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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE  
COUNCIL AND THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE**

**Implementation of the Communication on Security of Energy Supply and International  
Cooperation and of the Energy Council Conclusions of November 2011**

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# **REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE**

## **Implementation of the Communication on Security of Energy Supply and International Cooperation and of the Energy Council Conclusions of November 2011**

This report reviews the main achievements regarding the external aspects of the EU energy policy since 2011. It was prepared by the Commission services in cooperation with the European External Action Service.

### **1. INTRODUCTION**

Secure, sustainable and competitive energy is of fundamental importance to the EU economy, industry and citizens. Achieving these policy objectives requires EU action internally and the appropriate instruments to promote EU interests abroad.

To strengthen the external dimension of the EU energy policy, the Commission adopted on 7 September 2011 a Communication on security of supply and international cooperation: "The EU Energy Policy: Engaging with Partners beyond Our Borders"<sup>1</sup>. The Communication set out for the first time a comprehensive external energy policy and outlined 43 specific actions to be implemented. This proposal responded to the request of the European Council on 4 February 2011 to further improve the consistency and coherence of external action in the field of energy, in view of its contribution to achieving EU energy policy objectives.

The external energy strategy set in 2011 has provided a significant momentum for a number of EU initiatives in this field. The EU security of supply has been strengthened through efforts to develop and deploy indigenous renewable energy sources, to improve energy efficiency and to diversify external energy sources, supplies and routes and by maintaining mutually-beneficial cooperation with Europe's existing suppliers. Recent developments as regards the route selection for the Southern Corridor have put the EU one step closer to establishing a direct link with a resource-rich Caspian region. Close cooperation continued with Russia, reflecting its key role as the EU energy supplier, and priority has also been given to the modernisation of the Ukraine gas transmission system – the main corridor for deliveries of Russian gas to the EU. In the context of the global developments, such as shale gas and oil production in the US and new discoveries in the Eastern Mediterranean and Africa, EU's diversification efforts will continue. Further improvement of infrastructure interconnections with neighbouring countries will be important in this context. The first EU list of projects of common interest will include some links to non-EU countries and future consideration will be given to interconnection capacities with third countries in support of the establishment of a truly pan-European energy market.

Other than energy security, sustainable energy policy, promotion of renewable energy and energy efficiency, as well as technology research and innovation efforts have been at the heart of the EU cooperation with most partner countries and within the international organisations. There have been substantial developments in these fields in many EU partner countries, and the EU has been well-positioned to share its regulatory experience and policy approaches. These topics have been equally important in the relations with consumer countries such as China, but have also grown in prominence in EU discussions with producer countries, including the Southern Mediterranean countries and traditional suppliers like Saudi Arabia.

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<sup>1</sup> COM(2011)539.

The EU has continued to promote transparent, competitive and liquid global energy markets throughout all of its cooperation efforts. Key principles for trade and investment, such as non-discrimination and market access, have been and continue to be negotiated in bilateral agreements and multilateral legal frameworks. This has been complemented by initiatives such as the cooperation with Japan on developments in global gas markets, discussions within the EU-US Energy Council on US LNG exports as well as efforts to enhance the industrial cooperation in the energy field in many of the EU's dialogues. Actions contributing to improving the EU competitiveness will remain a crucial part of the EU energy dialogues. EU competitiveness vis-à-vis its global economic counterparts will be a major part of the analysis on evolution of energy costs and prices currently under preparation by the Commission at the request of the May 2013 European Council.

The Council Conclusions on the external dimension of the EU energy policy<sup>2</sup>, adopted in November 2011, invited the Commission to present a report on the implementation of the strategy by the end of 2013. The purpose of this Report is to inform the Council and the Parliament about the progress in the implementation of the priorities outlined in the Commission Communication and the November 2011 Council Conclusions. This Report is also an input for the discussion among Member States on developments in the EU external energy policy, in line with the agreement of the European Council of May 2013 that Member States will enhance their cooperation in support of the external dimension of EU energy policy, given the growing linkages between internal and external energy markets.

## **2. FACTORS AFFECTING EU EXTERNAL ENERGY POLICY PRIORITIES**

When the Commission proposed the external energy policy priorities in September 2011, the key factors in setting the EU priorities were the growing share of emerging economies in global energy demand, the increasing EU import dependence and the need for global action to address climate, environmental and competitiveness concerns.

Two years on, these global developments remain broadly valid and in some cases have become more important. The growth in demand in emerging Asia and other parts of the world has been unrelenting, driving the eastward shift in global energy trade flows. China and India accounted for nearly 90% of the net increase in global energy consumption in 2012<sup>3</sup> and by 2035 are projected to see their respective energy demand growing by approximately 60% and 100%<sup>4</sup>. In view of this consumption growth, emerging countries are starting to play a more active role in global energy discussions and this will inevitably contribute to evolution in the global energy governance. The geopolitical implications of these developments and their impact on EU energy security and foreign policy interests need further assessment.

