

# External Energy Policy



Key institutional decisions  
2006 – 2008

EXTRACT FROM THE GREEN PAPER - A EUROPEAN STRATEGY FOR SUSTAINABLE, COMPETITIVE AND SECURE ENERGY - BRUSSELS, 8 MARCH 2006	4
EXTRACT FROM THE PRESIDENCY CONCLUSIONS OF THE BRUSSELS EUROPEAN COUNCIL, 23/24 MARCH 2006	18
AN EXTERNAL POLICY TO SERVE EUROPE'S ENERGY INTERESTS PAPER FROM COMMISSION/SG/HR FOR THE EUROPEAN COUNCIL, 15/16 JUNE 2006	26
EXTRACT FROM THE PRESIDENCY CONCLUSIONS OF THE BRUSSELS EUROPEAN COUNCIL, 15/16 JUNE 2006	32
INFORMAL EUROPEAN COUNCIL, LAHTI, 20 OCTOBER 2006 - COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN COUNCIL - 'EXTERNAL ENERGY RELATIONS - FROM PRINCIPLES TO ACTION' - BRUSSELS, 12 OCTOBER 2006	34
EXTRACT FROM THE PRESIDENCY CONCLUSIONS OF THE BRUSSELS EUROPEAN COUNCIL, 14/15 DECEMBER 2006	40
EXTRACT FROM THE COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN COUNCIL AND THE EUROPEAN PARLIAMENT 'AN ENERGY POLICY FOR EUROPE', 10 JANUARY 2007	44
EXTRACT FROM THE PRESIDENCY CONCLUSIONS OF THE BRUSSELS EUROPEAN COUNCIL, 8/9 MARCH 2007	50
THIRD COUNTRY ASPECTS - EXTRACT FROM THE EXPLANATORY MEMORANDUM ACCOMPANYING THE THIRD LEGISLATIVE PACKAGE FOR THE EU ELECTRICITY AND GAS MARKETS, 19 SEPTEMBER 2007	54
EXTRACTS FROM THE PRESIDENCY CONCLUSIONS OF THE BRUSSELS EUROPEAN COUNCIL, 13/14 MARCH 2008	56
EXTRACT FROM THE PRESIDENCY CONCLUSIONS OF THE BRUSSELS EUROPEAN COUNCIL, 19/20 JUNE 2008	56
EXTRACT FROM THE PRESIDENCY CONCLUSIONS OF THE BRUSSELS EXTRAORDINARY EUROPEAN COUNCIL, 1 SEPTEMBER 2008	57
EXTRACT FROM THE PRESIDENCY CONCLUSIONS OF THE BRUSSELS EUROPEAN COUNCIL, 15/16 OCTOBER 2008	57
EXTRACT FROM THE PRESIDENCY CONCLUSIONS OF THE BRUSSELS EUROPEAN COUNCIL, 11/12 DECEMBER 2008	58
COUNCIL CONCLUSIONS ON ASSISTANCE TO THIRD COUNTRIES IN THE FIELD OF NUCLEAR SAFETY AND SECURITY, 9 DECEMBER 2008	60
EXTRACT FROM THE COMMUNICATION 'SECOND STRATEGIC ENERGY REVIEW AN EU ENERGY SECURITY AND SOLIDARITY ACTION PLAN', 13 NOVEMBER 2008	64
EXTRACT FROM THE COMMUNICATION FROM COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL 'EASTERN PARTNERSHIP', 3 DECEMBER 2008	72



EXTRACT FROM THE GREEN  
PAPER – A EUROPEAN  
STRATEGY FOR SUSTAINABLE,  
COMPETITIVE AND SECURE  
ENERGY – BRUSSELS,  
8 MARCH 2006

## EXTRACT FROM THE GREEN PAPER – A EUROPEAN STRATEGY FOR SUSTAINABLE, COMPETITIVE AND SECURE ENERGY – BRUSSELS, 8 MARCH 2006<sup>(1)</sup>

### 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 stock-taking 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

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 con-

struction 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<sup>4</sup>. 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

(1) The full text can be found at [http://ec.europa.eu/energy/green-paper-energy/doc/2006\\_03\\_08\\_gp\\_document\\_en.pdf](http://ec.europa.eu/energy/green-paper-energy/doc/2006_03_08_gp_document_en.pdf).

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 EU-Russia 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 EU-Mashrek 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 hydro-power 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 through 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.

USA is an EU energy strategic partner. Energy issues form part of the New Transatlantic Agenda and Action Plan of 1995. The 2003 Summit issued a declaration enhancing cooperation on hydrogen economy and EU and US initiated the cooperation under International Partnership for Hydrogen Economy. The Initiative to Enhance Transatlantic Economic Integration and Growth adopted at EU-US Summit on 20 June 2005 included a specific annex on 'Energy Security, Energy Efficiency, Renewables and Economic Development'. The Initiative is being implemented through a joint work programme, covering both supply side and demand side issues.

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 co-operation 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.



EXTRACT FROM THE  
PRESIDENCY CONCLUSIONS  
OF THE BRUSSELS EUROPEAN  
COUNCIL, 23/24 MARCH 2006

## EXTRACT FROM THE PRESIDENCY CONCLUSIONS OF THE BRUSSELS EUROPEAN COUNCIL, 23/24 MARCH 2006<sup>(2)</sup>

### 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 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,

(2) The full text can be found at [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ec/89013.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/89013.pdf).

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 7<sup>th</sup> 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) – 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 competitive LNG markets should be promoted. accelerated, and more.
6. Subject to competition requirements, the contribution of long-term contract 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 bio fuels. 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.



AN EXTERNAL POLICY  
TO SERVE EUROPE'S ENERGY  
INTERESTS – PAPER  
FROM COMMISSION/SG/HR  
FOR THE EUROPEAN COUNCIL,  
15/16 JUNE 2006

## AN EXTERNAL POLICY TO SERVE EUROPE'S ENERGY INTERESTS – PAPER FROM COMMISSION/SG/HR FOR THE EUROPEAN COUNCIL, 15/16 JUNE 2006

### 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.

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 col-

lective 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: EU GAS AND OIL CONSUMPTION IN 2004 BY SOURCE

	GAS	OIL
Import from Russia	24%	27%
Import from Norway	13%	16%
Import from the Middle East		19%
Import from Algeria	10%	
Import from North Africa		12%
Indigenous production	46%	21%
Other Regions	7%	5%



**EXTRACT FROM THE  
PRESIDENCY CONCLUSIONS  
OF THE BRUSSELS  
EUROPEAN COUNCIL,  
15/16 JUNE 2006**

## EXTRACT FROM THE PRESIDENCY CONCLUSIONS OF THE BRUSSELS EUROPEAN COUNCIL, 15/16 JUNE 2006<sup>(3)</sup>

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;
- 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.

(3) The full text can be found at [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ec/90111.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/90111.pdf).



INFORMAL EUROPEAN COUNCIL,  
LAHTI, 20 OCTOBER 2006 –  
COMMUNICATION FROM THE  
COMMISSION TO THE EUROPEAN  
COUNCIL 'EXTERNAL ENERGY  
RELATIONS – FROM PRINCIPLES  
TO ACTION' – BRUSSELS,  
12 OCTOBER 2006

## INFORMAL EUROPEAN COUNCIL, LAHTI, 20 OCTOBER 2006 COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN COUNCIL EXTERNAL ENERGY RELATIONS – FROM PRINCIPLES TO ACTION BRUSSELS, 12 OCTOBER 2006

The European Council of March 2006<sup>(4)</sup> 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<sup>(5)</sup> subsequently adopted a set of recommendations proposed jointly by the Commission and the High Representative/Secretary General of the Council<sup>(6)</sup>.

(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.

(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

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

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

(6) Document 9971/06.

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.





