

Geopolitics of Energy Security

**Christian Cleutinx
Director
EU-Russia Energy Dialogue**

European Commission

Directorate General for Energy and Transport

Brussels, 10th May 2006

Ladies and Gentlemen,

I appreciate the opportunity to be here today and to address such a distinguished and expert audience.

It is important that we all recognise together today's challenges to global energy security - and those of tomorrow.

It is even more important that we act now to address them. It is for this reason that I am honoured to be part of this panel together with Mr Kasianov, who was one of the main initiators of the Energy Dialogue between the Russian Federation and the European Union which was launched at the Paris EU-Russia Summit in October 2000, and Mr Berglöf from the EBRD a most important actor in Russia.

Since then, the world has clearly entered a new energy landscape.

Rising demand for imports from a larger number of countries, geopolitical complexities about energy supply, the challenge of climate change and volatile prices, supported by a mix of unexpectedly strong demand, the risk of terrorism and an ageing infrastructure, have brought home the unsustainable nature of our energy situation.

Challenges

The European Union is well aware of the strategic challenges, which we share with all consumer countries:

- **our increasing reliance on imported energy – 70 % of our energy consumption could be covered by imports by 2030, 80% as far as natural gas is concerned ;**
- **the need to promote transparency and predictability on world energy markets;**
- **the need to continue improving energy efficiency and energy savings;**
- **the need for open and competitive energy markets;**
- **making sure that new investments in oil and gas production, refining and transportation are all made in good time;**
- **ensuring a diverse energy mix, with an increased share of indigenous, low-carbon and renewable energy sources;**

- **and the need to diversify our energy supplies and our energy supply routes.**

Diversification

I would like to dwell a few moments on this last issue of the diversification of our energy supplies as there has been much written in the press recently on this subject.

The first point I would like to stress is that Russia has been, even during the tremendous political changes that occurred in the early 90ies, a stable and reliable supplier of natural gas to the European Union.

The second point is that energy demand in the EU is foreseen to continue to grow. Our forecasts indicate, in a business as usual scenario, that primary energy demand is set to increase by 20% by 2030 as compared with the year 2000.

However, our demand for natural gas is expected to increase by some 60% over the same period. With anticipated decrease in domestic production, this will mean that the EU has to rely increasingly on gas from third countries.

Today imports already account for just over 50% of our gas consumption. Our forecasts indicate that this could rise to over 75% by 2020 or an additional 200 million tonnes of oil equivalent.

While we fully recognise the very important role that Russia will continue to play as a reliable supplier of natural gas to the EU, the Russian Energy Strategy to 2020 issued in May 2003 only foresees an increase in total gas exports of some 50 million tonnes of oil equivalent between the year 2000 and 2020. And these additional 50 million tonnes are not only for the EU. They are also for all other third countries.

This strategy also makes it clear that achieving this will necessitate very significant investments of between 170 and 200 billion US dollars.

This leaves an important gap which needs to be filled. This is a major reason for the increase in security of supply concerns in the EU and which has led to calls for enhancing supplies from other countries as well as from Russia.

As a matter of fact, if the Russian Energy Strategy remains unchanged, it means that at least 75 % of EU additional natural gas imports will have to come from other third countries.

But, by the same token, this difference between the foreseen Russian exports and the anticipated EU demand does offer real opportunities for increasing co-operation between the EU and Russia.

At a technical level, joint efforts to increase energy efficiency both in the industrial and household sectors, as well as in reducing the

flaring of associated gas at oil production sites in Russia could make additional quantities of gas available for export. Various studies have estimated that the yearly potential for energy savings in Russia by 2020 could reach the equivalent of 75% of the current Russian gas production.

In addition, further reform of the Russian gas sector could also encourage increased foreign investment, particularly upstream investments, if the key concerns of EU companies are adequately addressed.

Security of demand

An issue which has been and still strongly remains at the centre of the concerns of the Russian Federation is security of demand.

Here I would like to stress that the European Union has consistently stressed, since the start of its Energy dialogue with the Russian Federation, that long term-contracts for natural gas can facilitate the investments that need to be undertaken to meet future demand. Such contracts create the credit worthiness that attracts both Russian and European investors. It is a matter of fact that, under the EU competition rules, contracts that promote new investments and other benefits are, in principle, viewed favourably.

Green Paper

The challenge of enhancing energy security and of responding to the current situation of high and volatile energy prices has led to a fundamental rethink within the EU. There is a growing realisation that a more coherent approach to energy issues among the 25 Member states could have a number of practical advantages.

For this reason, the European Commission adopted a new Green Paper in March of this year entitled “A European Strategy for Sustainable, Competitive and Secure Energy”. This proposed a strategy aimed at three objectives: security of supply, competitiveness and sustainable development.

This is the start of a process designed to develop a common approach on energy, and articulate it with a common voice with our partners. This will allow us to take the global debate forward more effectively.

The Green paper identifies six areas where concrete action should be necessary.

The first one concerns the completion of the internal European electricity and gas market, which will ensure a level playing field for all the energy market players and contribute to the overall competitiveness of EU industry.

To do this, we propose a single European grid with a common grid code. We also recognise that important further investment is necessary to develop interconnections and generation capacity.

