‘EU Eastern Enlargement Five Years On: National Interest or European Solidarity - What really matters?’

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The Gas Crisis and Energy Solidarity
The Problem of Energy Solidarity in the Enlarged Europe

«The Problem of Energy Solidarity in the Enlarged Europe»

by Jerzy Buzek

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THE PROBLEM OF ENERGY SOLIDARITY IN THE ENLARGED EUROPE

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The 50th anniversary of the signature of the Treaty of Rome constitutes a good opportunity to discuss the matters related to energy policy and its developments through all these years on the EU level. At this moment energy policy is one of the most important for all the European countries and its role will be increasing in the years to come. A common approach and specific solidarity mechanisms have to be defined urgently if the EU wants to tackle efficiently the energetic challenges.

To a certain extent we can argue that energy was from the very beginning at the core of the European integration process. Already in 1951 Belgium, France, West Germany, Luxembourg, France and Italy signed the Treaty of Paris which founded the European Coal and Steel Community. The choice to merge these economic sectors and control the production of coal and steel was a clear political strategy perceived at that time as the first step in order to guarantee a peaceful and prosperous development of the European continent. It can be considered as the first step towards the creation of a supranational Europe because the Member States agreed to renounce to a big part of their national sovereignty.

Although the Treaty of Rome did not put in place a coherent European energy policy, we have to remember that together with the establishment of the European Economic Community also a second treaty - European Atomic Energy Community - entered into force on 1 January 1958. In this way, the Member States recognized already at that point the shortcomings in the traditional energy sources in Europe and decided to achieve major energy independence investing jointly in nuclear energy. The specific tasks of Euratom included promoting research and investments, establishing uniform safety standards as well as encouraging joint undertakings where the most significant example is the project ITER which is being currently developed in Cadarache in France.

In spite of these positive developments, integrating efforts in the field of energy remained far behind policies like the agricultural or commercial ones even after the series of 1970’s oil crisis which clearly demonstrated the dependence of the industrialized

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countries on the OPEC oil and fully unveiled the dramatic vulnerability of their economies towards price fluctuations on international energy markets.

After the end of Cold War and treaties of Maastricht, Amsterdam and Niece as well as recent enlargements, the situation in the EU has changed and the conditions seem more appropriate for a serious debate on the energy policy to begin and to produce concrete results such as, for example, preventing gas shortcomings which very recently threatened EU economic stability. Indeed, in order to effectively put in place the solidarity mechanisms between the EU Member States, we need more than just a common vision or strategy. An innovative common European energy policy is required.

The reflection upon these matters has recently known a particular acceleration, energy becoming a top priority for the European decision makers. There are several reasons for this. In fact, the energy policy encompasses three main different fields - security of supply, long-term environmental sustainability and obviously the economic impact and competitiveness. While analyzing energy policy on global level one has to consider all these aspects together since they are strictly interconnected and interdependent. Moreover, there is also another side, namely the regulatory one. It refers to the Internal market mechanisms and a possible instauration of a direct solidarity mechanisms system between the Members States.

As far as the environmental aspects are concerned we urgently need not only a European but a worldwide strategy because we’re facing problems deriving from climate change. It is a global issue and needs a global response. Any unilateral approach is automatically doomed to failure from the very start. Therefore also in this context we have to act under the principles of responsibility and solidarity.

World energy demand and consequently the CO2 emissions are expected to rise by some 60% by 2030. It is still unclear to what extent it has a direct impact on our climate but it is sure that the human-induced changes are considerable. The Intergovernmental Panel on Climate Change (IPCC) stated that if no action is undertaken there will be an increase of between 1.4 and 5.8 degrees by the end of this century.

In the EU energy accounts for 80% of all greenhouse gas emission. Reducing the overall emissions level will reinforce EU position on the international scale while negotiating with the supply countries but also with the big consumers.

The European Union became a promoter in combating climate change already since signing the Kyoto Protocol in 1997. In contrast with the position of many industrialized countries and other important energy consumers which haven’t still done it, the EU ratified the document in 2002. Despite the relative failure of the process which set targets for emission reduction for the year 2012, some new talks are already in the pipeline and the EU is playing a crucial role in it. In this context particularly interesting is the EU Emissions Trading Scheme which constitutes the largest initiative of this kind in the world and could serve as an example for any new post-Kyoto arrangement. It follows a very cost-effective and economically efficient way of dealing with this subject and reconciles environmental concerns with business logic.
This involvement certainly reinforces our position both internally and externally. In fact, from one side we are introducing serious advanced energy efficiency measures as well as promoting research in non-CO2 emitting energy sources in our economies increasing at the same time our competitiveness and independence. This action is necessary if we take into consideration that the European Commission esteems that in the next 25 years we will have to invest something like 900 billion euros in sole electricity generation. The sooner we start this process the stronger our condition will be in the coming years. From the other side, on the world-scale, we’re holding a leader position in tackling the challenges put forward by climate change which provides us a fundamental role in shaping the energy policies worldwide.

Obviously we cannot forget to be realistic. Only our economic and industrial strength permits us to be so actively involved in the negotiations leading to a global approach for tackling climate change. Therefore it is essential to preserve a high level of industrial competitiveness while dealing with environmental concerns.

It is important to stress that a fully competitive market can operate only when we deal with an integrated internal energy market which is also a *conditio sine qua non* for the introduction of appropriate solidarity mechanisms between the Member States. For this to be obtained we need to encourage ownership unbundling diminishing the danger of discrimination and abuse coming from vertically integrated companies which often protect national markets and prevent competition.