**EXTRACT FROM THE  
PRESIDENCY CONCLUSIONS  
OF THE BRUSSELS  
EUROPEAN COUNCIL,  
14/15 DECEMBER 2006**

## EXTRACT FROM THE PRESIDENCY CONCLUSIONS OF THE BRUSSELS EUROPEAN COUNCIL, 14/15 DECEMBER 2006<sup>(7)</sup>

### 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

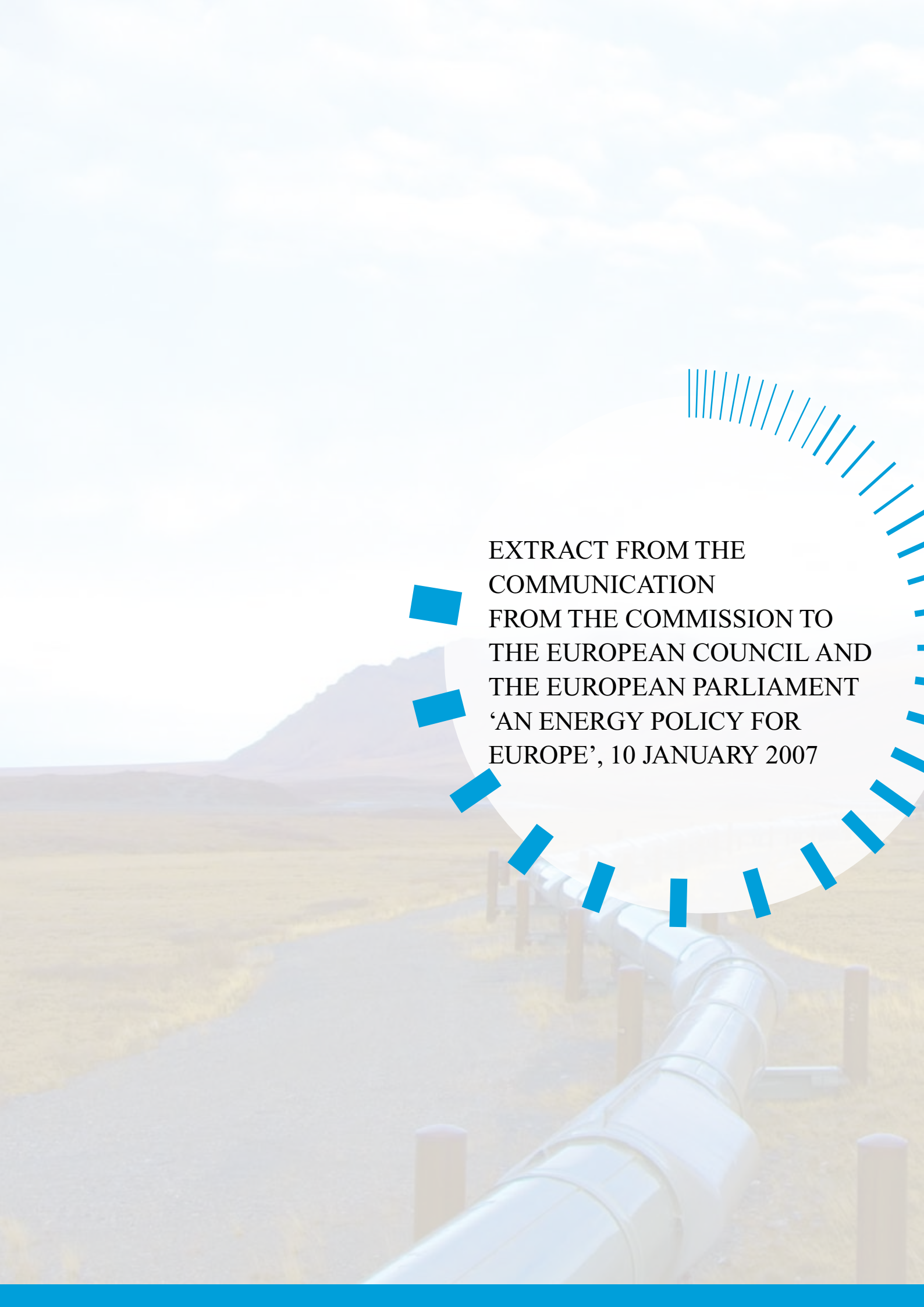
(7) The full text can be found at [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ec/92202.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/92202.pdf).

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 2°C 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.





EXTRACT FROM THE  
COMMUNICATION  
FROM THE COMMISSION TO  
THE EUROPEAN COUNCIL AND  
THE EUROPEAN PARLIAMENT  
‘AN ENERGY POLICY FOR  
EUROPE’, 10 JANUARY 2007

## EXTRACT FROM THE COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN COUNCIL AND THE EUROPEAN PARLIAMENT ‘AN ENERGY POLICY FOR EUROPE’, 10 JANUARY 2007<sup>(8)</sup>

### 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 CO<sub>2</sub> 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.

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

(8) The full text can be found at [http://ec.europa.eu/energy/energy\\_policy/doc/01\\_energy\\_policy\\_for\\_europe\\_en.pdf](http://ec.europa.eu/energy/energy_policy/doc/01_energy_policy_for_europe_en.pdf).

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 an 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.





**EXTRACT FROM THE  
PRESIDENCY CONCLUSIONS  
OF THE BRUSSELS  
EUROPEAN COUNCIL,  
8/9 MARCH 2007**

## EXTRACT FROM THE PRESIDENCY CONCLUSIONS OF THE BRUSSELS EUROPEAN COUNCIL, 8/9 MARCH 2007<sup>(9)</sup>

### III. An integrated climate and energy policy

28. Given that energy production and use are the main sources for greenhouse gas emissions, an integrated approach to climate and energy policy is needed to realise this objective.

Integration should be achieved in a mutually supportive way. With this in mind, the Energy Policy for Europe (EPE) will pursue the following three objectives, fully respecting Member States' choice of energy mix and sovereignty over primary energy sources and underpinned by a spirit of solidarity amongst Member States:

- increasing security of supply;
- ensuring the competitiveness of European economies and the availability of affordable energy;
- promoting environmental sustainability and combating climate change.

#### Energy Policy

36. Global warming, together with the need to ensure security of supply and enhance business competitiveness, make it ever more vital and pressing for the EU to put in place an integrated policy on energy combining action at the European and the Member States' level. As a milestone in the creation of an Energy Policy for Europe (EPE) and a spring board for further action, the European Council adopts a comprehensive energy Action Plan for the period 2007-2009 (Annex I), based on the Commission's Communication «An Energy Policy for Europe». The European Council notes that Member States' choice of energy mix may have effects on the energy situation in other Member States and on the Union's ability to achieve the three objectives of the EPE.

37. The Action Plan sets out the way in which significant progress in the efficient operation and completion of the EU's internal market for gas and electricity and a more interconnected and integrated market can be achieved. It envisages

the nomination of EU coordinators for four priority projects of European interest. It also addresses the crucial issue of security of energy supply and the response to potential crises. As regards security of supply the European Council stresses the importance of making full use of the instruments available to improve the EU's bilateral cooperation with all suppliers and ensure reliable energy flows into the Union. It develops clear orientations for an effective European international energy policy speaking with a common voice. It fixes highly ambitious quantified targets on energy efficiency, renewable energies and the use of biofuels and calls for a European Strategic Energy Technology plan, including environmentally safe Carbon Capture and Sequestration, to be examined at the Spring 2008 European Council meeting.

38. The European Council calls on all parties concerned to press ahead rapidly and with determination in order to implement all of the elements contained in the Action Plan in line with its provisions and conditions. In particular, it invites the Commission to submit the proposals requested in the Action Plan as speedily as possible.

#### Follow-up

39. In the light of the integrated approach to climate and energy policy the Energy Action Plan will be kept under regular review within the context of an annual examination by the European Council of the progress made and results achieved in implementing the EU's energy and climate change policies. The Commission is invited to put forward an updated Strategic Energy Review in early 2009, which will serve as the basis for the new Energy Action Plan from 2010 onwards to be adopted by the Spring 2010 European Council.

(9) The full text can be found at [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ec/93135.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/93135.pdf).

## EUROPEAN COUNCIL ACTION PLAN (2007 – 2009) ENERGY POLICY FOR EUROPE (EPE)

The Action Plan comprises the following priority actions, some of which may contribute to more than one of the three objectives of the EPE. New measures should take into account the better regulation principles, notably as regards impact assessments.

### 1. Internal Market for Gas and Electricity

Moreover, the European Council invites the Commission:

- to assess the impact of vertically integrated energy companies from third countries on the internal market and how to implement the principle of reciprocity.

The European Council invites the Commission to come forward with relevant proposals, including through the development of existing legislation where possible.

