Towards an EU External Energy Policy

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Towards an EU External Energy Policy

In the European Union, the largest importer and second largest consumer of energy in the world, energy policy is not abstract ideas; it is everyday life.

The European Commission supports the creation of a fully fledged European Energy Community based on the EU acquis that would create an integrated energy market not limited to the EU Member States, but also embracing those countries that cooperate with us in the European Neighbourhood Policy, as well as other interested partners, when appropriate and feasible.

Such a Community would be the legal reflection of a constantly developing network of physical infrastructure, the pipelines and electricity cables which cross the North Sea, the Mediterranean Sea, the Black Sea or the Caspian Sea, connecting the European market to central Asia, the Middle East and elsewhere.

Europe’s energy landscape is changing, and changing fast; the European Union must change policies in consequence.

Benita Ferrero-Waldner,
Commissioner for External Relations and European Neighbourhood Policy
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword</td>
<td>3</td>
</tr>
<tr>
<td><strong>Opening speech</strong></td>
<td>7</td>
</tr>
<tr>
<td>José Manuel Barroso, President of the European Commission</td>
<td></td>
</tr>
<tr>
<td><strong>Opening address</strong></td>
<td>13</td>
</tr>
<tr>
<td>Benita Ferrero-Waldner, Commissioner for External Relations and European Neighbourhood Policy</td>
<td></td>
</tr>
<tr>
<td><strong>Address</strong></td>
<td>17</td>
</tr>
<tr>
<td>Javier Solana, EU High Representative for the Common Foreign and Security Policy</td>
<td></td>
</tr>
<tr>
<td>“External projection of the EU internal energy market”</td>
<td>21</td>
</tr>
<tr>
<td>Andris Piebalgs, Energy Commissioner</td>
<td></td>
</tr>
<tr>
<td>“Trade Policy and stable, secure and sustainable energy”</td>
<td>25</td>
</tr>
<tr>
<td>Peter Mandelson, Trade Commissioner</td>
<td></td>
</tr>
<tr>
<td>“Energy and development”</td>
<td>29</td>
</tr>
<tr>
<td>Andris Piebalgs, Energy Commissioner</td>
<td></td>
</tr>
<tr>
<td><strong>Concluding remarks</strong></td>
<td>33</td>
</tr>
<tr>
<td>Benita Ferrero-Waldner, Commissioner for External Relations and European Neighbourhood Policy</td>
<td></td>
</tr>
<tr>
<td><strong>Concluding remarks on</strong></td>
<td>35</td>
</tr>
<tr>
<td>“Extending the EU’s energy regulatory space”</td>
<td></td>
</tr>
<tr>
<td>Andris Piebalgs, Energy Commissioner</td>
<td></td>
</tr>
</tbody>
</table>
José Manuel Barroso,
President of the European Commission

Opening speech

Your Excellencies,

Ladies and gentlemen,

Let me start by welcoming you all to this conference, and to thank my colleagues, and especially Benita Ferrero-Waldner, for their work to set up this event. I am very encouraged to see so many ministers and high level experts gathered together in Brussels to discuss the external aspects of energy policy.

I would imagine a rather different audience a few years ago. Experts, yes, but not so many of them – and not so many senior political figures as well. The fact is that energy was, until recently, a forgotten subject in the European agenda. Now it is back at the heart of European integration, where it began with the creation of the Coal and Steel community, and the EURATOM Treaty. And where it belongs.

If we needed a reminder of why energy has returned to the centre of European integration, we have recently received one.

When the lights went out across Europe two weekends ago, our energy interdependence as Europeans was laid bare for all to see. In a flash, greater integration ceased to be some abstract ideal. For millions of our citizens, it became a necessity.

None of us should forget this. Energy policy, just as European integration, is not just about abstract ideas. It is about every day life. Europe’s energy landscape is changing, and changing fast. It is easy to see why. Firstly global energy demand is expected to increase by 60% by 2030, in part because of the rising economic dynamism of China and India.

Secondly mature hydrocarbon reserves in Europe are declining. Today the EU imports about 50% of its energy. Without policy reform, this will rise to 70%. The percentage for gas will be even higher.
Thirdly, the price of oil and gas is rising. From an admittedly very low price of $10 a barrel in the winter of 1998-99, oil prices have increased more than six times over the past seven years, and become more volatile.

Fourthly, our climate is changing. According to the Intergovernmental Panel on Climate Change, climate change has already made the world some 0.6°C hotter. In the worst case scenario, temperatures could rise by up to 5.8°C by the end of the century.

So the facts are changing. And we in the European Union must change our policies to fit these facts. In doing so we must recognise the enormous energy presence of the European Union. The European Union is the largest importer and second largest consumer of energy in the world.

The European Union’s combined weight on the world energy market, as in so many other areas, is a great strength. We are already world leaders on key energy technologies, and the policies needed to get them out of laboratories and into markets.

We intend to continue our global leadership in this area. But we will only do so if we look ahead, and act together.

Fortunately, a quiet revolution has been taking place across Europe. A revolution that acknowledges the need for a common, integrated energy policy.

The European Commission has been quick to seize this opportunity. Our energy Green Paper, endorsed by Europe’s leaders at their Spring Summit in March this year, set out the overall approach.

It started from first principles: that the European Union needs an integrated, European Energy Policy that maintains Europe’s competitiveness, safeguards our environmental objectives and ensures our security of supply. By ‘integrated’ I mean a policy that takes account of all aspects of energy, both internal and external. We cannot, we must not separate one from the other. They must be part of one coherent whole.

Now we are starting to put flesh on these bones. We started on the external side, with a joint paper with Javier Solana, whom I am delighted to see here today, endorsed by the EU leaders in June. The Commission followed this up with a paper to the recent informal EU leaders’ meeting in Lahti, at the request of the Finnish Presidency.

I know this conference is here to discuss external aspects of energy policy. The external aspects of energy policy must be seen together with the internal aspects. The two must go hand in hand, not walk in separate directions. And to have a successful external policy, we must have a strong internal policy. That is the clear lesson of 50 years of European integration. There are many examples of this – not least in the area of climate change, where the EU is showing global leadership because it has a strong, coherent internal policy. And what is true of climate change already must now become true for energy policy.

So allow me to set out, briefly, the shape of the package of measures which the Commission will propose in January to turn the aspirations of EU leaders, and EU citizens, into reality.