Another fundamental aspect in order to enhance cooperation between the Member States and enable the introduction of solidarity mechanisms consists in creating an appropriate interconnection plan for energy infrastructure. In this context the Trans-European Energy networks play a crucial role indicating the infrastructure of a truly European character and linking the national fragmented networks. Since they respond to a common interest logic, their funding should receive a special and constant political support in order to ensure an adequate level of electricity interconnections as well as increase gas import capacity from sources in Russia, Norway, North Africa, the Caspian Sea and the Middle East. They should also be integrated and extended in all cases where the appropriate infrastructure is still missing. In order to guarantee the network security new mechanisms for Transmission System Operators should be put in place.

The next concrete step towards providing a common internal energy market is a harmonized and effective regulation in all the Member States which provides a necessary level of transparency increasing competition and investment. The European network of regulators is responsible for defining precisely relevant technical issues and mechanisms related to cross border issues. In this context, particularly delicate seems the possibility of entrance on the European market of economic actors which normally do not follow clear and transparent market rules nor operate in a fully competitive market. This can potentially have opposite side effects: either deteriorating the domestic European context or promoting best standards in third countries. The EU and national authorities have to undertake any action to guarantee that it is the latter option to effectively happen.

*The Problem of Energy Solidarity in the Enlarged Europe*
Therefore there is no alternative to a truly internal energy market because only in these conditions liberalisation and competitiveness could stimulate investment, innovation and fair prices to all citizens. Obviously, the investment will have to concentrate particularly on energy efficiency which is the most obvious and urgent element of a new European energy policy and on increasing the share of renewable energy sources. Renewable technologies are fundamental in obtaining more independence from the side of the EU. It will have a direct impact on creating jobs through the formation of a knowledge-based economy which will certainly contribute to broader European policy objectives fixed already in Lisbon in 2000.

In order to be able to introduce innovative solutions in the energy market we cannot do without a strong R&D basis. Thus, research and development activities are important not only for the competitiveness of the energy sectors but also in a long-term perspective for a well balanced energy mix which could guarantee a high level of energy security for Europe. We cannot think seriously about reaching an appropriate degree of diversification of energy sources if we do not develop breakthrough technologies in the fields of renewables, nuclear or CO2 capture and storage. Also the question of energy efficiency plays here a crucial role.

The EU Member States realized that and decided to act jointly increasing significantly the European research budget. The 7th Framework Programme for Research and Development became an EU policy with the highest financial increase in respect to the previous (2000-2006) financial perspective. The overall budget dedicated to R&D amounts to 54.5 bln euro, the energy part being together with the part devoted to research on nuclear (EURATOM) a consistent part of it with a financing of 6.3 bln euro. By making it one of the most important priorities for the research programmes, EU leaders sent a clear signal that they want to consider energy as a common problem in a long-term perspective.

FP7 addresses the pressing challenges of security of supply and climate change providing at the same time appropriate tools for european industry to increase its competitiveness. Its main objective is to create an innovative and sustainable energy system based on a diverse portfolio of energy sources.

That is why the scope of the Programme is very broad. In its main part it tackles the themes related to the increase of the share of renewables in european economy and development of technologies for energy efficiency. The impellent problems of zero emission power generation are faced mainly through the development of CO2 capture and storage technologies. The activities dealing with fossil fuels are completed by the part devoted specifically to clean coal technologies. FP7 considers also specific activities for the realization of the vision of a hydrogen economy.

A separate part is constituted by the part EURATOM which is dedicated particularly towards the research project designed to demonstrate the scientific and technological feasibility of a full-scale fusion power reactor. This potentially inexhaustible energy source would be an enormous step towards combating climate change or increasing security
of supply and it’s important that it is contemplated also by the EU as a whole and not only by single Member States.

Research and innovation are thus crucial for environmental protection and for competitiveness of European industry. Probably in a long-term it is the most important factor for Europe and it is necessary to undertake joint EU initiatives in this field because we can face the global challenges only by pooling our national resources.

However, what has to be addressed immediately is the question of security of supply which refers to the availability of fossil fuels which at this moment constitute still the core element of our energy consumption. This is certainly an area where Europe is not so well placed since it is lacking these resources. Our import dependency is rising. So does the price of oil and gas which is additionally subject to a very high volatility not to mention political pressures.

Currently the EU energy import dependence is around 50% of total consumption and presents a clear rising tendency. Without any drastic changes it could reach the levels of 60% to 70% until 2030. For oil and gas these numbers could pass from respectively 82% and 57% to 93% and 84%. Moreover, it has to be underlined that in many cases this import comes from regions politically unstable. If one adds to that the fact that the very nature of the international energy market tends to endanger competitive mechanisms because of high ownership concentration, we get a full picture of this complicated scenario.

Taking into consideration these factors we cannot avoid political connotations. More than three-quarters of current EU gas consumption comes from three countries only - Russia, Norway, and Algeria. Though, relations with just one of these partners could be described as perfectly stable and durably solid.

With a high certainty we can affirm that in the next decades the electricity generation will continue to depend heavily on gas. And the electricity demand is growing 1.5% per year. On the other hand, the transport sector will continue to rely on oil. Therefore, the security of supply of these fuels will remain fundamental for the EU energy system.

That is why the EU should put in place a coherent and dynamic external EU energy policy. It is necessary to point out that the real debate about these issues has just opened up and we are still far from a final definition of its shape.

After the supply crisis caused by the deterioration of relations between Russia and Ukraine at the beginning of 2006 and with Belarus later that year now everybody in Europe is aware of what the security of supply stands for. And it is surely surprising to many our citizens that we have a common EU agricultural policy in times when we do not have any problems with food production and no truly common energy policy in times when we’re seeking the energy sources all over the world.

