained and it seems to be cited frequently for nostalgia’s sake. The Atlantic Council, a DC foreign policy think tank which epitomizes this sort of thinking, still states that “(a)ll its programs are … based on the conviction that a healthy transatlantic relationship is fundamental to progress in organizing a strong international system.”

I argue here that we need to accept the fact that while America and Europe remain essential to the world, we are no longer the sole provider of global stability, or for that matter, global instability. As the epicenter of power inevitably shifts to the East and the world becomes multipolar, the transatlantic relationship will become, or already is, only one of various important bilateral relations, with China, India, and other emerging powers forming new key global relationships.
Given the stated goal among policymakers of strengthening the transatlantic relationship, accepting this power shift to the East now will allow us to position us early and strategically for the future. More importantly, however, it gives us the opportunity to identify what really matters for the transatlantic relationship and how we can benefit most from each other. Because, beyond all the talk around values, there are obvious reasons why, from a strategic and economic point of view, it makes sense to protect and promote the transatlantic relationship. Also note that this is not a dismissal of the idea of liberalism as such, as I am convinced that it is the best system of government for both America and Europe. What I am arguing for is that we return to a bilateral relationship driven first and foremost by pragmatism, as described in the next paragraph.

In brief, NATO was founded because it created a cost-efficient security buffer for the US toward the East while Europe was, and still is, able to enjoy the protection of the US military might. Bretton Woods allowed for economic growth and open markets that mainly benefitted the US and the UK.iii The Marshall Plan was a trade-off of US financing for US influence and exports in Europe. It follows that the transatlantic relationship has always been about strategic, security, and economic interests and that is what it should be once again.

This pragmatic approach to the transatlantic relationship, or put differently from a methodological point of view, assuming a scenario where liberal values are not a key pillar of the transatlantic relationship, leaves us with a clear trajectory. In order to justify and strengthen the transatlantic relationship we need to focus on existing and equally important, emerging areas of converging strategic interests. The usual culprits are security and trade. However, this article intends to highlight an area with great potential where the interests of the US and Europe clearly overlap: energy cooperation, specifically on natural gas.

The Convergence of European and US Energy Interests

The global energy landscape has seen some large shifts in the past decade, some of which have major implications for the transatlantic relationship. There is the often-cited shale revolution that is likely to transform the US from a major energy importer to a net energy exporter in the near future.iv Natural gas, due to the boom of liquefied natural gas (LNG), is poised to become a global commodity akin to oil. Russia, after its decision to invade Crimea in 2014, has faced increased sanctions which have put a strain on its domestic energy sector and limited its access to international financial markets. OPEC is slowly but surely losing market power and influence. Europe is consolidating its energy market and Asia’s vast hunger for energy continues to grow. Last but not least, concerns for the environment are driving renewable energy and energy efficiency technology advancements. Within these developments, several complementary energy interests emerge for both the US and Europe as outlined below.

Restrict Russia’s energy weapon: The US’ emerging role as an LNG exporter opens up additional avenues of foreign policy and statecraft. It has been a long-term policy goal of America to diversify Europe’s energy supply, mainly to mitigate Russia’s influence over Central and Eastern Europe, and to a lesser degree, Europe in general.v Given Russia’s reliance on revenues from hydrocarbons sales,vi the easiest way to restrict Russia’s “energy weapon” is to compete with it in its main export market by providing European buyers with cheaper alternatives. While controversial in my view, the continued staunch US opposition to Nord Stream 2 and Turk Stream is another indication of this long-term policy goal.vi

US access to gas export markets: In addition, while relatively small in actual numbers, US exports of LNG are increasing rapidly, and it is safe to assume that the current and future US
administrations will continue to seek out new export markets, Europe being one of them, to benefit from the new-found energy abundance. As the price differentials between regional gas prices converge and gas becomes more fungible, transport costs will increasingly be the main price driver of LNG. Given that almost all existing and planned US LNG export terminals lie in the gulf of Mexico, viii transportation to Europe will cost considerably less than to other key markets in Asia, making US LNG very attractive to European buyers and vice versa. ix In addition, while it might not solve the US administration’s efforts to close the politically important trade deficit due to the relatively small volume currently being traded, x energy trade will certainly help decrease it.

Diversification of European energy sources: As has been discussed widely in the media with the attention given to the Nord Stream 2 project, part of Europe’s recent energy security strategy xii has been to diversify its energy sources with the main goal to decrease its reliance on Russia’s energy exports, specifically piped gas. Russia, benefitting from its favorable geography and the existing USSR infrastructure, has always had a natural advantage over other producers and it established itself quickly as Europe’s main gas provider ever since gas became vital to Europe in the 1980s. While the emergence of US LNG will not replace Russian gas in Europe, it will certainly be an appealing and welcome addition to it.

The environment: The second important aspect of Europe’s energy strategy is its commitment to combat climate change and to fulfill its ambitious energy efficiency and emission reduction goals. Accordingly, renewable energy developments and energy efficiency initiatives have received a lot of attention. However, it has also become clear that natural gas presents a viable and much-needed alternative to other more polluting fossil fuels in power generation, especially as it proves to be 50% cleaner than coal, xii let alone being currently more accessible and readily available than renewable energy. This creates stable demand for natural gas and as BP projects, natural gas will only become more important in the European Union’s energy mix, making up 27% in 2040 compared to 24% in 2016. xiii

Energy has for a long time played a major role in US foreign policy and ever since the OPEC oil embargo in 1973 and the resulting price spike, the US has defined the strategic aspect of energy in terms of its dependence on oil and gas imports. xiv Indeed, the US continues to rely on petroleum imports to fuel its transport sector. It requires a liquid global oil market to keep the politically relevant gas prices down. However, with the emergence of LNG the US is now able to take a more active role, or in the words of Agnia Grigas, play the “politics of supply” as reflected in the identified key interests above. xv For Europe, hard-pressed to find new sources of natural gas due to the fact that its domestic sources are relatively limited and public opposition to fracking hinders the extraction of unconventional sources, these global developments offer more natural gas import options and a smoother transition away from dirtier fossil fuels. In particular, affordable US LNG presents a viable alternative to coal for major emitters like Germany and Poland. Moreover, in addition to getting closer to achieving its ambitious climate change targets, Europe will also decrease its reliance on Russian gas, while the US simultaneously limits Russia’s “energy weapon”. Finally, the US would be cultivating one of its future key energy market.

