

Energy Transition: A multifaceted Challenge for Europe

2nd Symposium: The external dimension of the EU energy policy in transition

- Report -

On the 16th of April 2013, Egmont – Royal Institute for International Relations and the Development Group organised the 2nd Symposium of a series of five events related to "the multifaceted challenges of the EU energy transition towards a low-carbon economy" that will be held in Brussels this year.

In light of the Communication on security of energy supply and international cooperation entitled "The EU Energy Policy: Engaging with Partners beyond Our Borders" and the "Roadmap for moving to a competitive low-carbon economy in 2050" released by the Commission at the end of 2011, the 2nd Symposium focused on specific issues linked to the external dimension of the EU's energy policy – especially on the role of gas and the importance of the diversification of supply.

Keynote address: What external dimension for the EU energy policy?

The keynote address was provided by Paula Abreu Marques, Head of Unit for International relations & Enlargement at the DG Energy of the European Commission. She started by emphasizing that the challenge of energy security takes on a more global perspective. Our energy landscape is shifting. In the EU, we are facing decreasing production of domestic fossil fuels. At the same time, the global energy markets are changing. This is particularly due to the increasing energy demand from emerging economies, the nuclear accident in Fukushima, and the expansion of shale gas production in North America.

In order to respond to these energy challenges, the EU is trying to prepare itself internally with the completion of the internal energy market in the short-medium term and the transition towards a low carbon-economy in the longer term. When it comes to projecting the EU energy policy externally, the EU is not yet able to act as one block but still, the EU can achieve results that Member States alone cannot reach. An information exchange mechanism has been adopted in order to increase transparency on intergovernmental negotiations.

Besides working on its internal coordination, the EU has a strategic interest to build stable and long-term energy partnerships via an approach requiring differentiation and flexibility, while avoiding having relationships that focus exclusively on supply. The EU also needs to focus on a constructive dialogue with key partners like the US, China, India and Brazil on sustainable energy policies, R&D, international standards for energy technologies, and energy efficiency.

Last but not least, Paula Abreu Marques invited the industry to participate in the consultation for the Commission's Green Paper on the 2030 energy policy framework in order to present their point of view and raise their concerns.

Session 1: The role of gas in the external dimension of the EU energy policy

François-Régis Mouton, Chairman of GasNaturally, started by warning against the increase in coal consumption in the EU, which will have side effects on the gas market and make the reduction of carbon emissions more difficult and expensive. Then, he focused its presentation on how gas can help with the three pillars of the EU energy policy. Firstly, in terms of competitiveness, gas technologies are efficient, cost-effective and flexible. Secondly, in terms of sustainability, gas is 1/3 less carbon intensive than coal, can reduce emissions in transport and benefits from high public acceptance. Thirdly, with respect to security of supply, the EU imports about 55% of its gas, gas production is not subsidised in the EU, LNG resources are increasingly diversified and the EU gas grid is ready and mature. He concluded by pointing out that a partnership combining natural gas and renewables offers an excellent solution for the future.

Afterwards, Thomas Geisel, Senior Vice President of Gas Supply Continental at E.ON Ruhrgas, presented his view on the role of private companies in securing security of supply. This role has changed tremendously during the last years. Years ago, many companies were state-owned and the gas industry was based on oil-indexed long-term take-or-pay contracts. During the cold war, long term contracts were essential for reducing political tensions with reliable gas trading relations, ensuring security. But this model has changed. We are now heading towards a liquid and efficient integrated gas market where prices are established through competition. Long-term take-or-pay contracts do not fit in this model anymore. In terms of pricing, it is thus not very meaningful and even risky for companies to commit to such contracts. In terms of security of supply, the market model makes investments in infrastructure risky due to the lack of long-term certainty. Mr. Geisel was thus wondering if the "market" does the job?

Finally, Nikolaas Baeckelmans, Director of EU Affairs for ExxonMobil explained the potential of shale gas. He started by pointing out that natural gas will take an increasing role in the future (take over coal by 2022-2025) and demand in Asia-Pacific will continue to grow. Currently, unconventional gas is exploited in the US but other regions like Asia-Pacific are in the exploration phase and will not hesitate to produce. The EU is the only region which focuses on challenges rather than opportunities. Thus, the European unconventional gas potential is still unknown. However, although the EU will not know a shale gas revolution as in the US, domestic unconventional gas could compensate the decline in conventional gas. The shale gas revolution has already significantly impacted European energy supply and competitiveness. There are important risks that companies will prefer to invest and produce in other regions where energy is cheaper. To counteract this trend, Mr. Baeckelmans recommended the EU to give a strong signal to its Member States in order to go on with exploration and examine the potential without prejudices.

