



EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR ENERGY AND TRANSPORT

Office of the Co-ordinator of the Caspian Sea – Middle East – European Union
Gas Route

DIRECTORATE C - Conventional sources of energy
Energy policy and & security of supply

Brussels, 19/11/2007
TREN C1/BD/EX SOS/BD D(2007)

Jozias Van Aartsen - Speech

CHECK AGAINST DELIVERY

Base Speech

Ladies and Gentlemen, Distinguished Guests:

Let me first congratulate [you] for this marvellous event and the opportunity to speak at it. In September (2007), the EU appointed me to co-ordinate the development of the Southern gas Corridor¹ (also known as NG3 or the Fourth Corridor).

This is one of the first occasions that I have spoken publicly in my new role.

I have listened to various stakeholders. I would like to take this opportunity to outline some first thoughts on the problems and issues as I see them at this stage.

Also I will discuss my role and some wider considerations that must not be forgotten.

In this speech, I will move from the particular to the general. I have reflected on what the EU must do to achieve its energy market and security goals. There are some primary issues in relation to the development of the Southern Corridor that must be overcome.

So let me make some general comments that place this speech in the context of the meeting / conference today – namely what needs to be done [--] and the importance of energy in the future of the European continent.

My first over-riding impression of the energy market is that energy *is politics*.

Indeed, some might say that our external suppliers have adopted the dictum that:

energy is the continuation of politics by other means.

I would not go that far, but energy policy is clearly a constraint on the freedom to act of many states.

And this constraint has practical political impacts. Without energy independence – broadly interpreted – no state can be truly sovereign.

Suffice to say, in South East & Central Europe today, there are a number of countries that have constrained their freedom of action through adoption of particular policies.

Further afield in the Caucasus, we have witnessed a long struggle to break free of integrated {--} systems for gas and electricity that have been manipulated for political reasons.²

¹

And of course, in Ukraine and Moldova, the problems are well known.

What is less well appreciated is the subtle, soft and long term political pressures on governments from having less than perfect energy systems.

Outside the media glare of gas cut-offs and Russia-Ukraine disputes – there is a failure of countries to provide basic affordable energy services to their citizens.

This results in increased mortality (mostly from cold in winter),³ economic loss and sometimes political turmoil.

Secondly, no country can deal with the problems on its own. None of the countries in South East and Central Europe (and perhaps in the EU) is large enough to attract investments on the basis of its domestic economy. There must be a combination of effort.

In the long term, the aim must be to establish an energy framework to develop the whole region from the EU to Central Asia and the Middle East in order to provoke economic and political development.

Energy is the catalyst to broader economic and political development, just as it was the catalyst behind the development of the European Union in the 1950s and 1960s with the European Steel and Coal Community (ECSC).

In that context, I have been appointed the gas corridor co-ordinator for the Southern route.

What is interesting about this route is that the creation of this route is bound up in geo-strategic issues, domestic political issues and finance.

As an illustration, to make any gas pipeline work in the South East region, it will require some significant anchor loads – that is substantial contracts for electricity generation that will provide the basic gas contracts for throughput in the pipeline.

In turn that requires governments to opt for gas, rather than coal or some other fuel.

The leading option to connect the EU to the Caspian Sea is the Nabucco gas pipeline, championed by OMV. Amongst all the pipelines, Nabucco is the leading and most advanced option, in which a lot of work has already been invested. Nabucco is not a pro-this or anti-that pipeline – all can benefit from its construction, including existing suppliers.

2

3

I have been asked by the European Commission to focus on Nabucco, and, if it is possible, to bundle in other lines.

But I shall not forget the other potential gas pipelines – wherever they may go and wherever they are from.

These other lines are numerous – there are many different options.

Some go through Turkey, others through the Black Sea. They are also progressing well.

I mention in passing the South Stream project. This goes through the Black sea to the South East European market (Bulgaria) The White Stream project passes between Georgia and Romania (but including Ukraine). We support these.

Some pipelines go through Turkey, others do not, and the development of these options crucially depends on the attitude of Turkey.

Our interest is not just in making connections between the EU and producers, but also to develop intermediate countries so they are stable and offer good investment opportunities.

In the long term, the energy security and independence of all the countries in the region is very important to us.⁴ Only that will give us security; a pipeline across an unstable region is not in our interests.

Moreover, we have a great interest in liberating these countries from structurally difficult relationships with their suppliers.

We want these countries to be free to make their own choices. So that is why we must secure interconnection and new supplies for countries that are dependent on one external supplier.

The EU must act as an independent catalyst for energy market development in its near neighbourhood and make our neighbour's energy security ***our energy security***.

By doing so, we can induce co-operative behaviour. We must become interdependent and extend energy security guarantees to our neighbours.

We ask our neighbours to bear costs. The costs are the obvious construction costs of creating a hydrocarbons corridor to the EU, but also the perceived costs (which can become very real) of breaking from established suppliers or established trading partners.

4

We cannot treat our neighbours and partners as merely hosts to the development of pipelines for the prosperity of the European Union.

If we have nothing to offer, it will mean that these partner countries reflect this policy by trying to extract as much advantage for themselves: we must engineer win-win solutions. This is what I mean by *shifting energy security perspectives from national to European levels*.

One part of this must be to assist the transit countries in achieving their energy security objectives. The European Union has promoted the Energy Community as a mechanism for this and I am glad to say that both Ukraine and Turkey have been invited into this club; I hope they will seriously consider it. After all, it has a solidarity and security mechanism in it.⁵

I have some modest ideas as to how we can combine these aims to the benefit of all concerned.