Current projections still see the EU relying on energy imports in the future, over 90% of total EU oil consumption and over 70% of total EU gas consumption. A global climate agreement has not yet been reached, but many countries are now implementing domestic action in areas like energy efficiency and renewable energy, including energy intensity and consumption targets in China, renewable portfolio standards in most US states, the mandatory trading system for energy efficiency obligations in India or renewable energy and energy efficiency targets in Turkey. To the extent that the international climate change negotiations include an

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<sup>2</sup> Conclusions of the TTE Council of November 24, 2011 on Communication on Security of Energy Supply and International Cooperation – "The EU Energy Policy: Engaging with partners beyond our borders" (17615/11).

<sup>3</sup> BP Statistical Review of World Energy 2012, <http://www.bp.com/en/global/corporate/about-bp/statistical-review-of-world-energy-2013.html>.

<sup>4</sup> World Energy Outlook 2012, International Energy Agency.

energy policy dimension, EU's external energy should strive to lend support to these international negotiations in its contacts with the main energy consumer countries.

The situation in the Middle East and North Africa continues to be volatile and this affects the energy markets. The geopolitical situation has tempered the speed and the depth of the EU energy cooperation with the countries in the region, while confirming that pragmatic and targeted actions will be needed.

The Fukushima accident has heightened the calls to ensure the highest nuclear safety standards globally, while at the same time resulting in nuclear energy being taken off the list of low-carbon options in some countries. It has led to increased cooperation on nuclear safety with our existing partners and in international efforts such as in the context of the International Atomic Energy Agency (IAEA).

Perhaps the most significant development in the past two years has been the steep increase in unconventional oil and gas production in North America. Competitive unconventional gas displaced coal in the US power sector, contributing to a decrease in the country's greenhouse gas emissions of 3.8% in 2012, approximately half as a result of this switch<sup>5</sup>, and providing particularly the US energy-intensive industries (e.g. petrochemical, refining, aluminium and steel) with a distinct competitive advantage. In Europe, coal demand grew in 2012 by 2.8% compared with an average 1.3% decline over the last decade. This development resulted in greenhouse gas emissions increasing in some EU Member States like Germany and the UK<sup>6</sup>. Differences in final gas and electricity prices in American, European and Asian markets have led to concerns about the EU's competitiveness. Potential U.S. exports of natural gas and oil have also started to raise questions about the implications on the U.S. foreign policy priorities and its role in global energy markets. More than anything, these developments confirmed that energy markets are interconnected and the EU energy policy has to take account of what is happening outside its borders as much as it does to its internal developments.

Shale gas potential in other countries raised new perspectives in global energy markets at the same time as new suppliers of conventional fossil fuels are also emerging from Eastern Mediterranean to East Africa. These new potential sources might have a growing role in the EU's diversification strategy in a medium-term future. Furthermore, the implications of these developments on the energy and foreign policy considerations of other major gas and oil exporters such as Russia, Qatar, Iraq and others will have to be further considered.

In this continued complex reality, energy security, competitiveness and sustainability will continue to drive the EU's external energy priorities.

### **3. COORDINATION OF THE EXTERNAL DIMENSION OF THE EU ENERGY POLICY**

To improve the coherence and coordination at the EU level on messages towards specific partner countries, a number of follow-up actions were proposed by the Commission, including on increasing cooperation between Member States on their intergovernmental agreements (IGAs) with third countries. The proposal for an information exchange mechanism on such agreements accompanied the Commission Communication in September 2011. Following negotiations between the co-legislators, the Decision of the Parliament and of the Council to establish the mechanism was adopted on 25 October 2012<sup>7</sup>.

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<sup>5</sup> "Redrawing the Energy-Climate Map," World Energy Outlook Special Report, International Energy Agency, June 2013.

<sup>6</sup> "Redrawing the Energy-Climate Map," World Energy Outlook Special Report, International Energy Agency, June 2013.

<sup>7</sup> Decision No 994/2012/EU, OJEU L 299/13 27.10.2012.

### **Transparency on intergovernmental agreements**

The information exchange mechanism with regard to intergovernmental agreements (IGAs) between Member States and third countries in the field of energy (Decision 994/2012/EU) entered into force on 17 November 2012. It foresees the obligation for the Member States to submit their existing legally binding agreements having an impact on the operation or the functioning of the internal energy market or on the security of energy supply and their new agreements, once ratified. The agreements are then shared with other Member States, taking into account any confidentiality concerns. The mechanism also allows Member States to inform the Commission of their on-going IGA negotiations, agree to Commission participation in such negotiations and ask for a compatibility check of a draft IGA.

Since the adoption of the mechanism, a secure database has been created. The Commission has so far received 114 IGAs, analysed them for their compatibility with the EU legislation and raised a limited number of cases with the Member States concerned. Most IGAs have been shared in their entirety with other Member States.

The review of the IGAs submitted so far has allowed the identification of a few provisions where a higher risk of incompatibility with the EU legislation exists. Before the end of 2013, the Commission will organise an information exchange meeting with Member States on the lessons learnt from the agreements submitted, common problems identified and possible actions to mitigate incompatibilities.