In his role as discussant, Simon Blakey, Special Envoy of EUROGAS, underlined the evolution of the global gas markets these past years, which is particularly due to important game changers like the shale gas revolution in the US and the Fukushima accident in Japan.

Session 2: The diversification strategy of the EU and its external partners

Opening up the 2nd session, Didier Lebout, Strategy & Development Director of Gazprom Marketing & Trading France, presented the "new face of EU-Russia energy relations". While Gazprom used to be a 100% gas company specialised in the upstream business, it has greatly diversified its activities in terms of production, investments, marketing and trading over the past 10 years, following the European market

development. He pointed out that in order to improve security of supply, the EU hinges on regulatory certainty. Genuine security is always based on good relationships between suppliers and customers. Therefore, he recommended to be careful in the diversification of supplies as it is not sure that new suppliers are as reliable as an old partner like Russia. He also explained that there is no security of supply without security of demand. Gazprom is very dependent on the EU market as EU exports represent more than 50% of its revenue. Finally, investments are essential to further improve security of supply. In this respect, Gazprom is contributing significantly via the construction of the South Stream pipeline, which should start to operate in the course of 2015.

Michael Hoffmann, External Affairs Director of the Trans Adriatic Pipeline (TAP), presented another initiative to enhance Europe's energy security by connecting to new sources of natural gas in the Caspian Sea. The total investment into the realisation of the Southern Gas Corridor would amount to about USD 45 billion. He emphasized that Azerbaijan can be considered as a reliable supplier for Europe regarding its long relation as supplier for Turkey. At the end of June 2013, the Shah Deniz consortium will finally decide between TAP and Nabucco West as preferred transport route from the western border of Turkey to Europe. However, it will not be an either-or decision; it will more likely determine which project will have the priority. The TAP project is aligned with many policy objectives of the EU. Firstly, it is designed to expand from 10 to 20 bcm per year, with up to 80% of physical reverse flow and potential gas storage. Secondly, it will be interconnected with various existing and proposed pipelines providing energy security in South East Europe, the Western Balkan as well as Central and Western Europe (up to the UK). Finally, it will support economic recovery in the eurozone (particularly in Greece) by bringing major foreign direct investments and employment.

Last but not least, Wim Groenendijk, Vice President International & Regulatory Affairs at Gasunie, explained the role of a gas infrastructure company in supporting the EU's diversification strategy. Whereas the regulatory framework is in place to create a well interconnected internal market, significant infrastructure investments are still necessary. In order to enhance security of supply, the EU also needs long-term relations with key suppliers and – as security of supply and security of demand go hand-in-hand – the EU-Russia Roadmap 2050 is a good start. Furthermore, he emphasized that natural gas can play an important role in the diversification of supply. On the one hand, LNG makes worldwide gas reserves available and connects the EU to the world market. On the other hand, the diversification of methane is possible through biogas and power-to-gas, providing an additional diversified and green supply source for European consumers.

In his role as discussant, Jean-Arnold Vinois underlined that diversification is a fair game to everybody (suppliers and consumers). He explained that Gazprom was one of the main beneficiaries of the EU internal energy market and should therefore be a main supporter of the European rules. However it is not the case. Many frictions come from the fact that the EU works with a market approach whereas Russia works with a centrally-oriented approach. Finally, he underlined that the internal energy market should count on the merits of gas, but the gas market will need to offer flexibility in terms of pricing.

Concluding address - Protection of Critical Infrastructure in the Energy Sector: Upcoming Challenges of the European Cyber Security Strategy

Cyber attacks have increased significantly during the last years, leading to serious damage. Thomas Koehler, CEO of Cassidian CyberSecurity GmbH, illustrated the main cyber threats of an increasingly interconnected economy with several examples of previous attacks on energy companies and infrastructure. Several

programmes of protection already exist among Member States but a better consolidated approach is necessary at the EU level. A functioning common market calls for a common strategy with joint risk management and binding standards for all Member States.

Therefore in February 2013, the European Commission announced a European Cyber Security Strategy as well as a proposal for a Directive on measures to ensure a high common level of cyber security across the EU. The energy sector is explicitly named as one of the most critical infrastructures to protect. In order to reach this objective, several obstacles have to be removed. Up to now only 26% of the industry has taken concrete actions. Many companies faintly monitor their IT systems so that they notice late or sometimes don't even realize that they have been hacked. With 30%, the energy sector is a bit above the average but it is essential to further increase its cyber security. Thanks to exchange of data and mandatory incident reports, the Commission believes that risk management can be improved.

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and to all further supporters and speakers