Our aim is clear. The European Union needs to lead the world in accelerating the shift to a low carbon economy. We need to do that in a way which keeps Europe competitive in the global marketplace. And in a way which increases Europe’s security. At the heart of this must be ambitious but credible targets for further reductions in greenhouse gases beyond 2010. That is what will show our determination to keep leading the fight against climate change. It is what will give private investors the clarity and confidence to make long term decisions. It is what, in the end, will strengthen our energy security.
There are several pillars to our policy.

First, the creation of a true single market in energy. We have one on paper. We don’t have one in practice. That is why Commissioner Kroes has been conducting a full review of the energy sector. That is why the Commission has supported Andris Piebalgs in launching legal proceedings against those member states who have not implemented EU energy law. That is why I can tell you now that we intend to propose new measures on ownership unbundling and on regulatory authority, to free up energy markets to the benefit of energy consumers.

A true single market will not just boost Europe’s competitiveness. It will fairly with traditional sources of energy. And it will increase security and solidarity through ending energy islands within Europe and stimulating diversity. Let me be clear; open markets, not narrow nationalism, are the way to energy security and sustainability.

Second, energy efficiency. Last month, the Commission launched its energy efficiency action plan; including 10 priority actions to help reduce our energy consumption by 20 per cent by 2020. This will strengthen our competitiveness; help consumers, by saving between €200 and €1,000 for an average household; and create a cleaner environment – by sparing the damage caused by pumping an extra 780 million tonnes of carbon dioxide into the atmosphere annually.

Third, we must substantially increase the amount of energy we use from renewable, and low carbon energy sources. These include wind energy, photovoltaic energy, wave energy, biofuels and, for those countries which so wish, nuclear energy. It is for the Member States, not the Commission, to decide on whether they use nuclear energy. But an honest debate on the costs and benefits of nuclear energy, underpinned by a rigorous economic analysis, must not be taboo.

Fourth, the development of new energy technologies. The EU must pursue this objective more actively and in a more coordinated way – particularly technologies which reduce the carbon emissions from hydrocarbons, for example through the capture and storage of carbon dioxide.

So we will propose the basis of a new internal energy policy. And yet, to put it simply, Europe cannot do this on its own. Many of the challenges we face are faced by the whole world, and we have to act together, now. We need an external policy to accompany our internal policy.

Let us take greenhouse gas emissions. The International Energy Agency forecasts that in a ‘business as usual’ scenario, global energy related Carbon Dioxide Emissions will rise by 55% by 2030. At present the EU accounts for around 14% of global greenhouse gas emissions. This will fall to around 8% by 2050 while those of developing countries will expand to over 50%. US emissions are already higher than those of the EU. Soon that will be true for China as well.

The problem which faces us all is called global warming, not just European warming. European action is necessary but not sufficient to solve it.

So I welcome the action which is being taken outside as well as inside Europe.

In his State of the Union address this year, President Bush condemned America’s addiction to oil. He announced a 22% increase in clean energy research, investing in areas like solar and wind technologies, hybrid and electric cars, and biofuels.
China has announced its objective to reduce energy consumption per unit of GDP by 20% by 2010, in particular in the transport, industrial, construction and commercial sectors - a move we very much welcome. India too is developing new policies to improve energy efficiency.

But international action remains patchy, at best. That is why the external dimension of any European energy policy remains crucial, and why today's event is so important. Steps have already begun to address this external dimension, and more are planned.

Let me start with the energy efficiency action plan I mentioned earlier. One of its priority actions is: fostering energy efficiency worldwide. In 2007 the European Commission will take the initiative to reach framework agreements with relevant trading partners and international organisations. These will focus on improving energy efficiency in end-use sectors and in energy transformation.

It is also my hope that the many standards and minimum performance requirements the action plan sets will become international benchmarks.

In its review of the EU’s Emissions Trading System, the Commission must consider whether and how to find appropriate ways to link the scheme with other programmes around the world as they develop.

The European Union must also form international partnerships to work on specific projects. For example, we have signed an agreement with China to co-operate on near-zero emissions power generation technology, through carbon dioxide capture and storage.

Coal will continue to be an important energy source for the EU, and it will continue to be important for China, too. So it makes sense that together, we maximise our resources to reduce its negative environmental impact.

We must work more closely with Sub-Saharan Africa. Several African countries have substantial energy resources, and yet their populations have the lowest rate of access to energy services in the world, hampering all aspects of development. Reconciling this, in the framework of the search for energy security, is going to be a challenge for both the EU and Africa. Last week, I met many African leaders here in Brussels, during the European Development days. I was struck by how many of them referred to energy as one of their main challenges.

Clearly, building an integrated European energy policy touches on many areas: trade, development, R&D, environment and foreign policy to name just a few. That is why so many parts of the Commission will join you over the next two days to share their insights.

But the importance and scale of this challenge demands my personal engagement, too. At last month's informal meeting of European leaders at Lahti, for example, external aspects of energy was one of the three main subjects we discussed.

I made clear that Europe needs to speak with one voice on energy, and was encouraged to see a real determination among European leaders to make this happen. Chancellor Merkel announced that energy would be a high priority for the incoming German Presidency of the EU.

As a result of this meeting, we agreed to set up a network of experts to help us tackle external energy shocks, and increase our energy diversity by deepening relations with our neighbours.
Lahti also provided an opportunity to meet President Putin, and for me to present the EU’s position on energy to him.

We agreed that Russia needs predictability from Europe, just as Europe needs predictability from Russia. We need to acknowledge, and exploit, this interdependency to our mutual benefit. That requires transparency, the rule of law, reciprocity, non-discrimination and a level playing field in terms of market opening, market access and fair competition.

By turning into practice the principles which Russia agreed at the St Petersburg G8 Summit in July, it will encourage the investment necessary for Russia to fulfil its energy commitments; investment worth 5% of GDP per year for 25 years, according to the International Energy Agency.

Russia is an important partner for the EU in energy. But it is not, and should not be, the EU’s only partner. That is why the EU has started to develop energy agreements with several of our partners.

Last December I signed the first of these, with Ukraine. It provides a comprehensive framework for co-operation in key energy sectors, like nuclear safety, the integration of electricity and gas markets, enhancing the security of energy supplies and the transit of hydrocarbons, and improving environmental standards in the coal sector. We have also since been working with Ukraine on energy efficiency, renewables and climate change.

This month I signed a second such agreement with Azerbaijan, and one with Kazakhstan will follow in two weeks.

With Algeria, which is already a reliable, traditional gas supplier to the EU, we are finalising an Energy Strategic Partnership. This aims at fully integrating Algeria into our internal market and, not least, doubling our gas supplies from this source.

