

**Participation of M. KESTERIS
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**SUBJECT : “European Union’s energy outlook : what are the
challenges ahead ?”**

Ministers,

Ladies and Gentlemen,

Let me say first of all that I feel honoured to have the opportunity on behalf of Commissioner Piebalgs address such a prestigious audience to a Seminar organised by OPEC and to share with you the ideas of the European Union on the energy challenges.

The energy challenges that the world is facing have never been greater.

Allow me to highlight three of these challenges to put my later comments in perspective.

- **The first and most obvious challenge is, of course, global warming.** It’s happening, it’s caused largely by man-made carbon-dioxide emissions and its effects will be very serious. However, the present response of the global Community is to increase the rate at which carbon-dioxide is emitted, not reduce it. Few countries actually have a concrete plan to limit, let alone reduce emissions. This is simply irresponsible.

The real issue is that every year that goes by without an adequate response at global level will make the problem more difficult to solve. A truly international - global - agreement to address this is therefore vital and urgent. I strongly believe that we owe it to future generations to create a sustainable energy world.

- **The second main global energy challenge** we are facing concerns **how to deal with rapidly growing world energy demand and its effect on energy prices.**

In recent years global energy demand has increased at almost unprecedented rate. While much of this growth has come from the developing world, demand has in fact increased across the board. Chinese demand for oil increased by almost 16% in 2003 - almost one million barrels of oil per day - but presently accounts for only 8,2% of global oil demand. India's oil demand grew 5,5% in 2003 but only represents 3,2% of global demand. If these growth patterns continue, it is difficult to predict how long supply can keep up.

This is a long term trend and many believe it is unlikely to be reversed. Note that economic growth in China has actually accelerated in spite a doubling of crude oil prices, not reduced. Note also that Chinese energy demand per capita is just one fourteenth of US demand, one seventh of EU demand. India's per capita consumption is only half of China's. The potential upside in terms of global energy consumption appears almost unlimited.

It is uncertain whether energy production will grow as quickly as demand. There has been no super giant oil field discovery like in OPEC Member

States for decades, yet smaller finds. However, better use of existing resources means that proven reserves are as high as ever.

We are going to remain in a situation of uncertainty and many believe of high prices - perhaps even higher than today. Of course this is impossible to predict; note that present oil prices around 70\$ per barrel are based on perceptions that *if* further geopolitical crises or natural disasters occur there *might* be a temporary shortfall. There is no *actual* shortage of oil today.

- **The third major challenge concerns security of supply**: how to cope with increasing competition for limited resources of oil and gas and the fact that most of these resources are concentrated in regions where political events are causing problems discouraging necessary oil exploration and production investments.

The question for the European Union, therefore, is how we will develop and implement a European Energy Policy that can react to these challenges.

I would like to give you now Commissioner's view of where we should try to lead this debate: how should Europe's energy policy look?

1. **The Green Paper on a European Strategy for Sustainable, Competitive and Secure Energy**

- Our Green Paper on a European Strategy for Sustainable, Competitive and Secure Energy, issued by the European Commission in March of this year, according to the identified challenges established three equal and complementary objectives for a European Energy Policy: Sustainability, Competitiveness and Security of Supply.

- It also set out the priority areas which a new Energy Policy for Europe should address:
 - EU's internal energy market to create the basis for any European internal and external energy policy
 - Increased solidarity among Member States to face possible supply disruptions
 - A diverse, sustainable and efficient energy mix
 - A strong effort on energy efficiency and renewables to tackle climate change
 - Technology and innovation, and
 - A strong external dimension to energy policy.

- At their Spring Summit, the European leaders welcomed the Green Paper. Last June, they re-stated their intention of adopting an Action Plan on energy policy in spring 2007.

- The European Parliament as well as EU stakeholders and citizens have also responded positively to the Green Paper initiative. Public consultations are open till 24 September.

- The blueprint for a new energy policy for Europe will be the Commission's Strategic European Energy Review, which the Commission intends to present in January 2007.

2. **Strategic Energy Review**

- The Strategic Review will set out where Europe is heading under current policies and consumption patterns, and where we need to make changes to

achieve our policy goals. It will be the first step towards finding common answers to the challenges we face, and finding a way for Europe to pursue them collectively.

- The first question we must address is: What sort of energy policy does Europe need?
- **First**, I believe that we need to make combating climate change one of the main hooks on which to hang our energy policy. In the same way as energy efficiency must be the overriding instrument to achieve our goals, so climate change must be a core focus of our task. Climate change has become the catalyst for new energy awareness, at home and abroad. In order to achieve the ambitious targets for cutting Co2 emissions set forth by the European Union, we have to promote low carbon energy sources such as the renewables, the CO2 free use of fossil fuels, and the clean and safe nuclear energy.
- **Second**, of all the issues in the Energy Green Paper, energy efficiency is certainly one of the most important instrument to contribute to achieving our three main policy objectives at the same time. It receives wide support from the public and the energy industry within and outside the EU.
 - All Member States and the European Parliament agree that much more must be done to save energy. We now need to translate their words into actions. 20% savings is, I think, perfectly realistic by 2020.
 - The Energy Efficiency Action Plan, in two to be adopted by the Commission, will be built around three pillars identified in the public

consultation: raising awareness, improve financial mechanisms to promote energy efficiency and the optimal implementation of regulations.

- An international approach to energy efficiency will also be integrated into this action plan. Given the scarcity of energy resources and the limited spare production capacities, especially for hydrocarbons, it is obvious that developing countries with their huge consumption potential are willing to access the same scarce resources as the EU consumers. On other hand, there is quite a space for energy efficiency in resources exploration and energy production.