In addition to this legislative instrument, other initiatives have been taken to increase the exchange of information between the Member States on issues pertinent to external energy relations. Monthly discussions take place in the Council's Energy Working Party, where the Commission updates the Member States on the EU activities and important meetings and where EU positions, when these are required, are prepared. The Gas Coordination Group has facilitated coordination of security of supply measures at the EU level and had exchanges with supplier, consumer and transit countries, such as Russia, Ukraine, Algeria, Switzerland, the US and Canada. As in the past, the formal meetings of the Energy Council include an agenda point on international energy relations, which allows information sharing and discussion at a Ministerial level. At the meeting of the European Council in May 2013, Member States committed to enhance their cooperation in support of the external dimension of EU energy policy and to review developments regarding the EU's external energy policy.

The frequency of discussions on external energy policy has also increased in other Council formations and Council working parties and informal networks, such as the Political and Security Committee, the informal network of the Director Generals on Global Issues of the EU Foreign Affairs Ministries and the geographical Council Working Groups. Notably, external energy policy was on the agenda of the Foreign Affairs Council in July 2012 and April 2013, with EU Foreign Ministers showing a strong interest in identifying ways of how foreign policy can support the EU energy policy objectives.

To provide a forum where strategies and initiatives vis-à-vis third countries could be discussed in greater detail, the Commission established the Strategic Group for International Energy Cooperation. The aim of this Group, which includes the participation of Member States' Energy and Foreign Affairs Ministries and the European External Action Service (EEAS), is to identify and discuss common priorities, which could lead to development of joint initiatives and positions vis-à-vis third countries and regions. The Strategic Group has met five times since its establishment in 2012 and has discussed relations with China, Ukraine, the Southern Mediterranean, the U.S. and the Eastern Partnership. This permitted a better shared understanding of common priorities and next steps in energy cooperation with these partners. However, the work of the Strategic Group could benefit from strengthened

exchange of information between Member States on their activities in third countries, which has been limited so far.

There is already an existing practice of regular EU coordination meetings in Brussels and sometimes locally ahead of meetings of the governing bodies of the Energy Community, the Energy Charter Treaty (ECT), the International Energy Agency (IEA) and the International Renewable Energy Agency (IRENA). An EU approach is particularly necessary on questions of strategic importance for these organisations, for example the IEA association process and the ECT modernisation and outreach. Although no formal EU coordination between participating EU Member States and the Commission takes place in the context of the International Platform for Energy Efficiency Cooperation (IPEEC), International Energy Forum (IEF), Clean Energy Ministerial (CEM) and G8/G20, in some instances informal exchanges do take place. A more coordinated approach would contribute to the EU playing a strong and effective role in the global energy discussions and organisations.

All these efforts have benefited from a close working relationship between the Commission and the EU High Representative of the Union for Foreign Affairs and Security Policy and the EEAS.

While the efforts described-above have introduced a greater level of transparency on EU activities, a significant knowledge gap still exists regarding Member States' own energy activities in third countries. An increased use could be made of EU Delegations for reporting and analysis and local energy counsellors' networks could also be strengthened. Efforts to increase information sharing and to pursue common objectives on issues of EU strategic importance would be beneficial for a successful implementation of the EU external energy objectives.

#### **4. STRENGTHENING THE EU COOPERATION WITH NEIGHBOURING COUNTRIES**

A key place in the EU external energy strategy has been accorded to relations with countries in the EU's immediate neighbourhood, in line also with objectives of the EU Neighbourhood Policy. While energy market integration and regulatory convergence remains a shared objective with several of our neighbours, the pace of progress in integrating the regulatory frameworks and physical infrastructure takes time, as it depends both on the pace of internal reforms and on the negotiation and implementation of complex legally-binding agreements. This has required a differentiated approach.

With **Switzerland**, the negotiations on an electricity agreement started in 2007 and have yet to conclude. Both sides are currently trying to revive the process, with the aim of concluding an electricity agreement in 2014, which is needed to continue the participation of Swiss energy companies in the harmonised EU electricity market. In addition to issues such as a level playing field regarding state subsidies, implementation of transparency rules and other technical issues, institutional questions, notably on a neutral arbitration instance for legal disputes, will be crucial for the conclusions of the agreement.

The **Energy Community**, with the accession of Ukraine and Moldova in 2011, Georgia's recent application for membership and observership of Armenia, Norway and Turkey, has continued to be a key instrument for extending the EU's internal market to its neighbourhood. In the last two years, the Ministerial Council has enlarged the Energy Community acquis to include the rules of the Third Package on the internal market for electricity and gas, Directive 2009/28/EC on promotion of renewable energy, Directive 2009/119/EC on oil stocks and Regulation 2008/1099/EC and Directive 2008/92/EC regarding statistics. Moreover, steps are being taken towards adopting the Energy Efficiency Directive 2012/27/EU and the Industrial Emissions Directive 2010/75/EU . In addition to expanding the acquis covered by the Energy

Community, the activities over the last two years have focused on achieving tangible progress in the integration of the Contracting Parties' gas and electricity networks through more intensive monitoring and enforcement of the legal provisions on interconnection, third party access and cross-border exchanges.

