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2.6. Towards a coherent external energy policy

The energy challenges facing Europe need a coherent external policy to enable Europe to play a more effective international role in tackling common problems with energy partners worldwide. A coherent external policy is essential to deliver sustainable, competitive and secure energy. It would be a break from the past, and show Member States’ commitment to common solutions to shared problems.

The first step is to agree at Community level on the aims of an External Energy Policy and on the actions needed at both Community and national level to achieve it. The effectiveness and coherence of the EU’s external energy policy is dependent upon the progress with internal policies and, in particular, the creation of the internal market for energy. The abovementioned Strategic EU Energy Review would serve as the basis for establishing this common vision. This would constitute a stocktaking and action plan for the European Council, monitoring progress and identifying new challenges and responses. Follow-up should take the form of regular formal political level discussions at Community level, involving Member States and the Commission in a manner to be developed. It would offer a single reference point, with an appropriate institutional format, for all actors in European energy at both Community and national level. This would permit not only the effective exchange of information but also a real co-ordination of approach: it would enable the EU, in effect, “to speak with the same voice”.

The benefits of this approach for the external dimension would be particularly strong. It should cover a number of key goals and instruments:

(i) A clear policy on securing and diversifying energy supplies

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1 The full text can be found at http://ec.europa.eu/energy/green-paper-energy/doc/2006_03_08_gp_document_en.pdf
Such a policy is necessary both for the EU as a whole and for specific Member States or regions, and is especially appropriate for gas. To this end, the above mentioned Review could propose clearly identified priorities for the upgrading and construction of new infrastructure necessary for the security of EU energy supplies, notably new gas and oil pipelines and liquefied natural gas (LNG) terminals as well as the application of transit and third party access to existing pipelines. Examples include independent gas pipeline supplies from the Caspian region, North Africa and the Middle East into the heart of the EU, new LNG terminals serving markets that are presently characterised by a lack of competition between gas suppliers, and Central European oil pipelines aiming at facilitating Caspian oil supplies to the EU through Ukraine, Romania and Bulgaria. In addition, the Review could acknowledge the concrete political, financial and regulatory measures needed to actively support the undertaking of such projects by business. The new EU-Africa Strategy, envisaging interconnections of energy systems as a priority area, could also help Europe to diversify its oil and gas supply sources.

(ii) Energy partnerships with producers, transit countries and other international actors

The EU and its energy partners are interdependent. This is reflected at bilateral and regional level in a number of specific EU energy dialogues with a number of producer and transit countries. Equally, energy issues are a growing feature of the EU’s political dialogues with other major energy consumers (such as the US, China and India), including through multilateral fora like the G8. These dialogues should be set within the common vision offered by the Review.

(a) Dialogue with major energy producers/suppliers

The EU has an established pattern of relations with major international energy suppliers including OPEC and the Gulf Cooperation Council. A new initiative is particularly opportune with regard to Russia, the EU’s most important energy supplier. The EU, as Russia’s largest energy buyer, is an essential and equal partner in this relationship. The development of a common external energy policy should mark a step change in this energy partnership at both Community and national level. A true partnership would offer security and
predictability for both sides, paving the way for the necessary long-term investments in new capacity. It would also mean fair and reciprocal access to markets and infrastructure including in particular third party access to pipelines. Work should start on an energy initiative based on these principles. Subsequently the results could be integrated into the framework of EURussia relations due to replace the current EU-Russia Partnership and Cooperation agreement in 2007. In addition, efforts should be intensified in the G8 to secure rapid ratification by Russia of the Energy Charter Treaty and conclusion of the negotiations on the Transit Protocol.

(b) Developing a pan-European Energy Community

In line with the European Neighbourhood Policy and its Action Plans (and in addition to the current work undertaken through Partnership and Cooperation Agreements and Association Agreements), the EU has for some time been engaged in widening its energy market to include its neighbours and to bring them progressively closer to the EU’s internal market. Creating a “common regulatory space” around Europe, would imply progressively developing common trade, transit and environmental rules, market harmonisation and integration. This would create a predictable and transparent market to stimulate investment and growth, as well as security of supply, for the EU and its neighbours. Existing political dialogues, trade relations and Community financing instruments can be further developed and, for other partners, there is potential for new agreements or other types of initiative.

For example, by building on the Energy Community Treaty with partners in South-East Europe, as well as the development of the EU-Maghreb electricity market and the EUMashrek gas market, a pan-European energy Community could be created both through a new Treaty, and through bilateral agreements. Certain essential strategic partners, including Turkey and Ukraine, could be encouraged to join the South East European Energy Community Treaty. The Caspian and Mediterranean countries are important gas suppliers and transit routes. Algeria’s increasing importance as a gas supplier to the EU could point to a specific energy partnership.

In addition, as one of the EU’s most important strategic energy partner, attention should be given to facilitating Norway’s efforts to develop
resources in the high north of Europe in a sustainable manner as well as facilitating its entry into the South East Europe Energy Community.

This framework would also offer a clearer framework to promote best long-term use of Community investment through Trans-European Energy Networks and their extensions to third country partners and to maximise the impact on energy security of EU resources devoted to the energy sector in third countries. This is of particular importance for the new Neighbourhood Instrument and for EIB and EBRD financing. In this context, twinning programmes and loan subsidies for external strategic energy infrastructure are essential.

(iii) Reacting effectively to external crisis situations

Consideration should be given on how best to react to external energy crises. Recent experiences with respect to both oil and gas have shown the need for the Community to be able to react quickly and in a fully co-ordinated manner to such events. The EU has no formal instrument dealing with external energy supplies. This could be addressed by a new more formal, targeted instrument to deal with emergency external supply events. This might involve, for example, a monitoring mechanism to provide early warning and to enhance response capabilities in the event of an external energy crisis.

(iv) Integrating energy into other policies with an external dimension

At the political level, a common European external energy policy will permit a better integration of energy objectives into broader relations with third countries and the policies which support them. That means increasing the focus in relations with global partners facing similar energy and environmental challenges – such as the US, Canada, China, Japan and India – on issues such as climate change, energy efficiency and renewable sources, research and development of new technologies, global market access and investment trends, with better results in multilateral fora such as the UN, the IEA and the G8. If these countries reduce the use of fossil fuels, it will also be beneficial for Europe’s energy security. The EU could significantly step up bilateral and multi-lateral cooperation with these countries with the objective of encouraging the rational use of energy worldwide, of reducing pollution and
encouraging industrial and technological cooperation on the development, demonstration and deployment of energy efficient technologies, renewable energy sources and clean fossil fuel technologies with carbon capture and geological storage. In particular, greater efforts need to be made towards widening the geographic scope of the EU Emissions Trading Scheme and, as mentioned above, as a first step the EU should propose and promote an international agreement on energy efficiency. In addition, more focus could be given to technological cooperation, in particular with other energy consuming countries.

Similarly, there is scope to make better use of trade policy tools to promote goals such as non-discriminatory energy transit and the development of a more secure investment climate. The EU should press for a better respect of existing WTO rules and principles in this field, and bilateral or regional initiatives should build on these. Such agreements can include provisions on market opening, investment, regulatory convergence on issues such as transit and access to pipelines, and competition. Reinforced market-based provisions on energy and trade-related energy issues would thus be incorporated in the EU’s existing and future agreements with third countries.

(v) Energy to promote development

For developing countries, access to energy is a key priority, and Sub-Saharan Africa has the lowest access in the world to modern energy services. At the same time, only 7% of Africa’s hydropower potential is tapped. The EU should promote a twin-track approach through the European Union Energy Initiative and through raising the profile of energy efficiency in development programmes. Focusing on developing renewable energy and micro-generation projects, for instance, could help many countries reduce reliance on imported oil and improve the lives of millions. The implementation of the Kyoto Protocol clean development mechanism could spur investment in such energy projects in developing countries.
ANNEX - EXTERNAL RELATIONS DIALOGUES AND INSTRUMENTS AT THE SERVICE OF ENERGY SECURITY

I. ENERGY COOPERATION WITH NEIGHBOURING COUNTRIES

The neighbouring countries are vital for the EU’s energy security either as current or future suppliers or as transit regions.

Turkey, Croatia, and the other Western Balkan countries are progressively integrating themselves into EU energy policies. Close cooperation and dialogue on energy take place in various fora and committees, including in the framework of the Energy Community Treaty. To address the urgent need for secure energy supplies as a fundamental basis for economic and social development and for promoting regional integration, the Commission has pioneered the creation of a single regulatory energy space in the region. Based on the extension of the relevant EU acquis, the Treaty establishing an Energy Community was signed on 25 October 2005 by all the Balkan countries and the European Community.

Turkey actively supported the Athens process leading up to the Energy Community Treaty, and remains invited to join it as soon as the Treaty’s relation to Turkey’s EU-accession timetable is clarified. The adhesion of Turkey to this treaty and the application of normal transit conditions, in particular for gas, are major topics in EU-Turkey energy relations.

Turkey is of strategic importance for the security of energy supplies to the EU, lying at the crossroads of various existing and future pipelines carrying both oil and gas from many core producer regions, namely Russia, the Caspian Sea, the Middle East and Northern Africa.

Through its Pre-accession instrument for Turkey, the EU has been providing active support for the reform of the Turkish energy market and the preparation of some of the pipeline projects though other funds. Enhancing the energy partnership with the neighbouring countries is a strategic element of the European Neighbourhood Policy (ENP) and contributes to its objectives of peace, prosperity, security and stability in our neighbourhood, with the predictability of energy supplies being an important part of stability.
Seven ENP Action Plans are in force (with Israel, Jordan, Moldova, Morocco, the Palestinian Authority, Tunisia, Ukraine) and their implementation is underway. Preparation of Action Plans with Armenia, Azerbaijan, Georgia, Egypt and Lebanon has started. An ENP country report on Algeria is due in 2006. Belarus, Syria and Libya are other potential ENP partners.

The energy sections of the ENP Action Plans include, consequently, broad areas of cooperation: energy dialogues; convergence of energy policies and legal/regulatory frameworks (e.g. integration with the internal electricity and gas markets); possibilities for the participation in EU programmes and events; energy networks; energy efficiency and new/renewable energy sources; nuclear safety (Ukraine and, in the future, Armenia); and (sub) regional cooperation.

II. BILATERAL ENERGY DIALOGUES

The EU-Russia Energy Dialogue launched at the EU-Russia Summit of October 2000 takes place on three levels: High level Interlocutors, Expert groups on infrastructure, investments, energy efficiency and trade comprising official and industry experts from the MS, Commission and Russia., and since October 2005, a Permanent Partnership Council on Energy with the EU Troika and the Russian Industry and Energy Minister. The objectives and a medium term agenda for cooperation under the energy dialogue have also been confirmed in the energy chapter of the road map for the Common Economic Space.

