



12th Meeting of the Eastern Partnership Platform 3 on Energy Security 23 October 2014, Brussels, Belgium

Meeting Report

Summary:

The 12th meeting of the Platform 3 on Energy Security of the Eastern Partnership was held in Brussels on 23 October 2014 back-to-back with the INOGATE Annual Meeting (22 October). The national INOGATE coordinators of the Eastern partners were also invited to the Platform meeting. As in former meetings a good level of participation from all six partner countries was observed. Representatives of the Eastern Partnership Civil Society Forum, 15 EU Member States as well as several European Institutions including the European Investment Bank and the European Bank for Reconstruction and Development contributed to the meeting. The meeting focused on two thematic subjects: Security of Supply – Regional Interconnections and Conventional and unconventional oil and gas resources, both integral part of the Platform's Work Programme 2014-2017. Under any other business, attention was raised on how to increase the visibility of the activities of the Eastern Partnership in both regions. The follow-up actions will concentrate on the following measures: i) potential future energy efficiency cooperation; ii) proposals for a study under the study facility; iii) the proposal for a specific workshop with the IFIs on investments in interconnections and infrastructure; and iv) the proposal to organise a technical seminar on oil and gas technologies for exploration and production with focus on innovative technologies.

Detailed overview:

1. Opening session

The meeting was chaired by Deputy Director-General Fabrizio Barbaso of the European Commission, DG Energy. In his welcoming words, Mr Barbaso linked the chosen subjects of the meeting to the imminent discussions of the EU leaders on the future EU energy and climate policy taking place the same day at the European Council on the one hand and on the other hand to the informal ministerial energy dialogue which was held in Baku on 8 September in the framework of the regular informal ministerial dialogues. Mr Barbaso thanked Azerbaijan for having organised that first ministerial meeting on energy. The Platform meeting was a continuation of the discussions in Baku at service level. Mr Barbaso gave a short overview on the three main energy topics in the EU: i) the EU 2030 Climate and Energy Framework and its implementation including the proposed targets on CO2 emissions' reduction, on renewable energy share increase and on reduction of energy consumption, ii) the European Energy Security Strategy with its short-term and medium- to long-term measures and



iii) the need to prioritise competitiveness and investments in energy by strengthening the internal market, promoting green growth, jobs and research. As to the external dimension of EU energy policy, and more specifically in the context of the Eastern Partnership, Mr Barbato emphasized the commitment of the EU to increasingly speaking with one voice by opening up to new partners and markets and by ensuring that cooperation with 3rd partners is transparent, built on mutual trust and common understanding and win-win oriented. Regional aspects as well as national priorities needed to be taken better into account.

2. Intervention by the European External Action Service

Mr Richard Tibbels (EEAS) underlined the importance of energy security as identified as one of the Eastern Partnership priorities at the Vilnius Summit last year and underlined the link between energy security and political stability. Energy relations should be designed in accordance with the different energy profiles of the Eastern Partnership countries. Yet, there is a lot of room for multilateral cooperation including on infrastructure. The Southern Gas Corridor, reverse flows and interconnectors between the Member States and the Partner Countries remain important. In that context, cooperation with international financial institutions is paramount. Mr Tibbels also welcomed the successful Informal Ministerial meeting held in Baku in September this year.

3. Debriefing of the INOGATE Annual Meeting of 22 October 2014

In his debriefing Mathieu Bousquet, European Commission, DG Development and Cooperation-EuropeAid presented the main outcome of the INOGATE Annual Meeting held the day before. Mr Bousquet informed about the 2014 review policy cycle between the partners and stated that the discussions the day before focused on the achievements made as well as on the future INOGATE strategy. He stressed that the regional approach was essential but it is not a substitute for the bilateral one. He also informed that the new INOGATE website has just been launched¹.

4. Thematic sessions

4.1 Security of Supply – Regional Interconnections

Debriefing of the informal Eastern Partnership ministerial dialogue on energy, Baku, 8 September 2014

As the Platform meeting builds on the informal Eastern Partnership ministerial dialogue on energy of 8 September, Hans van Steen of the European Commission, DG Energy, gave a short debriefing of the discussions held in Baku. These discussions focused on infrastructure and interconnectivity. The meeting was characterized by the mutual agreement that in the current economic and geopolitical circumstances, securing energy supply is of increasing importance to the Eastern Partnership region and to the EU alike. Participants confirmed their political willingness to further commit and engage in projects relevant to both regions and shared the view that the set-up of the Eastern Partnership was the appropriate framework for tackling this common challenge as a pan European objective. Win-win situations for the producers, the industry and the consumer needed to be activated. For that reason it was suggested to explore the need for projects of mutual interest and to increase cooperation with the International Financial Institutions.

