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Subject: First Meeting of the Permanent Partnership Council on energy between the EU and Russia (London, 3 October 2005)

Delegations will find attached the declassified version of the above document.

The text of this document is identical to the previous version.

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NOTE

from : General Secretariat of the Council
to: Delegations

Subject : First Meeting of the Permanent Partnership Council on energy between the EU and Russia (London, 3 October 2005)

1. General

- Meeting lasted two hours, in a frank and open atmosphere, covered all the agreed agenda (Energy security - Development in the international energy markets; Overview of the EU-Russia energy dialogue and co-operation [including the preliminary outcome of the four Thematic Groups]; International co-operation). Both sides noted the value of the PPC and four Thematic Groups (TG) as well as the mutually beneficial nature of EU-RF cooperation in the field of energy; preliminary orientations for the future work of the TG were agreed
- Participants were A.JOHNSON (UK Secretary for Trade and Industry), A.PIEBALGS (EC Commissioner for Energy), V.KHRISTENKO (RF Minister for Energy and Industry), B.Zluwa (AT, Director-General, Ministry of Economy and Labour).¹

2. Opening remarks

- A.J. opening remarks were broadly echoed by V.K. and supported by A.P. Both sides welcomed the PPC and the Thematic Groups (TG) as concrete examples of cooperation. Holding the PPC on the eve of the Summit was a proof of the importance of energy on the bilateral agenda. The PPC's main objective should be to give political impetus to the TGs' work.

¹ A.J. & A.P. 's interventions were largely based on the position set out in doc. 12366/05.

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- V.K. noted we should strengthen the existing cooperation in the field of energy building on existing fora such as the Energy Dialogue. He noted that contacts are already well developed at technical level including the four thematic groups. Topics covered should also include strategic aspects. He stressed that the organisation of the present Dialogue is important because of the sectors involved in the EU, e.g. in the area of energy efficiency, these sectors being more developed in the EU because of its overall position as a consumer. Other sectors, like electricity, are relevant to both the EU as consumer and Russia as supplier.
- The EU has to offer the organisation of its internal market, its approach towards ensuring sustainability in the energy field, on energy efficiency, renewables and the corresponding (new) technologies. There is clearly an opportunity for a win-win relationship, ensuring the EU security of supply and stable export for Russia. Even with the best policies the EU will remain a net importer with Russia playing a major role in the future as its main supplier of gas and oil.

3. *Energy security - Developments in the international energy markets*

- The EU stressed that meeting future energy demand would require massive investment in exploration, production and transportation, requiring the right investment climate, and noted the impact of and opportunities created by high energy prices: this stimulates energy efficiency and the development of alternative energy sources in the EU and could accelerate growth in Russia and enhance its ability to supply more in the future if it reforms its energy sector and the relevant legislative and fiscal framework. A.J. noted that exploiting renewables and more efficient sources of energy was very much on the G8 agenda and he welcomed Russia's willingness to continue with these priorities. As high energy prices are starting to impact on the use of energy; considerations about security of supply make diversification of suppliers increasingly important while Russia is set to remain an important supplier to the EU.
- In reply V.K. noted that, for security of supply to be achieved, one would have to develop renewables, combine the efforts of exporting and importing countries, and diversify energy sources (oil/gas/coal), which implies more infrastructure. He confirmed that Russia was committed to providing reliable supply of gas in response to the foreseen increase in EU imports and noted that, after years of rapid production growth, a more moderate increase was foreseen for both oil and gas. He agreed that Russia could do more regarding energy efficiency and renewables and outlined the discussion underway which should lead to the Duma agreeing this autumn a new law on the Subsoil (i.a. covering the licensing of oilfields); he believed that the tax system was transparent enough and that the issue was more how to ensure an adequate risk sharing between Russian and foreign operators for global projects in what is increasingly a global market. He stated that an end should be put to administrative interference and more role should be given to the judicial system.
- V.K., while noting that some uncertainties were still affecting the further development of this well-proven technology, stressed that, in the future (2020), nuclear energy will keep more or less the same share of Russia's fuel-mix as at present. The share of renewables was also expected to remain unchanged. Both renewables and nuclear should remain part of the fuel-mix.

