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### **SUMMARY: EXTERNAL RELATIONS OF ENERGY**

BUSINESSEUROPE calls for:

1. **A coherent EU Framework clarifying the principles, responsibilities, partnerships and resources of a European External Energy Policy.**

This framework should include:

- a. Multilateral, Regional and Bilateral Pillars
- b. Making better use of development policies
- c. Addressing security of supply risks

2. **A clearly defined energy diversification and access strategy** covering:

- a. An internal enabling environment
- b. Reciprocity in investment
- c. Ensuring legal stability for long term gas contracts
- d. Providing political and financial support to priority energy interconnection projects

3. **Strengthening international partnerships** with:

- a. Key producing and transit countries:
- b. Relations with major consumers to promote open and competitive global energy markets, energy efficiency, regulatory cooperation and research.



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### EXTERNAL RELATIONS OF ENERGY

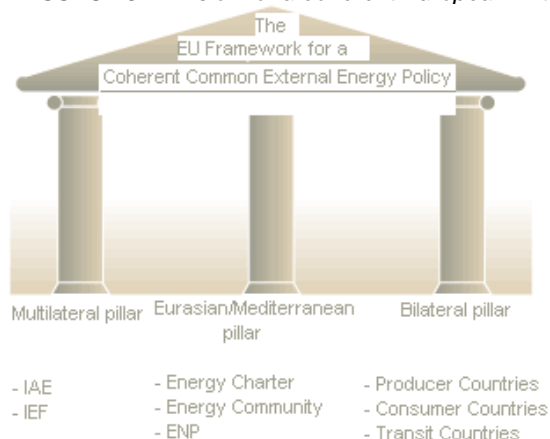
#### Introduction

The EU is confronted with new challenges in the energy field. Import dependence is expected to increase from 50% of total EU energy consumption today to 65% in 2030 with reliance on gas imports increasing from 57% to 84% and oil imports from 82% to 93% by 2030. Oil and gas prices have risen sharply since January 2004 due to growing demand for energy in China and India but also the United States and the European Union. In the future, oil and gas imports will come from a decreasing number of countries where political stability is not always well established. Considering the EU's growing import dependence, the stronger international demand for energy and the concentration of accessible oil and gas resources, BUSINESSEUROPE strongly supports the development of a coherent European external energy policy to guarantee sustainable, secure and competitively priced energy.

#### 1. A coherent framework for an external energy policy

To safeguard the EU's interests, BUSINESSEUROPE supports the use of alliances, partnerships and other forms of international cooperation with energy partner. Although supportive of recent EU initiatives on external relations of energy, BUSINESSEUROPE is concerned that the EU lacks a coherent framework through which it can develop a common approach to international energy issues. Consequently, it calls on the EU to develop an EU framework on the external relations of energy to define the principles of common action, the responsibilities of EU institutions and the Member States, the priority partner institutions and countries and the human and financial resources that it plans to devote to this policy. Under this framework, the EU should develop clear strategies, in close consultation with European business, for the multilateral, regional and bilateral pillars of its external energy relations.

Figure 1. BUSINESSEUROPE vision for a coherent European External Energy Policy



#### a. Multilateral, Regional and Bilateral Pillars

The EU should develop a common strategy with a focus on energy efficiency, trade issues, technology cooperation and cooperation with industries in multilateral institutions such as the International Energy Agency (IEA), the International Energy



Forum. At this level, the EU should also work to develop market based investment rules for the energy sector.

In the regional pillar, the EU should ensure the full implementation of the Energy Charter to protect investor rights and to overcome differences of views with Russia on transit issues and open participation in the Energy Community beyond the EU and the Balkan region to include Norway, Turkey and countries participating in the European Neighbourhood Policy.

At the bilateral level, the EU should strengthen cooperation with producer, transit and consumer countries to promote investment in energy development and to cooperate on energy efficiency.