The second priority area concerns the security of supply and solidarity.

We propose to improve network security as well as the physical security of energy infrastructures and ensure a proper monitoring of the demand and supply patterns in the European Union. We propose also to rethink our approach to emergency situations such as gas and oil supply disruptions.

The third priority addresses the issue of the energy mix. We would like to move towards a concrete strategic objective at a European level in terms of diversification of energy resources. For example, this could be a minimum level of secure and low-carbon energy sources in the overall European energy mix.

The fourth task is addressing the challenge of climate change, in a manner which is compatible with economic growth. Here, we will continue our strategy of promoting the energy efficiency measures and use of renewable energy sources, which are at the heart of our energy policies.

Moreover, we would like to see the further development of carbon capture and storage technologies.

The **fifth** priority necessarily concerns the development of **new energy technologies** to support the above objectives. We should streamline the European innovation platforms and head towards a strategic energy technology plan for the EU.

Finally, and last but not least, the **sixth** priority area addresses **external energy relations**, which is a key response to the challenges to energy security of supply presented by rapidly increasing world-wide energy demand and high and volatile prices.

The Green Paper highlights that the European Union will continue to develop its energy co-operation with producer, consumer and transit countries, as well as other international actors.

It emphasised the established pattern of relations with major international energy suppliers.

Deeper energy relations

And it stressed the need to further deepen energy relations with Russia.

This was confirmed by the European Council of 23rd/24th March 2006, which stressed that the Energy Dialogue with the Russian Federation should be revitalised and based on our mutual interdependence on energy issues. It emphasised 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.

We understand that the Russian Federation needs the predictability and certainty that the EU market will, in the medium to long term, take the gas that will result from the huge new investments required.

The EU, on the other hand, needs the transparency and certainty that those investments will be made in a timely manner. This will provide the mutual confidence that needs to continue to underpin our energy partnership.

The EU - Russia Energy Dialogue, in addition to the very effective bilateral co-operation of the EU Member States with Russia, has remained in the centre of our co-operation for the past five years and has achieved a number of concrete, practical and very successful results.

However, we should now explore new ways of enhancing our current relationship with the Russian Federation towards a still deeper energy partnership based on security and predictability for both sides.

Work should start on such an energy initiative. Subsequently the results could be integrated in the framework of EU-Russia relations due to replace the current EU-Russia Partnership and Co-operation Agreement in 2007. Priority should also clearly be

given to rapid ratification by Russia of the Energy Charter Treaty and conclusion of the transit protocol.

Other initiatives

At the same time, the Green Paper has also indicated that the EU will continue to develop its energy cooperation with other partners, including Turkey and Ukraine, which could be encouraged to join the South East European Energy Community.

We also recognise the necessity of enhancing energy relations with the Caspian and Mediterranean countries, which are important hydrocarbon supplier and transit countries.

These are the priorities established in the Green Paper and which were debated at the March Summit of the EU heads of state.

Global perspectives

However, I believe that they are applicable globally. There is today a widespread consensus on the major long-term challenges we are all facing.

We should now agree on how precisely they should be addressed. It is evident, however, that the goal must be robust, long-lasting frameworks, supported by the wide range of players in today's energy world.

We need a constructive dialogue between energy producing, transit and consuming countries with the participation of international energy bodies.

It is in our interests to achieve greater transparency on world and regional markets. We need a better legal framework for the necessary long-term investments, through the rule of law, openness and transparency.

We also need to look at the different aspects of energy markets to ensure that there is real competition and that unnecessary obstacles in the upstream, downstream and transportation sectors are addressed.

This will contribute to meeting increasing global energy demand with an acceptable reliability of supply at reasonable and sufficiently predictable prices. This requires timely investments throughout our energy systems.

Our investments must lead to better, more sustainable energy systems, with a reduced environmental impact.

We will never meet the climate and energy security challenges together without the development and use of a new generation of technologies, allowing both developed and emerging economies to limit greenhouse gas emissions whilst increasing the standard of living of all our citizens.

Global cooperation on research and technological development is important, while keeping firmly in view the objective of their concrete application and take-up by the market.

But energy technologies are only part of the answer. Their take-up in markets worldwide requires an enabling environment. Our future international climate change regime will be of crucial importance for this.

Among the ways of addressing climate and energy security challenges, the improvement of energy efficiency stands out. The European Union will work to achieve action on energy efficiency worldwide through, inter alia, trade and development policies.

For developing countries, an effective energy efficiency policy is likely to be at least as profitable as for developed countries. The European Commission supports the renewed focus on the issue of increasing access to modern energy services in developing countries.

Conclusions

Ladies and Gentlemen,

This new energy landscape of the 21st century implies a globally interdependent world; where we rely on each other for ensuring energy security and stable economic conditions, and for ensuring effective action against climate change.

The European Union and the Russian Federation share the same European continent. As close neighbours and partners, they will become increasingly interdependent. The successes of one will be the success of the other in this relationship.

Energy has played a vital role in the European integration process. Bearing this in mind in the context of the current turbulence in the energy markets, the time is now ripe to demonstrate to our respective public opinions the real value of a full-fledged energy partnership between the Russian Federation and the European Union. I trust that the debate today will contribute to a better understanding of this ambitious but important goal.