Meanwhile we are expanding the EU energy market beyond our frontiers, through the South East Europe Energy Community which met for the first time last week. I welcome that so many countries, from Turkey to Norway are showing an interest in this Community.

In fact, the external dimension of Europe’s common energy policy is so important that I would like to make clear today my intention to make energy a central issue at every EU Summit with third countries throughout 2007.

Ladies and gentlemen,

Energy was at the start of European integration. For some time, energy was forgotten. Now we have turned full circle. The Messina Declaration of 1955 established as European priority ‘Putting more abundant energy at a cheaper price at the disposal of the European economies...’. Abundant energy at a competitive price is still a European objective. Now, fifty years on, we must add the fight against climate change and the need for greater energy security.

These are European problems. But they are also global problems. Europe has shown leadership. It will continue to do so. But it must work with its partners all over the world – energy producers, energy transit countries, energy consumers. It must do so with the weight of 27 members and 500 million citizens. It must do so with a common purpose, and a common voice. The era of 27 EU mini markets, and mini policies, must end. In its place must come a common approach, internally and externally.

In short, we must give Europe the power to ensure that Europeans get the power they need.

Thank you.
Benita Ferrero-Waldner, Commissioner for External Relations and European Neighbourhood Policy

Opening address

Excellencies,

Ladies and Gentlemen,

Let me first thank all of you, also in the name of my colleague energy commissioner Andris Piebalgs, for showing with your presence in this conference such a high interest in energy policy and for the external energy policy which will be at the centre of the discussion this morning.

As highlighted just now by President Barroso, we can no longer take secure and affordable energy supplies for granted.

We are all being exposed to increasingly intense competition for global energy resources from other parts of the world, and are becoming ever more dependent on oil and gas imports from regions facing geopolitical uncertainties.

This has meant that the issue of ensuring energy security has moved to the centre of public policy and international politics, as well as business decisions.

However it is true that traditionally, the EU's Member States have often regarded energy policy as a domestic, not European issue; in their energy relations with Russia, for example. Some Member States, such as the Baltic States, are fully dependent on Russian gas imports while others are to a much lesser extent. Recent events have done a lot to focus minds.

Between Hampton Court and Lahti Summits, the EU has moved rapidly towards the implementation of a coordinated EU external energy policy based on a single approach and speaking with a single voice. In 2006, the Heads of State and Government have talked repeatedly on this subject. President Barroso has already referred to these discussions including EU approach towards Russia and the creation of a European Network of Energy Correspondents that will be coordinated by the Commission in close cooperation with Member States and the Council secretariat.
Energy and energy security have been at the heart of European integration from the outset and the Commission has been actively involved for quite some time to enhance the EU's external energy security. Just take as an example the countries of the former USSR. We have already spent several hundred of million Euros on enhancing their energy security since 1991 and actively promoted energy dialogues with our important energy partners for the sake of or common own energy security.

Energy is a perfect example of common sense driving integration. There is now broad support across Europe for the idea of a comprehensive, common energy policy integrating the internal and external dimensions. National leaders and citizens in Europe can all see the benefit of a more integrated, pro-active approach across the EU to the external energy challenges. The Commission is ready to take up this challenge.

Europe’s external energy approach

There is a clear need now for the EU to put its external and internal policy instruments at the service of its energy security.

These instruments include our European Neighbourhood Policy, our contractual relations with our main energy partners in central Asia, the Middle East, the Gulf, Africa, South America, USA, China, India and our whole network of bilateral, multilateral and regional agreements, and specific cooperation schemes.

As you know, our European Neighbourhood Policy was developed as a response to the new geopolitical situation following the May 2004 enlargement. This Policy lays the foundations for a much deeper political and socio-economic relationship with our neighbours and aims to increase mutual prosperity, stability and security.

The policy takes full account of the vital role that the EU’s neighbours play in the EU’s energy security either as supplier or transit countries. This has been fleshed out in the major energy cooperation sections of the ENP Action Plans which have been jointly established with these neighbours. The Action Plans address issues such as increased dialogue; convergence of energy policies and legal/regulatory frameworks; working towards better interconnection of networks, energy efficiency, renewable energy sources and nuclear safety. On this basis, energy cooperation has been substantially enhanced with our neighbours over recent years.

The Commission is now looking to strengthening this policy. There will be a clearer focus on energy issues, both at a bilateral and regional level. Co-operation in the Mediterranean, Black Sea and Caspian areas will all be enhanced. We also intend to improve the impact and leverage of EU funding, including through the European Neighbourhood and Partnership Instrument and the creation of a new Neighbourhood Investment Fund. This will permit the EU to facilitate important energy projects especially in infrastructure of common interest more effectively.

The Commission will make specific proposals to this effect next week.

This will also include to work, when and where possible, on the extension of the principles of the Energy Community Treaty that covers currently countries with an enlargement perspective in South East Europe to our neighbourhood countries in Eastern Europe, the Caspian region and the Mediterranean. In a second step also the Gulf region could be included. This will extend transparency, efficiency and certainty beyond the EU's frontiers – crucial to helping the long term investments necessary for our energy security.

Let me make some remarks regarding some Key neighbouring EU energy partners. Russia is clearly a key strategic partner for the EU in the energy sector. EU-Russia energy relations are characterized by a great degree of interdependence, and should continue to be, mutually reinforcing. The substantial and reliable flow of revenues that Russia obtains from selling energy to the EU has undoubtedly been one of the key factors in Russia’s economic revival. For the EU, the stable flow of reasonably priced energy has been an important factor underlying the EU’s
economic growth and well-being. It is this ‘win-win’ situation which both sides must work to reinforce.

The existing legal framework for relations with Russia, namely the Partnership and Co-operation Agreement, is set to expire in November next year. Although in fact it can continue if neither side renounces it, there is an understanding with Russia that it would be preferable to have a new agreement. Discussions are currently ongoing within the EU to define exactly what should be included in this new agreement.

It is nonetheless clear that energy will feature prominently in any new agreement and I believe that it is in the interests of both sides to have a robust text on energy, based on the principles of the Energy Charter, in order to enhance stability and predictability in our energy relationship, reinforce mutual confidence and bring mutual benefits in terms of energy security, investments and efficiency. Our common objective should be to create a level playing field, predictability and reciprocity in terms of:

- upstream and downstream, foreign and domestic investment;
- market opening and fair and non-discriminatory access to transport networks, including for transit purposes;
- convergence of energy policies, legislation and regulations;
- high safety, security and environmental standards;
- energy efficiency and savings, renewables and in research.

