



POLICY PAPER

Energy Security and NATO Policy

Prepared for NATO Allied Command Transformation

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Introduction

The topic of Energy Security has taken on a new and weighty relevance in today's geopolitical environment. It is imperative that a cohesive and well-thought out approach to the topic of Energy Security is developed in order to avoid crises similar to the 1970s oil shocks, but potentially much more disastrous. While the current environment does not exactly reflect the conditions of the 1970s, there still remains a fundamental divide between consuming and producing countries. NATO and its allies must find an energy security stance that is palatable both for allies and non-allies.

As NATO Secretary General Jaap de Hoop Scheffer said in his 'Fresh Changes for a New NATO' lecture: "I believe that there are many more issues that we should consider bringing to the NATO table. And one that leaps to mind is energy security. NATO's Strategic Concept includes elements of the protection of vital supply lines as one area critical to the security of Allies. Today, for reasons that are obvious - including the potential of terrorists targeting our energy supplies - it makes sense to me that the Allies should discuss this issue. [...] I want all Allies to engage in a frank and open discussion. To anticipate future trends. And to develop a common perspective."

The key element in General Jaap de Hoop Scheffer's statement is that NATO must develop a common *perspective*, not necessarily a *policy*. Given NATO's difficulties in forging a common approach to most major policy decisions, energy security is no exception. NATO's record in energy security issues has remained fairly neutral; now with new member countries and partners it has become more complex, particularly

given the fact that most NATO members are also EU members, and the EU similarly has yet to agree on a common energy outlook.

Aim

The aim of this paper is to examine the geo-political challenges, global security risks & future challenges and opportunities on the issue of energy security within the context of NATO. This includes an assessment of the impact energy security and its concomitant concerns will have on NATO's military capabilities in the future.

Background

There is currently no international legal framework for the energy sector; there is no GATT that can regulate overall energy security policy. Most oil and gas is produced in unstable countries, where oil wealth is centralised in governments and contributes to political instability. If one adheres to the peak oil theory, which advocates the idea that oil producing countries are at or near capacity to produce and production will erode as time goes on, it becomes clear that a resolution to global oil shortages is necessary. NATO and its allies would benefit most in this situation to err on the side of caution. NATO, its partners and friends comprise 13% of the world's population, yet account for 50% of consumption. Energy is a fungible commodity¹—particularly oil is created freely and distributed in a free market. In this particular case, trade lines are fairly well established with economic and political guidelines. NATO represents half of the world's oil markets and therefore should be involved in discussions on the topic.

¹ Some would argue that because of Europe's dependence on Russia for oil, it is not strictly speaking a fungible commodity for Europe.

The dependence of the Western World on imported oil from the Organization of the Petroleum Exporting Countries (OPEC) nations was highlighted when the members of OPEC announced in 1973 that they would no longer ship oil to nations such as the United States or countries in Western Europe that had supported Israel during the Yom Kippur War of 1973-74. The OPEC countries also used their leverage to increase world oil prices, thereby raising inflation while at the same time stifling economic activity. The global financial system, already damaged by the collapse of the Bretton Woods system in 1971, was characterised by high inflation and recessions, (commonly known as 'stagflation') until the 1980s. Oil prices continued to rise, reaching \$39.50 per barrel by 1980. Corrected for inflation, this is equivalent to \$102.81 per barrel today. Lessons from this time period are particularly relevant today as Prime Minister Gordon Brown, speaking as Chancellor in 2005, claimed the UK was dealing with oil shocks likely to be as damaging as those of the 1970s².

NATO has managed to skirt the issue so far, acknowledging its importance yet avoiding commitment to one position or another. Energy Security for NATO is still a very sensitive tissue, but one of very high relevance. The EU addressed some Energy-related issues in its Lisbon Treaty of 13 December 2007, but nothing in this document could in any way be construed as a statement of common energy policy. NATO does have an Energy Security Task Force, for example, which most recently met on 11 December 2007. The Task Force meets occasionally to discuss the complexities of the issue within the Alliance context as well as identify the different interests for different members of the Alliance. All NATO member nations agree on so far is that energy security is growing in importance and is a terribly complex issue. The 1990 Strategic Concept, Comprehensive Political Guidance, and Riga Declaration all

² Chancellor Gordon Brown, quoted in the UK Independent, 12 September 2005

mentioned Energy Security. For example, in paragraph 45 of the Riga Declaration, (it states that NATO members can assist in energy infrastructure and critical energy infrastructure). The Allies have discussed energy security in the Senior Political Committee, but no consensus position has yet been reached. The Alliance, however, cannot afford to flounder on this issue.