Active promotion of a limited number of key investment projects that are necessary to increase cross-border flows and security of supply and to overcome the current situation of underinvestment has been the main focus of the infrastructure work. The list of Projects of Energy Community Interest (PECI) should be adopted by the Ministerial Council in October 2013 and includes projects of major regional interest and cross-border impact. Extensive public consultation resulted in 100 proposed projects, out of which 33 were put on the PECI list.

Finally, preparatory work has been finished to allow for a decision on the extension of the Energy Community Treaty beyond 2016, as the Treaty was initially foreseen for a period of 10 years, and on setting up a High Level Reflection Group to assess its functioning and possible improvement.

The **Eastern Partnership** is another framework that seeks to enhance energy security in the EU and its Eastern partners while contributing also to the objectives of sustainable development and competitiveness. The activity of the Eastern Partnership Platform on Energy Security has continued through regular meetings, twice a year, complemented by specialised workshops and site visits to energy facilities. It focuses on information sharing with the aim of raising awareness of best practices, for example in the fields of energy efficiency and electricity market design, in the Eastern Partnership countries.

Bilateral cooperation was another important route for relations with many of our neighbours. Implementation of the Memorandum of Understanding in the field of energy continued to be an important part of the EU-Ukraine Association Agenda, which prepares for the Association Agreement with Deep and Comprehensive Free Trade Area.

The EU attaches great importance to ensuring the reliability and transparency of the Ukrainian gas transmission system and the Commission has continued its active support to the upgrading of the gas transmission infrastructure in Ukraine and to ensuring that it remains a key part of the pan-European energy network. Efforts have been pursued on a trilateral solution concerning gas supplies from Russia to the EU via Ukraine. Ukraine however also has an opportunity to increase its energy security by diversifying sources of supply and develop beyond its important traditional role as a transit country due to its extensive pipeline network, conventional and unconventional gas resources, and important gas storage facilities which constitute an important asset for energy security in the region. Specific actions were taken in order to enable reverse gas flows from the EU to Ukraine. A precondition is the development of a non-discriminatory and stable legal and regulatory framework in line with Ukraine's Energy Community commitments.

This was the theme of a High Level Roundtable on the evolution of the Ukrainian gas market that was convened in May 2013 by the European Commissioner for Energy and the Minister of Fuel and Energy of Ukraine. It was agreed that a group consisting of representatives of the Commission and Ukrainian authorities, the Energy Community Secretariat, the concerned EU Member States and interested companies and financial institutions would be established to provide a forum to support the continuing process of gas sector reforms in Ukraine.

In Moldova, through different instruments such as Budget Support and Technical Assistance, the EU is supporting the integration of the Moldovan Energy market into the EU energy market, both for the gas and electricity sectors. The EU is currently supporting the

construction of the gas-interconnector between Moldova and Romania which will be able to transmit gas in both directions. In general, the EU is supporting the ongoing reform process taking place in the energy sector following Moldova's accession to the Energy Community Treaty in 2011

In October 2012 the Energy Community published its "Annual Report on the implementation of the acquis under the Treaty establishing the Energy Community" which, for the first time, included Ukraine and Moldova.

In the framework of the positive agenda for the EU-**Turkey** relations, it was agreed to enhance energy cooperation, focusing on long term planning, market integration and infrastructure development, sustainable energy policy and technologies, and nuclear safety and radiation protection. Two meetings, one on electricity and the other on gas, have been held in February and April 2013 respectively. The next meeting will address cooperation in energy efficiency and renewables and is currently planned for autumn 2013. Aiming at facilitating the eventual integration of the EU and Turkey energy markets, this cooperation can also contribute to increasing the security of energy supply and to creating business opportunities for both sides.

Countries in the **Caspian region**, with their abundant natural resources and their strategic geographical position in the wider EU neighbourhood, hold an important potential for diversifying Europe's energy supply and transit routes, in particular regarding gas supplies. In line with the 2011 Declaration on the Southern Gas Corridor, the EU has continued to work closely with the countries and the companies in the region towards the opening of the **Southern Gas Corridor**. Significant progress was made in view of the realisation of this strategic project for the EU in 2012 with the signature of an Inter-Governmental Agreement between Turkey and Azerbaijan on the Trans-Anatolian Pipeline (TANAP) and its subsequent ratification. On 28 June 2013, the Shah Deniz II consortium announced its decision to choose the Trans Adriatic Pipeline (TAP) as the European evacuation route for its gas in the Southern Gas Corridor. The final investment decision is expected before the end of 2013, with the first gas flowing to Europe by January 2019.

The EU will continue to work with Azerbaijan as well as countries in the Caspian Region on the expansion of the Corridor and the further increase of supplies, with the aim of supplying at least 10% of European demand in the medium term through this Corridor. The Commission is actively supporting further integration of the markets of South East Europe in this context.