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- A.P. noted that, generally speaking, the balance between supply and demand will be tight, triggering price volatility although the tax policy in the EU in relation to energy was sound so far and helped reduce this volatility. He stressed the importance of new technologies (CO₂ sequestration, Hydrogen, etc.), noted that renewables, although increasing, would only have a limited contribution and that the contribution of nuclear to electricity generation would remain unchanged. He emphasised that energy efficiency should be looked at at all stages: generation, transportation, end-use, etc.
- V.K. noted the importance of consumer/exporter dialogues such as the present one as a means to reduce uncertainties and facilitate investment decisions. He noted that consumers and producers had a somewhat opposite starting point on tax issues

4. *Energy dialogue*

- After having recalled the history of the Energy Dialogue, V.K. presented the provisional results of the four Thematic Groups (Energy efficiency, Trade, Infrastructure and Investment) (see annex to PPC Press release, doc. 12902/05) as can be assessed after two meetings. He listed the achievements of the Dialogue over the last five years (projects of common interests, Moscow Technology Centre, improved reliability of supply, clarification of legal framework, etc.), recorded in the 6th progress report on the Energy Dialogue, and suggested that the EU and RF respective energy strategies should be a permanent feature of the dialogue in order to avoid misunderstanding. He noted in this respect that electricity supply is a strategic element for Russia, in the interest of all consumers, including the EU. The dialogue should lead to concrete projects supported by the business community as well as the administrations. For its part Russia is determined to complete projects of joint interest like the North European Gas pipeline, Yamal Europe, Burgas-Alexandroupolis and others.
- A.P. concurred with V.K.'s assessment, mentioning the resolution of the issue of the destination clause for gas contracts, progress on jointly identified projects, the expanded role of the Technology Centre, and progress in the negotiations on trade in nuclear materials. V.K. hoped that the relevant agreement could be concluded in the near future.
- A.J. concluded that these preliminary results could be endorsed and will be reported to the EU-Russia summit, that the four Thematic Groups will be pressed to conclude their work with a view to have their full report reviewed at a technical conference later this year, and endorsed at political level in 2006.

5. *International cooperation*

- The EU welcomed the on-going cooperation on climate change, in particular the ratification of the Kyoto protocol, noted the recently launched TACIS-funded Joint Implementation project, welcomed Russia's intention to take these topics, also related to energy efficiency, during its G8 presidency and hoped this cooperation could be pursued in the run-up to the coming UNFCC-CoP and in preparation of the post 2012 period. In reply, Russia noted the basic difference between the EU and Russia, where there is no legal framework at present to address these issues, and recalled that, for the 2nd phase of Kyoto's implementation, we would have to clarify the position of countries like China, India and Brazil regarding their commitments as it would be impossible to achieve our goals without them.
- A.P. noted that climate change policy is a long-term commitment in the EU and that the Commission report on the Emission Trading Scheme (ETS) will be available in 2006.

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- Regarding the Energy Charter (ECT) the Commission stated that without RF ratifying the Transit protocol the ECT cannot deliver its full potential and mentioned the EU candidate for the post of Secretary-General. Russia recalled that there are still three pending issues on the Transit protocol, which it sees as basically a EU-RF agreement, and confirmed its willingness to continue the discussion on these issues.
- Both sides noted their good cooperation in the IAEA on nuclear safety as well as in the G8 Nuclear Safety Group. V.K. mentioned that Moscow will host a conference on the Effectiveness of the Nuclear Security System in February-March 2006 and noted the recent IAEA report on multilateral options for the nuclear cycle, an area where the RF intends to participate in future work.

6. AOB

- The Austrian representative conveyed the support of the incoming presidency to the dialogue and noted that its priorities will be renewable energy and energy efficiency, which should stay on the dialogue's agenda.

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