2. Reaffirming the need for improved regional cross-border exchange and accelerating the development of regional energy cooperation while addressing the challenges of peripheral energy markets and facilitating the integration of regional ones into the EU internal market and its further development, notably through interconnection, taking into account the integration of on- and off-shore renewable energies, the European Council:

- welcomes, as a first step, the Commission's intention to appoint where necessary, in accordance with Article 10 of Decision 1364/2006/EC, European coordinators to accelerate the most critical priority projects of European interest<sup>(10)</sup>; it notes, however, that new projects are needed in order to achieve adequate interconnection in particular of isolated energy markets and asks the Member States concerned to achieve at least 10% of electricity and gas interconnection capacity by 2010. To this end, Member States concerned should reinforce their bilateral cooperation, for instance by elaborating appropriate guidelines;

- invites the Commission to table proposals aiming at streamlining approval procedures.

### II. Security of Supply

3. In order to contribute to security of supply in a spirit of solidarity between Member States, notably in the event of an energy supply crisis, the European Council: underlines the need to enhance security of supply for the EU as a whole as well as for each Member State through:

- effective diversification of energy sources and transport routes, which will also contribute to a more competitive internal energy market.

### III. International Energy Policy

4. The development of a common approach to external energy policy has to be speeded up, involving consumer-to-producer as well as consumer-to-consumer and consumer-to-transit countries, dialogues and partnerships including through organisations such as OPEC. To that effect, the European Council emphasises the following as essential elements when further developing the common voice of the EU in support of the three energy policy objectives:

- negotiating and finalising a post-partnership and cooperation agreement with Russia in particular relating to energy issues<sup>(11)</sup>;
- intensifying the EU relationship with Central Asia, the Caspian and the Black Sea regions, with a view to further diversifying sources and routes;
- strengthening partnership and cooperation building on the bilateral energy dialogues with the USA as well as with China, India, Brazil and other emerging economies, focusing on the reduction of GHG, energy efficiency, renewable and low-emission energy technologies, notably CCS;
- ensuring the implementation of the Energy Community Treaty, with a view to its further development and possible extension to Norway, Turkey, Ukraine and Moldova;
- making full use of the instruments available under the European Neighbourhood Policy;

(10) Priority projects of European interest are listed in Decision 1364/2006/EC of the EP and of the Council. Regarding coordinators and without prejudice to further appointments, the Council notes that in its Communication, the Commission envisages the following projects: the Power-Link between Germany, Poland and Lithuania; connections to offshore wind power in Northern Europe; electricity interconnections between France and Spain; and the Nabucco pipeline, bringing gas from the Caspian to central Europe.

(11) This formulation is without prejudice to on-going discussions on the negotiating mandate for the post-PCA agreement.


- enhancing energy relationships with Algeria, Egypt and other producing countries in the Mashreq/Maghreb region<sup>(12)</sup>;
- building a special dialogue with African countries on energy and using Community instruments to enhance in particular decentralised renewable energies and generally energy accessibility and sustainability in this region, as well as energy infrastructure of common interest;
- promoting access to energy in the context of the UN-CSD.

5. In that light, the European Council:

- welcomes the Commission's intention to put forward in 2007 a proposal for a new international agreement on energy efficiency in order to develop common global efforts towards promoting energy efficiency, bearing in mind that such an agreement should be complementary to EU energy efficiency policy.

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(12) Bearing in mind the GAERC conclusions of 22 January 2007 (doc. 5463/07).



**THIRD COUNTRY ASPECTS –  
EXTRACT FROM THE  
EXPLANATORY MEMORANDUM  
ACCOMPANYING THE THIRD  
LEGISLATIVE PACKAGE FOR  
THE EU ELECTRICITY AND GAS  
MARKETS, 19 SEPTEMBER 2007**

## THIRD COUNTRY ASPECTS – EXTRACT FROM THE EXPLANATORY MEMORANDUM ACCOMPANYING THE THIRD LEGISLATIVE PACKAGE FOR THE EU ELECTRICITY AND GAS MARKETS, 19 SEPTEMBER 2007<sup>(13)</sup>

### 1.3. Third country aspects

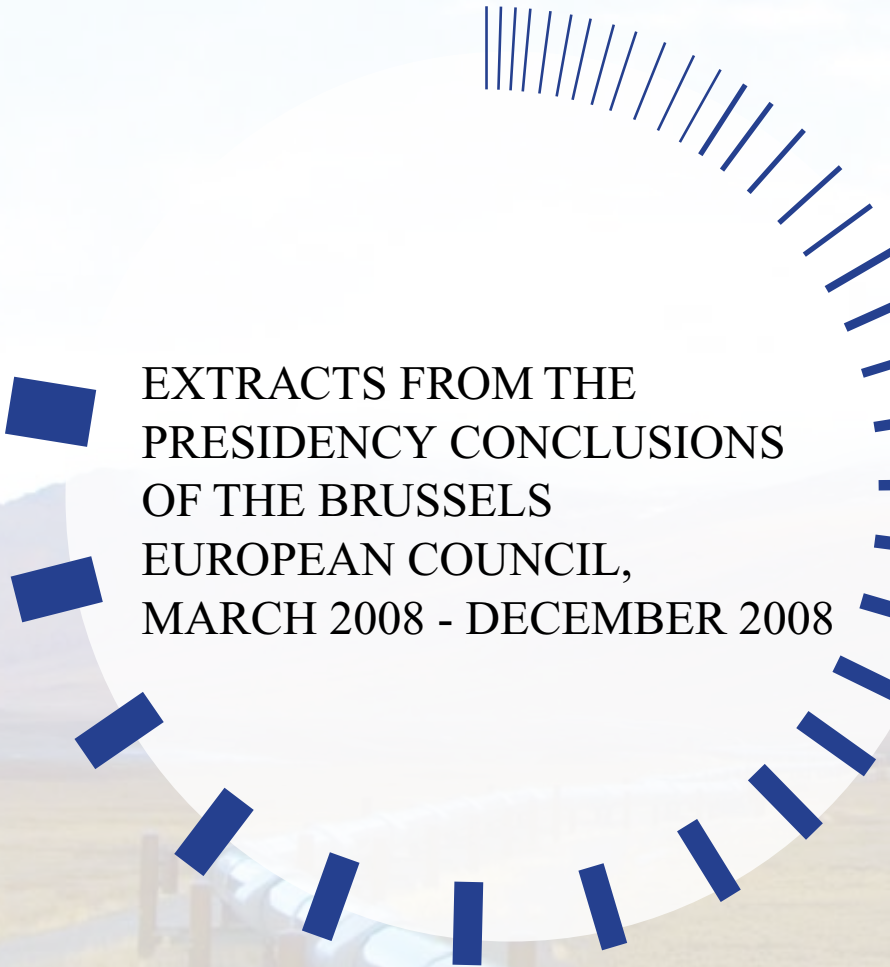
The present proposal requires the effective unbundling of transmission system operators and supply and production activities not only at national level but throughout the EU. It means in particular that no supply or production company active anywhere in the EU can own or operate a transmission system in any Member State of the EU. This requirement applies equally to EU and non-EU companies.

The package contains safeguards to ensure that in the event that companies from third countries wish to acquire a significant interest or even control over an EU network, they will have to demonstrably and unequivocally comply with the same unbundling requirements as EU companies. The Commission can intervene where a purchaser cannot demonstrate both its direct and indirect independence from supply and generation activities.

Furthermore, well functioning markets and networks are essential for the competitiveness of the economy and for the well-being of the citizens. The goal of the current proposal is to promote competition in the European energy markets and to promote the proper functioning of these markets. In this light it is imperative - without prejudice to the international obligations of the Community - to ensure that all economic operators active on European energy markets respect and act in accordance with market investor principles. Therefore, the Commission proposes a requirement that third country individuals and countries cannot acquire control over a Community transmission system or transmission system operator unless this is permitted by an agreement between the EU and the third country. The aim is guarantee that companies from third countries respect the same rules that apply to EU based undertakings in both letter and spirit - not to discriminate against them. Finally, the Commission will also hold a rapid and in-depth review of the wider aspects of the EU's external policy in energy, and will make the results of that work public.

Concluding on the important question of unbundling, the present proposals for effective unbundling are a necessary and decisive step to achieving EU-wide market integration. It may ultimately help to create supra-national transmission system operators as the operators are no longer held back by mutual distrust. But at the same time, if supra-national transmission operators were created without ensuring their full independence, competition between affiliated supply and production companies would likely be weakened due to the risk of collusion. In the absence of effective unbundling such cooperation would therefore give rise to competition concerns. Notably, the present proposals include several additional measures to promote EU market integration, relating in particular to improved cooperation among transmission system operators.

(13) The full text can be found at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0530:FIN:EN:PDF>.