The Commission received negotiating directives by the Council in September 2011 to negotiate a trilateral agreement with Turkmenistan and Azerbaijan on the construction of the Trans-Caspian Pipeline (TCP) and discussions are on-going. The Commission has been working closely with the EU High Representative and her Special Representative for Central Asia in communicating the strategic importance of the TCP to the countries in the region, including Russia. The Commission, in cooperation with the World Bank, has launched an Environmental Scoping Study on the TCP to address concerns expressed by littoral countries of the Caspian Sea regarding potential environmental consequences of such as a pipeline. This study is expected to be completed early 2014.

The energy dialogue with **Russia** has remained intensive and energy relations are regularly discussed at the highest levels, including the EU-Russia Summits. Constructive exchanges led to the adoption of the EU-Russia Roadmap 2050 in March 2013.

Since early 2012, constructive negotiating sessions have been regularly taking place between the EU and Russia on the electricity agreement to improve the coordination between the synchronised power systems of the Baltic States, the Russian Federation and Belarus and to

allow the Baltic States to implement the internal market rules for electricity. These negotiations should be finalised in the near future.

The EU-Russia Early Warning Mechanism in the field of energy, which provides for joint actions aimed at overcoming an emergency situation, mitigating its consequences and preventing such situations in the future, was updated in February 2011.

Discussions with Russia are also taking place in relation to the implementation of the Second and the Third Packages<sup>8</sup> in the EU and the Energy Community, such as unbundling in Lithuania, the OPAL exemption, etc... Pragmatic solutions are being considered, as has been the case for the Yamal pipeline in Poland.

There is uncertainty about the long-term legal framework for relations between the EU and Russia: while the need for legal clarity is manifested by the growing number of energy-related cases between the EU and Russia, the positions of the two sides concerning the energy chapter of a new overall legal framework, the New Agreement, still vary significantly.

### EU-Russia Roadmap 2050

Over the course of 2011 and 2012, the European Commission and the Russian government have cooperated on the EU-Russia Energy Roadmap until 2050 in order to establish a long-term cooperation perspective and to achieve a tolerable level of uncertainty in their energy relations. The Roadmap for the EU-Russia Energy Cooperation until 2050 was signed by Energy Commissioner Oettinger and Energy Minister Novak in March 2013.

The adopted Roadmap represents the strong common interests and benefits underpinning the EU-Russia energy relations. It sets the strategic target of creating a common Energy Space by 2050, with a functioning integrated network infrastructure, with open, transparent, efficient and competitive markets, making the necessary contribution to ensuring energy security and reaching the sustainable development goals of the EU and Russia.

The Roadmap is a forward looking, living document, covering a large range of issues central to energy relations between the EU and Russia. In particular, it addresses cooperation on energy efficiency, as well as in the electricity, gas, oil and renewables sectors. In each of these areas, the Roadmap makes specific recommendations for a series of steps to enhance EU-Russia energy cooperation over the coming decades.

The recommendations and concrete actions proposed by the Roadmap will be monitored – and revised – in the framework of the EU-Russia Energy Dialogue and recommendations established will be taken into account in the respective work programmes of all the Thematic Groups under the EU-Russia Energy Dialogue. This will allow for a thorough monitoring of the implementation in all the areas of bilateral energy cooperation.

The EU has been fully engaged in the transformation process in the **Southern Mediterranean**, as outlined in the March 2011 Joint Communication<sup>9</sup> "A Partnership for democracy and shared prosperity," in mobilising significant additional resources, offering increased trade and market opportunities and stepping up its engagement with civil society. Creating a regional EU-Mediterranean Energy Partnership, initially focused on electricity and renewable energy, was among the key proposals of the 2011 external energy strategy. With the countries in the region facing a very difficult political context and internal challenges, a multilateral regional energy regulatory framework remains a longer term objective.

<sup>8</sup> [http://ec.europa.eu/energy/gas\\_electricity/legislation/legislation\\_en.htm](http://ec.europa.eu/energy/gas_electricity/legislation/legislation_en.htm)

<sup>9</sup> COM(2011)200 final.

Progress nonetheless has taken place on various fronts. Important budget support programmes aiming at energy sector reforms and twinning programmes are implemented in several countries of the region. The negotiations have started with Morocco on a Deep and Comprehensive Free Trade Agreement (DCFTA) that includes a substantial energy chapter, with two negotiating rounds so far in 2013. Signature of a Memorandum of Understanding on energy with Algeria in July 2013 should boost cooperation with this key supplier country. EU support is provided to projects in power generation and transmission through various financing instruments and in close cooperation with the international financial institutions.

A Mediterranean Energy Ministerial Council, the first of such meetings since 2007, is scheduled to take place in Brussels in December 2013. The Council could provide an opportunity to endorse the Mediterranean Solar Plan and discuss the project of establishing a “Mediterranean energy community”.