Norway as a member of the European Economic Area (EEA) applies most of the EU acquis including legislation on the internal energy market and related flanking policies (competition, environment, consumer protection, research and development programs etc.). Bilaterally, the

EU-Norway Energy Dialogue principally aims at co-ordinating energy policies in a wider sense, including research and technological development in the energy sector and relations with other energy producing countries. Issues
related to the possible exploration of the energy resources in the High North, i.e. the Barents Sea, are also discussed in the framework of the Dialogue. Norway is the world’s third largest exporter of oil and gas after Saudi Arabia and Russia.

Algeria is a key gas and oil supplier to the EU. The EU-Algeria Association Agreement foresees a reinforced cooperation in the energy and mining sectors. A strategic EU-Algeria energy dialogue is being developed. The main tool for cooperation on energy security with

Ukraine, a key gas (and oil) transit country for the EU, is the Memorandum of Understanding on energy cooperation agreed at the December 2005 Summit. Through the implementation of this MoU, Ukraine will progressively align with EU energy legislation and rules, and gradually integrate with the EU energy market, as foreseen in the ENP Action Plan for Ukraine. Ukraine is also an observer in the Energy Community Treaty involving the EU and the Balkans.

Moldova is particularly vulnerable, not only to unilateral actions from a party with monopoly status in the energy area, but also to steep and sudden increases in the pricing of energy.

Moldova is also a transit country for Russian gas to Romania, Greece and Turkey, as well as the Balkan region. An agenda for cooperation in the field of energy with Moldova is set out in the ENP action plan.

Egypt is a rapidly expanding natural gas producer. Exports to the EU have started. Egypt’s strategic energy role is furthermore marked by the Suez Canal and the Sumed (Suez-Mediterranean) pipeline, the Arab Natural Gas Pipeline and by construction of LNG export facilities as well as gas interconnections with Libya. The ENP Action Plans currently under negotiation foresees a significant chapter on energy cooperation.

Syria is emerging as a gas hub in the Mashrek due to the recent natural gas discoveries as well as the transit potential of the country for the supply of the Egyptian, Iraqi and Middle East gas to the EU. The EU has negotiated an Association Agreement with Syria and energy co-operation is one of the
chapters covered by this agreement. However, this agreement has not been signed yet.

The EU has no formal relations with Libya, a major gas producer. The country has not yet joined the Barcelona Process. It is planned to explore the possibility of starting a dialogue with Libya on energy as soon as it is feasible.

Iran is the 4th largest oil exporter and has the 2nd largest gas reserves in the world for both oil and gas. Iran is also at the crossroads of a major transit route: half of the world's traded oil is shipped via the Straits of Hormuz. The negotiations of an EU-Iran Trade and Co-operation Agreement, which started in 2002, comprise a section on energy. However, since the crisis erupted in August 2005, the EC has frozen the TCA talks and the energy dialogue with Iran is on hold.

Iraq is not only important for world oil supplies, but also as an important potential gas supplier to the EU. Provisions are included under the 2006 Assistance Programme for a Technical Assistance capacity programme. The 2004 Commission Communication on Iraq also proposed the establishment of a joint experts’ working group on energy issues. However, to date, the Commission has not been successful in launching these actions due to the lack of a functioning administration on the Iraqi side. The recently proposed TCA mandate includes energy as one of the potential areas for cooperation.

China is a major, rapidly growing, consumer country. It is increasingly competing with the EU for the same global energy resources. Energy and energy related issues feature strongly in EU dialogue with China. Current mechanisms include the EU-China energy dialogue established in 1994, featuring annual working group meetings and EU-China Energy Conferences every second year.

Japan is the world’s fourth largest oil consumer (after US, the EU and China), and imports practically all its oil, gas and coal energy resources. Japan has a strong record track record on energy conservation and – in addition to the cooperation in the field of nuclear energy- the EU has recently started to talk to Japan about energy security and energy efficiency. In this
context, a regional seminar on energy efficiency was organised jointly by the Commission and the Japanese authorities in Tokyo in January 2006.

India’s rapid economic growth in the recent decade has fuelled its demand for energy, and it is projected to continue to grow. Demand for electricity alone is expected to triple over the next 6 years. Furthermore, India imports about 70% of its oil. India is in the process of developing a global strategy in order to secure its future energy needs. In this context, the EU and India decided in 2004 to establish an EU-India Energy Panel to provide a forum for dialogue, co-ordination and co-operation.


Canada was one of the first countries with which the EU signed an energy-related agreement, in the form of the Euratom-Canada agreement of 1959. However, there is no regular energy policy dialogue between the EU and Canada. The most recent expression of the EU-Canada political partnership, the March 2004 Partnership Agenda, specifically mentions energy efficiency and energy technology in the context of reducing greenhouse gas emission, although it is of sufficiently broad scope to accommodate quite easily a dialogue on energy policy should both sides so desire.

Venezuela, an OPEC founding member and major oil producer, is important to world energy markets because it holds proven oil reserves of about 78 billion barrels, is a key supplier to the important US market and is playing an increasingly ambitious role in the context of efforts to promote regional integration in the energy sector in Latin America. Energy relations between
the EU and Venezuela are governed by an agreement signed in 1998, which provides for discussion and co-operation on specific subjects such as the dialogue between producers and consumers, the regulatory framework for energy, as well as on energy-related technology.

It is hoped that a more dynamic and structured bilateral energy dialogue can be put in place in the future on the basis of this existing agreement.

**III. REGIONAL ENERGY DIALOGUES**

A number of regional energy dialogues and cooperation programmes are being conducted with the objective to promote the external energy security of supplies.

A new cooperation initiative aimed at the progressive integration of the Black Sea and Caspian Sea region energy markets with the EU energy market was launched in the framework of a Ministerial Conference in November 2004 in Baku involving the EU and the Governments of Azerbaijan, Armenia, Bulgaria, Georgia, Iran (observer), Kazakhstan, Kyrgyz Republic, Moldova, Russian Federation (observer), Romania, Tajikistan, Turkey, Ukraine and Uzbekistan and the Commission.

For the EU, the main objective of this initiative is to facilitate the transportation of the extensive Caspian oil and gas resources towards Europe, be it transiting through Russia or via other routes such as Iran and Turkey, as well as facilitating the progressive integration of the energy markets of this region into the EU market. Indeed, secure and safe export routes for Caspian oil and gas will be important for the EU’s security of energy supply by increasing the geographical diversification of the EU’s external energy supplies. Supplying the EU market at competitive international prices will also be crucial for facilitating the economic, social and political development of countries of the Caspian region.
The Energy Ministers of the Baltic Sea region countries and the Commission decided in October 1999 to establish the Baltic Sea Region Energy Co-operation (BASREC) with the aim of coordinating energy policies and actions around the Baltic Sea. At the BASREC Ministerial meeting in Reykjavik on 28 October 2005, it was, inter alia, decided to continue BASREC for the period 2006-2008.

A recently launched regional dialogue between the EU and the Central Asian countries will be brought to a political level through the holding of a Ministerial Conference in the second half of 2006, with one of the main items planned to be discussed being regional energy cooperation.

The European Union has been actively engaged with the Southern Mediterranean Partner countries, since the inception of the Barcelona Process, on an energy dialogue aimed at promoting regional energy integration, enhancing energy security and diversifying the sources and supply routes. The main instrument of cooperation has been the Euro-Med Energy Ministerial conferences, of which three have taken place since 1998. Sub-regional energy dialogues and cooperation initiatives covering the Maghreb, Mashrek and Israel and the Palestinian Authority have been established.

On 2 December 2003, in Rome, Algeria, Morocco, Tunisia and the European Commission (as « non-participant promoter ») signed a Protocol of Agreement for the progressive integration of the electricity markets of these three Maghreb countries (Algeria, Morocco and Tunisia) into the EU electricity internal market. The objective of the Commission, over the longer term, is the signature of a Euro-Maghreb Energy Community Treaty. It is also planned to include Libya and Mauritania into the Maghreb initiative, as well as to progressively develop the energy relations with the Sub-Saharan countries and the transit of the energy resources from this region into the EU.

The Commission is also pursuing the creation of a Euro-Mashrek harmonised and integrated energy market through the development of sub-regional
energy markets in the Mashrek region and their progressive integration into the Balkan and EU energy market. A “Euro-

Mashrek Gas Centre” in Damascus, financed by the EU and involving Egypt, Jordan, Lebanon, Syria and Iraq, will start its activities in 2006. The Commission is promoting enhanced energy co-operation between Israel and the Palestinian Authority.

A high-level EU-OPEC Dialogue has been launched in 2005. Its objectives are to co-operate towards achieving more stable international oil markets and prices, an attractive investment climate, improving market transparency, including by reducing speculation, improving market analysis and forecasting, a better technological and international cooperation.

An EU-GCC cooperation developed since 1989 has resulted in a wide range of activities covering industrial cooperation and exchange of expertise. A High level Euro-Gulf Energy Summit that took place in Kuwait in 2005 recommended the establishment of an EU-GCC Energy technology centre whose remit would include joint research and technology transfer, education and training.

The EU Energy Initiative (EUEI) was launched at the 2002 World Summit in Johannesburg as a framework for dialogue with developing countries. The main objective is to attract political attention and resources to the important role of energy in achieving the Millennium Development Goals, in particular poverty alleviation. The dialogue has been productive both at the country level, mainly via EU Member States, as the regional level, including with AU/NEPAD and the Forum of Energy Ministers of Africa (FEMA). The increased attention to energy in the EU development cooperation is reflected in the recent Communications of the Commission on policy coherence and on the new EU Strategy for Africa, as well as in the European Consensus on Development.
The Africa-Europe Partnership on Infrastructure, including energy, is an important element in the future energy cooperation with Africa. The partnership addresses AU/NEPAD priorities, including cross-border and regional cooperation and trade in energy, and can also address, from the EU perspective, the role of Africa as energy producer. Africa has significant energy resources and is already an important energy supplier also on the global market. Important energy consumers, including China, are increasingly active in the African energy markets.

As part of the implementation of the conclusion of ASEM 5 (the 5th ASEM Summit held in Hanoi in October 2004), energy issues are coming to the fore in the EU’s relations with Asia. The Commission, as a first step, is planning to organise, under the auspices of ASEM, an energy seminar in Tokyo together with the Japanese Ministry of Economy, Trade and Industry (METI). The Seminar will focus on energy efficiency in industry and in households and will involve all ASEA countries, as well as China, Korea and Japan. The intention is that the outcome of the seminar should feed into the next ASEM Summit scheduled for Helsinki in September 2006. It can be expected that EU-Asia energy co-operation will figure 2006.

Latin American energy exports have traditionally been directed at the North American market and the region is not a major supplier to the EU. Nevertheless, discussions on energy matters are an intrinsic and important element of relations between the EU and the Latin American countries, including in the context of relations with Mercosur, the Andean Community and Central America. The energy sector is also playing an increasingly important role in Latin America’s own regional integration process. The forthcoming EU-LAC summit is expected to confirm the commitment of both regions to the promotion of energy efficiency and the increased use of renewable energy sources.