We have reinforced our co-operation with Ukraine with a view towards integrating its energy market with that of the EU, recognising in particular the key role it plays as a transit country for Russian hydrocarbons to the EU. The tool for implementing the energy objectives of the Action Plan is the Memorandum of Understanding on Energy that was signed in December 2005 and it is rewarding that substantial progress has been made in implementing this agreement.

We have already stepped up our energy co-operation with Moldova and we look forward to discussing their national energy strategy.

We have also recently signed a Memorandum of Understanding on energy with Azerbaijan and are committed to bringing Azerbaijan energy resources, in particular natural gas to the EU market, through the Nabucco pipeline and the Turkey- Greece – Italy gas interconnector. In this context, we would appeal to Georgia and particularly to Turkey to do whatever is necessary in practice to guarantee fair and transparent transit conditions.

In early December, we will be receiving the President of Kazakhstan here in Brussels. Among the objectives of this visit will be the signature of a Memorandum of Understanding on developing our bilateral energy cooperation. We are committed to pursuing all efforts to permit Kazakhstan to be a full partner in the EU’s energy sector. In particular, in encouraging their participation alongside the EU, the US and Russia in developing a Trans-Caspian – Black Sea strategic energy transit corridor as well as consolidating the existing gas transmission system from central Asia to the EU through Russia.

Foremost amongst our regional energy initiatives is that which was launched at a Ministerial Summit in Baku in November 2004. This brings together most of the countries of the Caspian basin, central Asia and the Caucasus, as well as Ukraine, Moldova and Belarus. We are working with these countries to develop sub-regional energy markets in Eastern Europe, the Caucasus and in Central Asia with the objective of promoting the convergence of these energy markets towards that of the EU. We should aim in the middle term at a fully fledged EU-Black Sea-Caspian Sea common energy house functioning on the basis of the EU internal energy market.

Our Mediterranean neighbours are also equally important energy partners of the EU. With Algeria, we intend to enhance our mutual co-operation through a bilateral agreement and we look forward to a rapid agreement by the Algerian government on this initiative.

Egypt is a rapidly expanding natural gas producer and has quickly become the sixth largest exporter of liquefied natural gas to Europe. In the framework of the ENP, the Action Plan that hopefully will soon be adopted, will be robust road map for
the harmonization of the Egyptian energy market to the EU acquis. Libya is a very significant gas and oil producer, and the EU intends to shortly start to explore the possibilities of cooperation in the energy field.

Syria is emerging as a gas hub in the Mashrek due to its transit potential for supplying Egyptian, Iraqi and other Middle East gas to the EU, as well as its recent discoveries of natural gas. We are already actively supporting the reforms of the Syrian energy market.

In addition to the Action plans with Morocco, Tunisia, Jordan and other Mediterranean partners, the EU is also actively supporting the progressive integration of the Maghreb (Algeria, Morocco and Tunisia) electricity markets and the Masherk (Egypt, Jordan, Syria, Lebanon, Israel, Palestine) gas market into the EU energy market. As for the East, our long term target would be to create a Euro Mediterranean Energy Common house.

An EU-GCC cooperation has been developed since 1989. We have agreed with our Gulf partners to enter into a joint Memorandum of Understanding to foster this energy cooperation. The participation today of a high-level Saudi delegation and of representatives of other Gulf countries (such as Qatar) testifies our mutual and common interest.

Iraq will be an important potential gas supplier to the EU. This afternoon, I will have the honor of launching the negotiations for entering into the first-ever contractual agreement between the EU and Iraq. This should pave the way for providing a framework to launch energy cooperation.

Regarding Iran as you all know the EU has made through HR Javier Solana a comprehensive offer in the framework of the discussions around the Iranian nuclear program. Due to this package the EU would also stand ready to develop its cooperation with Iran and consider it as a long-term source of oil and gas if the political conditions allowed for such positive developments in the future.

We are also actively enhancing our energy relations with other major, rapidly growing, energy consumers such as the US, China and India.

Finally we should think of having in place a well coordinated response by all internal and external policy instruments in case a supply disruption occurs.

As you can see, we have already been very active within the constraints that we have. It is clear that the new energy landscape of the 21st century implies a more globally interdependent world; where we rely on each other for ensuring energy security and stable economic conditions, and for ensuring effective action against climate change.

I really believe that time has come to have a real EU ‘added value’ to what is being done by envisaging an enhanced legal framework for our energy relations both within the EU and with our neighbouring energy partners with the forthcoming negotiations with Russia being a cornerstone. Consideration should be given to establishing a fully fledged European Energy Community based on the EU acquis that would create a real Europe-wide, integrated energy market not just limited to the EU Member States, but also to the ENP and other interested partners, when appropriate and feasible.

We should strongly support and facilitate the creation of such a Community by strengthening physical infrastructure such as pipelines and electricity cables. Strategic energy infrastructure linking Europe with the Mediterranean Sea, African Sub Sahara, the Caspian Basin, Central Asia and Middle East should be the cement of our common energy security.

I thank you for your attention and I am looking forward to the valuable interventions and statements by the SG/HR of the Council, our colleagues in the panel and the audience.
The days of easy energy are over. Global demand is rising rapidly while supply is maturing. The investment needs to ensure future supply run into hundreds of billions of dollars.

Europeans have been busy liberalising energy markets to increase competition and drive down prices. But liberalisation on the demand side has not always been matched by liberalisation on the supply side. Moreover, major players are using energy overtly as a geo-political matter. It is a euphemism to say that geo-politics affects investment and prices - and vice versa.

Hardly a day goes by that I am not confronted in my role as High Representative with the impact that energy has: from Sudan to Venezuela, from Iran to the Caucasus and beyond. So it is understandable and right that energy issues have shot to the top of the EU agenda. The paper I submitted together with the Commission to the European Council in June was an attempt to kickstart a discussion. This morning I want to take this reflection a little further forward.

Let us be clear: we do not yet have an external energy policy for Europe. And we are not fully implementing our internal energy policy. But we have set ourselves the aim of setting this right by next March. That is an ambitious objective.

The signals coming out of Member State capitals are supportive. But we need to match words with action. Some of the more difficult issues need to be put firmly on the table. Above all, we should avoid thinking that enumerating a list of principles is a substitute for a policy.

My aim this morning is to contribute to this process of developing a real policy. Not by presenting a single solution on a plate. In energy there is no such thing. But by asking a number of questions - which I hope are both pertinent and provocative.