EXTRACTS FROM THE  
PRESIDENCY CONCLUSIONS  
OF THE BRUSSELS  
EUROPEAN COUNCIL,  
MARCH 2008 - DECEMBER 2008

## EXTRACT FROM THE PRESIDENCY CONCLUSIONS OF THE BRUSSELS EUROPEAN COUNCIL, 13/14 MARCH 2008<sup>(14)</sup>

### Part CLIMATE CHANGE AND ENERGY

25. The European Council recalls the importance it attaches to enhancing the energy security of the EU and its Member States. Whereas action on climate change and energy, the internal energy market and new technologies all contribute to this objective, work must also be vigorously pursued on further developing the external dimension of the 2007-2009 Energy Policy for Europe. The European Council welcomes the progress achieved in this regard, as set out in the state of play report submitted to the Council (6778/08), and will undertake a more comprehensive assessment of progress

on implementation and further action needed in the light of the next Strategic Energy Review, to be presented in November 2008 and endorsed by the Spring 2009 European Council, and which will serve as the basis for the new Energy Action Plan from 2010 onwards to be adopted by the Spring 2010 European Council. This Strategic Energy Review will focus in particular on security of supply, including regarding interconnectors, and external energy policy. The European Council attaches particular importance to the EU and its Member States speaking with a common voice on energy issues with third parties.

## EXTRACT FROM THE PRESIDENCY CONCLUSIONS OF THE BRUSSELS EUROPEAN COUNCIL, 19/20 JUNE 2008<sup>(15)</sup>

### Part POLICY IMPLICATIONS OF HIGH FOOD AND OIL PRICES

39. Other measures should rapidly be examined, in particular to promote competition in energy markets, promote modernisation of transport systems including the development of alternative technologies, inter alia, electric cars, as well as increase the transparency of oil markets, including as regards oil stocks. The dialogue with oil and

gas companies, producing countries and importing developing countries should be enhanced, both at European level and at international level, to ensure a better response of supply to market needs and to improve the framework conditions for investment in exploration, production, refining capacity and alternative energy sources. In this respect the European Council welcomes the decision by Saudi Arabia to call a meeting between oil producer and consumer countries in Jeddah on 22 June.

(14) The full text can be found at [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ec/99410.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/99410.pdf).

(15) The full text can be found at [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ec/101346.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/101346.pdf).

## EXTRACT FROM THE PRESIDENCY CONCLUSIONS OF THE BRUSSELS EXTRAORDINARY EUROPEAN COUNCIL, 1 SEPTEMBER 2008<sup>(16)</sup>

9. Recent events illustrate the need for Europe to intensify its efforts with regard to the security of energy supplies. The European Council invites the Council, in cooperation with the Commission, to examine initiatives to be taken to this end, in particular as regards diversification of energy sources and supply routes.

## EXTRACT FROM THE PRESIDENCY CONCLUSIONS OF THE BRUSSELS EUROPEAN COUNCIL, 15/16 OCTOBER 2008<sup>(17)</sup>

### Part ENERGY SECURITY

17. Security of energy supply is a priority for the European Union. It involves the responsibility and solidarity of all the Member States. To this end, taking account of the report submitted by the Presidency<sup>1</sup>, the European Council has decided to step up the work in progress, by adopting the following guidelines and requesting the Commission to submit relevant proposals or initiatives, where necessary, to:

- (a) finalise the legislative package on the internal market in electricity and gas before the end of the legislative period;
- (b) expedite the implementation of the European Energy Efficiency Action Plan and the Strategic Energy Technology Plan;
- (c) pursue with determination the diversification of energy sources, to which the measures in the energy/climate package contribute directly;
- (d) promote improvement in the working of the market, in particular through greater transparency on flows and stockpiles and through sharing information on long-term requirements and resources;
- (e) develop crisis mechanisms to deal with temporary disruptions to supplies;
- (f) strengthen and add to critical infrastructure, particularly trans-European energy transport

networks and liquefied natural gas terminals. Particular attention will be paid to interconnections and to the connection of the most isolated European countries, to the interface of European networks with supply infrastructure and to the need to diversify both sources and routes. The European Council supports the Commission initiative of establishing a plan of action to speed up interconnections in the Baltic region. A schedule of work will be drawn up for this purpose before the end of the year;

- (g) develop the Union's energy relations with producer and transit countries with a view to securing stability of supply and diversifying its energy sources and supply routes. In this connection, the European Council welcomes the energy security initiatives taken by several Member States and, in particular, the meeting with the Caspian Sea countries and transit countries which will be organised by the Czech Presidency in the spring of 2009.

18. The European Council will return to this issue at its meeting in March 2009 to take stock of progress, in the light, also, of the Commission's forthcoming strategic energy review, and to adopt the necessary decisions.

(16) The full text can be found at [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ec/102545.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/102545.pdf).

(17) The full text can be found at [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ec/103441.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/103441.pdf).

## EXTRACT FROM THE PRESIDENCY CONCLUSIONS OF THE BRUSSELS EUROPEAN COUNCIL, 11/12 DECEMBER 2008<sup>(18)</sup>



### Part III. ENERGY AND CLIMATE CHANGE

25. The Union's efforts to combat climate change are coupled with resolute action to enhance its energy security, including interconnections and the connection of the most isolated European coun-

tries. In this respect, the European Council asks the Council, on the basis of the guidelines defined in its October 2008 conclusions, to conduct a rapid examination of the Energy Security and Solidarity Action Plan presented by the Commission, in preparation for its March 2009 meeting.

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(18) The full text can be found at [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ec/104692.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/104692.pdf).



**COUNCIL CONCLUSIONS  
ON ASSISTANCE TO THIRD  
COUNTRIES IN THE FIELD  
OF NUCLEAR SAFETY  
AND SECURITY,  
9 DECEMBER 2008**

## COUNCIL CONCLUSIONS ON ASSISTANCE TO THIRD COUNTRIES IN THE FIELD OF NUCLEAR SAFETY AND SECURITY

### 2913<sup>th</sup> TRANSPORT, TELECOMMUNICATIONS and ENERGY Council meeting

Brussels, 9 December 2008

The Council adopted the following conclusions:

«The Council of the European Union, UNDERLINING the European Union's long experience of assisting third countries in the field of nuclear safety and security, particularly through the TACIS programme;

RECALLING that since 1 January 2007, a number of instruments, such as the Instrument for Nuclear Safety Cooperation (INSC)<sup>(19)</sup> and the Stability Instrument (SI)<sup>(20)</sup> have, in their respective domains, enabled assistance to be delivered to third countries in the field of nuclear safety and security;

HAVING NOTED the communication from the Commission entitled «Addressing the International Challenge of Nuclear Safety and Security»;

RECALLING the discussions in the Council which led to the report 12046/3/08 REV 3, noted by COREPER at its meeting on 29 October 2008;

1. WELCOMES the analysis set out by the Commission in that communication;

2. NOTES that, as stated by the Commission, nuclear energy has been the subject of renewed interest for a number of years and that many countries which have not made use of this energy source so far have now announced that they wish to build nuclear power plants. AGREES that assistance to TACIS programme beneficiaries is likely to decrease;

3. In accordance with the objectives set under the INSC in particular, RECOGNISES the importance of:

- continuing to provide assistance as required to countries which are already beneficiaries of TACIS funding;

- providing assistance in the field of nuclear safety and security to all third countries worldwide seeking such assistance to establish, at national level, a robust framework in this field in accordance with international standards.

4. EMPHASISES that the assistance provided by the European Union in the field of nuclear safety and security is not aimed at promoting nuclear energy and should therefore not be interpreted as a measure to promote that energy source in third countries;

5. CALLS ON the Commission, when implementing its nuclear safety and security policy vis-à-vis third countries, to coordinate its action with all organisations pursuing similar objectives, in particular international organisations and specifically the International Atomic Energy Agency (IAEA); STRESSES that this coordination should enable the EU and the organisations concerned to avoid any duplication of actions and funding in relation to third countries; INVITES the Commission likewise to involve the competent authorities of Member States and European operators in the fulfilment of its task, thereby harnessing the quality of European expertise in the field of nuclear safety and security;

6. In accordance with Article 18 of the INSC Regulation, STRESSES THE IMPORTANCE of the Council of the European Union and the European Parliament having, on an annual basis, an accurate assessment of actions undertaken, progress achieved as a result thereof and budgets committed in relation to cooperation for nuclear safety and security;

7. RECALLS that the concepts of nuclear safety, nuclear security and non-proliferation encompass different issues and require differentiated approaches within the European Union and hence specific instruments;

8. CONSIDERS with interest the criteria developed by the Commission communication for granting Community assistance; IS OF THE OPINION, however, that those criteria should be clarified.