IV. MULTILATERAL FRAMEWORK

Several dialogues and cooperation on energy security are also taking place in the framework of various international/multilateral institutions.
Created in 1974 after the oil crisis, the International Energy Agency’s major role is the security of oil supply through oil stockholding. The IEA’s activities include the exchange of information on energy policies including the rational use of energy, the environment, energy technologies and advice to non-member countries. The IEA in particular plays a key role in the field of oil stocks and oil crisis measures. The IEA energy forecasts are widely used as a reference.

Unlike many other international bodies, the G8 does not have a fixed structure or a permanent administration. It is up to the country that has the Presidency (rotating annually) to set the agenda and organize the annual G8 Summit. The 2005 G8 presidency was held by the United Kingdom, which identified two main priorities for that year: climate change and Africa. With respect to the first of these, a “Plan of Action on Climate Change, Clean Energy and Sustainable Development” was adopted by the Gleneagles G8 Summit on 6-8 July 2005. Russia is holding the G8 Presidency in 2006. It has three main priorities for its Presidency: energy security, education and infectious diseases. As regards the issue of energy security, Russia suggests focusing on identification of possible means aiming at improving predictability and transparency of hydrocarbon markets, development of alternative energy sources and new technologies aiming to ensure long-term energy security.

The United Nations offers several fora for discussing, monitoring and information sharing on Energy Security. For instance, the 2006/2007 work programme of the UN Commission on Sustainable Development includes energy as one of the major thematic issues. The IAEA (International Atomic Energy Agency) is a good example of a UN system agency that provides a forum for discussion and information sharing on nuclear energy. For the European Union, the UNECE (UN Economic Commission for Europe) provides a particularly interesting platform for regular exchange of information, discussion and monitoring of developments.
Energy issues are discussed also in the OSCE framework, with focus on security. This forum should be made use of, in particular because Russia and many other NIS countries have pushed for increased emphasis of the OSCE on economic issues, including energy.

Finally, the Energy Charter Treaty is a legal instrument on non-discriminatory and market-based conditions for trade, transit and investment in energy products. 51 countries have ratified the Treaty that is largely based on same elements and principles as WTO rules and the EU legislation. Russia has not ratified the Treaty, due to a pending Transit Protocol, that is subject to ongoing negotiations between the EU and Russia.

The International Energy Forum is a grouping of energy ministers of countries from around the world – both consumers and producers. The main objective of the Forum is to provide a framework for a high-level energy dialogue between key energy producers and consumers. The next meeting of the Energy Forum is scheduled to take place in Qatar in April 2006. The organisation has a small permanent secretariat based at Riyadh, Saudi Arabia. No formal decisions are taken by the Forum.

V. ONGOING FUNDED EXTERNAL ENERGY RELATED PROGRAMMES

EU GRANT ASSISTANCE

For Eastern Europe and Central Asia, funding takes place under National and Regional Tacis programmes. The primary objective sought is to secure oil and gas supplies from the NIS. This is achieved under the INOGATE programme which aims to promote the regional integration of the pipeline systems and to facilitate oil and gas transport within the NIS and towards the EU markets, in addition to encouraging private investment and IFIs’ support. Between 1996 and 2006, INOGATE has earmarked 56 Mio€ of which 40% has gone to support urgent interventions for maintaining the continuity of supplies and improving the transparency of cross border gas trade in the NIS.

For the Mediterranean region, funds are allocated through the MEDA regional budget and under the bilateral assistance. Among other operations, in the framework of a pre-neighbourhood programme, 14 M € support: (i)
integration of the Maghreb electricity market; (ii) creation of a Euro-Mashreq gas market, involving Egypt, Jordan, Lebanon and Syria; and (iii) establishment of a Joint Energy Office aimed to enhance energy cooperation between Israel and the Palestinian Authority, particularly in the fields of electricity, gas, renewable energy and energy efficiency.

Under bilateral assistance, the harmonization of legislation and the adoption of the EU acquis, where appropriate, are sought in the framework of the programmes for the implementation of the association agreements, which also cover the energy sector.

As far as the new European Neighbourhood Instrument is concerned, the Regional Strategy Paper for 2007-2013 and the Regional Indicative Programme for 2007-2009 underline the need to further encourage energy market integration, through energy dialogue, trade liberalisation, infrastructure development and networking, and the further strengthening of the sub-regional energy markets previously established.

A similar emphasis on energy and identical priorities for cooperation are highlighted in the strategy paper for central Asia 2007-2013 and the Central Asia Indicative Programme 2007-2010.

As concerns the Balkans, The EU has been financing both urgent reconstruction and, increasingly, market reform projects, mainly through the CARDS programme (now also Phare) and the European Agency for Reconstruction (mainly Serbia, Montenegro and Kosovo). From 2007, IPA will be the main tool of EU assistance.

The ACP-EU Energy Facility (total amount: 220 M€) was adopted 2005 and its call for proposals are currently under preparation. The facility will provide co-financing of energy services delivery in rural areas, support to capacity building, management and governance and facilitate large scale investment in cross-border connections.

The Africa-Europe Partnership on Infrastructure, that is included in the EU Strategy for Africa adopted in December 2005, will facilitate interconnectivity at a continental and regional level in order to promote regional integration and
economic growth. The Partnership programmes will be a mix of physical infrastructure investment and support to facilitation and the regulatory frameworks that are essential for efficient operation and service delivery also in the energy sector. It is expected to become operational during 2006.

An EU-China Energy Environment Programme worth € 42 million (EC contribution € 20 million) was officially launched in 2004.

The EU-India Action Plan foresees a number of concrete areas of cooperation in the field of energy, and funding is expected to be provided under the so called Action Plan Support Facility (8 Mio€ ) and NIP, as Energy has been singled out as one of the focal sectors for economic co-operation in the Action Plan.

Finally, the Commission is preparing a € 24 m project for 8 Latin America countries, aiming at improving electricity supply in small isolated rural communities through the provision of alternative energy kits (solar panels and windmills).

**EU LOAN ASSISTANCE**

The European Investment Bank covers two major areas: electricity (generation, transmission and distribution) which account for 59% of the loans and gas (extraction, transport and distribution) for the remainder. 3.2 billion € were allotted to the energy sector during the 1995-2004 period. Some of the most sizeable interventions concern Morocco: rural electrification (30 M € ); extension of the electricity networks (135 M € ), connection of the electricity grid with Spain (80 M € ), interconnection of gas distribution with Spain (350 M € ). Algeria is likely to be one of the most important recipients for the future: construction and operation of a gas pipeline with Spain (300 M € ); gas production in the central-eastern part, supplemented by a liquefaction plant in Arzew (800 M € ); combined gas-solar power plant in Hassi R’Mel (50 M € ); gas pipeline with Italy (however still at the pre-identification stage). Projects currently considered also include a participation (170 M € ) in the funding of a methanol plant in Egypt which will value a part of the large natural gas reserves of the country.
The most recent loan (45 M €), decided in late 2005, is targeted at the rehabilitation and upgrading of the electricity transmission and distribution network in the Palestinian Territories.

The Council is considering an extension of the mandate of the European Investment Bank for the period 2007-2013 to enable loans of up to € 400 mio in Central Asia, € 10.0 billion for the Mediterranean, and € 5.0 billion in Eastern ENPI countries for selected projects closely linked to the EC cooperation priorities with these countries, particularly for transport and energy infrastructure. Loan subsidies and twinning projects are particularly relevant in this context.

The Commission is working closely with the European Bank for Reconstruction and Development, in which the EU and its member states are major shareholders. The EBRD policy for energy sector covers energy conversion, transportation, distribution and consumption. It includes power generation, transmission and distribution, heat generation and distribution, gas distribution and utilisation of power, heat and gas consumers and energy utilities. The oil and gas production and transport are covered by separate natural resources policy.

The EBRD is active in Central and Eastern Europe and in the ex-Soviet Union countries. The Bank has so far invested more than € 1,800 million in the power and energy sector, which represents 16% of its total investment portfolio. These investments are spread across 46 projects with a total value of € 4.67 billion. Generation projects account for 65% of the total, while transmission and distribution represent 28% and 7%, respectively.

The EIB and EBRD are considering to be engaged in significant joint financing of projects. The Commission is co-operating closely with the EIB and EBRD to identify areas for common action, in particular in the area of infrastructure and energy development and networks. A tri-partite Memorandum of Understanding is in preparation to be signed in 2006 and it will provide the institutional frame to develop this joint cooperation in countries covered by ENPI and Central Asia in line with EU strategic priorities, including energy. Technical assistance support for the development of joint EBRD/EIB operations will be considered under the Strategies/Indicative Programmes for
ENPI Regional Cooperation and for Central Asia in the period 2007-2013, currently being developed by the Commission, to be funded under the new EC assistance instruments.

VI. MULTIPLE SOURCES, MULTIPLE PIPELINE ROUTES

The EU is surrounded by the most important gas resources in the world in particular resources located in Russia, Iran, Norway, Algeria, Libya, Nigeria, the Caspian Basin and central Asia, the Middle East. The proximity of the established EU market makes the EU a very attractive customer for these countries/regions.

The challenge is to ensure a continued high level of diversification of supply. Maintenance and upgrading of the existing gas network as well as supply diversification would be the most important security of supply measure.

As concerns the existing network, the upgrading of the transit pipeline systems for the Russian gas supplies to the EU through Ukraine, Belarus and Moldova as well as through Tunisia and Morocco for the Algerian gas remain essential.

A number of new gas projects already decided or in an advanced stage of planning are likely to provide a very significant additional import capacity over the coming 5-10 year period:

- The Norway-UK pipeline, scheduled to open in 2006/7, capacity 20 bcm per year
- The Yamal II project through Belarus or the alternative through the Baltic States (Amber)
- The Baltic pipeline, scheduled to start up in 2010, with an initial capacity 27.5 bcm/year
- The Nabucco pipeline which will cross Turkey, Bulgaria, Romania, Hungary and
Austria and make it possible to transport gas from the Caspian region, Iran and the Middle East to the European market with a capacity of up to 31 bcm by 2020.

– The future Trans-Caspian gas pipeline which will offer direct access of gas from central Asia via Southern Caucasus or Iran and Turkey the EU, to the Western Balkans and other partner countries linked to the European Neighbourhood Policy, provided political conditions permit.

– The off shore pipeline projects linking directly Algeria to Spain (Medgaz) and Algeria to Italy (GALSI)

– The expansion of transit capacity in the Southern Caucasus to cater for additional Caspian natural gas transportation

– The trans-Mashrek gas pipeline that will bring Egyptian, Syrian, Iraqi gas to Turkey and to the EU through the future Nabucco pipeline.

– The pipeline’s extension to Italy of the Turkey – Greece interconnection that would enhance the supplies from Southern and Eastern sources to the EU and the Balkans.