We have to admit that appropriate solidarity mechanisms between the Member States are not yet in place even if European reliance on imported oil and gas is in constant increase and if nothing is done this trend will continue in the future. Dependence on imported oil and gas will be a major issue for the future.
However, some concrete principles have already been identified by the European institutions and now they have to be concretely implemented. Whatever these steps are, they must be inspired by principles of transparency and good governance. That is particularly important while dealing with third countries which present unstable domestic internal features. A legal framework should be set in order to enable investment and trade in a long-term perspective avoiding any discrimination measures. Then, there is the question of production and export capacities of the suppliers which have to be enhanced with compliance with international security and environmental standards. The possible involvement of European investment could be crucial in obtaining these goals. Obviously equally important is the issue of transportation infrastructure which has to be constantly improved. Also the promotion of strategic reserve stocks, including the joint holdings with partner countries should be treated as a priority.

A separate problem is the one concerning the diversification of energy sources, their geographical origin and transit routes. It consists in bringing gas from new regions and through new corridors, creating new storage capabilities or encouraging the construction of new liquid gas terminals.

To reach these objectives the EU is currently using a broad range of instruments starting from political dialogues and Community policies such as trade, development, competition, research and environment and ending with financial tools under the form of grant and loans provided by the European Investment Bank.

There are several ways in which to obtain a high degree of energy security. Proposals have been made in relation to the Energy Correspondents Network or the Gas Coordination Group, improvement of the strategic oil stocks mechanism - in coordination with other OECD countries through the International Energy Agency, increasing the infrastructure investment.

Solidarity mechanisms between the EU Member States when it comes to energy are necessary not only because we form a union of 27 different countries in which such an attitude should be obvious. Indeed our economies are already strictly interdependent and a crisis in one group of them can be extremely harmful to all the others and jeopardize the prosperous development of the whole Union. That is particularly dangerous if one takes into consideration the role energy has for any economy in the world. But these mechanisms should be extended also to other countries which are outside the EU borders.

An example of such an initiative is the INOGATE Programme - Interstate Oil and Gas Transport to Europe which is a particularly interesting instrument for supporting the objective of the security of energy supply in a very vast and deep context. It comprises both EU as well as the countries from Eastern Europe, Caucasus and Central Asia. This international cooperation programme is targeted at promoting the regional integration of the pipeline systems and facilitating the transport of oil and gas both between NIS (New Independent States) region and towards the export markets of Europe. Its activities are crucial from the long-term perspective since they encourage the participation of private investors and international financial institutions in these pipeline projects.

In principle it does not provide direct financial contribution but acts as a catalyst for private funding. In order to obtain its goals, INOGATE tries to minimize the investment
the investment secure, legal and - last but certainly not least - profitable. The security of supply of all participating countries is due to increase thanks to both - enhancing safety and security of existing hydrocarbon network and promoting new investment in its extension. In this context, a high degree of synchronisation is necessary for the construction as well as the subsequent operation of the system.

As from the beginning of 2007 INOGATE works without geographical constraints present under TACIS and is incorporated among the activities carried out under the new external EU technical assistance financial instrument “European Neighbourhood and Partnership Instrument”. The cooperation will be ultimately strengthened in the years to come and all the Participating Countries will increase their ownership of the Programme through additional contributions.

The scope and content of the future bilateral negotiations and agreements with third countries will determine the form of the EU external energy relations. The cooperation in this field has to be based on mutual trust, interdependence and cooperation. Under international law such a multilateral framework for energy cooperation is provided by the Energy Charter Treaty which entered into force in 1998. Its main objectives consist in protecting foreign investments, enhancing non-discriminatory conditions for trade in energy materials, enabling disputes settlement as well as promoting energy efficiency.

The Charter is often mentioned in relation to the EU-Russia energy relations where the latter is one of the few signatories who haven’t yet completed the ratification process. More than a quarter of all oil and gas consumed in the EU comes from Russia. On the other hand Russia has in Europe a reliable economic partner and has a vast pipeline system already operating which permits a consistent export of its fuels to the European markets. The bilateral relation has to be then considered as an interdependence rather than purely a dependence.

In the past there was sometimes no common understanding of these issues between the Member States which get involved in the negotiations individually in disregard to the reservations expressed by other EU countries. The Northern pipeline is perhaps the best example (producing the worst results) in this context. Whatever its intrinsic value might be, it is certainly not a project which expresses the principles of solidarity and common interest of the EU Member States.

The situation has slightly changed after Russian price disputes with transit countries which interrupted supplies to several EU Member States. It went even worse later on because of Moscow continuous refusal to ratifying the Energy Charter which would give foreign investors greater access to Russian’s oil and gas deposits and export pipelines. Moreover doubts concerning competition and transparency are also being raised in relation to the Russian energy market.

The future development of the EU relations with its major supplier and our ability to speak with one voice in the external energy relations field will soon give us an answer on whether we are able or not to introduce concrete and effective energy solidarity mechanisms in an enlarged Europe.
A European Union-brokered deal to monitor the Ukrainian gas pipeline was meant to turn the gas flow back on, but it was not until Russia and Ukraine resolved a bilateral price dispute that natural gas again started flowing west.

As of press time Jan. 20, Russia had turned on the taps, and the first deliveries had reached Slovak pipelines.

The recent Ukraine-Russia gas row, which cut off supplies to parts of Europe for more than two weeks, again raised questions about the reliability of Europe's present supply lines and the EU's ability to influence key actors, sending the Czech Republic and its neighbors searching for longer-term solutions.

In Slovakia, the quick-fix was a proposal to restart a nuclear reactor at Jaslovské Bohunice, a plan that faced strong EU opposition before eventually being scrapped.

