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After the Russia / Ukraine gas crisis: what next?
Chatham House
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Ladies and gentlemen,

On 7 January six EU Member States – and six non-EU members – found their gas supply from Russia via Ukraine either totally cut off or considerably reduced. It was an episode without precedent, termed by the Oxford Institute for Energy Studies “the most serious security event in relation to gas that has ever happened in Europe”. It called into question the reliability of Russia and Ukraine as supplier and transit countries and sparked reflection on how better to assure our external energy security, and manage our political relationships with our eastern neighbours.

Today I want to give you an insight into our thinking on how to prevent any re-occurrence of this kind of crisis and our plans for energy security more generally; followed by some thoughts on our relations with our neighbours to the East, and specifically Ukraine and Russia.

Energy Security

The first Ukraine gas crisis in 2006 had already alerted us to weaknesses in the EU's energy security. We responded with a concerted push to strengthen our position. Many of us played a part: President Barroso spearheaded the so-called 20-20-20 package that puts the EU in the lead in reducing emissions and boosting renewables by 20%, all by 2020. My colleague Andris Piebalgs has fought hard for the 3rd energy package to better integrate our market and so increase our energy security.

And I, as External Relations Commissioner, have made my priority diversifying energy sources and supply routes, by developing the Commission's energy diplomacy with supplier, transit and consumer countries around the world.

We have stepped up our energy cooperation with partners around the world, signing new agreements with Kazakhstan, Turkmenistan, Azerbaijan and Ukraine to the east, and Egypt, Jordan and Morocco to the south. Further agreements are on track with Algeria, Libya and Iraq. We have helped to create a climate for new energy corridors: from Central Asia to Europe across the Caspian and onwards via a new Nabucco pipeline; from Africa through the Maghreb to the EU via the Arab Gas Pipeline. And we are focusing on priority infrastructure projects for gas and electricity, such as the Baltic Interconnection Plan, the North-South interconnections within Central and South-East Europe, and LNG terminals to receive liquefied natural gas.

January's events strengthened our resolve to continue this work. We do not want to supplant Russia – which will remain a prime supplier for the medium and probably long term. But we need to be clear-headed about the situation. There's much talk about our **energy dependence** on Russia, but it's more accurate to talk of **energy interdependence**. The EU may depend on Russia for 25% of our gas and oil supplies, but 70% of Gazprom's revenue comes from us.

This gives both sides powerful incentives to put our energy relations on a firm and predictable basis. The principles of reciprocity, transparency and proportionality are key. We want to strengthen our energy dialogue with Russia, bringing it to accept binding arrangements based on these principles, including in the new EU-Russia Agreement we are negotiating.

Russia too has come up with new ideas, like its ambitious (though not yet fully precise) proposal to launch negotiations for a new international energy agreement. We are willing to discuss new ideas and look forward to hearing more details. Our one concern is to preserve what has been achieved so far through the Energy Charter Treaty.

In the short term we should look for workable, practical ways to ensure that there is no repetition of this winter's events. That means more-robust early warning mechanisms and dispute resolution arrangements. **When problems arise the gas must still flow**, even as solutions are sought.

We also have to look at the long-term reliability, transparency and predictability of the key transit routes to the EU. So we are holding jointly with Ukraine an “International Investment Conference on the Ukrainian gas transit system” later this month, to help upgrade its gas transit system and

reform the gas sector.

There are other lessons to be learnt from January's crisis. Most importantly – whether or not the EU is ready to pool sovereignty in the delicate area of energy security – we must react with solidarity, and with the weight appropriate to our value as a consumer.

We need to develop the reflexes and mechanisms that enable us to exercise a coherent **external energy policy**, supported by a strategic **energy security diplomacy**.

Eastern Partnership

Ladies and Gentlemen,

The impact of the gas crisis was felt not only on energy supplies. It also brought home how important it is for the EU to have **stable and predictable relationships** with its neighbours. We need partners whose governance respects contracts and manages key sectors transparently.

Next week, Member States will approve the Commission's proposals for an ambitious new "**Eastern Partnership**" with Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. This Partnership sets out proposals for an ambitious programme of institution building: reinforcing the European Neighbourhood Policy and offering more intensive help than we have ever offered before for reforms essential to peace, prosperity and security.