Growing Global Energy Needs

Global energy needs are likely to grow steadily for at least the next two decades. The world's primary energy needs are projected to grow by 55% between 2005 and 2030, meaning an average annual rate of 1.8%. The Middle East and North Africa (MENA) regions will continue to grow in importance due to their critical oil and natural gas reserves. MENA contains a large share of the world's remaining reserves, but remains relatively under-exploited. The instability in the region and the considerable uncertainty about the future of countries such as Iraq mean that increasing production capacity in these areas is far from certain. NATO's role remains unclear; what is clear is that governments must act at the national level to help mitigate some of the world's rising energy needs. The IEA's World Energy Outlook 2007 estimates that if governments maintain current policies, the world's energy needs would be more than 50% higher in 2030 than today—meaning an average annual growth rate of 1.6%. More than 2/3 of this growth in world energy use will come from developing countries (those with the highest economic and population growth). The IEA estimates that demand for oil will rise from 92million barrels a day (b/d) in 2010 to 115m b/d in 2030.

Oil production is estimated to rise from 33m b/d in 2010 and 50m b/d by 2030. Saudi Arabia will most likely remain the largest supplier of oil and also has the largest proven oil reserves. Iraq is expected to see the fastest rate of production growth and

the biggest increase in volume, second only to Saudi Arabia. This expected increase in production however, rests on large-scale foreign direct investment (FDI), and there is no guarantee of that until the volatility of the region is mitigated. Gas production from the MENA region is expected to treble to 1.21 trillion cubic metres (cm) by 2030, with the biggest increases in the region occurring in Qatar, Iran, Algeria and Saudi Arabia. The bulk of this increase will be exported mostly in the form of liquefied natural gas (LNG). Europe is expected to remain the principal destination for exports specifically from the North African region.

One must also take into account the incredible growth of China and India and their projected economic growth over the next decades. With the highest rates of demographic and economic development, it is inevitable that China and India will be major energy consumers—in fact, together, China and India will account for 45% of the total increase in the world's energy demands between now and 2030. There is another element of energy policy relevant to NATO's interests as well, meaning that the Alliance must at the very least help remove the disincentives to the economic and social development in these countries, while at the same time supporting a more secure global energy system.

Obstacles

Whether or not NATO should pursue any common Energy Policy at all is hotly-debated issue. Within the Alliance, there are three types of members: producing, transit and consumer countries. Some members possess combination of all three of these characteristics. These countries then fall into two groups: those that are ambitious and advocate a forward-looking agenda. This group urges the development of a comprehensive strategic policy and an approach that is future orientated; their main goal is for NATO to be a practical player in energy security

policy on a global level. The second group tends to be more cautious, and will agree on certain elements only, supporting mostly the national elements of energy infrastructure. There is basic agreement among all members that as the issue is so complex, no single institution will be responsible alone for energy security policy. NATO should approach the issue cautiously and examine the best way to add value, rather than duplicate what is already being done at EU and national levels. NATO should also try to find as narrow a niche as possible, and most likely the diversification of supply and reduction of dependency are not topics to be dealt with at the Alliance level.

The major obstacle to NATO developing an Energy Security policy (and consequently military capabilities specifically to deal with related issues) is the difference in opinion between all the 26 Member States—an impediment to all major policy decisions within the Alliance. NATO itself is very large yet also impeded by a very large superstructure and a low reaction time. All significant decisions require unanimity to pass, and even one veto can keep an issue on hold indefinitely—case in point: Turkey's veto to the support for the EU Police Mission in Afghanistan. It seems that the best way forward from this particular obstacle is to agree on a lowest common denominator basis, finding the level at which even the most reluctant member will move forward. Energy security is problematic not the least because any energy policy is not just about the cost of oil or the number of barrels per day; the stability of the oil-producing countries the Alliance depends on is clearly related to foreign policy decisions made by NATO member states and the two are inextricably intertwined. For example, as previously stated Iraq expected to see fastest rate of oil production growth & biggest increase in volume terms after Saudi Arabia over the next two decades. This expected increase will most likely not

occur, however, if the country continues in the same volatile state in which it exists today. This also has implications for the Alliance mission in Afghanistan, as a failure in this country would have knock-on effects into the entire region.

Threats to Critical Energy Infrastructure : Maritime Security

NATO does have consensual policy documents that are the basis of discussions on energy security, including a risk assessment on critical energy infrastructure that concludes that the threat as perceived by NATO in the maritime environment is actually lower now than before. The probability of a maritime attack on critical energy infrastructure is low, but if it were to happen, the implications would be immense. The main threat to critical infrastructure emanates from terrorism, but generally terrorists do not have the means or capabilities to attack energy infrastructure in NATO countries. It is rather well-protected already and therefore it would be very difficult to attack undersea pipelines or tankers at sea. That being said, the maritime environment is also the most likely area of terrorist activities. Terrorists would most likely have interest in attacking LNG or CPG tankers and also chokepoints, for example in Rotterdam or Houston.