(19) Council Regulation (Euratom) No 300/2007 of 19 February 2007 establishing an Instrument for Nuclear Safety Cooperation (OJ L 81, 22.3.2007, p. 1).

(20) Regulation (EC) No 1717/2006 of the European Parliament and of the Council of 15 November 2006 establishing an Instrument for Stability (OJ L 327, 24.11.2006, p. 1).

9. Therefore ENCOURAGES the Commission, when granting assistance to third countries in the field of nuclear safety and security, and without prejudice to the provisions contained in particular in the texts setting up the Instrument for Nuclear Safety Cooperation and the Stability Instrument, to take into account the criteria set out in points 10 to 12 of these conclusions;

10. CONSIDERS that the granting of Community assistance should be based first and foremost on fulfillment by third countries of the following general criteria:

- assistance in the field of nuclear safety and security should be based on a common understanding and a reciprocal agreement between the third country and the EU. An interested third country should therefore have sent the Commission a formal request, committing its Government, in order to obtain EU assistance in the field of nuclear safety and security;
- third countries wishing to benefit from Community assistance should fully subscribe to the principles of non-proliferation; they should also be parties to the relevant conventions, within the framework of the IAEA, on nuclear safety and security or have taken steps demonstrating a firm undertaking to accede to them. Community assistance could be made conditional on accession or the completion of steps towards accession to the conventions. In cases of emergency, flexibility should, exceptionally, be shown in the application of this principle;
- geographical proximity to the EU should be an important but non-exclusive criterion for granting assistance;
- in order to ensure and monitor compliance with the assistance objectives, the third country beneficiary must accept the principle of evaluation of the assistance granted. Evaluation would make it possible to monitor and verify compliance with the agreed objectives, and could be a condition for continued payment of the Community contribution.

11. CONSIDERS that the following criteria should be applied to countries which already have installed nuclear generating capacity:

- in the case of countries which have already received Community financing, granting of additional assistance should depend on the evaluation of actions funded by the Community budget and on proper justification of new needs.

*That evaluation should make it possible to determine more precisely the nature and amount of assistance to be granted to those countries in the future. In particular, the granting of new assistance could be made conditional upon an evaluation of the use made of previous assistance. In addition, the use in those countries of the Integrated Regulatory Review Service (IRRS) would be favourably viewed, although it would not constitute a formal criterion for the granting of Community assistance.*

*The evaluation should in particular cover (i) as regards plants: completion of works undertaken and progress made in terms of safety; (ii) as regards nuclear safety and security management: the situation with respect to the relevant authorities and the development of strategies for waste management and plant dismantling; staff training; and (iii) from a more overall perspective: these countries' ability to take financial responsibility for managing their nuclear safety and security policies.*

- in the case of countries requiring rapid Community assistance, consideration should be given to (i) the degree of urgency of intervention in a given country, in the light of the situation as regards nuclear safety and security; and (ii) the significance, in certain countries where an ambitious programme for developing nuclear generating capacity is planned, of stepping in at the appropriate moment so as to ensure that a nuclear safety and security culture is fostered in parallel with that process, in particular as regards the deployment or strengthening of the regulatory authorities and technical support organisations.


12. CONSIDERS that the following criteria should be applied to countries which do not have installed nuclear generating capacity:

- In the case of countries which have research reactors but do not wish to develop nuclear generating capacity: the degree of urgency, in

*the light of the situation as regards nuclear safety and security, with which assistance needs to be provided;*

- *In the case of countries which wish to develop nuclear generating capacity, whether or not they have research reactors and for which the issue arises of intervention at the appropriate moment to ensure that a nuclear safety and security culture is fostered in parallel with the development of the nuclear generating programme, especially as regards strengthening the regulatory authorities and technical support organisations: the credibility of the nuclear power development programme and the drawing up a preliminary road map. The road map should contain details, in particular, of the programme's financing and its long-term economic viability, of its regulatory framework, of the work to be accomplished to make the programme transparent (public participation, information on the environmental impact of the programme), and of the development of training courses for those individuals concerned, in particular the plants' future staff. It should also include, in accordance with the general principles defined in point 10, firm commitments with a view to the ratification of the relevant international conventions;*

- *In the case of countries which do not fall into the above categories: the existence of emergency situations as regards nuclear safety and security. These countries should be able to benefit from a certain degree of flexibility in the application of the principles agreed upon in point 10.»*



EXTRACT FROM THE  
COMMUNICATION 'SECOND  
STRATEGIC ENERGY REVIEW –  
AN EU ENERGY SECURITY AND  
SOLIDARITY ACTION PLAN',  
13 NOVEMBER 2008

## EXTRACT FROM THE COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS 'SECOND STRATEGIC ENERGY REVIEW – AN EU ENERGY SECURITY AND SOLIDARITY ACTION PLAN', 13 NOVEMBER 2008<sup>(21)</sup>

### Part 2. AN EU ENERGY SECURITY AND SOLIDARITY ACTION PLAN

The Commission proposes a five-point EU Energy Security and Solidarity Action Plan, focusing on:

- Infrastructure needs and the diversification of energy supplies;
- External energy relations;
- Oil and gas stocks and crisis response mechanisms;
- Energy efficiency;
- Making the best use of the EU's indigenous energy resources.

#### 2.1. Promoting infrastructure essential to the EU's energy needs.

Whereas the oil market is a liquid international market, gas supply depends mainly on fixed pipeline infrastructure. At present, imports comprise 61% of EU gas gross inland consumption. 42% of these imports come from Russia, 24% from Norway, 18% from Algeria, and 16% from other countries, the latter mostly in the form of LNG<sup>(22)</sup>. By 2020, as EU indigenous production continues to decline, the percentage of gas imports is expected to increase to 73% from 61% today<sup>(23)</sup>.

At the EU level, this represents a reasonably well-diversified supply picture. At national level, however, for historical reasons a number of Member States rely on a single supplier for 100% of their gas needs. Interconnection and solidarity within the internal market is not only a natural feature of an integrated market-based system but is equally essential to spread and reduce individual risk. The EU therefore needs to take concrete measures to ensure that these markets increase the diversity of their gas supply.

In addition, in order to meet the EU's 20-20-20 objectives in a manner guaranteeing electricity and

gas supply to all the EU's citizens, major changes in the EU's internal energy infrastructure will be necessary over the coming years and decades. It requires transparent and reliable framework conditions within the EU and with respect to third countries so that business will be able to take up new investment opportunities. A determined approach at Community level to catalyse these developments is essential.

The Commission therefore proposes that the following six priority infrastructure actions be accepted as Community priorities:

- Connecting the remaining isolated energy markets in Europe is a priority. Together with the Member States concerned, and in close collaboration with national energy regulators, the Commission will develop a **Baltic Interconnection Plan** covering gas, electricity and storage in 2009. This will identify the key missing infrastructures necessary for the effective interconnection of the Baltic region with the rest of the EU, establishing a secure and diverse energy supply for the region, and listing necessary actions, including financing, to ensure its realisation. The efficient development of the market as well as the contribution of energy efficiency and renewables to increased security of supply will need to be duly taken into account in developing the Plan. Work will start immediately within a High Level Group set up with the Member States concerned. A regional Summit meeting will be called in the second half of 2009 to launch its implementation;
- A **southern gas corridor** must be developed for the supply of gas from Caspian and Middle Eastern sources, which could potentially supply a significant part of the EU's future needs. This is one of the EU's highest energy security priorities. The Commission and Member States need to work with

(21) The full text can be found at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0781:FIN:EN:PDF>

(22) Eurostat, year 2006.

(23) New Energy Policy + High Oil Price scenario; see footnote 4.

the countries concerned, notably with partners such as Azerbaijan and Turkmenistan, Iraq and Mashreq countries, amongst others, with the joint objective of rapidly securing firm commitments for the supply of gas and the construction of the pipelines necessary for all stages of its development. In the longer term, when political conditions permit, supplies from other countries in the region, such as Uzbekistan and Iran, should represent a further significant supply source for the EU;

The feasibility of a block purchasing mechanism for Caspian gas («Caspian Development Corporation») will be explored, in full respect of competition and other EU rules. Transit for the gas pipelines will need to be agreed with transit countries and notably Turkey in a way that respects both the basic principles of the EU acquis and their legitimate concern for their own energy security. The Commission will invite representatives of the countries concerned to a Ministerial level meeting to secure concrete progress and a timetable to reach agreement. It will seek to identify by mid-2009 any remaining obstacles to the completion of the project which will be the subject of a **Communication on the Southern Gas Corridor** to the Council and Parliament.

