ENERGY ISSUES IN THE USA & EU COMPETITION

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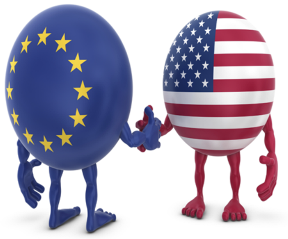

INTRODUCTION

The European Union (EU) and the United States of America (USA), as the most powerful economies in the world, have common history, ancestors, and many economical partnerships. However, there have always been competitive issues between two sides. By analyzing this competition from the historical window, such as it happened in the Second World War, USA and some of EU members (which can be assumed as the leader of EU, Germany for example) had to fight against each other that has been affecting the current situations in the background.

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On the contrary, during the Cold War they had accelerated economic relationships. Moreover, after the Cold War they had also maximized their economical partnership and decided to have a comprehensive trade agreement to increase this partnership to a higher level.

For accomplishing such target, Transatlantic Trade and Investment Partnerships (TTIP) was announced by USA President.[1] And the announcement was later endorsed by the European Commission President Barroso. The first round of TTIP negotiations took place in the week of July 8 in Washington, D.C., under the leadership of the Office of the U.S. Trade Representative[2], and such negotiations are still continuing.

During this period, the spy scandals occurred between EU and USA. Following that, the penalty for Volkswagen's Emissions Scandal came out, then Brexit happened (while waiting for the negotiations). Currently European Union says Apple broke EU tax rules in Ireland, and another USA company, Mc Donald's, is also about to face tax penalty in Luxemburg, but contrarily the USA files for toxic mortgages between 2005 and 2007 on Deutsche Bank.

In the light of explicit competition being escalated through political and economic issues between two allies, this study will try to focus on how it may affect their energy policies.

POLITICAL AND ECONOMICAL ISSUES

There are some political and economic issues emerged from or led to such competition between the USA and EU. Such issues were confronted first in 2013 when Germany complained bitterly as whistleblower, Edward Snowden revealed the extent of USA spying on Europe, which reportedly included monitoring Chancellor Angela Merkel's cellphone.[3] Then, it was revealed that Bundesnachrichtendienst (BND) had spied on France and the European Commission on behalf of USA's National Security Agency (NSA). But according to the new reports, BND has also spied on allies under its own initiative.[4]

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There were also some opposite claims from Der Spiegel, which confirmed from some sources that the spying went further than previously reported. Since October's revelations, it has emerged that the BND spied on the United States Department of the Interior and the interior ministries of EU member states including Poland, Austria, Denmark and Croatia. The search terms used by the BND in its espionage also included communication lines belonging to USA's diplomatic outposts in Brussels and the United Nations in New York. The list even included the US State Department's hotline for travel warnings.[5]

Those developments clearly indicate a trust issue confronted by German intelligence that has been steadily growing. It can be stated that the situation may be an initial reflection of the competition and it will have other following reflections as stated below:

- Volkswagen's Emissions Scandal: After the scandal was revealed at the end of 2015, according to US Environmental Protection Agency (EPA) in two related settlements, one with the United States and the State of California, and one with the U.S. Federal Trade Commission (FTC), German automaker Volkswagen AG and related entities have agreed to spend up to $14.7 billion to settle allegations of cheating emissions' tests and deceiving customers.[6]
- Brexit: United Kingdom (UK) is the closest ally of the US in the EU- wanted to exit from the EU (mostly under the influence of France-Germany). According to the result of the referendum (non-binding) in June 2016, UK is waiting for the exit negotiations.
- Apple tax issue in Ireland: In August 2016, Apple has warned that future investment by multinationals in Europe could be hit after it was ordered to pay a record-breaking €13bn (£11bn) in back taxes to Ireland.[7]
- Mc Donald's tax issue: McDonald's could face an order to pay nearly $500m in back taxes to Luxembourg according to a Financial Times analysis of an investigation by Brussels into state-supported tax avoidance.[8]
- Deutsche Bank penalty issue: The U.S. Justice Department wants the bank to pay $14 billion over allegations for packaging toxic mortgages between 2005 and 2007.[9]

As it can be seen from the above information, economic and political issues are linked to each other in the scope of ongoing EU-USA competition. These open and easy to analyze issues are so clear to be defined as the competition items.