"There is no reason at the moment to re-launch the second V1 nuclear reactor at the Jaslovské Bohunice nuclear power plant," Slovak Prime Minister Robert Fico said on a Jan. 18 television talk show.

The Slovaks, however, did not eliminate the possibility of restarting the reactor in the event of another future energy crisis, a move that would break the country's EU accession treaty. Slovak Foreign Affairs Minister Jan Kubiš was in Austria Jan. 15 still trying to allay safety concerns related to the Soviet-era facility. The last reactor at the plant was shut down Dec. 31, 2008.

Natural gas is Slovakia's largest source of energy, totaling about 28 percent of use, according to Hiroshi Hashimoto, a natural gas specialist with the Paris-based International Energy Agency. Nearly 100 percent of Slovakia's natural gas supply comes from Russia.

The Czech Republic, by comparison, is both less dependent on natural gas in general and more diversified in terms of sources. In 2007, the latest statistics available, the country counts on natural gas for 16 percent of its total energy supply. Russia supplies...
79 percent and Norway contributes most of the rest. While many are quick to condemn Russia over the recent energy crisis, about 80 percent of Russian gas exported to Europe passes through Ukrainian territory. About two-thirds of Gazprom's revenue comes from gas sold after transiting Ukraine, according to a recent study by the Center for Strategic and International Studies in Washington, D.C. "On the whole [Ukraine] is not a reliable country," says Petr Kratochvíl, a Ukraine and Russia expert at the Prague Institute for International Relations. "The basic problem is that there is not a single voice. The internal political situation is a permanent political deadlock."

As instability in Ukraine increasingly worries Europeans about its reliability as a transit country, various gas-access options are on the table. The proposed North Stream pipeline would bring natural gas from Russia under the Baltic Sea to Germany, then onward to the Netherlands and the United Kingdom. The so-called South Stream pipeline would bring Russian gas through the Balkans to Italy. A proposed Nabucco pipeline would bring Central Asian gas through Turkey and into the EU. None of these options is near implementation, and all face practical and political hurdles.

Czech Energy Envoy Václav Bartuška has publicly advocated the idea of using liquefied natural gas, which is cooled and shipped in tanks, as a means of bypassing future pipeline problems. Coby van der Linde, director of the Clingendael International Energy Project in The Hague, is skeptical. "The quantities are much smaller. It's just not physically possible," she said.

Coal, a fuel that presently covers nearly half of the Czech Republic's energy use, has been decreasingly popular in recent years, but new technologies could be making it viable again.

"Even though coal is very negative on the environment, if we can store the carbon dioxide somehow, we can use more coal," Van der Linde said.

Green energy options are increasingly popular, at least rhetorically, and Van der Linde points to Denmark as an example of a country formerly dependent on coal and now a world leader in wind energy. Progress on the Slovak option, nuclear power, has been slowed in recent decades "very much by the Chernobyl event," Van der Linde said.

France, however, became a nuclear innovator in response to the first and second oil crises, Van der Linde said.

Locally, both the Civic Democratic Party (ODS) and the Social Democrats (ČSSD) support expanding sources of nuclear power. The Greens (SZ) have slowed progress as part of their governing coalition agreement, but incoming Green Humans Rights and Minority Minister Michael Kocáb has said he would support a change in party position.

Separately, the largest state-owned energy company, ČEZ, announced plans Jan. 20 to build two new nuclear reactors in Dukovany by 2035. "Nuclear energy is a political risk, but this is changing because of the environmental discussion," Van Der Linde said.

The Czech Republic has made energy policy a priority of its EU presidency. During the gas row, Prime Minister Mirek Topolánek engaged in shuttle diplomacy between Moscow and Kyiv. While most laud the effort, there are questions as to the concrete results.

"The EU's role was quite weak and the monitors were more symbolic. All the trumps were in the hands of Russia and Ukraine," Kratochvíl said. "They somehow just meet behind closed doors but never know what the agreement is about."

Russian Prime Minister Vladimir Putin says the EU monitors are no longer needed because the price dispute has been settled. Kratochvíl says he is skeptical of whether the Russian-Ukrainian agreement will be honored, as the agreement is not public and various murky special interest groups on both sides persist.

Van der Linde has her own questions, mainly as to whether the EU will ever be able to have a cohesive, comprehensive energy policy. France, for example, is a strong proponent of nuclear energy, while Germany seeks to increase its access to Russian natural gas. "Member states have reaffirmed their sovereignty over energy mix," she said. "Maybe it is good that some countries are specialized."

Rather than a singular EU energy policy, she advocates power plants that can operate with more than one fuel - gas and oil, for example - and a Europe-wide "joint-crisis mechanism" to deal with shortages.
"That is something we can do," she adds. "And now."

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EU Energy Security and Solidarity Action Plan: 2\textsuperscript{nd} Strategic Energy Review

1. Why the strategic energy review?
Europe has agreed a forward-looking political agenda to achieve its core energy objectives of sustainability, competitiveness and security of supply, by reducing greenhouse gas emissions by 20\%, increasing the share of renewables in the energy consumption to 20\% and improving energy efficiency by 20\%, all of it by 2020. This agenda means very substantial change in Europe's energy system over the coming years, with public authorities, energy regulators, infrastructure operators, the energy industry and citizens all actively involved. It means choices and investments during a time of much change in global energy markets and international relations. Europe's political leaders need to give clear messages on the energy strategy. Hence the Strategic Energy Review.

