



**COUNCIL OF
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REPORT

from : the Commission and the Secretary-General/High Representative
to : European Council

Subject : An external policy to serve Europe's energy interests

Delegations will find attached a joint paper by the Commission and the Secretary-General/High Representative concerning "An external policy to serve Europe's energy interests".

AN EXTERNAL POLICY TO SERVE EUROPE'S ENERGY INTERESTS

Paper from Commission/SG/HR for the European Council

FACING EXTERNAL ENERGY RISKS

The EU and the world need reliable, affordable and sustainable flows of energy. 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. Some major producers and consumers have been using energy as a political lever. Other risks include the effects on the EU internal energy market of external actors not playing by the same market rules nor being subject to the same competitive pressures domestically.

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 Commission Green Paper¹ 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 pursue their own external relations for ensuring security of energy supplies and to choose their internal energy mix is not in question. Nonetheless, the development of a coherent and focussed external EU energy policy, drawing on the full range of EU internal and external policies, would enhance the collective external energy security of the Union. It would also help the EU face more effectively possible strategies by major external energy suppliers to adversely influence market fundamentals.

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

¹ A European Strategy for Sustainable, Competitive and Secure Energy, March 2006, cf. doc. 7070/06 + ADD 1 (COM(2006) 105 final)

It is necessarily preliminary and intended to open up debate. But it also highlights concrete actions that could be put into motion straightaway. External energy relations cannot be separated artificially from the wider question of what sort of energy policy the EU and its Member States want. The response to that question will be part of the Action Plan to be put forward next spring. A more fully developed internal policy is a pre-condition for delivering the EU's external energy interests, and for better judging what leverage the EU is able to bring to bear in its external relations for furthering these interests.

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 the following objectives:

1. Promoting transparency and improved governance in the energy sector through energy partnerships with third countries, the objective being to create mutually beneficial, open, transparent, non-discriminatory and stable legal conditions for energy investment and trade.
2. Improving production and export capacities in producer countries and developing and upgrading energy transportation infrastructure in producer and transit countries.
3. Improving the climate for European companies' investments in third countries and opening up the production and export of energy resources to EU industry.
4. Improving conditions for trade in energy through non-discriminatory transit and third party access to export pipeline infrastructure.
5. Enhancing physical and environmental security as well as the energy infrastructure safety.
6. Encouraging energy efficiency, use of renewable energies including bio fuels, low emission technology and rational use of energy worldwide.
7. Implementing the relevant Kyoto Protocol mechanisms.
8. Diversifying energy imports by product and country.
9. Creating 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. Promoting strategic reserve stocks and encouraging joint stock holding with partner countries.

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 way of ensuring 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, as well as information and transparency, and the active participation of major players.

This could be achieved by the EU extending its own energy market to include its neighbours within a common regulatory area with shared trade, transit and environmental rules. More widely, the EU should advocate reciprocity in market opening and respect for market rules: non discrimination, competition, transparency and enforcement.

We need to convince 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

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

There are a number of new gas projects which have either been decided or are in an advanced stage of planning (North Africa, Middle East, Caspian region, Russia and Norway). If completed, they could create new energy corridors and new import capacity amounting to a significant share of the EU's current gas consumption. In addition, LNG terminals offer a particular contribution to security of supply. The development of major international pipelines to deliver oil from the Caspian region and Central Asia to the EU is also vital.

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 speed up the completion of these infrastructure projects.

GETTING RESULTS

This analysis demonstrates the importance of having an EU external relations policy on energy. It must be coherent (backed up by all Union policies, 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 to provide early warning and enhance its capacity to respond. 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, and develop analysis and action plans. The European Energy Supply Observatory could also make a valuable contribution.

An effective external policy on energy depends on being able to harness our considerable collective resources and put them at the service of shared interests. That means engaging with producer, transit and consumer countries 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

- Considering that the EU and Russia are and will remain interdependent in the energy sector, work towards a comprehensive agreement with Russia covering all energy products. 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.
- Help 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 Treaty.
- Implement the EU-Ukraine MoU on energy cooperation, the inclusion of a comprehensive energy chapter in the future bilateral agreement and envisage Ukraine's integration into the Energy Community Treaty.
- Place particular emphasis on the implementation of the energy-related provisions of the ENP Action Plans.
- Develop bilateral energy cooperation with important producer and transit partners in North and continental Africa, the Caucasus, the Caspian Basin and Central Asia, the Middle East and the Gulf, as well as Latin America.
- 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 world energy markets, and to develop sustainable energy resources and energy efficiency.

At regional level

- Extend the EU's internal market, through expansion of the European Community Treaty to include relevant EEA and ENP countries.
- Develop regulatory convergence through the ENP in order to improve to investment climate and provide a level playing field in terms of market opening, fair competition, and environmental protection and safety.

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 consumers.
- Consider how to strengthen cooperation with the International Energy Agency and extend its membership.
- 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%