In addition, Syria and the other Middle East policies and also the immigrant issues can also be analyzed in the concept of this competition.

However, this study mainly wants to focus on the energy issues, which can be accepted as the competitive and disagreed items between US and EU politics. Those issues are going to be identified in the following section.

MAIN ENERGY ISSUES

On energy issues, main competition between USA and EU are related with the USA's future possible LNG supplies to EU and the position Ukraine in EU's supply chain. These issues are evaluated under the titles of Nord Stream 2, Ukraine bypass politics, Turkish Stream and Bulgaria transit option.

NORD STREAM 2

Nord Stream 2 is the pipeline project, which aims to double the current gas transportation volume of Nord Stream. In this concept, an additional 55 bcma Russian gas volume is planned to be transported to Germany and the other countries in Northern and Western Europe.

As the most influential country of the EU, Germany strictly supports the Nord Stream 2 project. On the contrary, USA, Britain (about to be non-member of EU) and additional some other weaker partners of EU are against of the project.

The "against" group claims that:

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EU's gas demand is decreasing due to renewable energy and energy efficiency investments. Furthermore, alternative gas resources thanks to LNG are increasing. Therefore, EU does not need to increase trade volumes of Russian gas, which means a lower dependency on Russia.

Nord Stream 2 helps the Russian Ukraine bypass policies, which means EU and mostly USA politically loose Ukraine against Russia.

Project seems positive only for Germany. Hence, with Nord Stream 2 Germany will be the largest gas hub in EU.

However, in reality:

Although EU's total gas demand may decrease, hence, the domestic supplies are decreasing, gas import volumes will continue to be as high as todays.

Other possible supplies, as an alternative to Russian gas, will not be able to be as cheap as the Russian supplies, while considering the net back prices of each gases.

Although EU is expected to have the high-end on the table while Ukraine is a chess pawn on Russian politics, EU is not the gaining side while considering the gas cuts due to Ukraine's domestic needs. This means the main ruler and the winner of such game would be USA.

So, while looking at Nord Stream 2 from the sight of USA;

As a potential LNG supplier in the medium term, USA targets the European coasts for its export. And Russian gas is/will be the unbeatable opponent in price and also volume competition. This means with such pipeline projects, Russia will continue to hold the European markets in its hands and will not let the USA supplies have a competition chance.

The USA attaches importance to Ukraine as a political borderline castle against Russia. From the political and security sights, the loss of Ukraine means that USA will lose an important foothold in the region. Such project will help Russia's bypass politics that will weaken the hands of the key USA supporters in Ukraine, which means in the medium term, USA will completely leave Ukraine under the control of Russia.

As a result, while Nord Stream 2, helps EU to continue meeting its gas demand in the cheapest way in the long term, USA is against to this project by concentrating on the side effects of political issues.

On the contrary, the most influencing EU partners Germany and France seem supporters of the project.

UKRAINE BYPASS

"Ukraine always uses its geostrategic position in the negotiations with Russia. By this way, Russia usually has to let Ukraine get cheap gas, not pay the bills for the purchase and follow after some political steps (with the support of USA and EU) against to Russian interests."

As described above, as a result of Russian bypass politics, Ukraine will lose annually an average $2 billion of transit fees. In addition to loss of those commercial gainings, hence, not having domestic resources, Ukraine will have to continue to import Russian gas to meet its own demands.

While currently being a transit country, Ukraine always uses its geostrategic position in the negotiations with Russia. By this way, Russia usually has to let Ukraine get cheap gas, not pay the bills for the purchase and follow after some political steps (with the support of USA and EU) against to Russian interests.

After Ukraine to lose its geostrategic position of being the main gas transit country for Russian sales, in addition to the economical and gas demand issues, Russian opposer domestic groups (which are supported by USA and some partners of EU) will lose their power. And this means USA loses its one of the eastern castles against its ex-enemy Russia.