2. The EU approach to energy security
Energy security is an issue of common EU concern. With the integration of energy markets and infrastructures within the EU, specific national solutions are often insufficient. And while each Member State is in the first instance responsible for its own security, solidarity between Member States is a basic feature of EU membership. Strategies to share and spread risk, and to make the best use of the combined weight of the EU in world affairs can be more effective than dispersed national actions.

From a medium to long-term energy security viewpoint, the EU's 20-20-20 strategy is the right direction to go in. An energy system with a diversity of non-fossil fuel supplies, flexible infrastructures and capacities for demand management will be very different in energy security terms than today's system.

In the short to medium term, Europe's dependence on imports means that effective provisions for preventing and dealing with supply crises must be in place. Europe can and must diminish its vulnerability to energy supply shocks, first and foremost by developing its own strengths, internally and externally.

3. EU energy security and solidarity action plan
The Commission proposes a five-point EU Energy Security and Solidarity Action Plan:
- 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.
Promoting infrastructure essential to the EU's energy needs

The 3rd internal energy market legislative package encourages investments in infrastructures, notably cross-border infrastructures. The Commission considers that a number of infrastructure developments should be recognised as energy security priorities of the Community:

- Development of a Baltic interconnection plan, better linking the region with the rest of the EU, improving the security and diversity of its energy supply, enabling solidarity;
- Development of a Southern Gas Corridor for supply from Caspian and Middle Eastern sources and possibly other countries in the longer term, improving security of supply;
- As liquefied natural gas (LNG) is now contributing to diversity of gas supply, sufficient capacity should be available to all Member States, either directly or through other Member States on the basis of solidarity arrangements; particularly important for the Member States which are currently overwhelmingly dependent on a single gas supplier; an LNG Action Plan to be considered;
- Completion of a Mediterranean energy ring, linking Europe with the Southern Mediterranean through electricity and gas interconnections to improve energy security and to help develop the vast solar and wind energy potential;
- Development of North-South gas and electricity interconnections within Central and South-East Europe, building on the Energy Community inter alia, supporting the national energy regulators and Transmission System Operators;
- Development of a blueprint for a North Sea offshore grid, interconnecting national electricity grids and plugging in planned offshore wind projects.¹

The Trans-European Energy Networks (TEN-E) instrument and its budget were conceived and developed when the EU was considerably smaller and faced energy challenges of a completely different dimension compared to today. The Commission is tabling a Green Paper that launches a reflection on how the existing TEN-E instrument could be replaced by a new, the EU Energy Security and Infrastructure Instrument with the possible objectives of completing the Internal Energy Market, ensuring the development of the grid to permit the achievement of the EU's renewable energy objectives and guaranteeing EU security of energy supply, through 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.

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

The EU needs 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 ensuring its construction, and acting coherently to deepen its partnerships with key energy suppliers, transit countries and consumers. The Commission will identify the concrete mechanisms necessary for ensuring transparency between Member States and the EU, so that a common message can be constructed.

¹ See European Coordinator's report and the Communication "Offshore wind Energy: Actions needed to deliver on the Energy Policy objectives for 2020 and beyond"
In substance, with energy interdependence of countries growing, international frameworks are needed which are capable of sustaining the major investments and innovations needed in the coming years. The European Economic Area and the Energy Community with our neighbours provide very good bases. Effective cooperation with Norway, part of the European Economic Area, is essential for EU energy security. A framework for cooperation is also provided by the Energy Community which is building an integrated energy market in South-East Europe anchored to the EU. If negotiations are successful, the accession of Ukraine, the Republic of Moldova and Turkey to the Energy Community would catalyse their energy sector reforms and create a mutually beneficial enlarged energy market based on common rules.

With producer countries outside Europe - notably Russia, Caspian countries - we need to develop a new generation of "energy interdependence" provisions in our broad-based agreements. As much as Europe seeks security of supply, external suppliers and industry seek security of demand. The increasingly important role of Africa in the EU energy security needs to be assessed.

The EU-OPEC Energy Dialogue recognises the common interests of producer and consumer countries in encouraging regular supply at affordable prices.

Relations with other consumer countries are important in energy security. Cooperation needs to be deepened, promoting a common view on global energy security and addressing sustainability. Progress on a global climate deal could be a powerful driver of cooperation and change worldwide.

**Improved oil and gas stocks and crisis response mechanisms**

The Commission proposes a revision in the EU's strategic oil stocks legislation, improving coherence with the International Energy Agency regime, reliability and transparency on available stocks and clarifying emergency procedures. To improve oil market transparency, the Commission proposes that the EU publish weekly, on an aggregated basis, the level of commercial oil stocks held by EU oil companies.

The Commission, after its evaluation of the Directive on Security of Gas Supply concludes that greater harmonisation of security of supply standards and predefined emergency measures at regional and EU levels are needed. The threshold for triggering EU action should be reconsidered and compensation arrangements should be clarified. The Commission considers that there is insufficient evidence at this stage for making strategic gas stocks obligatory. A revision of the Directive on Security of Gas Supply\(^2\) may be tabled in 2010.

**A new impetus on energy efficiency**

The 2006 Energy Efficiency Action Plan will be evaluated in 2009. In the meantime, a 2008 Energy Efficiency Package is being tabled, focused on improvements in the legislation on the energy performance of buildings and on energy labelling as well as intensification of the implementation of ecodesign and cogeneration Directives. These are all areas in which energy efficiency improvements can be achieved, with substantial impact on Europe's energy consumption and energy security. A new Sustainable Energy Financing Initiative is being prepared jointly with European Investment Bank and other financial organisations, to mobilise large-scale funding from capital markets for investments in energy efficiency as well as renewable energies, clean use of fossil fuels and combined heat and power from renewables in Europe's cities.