The discoveries of natural gas in the Levant Basin offshore Israel and Cyprus in 2009 and 2011 respectively have opened new perspectives to the Eastern Mediterranean region and could possibly allow some countries in the region to turn from net importers of gas to gas exporters. The EU is following the current developments regarding the ongoing exploration activities in the **East Mediterranean** basin. Close cooperation between the EU and the countries in the region will be key in order to make the most of the region's gas potential. Moreover, the choice of routes, the means of transporting and the selling price will be determinant to potential EU gas imports from this region. In this sense, on top of the options already being assessed, such as an LNG terminal in Cyprus and a pipeline from offshore Cyprus to Greece via Crete, all potential routes should be considered and assessed from an energy security point of view.

An **energy dialogue with Israel** has been established to promote cooperation on issues related to EU gas market access, gas pricing and infrastructures, but also on cooperation in research, promotion of renewable energy development, deployment of smart grids and demand response management. As Lebanon will start explorations soon, the EU is set to play an important role in providing technical support and capacity building. The EU will also have a role in regional cooperation to safeguard the highest levels of off-shore hydrocarbon exploration and environmental safety.

Improved interconnections with neighbouring countries continues to be an important EU objective. The first list of projects of common interest will be adopted in autumn 2013, as a part of the implementation of the recently adopted Guidelines for trans-European energy infrastructures<sup>10</sup>. This list is expected to include some projects to establish links to non-EU countries. Future consideration will also be given to improving infrastructure interconnections with third countries and developing a truly pan-European market.

Moreover the EU supports a wide range of investments in the energy sector: through the Neighbourhood Investment Facility (NIF) the Commission has already contributed € 150 million to finance investment grants or technical assistance in the ENP region in this sector, enabling European Financing Institutions loans for app. € 2 billion EUR. It also provides technical assistance and promotes regional energy cooperation through several programmes such as INOGATE<sup>11</sup> and the Covenant of Mayors<sup>12</sup>.

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<sup>10</sup> Regulation (EU) No 347/2013, OJEU L 115/39 25.4.2013.

<sup>11</sup> <http://www.inogate.org>

<sup>12</sup> <http://www.covenantofmayors.eu>

## 5. DEEPENING ENERGY PARTNERSHIPS WITH SUPPLIERS AND CONSUMERS

Developments over the last two years on global energy markets demonstrated that the EU should continue to promote transparent, competitive and liquid global energy markets in its relations with energy suppliers. The EU should also stay open and flexible to cooperation with emerging new suppliers that are interested in accessing the EU market.

With respect to cooperation with **energy suppliers**, the EU's efforts continued to be concentrated on relations with traditional suppliers, particularly with Russia. EU relations with **Norway** achieved a new milestone in 2012, as exports of natural gas from Norway to the EU have risen to levels comparable with Russian natural gas exports. Beyond its role as an energy supplier, Norway, linked to the EU through the European Economic Area (EEA), has continued to be a special partner for the EU. Continued positive cooperation has been promoted through the annual EU-Norway Ministerial meetings, complemented by specialised meetings such as the EU-Norway conference on the role of gas which took place in March 2013. It is important that the EEA and the European Free Trade Association States, including Norway, transpose and apply the Third Energy Package as soon as possible.

Political-level outreach to suppliers in the Middle East has increased in the last two years through direct informal talks with countries like Saudi Arabia and Qatar and the Energy Commissioner's participation in high level events like EU-OPEC Ministerial meetings and the International Energy Forum Ministerial. While the backbone of EU relations with energy suppliers are contractual relationships between commercial operators, building trust at the political level and targeted cooperation in areas of particular interest for our partners could facilitate commercial relations. Examples of recent working-level activities include the joint EU-OPEC roundtable on the safety of the offshore oil and gas industry, which was held in November 2012, and cooperation on energy efficiency with the League of Arab States and individual countries like Saudi Arabia.

Energy producers in **Africa**, for example Nigeria and Angola are already important suppliers, including to the EU. With new oil and gas discoveries on the continent, its importance in energy supply and for the EU energy security is likely to grow. The EU will continue monitoring these developments and appropriately taking them into account in its cooperation efforts.

More concrete progress could be seen in the development of cooperation with **consumer countries**, especially that with **China**. Energy is now among the top issues in the EU-China relationship, raised to this level by the successful EU-China High Level Meeting on Energy that took place in May 2012 and which brought together key policy-makers on the Chinese side with the Energy Ministers of the EU Member States and the European Commission<sup>13</sup>. Energy security is a new area for cooperation agreed at the High Level Meeting, opening a possibility for strategic discussions with our Chinese counterparts with the aim to ensure safe, stable, secure and sustainable global energy markets. The EU-China Urbanisation Partnership was also launched at the High Level Meeting. While its scope is broader, issues related to energy supply, efficiency and planning play an important part. Energy cooperation with China is also supported by the EU-China Innovation Cooperation Dialogue.

