EUROPEAN COMMISSION

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EU Commissioner for Energy

A Transatlantic Energy Revolution: Europe's Energy Diversification and U.S. Unconventional Oil and Gas

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Center for Strategic and International Studies. Washington D.C./Washington
16 July 2013

Spokespersons' Service
Service des Porte-parole

SPEECH/13/642

Dear Mrs Conley, Ladies and Gentlemen,

Thank you for inviting me to say a few words about recent developments on global energy markets and the implications that these have or will have on our Trans-Atlantic partnership.

Ensuring a reliable and steady flow of energy is a fundamental requirement for our modern economies and the high quality of life that we have achieved today. Energy is, if not the engine, at least the fuel of our economic growth. And for this we require competitive, low energy prices. This is even more important in current economic situation.

However, increasing demand for energy, concerns about the possible lack of investments, price volatility and concerns about safety and sustainability has meant that energy security and sustainability has become an important issue alongside promoting economic recovery and climate change.

The EU and the US share a common vision of energy security and sustainability – that this is best achieved through open, competitive and transparent international energy markets and through supportive policies that promote the sustainability of energy production and consumption, in particular the development of renewable energies and energy efficiency. As President Obama recently said in a speech to Georgetown University "We can't just drill our way out of the energy and climate challenge that we face".

It is these values that we need to continue to promote globally, particularly in countries where the state plays an excessively dominant role in the energy sector. These values should be fully reflected in our Trans-Atlantic Trade and Investment Partnership currently under negotiation. We should set the global benchmarks together and thereby contribute to developing a stronger set of rules for the energy sector in the multilateral trade system.

International initiatives and organizations, such as the International Energy Agency (IEA), the International Energy Forum (IEF), the International Partnership for Energy Efficiency Cooperation (IPEEC), and increasingly the G20, also provide important vehicles for us to influence the global energy debate. And to ensure energy security also means addressing issues that go beyond just the energy sector itself. Climate change, trade and development, social and environmental issues, as well as political and security concerns are all now a full and integral part of the energy security challenge.

Diverging energy paths across the Atlantic?

But looking at the changing global energy landscape, the question arises as to whether the EU and US are now following diverging paths across the Atlantic. In the North American continent, it is clear that a significant energy "revolution" has taken place; one that is having and will continue to have a major impact on EU and global energy markets. In the space of a couple of years, the energy situation in the US has radically changed from being one of increasing dependency on oil and gas imports to a situation where US domestic production of both oil and gas are expected to expand significantly.

As you are doubtless aware, the US EIA (Energy Information Administration) latest Annual Energy Outlook suggests that US oil import dependency will continue to decrease from 45% in 2011 to only 34% in 2019. While current predictions suggests that imports may increase thereafter again, these are expected to be largely sourced from the same hemisphere rather than the Middle East. Today, for the first time in sixty years, the US is exporting more refined petroleum than it is importing. And US domestic production of gas is expected to increase to 2040, surpassing domestic consumption by 2020 and spurring net exports of gas. The first LNG exports from the US could already be occurring by 2016. This energy revolution is already having a major impact on the competitiveness of certain segments of the US industrial sector, particularly on energy intensive industries such as the chemicals sector, steel, plastics and glass. Indeed I noted that the US President's National Security Advisor reported back in April that manufacturers in energy intensive sectors have announced up to $95 billion investments across the US to take advantage of low-cost natural gas. This is in contrast to the situation in the EU!

The positive message is that our latest working scenarios for the EU suggest further improvements in energy efficiency and renewable energy to 2030. They suggest that total energy demand could decrease by 9% in 2030 compared to 2010 and that there will be a stronger uptake of renewable energy than has been suggested in our previous scenarios. This means that our 20% renewables target by 2020 could be slightly overachieved and could reach around 24.5% by 2030. In the electricity sector, renewables could account for nearly 45% of power generation in 2030, driven largely by on-shore and off-shore wind as well as solar.

However, when looking at the oil and gas sectors, the EU's import dependency will increase significantly as domestic production continues to decline. We anticipate that domestic oil production could decrease by 46% between now and 2030, and domestic gas production to decrease by some 31% over the same period. This drop in gas production could eventually be somewhat mitigated by unconventional gas production, but this faces significant challenges inthe current context in the EU. The result is that the EU's dependence on oil imports could increase from 84% in 2010 to over 90% in 2030 and for gas from 63% to nearly 73%.