- **Liquefied natural gas and adequate gas storage** are important in providing liquidity and diversity to EU gas markets. Sufficient LNG capacity consisting of liquefaction facilities in the producing countries and LNG terminals and ship-based regasification in the EU should be available to all Member States, either directly or through other Member States on the basis of a solidarity arrangement. This is particularly important for Member States currently overwhelmingly dependent on a single gas supplier. In 2009 the Commission will assess the global LNG situation and identify gaps with a view to proposing an **LNG Action Plan**;
- **A Mediterranean energy ring now needs to be completed**, linking Europe with the Southern Mediterranean through electricity and gas interconnections. In particular the Ring is essential to develop the region's vast solar

and wind energy potential. The list of priority infrastructure projects adopted by the December 2007 Euromed Energy Ministerial meeting and the Mediterranean Solar Plan adopted in Paris in July 2008<sup>(24)</sup> form a blueprint for this development, and benefit from EU financial and political support. No later than 2010 the Commission will put forward a **Communication on the Mediterranean Ring** outlining a plan for completing the missing links, including key projects important for diversifying the EU's external energy supplies in further away regions, such as the future links from Iraq, the Middle East and Sub-Saharan Africa;

- **North-South gas and electricity interconnections within Central and South-East Europe** need to be developed as a priority, building notably on the New European Transmission System (NETS) initiative to create a common gas transmission system operator<sup>(25)</sup>, the Energy Community Gas Ring, the priority interconnections identified by the Energy Community ministerial in December 2007<sup>(26)</sup>, and the Pan-European Oil Pipeline<sup>(27)</sup>. The new Internal Energy Market package envisages the establishment of a regular 10-year Network Development Plan outlining missing links and the action necessary to complete them. This rolling plan will be elaborated by the new European network of transmission system operators (ENTSO). The Commission will work together with the national energy regulators and the TSOs in support of their preparation of a first such plan in 2010, if necessary even before the formal entry into application of the third internal market package;
- In line with the work of the European coordinator and the Communication on Offshore Wind tabled by the Commission together with this Strategic Energy Review, a **Blueprint for a North Sea offshore grid** should be developed to interconnect national electricity grids in North-West Europe together and plug-in the numerous planned offshore wind projects. It should become, together with the Mediterranean Ring and the Baltic Interconnection project, one of the building blocks of a future European supergrid. The Blueprint should identify the steps and timetable that need to

(24) [www.euromedinfo.eu](http://www.euromedinfo.eu).

(25) [www.molgroup.hu/en/press\\_centre/press\\_releases/european\\_energy\\_infrastructure\\_\\_ndash\\_\\_nets\\_project/](http://www.molgroup.hu/en/press_centre/press_releases/european_energy_infrastructure__ndash__nets_project/)

(26) [www.energy-community.org/](http://www.energy-community.org/)

(27) [www.ens-newswire.com/ens/apr2007/2007-04-03-03.asp](http://www.ens-newswire.com/ens/apr2007/2007-04-03-03.asp)

be taken and any specific actions that need to be adopted. It should be developed by the Member States and regional actors involved and facilitated where necessary by action at Community level.

The Commission will therefore use its existing instruments to pursue rapid progress on all these priority actions, which have already been recognised as projects requiring Community support and action under the existing TEN-E programme. This will include an active approach collaborating with Member States concerned to make maximum use of the EU's ability to speak with one voice on international energy issues.

Considerable efforts of all involved parties will be required in order to finance the projects outlined above. A closer and more effective collaboration with the private sector and financial institutions, notably the European Investment Bank and the European Bank for Reconstruction and Development, is necessary to promote the necessary financing, in particular for cross-border projects. This work appears as a key element of the EU response to the current financial crisis and thus should be accelerated, as suggested in the recent Commission Communication<sup>(28)</sup>, inter alia to support employment and contribute to offsetting the fall in demand. This is particularly important for certain key external energy infrastructures which face heightened non-commercial risks. The development of public-private partnerships, providing the necessary political underpinning, a supply framework and potentially a certain level of public financing or guarantees, as well as other innovative forms of funding, may also become increasingly important. This may potentially involve EU Member States, companies and Community financial institutions, as well as public and private entities from third countries.

However, in order to make further and rapid progress, the Commission considers that existing instruments are insufficient. As a first step, the EU should agree that the above projects represent energy security priorities.

As a second step, during 2009-2010 the precise detailed actions – in particular, identifying the financing needs and potential sources of

finance – necessary to ensure their realisation will be determined, in close collaboration between the Commission, Member States, industry, transmission system operators, national energy regulators and the European Parliament, resulting in the Communications mentioned above. In this respect, it needs to be noted that energy infrastructures will be in place for a long time. The Commission will ensure that their development, design and location take into account the impacts of changing climatic conditions for the rest of the century, which will be a key element of their economic viability. All new EU energy infrastructures must be climate-proof.

As a third step, from 2010 onwards, the identified actions will need to be undertaken at both Community and national level. It should be noted that the current TEN-E budget of €22m per year means that its scope for catalysing the development of major projects of Community interest is limited. The original TEN-E instrument was conceived and developed when the EU was considerably smaller, and faced energy challenges of a completely different dimension compared to today. Thus, together with this Strategic Energy Review, the Commission tables a Green Paper that launches a reflection on how the existing TEN-E instrument could be replaced by a new instrument, the EU Energy Security and Infrastructure Instrument with the possible objectives of (i) completing the Internal Energy Market, (ii) ensuring the development of the grid to permit the achievement of the EU's renewable energy objectives and (iii) guaranteeing EU security of energy supply, through assistance for key infrastructure projects within and outside the EU. In addition, the Green Paper launches a reflection on how best to ensure the effective use and evolution of the EU's external policy and financial instruments to contribute to achieving these objectives, without prejudice to the planned mid-term review of external assistance instruments in Spring 2009.

In the light of the results of the consultation following the publication of the Green Paper, the Commission will consider tabling a proposal for the above-mentioned new EU Energy Security and Infrastructure Instrument. Inter alia, the need for future Community funding would be evaluated, including for the next financial framework starting in 2014.

(28) Commission Communication «From financial crisis to recovery: A European framework for action» Com (2008)706, 29.10.2008.

## 2.2. A greater focus on energy in the EU's international relations

Worldwide, countries are becoming increasingly interdependent in energy matters. Energy interdependence is influencing development, trade and competitiveness, international relations and global cooperation on climate. Energy must be given the political priority it merits in the EU's international relations, including its trade policy and agreements, its bilateral partnerships, cooperation and association agreements and political dialogues. The widely-varying interests of countries in the energy field, in a context of increasing energy interdependence, point to the need for more robust international legal frameworks based on a balance of commitments and benefits, within energy and across economic sectors.

As much as the European Union seeks security of supply through greater predictability and diversity, including from different companies within upstream markets, foreign governments and external suppliers seek security of demand, particularly where large investments in new upstream gas supplies for delivery by pipeline are concerned. They require clear and stable rules for the functioning of the internal market and arrangements on access to or investment in the European market. In many cases, there is a need to develop trust and deeper and legally binding ties between the EU and producer and transit countries, which could deliver significant mutual benefits in the long-term perspective that is needed to finance the more capital-intensive projects of the future. The EU should therefore use all the tools at its disposal, internal as well as external, to strengthen its collective weight with energy supply countries and to offer new kinds of broad-based partnerships. At the multilateral level, the EU should continue to press for further liberalisation of trade and investment in the energy sector.

In some cases, there is already regulatory and market integration. Norway is already integrated in the internal energy market as a member of the European Economic Area. Its role in enhancing the EU security of supply in gas (24% of EU imports) and oil (16%)<sup>(29)</sup> is essential and should be further developed within the EU-Norway energy dialogue, with common projects such as offshore wind in the North Sea and the development of Norway's substantial proved reserves. Effective collaboration

with Norway is essential for EU energy security; maximising the long-term output of the Norwegian continental shelf on a sustainable basis is of equal interest to Norway and the EU.