Presentation of the EU Stress Test report

¹ <http://www.inogate.org/?lang=en> – this website is available in English and Russian language

The so-called EU Stress Tests are a key element of the short-term measures of the European Energy Security Strategy. Mr Hans van Steen, European Commission, DG Energy, presented the main outcomes of these tests which were carried out during the summer months in the EU in order to decide on urgency measures for the winter. Some partner countries have participated in this exercise with the support of the Energy Community Secretariat. The Report concludes that cooperation and solidarity among EU Member States on the one hand and with our neighbouring partners on the other are the main elements, which need to be strengthened at the political level. At the economic level the report suggests to make the market work as long as possible. The Report contains a number of recommendations to be implemented in particular by the countries concerned.

Selection criteria for projects of mutual interest

Catharina Sikow-Magny, European Commission, DG Energy, and Violeta Kogalniceanu, Energy Community Secretariat, reported on the criteria used in the selection processes for the Projects of Common Interest (PCI) within the EU and the Projects of Energy Community Interest (PECI) respectively.

In the following **roundtable** deliberations, the participants discussed how to address the needs in the Eastern Partnership countries in order to achieve an appropriate level of interconnection. The Chairman suggested convening an ad-hoc workshop and exploring what financial instruments can be available for this purpose. The Ukrainian side raised the issue of the delayed implementation of the Eurasia Oil Corridor. Azerbaijan asked whether the SOCAR's projects in Turkey and Georgia can benefit from PEGI status to which Ms Kogalniceanu replied that only Energy Community Contracting Parties can benefit from PEGI status of their projects and Ms Sikow-Magny underlined that those projects already benefit from the PCI status.

Intensifying cooperation with the European Investment Bank on the financing of projects of mutual interest

In addition to the selection criteria for potential projects of mutual interest, another important aspect is the financing of such projects. Enhancing cooperation with the International Financing Institutions is therefore important. Lionel Rapaille and Alexander Antonyuk from the European Investment Bank (EIB) informed that since 2007 the EIB lending to Eastern Partnership and Central Asia countries reached EUR 5,2 bln. The EIB has been investing for many years in projects that enhance energy security. The priority sectors are energy efficiency, increasing domestic production and diversification of supply and completing the integration of the energy markets. The EIB is prepared to support energy security of supply projects in Eastern Partnership countries.

Competitive investment climate as a basis for attracting investment

Based on the example of successful activities of the European Bank for Reconstruction and Development in Moldova, Julia Otto, European Bank for Reconstruction and Development (EBRD), shared her view as to how a competitive investment climate could look like in order to attract investment. Moldova is a country with significant transition challenges across all sectors of the economy. Therefore, in the next strategy period the Bank will focus on addressing the following strategic priorities: improving the business environment to boost domestic and foreign investment, promoting European standards and regional integration, enhancing commercialisation and sustainability of municipal enterprises.

The interventions of both the EIB and the EBRD have shown that there is scope for an enhanced cooperation with the International Financing Institutions. It was suggested to further examine the

various options more in detail possibly via a specific meeting with several IFIs and/or via a concrete study financed by the Eastern Partnership Study Facility which was presented at the last Platform meeting in June.

Financial instruments and process for project selection under the new EU multiannual financial framework for 2014-2020

Natalja Miolato, European Commission, DG Development and Cooperation-EuropeAid, and Lionel Rapaille, EIB, informed on the main instruments under the new EU multiannual financial framework covering 2014-2020. The current Neighbourhood Investment Facility (2008-2013) contribution to energy projects in the Eastern Partnership countries amounts to EUR 77,3 mln. In the energy sector NIF can finance the infrastructure projects, municipal projects (i.e. SUDEP and E5P²) and private sector development projects (i.e. Sustainable Energy Facilities). Mr Rapaille, EIB, informed that lending under the EIB External Lending Mandate for 2014-2020 amounts to EUR 4,8 bln for the Eastern Neighbourhood and Partnership Countries. The mandate objectives include: support to EU policy goals, social and economic infrastructure, climate change mitigation and adaptation and local private sector development.

4.2 Conventional and unconventional oil and gas resources

This new cooperation activity was added to the Work Programme 2014-2017 in the aftermath of the Eastern Partnership Summit in Vilnius. Discussions started by exchanging information on the legislative and regulatory aspects of exploration including the related safety standards.

In his introductory remarks, Mr Oleg Shevchenko, Ministry of Energy and Coal Industry of Ukraine underlined the country's potential for both hydrocarbons and renewables underlining the necessity for investments in new discoveries in Ukraine as a means of mitigating the dependency on one dominant supplier. The increase in production is an important measure for guaranteeing security of supply, however, 70% of the current reserves have been depleted and extracting new reserves and deposits requires expensive research and exploration coupled with industrial preparation for exploration. As far as shale gas is concerned, reserves are still uncertain, nevertheless some estimates indicate that Ukraine has the 4th largest shale gas deposits in Europe.

Mr Michael Schütz, European Commission, DG Energy, outlined the framework for unconventional gas and oil in the EU. He underlined that in the EU, the debate is more focused on shale gas, in which area many licenses were granted in Europe for exploration activity. However, the reserves of shale gas are only partially economically viable. The energy security strategy acknowledges the contribution potential of shale gas as long as all environmental concerns are adequately addressed and provided the right conditions (for investments) are in place. Public acceptance as to environmental concerns and risks is paramount. The European Commission suggested on 22.01.2014 minimum standards in this regard.