– The gas network interconnection between North Africa and Middle East to sub Sahara (e.g. Nigeria) and Gulf producers (e.g. Qatar)

LNG terminals offer a particular contribution to security of supply, since they are normally not utilised 100% of the time. This offers additional flexibility in case of an emergency, but requires also a strengthening of interconnections within the EU. Are considered important:

– A number of LNG terminals in Italy, Spain, the UK and possibly other Member States bringing the total 2010 capacity towards 140 bcm/yr;

– Sub regional diversification schemes for East Northern EU based on land reversible pipeline interconnections, joint gas underground storages and specific LNG terminals in the Baltic States and Poland as well as in the Black Sea coast of Ukraine.
As regards oil, major international oil pipeline projects concentrating on the Caspian and central oil supplies to the EU are essential. A certain number of projects are being developed:

- the extension of the Odessa-Brody pipeline to Poland and its branches to Latvia, Germany, Slovakia and Czech Republic,
- the pipeline linking Bratislava to Schwechat
- the Bourgas – Alexandroupolis pipeline
- the Constantza – Trieste pipeline,
- the integration of the Adria (Central Europe) and Drujba (Eastern Europe) oil pipeline systems,
- the future oil Trans-Caspian oil pipeline provided political conditions permit
- the expansion of transit capacity in the Southern Caucasus to cater for additional Caspian oil transportation.

VII. AN EU EXTERNAL CRISIS MONITORING MECHANISM FOR ENERGY

If the functioning of the EU energy internal market is monitored by appropriate community mechanisms and bodies, the external dimension of the EU security of energy supplies is, for the time being, neither coherently identified nor under any EU control. It is therefore essential to envisage a multi-level coordination and permanent monitoring instrument aimed at enhancing the EU’s reaction and response capabilities in the event of an external energy crisis, and covering all current and potential energy producing regions. The recent bilateral gas dispute between the Russian Federation and Ukraine that impacted the EU gas supplies and for which the EU could not intervene technically is an example which argue in favour of such mechanisms and instruments. In support of the crisis monitoring mechanism, one could establish a network between existing and future technical energy regional technical centres financed by the EC dealing, inter alia, with the external security of supplies.
VIII. MAJOR INTERNATIONAL PIPELINE MAPS
2. Extract from the Presidency Conclusions of the Brussels European Council - 23/24 March 2006

PART TWO

ENERGY POLICY FOR EUROPE (EPE)

43. The European Council notes that Europe is facing a number of challenges in the energy field: the ongoing difficult situation on the oil and gas markets, the increasing import dependency and limited diversification achieved so far, high and volatile energy prices, growing global energy demand, security risks affecting producing and transit countries as well as transport routes, the growing threats of climate change, slow progress in energy efficiency and the use of renewables, the need for increased transparency on energy markets and further integration and interconnection of national energy markets with the energy market liberalisation nearing completion (July 2007), the limited coordination between energy players while large investments are required in energy infrastructure. Leaving these challenges unaddressed has a direct impact on the EU environment, and jobs and growth potential.

44. In response to these challenges and on the basis of the well-articulated Commission Green Paper "A European Strategy for Sustainable, Competitive and Secure Energy" and contribution of the Council, the European Council calls for an Energy Policy for Europe, aiming at effective Community policy, coherence between Member States and consistency between actions in different policy areas and fulfilling in a balanced way the three objectives of security of supply, competitiveness and environmental sustainability.

45. The European Council underlines that, to achieve this consistency both in internal and external EU policies, energy policy has to satisfy the demands of many policy areas. As part of a growth strategy and through open and competitive markets, it prompts investment, technological development, domestic and foreign trade. It is strongly linked with environment policy and is

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closely connected with employment, regional policy and particularly transport policy. In addition foreign and development policy aspects are gaining increasing importance to promote the energy policy objectives with other countries. Therefore, the European Council calls for an enhanced coordination between the relevant Council formations and invites the European Commission to take into account the better regulation principles when preparing further actions.

46. This EPE should be developed with adequate knowledge and understanding of Member States’ energy needs and policies, bearing in mind the strategic role of the energy sector. The EPE should therefore be based on shared perspectives on long term supply and demand and an objective, transparent assessment of the advantages and drawbacks of all energy sources and contribute in a balanced way to its three main objectives:

(a) Increasing security of supply through:

• Development of a common external policy approach in support of energy policy objectives, and the furthering of energy dialogues between the EU and its Member States on the one hand, and their main partners, be they producer, transit or consumer countries on the other hand, in synergy with relevant international organisations

• Intensified diversification with respect to external as well as indigenous sources, suppliers and transport routes supported by investments in the necessary infrastructure, including LNG facilities

• Ensuring common operational approaches to address crisis situations in a spirit of solidarity, taking subsidiarity into account

(b) Ensuring the competitiveness of European economies and the affordability of energy supply to the benefit of both businesses and consumers, in a stable regulatory framework, by:

• Working with Member States to complete the opening of the internal market for electricity and gas for all consumers by mid-2007, while accepting the special circumstances of some small and isolated Member States
• Ensuring full, effective and transparent implementation of internal market legislation, which should play also a key role for the security of supply

• Promoting approaches similar to that of the internal energy market to neighbouring countries and enhancing the coordination and role of energy regulators

• Accelerating the development of regional energy cooperation within the EU, facilitating the integration of regional markets into and further development of the EU internal market, paying particular attention to the countries and regions largely isolated from the EU energy market

• Fostering the rapid and coherent development of storage and infrastructure, in particular of gas and electricity interconnections with, for electricity, the target of at least 10% of Member States’ installed production capacity, and as also agreed by the 2002 Barcelona European Council, financing requirements should be met mainly by the enterprises involved

• Reviewing existing directives and legal framework in order to speed up the administrative authorisation procedures for, and develop a regulatory environment more conducive to investment projects

(c) Promoting environmental sustainability by:

• Strengthening EU leadership by adopting an ambitious and realistic Action Plan on Energy Efficiency bearing in mind the EU energy saving potential of 20% by 2020, as estimated by the Commission, and taking into account measures already implemented by Member States

• Strengthening EU leadership by continuing the EU-wide development of renewable energies (road map) on the basis of an analysis by the Commission of how to achieve the existing targets (2010) and how to sustain in a cost-efficient manner the current efforts over the long-term e.g. considering raising, by 2015, the share of renewable energies, considering a target of 15%, and the proportion of biofuels, considering a target of 8%, and developing a medium and long-term strategy to reduce the EU's dependency
on energy imports in a manner that meets the objectives of the strategy for growth and jobs, taking into account the problems of islands or regions largely isolated from the EU energy market

- Implementing the Biomass Action Plan

- In the context of the development of a medium- to long-term EU strategy to combat climate change, completing the review of the EU Emissions Trading Scheme as an instrument to achieve climate change objectives in a cost-effective manner, providing medium and long-term certainty to investors, and assessing the potential of various sectors with respect to these objectives

- Ensuring adequate support from RD & D national and Community instruments to energy efficiency, sustainable energies and low emission technologies

47. In fulfilling these main objectives the EPE for Europe should:

- Ensure transparency and non-discrimination on markets

- Be consistent with competition rules

- Be consistent with public service obligations

- Fully respect Member States’ sovereignty over primary energy sources and choice of energy-mix.

48. The European Council invites the European Commission and the High Representative to work closely together on the important issue of external energy relations and to provide input for an EU strategy that may be discussed at the next European Council meeting.

49. The European Council welcomes the Commission’s intention to present a Strategic Energy Review on a regular basis, starting in 2007, addressing in particular the aims and actions needed for an external energy policy over the medium- to long-term. Actions of European interest could be reported by Member States on that occasion. Preparatory discussions should take place in the latter part of 2006.
50. Annex III sets out a series of possible actions that have the potential to contribute to the above objectives. Deciding on new actions should be done in synergy with the work carried out by existing international institutions, fora, mechanisms or processes. On that basis the European Council invites the Commission and the Council to prepare a set of actions with a clear timetable enabling the adoption of a prioritised Action Plan by the European Council at its 2007 spring session.

51. Given the urgency of the challenges to be faced, the European Council invites the Commission to start with the following measures:

- Submitting an Action Plan on Energy efficiency by mid-2006
- Implementation of the Biomass Action Plan
- Developing a priority Interconnection Plan and facilitating the realisation of priority infrastructure projects contributing to diversification of supply and integration of regional markets into the EU internal market, while noting the primary role of the enterprises involved
- Making the EU-Russia dialogue more effective including as regards the ratification of the Energy Charter and the conclusion of the Transit Protocol during Russia's G8 presidency
- Developing a strategy for exporting the internal energy market approach to neighbouring countries
- Securing adequate priority for energy in the 7th Framework Programme
- Initiating the analysis of long term supply and demand perspectives
- Improving the transparency of the energy market in particular data on gas storage capacities and on oil stocks

ANNEX III - ENERGY POLICY FOR EUROPE (EPE) - INDICATIVE LIST OF ACTIONS
The actions listed below pertain to both the internal and external aspects of energy policy and may contribute to more than one of its three objectives. Mentioning a particular action is without prejudice to the division of competencies between the EC and the Member States.

**SECURITY OF SUPPLY**

*Facing supply disruptions*

1. While recalling the primary responsibility of Member States with regard to their domestic demand and in synergy with existing mechanisms, ensuring the availability of effective mitigating measures and coordination mechanisms in the event of a supply crisis based on the principles of solidarity and subsidiarity e.g. by considering a flexible combination of the measures set out in the Gas Supply Directive, taking into account improved data on gas storage capacities and stocks.

2. Enhancing demand-side management, particularly in the housing and transport sectors, to accelerate the demand response.

3. Improving the effectiveness of gas and oil provisions.

*Intensified Diversification*

4. Member States should intensify their diversification strategies while considering the development of a common approach, be it in terms of the supplier countries or the transportation routes. New gas supply routes should be opened in particular from the Caspian region and North Africa. This diversification should not be limited to external sources but include the development and exploitation of indigenous energy potential and energy efficiency.

5. Completion of network infrastructure, in the East-West direction but also along a South-North axis, and LNG (Liquified Natural Gas) facilities contributing to that diversification should be accelerated, and more competitive LNG markets should be promoted.
6. Subject to competition requirements, the contribution of long-term contracts should be acknowledged from both demand and supply points of view.

External dimension of security of supply

7. Developing a common voice in support of energy policy objectives when addressing third countries, fostering a more cooperative approach regarding access to energy resources, stability in transit and producer countries, and energy security. In this respect the intensified diversification to be pursued will increase the EU margin of manoeuvre in its relations with third countries.

8. Securing the entry into force of the Energy Community Treaty (with South-East Europe) in 2006 and considering the extension of its membership or principles to neighbouring countries.

9. Developing a common framework for establishing new partnerships with third countries, including transit countries and improving existing ones. This framework should consider the geopolitical implications of third countries approaches towards energy. Consumer to producer partnerships should be supplemented with consumer to consumer ones. All fora should be put to good use for carrying out these dialogues, which can be conducted in a regional setting (e.g. OPEC, Euromed, or Northern Dimension area) if this adds to their effectiveness, including for assisting in mediating in case of disputes affecting supply. Member States should be adequately represented in these fora, notably the IEA.