- **Third**, we need to recognise the magnitude of the investments which is required in the energy area. We have been living off the investments of the sixties, seventies and eighties. We need a new generation of investments to cope with future demand and changes in global supply. The International Energy Agency has estimated these as over 2 trillion Euros for the EU alone by 2020. Investment decisions are a matter for industry. But the crucial factors for triggering investment – also in developing new kinds of energy and research - are a real European market of energy with 450 mio. consumers and certainty about long term EU energy policy – immediate tasks for the member states and the Commission.

- **Fourth**, we will have to get used, I believe, to higher energy prices. This is an important market signal and we must respond. We also need to encourage our partners to let the market work. Subsidies to cushion the impact of higher prices will make the task harder later on, as well as diverting public funds from investments in energy efficiency, and energy saving.

- **Fifth**, we must build on the interdependence of Europe with the rest of the world. Energy should become an integral part of Europe's international relations. We must develop strategic partnerships based on mutual trust and

transparency, with the main producer, transit and consumer countries. And we must give ourselves a more diverse pallet of suppliers and supply routes for our growing imports. But, again, let me reiterate: the answer to our external challenges lies in developing a workable, cohesive and fair framework at home. Only then can we pursue our objectives internationally, speaking with one voice.

- Finally, sixth, we have to accept the limitations of European intervention in energy. Some matters, such as final decision on their energy mix, must be left to Member States. This has not prevented the Member States to accept concrete common objectives such as targets for CO2 emissions and renewable use. But we must make more of the potential for Europe to work together to achieve valuable results.
- The Strategic EU Energy Review will develop these themes and make concrete proposals.

3. Energy Package

- The European Commission is also developing a number of specific proposals, some of which will be presented together with the Strategic Review in the “Energy Package” in the very beginning of 2007.
- First, the Commission will present conclusions on further actions that need to be taken, in legislative and competition policy terms, to complete **the internal energy market**. Attention will be focussed on certain areas, such as
:
– transparency

- powers and co-ordination of regulators
 - creating conditions for sufficient independence of transmission system operators (the so called *unbundling*)
 - improved co-ordination between network operators on cross-border trade issues
 - consumer rights and protection
- **A Priority Interconnection Plan** for electricity and gas networks will aim to enhance the conditions for investment in key links within EU and between EU and its neighbours.
 - A Communication will examine ways of promoting **sustainable coal**. Above all, we need to bring clean fossil fuel technologies, including carbon dioxide capture and storage to the European and global markets.
 - Whether in coal, renewables or clean nuclear technology, we need to make the best possible use of the EU, national and private funds which go into research and development of renewable energy technology. A European technology plan is needed because investment in these technologies is fundamental to our security of supply. On other hand, countries across the globe - especially developing and those facing energy poverty - are crying out for clean technologies.
 - Renewable energy will be given a prominent place in the new package, with **a Roadmap for renewable energy** to provide more policy coherence in promoting different arts of renewables according to Unions strategic goals.
 - The **Energy Package** will also include a new Illustrative Nuclear Programme (“PINC report”). Nuclear power can have an important role to play in

improving security of supply and reducing carbon emissions in those Member States who choose this option as a matter of subsidiarity. But it is in the interests of the whole EU that the nuclear option is developed in the most sustainable and safest way possible.

The **Strategic Review** together with other parts of the energy package needs to clearly and convincingly show where our energy market will be in future decades if we make changes today. It needs to draw conclusions on Europe's appropriate energy mix. So that whilst adopting final decisions on this member states do it in an informed and responsible manner, namely, ensuring that the chosen policies really meet the core objectives of sustainability, competitiveness and security of supply.

The European Union has launched energy dialogues with all major producers and consumers as the OPEC, Norway, Russia, the Gulf Cooperation Countries, the Caspian Sea countries, the North African countries, USA, China, India, Korea, ASEAN, MERCOSUR while participating fully also in IEA and G8 works.

The aim of these dialogues is to exchange views about the main challenges shaping the future of energy markets, and promote policies and technologies to cope with these challenges.

With OPEC we initiated our cooperation in late 2004. Since then, three Ministerial meetings have taken place in Vienna and Brussels and a Policy Round Table among oil experts. For the second part of this year we are jointly organising four events:

- A joint **conference on carbon capture and storage** to take place in Riyadh on 21 September 2006.
- A **round table on energy policies to take place** in Brussels on 24 November 2006, focusing on the policies adopted or envisaged by the two groups relating to energy and the environment and energy transportation matters, and on how these may affect primarily the oil market.
- A **joint EU-OPEC study on investment needs in the refining sector** and the role of the oil refining industry in oil markets. The tender for this study is currently open for proposals.
- A joint event to take place 4 and 5 December 2006 in OPEC's premises in Vienna on the **impact of financial speculative markets on oil prices**, involving representatives of the stock market and financial institutions, as well as the oil industry.

Those and other forthcoming events will take place against the background of the EU developing its new common energy policy approaches and they will undoubtedly have an impact on our deliberations.

Before concluding my presentation, let me read the concluding phrase from the Joint Press Release issued following the last EU-OPEC Ministerial meeting, June 7 2006:

The European Union intends to pursue and deepen this dialogue with OPEC as well as with other international players and this is a major policy tool for facing the future challenges of the energy sector.

4. Conclusion

- Energy is a global issue. The G8, the International Energy Agency, ASEAN, MERCOSUR, OPEC and of course the EU, have all placed energy at the top of their agendas. And rightly so.
- In my view, dialogue and global consensus building are the only way forward. This is why today's Conference is so important. And this is why the EU will continue to involve OPEC in its future work.

Thank you, Ministers, Ladies and Gentlemen, for your attention.