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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	Progress with the development of the external dimension of the EU energy policy
	- Update from the Commission
	- Exchange of views on the basis of a Presidency paper

Subject to confirmation by COREPER, the TTE (Energy) Council, at its meeting on 5 December 2016, will be invited to listen to the update from the Commission on progress with the development of the external dimension of the EU energy policy, and to subsequently hold an exchange of views.

The Annex sets out in point I an overview of developments in the global energy landscape since December 2013, progress and achievements, whilst point II contains the questions for the exchange of views of Ministers.

PROGRESS WITH THE DEVELOPMENT OF THE EXTERNAL DIMENSION OF THE EU ENERGY POLICY

(December 2013 – December 2016)

I. OVERVIEW

The TTE (Energy) Council on 12 December 2013 endorsed the Council Report entitled: “Follow-up to the European Council of 22 May 2013: Review of developments on the external dimension of the EU energy policy”¹ and invited the Council to “return to this issue before the end of 2016, taking account of developments.”

Between the end of 2013 and the end of 2016, there have been a number of significant developments in the global energy landscape which have had an important impact on the internal and external dimension of EU energy policy.

Developments in the global energy landscape since end 2013

Key changes in the international energy scene which have influenced the external dimension of EU energy policy include the following:

- The adoption of the Paris Agreement on Climate Change in December 2015 and its swift entrance into force in November 2016 is a major development with potentially far-reaching impact on external energy issues and the global energy landscape. The role of the EU has been essential.
- The UN Agenda 2030 and the Sustainable Development Goals adopted in September 2015 have also set up a new international policy framework with a significant support from the EU. It contains substantial energy related aspects and therefore is impacting and guiding European energy policy.

¹ doc. 17756/13

- Lower oil and gas prices since June 2014 impact investment in new infrastructure and, to some extent, challenge the opportunity for renewable energy and energy efficiency. Despite the low price of hydrocarbons, a global decarbonisation trend can be observed with the energy intensity of the global economy further declining. Following the crisis between Ukraine and Russia in early 2014, energy security has once again become an important priority for the EU, in the G7 as well as international organisations such as the Energy Charter and the IEA.
- At the same time, Russia continued efforts to diversify both its energy export markets as well as its export routes (announcement of Nord Stream 2, South/Turkish Stream, Power of Siberia).
- The positive developments with respect to Iran led to the lifting of most sanctions in the beginning of 2016. The country is striving to find back its place among the most important energy producing and exporting countries worldwide.
- The political and economic situation in the Middle East and North Africa remains volatile, thus hampering much needed investments in the energy sector.
- Prospects for exploiting East Mediterranean gas finds have significantly developed further recently (*i.e.* Cyprus, Israel, Egypt).
- Energy market developments continued to evolve rapidly. LNG markets grew fast due to the expanding production, particularly from Australia and the United States, leading to an increasingly globalised market. India's rapid and sustained growth made it become a major player on the global energy scene, while in 2015, China bypassed the EU by far in investments in renewable energy sources (with investments of more than 100 billion US\$, double the level of investments in renewable energy sources in the EU).

Progress and achievements of the EU external energy policy since end 2013

The challenge for the EU has been to respond effectively and collectively to these new global developments and by anticipatory action. Significant progress has been made in enhancing and deepening the external dimension of EU energy policy, fully in line with the recommendations made by the Energy Council in December 2013.

The Commission reacted rapidly to the call from the European Council of March 2014 in the light of the crisis between Ukraine and the Russian Federation to "*conduct an in-depth study of EU energy security and to present by June 2014 a comprehensive plan for the reduction of EU energy dependence*". Following the resulting Commission Communication on a **European Energy Security Strategy** ², the European Council of June 2014 identified a secure energy and climate future as one of the five overarching priorities which will guide the work of the European Union for the next five years. As a result, in February 2015 the Commission came forward with the integrated "**Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy**" ³, in short the Energy Union Strategy. The European Council in March 2015 declared that the EU is committed to building an Energy Union on the basis of the Commission's framework strategy. The implementation of the strategy is one out of the 10 key strategic priorities of the current European Commission.

The Energy Union Strategy has clearly become the main guiding instrument for the EU's energy policy, and all of its five dimensions have an external relation component. The European Institutions work closely with the EU Member States to ensure the implementation of the Energy Union Strategy including in its external dimension via the relevant Council Working Groups and the **Strategic Group for International Energy Cooperation**. The latter continued its bi-annual meetings in terms of strategic discussions and concrete exchange between the Commission and the EU Member States on thematic and geographic topics.