10. In order to maximise the outcome of these dialogues as well as facilitating the access of developing countries to sustainable energy and related technologies, synergies with international organisations, including IFI's, should be fully exploited.

11. The Energy Dialogue with Russia should be revitalised and become more open and effective in support of EU energy objectives, based on our mutual inter-dependence on energy issues and thus the need for secure and predictable investment conditions for both EU and Russian companies and reciprocity in terms of access to markets and infrastructure as well as non-discriminatory third party access to pipelines in Russia, ensuring a level
playing field in terms of safety, including nuclear safety, and environmental protection. Decisive efforts should be made to complete the negotiation of the Energy Charter Transit Protocol and secure Russia's ratification of the Energy Charter Treaty.

**MARKET COMPETITIVENESS AND INVESTMENT**

*Furthering market integration to the benefit of businesses and consumers*

12. Improving regional cross-border exchange and accelerating the development of regional energy cooperation while facilitating the integration of regional energy markets into and the further development of the EU internal market notably through adequate interconnection measures. To that effect the Commission should submit a Priority Interconnection Plan by the end of 2006 identifying measures to be taken at Member State level as well as Community level. These measures will also contribute to reaching the target of a level of electricity interconnections equivalent to at least 10% of their installed production capacity as agreed by the European Council in Barcelona in 2002.

13. Making networks operate like a single grid from the end-user's point of view by completing the technical rules required for cross-border trade in energy, improving the functioning of gas market flexibility instruments, including storage capacities, access to networks and congestion management on the electricity market. It is expected that the Commission will address the issue of full and transparent access to infrastructure in its 2006 report on the internal energy market.

14. Ensuring full, effective and transparent implementation of existing legislation. This implementation should be in line with public service obligations, ensuring that liberalisation is also beneficial in terms of affordable access to energy. This liberalisation process should also take into account Member States' situation in terms of diversification of supply in order to avoid excessive control by external suppliers.

15. Enhancing cooperation and coordination between regulators and system operators on a regional basis inter alia by a coordinated exchange of information and at Community level e.g. by building on already existing
administrative bodies like the European Energy Regulators Group for Electricity and Gas (ERGEG).

Fostering the coherent development of infrastructure

16. Improving medium- to long-term investment planning procedures and investment coordination, especially as regards cross-border interconnection, gas infrastructure and LNG facilities as well as generation capacities, and ensuring a business climate more conducive to long-term investment through increased transparency and exchange of information based on Member States’ own planning. This should contribute to starting the implementation of priority energy infrastructure projects without delay.

17. Providing a balanced mechanism in regard to long term contracts that will strengthen competition on the internal market and at the same time safeguard investment incentives.

18. Reviewing existing directives and legal framework conditions in the light of the need to speed up administrative authorisation procedures substantially while maintaining environmental and health standards, in particular by considering time-limits for the procedures.

SUSTAINABLE ENERGY

Renewables

19. Producing a Commission analysis of how to achieve the existing targets (2010) of renewables and how to further promote in a cost-efficient manner renewable energies (road map) over the long-term e.g. considering raising their share to 15% by 2015 and in the same way further the use of biofuels in the transport sector by considering raising their proportion to 8% by 2015 accompanied by a constructive dialogue with the oil industry and by giving maximum support to research on and development of 2nd generation biofuels. The setting of new targets shall be justified on the basis of thorough analysis of the potential and cost-effectiveness of further measures.

20. Promoting the use of biomass with a view to diversifying the EU’s fuel supply sources, reduce greenhouse gas emissions and offering new income
and employment opportunities in rural areas by taking forward proposals in the Biomass Action Plan in all of its three sectors: heating and cooling, electricity and transport. This should be developed in the framework of a long-term strategy for bioenergy beyond 2010.

21. Mitigating legislative and administrative obstacles to renewables take-off by facilitating access to grid, cutting administrative red-tape and ensuring the transparency, effectiveness and certainty of support policies.

Energy efficiency

22. Bearing in mind the EU energy saving potential of 20% by 2020, as estimated by the Commission, the Commission should propose an ambitious and realistic Action Plan on Energy Efficiency,aiming at strengthening EU leadership, with a view to its adoption in 2006 and consider how to engage third countries in making progress on energy efficiency.

23. Improving energy efficiency notably in the transport sector given the important role this sector has to play, making use of cost-effective instruments, including voluntary agreements and emission standards.

24. Fully implementing the legislation on energy performance in buildings and end-use efficiency and energy services.

25. Substantially enhancing the efficiency of power stations in particular by further promoting the use of combined heat and power.

Contributing to climate change policy

26. Contributing to the development of a medium to long term EU strategy to combat climate change in a post-2012 perspective and the achievement of the existing Kyoto targets.

27. Completing in a timely manner the review of the EU ETS as an instrument to achieve climate change objectives in a cost-effective manner, taking into account its impact on the three objectives of energy policy, on energy markets, the growth potential and industry structure of Member States and the need for medium and long term certainty.
28. In its energy dialogues with third countries, the EU should facilitate the development of sustainable and efficient energy systems and assume a more proactive approach in combating climate change, promoting renewables, low emission technologies and energy efficiency and the implementation of the Kyoto Protocol mechanisms.

**HORIZONTAL AND SUPPORTING ACTIONS**

*Evidence-based policy-making*

29. Developing analytical (energy modelling and regional scenarios; indicators), and market and stocks monitoring tools in order to provide the EU with shared perspectives on long-term supply and demand as regards the EU and its partners, in synergy with other international institutions. In particular the Commission is encouraged to make rapid progress on the means to provide transparency and predictability regarding demand and supply on EU energy markets and to complement the work of the IEA while avoiding duplication of work.

30. Assessing the advantages and drawbacks of all individual energy sources with regard to the three objectives of energy policy; this assessment should cover all different sources, from indigenous renewable energy sources, to clean coal and the future role of nuclear energy in the EU for Member States which wish to pursue this option. Research,

*Development and Demonstration - Technology development*

31. Increasing the priority for energy in national and Community RD & D budgets, especially within the 7th Framework Programme, focusing on energy efficiency, sustainable energies and low emission technologies responding to the challenges faced by the EU.

32. Supporting these technologies through a broader range of platforms and partnerships with third countries, and facilitating the market take-up of the resulting technologies including through relevant Community instruments, so as to strengthen EU leadership

*Coordination*
33. In order to ensure a coherent implementation of the above priority actions, shared general orientations addressing the various components of energy policy as implemented by Member States should be developed, taking due account of Member States’ characteristics.
3. An External Policy to serve Europe’s Energy Interests - Paper from Commission/SG/HR for the European Council

FACING EXTERNAL ENERGY RISKS

The EU and the world need reliable, affordable and sustainable energy flows. This is a key element for economic development and the achievement of the Lisbon goals. There is an obvious link between energy security, sustainability and competitiveness.

Increasing dependence on imports from unstable regions and suppliers presents a serious risk. Recent developments have shown how some major producers and consumers are using energy as a political lever. Possible risks also include the fragility of the EU’s internal energy market in the face of external actors that may not play by the same market rules or be subject to the same competitive pressures domestically. The geo-politics of energy has important consequences for the EU’s wider interests.

A secure energy supply requires a combination of internal and external policies. More action is needed at EU level - this is why on the basis of the Green Paper “A European Strategy for Sustainable, Competitive and Secure Energy” presented by the Commission in March 2006, the European Council called for an Energy Policy for Europe and a prioritised Action Plan to be adopted at its 2007 Spring meeting, following the Strategic Review to be presented by the Commission by the end of 2006. It also invited the European Commission and the Secretary-General/High Representative in the meantime to provide input for an EU strategy on external energy relations.

The legitimate right of individual Member States to continue to pursue their own external relations for ensuring security of energy supplies and choose their internal energy mix is not called into question. Nonetheless, the development of a coherent and focussed external EU energy policy supported by all Member States and industry would greatly help secure the Union’s economic and political future. It will also help the EU face more effectively strategies by major external energy suppliers to adversely influence market
fundamentals. We need to identify where and how the EU can bring added value and enhance the collective external energy security of the Union.

Policies such as trade, development, enlargement, competition, research, environment and the EC financial instruments should contribute more effectively to the EU’s external energy security. Foreign and security aspects should be fully taken care of.

This paper is necessarily preliminary and intended to open up debate. But it also highlights concrete actions that could be put into motion as of now given that the EU is already heavily involved in pursuing relevant activities in this field. External energy relations cannot be separated artificially from the wider question that Heads of State or Government are addressing: what sort of energy policy do the EU and its Member States want? The answer to that question will be part of the Strategic Energy Review, which will lead to an Action Plan to be put forward next Spring. A fleshed-out internal policy is a pre-requisite for delivering the EU’s external energy interests, and for better calibrating what leverage is available to the EU in its external relations for furthering these interests.

This paper considers how EU external relations, including CFSP, can be used more effectively to pursue our common objective: securing reliable flows of affordable and environmentally sustainable energy.

GUIDING PRINCIPLES

In order to enhance the external security of energy supplies of the EU, it is important that a coherent approach be adopted that pursues, inter alia, the following objectives:

1. Energy partnerships with third countries willing to engage, the objective of which would be to promote transparency and improved governance in the energy sector and to create mutually beneficial, open, transparent, non discriminatory and stable legal conditions for energy investment and trade.

2. Further development of production and export capacities in producer countries in a safe and secure environment, and the upgrading of existing and
development of new energy transportation infrastructures by producer and transit countries.

3. The opening up of the production and export of energy resources to EU industry and investments and the protection of investments by European companies in the energy sectors of third countries.

4. The improvement of conditions for energy trade, including through non-discriminatory transit and third party access to the export pipeline infrastructures.

5. The highest levels of physical and environmental security and safety of energy infrastructures.

6. The encouragement of energy efficiency, use of renewable energies including bio fuels, low emission technology and the rational use of energy worldwide, including through enhanced dialogues with the main consumer countries, and the facilitation of technological and industrial co-operation in this respect.

7. The continued and strengthened leadership in combating climate change, notably through the promotion of the implementation of the relevant Kyoto Protocol mechanisms.

8. Overall diversification of energy imports by type of product and by country.

9. The creation of an international regime for the supply of enriched uranium to countries that have chosen the nuclear option, in line with non-proliferation commitments and taking into account the Euratom treaty provisions.

10. The promotion of strategic reserve stocks and the encouragement of joint stock holding with partner countries where appropriate.

At this stage, it would be useful to consider two building blocks of energy security, functioning markets and diversification.

FUNCTIONING MARKETS
Well-functioning world markets are the best guarantee to ensure safe and affordable energy supplies. They create a resilient and responsive world energy supply, facilitate investment decisions, cushion shocks and provide security for both customers and producers.