Let me deal in particular with two questions: How will our energy objectives influence our choices in foreign policy? And what could be our response?
Europe will remain dependent to a large degree on hydrocarbons. Because of concerns over climate change, we are rightly looking at energy savings and renewables. Renewables and bio-fuels also have great potential. But we have to be realistic. Even in the most optimistic scenarios, our dependency on oil and gas will not diminish much. And these we will have to source, increasingly, beyond our borders.

We will increasingly be competing with others for energy. Overall world energy consumption is set to increase by well over 50 percent over the next 25 years. The bulk of this projected increase will come from Asia, with India and China taking the lead. The scramble for territory of the past maybe replaced by a scramble for energy.

We have to take our energy from where we find it. Although energy markets are increasingly global, much of the world’s gas and oil reserves lie in unstable and often undemocratic parts of the world. This is no accident.

New research by Professor Paul Collier of Oxford University argues that resource rich countries may be up to nine times more likely to suffer from violent internal conflicts than countries which are not resource rich. He has also stated that countries which benefit from an oil boom have an average economic growth of 7% in the first 5 years. But the next 10 years they suffer, on average, from a shrinkage of 17%.

The oil curse also means that democracy suffers and that checks and balances are weak. All this instability has a cost: in human terms of course. But also because it makes it harder get the needed investments, which are huge and necessarily long-term.

We may have to deal increasingly with governments whose interests are different from our own and who do not necessarily share our values. Sitting on huge reserves of oil and gas gives some difficult regimes a trump card. They can use energy revenues for purposes which we may find problematic. And it shields them from external pressure. Thus, our energy needs may well limit our ability to push wider foreign policy objectives, not least in the area of conflict resolution, human rights and good governance.

However we choose to deal with such regimes, others will put their energy needs above everything else. The scramble for energy risks being pretty unprincipled. That is likely to make it more difficult to secure support from key partners for our wider foreign policy objectives. Good examples include our efforts in Darfur and Myanmar/Burma and the role that energy plays in the calculations of China, India and others. In fact, most of the dossiers in front of the UN Security Council have an important energy dimension. None are made easier because of it.

No wonder that energy has been a priority in recent summits and high-level meetings with a wide range of third countries! But too often we have ended up divided or defending a line which is frankly a lowest common denominator. That has to change. Let us be clear. If we are not able to promote a unified and substantive position on this issue, partners will run rings round us. It has already come pretty close to that on occasions.

Let me set out a few points on what we can do to develop an external energy policy, and how we can integrate this into our wider foreign policy objectives.

What could be our response?

Securing our future energy resources depends mainly on diversification. That means accepting that we will continue to depend heavily on oil and gas. But it also means spreading our sources of supply and the routes to get this supply delivered to the EU. Given the long lead time in energy, we need to act on this now. But are
we ready to define a common long-term strategy for the sourcing of our energy supplies? And if so, what are the concrete projects that we should support at the level of the European Union?

Working on diversification should of course not reduce our efforts, at home and around the world on efficiency and savings. There is an enormous potential on savings. If the US consumption of energy were the same as in Europe, this would help us save more than 4 times the production of Iran. Similarly, the manner in which China, India and others will develop their economy has enormous consequences for total global demand, as well as the pressing threat of climate change.

Surely we in Europe too can and should invest more into energy research, especially on efficiency and alternatives to hydro-carbons.

An external energy policy depends on having a robust internal policy. Liberalisation of the market is good for consumers. But it is only part of the answer. We also need to improve interconnections between Member States. Some Member States already have relatively diverse energy sourcing. Others are almost entirely dependent, for historical reasons, on one source of supply. Are we all ready to accept the obligation of solidarity?

Some reassurance is needed that the Union can resist, at least temporarily, an energy crisis. This gives us a stronger hand when talking with third countries. But is also essential for the stability of our economies. How can we provide a collective response if one of our member-states was faced with a real energy shortage, while avoiding the temptation of free-riding? Are we ready to develop further our system of oil stocks, in collaboration with the International Energy Agency? And what about gas? What can we do to promote gas emergency reserves - as well as a spot market for gas? Should we build more LNG terminals? If so, is there more to do at the level of the Union?

In the area of crisis response, the network of energy correspondents is a useful start. But I believe we should do more to get shared assessments of the risks and vulnerabilities we have.

Related to this is the question of physical protection - refineries, terminals, pipelines etc. This an obvious concern to all - because of terrorism, spill over of regional conflicts etc. The private sector clearly has a role to play. But I believe this is an area where we should do more together in the European Union and with third countries.

We have to face up to the issue of nuclear energy. Both for reasons of security of supply and climate change. Of course there are different views nationally on the desirability of nuclear power. Incidentally, it is also true that all Member States have signed up to a treaty which seeks to promote the safe development of nuclear energy.

Many countries are going firmly down the nuclear route, with Russia, India and China planning the construction of 100 nuclear reactors. Are we ready to at least have an intelligent conversation on nuclear power with these countries? How we react collectively to the expansion of nuclear power will in part be determined by our non-proliferation policy. Here I think we need to look seriously at the suggestion from Mohammed el Baradei for a multilateral nuclear fuel scheme. Are we ready to support such a scheme?

A last word on Russia. Obviously, we should engage all key supplier and transit countries. But whatever we do, Russia will be the mainstay of our energy imports. We are right to insist on wanting a genuine partnership. But here too, we should ask ourselves some tough questions.

How far are we ready to go in terms of reciprocity concerning investments? What do we make of the fact that Russia is investing heavily in future leverage and not enough in future production? And what should we do to encourage Russia to end the enormous amount of ‘flaring’ that takes place. The equivalent of 25% of total Russian gas exports to Europe! This is both wasteful and damaging to the environment.
These are just my reflections. I firmly believe we can shape a credible EU external energy strategy. But only if tackle some difficult issues head on. And only if we move the debate from discussions on general principles to the more solid terrain of concrete action.
Andris Piebalgs,
Energy Commissioner

‘External projection of the EU internal energy market’

I am pleased to have this opportunity to welcome you in Brussels.

This conference marks important developments in the energy policy within the EU which aim at reinforcing its external aspects - ensuring the security of our energy supply, support to the international efforts in combating climate change and promotion of access to energy worldwide.

The present session will address only one of the aspects of this external energy policy – extension of the EU internal energy market which proved to be a useful instrument for ensuring stable and predictable regulatory frameworks for development of energy markets beyond the borders of the EU and for providing stable conditions for the necessary investment in the supply of hydrocarbons.

As you know, it has been for some years now that the European Union has been constructing its Internal Energy Market. I can say that in doing so, we have achieved a great deal of experience, some successes and we see some further challenges.