The priorities of the new Chinese government fit well with the EU defined priorities for energy cooperation with China. This has resulted, at the working level, in an exponential stream of activities, including on electricity regulation, gas market development, long-term

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<sup>13</sup> Three declarations were agreed at the EU-China High Level Meeting on Energy in May 2012, including the EC-China Joint Declaration on Enhanced Cooperation on Electricity Markets, the EU-China Declaration on Energy Security and the Joint declaration on the EU-China Partnership on Urbanisation.

planning, global energy governance, and on nuclear safety and a possible Euratom agreement further to the enforced bilateral agreement for R&D Cooperation in the Peaceful Uses of Nuclear Energy. Energy cooperation with China will be an important element of the document outlining priorities for the EU-China Strategic Partnership, to be adopted at the next EU-China Summit.

### **EU-China Urbanisation Partnership**

Launched in May 2012 by then-Vice Premier Li Keqiang and the Commission President Barroso, the EU-China Urbanisation Partnership is an open political platform for the European and Chinese stakeholders to cooperate and share experiences in addressing economic, social and environmental challenges of urbanisation. With the level of urbanisation in China expected to rapidly increase from today's level of 50% and three quarters of European population living in an urban context, both partners are striving to develop innovative approaches to urbanisation.

The Partnership is the first instrument of this kind. It spans numerous sectors such as sustainable urban planning, energy supply and demand management, mobility, green buildings and urban governance. It also involves a variety of stakeholders including local authorities, enterprises, non-governmental organisations, think tanks and industry associations.

The Partnership is implemented through an annual Urbanisation Forum, which includes a number of thematic sub-fora and an Exhibition on Sustainable Urbanisation. It also encompasses private and local initiatives. The Partnership is intended to build on existing cooperation activities and to foster new ones, realising synergies where possible.

With the **U.S.**, cooperation continued through the annual meetings of the EU-US Energy Council and its three working groups on energy security, energy technologies and energy policy. Regular discussions addressed subjects like global oil and gas markets, developments in the EU's neighbourhood including the Southern Gas Corridor, energy efficiency, carbon capture and storage, smart grids, offshore and nuclear safety. Priority areas tackled through the research cooperation also included smart grids and storage, as well as hydrogen and fuel cells technologies, materials for energy and nuclear fusion. Concrete initiatives to enhance lab-to-lab cooperation between the Joint Programmes for the European Research Alliances, the JRC and respective U.S. energy programmes, labs and agencies have also been undertaken, with major issues like reciprocity still remaining to be tackled..

However, with the sharp increases in the US unconventional oil and gas production, a new dynamic is emerging in the EU-US energy relations with the focus also on bilateral trade issues and industrial competitiveness. The recently launched negotiations on the Transatlantic Trade and Investment Partnership could play an important role in setting common rules concerning trade and investment in energy and raw materials. These could subsequently contribute to the development of global rules and standards.

Following the March 2011 triple disaster, leaders from the EU and **Japan** called for enhanced energy cooperation. Cooperation is currently underway on electricity market reform as Japan prepares legal proposals in this field and on gas markets, with a view of sharing analysis on recent developments and discussing ways governments could support the transition towards a more liquid and flexible global gas market. First contacts have been taken to establish regular exchanges on nuclear safety, and research cooperation is steadily increasing in reactor safety and emergency management, as Japan re-evaluates its energy strategy and related research priorities..

A Joint Declaration on enhanced cooperation on energy with **India** was adopted at the EU-India Summit in February 2012, focusing on clean coal production and utilisation, energy efficiency in products and buildings, smart grids and renewable energy. Activities have started in most of these areas and the EU-India Energy Panel meets annually to supervise cooperation and exchange views. Energy is also one of the thematic priorities of the Indo-European partnership launched in 2012.

In the context of the EU-**Brazil** energy cooperation, in place since 2007, a good understanding has been reached at the energy policy dialogue meeting in 2013 to expand exchanges on sustainable energy and to jointly develop the conditions for transparent marketing of biofuels. Active joint research in sustainable biofuels has been established and should be scaled up in the coming years.

On the multilateral side, the EU has continued to support the **Energy Charter** as an important framework for legally binding rules for energy trade, transit and investment. The EU has been a vocal supporter of the Energy Charter policy of consolidation, outreach and expansion, approved in July 2012, as well as its intentions to modernise the 1991 Energy Charter Declaration.

The EU has already negotiated comprehensive energy specific rules in a number of **Free Trade Agreements**. Energy specific negotiations are finalised with Ukraine, Moldova, Georgia and Armenia; are on-going with the US, Russia and Morocco; and will start with Azerbaijan and probably Mexico. Energy issues are also important in a horizontal manner in trade negotiations with Canada and Kazakhstan and concerning green technology with ASEAN countries.

As noted earlier, the Fukushima nuclear accident has led to EU calls to promote the highest level of **nuclear safety** and security globally through both bilateral and multilateral frameworks. EU neighbouring countries were invited to participate in the EU stress tests and the peer review process, with Switzerland, Ukraine and Croatia, before its EU accession, fully participating. Other neighbouring countries (e.g. Turkey, Belarus and Armenia) agreed to work on the basis of the same methodology but within different timetables, while Russia carried out its own assessments. Further to these reviews, assistance to certain countries from the Instrument for Nuclear Safety Cooperation is planned.