But markets do not operate in a vacuum; they need physical and legal infrastructure, information and transparency, and the active participation of major players. Extending the EU’s own energy market to include, in some way or other, its neighbours would gradually create around the EU a shared regulatory area with common trade, transit and environmental rules. More generally, the EU should in its bilateral contacts and in multilateral fora build on reciprocity in market openness and advocate respect of market rules: non-discrimination, competition, transparency and enforcement of rules.

We need to convince major non EU consumer countries that world energy markets can work for them. If they were to conclude that the only route to security lay in bilateral deals, the risk of disruption of the energy system would grow.

**DIVERSIFICATION**

The EU Energy security can be enhanced by diversifying energy sources and geographical origin as well as transit. The EU should therefore facilitate the maintenance and upgrade of the existing energy infrastructure in neighbouring countries of key importance to the EU as well as new infrastructure.  

A number of new gas projects already decided or in an advanced stage of planning are likely to provide a very significant additional import capacity over the coming 5-10 years. If they are all realised, the new capacity could amount to a significant share of current EU-25 gas consumption. In addition, LNG terminals offer a particular contribution to security of supply.

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3 Major international gas and oil projects currently under consideration are shown in annex 2.
With respect to oil, major international oil pipeline projects concentrating on delivering Caspian and central Asian oil supplies to the EU, the Balkans and Ukraine are essential. A certain number of projects are being developed.

The EU should take measures to diversify its imports of other energy products with due respect for environmental and safety standards as well as competition rules in the course of their production in third countries.

All instruments, ranging from political dialogues and Community policies such as trade, development, competition, research and environment through to financial grants and loans, including those of the EIB, EBRD and other IFIs, should be used in a coherent manner to accelerate the realisation of these infrastructure projects.

**GETTING RESULTS**

This analysis shows how essential an EU external relations policy on energy is. It must be coherent (backed up by all Union policies and instruments, the Member States and industry), strategic (fully recognising the geo-political dimensions of energy-related security issues) and focused (geared towards initiatives where Union-level action can have a clear impact in furthering its interests). It must also be consistent with the EU’s broader foreign policy objectives such as conflict prevention and resolution, non-proliferation and promoting human rights.

An external energy policy has to be based on a clear prior identification of EU interests, and reliable risk assessments. This means ensuring that the EU has the necessary monitoring capabilities and that these capabilities are sufficiently directed towards the energy sector.

The EU needs an instrument addressing emergency external supply events. This might involve, for example, a monitoring mechanism to provide early warning and to enhance response capabilities in the event of an external energy crisis impacting EU supplies. The EU should envisage a network of energy security correspondents, including representatives from the Member States, the Commission and the Council General Secretariat to monitor energy security on a permanent basis, as well as developing analysis and
action plans as and when appropriate. The European Energy Supply Observatory could provide a valuable contribution.

An effective external policy on energy depends on being able to harness our considerable collective resources and put them at the disposal of shared interests. That means engaging with producer, transit and consumer countries in order to produce results. And it means acknowledging that political challenges require dialogue at political level (including Heads of State and Government) on a bilateral, regional and multilateral basis.

Possible initiatives that could be developed include:

At bilateral level.

- Work towards a comprehensive agreement with Russia covering all energy products. The EU and Russia are and will remain interdependent in the energy sector, and have a common interest in such an agreement. The aim should be integration of the EU and Russian energy markets in a mutually beneficial, reciprocal, transparent and non discriminatory manner. Such an agreement should ideally be negotiated in the context of the post PCA contractual framework.

- Continue to pursue the strategic energy partnership with Norway (including supporting its wish to join the Energy Community Treaty) and pursue a similar approach with Algeria.

- Engage with Turkey in identifying and implementing the best possible conditions that will allow Turkey to make full use of its potential to become a major energy transit hub and in particular promote its rapid integration into the Energy Community of South-East Europe.

- Strengthen cooperation with Ukraine as a key transit through implementation of the EU-Ukraine MoU on Energy cooperation, the inclusion of a comprehensive energy chapter in the future bilateral Agreement and envisage Ukraine’s integration in the Energy Community.

- Develop or enhance bilateral energy cooperation with other important partners, with the appropriate involvement of the Member States.
Strengthened energy co-operation should be foreseen with important producer and transit partners in North and continental Africa, Caucasus, Caspian Basin and Central Asia, Middle East and the Gulf, as well as Latin America.

- Place particular emphasis on the implementation of the energy-related provisions of the ENP Action Plans.

- Enhance bilateral dialogue and cooperation with key consumer countries, particularly the US (where a more political dialogue on energy is needed) as well as Japan, China and India in a bid to seek a common approach to global energy issues. The objective would be to improve the transparency and operation of the world energy market, and to develop sustainable energy resources and energy efficiency.

At regional level.

- Extend the EU’s internal market, inter alia through regulatory convergence, to its neighbours through the instruments provided for by the European Neighbourhood Policy in order to improve the investment climate and provide a level playing field in terms of market opening, fair competition and environmental protection and safety.

- Encourage the expansion of the Energy Community Treaty to include relevant EEA and ENP countries.

At multilateral level.

- Integrate the EU's energy objectives fully into its multilateral trade policy and pursue these through the WTO, as appropriate.

- Conclude the negotiations of the Energy Charter Transit Protocol and secure the ratification of the Energy Charter Treaty by all signatories to the Charter.

- Encourage Member States which are members of the G8 and the Commission to use this forum to promote the EU's energy interests, including in the G8+5 format which brings together key producers and suppliers.
- Consider how to strengthen cooperation with the International Energy Agency and extend its membership.

- Promote active EU involvement in the work the UN Commission on Sustainable development (CSD), as this multilateral forum is addressing the important role of energy in achieving global sustainable development.

- Promote an international agreement on energy efficiency, boost development of renewable energies and deployment of energy efficient technologies.

The European Council is invited to consider whether these proposals should constitute input into the wider reflection process leading to an Energy Policy for Europe and an overall Action Plan to be agreed in Spring 2007, and to what extent they should be implemented already in advance of the outcome of this wider process.

Annex 1: EU gas and oil consumption in 2004 by source

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<th>GAS</th>
<th>OIL</th>
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<tr>
<td>Import from Russia</td>
<td>24%</td>
<td>27%</td>
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<tr>
<td>Import from Norway</td>
<td>13%</td>
<td>16%</td>
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<tr>
<td>Import from the Middle East</td>
<td>19%</td>
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<tr>
<td>Import from Algeria</td>
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<tr>
<td>Import from North Africa</td>
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<td>12%</td>
</tr>
<tr>
<td>Indigenous production</td>
<td>46%</td>
<td>21%</td>
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<tr>
<td>Other Regions</td>
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<td>5%</td>
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22. In its conclusions of March 2006 the European Council called for an Energy Policy for Europe and invited the Commission and the Council to prepare a set of actions with a clear timetable enabling it to adopt a prioritised Action Plan at its meeting in Spring 2007.

23. The external aspects of energy security will constitute an important part of such an overall policy and will need to be included within the Action Plan. The European Council therefore welcomes the joint paper by the Commission and High Representative, which is a sound basis for an external policy conducted in a spirit of solidarity and intended to ensure reliable, affordable and sustainable energy flows into the Union. It invites the Commission to take it into due account when it draws up the Strategic Review. It underlines the importance of using all the available policies and instruments to support external action in this area.

24. Meanwhile, since there is a continuing need for the EU to respond to the worldwide competition for access to increasingly scarce sources of energy, the European Council invites the Presidency, the Commission and the High Representative to take forward work on the development and implementation of an external energy policy in a coherent and coordinated manner, making use of all available instruments including CFSP and ESDP. This should include the development of strategic partnerships with the main producer, transit and consumer countries and concentrate initially on the following priorities:

- conclude negotiations of the Energy Charter Transit Protocol and secure the ratification of the Energy Charter Treaty by all signatories to the Charter;

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− invite the Commission to set out elements for an agreement with Russia on energy within the framework of the successor to the Partnership and Cooperation Agreement;

− extend the EU's internal market in energy to its neighbours (including the expansion of the Energy Community Treaty);

− make better use of the European Neighbourhood Policy (ENP) mechanism to further the EU's energy policy objectives; enhanced dialogue with Algeria will be particularly relevant;

− give full support to infrastructure projects compatible with environmental considerations and aimed at opening up new supply routes with a view to diversifying energy imports which would benefit all Member States;

− integrate the EU's energy objectives fully into its trade policy and pursue these through the WTO, as appropriate;

− attach particular importance to energy in the context of the Union's relations generally with major third-country partners.

25. The European Council underlines the need to further diversify sources of energy supply, promote development of renewable energies and make more efficient use of energy. It recalls in this context that it is for each Member State to choose its own energy mix.

The European Council of March 2006 endorsed the Commission Green Paper's proposed objectives for an energy policy for Europe - long-term sustainability, security of energy supply and economic competitiveness, in line with the Lisbon strategy for growth and jobs. The June 2006 European Council subsequently adopted a set of recommendations proposed jointly by the Commission and the High Representative/Secretary General of the Council.

(1) Coherence is central to achieving these objectives: coherence between the internal and external aspects of energy policy, and between energy policy and other policies that affect it, such as external relations, trade, development, research and environment. A coherent approach is key to ensuring that external energy policy provides guarantees in terms of security of supply, while at the same time ensuring projection of the objective of sustainability at international level. To ensure coherence, major and urgent decisions are needed.

(a) A major potential strength of the Union lies in the realisation of its internal energy market. It reinforces economic competitiveness, increases diversity, improves efficiency, fosters investment and innovation and contributes to the security of supply. Member States should promote the principles of the internal energy market in bilateral and multilateral fora, enhancing the Union's coherence and weight externally on energy issues. The pull of the EU internal market will also

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5 Document 7775/1/06 REV 1, Brussels European Council 23/24 March 2006, Presidency Conclusions

6 Document 10633/1/06 REV 1, Brussels European Council 15/16 June 2006, Presidency Conclusions.

7 Document 9971/06
be strengthened if interconnection is improved and competition rules are fully respected.

(b) Major investments are needed to create the necessary interconnections inside and outside the Community in order to ensure the diversification of routes and sources of external energy supplies. The EU should help to create the environment for private capital flows and offer political and financial support to economically feasible projects, as appropriate.

(c) Energy efficiency should be pursued as the most effective policy that contributes to all three energy policy objectives, including the reduction of import dependence. There are significant opportunities for the EU to lead common international action to reduce the growth in worldwide energy demand, improve energy efficiency, combat climate change and encourage greater sustainability. This is just one area where the EU's lead in cutting-edge environmental and energy technologies makes it an attractive international partner.

(d) The EU and its Member States should promote, both internally and externally, the acceleration to a low carbon economy, including emissions trading. This will address the issues of climate change and sustainability, as well as climate security. Early action can support the development and use in the EU and in third countries of renewable energies (wind, solar, biomass, hydro, geothermal) and clean hydrocarbons, including coal, bringing benefits in terms of leadership in developing international markets. Nuclear energy is seen by those who follow this path as an element in energy security and a low carbon economy.