Making better use of the EU's indigenous energy reserves

Indigenous production currently provides 46% of the energy used in Europe. The EU's greatest potential source of indigenous energy is renewable energy. Today it accounts for about 9% of final EU energy consumption and the agreement is to raise this to 20% by 2020. Technology is crucial in developing and using our resources in a cost-effective and environmentally-sustainable way so our next step in the Strategic Energy Technology Plan will be a Communication on Financing Low Carbon Technologies. This will propose ways to support large scale demonstrations at EU level, including up to twelve Carbon Capture and Storage (CCS) demonstration plants. Europe's aim to have up to twelve commercial scale demonstration plants in operation by 2015 and the G8 commitment to launch twenty demonstration plants globally by 2020 will require greater incentives than currently available. Use of coal in the longer run is only compatible with climate challenge if highly-efficient plants predominate and CCS is widely available. The Berlin Fossil Fuel Forum will look at which additional measures could be taken at Community and national level, and in partnership with Norway, to promote cost-effective and environmentally-compatible access to indigenous EU fossil fuels.

It is for each Member State to choose whether or not to invest in nuclear energy. However, the nuclear safety and security framework applied everywhere in the EU is of common interest. A common legislative framework on the safety of nuclear installations and the management of nuclear waste is needed. The Commission is tabling a revised proposal for a Directive on nuclear safety.

4. Towards a vision for 2050

The EU's agenda for 2020 has set out the essential first steps in the transition to a high-efficiency, low-carbon energy system. The EU needs to develop a vision for 2050 and a policy agenda for 2030. The fundamental technological shifts involved in decarbonising the EU electricity supply, ending oil dependence in transport, low energy and positive power buildings, a smart interconnected electricity network will only happen with a coordinated agenda for research and technological development, regulation, investment and infrastructure development. In addition, the transition to a high-efficiency, low-carbon energy system needs to be promoted not only in Europe but worldwide. The Commission will prepare in the framework of the Strategic Energy Technology Plan a Roadmap towards a 2050 Energy Policy, in dialogue with Member State officials, academics and industry experts.

More information here.

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3 Nuclear energy is included as the fuel represents only a small part of the value of the energy.
5 http://ec.europa.eu/energy/oil/berlin/index_en.htm
Gas crisis grips central-eastern Europe amid arctic freeze

Gas supplies - pipeline photo

(VIENNA) - Gas shortages were beginning to bite Tuesday, putting several eastern European countries in crisis mode after imports from Russia were cut just as freezing winter weather set in, boosting demand.

Bulgaria, nearly totally dependent on Russian gas, said the spat between Kiev and Moscow which has jeopardised supplies to Europe, had plunged it into "a state of crisis" while Slovakia, in a similar position, declared an energy emergency.

Russia cut supplies to Ukraine on January 1 and then cut back further as it accused Kiev of "stealing" gas meant for onward transit to customers in Europe.

Hungary and Bosnia said their supplies from Russia had stopped entirely.

Austria, Croatia, Czech Republic, Greece, Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia and Turkey all reported deep cuts in supplies, too.

Bulgarian Prime Minister Sergey Stanishev said he had issued sharp protests to both Russia and Ukraine.

In telephone calls with Russian Prime Minister Vladimir Putin, Ukrainian Deputy Premier Hryhoriy Nemyria and Gazprom chief Alexei Miller, "I was very categorical in my portrayal of the gas crisis in Bulgaria," Stanishev said.

"It is not right to hold Bulgaria and the other countries in the region hostage to this conflict."

Temperatures in Sofia were as low as minus nine degrees celsius on Tuesday, while the thermometer sank as low as minus 21.6 degrees in the northern town of Knezha.

A number of tenants in downtown Sofia claimed the heating companies had significantly turned down the central heating to their buildings.

"Of course, we are worried. There are children and elderly people who cannot go without heating," one tenant said.

Amid appeals by the government for companies and households to seek alternative fuel for their heating, many people switched to electricity.

But that overloaded the grid, triggering a number of power outages on Tuesday afternoon.

In Hungary, Russian gas deliveries via Ukraine ceased completely on Tuesday and Energy Minister Csaba Molnar said the government had informed Serbia and Bosnia, whose gas is delivered via Hungary, that their supplies would be halted too.

Molnar described the situation as critical and factories had been requested to switch to alternative fuels.

Elsewhere in the region, there were sharp falls in gas deliveries but governments said they had sufficient gas reserves for the time being.
Czech Prime Minister Mirek Topolanek said: "I wouldn't consider the situation critical (...) gas storage (tanks) are still full."

In Croatia, which receives its Russian natural gas through pipelines from Austria, officials said deliveries had ceased completely.

As temperatures hovered around minus 20 degrees Celsius, Croatian oil and gas group INA called upon all consumers to use gas sparingly.

The economy ministry said reductions were to start for Croatia's big industrial consumers but households as well as schools, hospitals and other institutions of public importance would not be affected immediately.

Further southeast in Macedonia, deliveries had also stopped but that would not have "any serious consequences" in the near future as the country "generally does not use much gas," said Premier Fatmir Besimi.

Separately Bosnia, which gets all of its gas from Russia, delivered via pipelines across Ukraine and Hungary, announced its supplies were reduced by one half.

In Slovenia, the national gas supplier Geoplin said supplies were down by as much as 90 percent earlier on Tuesday, even if the situation had since improved slightly.

Austria, which has one of the biggest gas platforms in Europe, was due to receive just 10 percent of its normal gas deliveries, according to oil giant OMV.

The current dispute underlines the importance of the EU-backed Nabucco gas pipeline project, said the project's chief Reinhard Mitschek.