Looking at the developments since the adoption of the EU directives for electricity and gas markets, I can say today that prices for electricity have remained constant or declined in real terms, despite much greater regulatory demands, especially in the environmental area. I can also say that the EU gas market is progressively becoming more competitive at a time when the external challenges to get gas are increasing.

Moreover, we have also been active in other areas of our energy policy – going beyond the electricity and gas market liberalisation.

We have developed renewable energy sources and a solid basis for the demand side management, in particular in the area of energy efficiency.

I believe that as a result there are threefold benefits:
• concrete benefits to end consumers – affordable prices and improved quality of services;
• solid basis for investments with stable and predictable regulatory framework;
• and good basis for increased economic integration and political co-operation in other areas.
Following the recent reports by the IEA and Sir Nicholas Stern we can boast that our approach proved to be right as both of them confirm that environmental sustainability should lie at the heart of global energy policies.

One can honestly say nowadays that the European model is becoming a ‘pole of attraction’ in global energy regulation and environment-friendly energy policies.

We are more than willing to share our experience. In fact we have already developed several instruments that enable us to do so – I have in mind the Energy Community, Euromed energy cooperation, the Baku Initiative, bilateral energy dialogues and partnerships that focus on progressive integration between the EU and our partners’ energy markets.

I would like to stress that the cooperation does not need to be a one way street – the EU can learn as much from its neighbours as they can from it. But – I think – we have a model that is starting to work and that we can build on in our cooperation with you.

Let me explain now how do I envisage future developments based on progressive extension of the EU internal energy market.

I see this as a development of several cooperation groups – let’s call them circles or rings – because they are build around the EU energy market.

The first cooperation ring is a highly complex and regulated EU internal energy market which is still in development.

For the second ring of states, the European Commission has initiated the Energy Community, which binds the European Union and Contracting parties in a common Energy market with set of rules based on EU norms. The Energy Community replicates the Internal Energy market in its essentials: the rules on the gas and electricity markets are there, competition rules, renewables, environmental safeguards etc.

The Energy Community sets concrete and strict deadlines in terms of alignment with these rules. For examples, in 2007 all contracting parties are bound to open their wholesale electricity and gas markets and to remove non-tariff barriers to trade. We also intend to put a greater emphasis on energy efficiency and introduce a significant oil dimension into the Energy community.

At present, the full participation in the Energy Community is limited to the countries of South East Europe. However, on the occasion of the last week’s Ministerial Council of the Energy Community held in Skopje, an observer status was granted to four countries: Moldova, Norway, Turkey and Ukraine.

This opens new horizons for the Energy Community’s extension.

I believe that further consideration could also be given to those of the European Neighbourhood countries that are willing to engage in the reform process in their energy sector and apply the principles of the EU internal energy market.

Finally, for the third, outer ring of countries that lie beyond our immediate neighbourhood, I think that we need to do three things to enable a correct development of the local energy markets:

• Firstly, we need an appropriate legal regime for investments;
• Secondly, we need greater international co-operation amongst donors and banks;
• Thirdly, we need a commitment to good governance.
As for the legal regimes, we should seek stable, predictable and non-discriminatory frameworks to ensure that the necessary investment in the energy sector takes place. We need to discuss what the best legal instruments (multilateral or bilateral) for achieving these objectives are.

Secondly, donors and financial institutions, including private banks, need to combine to reinforce their efforts in channelling the investment to those geographical locations and industry sectors where it is needed. The Commission is ideally suited to coordinate these efforts and is willing to take on this role.

Lastly, we need a commitment to good governance. Initiatives such as the Extractive Industries Transparency Initiative (EITI) need to be adhered to. International accounting standards need to be in force. A commitment to proper and sound statistics needs to be made. The environmental challenges cannot be ignored.

Once these conditions are realised – we will discuss how to address the regulatory aspects of the energy policy – building on the EU experience.

Let me now focus on one final aspect of the EU internal energy market – supplies of hydrocarbons.

The EU primary fuel mix is based for 80% on hydrocarbon energy sources. Our own production is diminishing. The EU is a region where oil and gas production has already peaked.

At the same time, the world demand for hydrocarbons has increased and will continue to rise in the future.

In order to guarantee future supplies to the EU, we need to make multibillion investments into infrastructure projects (in production, transit and distribution). To mobilise these investments and to ensure an efficient use of the new infrastructure in the future, we need clear, predictable investment conditions and regulatory frameworks. And from this point of view, the EU internal market approach is the most appropriate to ensure the mutual benefit of all market participants.

Ladies and Gentlemen,

Over the course of 2007, I will be pursuing this vision and trying to extend the approach of the Internal Energy market. I will work with all partners concerned.

I want to see a mutually co-operative energy system and market where producers feel comfortable that they receive a fair return, consumers feel that they have secure and affordable energy supplies. Extending EU’s internal market approach means also an essential step towards a clean, clever and competitive energy future.

I count on your participation and support in this process.

Thank you.
In this speech to a conference on strategic energy policy in Brussels on 21 November 2006, EU Trade Commissioner Peter Mandelson argues that trade policy can have an important role in ‘calming some of the existing tensions’ in global energy politics. Mandelson urges the use of bilateral and multilateral agreements to establish new rules for the trade in energy. He argues: ‘the fairness of the trading system will depend on its ability to develop balanced, equitable and negotiated solutions regarding the sharing of the world’s resources, as well as its markets.’

Commissioner Mandelson argues: ‘The overarching concern of governments in producing and consuming countries is the same: we cannot afford to have energy become a geopolitical bargaining chip. More international rules can provide stability and fill the legal vacuum that is currently the source of international tension and insecurity... Trade policy can help producer countries find foreign markets, and consumer countries find resources beyond their borders. In providing a set of binding rules it can create the conditions for the huge investments - as much as $20 trillion according to the latest World Energy Outlook – that are needed in exploration and infrastructure in the next twenty five years.’

Commissioner Mandelson argues that trade agreements on energy would have to reflect the legitimate demands of energy producers. He says: ‘We in net ‘consumer’ energy markets need to confirm that their wish to maximise state income from their natural resources is entirely legitimate. We must also recognise the sovereign right of nations further upstream, when they decide whether or not to approve exploitation of their resources. Importing countries should also recognise the legitimate interest of producing countries in investing downstream in the countries they sell to. Nevertheless producing countries need to recognise that they can increase their gains through stronger international legal commitments and competition in the energy field.’