#### **b. Making better use of development policies**

The EU should make better use of development policy for the responsible extraction and exploration of oil and gas, to facilitate access to energy and to promote the sustainable use of energy. Sustainable prosperity in neighbouring oil and gas producing regions will also help the general security situation of the EU, particularly if these regions can improve domestic political accountability and governance systems. The EU should also use its existing knowledge and technology in the field of cleaner energy generation and energy efficiency/conservation for export purposes, in close consultation with European business.

#### **c. Addressing security of supply risks**

Internally, the EU must develop better policies to strengthen security of energy supply. Effective solidarity and early warning mechanisms should be set up to act jointly in case of energy crises and disruptions of supply. To facilitate a coordinated transparent flow of information, BUSINESSEUROPE calls for a common framework to anticipate and react to energy disruptions by sharing information between Member States about external energy vulnerability, strategic oil and gas stocks, possible energy shortages and disruptions as well as critical infrastructure risks.

The EU should also ensure that proposals for stockpiling energy supplies, coordinated by a common European Energy Policy, are cost-effective. Beyond oil which is needed for vital transport, the stockpiling of other energies (gas, electricity, etc) should be flexible and tailor-made manner to address the specific security needs of the Member States and should not impose unreasonable burdens on companies or energy consumers. A less expensive alternative to maintaining gas stocks would be to apply EU energy mutual assistance rules at times of supply crises which would require Member States not affected by the crisis to reduce non-essential energy use to be able to export electricity, gas or oil to the affected Member State(s).

Considering the interdependencies and interconnections of infrastructure networks in Europe, BUSINESSEUROPE also supports a common EU-wide Critical Infrastructure Protection (CIP) framework. An adequate and common level of protection throughout the EU must be ensured in cooperation with business.

### **2. A clear diversification and access strategy**

For an effective energy security policy, the EU must reflect on an appropriate division of competences between the EU institutions and Member States. BUSINESSEUROPE believes that some aspects of internal and external energy policy will have to be coordinated at the European level to effectively achieve these aims.



#### **a. An internal enabling environment**

The EU should create an enabling environment for energy efficiency or energy diversification technologies, intra-European infrastructure projects and the development of alternative energy resources. A better regulatory framework is needed to support cost-effective energy efficiency measures, research and development, the demonstration of new energy technologies and fuels and the fostering of renewable energies. This will require greater coherence between environmental and energy security objectives. For instance, carbon capture and sequestration technologies should figure prominently as a positive element in any future EU climate change policy. Similarly, nuclear power development can contribute both to climate change and energy security. EU measures are also needed to assist Member States that are overwhelmingly dependent on one gas supplier to diversify. Projects should be developed to bring gas from new regions and to set up new gas hubs in central Europe, the Baltic countries and Turkey, to make better use of existing strategic storage possibilities, and to facilitate the construction of new liquid natural gas (LNG) terminals.

#### **b. Reciprocity on Investments**

Improving conditions for investments in international projects, including stronger investment rules and protection in third countries, would help secure a clearly defined and transparent legal framework for companies to invest more in energy. BUSINESSEUROPE believes that the investment security arrangements in the Energy Charter should be maintained and that future EU bilateral energy treaties should be based on similar approaches.

The EU must develop a more effective policy to ensure that European companies can participate in international energy projects by making stronger demands for reciprocity with resource-holders. This may require the EU to reflect on investment restrictions targeting countries which do not open their markets to EU investors. In addition, the EU and business must find new ways to ensure that European energy companies can compete on fair terms with state-controlled energy companies that practice strategic pricing.

#### **c. Stability for long-term gas-contracts**

Long-term contracts are often linked to useful infrastructural investments which to be viable need to secure a long term supply of gas. BUSINESSEUROPE therefore calls for the possibility of maintaining long-term gas-contracts to create an environment conducive to security of supply, price stability, and stronger guarantees for both consumer and supplier.

