

SEMINAR "ENERGY IN EU EXTERNAL AID PROGRAMMES"

Hotel Crowne Plaza, 24 November 2011

General Introduction, Marcus Cornaro, 10h00-10h15

Distinguished Guests,

Ladies and Gentleman,

I am delighted to be present at this seminar today, which has a special focus on energy. The importance of 'Energy' in our external aid cooperation has been growing significantly over the last decade. Issues such as Energy Security of Supply both of Europe and our partners as well as the threat of Climate Change have been important factors influencing this shift.

The energy landscape, including factors such as the availability of natural resources, climate conditions and proximity to the EU market, has an essential impact on our external aid priorities, and varies strongly from country to country. While in less developed countries our focus is on reducing energy poverty and access to (clean) energy sources, in our neighbouring countries, the integration with the EU energy market is a much more central element also reflecting our interdependence. I will concentrate now on our relationship with the neighbouring countries, for which I am responsible within DG EuropeAid. My colleague Jean-Paul Joulia will provide you with more information on the ACP countries afterwards.

The broader context

Let me briefly define the broader context that frames our external aid policy for this region in the energy sector. The EU Energy market depends on high levels of imports to function – today already more than 60% of gas and 80% of oil used in the EU is imported. At the same time our market is more and more integrated due to a common regulatory framework. In turn, the energy landscape in our partner countries is highly diversified; some countries such as Azerbaijan and Algeria being important energy producing countries, other countries such as Ukraine, Georgia and Morocco being important energy transit countries, while others, such as Armenia, are strongly dependent on external energy sources. Similarly the potential for the development of renewable energy sources vary from country to country depending on climatic and geographical conditions, just think of the potential of solar power in the countries of the Southern Mediterranean or of hydropower in a mountainous country like Georgia. Furthermore, the degree of regulatory reform in line with the EU practice varies within the region, with some of the countries having taken already considerable steps such as Moldova and Ukraine that joined the Energy Community Treaty, while others are still relying strongly on former standards and practices.

This variety in landscape and energy relationships with the EU necessitates an approach that is based on differentiation and flexibility, depending on different types of relationships we already have with our partners as energy producer, or transit countries as well as the legal and political instruments that can be used for energy cooperation. These principles form the basis of the Commission communication of 7 September of this year which puts forward a comprehensive strategy for external energy relations.

The role of the private sector

The private sector is a crucial partner in the realisation of our policy objectives. On the one hand through its involvement in the implementation of EU financed projects transferring the EU experience and best practices to our Partner Countries, and on the other hand through direct investments in the regions that we are targeting. Investments in the region are however still limited, even though there is a large consumer market outside our borders! Part of the hesitation from companies to invest in the region is linked to the legislative and regulatory instability to protect the companies' interest and ensure a safe economic return on investments in future. These aspects are having priority in our policy dialogue with the countries and our external assistance package linked to this.

Key features of energy policy dialogue in the East ...

The Eastern Partnership, and the Energy Security Platform are one of the key frameworks for the regional energy dialogue between the EU and our Eastern neighbours. The EU energy market is not isolated but already connected with that of neighbouring countries and the countries will play an increasingly important role in ensuring supply and transit of energy to the EU. This is why it is important that we apply "the same rules of the game" between our internal energy market and the one of the neighbouring countries, which is one of the priorities under the Eastern Partnership. And the Eastern Partnership Energy Security Platform even encourages countries to go one step further by signing up to the European Energy Community Treaty through which they commit themselves to transpose EU Energy Acquis into their legislation. Ukraine and Moldova have already taken this

step, while other countries, such as Georgia and Armenia have shown interest by becoming observer.

Also the scarcity of energy resources combined with the concerns arising from climate change have led to a growing interest in our neighbouring countries to renewable energy sources and energy efficiency. The countries start realising that investments in sustainable energy is an interesting way of ensuring their energy security of supply while at the same time allowing export of gas to the more lucrative European market. Governments have actually started to develop renewable energy policies and legislation creating a more favourable climate for energy investments.

The Commission also recognises that local actors play a crucial role when considering that 80% of energy consumption and CO₂ emissions are related to urban activity. Therefore the EU initiative of the Covenant of Mayors, with already more than 3000 signatories plays a key role in meeting EU's sustainable energy objectives; mirroring this a growing number of cities in our neighbouring countries have followed suite and joined the EU cities in signing up to the Covenant committing themselves to slash by 20% their CO₂ emissions by 2020. The Commission is ready to assist these cities both in the EU and abroad. In particular for the Neighbourhood countries we are supporting a dedicated project with a branch office of the Covenant of Mayors Secretariat already established in Lviv (UA) and Tbilisi (GEO), and a similar project is envisaged for our neighbours in the South.