The presence of so many experts, from different parts of the world, and from government, business and academia, must be the final, definitive proof of the interdependence of the energy sector. I want to thank the members of the panel for accepting to join us today.
This is an important time for those who carry responsibility in the energy sector. We are facing a unique three dimensional challenge in the European Union: First, how to make the internal market work better. Second, how to improve our external supply in anticipation of a 70% dependence on foreign sourcing of energy. And lastly, the global challenge of addressing climate change, which is an issue affecting our very survival and which will be the single greatest public policy challenge of this century.

I know that the energy issue looks different depending on from where you are looking at it. But regardless of whether you are an importer or exporter, whether you work in oil and gas, or in renewables or nuclear energy, the features of energy markets are essentially the same. Decisions are for the very long term. Consumer demand is price inelastic. And governments are tempted to intervene to protect their national security interests. When heating bills increase by 50% in less than two years, and the mobility of citizens is hit by significant price hikes at the petrol station, governments cannot afford to stand by and do nothing.

The European continent has woken up to the complexities and challenges of energy security. This is a welcome development and I am pleased to see officials from the EU, Ukraine and Russia together in today's panel.

It seems to me that the overarching concern of governments in producing and consuming countries is the same: we cannot afford to have energy become a geopolitical bargaining chip. More international rules can provide stability and fill the legal vacuum that is currently the source of international tension and insecurity.

I want to make the case to you today that Trade Policy can make an important contribution to energy security and to calming some of the existing tensions in the system. Trade policy can help producer countries find foreign markets, and consumer countries find resources beyond their borders. In providing a set of binding rules it can create the conditions for the huge investments – as much as $20 trillion according to the latest World Energy Outlook – that are needed in exploration and infrastructure in the next twenty five years. If these investments are not made, the lights will go out, perhaps in Western Europe, but perhaps even in Moscow, which would be a perverse development in such an energy-rich but investment-starved country.

But in making our case for better international rules, I am asking for a balanced two way bargain. I am not making a demand for rules, simply to suit those who demand as opposed to supply, energy. We in net ‘consumer’ energy markets need to improve our communication with producer countries. We should confirm that their wish to maximise state income from their natural resources is entirely legitimate. We must also recognise the sovereign right of nations further upstream, when they decide whether or not to approve exploitation of their resources. Importing countries should also recognise the legitimate interest of producing countries in investing downstream in the countries they sell to.

Nevertheless producing countries need to recognise that they can increase their gains through stronger international legal commitments and competition in the energy field. With these, much-needed investment in exploration and infrastructure will be facilitated, and more secure export channels created. Without them, importing countries will seek to diversify further and further, eroding the security of demand that producers want and need.

Part of this challenge can be resolved through a better respect of rules at the global level. There is room for improved application to the energy sector of the tested WTO principles of freedom of transit, transparency, and non discrimination. But today's WTO cannot be a panacea. We often forget that none of the current OPEC members were inside the trading system when the WTO was conceived. The first
concern of the drafters in 1947 was to set rules on access to markets, not on access
to resources. So the fairness of the trading system will depend on its ability to
develop balanced, equitable and negotiated solutions regarding the sharing of the
world’s resources, as well as its markets.

In parallel, initiatives can and must be taken at the regional and bilateral level.
Given the limitations and consensual slowness of the WTO, this is the area that
harbours the greatest potential for improvement in the near future. The most
promising scope for stronger and mutually beneficial relationships on energy trade
and investment exist on our own continent, in Europe. Most notably in our relations
with Russia, the Ukraine and Turkey. Agreements can address in a balanced way the
difficult questions of access to markets, resources and infrastructures; transit;
improved conditions for investment; competition rules - and they can be enforced
through agreed dispute settlement mechanisms.

Finally, a word on climate change. In the course of this year we have seen important
developments on the environmental side: not just more evidence about global
warming, but hard thinking about how to move towards a low carbon economy. It
seems to me that the report of the international economist, Sir Nicholas Stern, was
a milestone in its assessment that the economic costs of tackling climate change are
entirely bearable, and much smaller than the potential costs of remaining inactive.
Here again trade policy can contribute, for example by providing for greater
liberalisation of environmentally-friendly goods and services.

In conclusion I believe that the politicians of this generation have an enormous
opportunity to get the politics of energy right. President Barroso is right to put the
development of a coherent and environmentally friendly European energy policy at
the heart of the tasks of this Commission. The twin challenges of security of supply
and climate change cannot be overcome at the national level. In this area we need
more and better Europe, not less.

I look forward to hearing the views of the other panellists on how trade policy can
contribute to more stable secure and sustainable energy production.
Andris Piebalgs, Energy Commissioner

‘Energy and development’

Let me start with some telling facts. Today, there are still 1.6 billion human beings in the world who do not have access to electricity.

- In sub-Saharan Africa, that translates concretely into less than 20% of the population having access to electricity;
- no less than 2.5 billion people still use traditional biomass, even in oil-rich countries, for their cooking and heating needs; this is damaging to their health, their wider environment and their economic development.

These few figures speak for themselves and illustrate the importance of the need for a greater link between Energy and Development.

These figures also bear an intrinsic paradox when one realizes on one hand how much money has been transferred over 50 years of Africa-EU development cooperation, and, on the other hand, the huge potential of energy-generating power Africa disposes of. Africa should be selling energy, not buying it.

Maybe energy has not been given the right place in priority-settings so far.

Things are fortunately changing. The European Consensus on Development and the EU Strategy for Africa, both adopted last December by Heads of States, recognise the importance of energy on the development agenda.

Besides that commitment, what is important is the nature of genuine Partnership that characterises this new relationship, where ownership and equality are paramount. Now, energy is for the first time recognized as one of the few focal areas for our development cooperation under the 23 billion €-rich European Development Fund.

I plead that this window of opportunity be seized by African partners to use the possibilities it now offers to the full extent.

Also on the multilateral level, sustainable energy has moved into the mainstream of Development Policies. This process was strengthened by the launching of the EU Energy Initiative at the 2002 World Summit in Johannesburg.
We have decided to give special attention to the situation in Africa. Indeed, several developing countries have witnessed a dramatic increase in the rates of access to modern energy services, including electricity. Generally speaking, Africa has not.

Africa is also the most dependent continent on oil for primary energy consumption and transport. It thus needs to engage quickly on the path of energy diversification and efficiency.

The EU is committed to continue addressing energy and poverty in Africa, in particular of Sub-Saharan region, through a wide range of instruments:

1. In close collaboration with our African partners, we have created the Africa-Europe Partnership on Infrastructure. It will finance cross-border and regional infrastructure notably in energy, with the additional operational help of the European Investment Bank. The first batch of projects is ready for approval by the end of this year.