² doc. 10409/14

³ doc. 6594/15

With a view to supporting the implementation of the Energy Union Strategy, in July 2015 the Foreign Affairs Council also adopted Council Conclusions on EU Energy Diplomacy ⁴, which included an **EU Energy Diplomacy Action Plan**. A key element in this plan is to facilitate the EU and Member States in passing consistent and coordinated messages when dealing with international partners on energy issues; a first set of such ‘common messages’ on energy diversification were agreed in early 2016. The document also states that the EU will “*use all external policy instruments to ensure that a strong, united EU engages constructively with its partners and speaks with one voice on energy and climate.*” Another pillar of the plan is the support efforts for enhancing the global energy architecture and multilateral initiatives. An informal EU Energy Diplomacy Experts Group has been established by the EEAS in close cooperation with the European Commission in order to provide guidance to the implementation of the Action Plan. The EU Global Strategy on the European Union's Foreign and Security Policy has also endorsed the prominent role of energy security and energy diplomacy. The Foreign Affairs Council (Development) will also focus during its November 2016 meeting on the linkages between development, energy, climate, environment as well as research and innovation policies.

One of the instruments in the EU’s relations with third partners is the information exchange on **Intergovernmental Agreements (IGA)** between EU Member States and third parties. The proposal for a review of the IGA Decision No 994/2012/EU adopted by the European Commission in February 2016 is one of the key deliverables of the Energy Union Strategy so far. It complements the transparency related aspects of the revised Security of Gas Supply Regulation. Trilogue negotiations are ongoing based on a 'general approach' adopted at the TTE-Energy on 6 June 2016 with a view to reaching a compromise by the end of 2016.

As a consequence of the tensions between Ukraine and the Russian Federation and in line with the economic sanctions the EU has imposed on Russia in July 2014, the formal **EU-Russia Energy Dialogue** has been on hold. However, importantly, the **trilateral EU-Ukraine-Russia energy talks** did go ahead leading to agreement which underpinned the EU's and Ukraine’s energy security during the winters of 2014/15 and 2015/16. Further trilateral talks for the winter of 2016/2017 are under consideration.

⁴ doc. 10995/15

As regards cooperation with **Ukraine**, the EU continues its efforts in supporting the reform process in the country's energy system. Major steps towards a competitive market were achieved in gas sector with the adoption of the new gas law in April 2015, and of the plan for unbundling in July 2016. A new law on the utilities regulator was adopted in September 2016 and the new electricity law is expected to be adopted by the end of 2016, opening the way for the implementation of substantial restructuring also in this subsector. Significant achievements in energy efficiency can be reported, but more needs to be done.

The **Energy Community** continues to be the most important partner in cooperation with EU's neighbours on the Balkan and the East. Major milestones during the period under consideration were the integration of the TEN-E and the Energy Efficiency Directives into the Energy Community *acquis*, the improvement of the Energy Community Treaty's scope, implementation and procedures, the definition of projects of Energy Community Interest (PECI) and projects of mutual interest (PMI) and finally the expansion to Georgia which became contracting party in October 2016.

As regards the **European Neighbourhood Policy** (ENP) it was reviewed and endorsed by the Council in November 2015 in order to respond better to the new challenges which arose in the East and the South during the last years. The overarching aim is a stable development and increased resilience of the partners. Energy remains one of the key focal areas and recently it was agreed to add climate change as a key area of cooperation, thus transmitting to the partners the approach the EU is also applying internally. The EU confirmed its commitment to strengthen energy dialogue with neighbourhood countries in energy security, energy market reforms and the promotion of sustainable energy.

The **Eastern Partnership** Summit in Vilnius in May 2015 called for a focus on interconnectivity and energy efficiency. Good progress was made in the context of the **Southern Gas Corridor** and gas is expected to flow from Azerbaijan to the EU by 2020. In order to politically streamline the development of the corridor, the Southern Gas Corridor Advisory Council has been set up and met already twice in 2015 and 2016. Preparatory works have started on the potential extension of the SGC to Central Asia, notably to Turkmenistan with the signature of the Ashgabat Declaration in May 2015 and the subsequent establishment of the Working Group for its implementation. Electricity interconnections between Georgia and Armenia as part of the **Caucasus Transmission Network** were constructed with support of the Neighbourhood Investment Facility. The gradual improvement of the political situation in **Belarus** allowed for the signature of an administrative arrangement on an early warning mechanism in case of disruption of energy supply via Belarus to the EU. After 20 years the successful regional energy programme INOGATE was replaced by new regional action **EU4Energy** in 2016. Activities will take the thematic focus into account and will be implemented by the International Energy Agency, and the Energy Community and Energy Charter Secretariats.

In the **South** three **EU-Med Energy Platforms** were created as follow-up of the Union for the Mediterranean (UfM) Ministerial meeting in December 2013. These platforms guide cooperation with the Southern Neighbourhood on gas, the regional electricity market and renewable energy and energy efficiency. In addition, high level energy dialogues were put in place with **Algeria** (launched in May 2015) and **Turkey** (launched in March 2015), both key partners in the context of security of supply diversification. The EU-Algeria energy dialogue focuses on natural gas, electricity and on renewable energy and energy efficiency with the aim to attract foreign investment in the energy sector whereas the dialogue with Turkey has a broader approach with the objective of securing and diversifying energy supplies and ensuring competitive energy markets.

