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Speech of Commissioner Oettinger at the International Odessa Forum

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

International Odessa Forum

Odessa, 27 July 2010

Dear Ministers,

Excellencies,

It is a great honour to be with you today in Odessa at the occasion of this conference on energy cooperation in the Black Sea region.

The European Union, its Member States and companies have a long-standing record of cooperation on energy in the Black Sea region and with its coastal States. The accession of Romania and Bulgaria to the European Union in 2007 was a major development for the EU perspective on the Black Sea.

In its Communication on the Black Sea Synergy (April 2007), the European Commission pointed out that *"the Black Sea region is a production and transmission area of strategic importance for EU energy supply security. It offers significant potential for energy supply diversification and it is therefore an important component of the EU's external energy strategy."*

This strategic importance is reflected by the comprehensive and combined initiatives and cooperation policies established through INOGATE, the Baku process, the Eastern Partnership and, of course, our energy cooperation with each of the countries in the region. This will be my starting point.

I – Building strong energy partnerships around the Black Sea

The European Union energy policy for the Black Sea region is built on a strong and balanced partnership with each of the countries represented today.

Allow me to first mention Ukraine. Ukraine has a strategic asset - its extensive existing gas transportation network. The country is at a cross-road where it has a unique opportunity to ensure that it continues to make commercial sense for the gas market players to use the Ukrainian gas transportation network as one of the preferred routes for Russian gas supplies to the EU. The modern gas transit business requires transparent, efficient and quality transit services through a modernised gas transportation network.

I wish the European view to be well understood. We consider that the reform of the Ukrainian gas domestic market and gas transit are not separate issues. Transit will not be totally guaranteed as long as the domestic gas system in Ukraine is not financially sustainable and transparent.

This is why we are now looking at the reforms in Ukraine with great attention. The recently adopted gas law is a positive starting point. It should be followed by effective reforms, including the implementation of new legislation on public procurement and independent energy sector regulation which will be conducive towards creating an efficient, transparent and well managed energy sector able to attract domestic and foreign investments as well as lending from IFIs in view of the modernisation of Ukraine's natural gas transit system..

Such reforms would also ensure Ukraine can take maximum advantage of another strategic asset – its under-exploited own energy resources. The European Union is helping as much as possible in this process by sharing our experience on energy sector reforms and through our joint project for the modernisation of the Ukrainian gas transit system.

Let me now cross the Black Sea to the shores of Turkey. Turkey is developing a modern and very dynamic energy market. Turkey is a strong partner of the European Union and we believe that the security of energy supply for Turkey and for the European Union is strongly interrelated. As a result, we have developed several projects of regional dimension. I will highlight in a few minutes the progress achieved on the "Southern corridor" for which Turkey is playing a pivotal role.

The importance of Russia as a key player in the Black Sea region is evident. The European Union and Russia will celebrate this year the 10th anniversary of their energy dialogue. We regard this dialogue as essential for our energy policy. The European Union and Russia are interdependent, the EU being by far the first importer of Russian hydrocarbons: this is not expected to change in the future. For these reasons, we believe that Russia has an important contribution to make to multilateral energy organisations such as the Energy Charter. At the same time, we expect our Russian partners to understand our security of supply policy based on diversification of supply routes and sources.

Georgia has started an impressive investment programme to develop its hydro-generation capacities and its electricity interconnections with neighbour countries, in particular with Turkey. The European Union and the European Banks (EIB, EBRD, KfW) are involved in the financing of these projects. The Georgian energy sector is largely privatized already. It is undergoing important reforms. Georgia is today observer to the Energy Community and we would welcome its application for full membership.

The picture is not complete without Azerbaijan. While not physically on the Black Sea, Azerbaijan is a major energy player in the region and a key partner for the European Union. I was pleased to meet President Aliyev in Baku in April. I can confirm that our co-operation is built on solid foundations, underpinned by clear mutual interests. The participation of Azerbaijan in the Eastern Partnership is a historic milestone and by signing the Southern Corridor Declaration in Prague, Azerbaijan has confirmed its critical role and commitment to building bridges to the EU. We are following closely the award of gas from Shah Deniz-2. The Commission has long underlined its interest in a strategic allocation of gas from Shah Deniz-II that allows the Southern Gas Route to develop. I will come back to this later.

Let me also mention that, in order to enhance political cooperation and move forward on gradual economic integration with the EU, we have launched earlier this month bilateral negotiations with Armenia, Georgia and Azerbaijan in view of concluding Association Agreements which will bring the Southern Caucasus region closer to the EU

II – Promoting common rules favourable to energy investment and trade

Energy trade and investments in the Black Sea region are gaining importance. New gas and electricity interconnection are built. New power plants are being developed, both as regards fossil fuel generation, renewable energies and nuclear projects.

We believe that trade and investments in the energy sector are best supported by multilateral frameworks ensuring transparent market rules, protection of investments and predictability and fair conditions for transit and trade of energy.

Today, five Black Sea coastal states are Members of the World Trade Organization. The same five coastal States also signed and ratified the Energy Charter Treaty¹. Both as regards the World Trade Organisation and the Energy Charter Treaty, a dialogue is on-going with Russia and we hope that Russia will be able to join the common platform soon.

We believe that the Energy Charter Treaty continues to constitute a useful instrument to facilitate energy investment and trade.

¹ All but Russia.

In addition, several States have decided to integrate their energy market on the basis of the EU legislation. Next to Bulgaria and Romania who have joined the European Union three years ago, other countries have decided to engage in the Energy Community process.