It follows that the US and Europe are, on paper, obvious energy cooperation partners. Note that cooperation should be seen broadly, but that the focus should be placed on trade, joint projects, and investments.
The Future of Transatlantic Relationship and Energy

It is positive to note then that we begin to see that European and American policymakers and private sector actors are coming to the same conclusion of mutual benefit.

On a political level, several key events indicate the growing willingness to cooperate on, and trade with, energy. There is the European Commission President Juncker’s visit to the White House in July 2018 and the resulting commitment of both sides to facilitate more US natural gas shipments to Europe. Moreover, the EU-US Energy Council, established in 2009 to improve bilateral energy cooperation, has met annually except for 2015 and 2017. Note that the Council is chaired not only by the respective energy ministers but by the EU HR/VP and the US Secretary of State too,xxi highlighting the strategic importance of energy cooperation for both sides. In addition, the Three Seas Initiative, set in motion by Croatia and Poland in 2016 and now boasting 12 Central and Eastern European members, enjoys the full support of the USA, mainly because the initiative aims to improve cooperation in the areas of energy and infrastructure. US President Trump attended the Three Seas Summit 2017 and voiced his support once again during the 2018 Summit. Finally, it is the European Commission’s stated goal for each member state to have access to the global LNG market, including US gas.xvii

However, it is not just all talk and no action. There are concrete projects and numbers that substantiate the policymakers’ goals. The first American LNG shipment to Europe took place in April 2016.xviii In the same year, Europe received 5 percent of total US LNG exports. By the end of 2017, this number had already gone up to 13 percent.xix Furthermore, the construction of additional import terminals in Europe,xx coupled with recent US-China trade tensions, suggests that the US’ imprint on Europe’s energy market will continue to grow. Moreover, the recently signed multi-decade supply deals between three different US gas companies (Global Venture, Cheniere, Sempra Energy)xxi and Polish state-run gas company PGNiG are a prime example of growing US-European energy cooperation.xxiv

Note also that according to the PGNiG’s chief executive, US LNG is a quarter less expensive than Russian natural gas.xxii Along the same line, Lithuania’s energy minister stated that “(i)n the summer time, LNG from the U.S. was even cheaper than Russian pipeline gas”.xxiv He did so on the sidelines of Lithuania’s Klaipedos Nafta AB signing two agreements with US company Freeport LNG to develop small-scale LNG facilities. This growing price competition we observe is likely due to increased energy cooperation between the US and Europe. The key takeaway here is that beyond politics, these developments are mainly driven by the private sector and the simple concept of demand and supply. Given the favorable market conditions, we can expect sustained transatlantic energy cooperation in the future.xxv

The caveat is that in concrete numbers, US-Europe energy cooperation is still in its infancy, with total US gas exports to Europe amounting to a mere 2.8 bcm in 2017, compared to the current annual gas demand of Europe of almost 550 bcmxxvi. Russia will remain the most important provider for a long time to come. However, the main goal of this paper was to highlight that increased US-Europe cooperation on energy is in both sides’ strategic interest and that the mere presence of US LNG in Europe is mutually beneficial. It will lead to a more competitive gas market in Europe, which in turn stabilizes and lowers prices. It offers European states more import options and decreases Russia’s hold on Europe, which also satisfies the US’ goal of a more independent Europe. To that end, it also sends a strong message to the world that the transatlantic relationship continues to expand, evolve, and intensify.
Unexpected Side Benefit of US-Europe Energy Cooperation

The premise of this paper was the argument that the notion of shared liberal values in the transatlantic relationship is less about specific shared values and more about a sense of nostalgia and lack of pragmatism. It also argued that this is distracting us from what really upholds the relationship, namely areas of overlapping strategic and economic interests. It was then established that increased cooperation on energy is one such promising area. Finally, it noted that policymakers and companies have reached this conclusion too and that the first steps of increased energy cooperation can be observed already.

Yet this argument can be spun even further. Much like Russia, China has started to exert its influence with lofty investments in the European energy sector. While the economic benefits are certainly welcome, recent research also points “to growing concerns among policymakers and business managers in Europe, ranging from worries about unfair competition and economic risk to concerns about national security.”xxvii Chinese investments, like Russian gas, potentially bring with them a set of values that is distinctly different from our broad understanding of Western liberalism. Even if the causal link is difficult to establish, the fact that Hungary and Greece – both of whom have received substantial investments from China over the past few years – campaigned to have a direct reference to China removed from an EU statement on the Hague’s Tribunal’s South China Sea ruling in 2016 is noteworthy to say the least, as are other similar incidences.xxviii

Interestingly enough, by leaving out liberalism in the discussion and focusing on energy cooperation instead, we might in turn end up promoting liberal values. This is because increased US-EU energy cooperation and joint investments in Central and Eastern Europe provide countries with alternatives to Chinese investments (and Russian gas) and the illiberal values that come with them. It follows that energy cooperation is not only a way of strengthening relations, it also offers a way of protecting the future of liberalism as part of the transatlantic relationship and should therefore feature more prominently in the current discourse on US-Europe relations.