At the same time the EU faces the challenge of high energy prices which are particularly important for the EU's competitiveness. In 2012, industry gas prices were more than four times lower in the U.S. than in Europe. This was recently discussed at a meeting in Brussels by the Heads of State of the EU Member countries, who have now requested the Commission to carry out a full assessment of the composition and drivers of energy prices and costs in the EU and to look more widely at the EU's competitiveness vis-à-vis its global economic counterparts. While key oil suppliers for the EU are Russia and Norway and for gas also Algeria, the main conventional proven reserves are in more challenging regions.

This has led the EU, in terms of supplies of hydrocarbons, to focus on our "enlarged neighbourhood" for new sources of supplies while ensuring that whatever energy arrives from external sources, as well as what is produced domestically, can circulate freely around Europe.

It is for this latter reason that a key priority for us is the creation of a fully integrated and fully functioning EU-wide internal energy market. This is being addressed from the regulatory perspective with the legislation on the liberalisation of the electricity and gas sectors as well as from the infrastructure perspective – to ensure that the EU market is fully interconnected. The Heads of State of the EU Member countries have set an objective of completing the internal energy market by next year and developing interconnections so as to put an end to any isolation of Member countries from the European gas and electricity grids by 2015. It is in this context that we are working very closely, for example, with the countries concerned on a Baltic Energy Market Interconnection Plan to take concrete measures to connect Lithuania, Latvia and Estonia better to the wider EU energy networks.

It is important to recall that energy has been a core policy area of the EU from the start. Following the Schuman declaration of 1950, the forerunner of today's EU was the European Coal and Steel Community which paved the way for a new kind of peaceful cooperation in Europe. However it is only with the entry into force of the Lisbon Treaty in 2009 that the EU was given an explicit competence in energy policy. Even in this new context, individual Member States remain responsible for managing their own energy mix – for example, whether nuclear power should or should not be an option remains a national choice.

I have therefore challenged our 27 Member States back in 2011 that it is our common interest for the EU to "speak with one voice" in external energy relations. It makes sense for the world's largest, practically fully integrated regional market to present, as far as possible, a single common approach to external partners.

This is because:

- Firstly, our Member States have broadly similar, if not an identical interest, in ensuring a secure, competitively price and sustainable flow of energy to their markets,
- And secondly, as the EU single energy market becomes a reality, decisions and developments on one Member State will have an increasingly important impact on other Member States.

Russia

Russia is of course a key partner in this context. The Russian Federation is our foremost external supplier of energy goods. It delivers 30% of the EU's gas imports, 34% of its oil imports, and 27% of its coal imports. In addition, Russia is an important supplier of uranium to the EU. At the same time, Russian companies and the Russian state budget rely heavily on the income generated by these exports to the EU. Our infrastructure systems for oil and gas are closely interconnected, and not just in the Baltics. And indeed, Russia and the EU complement one another. Over the past decades we have been developing a stable supplier-consumer relation and very close trade and business relations. The other side of the coin is that our energy relations in the past years have not always been easy. There are security of supply concerns in the EU and security of demand concerns in Russia. The interruption of gas supplies during the Russia-Ukraine conflict in January 2009 was a wake-up call for the EU to further continue its diversification policy and speed up the creation of an internal market for electricity and gas. This has partly been the cause of irritations on the Russian side. And the opening of antitrust procedures against Gazprom by the Commission, as well as the Russian blocking statute for strategic companies, have created further tensions.

However it is clear that some of the dissentions are based on different conceptions about how our energy markets should function rather than geopolitical considerations. In the EU, we want to create effectively functioning and competitive energy markets across the internal frontiers of EU Member States. Gas and electricity should flow freely across markets, from low-price areas to high-price areas. Prices should be based on supply and demand and not reflect regulation, subsidy, or the dominant position of one market player. We aim to create a market with sufficient liquidity and low barriers to entry, encouraging diversity and innovation in products and services, both at wholesale and retail level. Our internal market legislation aims at ensuring free and fair competition while allowing third party access. This can be best done with independent management and investment in networks, with rules on market transparency and integrity and with the control on the abuse of market power.

When looking specifically at gas, Russia has been our main supplier for many decades, making up 25-30% in most years. But this has changed recently with Norway catching up fast and the share of LNG growing significantly, in particular after the 2009 gas crisis. Russia needs to reflect on these developments and adapt its positions, to be more flexible in its attitude with buyers and more competitive in terms of price.

Let me take this occasion to clearly state that I do not think that the EU as such is too dependent on Russian gas. We also do not have to worry about increasing Russian gas volumes coming to the EU. However, in order to ensure a functioning, competitive and sustainable internal gas market, all parts of the EU should have access to different gas sources and access to gas at competitive prices. For this reason, strengthening existing transit routes as well as diversifying energy sources, routes and counterparts remain key policy priorities for Europe. This includes encouraging new suppliers, such as the US, to play an active role on the global gas market.