(2) The Union should use all its weight in current and future bilateral negotiations and agreements, offering balanced, market-based solutions, first of all with its traditional suppliers, but also with other main producing and consuming countries. The EC should be a key driver in the design of international agreements, including the extension of the EC energy regulatory framework to neighbours (the Energy Community), the development of the Energy Charter Treaty, the post-Kyoto regime, a framework agreement on
energy efficiency, the extension of the emission trading scheme to global partners, the promotion of research and the use of renewable energy sources. The role of the EC in international organisations and fora needs to be further developed. Member States and the Commission should coordinate their positions in order to speak with an effective, common voice.

(3) EU-Russia energy cooperation is crucial in ensuring energy security on the European continent. Russia is already the origin of around 25% of oil and gas consumed in the EU. The growing demand for energy, in particular gas, points to even higher volumes of energy imports from Russia. The foreseen negotiations on a new comprehensive framework agreement within the post-Partnership and Cooperation Agreement (PCA) offer an opportunity to agree on the objectives and principles of energy cooperation in a balanced and mutually binding manner. This would not only have an impact on the conditions for EU-Russia trade and investment in the energy sector, but would also extend across the economy, thus supporting the industrial diversification and technological development that Russia seeks. It would also bring benefits to transit and producer countries in Eastern Europe, the southern Caucasus and Central Asia. Such an agreement with Russia, confirming both market economy principles and the relevant principles of the Energy Charter Treaty, could also remove many of the current obstacles to Russia’s eventual ratification of the Energy Charter Treaty.

With the current levels of investment in production, transport and distribution of energy products, concerns have been expressed that Russia may not be able adequately to satisfy the growing demand on both its export and domestic markets. There should, therefore, be a strong joint effort to improve the energy efficiency of the Russian economy. For this to become possible, framework conditions regulating and fostering energy trade and cross investments between the EU and Russia would be required. Linked to this, the EU should develop its cooperation with Russia in implementing Kyoto commitments, to foster technical innovation and improve the efficiency of the energy sector.

The EU and Russia should see mutual long term benefits from a new energy partnership, which would seek a balance between expectations and interests of both sides. The equation is the following:
(a) Russia seeks ways to secure energy demand presented by the EU market. The EU needs Russian resources for its energy security. There is a clear interdependence.

(b) Russia wants a stronger presence in the EU internal energy market, ensured long term gas supply contracts, the integration of electricity grids and free trade for electricity and nuclear materials, as well as the acquisition and control of downstream EU energy assets (gas and electricity) and EU investments and technology for the development of the Russian energy resources.

(c) The EU wants non-discriminatory and fair treatment from Russia in their energy relationship, in terms of supply from Russia and in terms of access to the Russian market for EU investors; a level playing field in terms of market conditions, investment and acquisitions in the upstream and downstream Russian energy infrastructure and resources; third party access to pipelines within Russia, including those for transit of energy products from the Caspian region and Central Asia; respect for competition rules as well as high levels of environmental security and safety.

In its proposal for negotiating directives for a new framework agreement with Russia, the Commission has suggested how our energy relationship with Russia could be enhanced. Closer ties with Russia should seek to eliminate remaining barriers to trade and investment, promote regulatory convergence and facilitate the sharing of technology, thus widening and deepening our energy relationship. Mutual benefits for the long term could be anchored through creating a level playing field, predictability and reciprocity in terms of:

(a) upstream and downstream, domestic and foreign investment;

(b) market opening, and fair and non-discriminatory access to transport networks, including for purposes of transit of energy products;

(c) convergence of energy policies, legislation and regulations regarding the functioning of markets, including trade rules, as well as safety and security issues;
(d) compliance with the high standards of EU regulations concerning the safety, security and environmental aspects, in particular for the purpose of electricity trade, as well as respect for competition rules;

(e) joint implementation of energy efficiency and savings, renewables and research measures.

It is essential that Member States have a common understanding on the proposed approach on the principles for a future energy partnership with Russia, to be considered in the framework of the post-PCA agreement. The Union should use all opportunities to convince Russia of the mutual interest in such an exercise.

(4) EU energy cooperation with other third countries remains a top priority, independent of EU-Russia negotiations. It serves the EU’s and the transit countries’ security of supply, help the reforms in partner countries and facilitates the producer countries’ access to EU markets. Cooperation is also pursued with important energy consuming countries. Diversity of type of energy, of country of origin, and of country of transit are essential to ensure the EU's access to clean and secure energy.

The EU is surrounded by almost 80% of the world’s hydrocarbon resources. There are important energy producers in the Mediterranean, Black Sea, Caspian, Middle East and the Gulf regions as well as in the North (Norway), with which the EU is building strengthened cooperation. The aim is to create a wide network of countries around the EU, acting on the basis of shared rules or principles derived from the internal market.

There are different tools that could be used to pursue this goal. There are the existing and future bilateral agreements with energy producer and transit countries, such as the PCAs, the Memorandum of Understanding on Energy Cooperation with Ukraine and the Association Agreements with Mediterranean countries. In addition, there are the European Neighbourhood Policy Action Plans; the foreseen memoranda of understanding with Algeria, Azerbaijan and Kazakhstan; Euromed energy cooperation; the Baku initiative; and the EC-Norway energy dialogue. Energy relations have also been
reinforced with other important energy producers such as OPEC and countries in Latin America and Africa, which are increasing their hydrocarbon output and have the potential to go even further. As for energy consuming countries, cooperation is also being developed with the United States, India and China. An efficient monitoring and implementation of these initiatives is essential, and needs to be fully supported by the EU’s trade, development, environment and competition policies.

The Energy Community Treaty entered into force on 1 July 2006 and extends the relevant EU energy acquis to the Western Balkan countries. The implementation of the Treaty will improve energy security, create a regional energy market and encourage vital investments. The inclusion of Norway and Ukraine, which have already formally applied to join the Energy Community Treaty, should be considered at the earliest possible moment. Further reflection needs to be carried out concerning other possible membership applications. In the Black Sea and Caspian Sea Region, the ‘Baku initiative’ energy policy dialogue can be expected to galvanise the countries of the region to tackle shared challenges in cooperation with the EU and help boost new supplies from central Asia to the EU.

Turkey is becoming a crucial energy hub for supplies from the producer regions and is thus of strategic importance for the EU’s energy security. The enlargement process with Turkey could contribute to promoting the early adoption and implementation of the EU’s energy acquis by Turkey, while Turkey's early accession to the Energy Community Treaty could also speed up this process. Co-operation on pipeline projects such as the Nabucco project and further projects from the Caspian basin should be realised in the most effective manner. A rapid alignment of Turkey with EU energy standards and policies would be highly beneficial for realising Turkey’s great potential as a major energy hub.

The EU’s financial cooperation instruments should be mobilised in full to promote the restructuring and development of the partner countries’ energy sectors, regional cooperation, infrastructure interconnections, new pipelines, energy efficiency and renewable energy sources for our mutual benefit. The recent case of a joint proposal from the EU, the European Investment Bank and the European Bank for Reconstruction and Development for the financing
of hydrocarbon infrastructure projects in the framework of the EU-Ukraine Memorandum of Understanding on energy cooperation has demonstrated that powerful synergies can be created when all EU instruments are put at the service of a strategic EU objective in a coordinated manner. The recently adopted Global Energy Efficiency and Renewable Energy Fund will help to find additional financial resources.

It is important rapidly to build up relations with strategically important neighbours of the Union. Member States need to support the ongoing bilateral and regional energy cooperation partnerships with the main EU energy partners, including the gradual extension of the principles of the internal energy market through the European Neighbourhood Policy and the efficient use of all financial instruments which the EU, the European Investment Bank, the European Bank for Reconstruction and Development and other international financial institutions can put at the disposal of the EU's energy security.

(5) To ensure efficient follow-up and coherence in pursuing the above mentioned initiatives and processes, it will be crucial for EU partners to be constantly informed and aware of developments, and ready to share essential information with each other in case of an external energy crisis. For facilitating such exchange, the Commission, the Council Presidency and the General Secretariat of the Council are preparing the establishment of a network of energy correspondents to assist the EU’s early response and reactions in case of energy security threats. The objective of such a network would be to prepare the ground for actions and decisions in case of an energy security crisis by collecting, processing and distributing reliable information relevant to the security of energy supplies to the EU. The network would also draw preliminary analysis and assessments in view of providing an early warning when the objectives of energy security may not be achieved.

The network should be composed of energy experts from Member States, the General Secretariat of the Council and the Commission. It should operate through a specific communication system and meet on an ad hoc basis.

In order to facilitate the implementation of a common and coherent external energy security policy and constitute an important instrument by which the EU
could have at its disposal an early warning system to promote its preparedness for energy crises, the Member States should agree to the establishment and implementation of the network of energy correspondents.
6. Extract from the Presidency Conclusions of the Brussels European Council - 14/15 December 2006

III. INNOVATION, ENERGY AND CLIMATE CHANGE

33. With regard to the development of the Energy Policy for Europe, and with reference to the conclusions of the 2006 Spring European Council, significant progress has been achieved especially on strengthening the coherence between its external and internal aspects and between energy policy and other policies. The informal meeting of Heads of State or Government in Lahti was an important step towards strengthening the consistency of the Union's energy messages to third countries.

34. The Union will work to ensure long-term security of energy supply through:

− improved cooperation with major producer, transit and consumer countries,

− the realisation of an inter-connected, transparent and non-discriminatory internal energy market, with harmonised rules,

− the development of cooperation to meet emergencies, in particular in the case of disruption of supply,

− the extension of its internal energy market principles to neighbouring countries, in particular on the basis of the Energy Community Treaty and the European Neighbourhood Policy,

− the development of domestic energy sources, including renewables, as well new energy technologies.

35. Energy efficiency and energy savings contribute concurrently to the main objectives of the European energy policy. The European Council therefore welcomes the Commission's Action Plan on energy efficiency and calls for priority measures to be taken rapidly.

36. The European Council endorses the setting up of a network of energy security correspondents in early 2007. This will be an important tool for collecting and processing existing geopolitical and energy related information. It will also provide an early warning tool to support the Union’s overall strategy with the aim of ensuring the security of energy supply.

37. The Spring 2007 European Council is due to adopt a prioritised Action Plan as part of an overall Energy Policy for Europe. The external aspects of energy security will be included within the Action Plan. The European Council looks forward to the imminent presentation by the Commission of its Strategic Energy Review as part of the preparations for the adoption of that Plan. European energy and climate change policies will be discussed by the European Council on a regular basis in the future.

38. Given the urgent need for energy investments in the coming years, the upcoming Spring European Council will discuss an integrated approach for a secure, environmentally friendly and competitive energy policy. This would demonstrate the European Union’s leadership in integrating climate change objectives into other sectoral policies and measures.