Necessary steps are also being taken to reflect nuclear safety in the Euratom bilateral agreements, such as the on-going revision of the agreement with Canada and the new agreement with South Africa, preliminary exchanges with Russia and in future possible discussions with China and South Korea.

In the multilateral context, the EU actively participates in the International Atomic Energy Agency (IAEA) efforts, with the Euratom providing its input and experience in the preparation of proposals for the next 6<sup>th</sup> Review Meeting of the Convention on Nuclear Safety, scheduled for March-April 2014. Bilateral cooperation between the EU and the IAEA has been enhanced with the establishment of a new cooperation mechanism in January 2013, bringing together senior officials for discussions relating to nuclear technologies, including the safety and security of nuclear energy production and research activities.

With a new legal framework being established in the EU on **offshore safety**, the topic has been incorporated into bilateral cooperation with relevant countries, such as the U.S. and Norway as well as with OPEC, and in the context of the EU participation in international frameworks, such as G20.

## 6. SUPPORTING DEVELOPING COUNTRIES

Supporting developing countries' efforts to eradicate poverty is the primary objective of the EU development policy and a priority for EU external action in support of EU's interests for a stable and prosperous world. The EU has already done much to help reduce poverty and in particular to support the achievement of the Millennium Development Goals. The EU has allocated a financial contribution of at least 2.5 billion euros over the last 6 years to international cooperation in the field of non-nuclear energy in order to address the challenges of energy poverty and sustainable growth. Lack of access to sustainable energy services is a serious impediment to social and economic development. Without sustainable energy it is difficult to ensure sufficient access to clean water, good education and basic health care. Increased energy access has a considerable impact on productivity and returns at each stage in the agricultural value chain, from production, post-harvest processing and storage, to marketing.

In order to address these issues, the Agenda for Change<sup>14</sup> states that the EU should offer technology and expertise as well as development funding, and should focus on three main challenges: price volatility and energy security; climate change, including access to low carbon technologies; and access to secure, affordable, clean and sustainable energy services.

Because of its complementarity with these guidelines, the Commission is supporting the objectives of the Sustainable Energy for All initiative of the United Nations Secretary-General Ban Ki-moon. This initiative aims to deliver universal access to energy by 2030 along with doubling the rate of energy efficiency and the use of renewable energy.

The EU is contributing towards these objectives with its own EU Sustainable Energy for All initiative. This initiative is spearheaded by Commission President Barroso and aims at helping developing countries to provide energy access to 500 million people by 2030.

In order to reach this goal, the Commission has mobilised for the period 2012-2013 more than €500 million for immediately scaling-up support for sustainable energy in developing countries. Together with the Member States, these efforts will be deepened over the coming years. Particular attention will be brought to those partner countries that have chosen energy as a focal sector for the cooperation with the EU under the next Multi-Annual Financial Framework.

At the international level, the Commission is also bringing forward the objectives of the Agenda for Change by supporting access to sustainable energy services as a specific target in the context of the follow-up of the Millennium Development Goals.

### **EU Sustainable Energy for All**

In order to reach the target set by Commission President Barroso of helping developing countries to provide energy access to 500 million people, for 2012-2013 the Commission allocated:

- €400 million to energy related actions in sub-Saharan Africa through blending. This should help leverage concrete investments of €4-8 billion.
- €65 million to a Technical Assistance Facility dedicated at helping developing countries to elaborate and implement reform programs so that private investment can be attracted.
- Nearly €100 million are being made available for improving access to modern and sustainable energy services to the poor in remote and rural areas.

<sup>14</sup> COM(2011) 637 final.

## 7. CONCLUSION

The Commission Communication on security of supply and international cooperation and the Energy Council Conclusions of November 2011 have provided an important impetus for EU action in this field. The past two years have seen an intensification of activities, including political agreements to enhance energy cooperation with a number of the EU's partners as well as the launch of negotiations on a number of energy-specific and cross-sectoral agreements. Success has not been uniform across all areas and with all partners, but the positive trends observed call for continued EU attention and efforts.

The strategy and the priorities chosen two years ago are fundamentally still valid. Nonetheless, flexibility and pragmatism in EU's external energy relations should be retained in order to adjust to the rapid changes underway in global energy markets as well as political and economic developments, if and when such adjustment is needed. The EU regulatory framework on the internal energy market, energy efficiency, renewable energy, environment, competition and others remain important references for many of the EU's partners. Sharing the EU's experience on energy policy development, its successes and challenges, provides an opportunity for positive engagement and building trust with many of our partners.

Continued successful implementation of external energy priorities will require a close working relationship between the Commission and the High Representative and EEAS, making optimal use of their instruments and resources, including the EU Delegations. Sustained efforts to increase coordination with and between the EU Member States will also be needed. EU external energy activities do not and should not aim to replace bilateral cooperation established by Member States, but rather at complementing them, where there is a real EU added value. Nonetheless, it is necessary to ensure that the EU speaks with a single voice when addressing its partners. Ultimately, a coordinated approach will allow for an effective promotion of the EU strategic interests and increase the EU's collective weight and negotiating power vis-à-vis its partners.