The Eastern Partnership will operate at a number of different levels, and across the policy spectrum. To take the example of energy, it offers:

- 1) tailor-made bilateral support to boost each country's own energy security, in full recognition that the needs of countries dependent on Russian gas like Armenia and Moldova, transit countries like Ukraine and Georgia, and suppliers such as Azerbaijan – will differ;
- 2) multilateral cooperation to improve early warning and crisis preparedness; and
- 3) flagship initiatives to help diversify the EU's sources of energy supply and transit and promote green energy.

But energy security is only one part. Deepening bilateral relations between the EU and its Eastern partners will depend on progress towards **democracy, rule of law and human rights**. **Those who make progress in these areas will qualify for a closer political relationship with the EU – in the form of an Association Agreement.**

Building relationships with the Eastern Partners has to be a two way street. They want freer trade and easier travel. The EU wants to encourage reform. We can only make real progress on Free Trade Agreements with economies that are genuinely ready to open up to competition. And we can only offer visa facilitation to countries which have secure travel documents, properly run borders and arrangements for readmission of returnees.

But if we want to protect our security, we need to be willing to move on neighbours' key desires. This means opening our markets to goods from new competitors. It means allowing - in controlled mobility partnerships - greater access for workers from these countries when they bring skills we lack in our job markets. And it means devoting EU taxpayers' money to the initiative.

We are asking a lot, and we have to be willing to give in return. This is not philanthropy. It is 21st century European foreign policy. Drawing on the EU's unique range of instruments, we are seeking to achieve a new, innovative style of partnership with countries which are still emerging from a communist past. If we remain ambitious both in what we offer and what we seek, I am convinced that the Eastern Partnership will bring dividends of stability and prosperity to European citizens for generations to come.

Ukraine

Ladies and Gentlemen,

Ukraine is a member of the Eastern Partnership that has traditionally been ahead of the rest – both in what it has achieved, and in what it has been offered by the EU. However, the recent crisis contributed to the growing perception of confusion and drift in Ukraine's leadership, with conflicting messages coming from Kyiv.

Since the crisis, this pattern has persisted. It is essential that the government is able to take, and stick to, unified positions.

Ukraine is well placed to take advantage of the Eastern Partnership both under its bilateral track and through the different platforms within the multilateral track.

But it requires commitment, consistency and determination at all levels.

Considerable progress has been made in the past years, however renewed efforts are needed - particularly in the context of the current global financial and economic crisis which is hitting Ukraine hard. Key priorities include constitutional reform, judicial reform and efforts to combat corruption.

On the economic side, the implementation of the IMF package of conditionalities linked to the USD 16.4 billion standby loan is critical; as are general improvements in the business and investment climate. This will need real leadership.

Russia

What of our relationship with **Russia**? We now stand at a cross-roads. The war in Georgia and the gas crisis seriously undermined the level of trust between us. But Russia has been hit very hard by the global economic crisis and especially the fall in energy prices. When I visited Moscow at the beginning of February with President Barroso and eight other Commissioners I found a growing recognition of the level of our mutual dependence and necessity to work together on many issues.

That chimes with our approach. Last November the Commission led the EU's review of EU/Russia relations. We concluded that we should not try to hide certain differences which exist between us such as Georgia and human rights; but we should equally not let these prevent us from hard-headed engagement on matters of mutual interest.

We are currently negotiating a New EU/Russia Agreement aimed at providing legally-binding commitments and an effective way of settling disputes. Together with Russia's WTO accession, which we have always strongly supported, it is the most effective way of encouraging Russia towards respecting rules-based systems.

President Medvedev's proposal for a new European security treaty should also be seen in this light. It is a chance for the EU to take a common stand, setting clear red lines including Russia's commitments to withdraw its troops from Moldova and Georgia. If Helsinki II can become Helsinki Plus then we should see it as an opportunity rather than a threat.

Ladies and Gentlemen,

This is a fast-changing situation, not least against the background of the global economic crisis besieging us all. Our challenge is to remain true to our principles and interests, whilst being flexible and responsive to developments on the ground.

The EU is fully aware of its responsibility to ensure peace, prosperity and security for itself and its neighbours, and the policies I have outlined all serve that end. We may not always get the

outcome we seek, but to paraphrase Archimedes,

“Give me a firm place to stand and I will move the earth. The European Union is a firm place to stand.

Thank you very much for your attention.