Given the potential fallout of an attack on the maritime critical infrastructure, NATO has committed to Operation Active Endeavor (OAE), the only Article V operation currently in action. OAE was launched in the Mediterranean shortly after 9/11, and expanded in March 2003 to include the area surrounding the Strait of Gibraltar. The operation allows for up to eight navy vessels to monitor cargo flows, and more than 41,000 vessels have been jailed since the start of the operation and 47 compliant boardings have occurred in the Eastern Mediterranean. More than 414 (non-combatant) ships have been successfully escorted through the Strait of Gibraltar.

Threats to Critical Energy Infrastructure: Oil Pipeline Security

While it is essential not to get pigeon-holed into a discussion solely on the terrorist threat and attacks on pipelines, a low assessment of probability combined with a very high fallout rate must be taken very seriously. Terrorist groups will always be looking for the weakest points to attack, and some have declared against economic aspects particularly. This is relevant to the energy security question as attacks anywhere would have destabilizing effects on NATO countries' economies and energy supplies. Generally, pipelines in NATO countries have a low probability of attack as they are the last choice of target for terrorists. An attack would not necessarily disrupt the world's supplies—though if this occurred in the Ukraine it would be very disruptive indeed. Most pipelines are buried and are inherently protected, and they can also be repaired fairly quickly.

Conclusions: 'Value Added'

NATO should not and is not pushing in any way for a lead role in energy security. Other countries do not want NATO to impinge into areas of other specialised organisations, and NATO wants to have a very specific and very low profile role. A limited role is ideal considering the differential strengths of the various members as well as the diverse reactions to newly emerging security challenges. As NATO members vary in their energy needs and abilities, it will be much more feasible to maintain a role from a distance rather than taking the lead internationally. Any amendments to energy security policy must be made on a national level.

While NATO will most likely maintain a low-profile role in the area of energy security, there are a few specific potential areas where NATO may add value, specifically in

mitigating risks to infrastructure. The first is intelligence-sharing and surveillance on infrastructure. NATO has access to the world's best surveillance systems, satellites, and unmanned aircraft such as the Predator, which could all contribute to support for the protection of critical national infrastructure. Additionally NATO's considerable human intelligence resources could also help prevent terrorist attacks and disruptions to the world's energy supply. This dissemination of this vast set of information would contribute to the overall security of energy supplies while avoiding tricky Alliance-led political commitments.

NATO also has the ability to help project stability through its well-developed network of partners. This could be accomplished through the engagement of partners through the Mediterranean Dialogue, for example, or through the encouragement of discussions in the G8. Given Europe's dependence on Russian reserves, it is essential that a dialogue is found in which all the relevant stakeholders can participate. Russia appears to be receptive to discussion in the G8, but NATO members should be cautious not to overstep their mandate. NATO can use its reputation as an international leader to advance international regional cooperation, for example facilitating dialogue and cooperation among partners in the Balkans, Eastern European countries and Russia.

The other component of stability projection is the deployment of forces to conduct military operations. In this case, NATO could offer to protect Russian pipelines as they leave the country. There is always the danger of overlapping policies and duplication, with particular reference to the European Union. While the EU has fewer capabilities overall than NATO, the development of small expeditionary forces is on its agenda, the deployment of which might be more appropriate than NATO forces

themselves. This issue is highly contentious within NATO because not all nations want to be coordinated or represented by one body. Therefore it is likely that agreements will continue to occur on a bilateral or ad-hoc basis.

NATO potentially has a role in consequence management as well, for example through the Euro-Atlantic Disaster Response Coordination Centre (EADRCC). The EADRCC acts as a full-time focal point for NATO members to coordinate their disaster relief efforts. Its missions so far have been in response to natural disasters such as flooding, forest fires, earthquakes and hurricanes, but it would not be beyond its remit for an EADRCC force to respond in the wake of an energy disaster such as a pipeline attack or oil tanker spill, whether due to accident or attack by terrorist groups.

NATO does have a limited (and also contentious) role in Maritime Security Operations, including the protection of the maritime environment and the patrolling of shipping lanes. NATO has conducted operations already under Operation Active Endeavour, and these have not all been in the form of ships on patrol. Indeed many of the operations have also been intelligence-based.

Finally, NATO could work with its allies and partners to produce some Best Practice Guidelines, perhaps with the consultation of special ops units. It is essential that significant policy options be developed by the Bucharest Summit in April 2008. NATO allies need to agree on the fundamental role of energy security with respect to the Alliance.