39. The challenge of climate change is assuming ever greater importance as its long-term consequences become clearer and new information from recent studies shows that the costs of inaction for the global economy will significantly outweigh the costs of action.

40. In this context, the European Council welcomes the outcome of the UN climate sessions held in Nairobi which includes important steps towards developing a broadly-based post-2012 agreement and addressing a number of immediate concerns on mitigation and adaptation requirements. It also notes with satisfaction the progress made in innovative financing initiatives to support a widespread shift to new and improved technology.

41. Bearing in mind the crucial role of a global carbon market and the need to provide long-term certainty, the European Council looks forward to the forthcoming revision of the Emissions Trading Directive, which should take effect at the start of the third trading period beginning in 2013. It confirms the crucial role and the long-term ambition of the EU Emissions Trading Scheme.
42. Reiterating that climate change is a global problem that requires global solutions and encouraged by the EU's recent meetings with third countries, the European Council will consider at its Spring 2007 meeting options for a global post-2012 agreement consistent with the EU’s objective of a maximum global temperature increase of 2ºC above pre-industrial levels.

43. In light of the political, economic and external impact of energy and climate change policies, the European Council looks forward to an integrated debate on these issues at its Spring 2007 meeting.
3.9. An International Energy Policy that actively pursues Europe’s interests

The EU cannot achieve its energy and climate change objectives on its own. The EU in the future will account for only 15% of new CO2 emissions. Furthermore by 2030, with the new objectives, the EU will consume less than 10% of the world’s energy. So the challenges of security of energy supply and climate change cannot be overcome by the EC or its Member States acting individually. It needs to work with both developed and developing countries, energy consumers and producers, to ensure competitive, sustainable and secure energy.

The EU and Member States must pursue these goals with a common voice, forging effective partnerships to translate these into a meaningful external policy. Indeed, energy must become a central part of all external EU relations; it is crucial to geopolitical security, economic stability, social development and international efforts to combat climate change. The EU must therefore develop effective energy relations with all its international partners, based on mutual trust, cooperation and interdependence. This means relations broadened in geographical scope, and deepened in nature on the basis of agreements with substantial energy provisions.

The European Council has endorsed the vision of a long term framework for the external energy dimension set out jointly by the Commission and the Council and has agreed to establish a network of energy security correspondents which will provide an early warning system and enhance the EU’s capability to react in times of external energy security pressure.

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9 The full text can be found at http://ec.europa.eu/energy/energy_policy/doc/01_energy_policy_for_europe_en.pdf
The EU already speaks with one voice in negotiations of international agreements, notably in the field of trade. Ongoing and future international agreements, whether bilateral or with several countries at a time, can be used more effectively to establish legally binding commitments. These can extend to the reciprocal liberalisation of trading conditions and investment in upstream and downstream markets, and to the grant of access to pipelines by countries situated along transit and transport chains. Equally, they can be used to promote international trade in sustainably produced biofuels or environmental goods, or to the international pricing of carbon emissions.

The EU must therefore now follow through these principles into action. The first step towards "speaking with one voice" is to set out clear objectives, and the means to coordinate effectively. The regular Strategic Energy Reviews will provide the overall framework for frequent discussion of external energy issues in the EU institutions. The priorities to be pursued by an effective external EU Energy Policy during the next three years are:

- The EC and its Member States should be a key driver in the design of international agreements, including the future of the Energy Charter Treaty and the post-2012 climate regime.

- EU energy relations with its neighbours are fundamental to European security and stability. The EU should aim to build up a wide network of countries around the EU, acting on the basis of shared rules or principles derived from the EU energy policy.

- To enhance relations with our external energy suppliers, further developing comprehensive partnerships based on mutual interest, transparency, predictability and reciprocity.

- To continue to develop closer energy relations with other major consumers, in particular through IEA and G8 or through intensified bilateral cooperation.

- Develop the use of financial instruments, via enhanced co-operation with the EIB and EBRD and the establishment of a Neighbourhood Investment Fund, to enhance the EU’s energy security.
• To improve the conditions for investments in international projects, working for example to secure a clearly defined and transparent legal framework and appointing European coordinators to represent EU interests in key international projects.

• Promote non proliferation, nuclear safety and security, in particular through a reinforced cooperation with the International Atomic Energy Agency.

The detailed manner in which these objectives will now be pursued, as discussed in detail by the European Council at the Lahti Summit and the December 2006 European Council is contained in Annex to this Review. In addition, however, the Commission considers that two additional priority actions should now be pursued:

• A comprehensive Africa-Europe Energy partnership. The importance of Africa as an energy supplier has increased greatly in recent years, but its potential is still greater. The dialogue should include security of supply, technology transfer in renewable energy, sustainable exploitation of resources, transparency of energy markets and respect for good governance. The dialogue should be launched through a joint event at the highest level.

• As already mentioned above, an international agreement on energy efficiency.

3.9.1. Integrating Europe's Energy and Development Policies: a win-win game

High energy prices are particularly damaging for developing countries. Whilst a few developing countries might benefit as producer, others can find the increased costs of energy imports outstripping their development aid receipts. Africa and other developing regions have a vital interest, like Europe, to boost diversification and energy efficiency – this can make a major contribution to the Millennium Development Goals. The EU is therefore committed to support developing countries in promoting sustainable and secure energy supply and use.
To deliver on the above commitment, the EU should focus on the delivery of affordable, reliable and sustainable energy services to the poor, notably from renewable sources as well as for the development of clean and efficient technologies for gas and oil production. Africa offers a unique opportunity to install renewable energy technology in a competitive manner. It can by-pass the need to build expensive transmission grids and "leap-frog" to a new generation of clean, local low carbon energy sources and technologies – as already seen for mobile telecommunications. This is a real "win-win" opportunity, increasing the penetration of clean renewable energy and bringing electrification to some of the world's poorest citizens. A special effort will be needed in Sub-Saharan Africa, where rates of access to electricity are the lowest in the world.

The EU will also leverage the different instruments at its disposal to this end: the 10th European Development Fund, the EU-Africa Partnership on Infrastructure which addresses regional projects on the generation and transmission of electricity, the ACP-EU Energy Facility, and the EC COOPENER programme and its successor as well as the EUROSOlar programme for Latin America.

**Annex 1 - EU International Energy Policy Priorities**

The priorities to be pursued by a external EU Energy Policy during the next three years are:

- Driving forward international agreements, including the post-2012 climate regime, the extension of emissions trading to global partners, the future of the Energy Charter Treaty and the development and deployment of clean and renewable energy technologies. This means stepping up coordination between the EU and the Member States in international fora and improving collaboration with the International Energy Agency. The EU shall also be involved in multilateral initiatives such as the World Bank Global Gas Flaring Reduction Partnership and the Extractive Industries Transparency Initiative. In order to enhance further coherence the EU should also strive where appropriate for membership in relevant international organisations.
• Building up energy relations with the EU's neighbours, following up the Commission's recent proposal to strengthen the European Neighbourhood Policy (ENP) also in the field of energy, with a possible EU-ENP energy Treaty with in the long run, possibly, all of our relevant neighbours. The Energy Community Treaty already acts as the basis for an emerging regional energy market, and should seek to gradually extend beyond the EU and the Western Balkans to incorporate neighbours like Moldova, Norway, Turkey and Ukraine. Enhanced energy relationships with Egypt and other Mashrek/Maghreb energy supplier and transit countries need to be developed, as well as with Libya. Both Norway and Algeria deserve special attention and tailor-made relations.

• To reduce the threat of possible disruptions or physical destruction of critical energy infrastructure beyond the EU borders through an exchange of best practice with all relevant EU partners and international organizations based on the actions for the internal infrastructure outlined in the Commission’s recent Communication on a European Program for Critical Infrastructure Protection.

• Enhancing relations with Russia through the negotiation of a new robust, comprehensive framework agreement, including a fully-fledged energy partnership benefiting both sides and that creates the conditions necessary for new investments. This should emphasize the mutual long-term benefits to both Russia and the EU and be based on market principles and those of the Energy Charter Treaty and draft Transit Protocol.

• Deepening dialogue and relations with key energy producers and transit countries, whether through OPEC and the Gulf Cooperation Council or fully implementing the Memoranda of Understanding with Azerbaijan and Kazakhstan and moving on to establish new ties with other important Central Asian producers like Turkmenistan and Uzbekistan. In addition, it is imperative to facilitate the transport of the Caspian energy resources to the EU. The Commission will also present a Communication on the Cooperation with the Black Sea Council in Spring 2007. This aspect of the strategy should also look further afield to maximise the geographical diversification of EU energy supplies to areas like Latin America and the
Caribbean. It should also look to new energy sources, developing a dialogue with Brazil to include biofuels - and organizing in 2007 an international conference on biofuels.

- Developing a new Africa-Europe Energy partnership. The importance of Africa as an energy supplier is still growing, and relations merit a comprehensive dialogue to include security of supply, technology transfer in renewable energy, sustainable exploitation of resources, transparency of energy markets and respect for good governance. The dialogue should be launched through a joint event at the highest level.

- Enhancing relations with other major energy consumers. In particular, the scope of relations with partners like the US should continue to cover areas like promoting open and competitive global energy markets, energy efficiency, regulatory cooperation and research. The steps already taken with China should be developed with the focus on advanced “near-zero-emissions” clean coal technologies, as well as energy efficiency, savings and renewables. A similar approach should be developed with India.

- Promoting non-proliferation, nuclear safety and security, in particular through a reinforced cooperation with the International Atomic Energy Agency and through the new Instrument for Nuclear Safety Cooperation.

To pursue these goals means redefining relations with these partners to put energy centre stage. In addition to promoting EU energy goals through dialogue and international negotiation, a variety of instruments at the EU’s disposal should be used to best effect, which include:

- In trade negotiations, the EU already speaks with one voice and competence is well established. International trade and investment agreements, whether negotiated bilaterally or with several countries at a time, can be used more effectively to establish legally binding instruments. They can help to create the conditions necessary for increased investment, more sustainable production and competition. Armed with the right instruments and mandates, the EU will, for example, be able to better pursue the reciprocal liberalisation of investment and trading conditions to upstream and downstream markets, as well as possibly access to
pipelines. The same applies to the promotion of international pricing of carbon emissions or trade in biofuels.

- Improving cooperation with the EIB and EBRD to use financial instruments to back up energy partnerships with concrete actions by financing important projects such as the Trans-Caspian energy corridor or the Sub Saharan–Maghreb–EU projects. Energy projects could be an important element in the proposed Neighbourhood Investment Fund, designed to leverage of four to five times the amount of grant funding available under the European Neighbourhood Policy Instrument.

- Promoting improved conditions for investments in international projects, with a clearly defined and transparent legal framework and with the support of European coordinators. As a first step, a European Co-coordinator should be appointed for the Nabucco gas pipeline from the Caspian basin to Austria and Hungary. Options for the future could include appointing co-coordinators for projects to bring energy supplies from partners such as Turkey, Central Asia and North Africa.