Another challenge in the field of gas contracts concerns the weak negotiating position of individual EU Member States relative to third country suppliers with a monopolistic export position. BUSINESSEUROPE believes that the renegotiation of gas-contracts with third countries or gas-suppliers from third countries should be done within a European framework. In practice, this should lead to information sharing regarding contract renewals between the Member States to avoid price-discrimination and/or quantitative discrimination. Through such a system, the EU would be able to take advantage of its position as a large consumer market. In addition, the establishment of a European framework for gas contracts would help prevent disagreements between EU Member States over the development of much-needed new infrastructure (e.g. the Nordstream Pipeline) for gas imports thanks to increased intra-EU transparency and would strengthen the negotiating position of smaller Member States. The EU should



also reflect on other mechanisms that could be developed to use the single market as leverage in negotiations in close consultation with business.

BUSINESSEUROPE also calls for clarifications regarding long term transport contracts for foreign providers of gas (e.g. Russia) to provide them with the security they need to make additional investments in gas production and infrastructure. Without clearer rules on network capacity, foreign suppliers will not be able to secure adequate financing for new projects.

#### **d. Political and Financial support for priority interconnection projects**

The EU should diversify energy transit routes so that one actor or state does not completely control or denominate them. Therefore, BUSINESSEUROPE welcomes the proposed Priority Interconnection Plan, which will appoint European co-ordinators for four priority projects: the Power-Link between Germany, Poland and Lithuania; connections to offshore wind power in Northern Europe; electricity interconnections between France and Spain; and the Nabucco pipeline, bringing gas from the Caspian to central Europe. BUSINESSEUROPE highlights the vital importance of these projects for the future energy security of the Union but warns that these projects may be too small to address the EU's medium term energy needs. For instance, the opening of the fourth gas corridor linking the EU to the Caucasus and Central Asia could require several new pipelines in addition to the Nabucco project. Consequently, BUSINESSEUROPE encourages the Commission to put forward proposals to coordinate regional projects of significant size such as the fourth corridor to mobilise public and private investments. However, the EU must go beyond providing political risk coverage for new projects by developing appropriate financial instruments to facilitate their launch. EU financing or the mobilisation of funding from international financial institutions for projects of European interest should be a priority for the EU.

### **3. Strengthening international partnerships**

As a major importer of energy, the EU must strengthen its ability to dialogue with one voice with key partners. BUSINESSEUROPE is convinced that bilateral relationships should maintain good relationships and consultations with producer and transit countries. Where possible, dialogues should promote reciprocal investment, lead to more trade liberalization and include issues relating to broader economic and social development.

The deepening of the internal market and the development of European-wide regulation for energy will have a major impact on the EU's foreign suppliers of energy. Consequently, the EU must encourage to regulatory cooperation dialogues between the regulator(s) for the EU Common Gas Regulatory Space and regulators in supplier countries to ensure that they can prepare and adapt to new EU regulations. Ideally, regulatory dialogues should lead to mutual beneficial regional convergence between EU and neighbouring supplier countries.

#### **a. Deepened dialogue with key energy producers and transit countries**

Deeper dialogues with key energy producers and transit countries; whether through OPEC and the Gulf Cooperation Council or fully implementing the Memoranda of Understanding with Azerbaijan and Kazakhstan will be important for future EU foreign policy. BUSINESSEUROPE also encourages the EU to establish stronger ties with important Central Asian producers like Turkmenistan and Uzbekistan to facilitate the transport of the Caspian energy resources to the EU. Similarly, the EU must examine



the possibility of increasing energy relations with Iran under a more favourable and peaceful political context.

In its bilateral relations with third countries, the EU should give more weight to securing energy supplies. This means that the EU should recognise its special foreign policy interests in producer countries, in particular Russia and the Gulf Countries including Iran, North Africa (Algeria, Libya, Egypt) and Sub-Saharan Africa (including Nigeria). This aspect of the strategy should also look further to maximise the geographical diversification of EU energy supplies to areas like Latin America and the Caribbean. It should also look to new energy sources such as developing a dialogue with Brazil and neighbouring countries on bio-fuels and other types of renewable energy.