In view of diversifying its gas supply, in February 2016 the Commission presented an **EU strategy for liquefied natural gas and gas storage**. As major importer of LNG the EU has a keen interest in further promoting free, liquid and transparent LNG markets around the world. Therefore the EU continues to work closely with other major LNG importers like Japan and key LNG exporters like Australia.

Over the last years, energy cooperation was also enhanced with **China and India**. Cooperation with China was marked by the **EU-China Summit** and the EU-China Urbanisation Forum in 2015 and culminated eventually in the signing of the EU-China Roadmap on energy cooperation (2016-2020) in July 2016. The Roadmap sets out the goals and areas of future bilateral cooperation, notably in the areas of energy supply and demand with the view to contribute to the transformation of the energy system, to the sustainable development of the global energy system and to energy and climate resilient investment. Continued cooperation with India led to the setting up of the EU-India Clean Energy Climate Change Partnership in March 2016. It aims at supporting and strengthening the implementation of the EU's and India's respective Intended Nationally Determined Contributions under the Paris Agreement on climate change and for ensuring a secure, clean, affordable and reliable energy supply for all.

In line with the recommendations from the Council of December 2013 and with the Energy Union Strategy, the EU continued and deepened High Level energy dialogues with other main key partners such as **Norway** through the EC-Norway Energy Dialogue, the **USA** via the EU-US Energy Council, and with **Canada** through the re-launch of the High Level EU-Canada Energy Dialogue in 2016.

Regarding energy cooperation in the framework of **international organisations** or other multilateral setups, it is worthwhile highlighting the EU's involvement and support in converting the **Covenant of Mayors** in 2015 into the world's biggest urban climate and energy initiative focusing on climate mitigation and adaptation, and secure, sustainable and affordable energy supply. The EU also formally joined the **Clean Energy Ministerial** which is designed to promote the uptake of clean energy technologies, to share lessons learned and best practices, and to encourage the transition to a global clean energy economy, energy efficiency as well as the **Mission Innovation initiative** which was launched in November 2015 on the occasion of COP21, whose objective is to reinvigorate and accelerate public and private global clean energy innovation in order to make clean energy widely affordable. Other international formats with which the EU continues to have close cooperation are the **G7 and G20** through their respective energy ministerial meetings, **OPEC** via the High Level Meetings of 2014 and 2016 and the **International Energy Agency (IEA)**. The EU fully takes part in the work of the IEA and participates in almost all of its working groups. It takes part in country reviews, provides voluntary financial contributions to IEA activities and supports the IEA in its process of modernisation by outreaching further to emerging economies, broadening its thematic focus and transforming the IEA into a global hub for clean energy technologies and energy efficiency.

Over the recent years, the **International Renewable Energy Agency (IRENA)** delivered substantive output to promote the increased deployment of renewable energy technologies globally. With its active involvement in multilateral initiatives such as the UN Climate Summit and the Sustainable Energy For All, IRENA increasingly assumes its role as the global voice for renewable energy, helping to shape the global policy debate. Its current work programme focuses on three strategic priorities, namely continuous emphasis on strengthening the business case of renewable energy, catalysing regional action and strengthening IRENA's effectiveness through strategic partnerships.

The **Energy Charter** is undergoing a process of modernisation and expansion. An updated 'International Energy Charter' *i.e.* a political declaration endorsing the basic principles to underpin energy cooperation was adopted and signed in May 2015 in The Hague by more than 80 countries. This was the first step to attract also new countries from Asia, Africa and Latin America. The energy Charter has contributed to the stability and transparency of investment climate in the energy sector within its constituency.

Conclusion

Over the last three years, the external dimension of the Energy Union has been driven substantially by the changes in the global energy system and the interests of the Energy Union. The EU has focused its attention towards responding to new challenges and international developments and to maintain its leading role in the transition to a low-carbon energy system worldwide.

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II. Exchange of views

On the basis of the information provided under point I, Ministers are invited to share their views on the following questions: ⁵

- 1.) How do you evaluate the progress in strengthening the common voice of the EU in relations with partners beyond its borders that has been made in recent years, in particular when taking into account the main priorities identified in the Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy?
- 2.) Which countries or regions do you consider to be the most relevant for the EU and which tools should be used to enhance mutual cooperation with the aim to reach tangible results in relevant areas of energy policy?
- 3.) How should the EU best approach the ongoing transformation of the global energy system, and respond to the ongoing reform processes within international energy organisations ?

⁵ Note: delegations may forward their contribution in writing, so that Ministers can focus on key messages.