The Energy Community Treaty provides for full market integration with the European Union on the basis of EU energy and environment legislation. Moldova recently joined. Ukraine is about to join soon and will have to put in place the required legislative and regulatory framework. Other countries are interested. Negotiations have been opened with Turkey. Georgia has been accepted as an observer and could apply for membership.

Turkey is in a specific situation since it is at the same time engaged in the EU accession process and in the Energy Community process. In both cases, the perspectives of market integration and the reference regulatory framework are the same. Let me also mention here that in the case of Turkey, the synchronous interconnection of the electricity system with the EU, which is likely to be finalised next year, will represent an important step towards market integration. In any case, it is worth mentioning that many aspects of the energy market regulation in Turkey are already close to the European Union regulations and that the Intergovernmental Agreement on Nabucco signed last year is fully in line with the EU legislation.

Ladies and Gentlemen,

We aim at strengthening multilateral energy cooperation in the Black Sea region and we consider that a multi-dimensional approach is needed. The WTO and Energy Charter Treaty provide for the key principles. For those partner countries wishing so, the Energy Community Treaty is the main tool for further market and regulatory integration with the European Union.

These multilateral frameworks are not static. They need to keep pace with the evolutions in the energy sector. This is particularly important for the Energy Charter process which is entering a phase of review and modernisation.

III – Promoting projects of common interest

Finally, let me shed light on two projects which the EU is supporting and which constitute good examples of regional integration.

Let me first mention the modernisation of the Ukrainian gas network.

In March 2009 the Commission jointly hosted with Ukraine a high level conference on the modernisation of the Ukrainian Gas Transit System which involved the European Investment Bank, the European Bank for Reconstruction and Development and the World Bank. The resulting Joint Declaration committed Ukraine to undertake the necessary reforms that would permit the international financial institutions and other lenders to invest in the modernisation of the Ukrainian gas transit network. It also demonstrated the commitment of the EU to the modernization of Ukraine's gas transit system.

Since then, Ukraine has begun the difficult process of reforming of its gas sector while in parallel the International Financial Institutions are undertaking their due diligence procedures. The EU is assisting by financing, through the Neighbourhood Investment Fund, the necessary technical feasibility study and environmental impact assessments that are required by the banks. We are expecting concrete projects to be implemented by early next year.

Southern corridor

The European Commission is aware that sometimes extraordinary measures are needed. For example, in gas markets, an extraordinary effort is needed to open the Southern Gas Corridor.

When this project started, there was feedback from the industry saying that the development of the Southern Gas Corridor was desirable, but that no institution, the European Union included, had the muscle to open the Corridor.

Put simply, the number and the complexity of problems was simply too great, and a list of bilateral relationships and issues that need to be considered proved the point.

However, the European Commission is showing that a way can be navigated through this tangle of countries and we actually are in the course of doing so. However, I am well aware that this is a delicate navigation, and that the success does not only depend on us. We may need extraordinary measures to achieve success, such as the Caspian Development Corporation or the building of a trans-Caspian pipeline link. These measures will capture the public goods associated with diversification of supply and give confidence to new suppliers to move ahead in forging relationships with us.

I want to say a few words about Nabucco. Nabucco delivers some of the strategic benefits that public policy demands. First of all, it tackles a public interest: the interest in energy security. In this regard, the gas markets isolation of the Central and Southern EU Member States is a concern to the Commission.

Secondly, the project should enhance wholesale competition; a project that takes gas directly from the ground and sticks it in a gas turbine does not deliver on this.

Third, it should be clear what is the transit regime in transit states: either there is a project which establishes a physical connection itself or clear transit rights are foreseen. Securing oil transportation

The Black Sea region is strategic for the export of oil from Russia and the Caspian region. We expect that in future additional quantities of crude oil will likely be imported into the EU through existing or new pipelines and/or via tankers. The congested Turkish straights will not be able to transit additional oil quantities and this situation raises concerns both in terms of security of supply and with regard to the environmental threat of possible tanker accidents in our seas. I have to say that we fully share the Turkish concerns in this respect.

The Samsun-Ceyhan oil pipeline project will provide part of the answer. We regard this project positively: it is a successful example of cooperation between Turkish, European and Russian companies. I believe that other projects will also be needed to further alleviate the pressure on the Turkish Straits and reduce environmental risks in the Black Sea and the Mediterranean Sea. I suggest an initiative involving all stakeholders around the Black Sea to discuss these issues.

Conclusion

Dear Ministers,

Ladies and gentlemen,

Let me summarize how I see the EU energy priorities in the Black Sea area.

First, we will develop the Southern corridor in a manner that will balance the interests of the producing countries, of the transit countries and of the consumer countries, bearing in mind that several countries, like Turkey, are at the same time a consumer country and a transit country. I wish to underline that in our analysis, it is not possible to ensure our own security of supply if the security of supply of our partners is not guaranteed as well. We are confident that in the coming months important steps will be taken towards the investment decision on Nabucco.

Second, we will pursue market integration with those countries wishing to do so, in the framework provided by the Energy Community Treaty. The accession of Ukraine will be a major event in the coming months. We will continue to accompany and support Ukraine along the road of reforms.

Third, we wish to promote regional solutions to regional problems such as the oil export routes and the preservation of the maritime environment in the Black Sea and the Mediterranean Sea. This is why we would support regional initiatives in this direction.

Thank you for your attention.