#### **i. Russia: A Reformulated relationship**

Currently, Russia provides more than 25% of the EU's gas (50% of all imports) and 25% of its oil (over 30% of all imports) and the EU imports more than 50% of Russian energy exports and this mutually beneficial relationship is expected to grow. The G8 St-Petersburg Declaration, held under Russian presidency, outlined a number of shared commitments to open trade and investment and to strengthen energy security. However, there are concerns about Russia's reliability as a supplier of energy because of foreign policy motivated supply interruptions which have affected several EU countries. Even though the EU is by far Russia's biggest energy customer, Lithuania faced cut-offs in 1995 and the recent Ukraine (2006) and Belarus (2007) crises demonstrated the potential short and medium supply risks for the EU. Considering Russia's export dependence on the EU, BUSINESSEUROPE expects the EU to adopt a much firmer line towards Russia in cases of foreign policy motivated supply disruptions which affect the EU.

In addition, the low level of Russian investment in infrastructure and new gas fields could lead to technical problems caused by ageing infrastructure, and bottle necks in the supply system. As a result, Russia may not be able to meet Europe's growing energy needs in the medium term. BUSINESSEUROPE urges the EU and Russia to rapidly resolve this issue by incorporating more long-term security into their energy relations. BUSINESSEUROPE supports negotiations on a new robust comprehensive reformulated framework agreement on the basis of equality, mutual understanding and reciprocity by building upon the energy security declaration agreed by the G8 in St. Petersburg, the principles of the Energy Charter Treaty and the experience of the EU-Russia Energy dialogue. To build greater trust between Russia and the EU on energy matters, a compromise on the transit protocol of the Energy Charter would be useful. Russia should allow transit of gas through available access in the Russian network and allow European firms to invest in the development of the Russian network. On the EU side, clarification should be provided to Russia regarding internal transit in the EU (i.e. between EU Member States) related to long term transport contracts.

#### **ii. A comprehensive Africa-Europe Energy partnership**

The importance of Africa as an energy supplier has increased greatly in recent years. However, oil and gas-exporting countries are overly dependent on oil and gas export revenues which creates imbalances that hinder the proper development of their labour markets. Consequently, an EU-African energy dialogue should include security of supply, technology transfer in renewable energy, sustainable



extraction of resources, transparency of energy markets and respect for good governance. Algeria is a vital supplier of natural gas to the EU but it has experienced a turbulent political period in which economic stability was fragile. BUSINESSEUROPE strongly supports intensified bilateral co-operation and calls for the strengthening commercial relations with Algeria.

**b. Relations with major consumers**

Enhancing relations with major energy consumers to promote open and competitive global energy markets, energy efficiency, regulatory cooperation and research will be essential to reduce global demand for finite hydrocarbon energy sources. Consequently, BUSINESSEUROPE supports the idea of an international agreement of energy efficiency between major energy consuming countries (the US, Japan, Canada, Australia, India and China). This agreement should encourage policies to promote energy efficiency as well as the development and diffusion of energy efficient technologies and of renewables. However, BUSINESSEUROPE cautions against an agreement which could have a negative impact on global trade. Therefore, any agreement covering trade and goods should be based on energy efficiency and trade facilitation considerations. BUSINESSEUROPE also calls on the EU to combat trade distorting energy pricing policies such as “dual pricing”. These policies lead to tremendous waste of energy – as is clearly demonstrated by Russia and China which have recourse “dual pricing” – and provide unfair subsidies to their domestic industries. These wasteful and trade distorting policies should be clearly recognised as WTO incompatible subsidies. Finally, the Commission must ensure that all key energy consumers participate in an energy efficiency agreement to avoid a situation similar to the Kyoto Protocol in which major emitters of CO<sub>2</sub> (China, India, the US, etc.) make no contribution.

**Conclusion**

The EU is at a cross-road on energy. By uniting its forces, the EU can be an effective international player and can secure its future energy needs at reasonable prices. This will require the EU to develop a coherent and united policy toward third countries on external energy matters. BUSINESSEUROPE calls on the EU to act urgently to develop common external relations of energy policy.

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