Mr Jörg Köhli, European Commission, DG Energy, elaborated on the offshore safety directive, which entered into force on 18 July 2013. It raises the safety and environmental protection standards of all EU offshore operations to the level of the world's best performing regimes and provides common

² SUDEP supports signatories of the Covenant of Mayors Initiative to implement measures incorporated in their Sustainable Energy Action Plans

rules for a sector previously covered by widely diverging national legislation. The Directive puts in place a risk-based regulatory framework for offshore operations throughout the EU, setting rigorous safety goals for industry as the primary duty holder. A robust, independent national competent authority shall oversee these goals, and responsible licensing by Member States reduces risk further.

During the following **roundtable discussion**, participants of the Eastern Partners reported on the situation of their countries as follows:

Armenia: The country does not have hydrocarbon resources and therefore does not have a legislative framework for hydrocarbons exploration and exploitation. The country representative informed about the renewable energy potential and the energy efficiency measures in place and also the latest legislative proposals (a new draft law on renewable energy amending the 2004 law).

Azerbaijan presented the latest developments on the Southern Gas Corridor and updated on the progress along all segments of the corridor – upstream (Shah Deniz II), South Caucasus Pipeline, Transanatolian Pipeline and Trans Adriatic Pipeline. The ground-breaking ceremony for the Southern Gas Corridor took place in Baku on 20th September 2014 and the first Shah Deniz II gas should come on stream in 2018/2019. The representative of SOCAR also informed that there is a vast potential for gas coming from other Azerbaijani gas fields, namely Umid, Babek, ACG Deep, Zafar-Mashal and others. On the legislative regime for hydrocarbon's exploration and exploitation, Azerbaijan enforces Production Sharing Agreements, negotiated by the State Oil Company with foreign companies, on behalf of the government.

Georgia: The exploration licenses are issued both by the Ministry of Environment and the Ministry of Energy. The licensing process goes through international tenders. The regulatory agency functions according to the one stop shop principle. There is a unified legal framework for both oil and gas exploration and production. Currently, 19 investors conduct exploration activities in the Black Sea region and the first results are expected in 2017.

Moldova: In autumn 2014 the Ministry of Energy will develop the new draft law on natural gas (transposing the natural gas directive of 2009-3rd energy package) and commits to completing it by 31 December 2014. The draft law is planned to be approved by the Parliament in the 1st quarter 2015 as it will not be possible to approve it until the end of 2014 due to the Parliamentary elections in the country. Moldova reiterated that the government will continue its efforts towards the integration of Moldova into the EU energy market.

Belarus: The country is not in the possession of major new hydrocarbon resources and currently the main focus is on energy efficiency related measures. In this respect, the energy consumption decreased by 3 times compared to the 1990s. Oil production remains stable and shall be kept at the same level.

5. Any other business

Visibility and information dissemination of the Eastern Partnership activities related to energy in the EU and the partner countries

The need to better make known the existence and the activities of the Eastern Partnership was mentioned on several occasions during the meeting. In the light of the current geopolitical situation which has an impact on all the Eastern Neighbourhood countries in one way or another, citizens, private sector and decision makers should be better informed about the Eastern Partnership be it in the EU or be it in the Eastern Partner countries.

Nils Jansons, Deputy Head of Division in the European External Action Service informed on the Eastern Partnership visibility strategy developed jointly by the European External Action Service and the European Commission and invited all participants to make use of it.

The Partner Countries informed about their achievements in this respect. For instance, a lot of information events have been organised jointly with INOGATE in Belarus and in Georgia. After the signature of the Association Agreement the Ministry for European Integration has intensified the awareness raising campaign. Armenia underlined the need to convey the appropriate messages to the specific target groups.

6. Conclusion

Mr van Steen reiterated that the Platform meeting had reaffirmed the main messages of the Baku informal ministerial meeting: Improving and extending infrastructure and interconnection within and between the two regions is indeed a must if we want to ensure secure, affordable and sustainable energy supply to our citizens and industry. Economy and welfare are inter-linked and the access to energy is playing an ever more integrating role. Against the fact that energy has become a highly strategic and political parameter in the international relations architecture, enhancing partnership and solidarity between energy producers, transit countries and consumers is becoming increasingly important.

The Chair thanked the participants for their active participation and the various speakers and colleagues for their respective contributions. The next meeting of the Eastern Partnership Platform on Energy Security will take place in spring next year and will mainly focus on the next Eastern Partnership Summit to be held in Riga in May 2015.

Meanwhile the European Commission will coordinate the follow-up via e-mail exchange on: i) future energy efficiency cooperation; ii) proposals for a study under the study facility; iii) the proposal for a specific workshop with the IFI on investments in interconnections and infrastructure; and iv) the proposal to organise a technical seminar on oil and gas technologies for exploration and production with focus on innovative technologies.

Enclosure: Agenda