Nabucco is a 3,400-kilometre (2,112-mile) pipeline between Turkey and Austria that will transport up to 31 billion cubic metres of gas each year from the Caspian Sea to western Europe, bypassing Russia.

It has so far proved slow-moving with the necessary approvals and agreements between the countries concerned still to be signed.

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Gas crisis grips central-eastern Europe amid arctic freeze — EUbusiness.com - business...
Lithuania will lead efforts by several European Union members to oblige all EU countries to share energy resources in emergencies as part of any new treaty for the bloc, a Lithuanian government official said.

The Baltic state wants the so-called "solidarity clause" on energy to be included in the proposed EU treaty that the bloc's leaders will discuss at a summit on Thursday and Friday in an attempt to replace a rejected draft constitution.

"For us, the issue of energy security is of paramount importance. It should be included in the new EU treaty and we will press for that," Lithuania's deputy foreign minister, Zygimantas Pavilionis, said in a phone interview on Wednesday.

The draft mandate for negotiating the treaty, circulated by the German EU presidency on Tuesday evening and obtained by Reuters, omits the issue of energy solidarity.

"We will work to include this provision in the final version of the mandate," Pavilionis said.

Similar demands have been made by neighbouring Poland and some other mostly ex-communist countries that joined the EU in 2004. They fear Russia may try to exert political pressure on them by using its position as their main energy supplier.

"Russia may not be a reliable supplier ... but the EU's energy solidarity is not aimed against Russia," Pavilionis said.

Russian crude oil pipeline monopoly Transneft (TRNF_p.RTS: Quote, Profile, Research) shut the Druzhba link to Mazeikiu Nafta MNF1L.VL -- the only refinery in the Baltic states -- following a reported leak last July, and has not restored it yet.

The shutdown occurred after Polish oil firm PKN Orlen PKNA.WA bought Mazeikiu, beating Russian rivals.

Germany, which holds the EU's six-month rotating presidency, hopes to clinch a preliminary deal at the summit on a treaty to replace the constitution rejected by France and the Netherlands in referendums in 2005.

The EU's 27 members committed themselves in March to trying to secure a final agreement on the treaty by the end of this year. It is intended to overhaul
the Union's institutions and make the bloc more efficient following its enlargement.
**Piping Gas**

Two major gas pipeline projects, the EU's Nabucco and Russia-backed South Stream, aim to meet Europe's soaring gas needs as it seeks new supply routes.

The two projects, which were at the centre of a gas summit in Sofia on Friday and Saturday, will supply European consumers with natural gas from producers in Russia, the Caspian region, Central Asia and the Middle East, via a new so-called "southern corridor" through Turkey and under the Black Sea.

Here are some facts about the two pipelines:

**NABUCCO**

- Route: 3,300 kilometres (2,050 miles) from the Caspian Sea via Turkey, Greece, Bulgaria, Romania, Hungary to a distribution platform in Baumgarten, Austria.
- Maximum capacity: 31 billion cubic metres of gas per year (in 2019)
- Planned opening: 2014, provided construction kicks off in 2011
- Estimated cost: 7.9 billion euros (10.46 billion dollars)
- Shareholders: Austria's OMV, Germany's RWE, Turkey's Botas, Bulgaria's Bulgargaz, Hungary's MOL, and Romania's Transgaz

**SOUTH STREAM**

- Route: 900 kilometres of underground pipeline from Russia to Bulgaria under the Black Sea, branching off northwest to Austria and south to Greece and Italy
- Maximum capacity: 31 billion cubic metres of gas per year
- Planned opening: 2013 (or 2015 according to Russian press reports)
- Estimated cost: 10 to 15 billion euros
- Shareholders: Russia's Gazprom and Italy's ENI
- Transit Partners: Bulgaria, Greece, Serbia, Hungary
Poland Wants EU Energy Solidarity Pact Tightened

Poland wants to force the European Union to respond more quickly if Russia cuts off gas supplies to any member state, according to a report. Warsaw is also concerned that EU emissions reductions targets could increase the country's reliance on Russian gas.

Poland has peered into the looking glass, and it doesn't like what it sees: Russia invading South Ossetia in Georgia, Moscow using its gas as a political weapon and Germany helping to build an undersea pipeline that will bypass the east to pump needed Russian energy resources into Western Europe.

Like many other Eastern European countries, Poland relies very heavily on Moscow for natural gas, with 43 percent of domestic consumption covered by Russian supplies. In Warsaw, politicians fear Russia could unilaterally cut off gas supplies to the country. According to the Polish daily Gazeta Wyborcza, Prime Minister Donald Tusk is preparing to propose an amendment to the European Union energy solidarity pact that would require all member states to intervene and provide mutual assistance if Russia were to cut off 50 percent of gas supplies to any EU member state, even the smallest ones. Warsaw fears that the country could be left in the lurch by its EU allies if Russia were to stop supplying it with gas for political reasons.

Under the current solidarity clause, member states are only required to step in when over 20 percent of EU-wide gas supplies are threatened.

Tusk's report also recommends defining an interruption of longer than four weeks in winter or six weeks in summer as disruptions. Under the current clause, that period is eight weeks, regardless of the season. The proposal also calls for the EU to require member states to maintain oil and gas reserves and for Brussels to co-finance development of energy infrastructure.

Poland currently generates 96 percent of its electricity using emissions-intensive coal-fired power plants. New EU plans for cutting emissions call for utility companies to begin purchasing emissions trading certificates for the pollution they generate starting in 2013. The certificates are currently free and Poland has argued that the auction-based trading system should be phased in, with exemptions for the country's coal-reliant utility companies. Warsaw argues that if the regulations are passed, it will be required to increase its reliance on Russian natural gas supplies -- further exacerbating its vulnerability. The government also maintains that its energy security is as important as protecting the climate.