Ukraine

A few words to Ukraine are required to complete the picture. Despite the ups and downs of its relationship with Russia, Ukraine remains the major transit country for Russian energy resources and we have traditionally viewed the country in this light. We have led the initiative to modernise Ukraine's gas transmission system which, together with the ongoing gas sector reforms, should reinforce Ukraine's role as a reliable transit country in a way that will be to the mutual advantage of Ukraine, the EU and Russia.

However Ukraine has a major potential to be more than just a transit country. It has significant domestic gas resources, both conventional and unconventional, together with a vast network of gas pipelines already in place and important gas storage capacities. These are key assets. Provided certain conditions are met, these assets can be used to in a way that further develops the role of Ukraine as far as energy is concerned, in particular in the upstream gas market, and offers a real potential for Ukraine to become an Eastern European gas hub. We are working with Ukraine and its neighbours to ensure that Ukraine has the possibility to access gas from the international markets.

Ukraine became a member of the Energy Community Treaty in 2011. This was an historic event. The Energy Community extends the EU internal energy policy in electricity and gas to South East Europe and Black Sea region on the basis of a legally binding framework. Ukraine's membership can therefore be seen as an important step by the EU and Ukraine towards a common energy market and should also be seen as a clear signal of Ukraine's European perspective. The reforms that membership of the Energy Community entails should enhance the attractiveness of the energy sector to international energy and financial companies, and a number of the European and U.S. International Oil Companies are now actively interested in Ukraine.

Diversification

But to complement the major role that Ukraine will continue to play, it is in the gas sector where the Commission has been most actively promoting a diversification of sources and this is already showing results.

An important priority for the Commission has been to work with the concerned countries and companies to open up the so-called "Southern Corridor", to ensure a direct and sizeable access to the hydrocarbon sources of the Caspian and Central Asian region. In this context I warmly welcome the fact that a decision was taken at the end of last month on the pipeline to bring gas from Azerbaijan to Europe. TAP, the Trans-Adriatic Pipeline, was chosen as the European distribution pipeline for gas coming from the field. This is an historical decision, as it signals that substantial volumes of gas will come to Europe from a Caspian country. For Europe it means that initially 10 billion cubic meters of natural gas a year starting 2019. The pipelines will be scalable and should therefore swiftly increase in capacity to supply gas from other fields as well. I expect that Azerbaijan, together with other countries in the Caspian region, will be supplying us with at least 30 bcm per year by 2025.

In addition, in the context of the EU-US Energy Council, we have been discussing with our US counterparts their experience in developing unconventional gas resources, particularly in the light of the Commission's work underway in producing an "environmental, climate and energy assessment framework to enable safe and secure unconventional fossil fuel resources". While we do not anticipate significant production of unconventional gas in the EU, it could nonetheless perhaps slow down our growing gas import dependency.

Concluding remarks

Ladies and Gentlemen,

Whatever developments and upheavals the modern world has produced in recent years, the fact remains that the EU and the US jointly still represent by far the largest trade and investment zone. Total US investment in the EU is three times higher than in all of Asia. EU investment in the US is around eight times the amount of EU investment in India and China together. It is therefore in our common interest to nurture this relationship.

In this context, the EU-US Energy Council was established back in 2009 to enhance our trans-Atlantic dialogue on energy security, energy technologies research and on energy regulatory policy, is our primary bilateral framework in the energy field. It is now led, on the US side, by Secretaries Kerry and Moniz and, on the EU side, by Vice President/High Representative Ashton and me.

Our annual discussions and regular contacts at a working level have ensured a sharing of information for example on global oil and gas market developments, energy developments in key producing and transit areas as well as enhancing technology co-operation on nuclear fusion, smart grids, hydrogen and fuel cells, and critical materials. And on energy policy, our focus has been on energy efficiency, carbon capture and storage, smart grids connected to electric vehicles and nuclear safety, with the objective being to try to co-ordinate policies and set compatible standards and incentives to promote the market uptake of clean energy technologies.

Together with the Trans-Atlantic Trade and Investment Partnership discussions that are underway, we now have a real opportunity to take the joint lead in setting the rules and standards for the global energy market. And with the growing energy potential of the

North American continent, there is the real possibility of a renewed trans-Atlantic energy trade.
Indeed the reduced US call on the international LNG markets has already benefitted the EU by introducing price pressures on the traditional pipeline suppliers in addition to supplying the growing Asian market.

In the near future, we could also potentially see US LNG exports and further US exports of refined oil products. So while our energy markets in terms of import dependency on hydrocarbons may be diverging, this may in fact open up significant opportunities for an increased energy partnership and trans-Atlantic energy trade.

Thank you for your attention!