And I want to say that the basic prescription I have is this: if you want to regain your energy sovereignty, then you need to develop legal and supranational means to manage your risks. This implies market integration and the tackling of problems from a common perspective rather than every state looking after itself.

We have learnt this painfully within the EU – we are now trying to develop the single voice in energy policy that we all want.

Moreover such integration should deliver concrete benefits to end consumers, provide a solid basis for investments and provide a basis for increased economic integration and political co-operation in other areas. There is no necessity for the integration to be a one-way street – the EU can learn as much from its neighbours as they can from it. But – I think justifiably – we have a model that is working and that we can be proud of.

Let me explain a series of concentric circles of energy co-operation and integration.⁶

A highly complex and regulated internal energy market, appropriate to highly industrialised, prosperous and information rich societies such as those within the European Union would be at the centre. These states are implementing and continually updating a complex set of regulatory rules and technical parameters.

Beyond these core states, there are those that are acting with a view to eventually becoming an integral part of the core. These are accession states principally – including

⁵

⁶

Turkey – but also those states that can reasonably be assumed to have a prospect of joining the internal energy market whatever the eventual limits of the European Union are.

As a group, these states are industrialised and growing and (generally) have stable macro-economic prospects.

Once we move beyond this group, the issues are more fundamental and could be considered ones primarily associated with development and basic investments.

What these countries need is not more regulation, but more investment. And for more investment, we need a stable, predictable and legally sound basis for such investment.

Moreover, these countries have traditional relationships that will need to be modified and the European Union must back up its desire to become partners to these countries with significant financial guarantees.

The centre – the European Union – is subject to the rules of the Internal Energy market. Distinguished guests, I am sure that you need no explanation of this core.

For the second ring of states, the European Commission has launched the Energy Community, which binds the European Union and Contracting parties in a common energy market with binding rules based on EU norms.

At present, the Energy Community is limited to the countries of South East Europe. We hope in 2008 to bring Turkey, Ukraine and Moldova into the fold.

There is a standing invitation to Turkey and Turkey must decide in which club it wants to be. And we have other states in view too, especially in the Caucasus.

For the outer ring, I think we need to do three things. Firstly, we need a bare minimum legal regime for investments.

Secondly, we need greater international cooperation amongst the countries, donors, banks and domestic and international investors.

Thirdly, we need a commitment to good governance. Beyond that, we need to allow for graduation to the Energy Community if a country so desires.

The minimum legal regime I am proposing would essentially protect investments from legal expropriation and from *de facto* expropriation arising from regulatory change or simple administrative *fiat*.

The Commission has for many years hoped that the Energy Charter could provide this simple regime. We need to focus the Energy Charter on this and extend its scope into the Mediterranean.

Lastly, with regard to this group of states we need a commitment to good governance. A commitment to proper and sound statistics needs to be made. Corruption needs to be tackled. The environment cannot be ignored nor can the rights of indigenous populations be treated as valueless.

From the perspective of the Southern Corridor, we have many immediate challenges.

We above all need to know about the position of Turkey. Turkey is determined to be a bridge between East And West in energy terms, to develop as an energy hub. Sadly, I and my colleagues are unsure what these ideas actually mean.

I am not sure that there is an answer in Ankara either. We can help Turkey achieve its aims, but Turkey must engage in serious discussions and yet not impede normal commercial relationships.

What we – the EU – have suggested to Turkey is to join the fourth European Community now, and that Community is the Energy Community.

In that Community, as a precursor to full EU membership, Turkey is treated as an equal. She has equal rights to the entire EU. She suffers no veto from within the EU. And yet she can exercise a veto over the external policy of the Energy Community in trade matters.

This seems to me to be a simple choice; that Turkey should take advantage of now. In this context, the EU is ready to assist in the development of the downstream industrial role of Turkey.

Together, within the Energy Community, the EU and Turkey can develop the geo-political position of Turkey in the Caucasus, the Middle East and Central Asia.

But without the legal regime that comes from the Energy Community, it will be very difficult for the EU to move forward on including Turkey.

Secondly, in energy terms we need a fully engaged Serbia in South East Europe, which means developing the role of Serbia in the region and more widely. Serbia is the largest of the underdeveloped markets in South East Europe. Serbia could lead in the Balkans if it so wished.

I will not speculate on Serbia in political terms, but I want to assure Serbia that there is a prize to be had, in developing its position to export energy, import and store gas and oil, and to regulate the various electricity systems across the region.

Thirdly, the Caucasus needs to be developed in its understandable desire to become part of the European family. I know that Georgia wishes to become an Observer of the Energy Community, but I think it should consider membership. The same is true of Azerbaijan.

Over the course of 2008, I will be pursuing this vision. I will work with all partners, with civil society and the countries concerned. Most of all I want to build a mutually co-operative energy system and market where producers feel comfortable that they receive a fair return and consumers feel that they have real choices.

The EU cannot wait – the time has come to act and for all concerned to make choices. Nobody wants to struggle on making concessions or overtures if these are spurned, nor does anyone want to get out of one fire and into another. Only commitments that are legally based and imply solidarity will work.

Thank you.

For Further information:

Brendan DEVLIN, Telephone:(32-2) 2968433, brendan.devlin@ec.europa.eu