TURKISH STREAM

Turkish Stream will be the second opening gate of Russian gas sales to EU. That's why the political situations are similar with the Nord Stream 2.

With Turkish Stream, Russia again is going to transport its gas up to Western Turkish border and then sell its gas to the Southern and Eastern Europe via other planned infrastructures. By extracting the 16 bcma Turkish volume, the long term capacity of the European portion via Turkish Stream is planned to be 48 bcma.

As a result of Turkish Stream, in addition to the Nord Stream 2, Russia will successfully complete its Ukraine bypass strategies and reach all the European markets via the newly constructed pipelines. This also means that, in addition to the Northern and Western markets, Russia will not let USA supplies compete with its sales in the Eastern and Southern markets of EU in the long term.

From the sight of EU, hence, not being against the third energy package and being the supplier of the cheapest possible resources without the Ukraine gas cut risks, Turkish Stream will be an important step for EU gas demand security.

By the way, hence, Turkish Stream being against to USA interests and being in favor of both Russia and Turkey, by some Turkish experts claiming that Russian plane being hit down by Turkish jets (which resulted in the suspension of Turkish Stream) and 15 July terrorist coup attempt (which was staged while the Russian relations were normalizing) were planned by USA.

BULGARIA GAS TRANSIT OPTION

A meeting about Varna, Bulgaria to be a gas transit hub for Russian gas, is planned to be held between the EU Energy Commission, Bulgarian and Russian authorities before the December 2016.

As can be understood from the main topic of the meeting, the aim of EU Energy Commission to organize such a meeting is to change future Russian gas supply politics and to hinder Turkish Stream Pipeline Project.

Russian position and possible supporters from the side of EU are not clear at this point. However, this new concept, without facing with legislative problems, plans to make Bulgaria a new gas transit country for the Eastern Europe.

From the sight of politics and economics, such an option may be beneficial by considering less cost to reach the European borders and EU's general position on behalf of Turkey. However, from the market potential sight, this option means Russia does not target its second largest customer Turkey but target mostly future potential customer Italy (by considering gas to be easily transported via Turkish Stream to extended TAP to Italy market).

If the EU puts such step in the frontline that will successfully emerge Ukraine bypass, it means that EU is currently not strictly against on Russian gas export strategies and holds in a negotiable stand. This also implies the political separation of USA and EU against Russia.

In addition, Russia is sure about EU needing its supplies in the medium and long term.

By leaving aside the possibility of such an option to be selected and realized, in the concept of such an option there are 2 main items which are related with the USA's interests.

Which are:

- The USA is against both Turkish Stream

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and the Bulgarian alternative.

- However, in the worst case: The USA selects this option and wants Russian gas to be supplied into the Balkan markets and not to reach Italian markets.
    - USA's future supplies will commercially find a chance to have an important share in Italian markets.
    - Turkey's geostrategic importance will not be raised.

Both Russian and European sides have to consider these items before developing decisions on their ideas.

CONCLUSION

There is clearly a competition between USA and EU, and it has been escalated day by day as it can be understood in the political and economic issues.

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From the sight of economics, main indicators are public and easy to be analyzed. However, from the sight of energy, the situation is somehow different. Hence, USA wants to be an important LNG supplier and EU is the biggest market in the world. At that point, Russia is the most effective rival for USA's gas suppliers (by considering the price, volume and political issues). In addition, again Russia can be the supplier of cheapest gas to EU. USA's future LNG can be helpful only for decreasing the hub prices and naturally making Russia to also decrease its prices.

In addition to USA's future LNG supply strategies, the position of Ukraine, which seems to be the western castle of USA politics against the sleeping giant enemy Russia, is another key point related to the energy sight of the competition.

As a result, there is a continuing competition over the hues on EU & USA matters. And the possible deepening of this competition will change the main stones in the game of new world order. New Turkey has to deeply analyze and consider those issues for being one of the future leaders of the new world.

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