

**UK response to the Commission Green Paper: A European Strategy for Sustainable,
Competitive and Secure Energy**
SUMMARY AND PRIORITY ACTIONS

The UK welcomes the Green Paper which provides a good framework for developing a European approach to energy policy. As the conclusions of the Spring European Council 2006 recognised it is an important step building on the agenda set by Heads of State and Government at Hampton Court.

This paper sets out the UK's initial thinking on some of the proposals in the Green Paper. The ongoing UK Energy Review precludes a complete response at this stage, but the UK expects to be able to submit such a response before the end of the Commission's consultation period.

The UK shares the Commission's analysis that a coordinated European response to global energy policy challenges is necessary which can contribute to economic growth, ensure security of supply and protect the global environment. In particular the UK would identify 3 key challenges on which the EU must cooperate:

- the need to complete the single market for energy
- the need to ensure diverse and reliable supplies in the face of Member States' increasing dependence on external energy sources
- the need to ensure that our energy policy is compatible with, and reinforces, our climate change objectives

Strategic EU Energy Review

The UK strongly endorses the proposal to establish a framework for regularly reviewing the EU's energy policy and identifying an action plan for endorsement by the European Council. To be most effective the Strategic Energy Review must identify specific proposals for action at the appropriate level, focussing on the key challenges described above. In particular, the Strategic Energy Review should provide information to the

market about market developments and review the state of the EU's external energy dialogues. The UK supports the Commission's intention to bring forward the first Strategic Review for the December European Council to enable preparatory discussions to take place

Action to complete the internal gas and electricity markets

The UK agrees with the Commission that rapid completion of the internal market is a priority. Concrete proposals that should be considered should be identified in the first Strategic Review.

- **Development of a European Grid:** The UK agrees that barriers to cross-border trade need to be removed through a common approach on regulatory issues that affect cross-border trade and investment although it is not necessary to develop a European Grid Code as the term is generally understood. Nor is it necessary to establish new institutions such as a European regulator or European Centre for Energy Networks. Rather the focus should be on enhancing cooperation and information exchange between national regulators and TSOs, promoting transparency of markets and ensuring the independence of national regulators, with sufficient powers for them to be able take into account cross-border issues.
- **Improved interconnection/Creating the framework to stimulate new investment:** The first step must be to ensure effective use of existing capacity through congestion management procedures and scrutiny of grandfather rights. New investment in interconnection should be led by the market; action should therefore focus on establishing a clear and consistent regulatory framework that facilitates cross-border investment. Specific action should include broadening the remit of national regulators (see above), clarifying the regulatory treatment of long term contracts and streamlining planning procedures.
- **More effective unbundling:** The UK agrees that effective unbundling is a priority to achieve a genuinely competitive market. Experience of legal unbundling suggests further action is necessary. If independent network operation cannot be ensured under the existing framework the UK would support ownership unbundling.

- **Boosting competitiveness through better coordination between regulators, competition authorities and the Commission:** The UK strongly supports steps to improve cooperation between relevant authorities in order to underpin establishing and developing an efficient and effective internal market. Strict application of competition rules and enforcement of EU legislation are both necessary. Existing initiatives such as regional cooperation launched by ERGEG and the European Competition Network should be built upon.

Ensure the internal market guarantees security of supply: solidarity between Member States

- **Review of EC legislation on oil and gas stocks/Improved transparency on energy stocks:** The UK supports the IEA lead on oil emergencies in view of the oil market's global nature and successful response to Hurricane Katrina. Efforts on improving transparency of oil stocks should focus on the quality and relevance of the existing data provided rather than increasing the frequency of publication. The UK is reviewing gas security of supply in the context of the UK Energy Review.
- **Establish a European energy supply observatory, enhancing transparency:** Information about and analysis of the EU energy market is essential for proper market functioning, but new institutions are not necessary to achieve it.
- **Improved network security through increased cooperation:** Enhancing cooperation between TSOs would enable sharing of best practice in emergency planning. Existing coordination mechanisms at Government level, such as the IEA on oil and the EU's Gas Coordination Group (Directive 2004/67/EC) provide appropriate fora for providing any added value at that level.
- **Greater physical security of infrastructure:** the UK does not consider work on critical infrastructure protection, with a view to establishing common standards, adds value to EU energy infrastructure protection. Infrastructure should be protected on a risk-assessed basis; common standards are very unlikely to deliver an appropriate answer in all cases. What is proposed duplicates existing responsibilities and measures or is otherwise unnecessary.

The UK firmly believes that the make-up of a nation's energy mix is a matter of subsidiarity. In the UK, the market, within an overall policy framework set by the Government, determines the fuel mix. The UK, however, does support the development of an overall strategic objective based on a EU wide energy mix benchmarking assessment. This UK envisages that this exercise would evaluate the EU mix composition in terms of sustainable energy use, competitiveness and security of supply and would form a strong evidence base for the development of future objectives proposed in the annual Strategic EU Energy Review to be agreed by the Council and Parliament.

Dealing with the challenges of climate change in a manner compatible with Lisbon objectives

The UK agrees with the emphasis on ensuring EU policy on energy and climate change are compatible and reinforce each other. Clean energy technologies, renewables and energy efficiency have a key role to play in reducing carbon emissions. In this context, the EU Emissions Trading Scheme is the most effective market based instrument for both delivering climate friendly energy production and improving security of supply. We should try to extend this to third countries. Agreement on the long-term shape of the scheme will provide the certainty needed for investment decisions and promoting low-carbon technologies.

