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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN COUNCIL

External energy relations – from principles to action

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Informal European Council, Lahti, 20 October 2006

The European Council of March 2006¹ 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 Council² subsequently adopted a set of recommendations proposed jointly by the Commission and the High Representative/Secretary General of the Council.³

- (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 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.

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

² Document 10633/1/06 REV 1, Brussels European Council 15/16 June 2006, Presidency Conclusions.

³ Document 9971/06.

- (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.