
IEA Oil and Gas Innovation in the Fossil Fuel Future
European Seminar and Dialogue
Brussels, 22 and 23 February 2006

Subject: EU Policy for Long Term Energy Security in Light of overall Energy Perspectives and Trends

Thank you for your invitation to the Commission to address this important Conference.

1. Background

- During the last year or two, the adoption of a new Energy policy has become a high international priority. It has been the focus of successive EU Summits, G8 summits, lately the USA. Why is this?

- The Commission has repeatedly sounded the alarm on the precarious nature of Europe's energy supply:

- rising **import dependence** from **50%** of supply to **70%**, with around 90% of our oil coming from outside within twenty years;
- rising demand for fossil fuels, which could account for **86%** of all energy supply in 2030;
- the likelihood that renewable energy use will not reach levels already agreed by Member States for electricity production (21%) and transport bio fuel (5,75% by 2010)

- **green house gas emissions** rising around **5%** beyond the ceilings set by the Kyoto Protocol
- unexpectedly high and volatile **oil prices**;
- A slower take up **renewables** than intended, with targets fixed by EU Directives difficult to be met;
- **Import needs** are rising faster than expected with declining domestic fossil fuel production, including the North Sea oil and gas;
- There is confirmation from several Member States that they propose to phase out **nuclear power**, without a straightforward replacement.

- During the last couple of years, new developments have combined to alert the wider political community of the threats to energy security:

- Higher energy prices, not just for oil but also for gas and electricity
- A slowdown in energy **investments**
- Electricity **blackouts**
- Evidence that energy production is not rising quickly enough to keep pace with rising global demand
- And persistent **geopolitical instability** in the Middle East, not forgetting threats to supply from social unrest in Africa, international disputes, such as between Russia and the Ukraine, and competition for new oil and gas supply by pipelines in Central Asia.

- These developments combine to undermine the EU's medium term energy security and put into jeopardy other political goals, including economic and environmental targets. They also give a new dimension to Europe's international agenda. Energy security is a global issue, and Member States will be able to tackle the most of the previous challenges better together than apart.

2. Lead up to Green Paper

- At their informal Summit in October 2005 and again in December 2005, the European Council called for new work on an integrated and coherent energy policy for the EU. In response, the Commission is currently preparing a new Green Paper which will be presented to the Spring EU Summit.

- This is the first time that Member States have reached a consensus on the urgency for the EU to work collectively on an energy policy. The European Parliament and other European institutions, as well as Europe's energy industry, support this point of view. We also know from a recent Euro barometer that a large share of Europe's citizens is preferring a European approach to energy.

- The Green Paper in preparation will therefore be a timely document. It is essential that it should be a subject of debate not across society as a whole. The importance of energy security to Europe's wider welfare and security cannot be overstated.

3. Outline of Green Paper

- European energy policy is not new. Energy was at the roots of European integration. Recently, the EU has developed elements of a common energy policy – including a single market for electricity and gas, renewables and energy efficiency targets. These have increased the interdependence among Member States and created a consistent basis for decision making.

- The Green Paper we are preparing will build on these foundations.

- It will argue in favour of a coherent, integrated and well managed energy policy for the EU. This should have three key goals: competitiveness, sustainability and security. Each is as important as the other, and the achievement of one will depend on achieving the other two.

- The Paper not only looks at energy as an instrument of domestic goals, including Lisbon and Kyoto. It also seeks to place energy policy as an vehicle of EU international relations.

- the changing geopolitical environment makes it more important than ever that Europe can speak with the same voice with oil and gas producers and other consuming regions in particular Developing Economies.

4. Priority areas

- It is too early to outline the content of the Green Paper. But I will at least give you a taste of what the Green Paper will cover.

- Essentially, there are six main areas where Europe can act together. These are
 - International relations
 - An effective single energy market
 - Assuring diverse energy supplies and promoting renewable energy
 - Energy efficiency
 - Encouraging innovation, and finally
 - Building up solidarity.

- Each of these areas merits a more coordinated approach among Member States.

- In the first area, by developing a more coordinated approach to external energy relations, we – that is the Commission and Member States – will be able to agree and deliver a single message on external energy related matters.

- Above all, we must build up dialogues - not only with producers, but also with consumers and transit countries. Our aim must be to put ourselves into a stronger position vis-à-vis our energy partners in the highly competitive global energy market. Our dialogue with Russia has made significant progress. The role that the European Community has played during the latest events between Russia and Ukraine, is significant in this respect. The Community has also launched structured Dialogues with the OPEC, although the Dialogue with the Gulf Cooperation Countries continues since the early 1990s.

- The second area takes us closer to home. Member States have already recognised the importance of energy to achieving economic goals, notably the Lisbon agenda. This aspect could be further developed. Energy policies can be a motor of growth and job creation – we only need to look at our wind industry to see this.

- But we also need to ensure that our internal gas and electricity markets are properly functioning. Therefore the need for close monitoring and enhanced cooperation with the market actors.

- Under the heading of diversity, we must think about diversification not only in fuel source, but also in supplier and transport route.

- There is at least one area where we all agree. That is that renewable energy can be better exploited, so this theme is likely to be developed further.

- This brings me to the next concern - energy efficiency. Europe is effectively the world's most energy efficient region. But we can do better, and we can promote this concept to encourage a more energy efficient approach among other countries. The Green Paper on Energy Policy will take forward some of the ideas already mentioned in last year's energy efficiency Green Paper.

- The next priority is innovation. There is a potentially huge market out there for low carbon and clean energy technology. We aim at improving the role of Europe in energy innovation and push new energy technologies globally. During the two last decades of the 20th century, the European Union supported with more than a billion of the industry to develop and demonstrate several hundreds of innovative technologies. Horizontal drilling, 4-D seismic acquisition and processing, deep sea drilling, HP/HT reservoir developments, sea bed production schemes, are among the main technological breakthroughs.

Let me outline two areas of priority for the forthcoming 7th European Energy FPRD. There are:

- The Carbon Dioxide Capture and Storage, including the EOR by injecting the CO₂ into maturing reservoirs, and
- The Clean Coal Technologies, including the latest developments in the super critical (above 700°C) cycles and the IGCC (the Puertolano project among others).

- Finally, a common energy policy will help build up solidarity and coordination among Member States. All Member States share common concerns on energy security – emergency mechanisms, mutual assistance in a crisis, transparency of information, properly regulated markets. It makes sense for us to make sure that the instruments at our disposal are as effective as they can be.

5. Taking the Green Paper forward

- Following adoption by the Commission, the Green Paper will enter a large consultation phase, with the industry, the Member States, technology providers etc.

- At the end of the year, the Commission intends to prepare a paper on how to proceed.

The energy future, in particular concerning oil and gas, looks challenging, more than ever. In paving this challenging future, two pillars remain important:

- Dialogues with producers and among consuming regions, and
- Technological innovation

In both areas, the IEA and the European Commission are already cooperating in several fronts, as the IEF, the JODI, the non-Members IEA Committee, technological platforms, as the CO2 Capture and Storage etc. I hope that this Seminar will identify the main areas for an enhanced technological research and development.

Thank you.

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