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Address by

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at the EU Energy Conference

"TOWARDS AN EU EXTERNAL ENERGY POLICY"

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The days of easy energy are over. Global demand is rising rapidly while supply is maturing. The investment needs to ensure future supply run into hundreds of billions of dollars.

Europeans have been busy liberalising energy markets to increase competition and drive down prices. But liberalisation on the demand side has not always been matched by liberalisation on the supply side. Moreover, major players are using energy overtly as a geo-political matter. It is a euphemism to say that geo-politics affects investment and prices - and vice versa.

Hardly a day goes by that I am not confronted in my role as High Representative with the impact that energy has: from Sudan to Venezuela, from Iran to the Caucasus and beyond. So it is understandable and right that energy issues have shot to the top of the EU agenda. The paper I submitted together with the Commission to the European Council in June was an attempt to kick-start a discussion. This morning I want to take this reflection a little further forward.

Let us be clear: we do not yet have an external energy policy for Europe. And we are not fully implementing our internal energy policy. But we have set ourselves the aim of setting this right by next March. That is an ambitious objective.

The signals coming out of Member State capitals are supportive. But we need to match words with action. Some of the more difficult issues need to be put firmly on the table. Above all, we should avoid thinking that enumerating a list of principles is a substitute for a policy.

My aim this morning is to contribute to this process of developing a real policy. Not by presenting a single solution on a plate. In energy there is no such thing. But by asking a number of questions - which I hope are both pertinent and provocative.

Let me deal in particular with two questions: <u>How will our energy objectives influence our choices in foreign policy?</u> And <u>what could be our response</u>?

Europe will remain dependent to a large degree on hydro carbons. Because of concerns over climate change, we are rightly looking at energy savings and renewables. Renewables and bio-fuels also have great potential. But we have to be realistic. Even in the most optimistic scenarios, our dependency on oil and gas will not diminish much. And these we will have to source, increasingly, beyond our borders.

We will increasingly be competing with others for energy. Overall world energy consumption is set to increase by well over 50 percent over the next 25 years. The bulk of this projected increase will come from Asia, with India and China taking the lead. The scramble for territory of the past maybe replaced by a scramble for energy.

We have to take our energy from where we find it. Although energy markets are increasingly global, much of the world's gas and oil reserves lie in unstable and often undemocratic parts of the world. This is no accident.

New research by Professor Paul Collier of Oxford University argues that resource rich countries may be up to nine times more likely to suffer from violent internal conflicts than countries which are not resource rich. He has also stated that countries which benefit from an oil boom have an average economic growth of 7% in the first 5 years. But the next 10 years they suffer, on average, from a shrinkage of 17%.

The oil curse also means that democracy suffers and that checks and balances are weak. All this instability has a cost: in human terms of course. But also because it makes it harder get the needed investments, which are huge and necessarily long-term.

We may have to deal increasingly with governments whose interests are different from our own and who do not necessarily share our values. Sitting on huge reserves of oil and gas gives some difficult regimes a trump card. They can use energy revenues for purposes which we may find problematic. And it shields them from external pressure. Thus, our energy needs may well limit our ability to push wider foreign policy objectives, not least in the area of conflict resolution, human rights and good governance.

However we choose to deal with such regimes, others will put their energy needs above everything else. The scramble for energy risks being pretty unprincipled. That is likely to make it more difficult to secure support from key partners for our wider foreign policy objectives. Good examples include our efforts in Darfur and Myanmar/Burma and the role that energy plays in the calculations of China, India and others. In fact, most of the dossiers in front of the UN Security Council have an important energy dimension. None are made easier because of it.

No wonder that energy has been a priority in recent summits and high-level meetings with a wide range of third countries! But too often we have ended up divided or defending a line which is frankly a lowest common denominator. That has to change. Let us be clear. If we are not able to promote a unified and substantive position on this issue, partners will run rings round us. It has already come pretty close to that on occasions.

Let me set out a few points on what we can do to develop an external energy policy, and how we can integrate this into our wider foreign policy objectives.

What could be our response?

Securing our future energy resources depends mainly on diversification. That means accepting that we will continue to depend heavily on oil and gas. But it also means spreading our sources of supply and the routes to get this supply delivered to the EU. Given the long lead time in energy, we need to act on this now. But are we ready to define a common long-term strategy for the sourcing of our energy supplies? And if so, what are the concrete projects that we should support at the level of the European Union?

Working on diversification should of course not reduce our efforts, at home and around the world on efficiency and savings. There is an enormous potential on savings. If the US consumption of energy were the same as in Europe, this would help us save more than 4 times the production of Iran. Similarly, the manner in which China, India and others will develop their economy has enormous consequences for total global demand, as well as the pressing threat of climate change.

Surely we in Europe too can and should invest more into energy research, especially on efficiency and alternatives to hydro-carbons.

An external energy policy depends on having a robust internal policy. Liberalisation of the market is good for consumers. But it is only part of the answer. We also need to improve interconnections between Member States. Some Member States already have relatively diverse energy sourcing. Others are almost entirely dependent, for historical reasons, on one source of supply. Are we all ready to accept the obligation of solidarity?

Some reassurance is needed that the Union can resist, at least temporarily, an energy crisis. This gives us a stronger hand when talking with third countries. But is also essential for the stability of our economies. How can we provide a collective response if one of our member-states was faced with a real energy shortage, while avoiding the temptation of free-riding? Are we ready to develop further our system of oil stocks, in collaboration with the International Energy Agency? And what about gas? What can we do to promote gas emergency reserves - as well as a spot market for gas? Should we build more LNG terminals? If so, is there more to do at the level of the Union?

In the area of crisis response, the network of energy correspondents is a useful start. But I believe we should do more to get shared assessments of the risks and vulnerabilities we have.

Related to this is the question of physical protection - refineries, terminals, pipelines etc. This an obvious concern to all - because of terrorism, spill over of regional conflicts etc. The private sector clearly has a role to play. But I believe this is an area where we should do more together in the European Union and with third countries.

We have to face up to the issue of nuclear energy. Both for reasons of security of supply and climate change. Of course there are different views nationally on the desirability of nuclear power. Incidentally, it is also true that all Member States have signed up to a treaty which seeks to promote the safe development of nuclear energy.

Many countries are going firmly down the nuclear route, with Russia, India and China planning the construction of 100 nuclear reactors. Are we ready to at least have an intelligent conversation on nuclear power with these countries? How we react collectively to the expansion of nuclear power will in part be determined by our non-proliferation policy. Here I think we need to look seriously at the suggestion from Mohammed el Baradei for a multilateral nuclear fuel scheme. Are we ready to support such a scheme?

A last word on Russia. Obviously, we should engage all key supplier and transit countries. But whatever we do, Russia will be the mainstay of our energy imports. We are right to insist on wanting a genuine partnership. But here too, we should ask ourselves some tough questions.

How far are we ready to go in terms of reciprocity concerning investments? What do we make of the fact that Russia is investing heavily in future leverage and not enough in future production? And what should we do to encourage Russia to end the enormous amount of 'flaring' that takes place. The equivalent of 25% of total Russian gas exports to Europe! This is both wasteful and damaging to the environment.

These are just my reflections. I firmly believe we can shape a credible EU external energy strategy. But only if tackle some difficult issues head on. And only if we move the debate from discussions on general principles to the more solid terrain of concrete action.

Thank you very much.