On Tuesday, however, Poland failed to create a blocking minority to prevent the measures from passing a key vote in the European Parliament's environment committee. But that vote isn't binding and a final decision on the package, which aims to reduce EU-wide carbon dioxide emissions 20 percent by 2020, will be made by the member states at the European Council later this year or in early 2009.

According to Gazeta Wyborcza, Polish officials will seek support for the change to the solidarity pact, which was already proposed once in 2005, from the French government. French support, the paper argued, would make it difficult for Berlin -- which is currently planning an undersea pipeline to deliver gas directly from Russia to Germany -- to thwart the proposal.

rbn -- with wire reports

URL:
http://www.spiegel.de/international/europe/0,1518,druck-582926,00.html
Nord Stream – making more European energy solidarity possible

By Reiner Zwitserloot

Wintershall is proud to participate in the Nord Stream project. Nord Stream stands out from many other pipeline projects as an European project by its very structure, being realized in partnership with Gazprom, E.ON Ruhrgas and Gasunie, all of them international energy companies with great technical expertise. With its first pipeline grid scheduled for commissioning in 2011, a transport capacity of about 27.5 billion m³/year of natural gas will be created. With the second phase being completed in 2012, that transport capacity will be doubled. This goes along with investments of 7.4 billion €.

But why does Europe need Nord Stream? Why is there no reasonable alternative guaranteeing European energy security? A focus on the global energy market gives an unequivocal answer.

As the world’s second largest consumer of energy and the largest energy importer, the European Union (EU) possesses an important competitive advantage: about 80% of the world’s reserves of natural gas and crude oil are in a radius of about 4500 km of the EU. This is particularly important in view of both the rapidly rising demand for energy globally and the efforts of emerging economies like China and India to make up for their lack of raw materials by securing direct access to oil and gas reserves. One thing is for sure: Europe must be proactive. Energy security is not just going to come knocking on Europe’s door.

Another fact has to be accepted: European supply cannot be guaranteed solely on the basis of renewables. According to the latest reference scenario of the International Energy Agency, the proportion of fossil energies in Europe will remain stable at about 80% until 2030. Thus fossil fuels are the backbone of European supply security for this generation and the next. Among fossil fuels, natural gas stands out because of its high energy efficiency and its relatively good environmental properties. The increased substitution of natural gas for other fossil fuels has made the biggest single contribution to reducing CO² emissions in Europe since 1990.

However, the contribution of natural gas to climate protection will only be brought to bear if Europe succeeds in meeting its growing need for gas imports. With EU production set to fall by 100 billion m³ by 2020 and demand forecast to grow by about 100 billion m³ at the same time, the EU faces the challenge of securing access to new natural gas reserves. An impartial view at the world map clearly indicates where additional gas can come from: Norway will on the whole merely be able to maintain its share of European gas supplies until 2020. Africa will be able to increase gas deliveries in the longer term, but it will by no means be able to fill the looming import gap. LNG will make a note-worthy contribution to the EU’s gas supply, but intense competition for LNG is also expected. The Caspian Sea Region including Iran and Iraq does, indeed, have major reserves of natural gas, but it will not be able to make up for the import deficit. With up to 30 billion m³, at the most just 5% of the overall requirements of the EU-27 could be covered via the Nabucco project in 2020.

Hence it is clear that a really substantial increase in gas imports cannot realistically be achieved without Russia: Russia has the world’s largest proven natural gas reserves and is also “within pipe-line distance” for Europe. Forecasts predict that Russia will be able to increase its gas exports to the EU from its current level of 130 billion m³ to around 190 billion m³ by 2020, so by 50%. That increase cannot be achieved without a transportation network expansion. The Nord Stream pipeline will contribute to that expansion, creating a diversification of existing import routes from Russia to the European Union. Nord Stream certainly does not see itself as competition to other major pipelines like Nabucco and doesn’t make these superfluous either. The realization of all these pipeline projects is essential for securing Europe’s supply. Despite its enormous proportions, the Nord Stream pipeline would “only” be able to cover about 8% of the EU-27 gas demand in 2020. Nonetheless, the additional volume liquidity of 55 billion m³ brought into the European market will have the important effect to help buyers, even if they are not interested to buy Russian gas, to get gas from other sources at reasonable conditions.

Transporting gas over offshore pipelines is an environmentally sound and safe method of transport, as decades of experience with the complex network of underwater pipelines in the North Sea have documented. As an offshore pipeline, Nord Stream will avoid environmentally sensitive areas such as forests as well as populated areas. Compared to an overland alternative, Nord Stream not only represents the “shorter” route with lower operating costs, but also – due to the small number of compressor stations necessary – lower CO₂ emissions during operation.

Because of its overwhelming importance for supplying Europe, the Nord Stream pipeline was included in the Trans-European-Energy Network’s (TEN-E) list of “priority projects of European interests” in June 2003 (reconfirmed in September 2006).

One fundamental aspect, often forgotten in the current debate, needs to be highlighted: Nord Stream offers opportunities for solidarity in energy supply throughout Europe. For Poland, e.g., the construction of the Nord Stream pipeline with its onshore links in Germany (OPAL and NEL) will provide several possibilities for connecting the Polish and the German pipeline systems. This would firmly integrate Poland into the European pipeline grid, since the German gas pipeline system today is already linked directly to the major European transit pipelines from the North Sea and is also networked with the European trading points for natural gas in Belgium, the Netherlands and the UK. Only by providing infrastructure, material chances for solidarity in energy supply throughout Europe can become reality!

Reinier Zwitserloot

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