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War and peace in the name of oil and gas

Why energy security matters for the OSCE

by Karin Kneissl

Oil and natural gas are strategic commodities, for it is not the law of supply and demand that determines the price in the short run, but geopolitics. This has been the case ever since these fossil fuels started to dominate our daily energy mix. High expectations are placed on a gradual transformation to other forms of energy for the sake of reducing CO₂ emissions. Natural gas is often called the “bridging energy” from a fossil age to a new era. However, we should not believe that renewable energy will liberate us from geopolitical interdependence.

Oil is essential for the production of synthetics, and photovoltaic cells need commodities like lithium and iridium, which are also scarce raw materials. Some major reserves are believed to be found in the OSCE area. So the topic of energy security will continue to be of vital concern, even if we manage to fundamentally change the energy mix, a rather improbable development in the short run.

THE CONCEPT OF COMPREHENSIVE SECURITY

A comprehensive approach to security that sets human, economic and environmental concerns alongside politico-military questions is the hallmark of the OSCE. Whether we discuss energy from the point of view of consumers, producers or transit countries, it always comes down to security. While consumers are obsessed with security of supply, producers and transit country require security of demand to ensure a return on their huge investments. While the military have long understood that all forms of energy have a security dimension, it took civilians a while to grasp this. None of the classic economic thinkers, whether we refer to Adams, Marx or Keynes, ever included energy costs in their calculations. It was all about capital, labor and soil. Energy was only recognized as a factor of its own once prices sky-rocketed, in 1973 due to geopolitics in the

Middle East, in 2004 due to new demand volume with the rise of China's quest for oil, or in 2008 because of speculation. Today, all types of economy, new or old, run on oil and gas. So we can hardly discuss comprehensive security without addressing the many facets of energy.

PIPELINES AND SECURITY

There is an old saying in the oil business: "Oil makes and breaks nations." This holds true for Gulf producers such as Iraq, whose borders were drawn on the basis of the pipeline agreement of San Remo in 1920. It eventually might be the case for commodity producers in the Caspian Basin. Oil alliances and pipeline routes determine geopolitics. That was clearly reflected in the choice of the venue for the political decision on the Baku-Tbilisi-Ceyhan (BTC) pipeline. The intergovernmental agreement in support of BTC was signed by Azerbaijan, Georgia, and Turkey on 18 November 1999 at the OSCE Summit in Istanbul. So the OSCE has served before as a forum for strategic decisions in the ambit of energy affairs.

THE ADDED VALUE OF THE OSCE

Energy is not a new topic, but it is seemingly rediscovered again and again. The oil price shock of 1973 triggered a series of normative and technical innovations to make importing states less dependent on the Organization of Petroleum Exporting Countries (OPEC). The United States created the International Energy Agency (IEA) as a counterweight to OPEC to defend consumers' interests. With the steep decline of the oil price in the 1990s, energy debate was off the agenda. Things rapidly changed with the price hikes starting in 2004. Energy conferences mushroomed on a global level. The European Union (EU) agreed on its fairly ambitious Energy Strategy for 2020, in which climate change and energy efficiency concerns dominate. OPEC expanded its various dialogues, including with the EU, China and the IEA, to such a degree that it established a special department for multilateralism. The Energy Charter Secretariat was created to deal with technical and normative aspects of producing and managing energy.

But when we take a closer look, we can see that each of these agencies has different priorities. For instance, EU energy policy is primarily concerned with the consolidation of an internal European energy market. However, the 27 EU Member States have to import large volumes of their energy needs. When it comes to co-ordination of those supply lines, we can detect an approach often based on purely national interests. Rivalry in pipeline projects is only one aspect of this lack of a common EU energy policy.

Certainly, when we consider the role of the OSCE, the risk of overlapping mandates is not to be ignored. Given the OSCE's traditional role as a forum of dialogue, we should, however, be aware of its utility as the largest regional organization that offers producers and consumers a common meeting ground.

WHAT CAN THE OSCE OFFER? THE IMPORTANCE OF SOFT LAW

The OSCE has experience and a record of achievements in the area of soft law. As opposed to hard law, which makes up international law proper, soft law is a body of standards, commitments, joint statements and declarations of policy or intention. The *Helsinki Final Act* of 1975 is a classic reference for the creation of soft law. Instead of being obliged to agree on legally binding commitments, states can subscribe to agreed guidelines for common policies. Whether in the area of human rights or the environment, soft law can prepare the ground for the gradual formation of customary rules or treaty provisions. In other words, soft law may gradually turn into law proper.

The OSCE can gather 56 participating States to develop certain common positions on energy co-operation. Given the unique experience of the OSCE field operations, guidelines on basic common goals regarding pipeline routes, terminals and other aspects of energy infrastructure could be envisaged. Soft law is a convenient option when, for political or economic reasons, negotiating parties may not be prepared to make major legally binding commitments, but still wish in the meantime to negotiate something in good faith.

However, we should also bear in mind that high financial and political interests are at stake, so that the energy business will always remain a difficult ground for true transparency. The ambiguous relations between governments, energy companies and the financial sector have to be taken into consideration. Nevertheless, certain political benchmarks for the drafting of texts might serve common interests.

The energy business of today is not only determined by difficult calculations of supply and demand and national security interests, but also by huge uncertainties linked to the fragile global economy. Building confidence is indispensable to creating a geopolitical context in which reliable investments can be made. Permanent OSCE dialogue can contribute to this goal.

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