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**NOTE**

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Subject: External energy relations

- Presentation by the Commission
- Exchange of views

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Delegations will find in the Annex the Presidency note on the external energy relations.

At the Energy Council on 25th June, the Presidency aims to hold an exchange of views together with a presentation by the European Commission on the recent **External Energy Relations**, with a focus on a limited number of key files.

The Presidency considers of high importance the continued focus on European Union's major partners, namely Africa, USA, China, EastMed. Moreover, continued engagement in the Energy Community and modernization of the Energy Community Treaty<sup>1</sup>, as well as review of operation and modernization of the Energy Charter Treaty<sup>2</sup> are of key significance.

The Presidency recalls that the Commission has mainstreamed clean energy transition policies in its energy dialogues with third countries and regional or international organisations to promote global uptake of the principles underlying EU policies and legislation to drive forward the clean energy transition. Discussions on the importance of long-term planning and the development of mid-century greenhouse gas emission reduction strategies to achieve clean energy transition goals have also been prioritised. The Commission has also systematically raised the issue of greater use of the Euro in energy transactions with the key international partners, where appropriate (this topic will be discussed over lunch).

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<sup>1</sup> The main objectives of the Energy Community are to create a stable regulatory and market framework that will enable Contracting Parties to attract investments, and to pursue a single regulatory space for trade in gas and electricity between the EU and the Energy Community Contracting Parties. A reform process to update the Energy Community Treaty is under way. In 2016 and 2018, the Council adopted three negotiation mandates concerning amendments of the ECT, and the EU is approaching the Energy Community Treaty changes as a single package. Strengthening energy efficiency, renewable energy, and greenhouse gas emissions policy by establishing new targets for 2030 and a Governance framework will be the other challenges for the near future.

<sup>2</sup> *Modernisation:* The Energy Charter Treaty (ECT) investment protection provisions, established in the 1990s, need to be brought in line with the new standards established by the EU's reformed approach on investment policy. The modernised Energy Charter Treaty should help to increase investment in the energy sector by creating a coherent and up-to-date legally binding framework that provides for legal certainty and ensures a high level of investment protection. The key challenge is to align the ECT investment protection provisions with modern standards of investment protection and to facilitate a transition to a low-carbon, increasingly more digital and consumer-centric energy system. In order to engage in the negotiations on behalf of the EU and its Member States, the European Commission submitted a proposal for a Council mandate in May 2019.

*Review:* At the same time a review of the functions and policies of the ECT, along with the mid-term review of the performance of the Secretary General, are underway in 2019. The EU, Japan and Kazakhstan were appointed Review Coordinators.

***The Presidency proposes to guide the debate with the following questions:***

- How can the EU use its instruments to ensure that European energy companies can help unlock the potential of Africa's energy markets, particularly for renewable energy and natural gas?
- How can the EU and its Member States best focus their efforts to ensure complementarity between the EU-US Energy Council and new engagement formats such as the Three Seas Initiative (3SI) and the Partnership for Transatlantic Energy Cooperation (P-TEC), as well as other emerging initiatives by the USA and the EU Member States?
- How should the EU best engage with China on connectivity in the context of China's Belt and Road Initiative and the EU's Euro-Asia Connectivity Strategy?
- For EastMed, how can the EU and its Member States use the existing energy dialogues, engagement channels and instruments such as energy diplomacy to promote the environment in the region that would lead to de-risking developments?

## **Background information**

### **Africa**

Launched in September 2018, the Communication on Africa-Europe Alliance for Sustainable Investments and Jobs proposes to deepen the EU's economic and trade relationship with Africa by boosting investment and strengthening the role of the private sector. Energy is a priority sector. The EU has been supporting, through development aid, the electrification of the continent through infrastructure and regulatory reforms. With the External Investment Plan, it is also supporting private sector investments and developing the right business framework. In the context of the new Africa-Europe Alliance, the Commission launched the High-level platform on Sustainable Energy Investments in November 2018. The Platform brings together stakeholders from the public and private sectors, international financial institutions, as well as from academia and think tanks of both continents, and by the end of 2019 is to provide recommendations on leveraging investments in sustainable energy in Africa.

## USA

The United States remains a key ally and energy cooperation, particularly in the framework of the EU-US Energy Council, is one of the most fruitful areas of cooperation in transatlantic relations. There are many areas of strong mutual interest in energy security, energy technologies, digitalisation and cyber security. The expansion of transatlantic LNG trade offers the EU further opportunities to enhance its energy security through the diversification of supply sources. On 2 May, the Commission, together with the US Departments of Commerce and Energy hosted a very successful joint EU-US high level business to business event on LNG in Brussels that brought together over 200 Government representatives from both sides of the Atlantic and 250 business representatives from the trans-Atlantic LNG business. The EU and US also cooperate closely on energy security issues, in particular on the finalisation of the Southern Gas Corridor to bring gas from Azerbaijan to Italy, and on energy security in Ukraine. In addition to the EU-US Energy Council, the US is engaging with a number of the EU Member States on initiatives such as 3SI and P-TEC (announced by the US Secretary of Energy on the occasion of the 3SI Summit in Bucharest, in September 2018). The projects that will be developed under the 3SI, including those within P-TEC, have the potential to substantially enhance European energy security through increased regional connectivity and diversification of sources. It is also important that the EU and US maintain transatlantic unity on sanctions. The Commission is also working on developing trilateral cooperation with the USA and Japan, as a like-minded partner, in particular on LNG and hydrogen.

## China

China is a strategic partner of the EU in the clean energy transition. The annual EU-China Energy Dialogue steers the energy cooperation and the recently launched EU-China Energy Cooperation Platform ensures full implementation of the Dialogue. China is the world's largest carbon emitter and at the same time largest investor in, and the biggest producer of, renewable energy. The EU welcomes the role of China as one of the main brokers of the Paris Agreement, however China is supporting and constructing coal-fired power plants in many countries (particularly through its Belt and Road initiative), including in the EU neighbourhood (Western Balkans, Africa), without taking into account sustainability of its investments. The EU policy reflected in the "EU-China – A strategic outlook" Communication of 12 March 2019 and endorsed by the European Council adopts a more realistic, assertive and multi-faceted approach. While China remains a 'cooperation partner' on the clean energy transition, it is also a 'negotiating partner' with whom the EU needs to find a balance of interest, an 'economic competitor' in the pursuit of technological leadership, and a 'systemic rival' promoting alternative models of governance. Following the positive discussions during the 8th annual EU-China Energy Dialogue in Brussels in April this year, and the launch of the EU-China Energy Cooperation Platform (mid-May), which will run for three years, the EU should continue to engage with China on energy matters with a particular focus on market access reciprocity and use the Platform to provide opportunities for win-win cooperation.

## **East Med Gas**

The development of gas hubs in the Mediterranean is a main axis of the Energy Union diversification policy. With recent and future significant gas discoveries (Egypt, Israel, Cyprus and probably Lebanon), and given that a substantial share of these gas deposits will be exported, the East Mediterranean has become an important, secure and reliable source of supply for the near future. The EU strongly supports the development of the region as a gas hub. The Commission is engaged to play a facilitating role in Eastern Mediterranean gas development in terms of political support, diplomacy, financing of studies such as for the EastMed gas pipeline, financing via International Financing Institutions in due course and help creating an investment environment conducive to attract investors for developing the region. The Commission has been also instrumental in assisting countries in the drafting process for the Intergovernmental Agreement (IGA) between CY-EG for a pipeline interconnection between the two countries and the IGA for the EastMed gas pipeline.