2. In the context of the EU Energy Initiative, the EU has also created the Energy Facility that focuses on improving access to energy. A call for proposals has just been completed. We received a large number of proposals from a wide range of stakeholders. The evaluation has started and implementation is expected to start next year.

3. Another programme is the EC COOPENER programme. This is an initiative aiming at promoting renewable energy sources and energy efficiency in developing countries, as well as sustainable energy services for poverty alleviation.

4. And of course the European Development Fund will also serve the purpose of our partnership with African nations.

Now, let me turn to political aspects. Energy cooperation was recently discussed at the EU-Africa Ministerial meeting in October 2006 in Brazzaville, where Ministers welcomed the ongoing work within the EU for a Strategic Energy Review. Ministers also committed themselves to strengthen the political EU-Africa dialogue on energy and called for a comprehensive Europe-Africa energy partnership that would tackle all sectors of energy. This is indeed needed.

This enhanced partnership should be a two-way process between equal partners, in which a genuine win-win situation can be achieved as we share common challenges and complementary interests.

There are many very good reasons to strengthen our dialogue and cooperation. Africa has a huge potential to become a major energy-seller, with all the immediate revenues and long-term benefits it entails.

The EU already imports almost 15% of its fuels from Africa. Africa has the second largest oil reserves in the world, after the Middle East; it also has significant reserves of natural gas and coal. But above all, it has a huge untapped potential for renewable energies. In view of the structure of the energy market in Africa, a real leapfrog is therefore possible, as it is the case in the telecom sector. No other place in the world offers better perspectives than Africa for renewable energies.

It is therefore a great paradox that Africa’s important energy resources are not used to provide the expected benefit to the African people. This situation makes it difficult to achieve a sustained economic development.

Moreover, the oil prices shock has added further constraints. In fact, Africa's situation is far from being homogeneous: while some countries are oil and gas exporters,
thus receiving substantial benefit in the present market situation, the majority of countries are oil importers, depending mainly on oil for the transport sector and for electricity generation.

I believe that the challenge lies here: how to use Africa’s energy in an efficient and sustainable way to ensure both the development of Africa and its security of energy supply? How to define and implement a strengthened Africa-Europe energy dialogue, where energy security, transparency of markets and specific joint initiatives can be decided?

Another challenge for Africa and the whole world is the climate change. The Nairobi World climate Conference that just ended has highlighted once more the challenges and threats that we all face as climate change knows no borders.

Energy is thus an issue that will concern not only our mutual security of supply and our growth, but also the very future of our common planet. This is why it has to be dealt with urgently between responsible and equal partners. The long history and the privileged relationship that Africa and Europe share will make this possible.

I thank you for your attention to this forward-looking issue of Energy and development, which will no doubt be high on our respective agendas for the years to come, and I am sure that the most distinguished panel of leaders we have in front of us will have important contributions to make in this regard.
Benita Ferrero-Waldner, Commissioner for External Relations and European Neighbourhood Policy

Concluding remarks

Dear Ministers,

Ladies and Gentlemen,

We have had some interesting and fruitful discussions over these past two days. The huge interest that this conference has met confirmed that energy issues including external energy policy are high on the agenda not only in Brussels and with Member States, but also with our partners and with industry.

I am happy to see that there was a broad support to recognize a legitimate role for the EU to play in external energy policy. As President Barroso and HRSG Solana and many of the panellists stated, we need an European Energy policy integrating both the internal and external aspects that maintains Europe's competitiveness, safeguards our environmental objectives and ensures our security of supplies. In the area of our external energy relations we need to speak with one voice and put all our policies such as trade, development, competition, R&D at the disposal of our energy security. Energy security and climate security are intrinsically linked.

We can conclude also that it is the right time to have a real EU added value in our energy relations within the EU and with our external partners through an enhanced legal framework.

As I have mentioned in my opening speech, I intend to study further the available options for a “fully fledged European Energy Community based on EU acquis that would create a real integrated European energy market not just limited to the EU Member States and the South East European countries, but comprising also our ENP countries, and other partners, when appropriate”. This community should also enclose Norway, one of our most important energy partners.

As far as the external dimension is concerned, this energy community should be based on the South East Energy Community and regional cooperation under development such as an Euro Mediterranean and Euro Black Sea and Caspian Sea
Energy Common Houses. In this context the future agreement with Russia in the framework of the Post PCA will be an important element.

Last but not least, we need to strongly support and facilitate the creation of such a Community by strengthening the physical infrastructure such as pipelines and electricity cables. Strategic energy infrastructure linking Europe with the Mediterranean Sea, African Sub Sahara, the Caspian Basin, Central Asia and Middle East should be the cement of our common energy security.

Finally we should think of having in place a well coordinated response by all internal and external policy instruments in case a supply disruption occurs.

On 29th November the Commission intends to propose to the Council an ambitious package of measures to strengthen our European Neighbourhood Policy. In this framework we will also propose the creation of an infrastructure fund designed to co-finance in particular energy and transport infrastructure investments in the ENP region. This fund would significantly contribute in realizing our ambitions in the external energy policy of the Union.
Andris Piebalgs,
Energy Commissioner

Concluding remarks on
‘Extending the EU’s energy regulatory space’

Following presentation of the fourteen panellists and discussion with the audience, a very large degree of convergence, if not consensus, could be identified around the following observations.

1. The current energy situation represents a global challenge, for which solutions at national level cannot be effective anymore. We are in need of solutions at larger level, either global or regional; the regional level can be Europe +.

2. The regulatory space, based on internal EU market principles and rules, contributes to energy security of supply. It is an example of regulatory space to which countries can voluntarily apply (no imperialism!). There is a need to develop regional markets, would it be within the EU or with neighbouring States, but always keeping in mind that the final goal remains a fully integrated energy market. Current shortcomings of the EU internal energy market need to be remedied towards this goal.

3. The importance of complementary policies has to be highlighted: diversification, energy efficiency, renewable energy sources, interconnections, support for new investments (list of projects named, call for incentives), sustainable development (environmental common standards), free trade.

4. We have to go for an integrated energy policy: role of interconnections, inter-dependency and interaction between producer, transit and consuming countries, which have a same common interest and complementary roles.

5. We have to use the cooperation instruments available:
   • overwhelming support to the Energy Community and its possible future expansion to neighbouring countries;
   • use of European Neighbourhood Policy tools and funds;
   • use of energy partnerships and dialogues.

6. Extending the EU’s energy regulatory space is a gradual process, evolving with various degrees of participation from various countries.

7. However, all share common goals: a pan European Energy Community ensuring energy security of supply, growth as well as well being for our citizens.