.... and in the South

I already mentioned the Eastern Partnership, but I should also mention here our relationship with our neighbours in the South and in particular the Mediterranean Solar Plan within the framework of the Union for the Mediterranean, which has set the ambitious target to develop additional production capacity of 20 GW by 2020 through Renewable Energy Sources. This target cannot be realised without improving the energy interconnections between these countries and with Europe as well the integration of the regional energy market so as to make it able to respond to the increasing energy demand in the region. However, even in case of a country such as Morocco that has a high number of sun hours, is close to Europe, and has a determined policy in favour of renewable energy, reality shows that public funds, and financing from the international financial institutions are not sufficient to realise large scale investments. Therefore, the involvement of the private sector is crucial.

Scale of our financial assistance

The financial assistance provided by the European Union in the energy sector is seeking to address the multitude of aspects I just mentioned before. We have

- put in place a package of measures to strengthen the institutional and regulatory framework which is so essential for the creation of a stable and attractive investment climate and which is at the heart of our dialogue within the Eastern Partnership and the reforms undertaken within the Energy Community Treaty
- At the same time we have put in place financial mechanisms which are easing the access to financing for investments.

In the period 2007-2011 we have spent approximately €216 million of ENPI assistance in the energy sector in our Southern neighbouring countries and €271 million in our Eastern neighbours. A large share of this assistance is provided through technical assistance and sectoral budget support for the reform process. As a matter of example we have provided sectoral budget support in the energy sector in Ukraine (approx €145 million) and Azerbaijan (approx. €13 million), programmes are starting in Moldova (40M€) , Morocco (approx € 76 million) and Egypt (€64 million). These sectoral budget support measures are accompanied by large technical assistance schemes to support Governments in the design and implementation of reforms. Furthermore, we also support the reform process through twinning operations, whereby EU member state officials work directly in the administrations in these countries.

Besides the bilateral assistance, the EU is providing support through regional technical assistance projects. In the East assistance is provided within the framework of the INOGATE programme, which has supported over 56 projects since its start in 1996 and thanks to INOGATE more than 7,000 people have received training and support in the energy field in the Partner Countries.. Currently 9 INOGATE projects are ongoing in the Partner Countries, representing an investment of over €36 million. This includes support ranging from regulatory advice on Energy Efficiency in the building sector, training on energy efficient labelling, guidelines for small hydro plants, but also energy tariff setting in the gas sector or the study done on the Caspian development Corporation....to mention just a few of them. The upcoming INOGATE Secretariat project that is expected to start by the end of this year will mobilise additional €17 million.

Also in the Southern Neighbourhood countries there are a number of ongoing projects in the energy field covering Renewable Energy (Paving the Way for the Mediterranean Solar Plan, the Euro-Mediterranean Energy Market Integration Project (MEDEMIP)) and Energy Efficiency (Energy Efficiency in the Construction Sector (MEDENEC II)). For example the MEDENEC II project has been instrumental in advising the Arab League on the development of an Energy Efficiency Directive for the Arab countries inspired from the European example. This directive has been adopted by the Arab League and the various Arab countries are transposing them into their legislation! Also, under the project 'Paving the Way for the Mediterranean Solar Plan' regional and national roadmaps are being developed on legal and regulatory reforms needed for the development of Renewable Energy sources in the region.

Finally, as I already mentioned before, two dedicated projects for the Covenant of Mayors have just started (East) or are in the pipeline for the next year (South).

The Commission is also providing direct investment support, mainly through the Neighbourhood Investment Facility and support to the Facility for the Euro-Mediterranean Investment and Partnership (FEMIP) . For 2007-2013, the European Commission has earmarked a total amount of € 745 million for the NIF, which are complemented by direct contributions from Member States of € 63 million so far. In addition, the Commission is providing a further €32 million per year through the support to FEMIP for the period 2007-2013 in collaboration with the EIB. These amounts may look small compared to the total amounts needed. However, support provided through the NIF has a leverage effect that is far larger.

It does trigger decisions of the European Financial Institutions to invest in a project. For example in the energy sector the EU provided 30 million EUR to support the construction of 200 MW Wind Farm project in the Gulf of El Zayt (Egypt). This triggered an overall investment by the IFIs (KfW lead + AFD and EIB) of € 340 million. Overall, the NIF has triggered a total investment in the region of around €10.5 billion up to now.

Your companies play a crucial role in the implementation of these strategies. We rely to a large extent on your expertise and motivation to achieve good results. Our expectations are high, and we also attach more and more importance to find the right and dedicated experts for the job. I am therefore interested to learn from our discussions today what is your experience on the key factors that ensure the success of our support, and how can we improve our cooperation, in the discussions that will follow today.

Finally, our legislative and policy support also has an important objective to improve the investment climate in the neighbouring countries . I would like to hear from you what you consider would be key factors to establish the conditions for a positive investment climate in the region.

I thank you very much for your attention and I am looking forward to a fruitful meeting.