The Energy Community<sup>(30)</sup> is building an integrated market in Southeast Europe anchored to the EU. It encompasses the internal market and security of supply legislation for electricity and gas and discussions on its extension to oil are underway. If negotiations formally starting in November are successful, the accession of Ukraine, the Republic of Moldova and Turkey to the Energy Community would catalyse their energy sector reforms and result in a mutually beneficial enlarged energy market based on common rules. This could help Ukraine, an important transit country, to upgrade its infrastructure. When appropriate, extension of observer status to other countries should also be considered. Finally, it should be noted that the enlargement process can play an important role in developing the wide application of the community acquis in the energy sector, thus following the EU's energy security objectives and contributing to the security of enlargement countries.

A strategy on Belarus should be developed, taking account of its importance as a neighbour and transit country.

Today the EU has Memoranda of Understanding on energy with a large number of third countries. Europe should develop a new generation of "energy interdependence" provisions in broad-based agreements with producer countries outside Europe. Energy interdependence provisions should aim at a balance between security of demand and security of supply. The focus should be on encouraging upstream investments, facilitating the development of the necessary infrastructures, clear conditions of access to markets (within energy and across economic sectors), dialogue on market and policy developments, and dispute settlement provisions. Transit arrangements must be agreed to guarantee normal flows even in periods of political tension, possibly through innovative approaches such as joint management and even ownership of pipelines by companies of supplier, transit and consumer countries. The provisions should be based on the EU's energy acquis where appropriate, and the principles of the Energy Charter Treaty<sup>(31)</sup>.

(29) Eurostat, year 2006.

(30) [www.energy-community.org](http://www.energy-community.org)

(31) [www.encharter.org](http://www.encharter.org)

The provisions should contribute to a long term political framework, reducing political risks and encouraging commitments by private companies on supply and transit. European banks such as the European Investment Bank and the European Bank for Reconstruction and Development could provide appropriately-structured finance linked to the development of major infrastructure projects in third countries. Special attention will be given to key external infrastructures which face heightened non-commercial risks.

In the case of **Russia**, the current wider context is the intention to negotiate a wide-ranging New Agreement replacing the 1997 Partnership and Cooperation Agreement. It is important for the long term health of the energy relationship between EU and **Russia** that the 1997 Agreement be deepened and given a stronger and broader foundation. **Russia** will remain the EU's main energy partner far into the future and more needs to be done to ensure that this relationship is based on trust; each would benefit from consolidating the main principles on which this partnership is based into law. Negotiations could in this way facilitate the reform and liberalisation of the energy market in **Russia** in line with its domestic objectives, provide stability and predictability of demand for **Russian** gas, and clarify the conditions under which **Russian** companies may invest downstream in the EU. Finally, an agreement with **Russia** could help establish binding and effective transit rules across the pan-European continent, which are lacking today. Each of these improvements would contribute to make Europe's sourcing, and **Russia's** supply, more diversified and dependable.

It is therefore important that legally binding energy interdependence provisions be developed, within the framework of the New Agreement to succeed the Partnership and Cooperation Agreement. This would require complementing the New Agreement mandate with a mandate to launch FTA talks. In the past **Russia** and the EU have linked FTA negotiations with **Russia's** accession to the World Trade Organisation, but decisive progress in this negotiation has recently become less certain. Furthermore, the EU-**Russia** Energy Dialogue should be continued and further practical cooperation activities and joint projects should be developed. The more the EU-**Russia** energy relation is put on a solid mutually-agreed and balanced legal

basis, the more trust and confidence will grow, creating a climate conducive to investments in exploration and infrastructure projects.

A similar approach should be developed with the countries of the **Caspian region**. The European Council has given high priority to the further development of relations with these countries. Given their energy resources and their importance to progress on the priority energy security infrastructures noted in the previous section, the Commission will focus all instruments on building robust cooperation, including a strengthening of the **Baku process**<sup>(32)</sup>, to promote a genuine energy partnership. Enhanced engagement with all the relevant countries, notably through bilateral relationships, is an important priority.

The **EU-OPEC Energy Dialogue** provides a forum for joint assessment of the factors affecting prices, upstream and downstream investments needed in both producer and consumer countries and the impact of technological developments. The Dialogue is a recognition of the fact that producer and consumer countries have common interests in encouraging regular supply at affordable prices. Energy relations with **Iraq** and the **Gulf Cooperation Council** should be further developed in the field of hydrocarbons, including new areas such as clean energy technologies. In parallel, bilateral energy relations with individual Gulf Cooperation countries will be pursued.

Cooperation with partners such as **Australia, Canada, Japan** and the **US** as well as emerging consumer countries should be deepened to promote a common view on global energy security, to improve the transparency of global energy markets and to address the issue of sustainability. Cooperation frameworks are being developed with countries like **China** and **India**, bilaterally and multilaterally, and regions such as **Latin America** and the **Caribbean**. Cooperation is being developed with alternative supplier countries such as **Brazil** as a major biofuels exporter.

Energy relationships with **Africa**, notably North Africa, should be stepped up in view of its important potential ranging from hydrocarbons to an immense untapped potential in renewable energies. Countries such as **Algeria, Egypt, Libya** and **Nigeria** have long been important oil and gas sup-

(32) [ec.europa.eu/dgs/energy\\_transport/international](http://ec.europa.eu/dgs/energy_transport/international)

pliers and it is important that energy relations with them are enhanced. **The Trans-Sahara Gas Pipeline** represents an important additional opportunity for the EU to diversify routes and energy sources. The EU stands ready to help in its realisation through its various instruments, notably bilateral cooperation, the European Neighbourhood and Partnership Instrument, the European Development Fund and the European Investment Bank. Furthermore, the Africa-EU Energy Partnership with the African Union together with the African Regional Economic Communities will be instrumental in developing a deeper energy dialogue and concrete initiatives. The EU will assess the increasingly important role of Africa in the EU energy security and ensure that the adequate means and policies are made available. Regional integration of electricity markets and the promotion of renewable energy represent particularly important development opportunities for Africa, and the Commission will step up its assistance efforts in these areas.

A number of the EU's partners are considering launching a nuclear programme, a technology where EU industry enjoys a global leadership, or expanding their current activities. Many developing countries do not currently have the legislative and regulatory infrastructure needed to ensure that safety is the priority in design, construction and operational decisions. EU action to promote the highest standards of **nuclear safety and security** has recently been outlined<sup>(33)</sup>. With the Instrument for Nuclear Safety Cooperation, the EU will cooperate with and assist third countries in improving their nuclear safety culture and the safety of their operating nuclear power plants. For emerging countries intending to build nuclear power plants, the EU will help in the development of competent and independent nuclear regulatory authorities, capable of ensuring that the new plants are built according to international nuclear safety standards and operate in accordance with the highest standards.

In meeting the EU's objectives, it is vital, as the European Council has identified<sup>(34)</sup>, that Europe speaks with one voice and acts accordingly. The recent review of EU's energy policy by the International Energy Agency<sup>(35)</sup> identifies external relations and energy security as priority actions for the EU. Speaking with one voice does not mean a single Community representative for external

issues, but effective planning and coordination to ensure a commonality of both action and message at Community and Member State level. In order to put this into practice, in 2009 the Commission will identify the concrete **mechanisms necessary for ensuring transparency** between Member States and the EU. This should enable better coordination on developments and intentions on international energy issues. To complement such mechanisms, the Commission will consider proposing a revision of Regulation 736/96 which obliges Member States to notify to the Commission investment projects of interest to the Community in the petroleum, natural gas and electricity sectors, in order to increase its relevance to today's energy challenges. The Commission will consider how best to further develop early warning systems with key neighbouring energy partners

#### Part 2.4 A NEW IMPETUS ON ENERGY EFFICIENCY

It is at least as important to achieve improved energy efficiency in other industrialised countries and emerging economies as in Europe. Progress on a global agreement on climate change would create major new incentives for cooperation on energy efficiency. Energy efficiency should be one of the main objectives of the Energy Community in the coming years. The Commission will build on the **International Partnership on Energy Efficiency Cooperation** agreed in the G8 context with China, India and Korea in July 2008 to promote common product standards and ambitious efforts throughout the world, and will participate in its launch in 2009 as an IEA Implementing Agreement. In this context, the outreach activities of the IEA with emerging countries, is particularly important.

#### PART 4. CONCLUSIONS

The Commission's proposals on greenhouse gas emissions, renewable energies and the internal energy market set the framework for Europe to meet the 2020 targets adopted by the European Council. They will make a first major step towards transforming the EU into a sustainable and secure, technology-based, low CO<sub>2</sub> energy market, creating wealth and jobs throughout the EU. A rapid agreement and implementation of these proposals represents the first essential element of any energy security policy for Europe.:

(33) «Addressing the international challenge of nuclear safety and security», COM(2008)312.

(34) Eg March 2007 European Council Presidency conclusions.

(35) IEA Energy Policies Review – The European Union", OECD/IEA, September 2008.


- The 20-20-20 measures alone will however not meet the EU's energy security needs. Responding to the call from the European Council of 15-16 October 2008 to intensify work on energy security, the Commission proposes a five-point **Action Plan for Energy Security and Solidarity** and calls on the Council and Parliament to endorse the need for the EU to intensify its efforts in developing an effective external energy policy; speaking with one voice, identifying infrastructure of major importance to its energy security and then acting to ensure its construction, and acting coherently to deepen its partnerships with key energy suppliers, transit countries and consumers. In this regard the Council and Parliament is invited to endorse;
- As a first step, the six priorities identified by the Commission as essential for the EU's energy security: the Southern gas corridor, a diverse and adequate LNG supply for Europe, effective interconnection of the Baltic region, the Mediterranean Energy Ring, the need for adequate North-South gas and electricity interconnections within Central and South-East Europe, and the North Sea Offshore Grid.

In addition, the Commission calls on the Council and Parliament to welcome:

- As a second step, the Commission's intention to identify and to communicate to the Council and Parliament by 2009/2010, the specific actions necessary to ensure the realisation of these projects in practice;
- As a third step, the intention of the Commission to consider tabling on the basis of the response to Green Paper, in 2010, a new EU Energy Security and Infrastructure Instrument, building on the existing TEN-E instrument;
- The Commission's determination to ensure the development of a Southern gas corridor and encourage the Commission and the Community financial institutions to collaborate closely in exploring the feasibility of block purchasing mechanism («Caspian Development Corporation»);

- The Commission's intention to outline the measures necessary to ensure that the EU «speaks with one voice» on external energy issues and the actions outlined in section 2.1;
- The Commission's intention to increase collaboration with Africa on energy issues through the Africa-EU Energy Partnership and to place greater focus on renewable energy promotion in Africa through EU development policy;
- The 2008 Energy Efficiency Package, encouraging the Council and European Parliament to expedite work on reaching rapid agreement on its elements;
- The proposed revision of the Oil Stocks Directive, and the Commission's intention to propose a refinement of the Gas Security of Supply Directive in 2010;
- The Commission's intention to promote the environmentally-compatible development of the EU's indigenous fossil fuel resources and to encourage the Berlin Fossil Fuel Forum to develop a concrete set of recommendations regarding the action necessary to further this objective;
- The Commission's intention to table, in the light of experience gained with the new Renewables Directive, a Communication «Overcoming Barriers to Renewable Energy in the EU».
- The revised proposal for a Directive setting up a Community framework for nuclear safety.
- The initiative of establishing a Sustainable Energy Financing Initiative as a joint Commission/European Investment Bank project to mobilise large-scale funding from capital markets for investments in energy efficiency, renewable energies and the clean use of fossil fuels.

Finally, the EU needs to begin preparing its energy future in the longer term. The Commission will therefore propose to renew the Energy Policy for Europe in 2010 with a view to charting a policy agenda for 2030 and a vision for 2050, to be supported by a new Action Plan.



EXTRACT FROM  
THE COMMUNICATION  
FROM THE COMMISSION TO  
THE EUROPEAN PARLIAMENT  
AND THE COUNCIL 'EASTERN  
PARTNERSHIP',  
3 DECEMBER 2008

## EXTRACT FROM THE COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL 'EASTERN PARTNERSHIP', 3 DECEMBER 2008<sup>(36)</sup>

### Part 3. DEEPER BILATERAL ENGAGEMENT

#### 3.4. Energy security

The EaP will aim to strengthen the energy security of the EU and of the partners with regard to long-term energy supply and transit<sup>(37)</sup>. In addition to multilateral initiatives (see section 4.3.), the Commission proposes, taking account of the Second Strategic Energy Review<sup>(38)</sup>, a number of bilateral measures.

- Inclusion of “Energy interdependence” provisions in the AAs, in coherence with, inter alia, EU trade, competition and energy policies, to be negotiated with partners, taking account, where appropriate, of existing Memoranda of Understanding<sup>(39)</sup>;
- Swift completion of negotiations on Ukraine’s and Moldova’s membership in the Energy Community. When appropriate, an extension of observership to other partners should be considered;
- Conclusion of Memoranda of Understanding on energy issues with Moldova, Georgia and Armenia as additional flexible instruments, when needed. They should contain measures to support and monitor the security of energy supply and transit, including for key energy infrastructures. In the case of Armenia, the MoU would also address the closure of the Medzamor Nuclear Power Plant;
- Enhanced support for the full integration of Ukraine’s energy market with that of the EU, recognising the importance of a satisfactory assessment of the level of nuclear safety in all Ukraine’s operating nuclear power plants. Rehabilitation of the Ukrainian gas and oil transit network is a priority, including through

improvement of the monitoring of gas and oil flows into Ukraine. A pledging and investment conference aiming to assist Ukraine in the rehabilitation and development of its gas transit network will be held in 2009;

- Enhanced political engagement with Azerbaijan as the only EaP hydrocarbon exporting partner to the EU, based on Azerbaijan’s gradual convergence with the EU energy market and infrastructure integration;
- Finalisation of a European Commission-Belarus declaration on energy, as a basis for further development of energy cooperation. This cooperation could cover, inter alia, hydrocarbon transit and energy sector reforms;
- Encouragement to all partners to participate in the Intelligent Energy Europe Programme.

### Part 4. A NEW FRAMEWORK FOR MULTILATERAL CO-OPERATION

#### 4.2. Thematic Platforms

##### *Energy security*

The energy security of the EU and partners is closely linked and the EaP Energy Security platform should concentrate on measures of mutual interest:

The EaP will aim to develop and implement mutual energy support and security mechanisms, including early warning mechanisms and joint security actions. One of the objectives will be to strengthen contacts on energy security and to enhance energy crisis preparedness. An energy security panel will be established to support this work. This panel may consider formalising part-

(36) The full text can be found at [http://ec.europa.eu/external\\_relations/eastern/docs/com08\\_823\\_en.pdf](http://ec.europa.eu/external_relations/eastern/docs/com08_823_en.pdf).

(37) The closeness of main hydrocarbon transit pipelines to zones of conflict remains of concern. Instability in the Southern Caucasus can also threaten the region’s energy security. A very large Georgian hydroelectricity plant lies at the fringes of Abkhazia. Georgia trades electricity with Armenia and Azerbaijan. Gas supplies from Russia reach Armenia via Georgia. The main gas pipeline from the Russian Federation to the Balkans passes through the Transnistrian region of Moldova. These factors impact on investor confidence, on the prospects of sustainable energy transit through the Caucasus and on the EU’s strategy for securing new suppliers in Central Asia.

(38) An EU Energy Security and Solidarity Action Plan - COM(2008) 744.

(39) The MoUs mentioned in this Communication are not legally binding instruments.

ners' interaction, on an ad hoc basis, with the EU's NESCO (Network of Energy Security Correspondents), and would build on existing arrangements with the Gas Coordination Group and the Oil Supply Group, and bearing in mind the work being undertaken in other fora, including the Energy Community, where appropriate.

The EaP will furthermore accelerate the **harmonisation of partners' energy policies and legislation** with EU practice and acquis, inter alia, in the area of electricity, gas, oil, renewables, and energy efficiency. Intensified cooperation with key stakeholders (national administrations, regulators, agencies) will support this process.

The creation in the medium term of a mutually beneficial **interconnected and diversified energy market** between the EU and partners will also be pursued. This requires the development of an Energy Infrastructure Action Plan for the EaP, taking into account the Second Strategic Energy Review and the EU Priority Interconnection Plan<sup>20</sup>. Partners' storage capacities for oil and gas should also be improved, including through the encouragement of joint storage arrangements. Concerning key infrastructures that face heightened noncommercial risks, the development of public-private partnerships bringing together the EU with the EaP partner countries may also become increasingly important.

Energy security of the EU and partners requires a strong **diversification of supply and transit routes**. This could be better achieved by closer involvement of third countries including Central Asia countries. Therefore, the EaP should contribute towards the ongoing strengthening of the Baku Process as a genuine energy partnership, with a full participation of countries of Central Asia as a key energy producing region, and including through the development of the Southern corridor including the Transcaspian.