- **Prioritising energy efficiency:** The UK agrees this is the most effective way of addressing our energy security, environmental and competition objectives. The Energy Efficiency Action Plan should be ambitious and realistic, and incorporate a long-term focus going beyond Kyoto commitments. The focus should be on creating a framework for action by Member States, which recognises the different circumstances they face and provides the flexibility for tailored action. This approach should be applied to the range of specific actions proposed by the Commission.
- **Adopting a road-map for renewable energy sources:** The UK supports this proposal which should help maintain EU leadership in renewable energy. The road-map should be centred on the establishment of a strong market framework and policy measures to provide the incentives necessary to deliver our clean energy goals. Consideration of specific proposals on targets, new legislation on heating and

cooling, bio-energy and bringing renewables energy sources closer to markets will need to be judged against whether they support the overall objective and whether they could be effectively implemented.

Strategic energy technology plan

The UK supports the proposal to establish such a plan to facilitate prioritisation and effective support mechanisms. Reviewing financing mechanisms for a more strategic approach, particularly with a view to mobilising the EIB to promote near market R&D is required. The UK believes that clean energy technologies and energy efficient technologies should form the cornerstone of the proposed Technology Plan

A common external energy policy

The UK strongly supports developing a clearly defined external energy policy which is pursued consistently at every level and promotes a more collective dialogue with our major suppliers, current and potential transit countries, and major energy consumer nations. This needs to be developed in a transparent and open manner to ensure it commands the support of all involved. Existing partnerships, dialogues etc need to be reviewed.

The UK agrees that energy should be integrated into other policies with an external dimension. Much greater focus ought to be placed on climate change, energy efficiency, global market access, investment trends and security of energy supplies in relations with global partners. The EU should consider widening the geographic scope of the EU ETS and making concrete use of trade policy tools to support the European Energy Policy.

- **Identify priorities for the construction of new infrastructure necessary for the security of EU energy supplies:** The UK supports increasing transparency and the availability of accurate intelligence and analysis on all aspects of demand and supply, including potential priorities for the development of new or upgrading of existing infrastructure.. An approach based on the increased availability of reliable information to enable market operators to make fully informed decisions will

stimulate competitive investment. The EU should not be prescriptive about the interconnections that should be built.

- **a pan-European Energy Community:** the UK strongly supports the extension of the Energy Community Treaty to Turkey, Ukraine and Moldova. A similar approach should be adopted, through Euromed arrangements, to extend the principles to Euromed partners.
- **a new energy partnership with Russia:** the UK is prepared to consider a new initiative with Russia, within the framework of the PCA successor arrangements, only if it is based on fair and reciprocal access to market infrastructure including third party access, Russian ratification of the Energy Charter Treaty and Transit Protocol.
- **reacting effectively to external crisis situations:** the UK considers that our efforts might be better directed at bringing together foreign policy and energy experts, under existing mechanisms to fulfil the necessary horizon-scanning and emergency co-operation functions.
- **deepening energy partnerships with producers, transit countries and other international actors:** the UK supports active engagement with key players particularly in the Caspian, Central Asia and Mediterranean states. The dialogues should have clear and focused objectives, be transparent and have the active involvement and support of Member States. Initial priorities should be to facilitate the transport of Caspian oil and gas, and co-operation with Algeria, which is capable of producing tangible results
- **international agreement on energy efficiency:** a co-ordinated global agreement on energy efficiency could have merit, depending on what it might actually contain and how it would interact with, or build on, the existing range of international initiatives to promote energy efficiency.

UK Government Response to the EU Energy Green Paper

PART 1: INTRODUCTION:

1. The UK warmly welcomes the Commission Green Paper on Sustainable, Competitive and Secure Energy. It provides a good framework within which to discuss the European dimensions of energy policy. Furthermore, the UK welcomes the Commission's intentions to spark a wide debate on energy across the Union.
2. This paper constitutes the first of a two-part UK Government response; it provides an overview of the context in which the UK sees a European Energy policy developing; answers the high level questions posed in part one of the Green Paper; and comments on some of the proposals. In the UK, Government is also conducting an Energy Review, which is still ongoing and which is considering some of the same issues discussed in the Green Paper. The Review precludes a complete response at this stage, but the UK expects to be able to submit such a response before the end of the Commission's consultation period.
3. The UK recognises that this policy area is evolving quickly and will continue to develop. The EU must take action in order to maintain the momentum built up by the Hampton Court informal under the UK Presidency and the December and March European Councils. The discussions at the June European Council on 14th June will be a key stepping stone in the formulation of an external energy policy for the EU. Our remarks on section 6: *Towards a Coherent External Energy Policy* addresses priorities for an external energy policy in greater depth.

A European Approach to Energy – Context

4. The UK believes that there is a fundamental need for a new European Approach to Energy Policy. Against a backdrop of globalisation and increasing global energy consumption, the urgency of tackling climate change and increased import dependency, the EU must now work together to tackle these challenges.

5. The broad vision at the European level should be for *Reliable, affordable and sustainable energy for Europe*. It is important that a balance is struck between these elements; skewing the debate too far in one direction will detract from all of our objectives and make them harder to achieve. These objectives are interdependent: competitive markets are a prerequisite to underpin other policy initiatives, play a significant role in security of supply and spur technological advances; energy efficiency measures contribute to all three; diverse and secure sources of supply strengthen a competitive market and support our climate change and carbon saving goals. **There are strong links between our energy policy and achieving our climate change objectives, action on energy at the European level must positively contribute towards achieving our climate change goals.**
6. Whilst it is imperative that the make up of the energy mix should not be determined at the EU level, there is a need for all Member States to come to a common understanding about the future energy challenges and how they will be met at a European Level. This will need to include clarity/ information on where our energy will come from in the future; both from sources within the union and from imports.
7. The risk to the climate caused by the world's increasing consumption of hydrocarbons is now beyond doubt and the EU needs a sustainable energy policy that will meet the challenges this presents **and make a significant contribution towards achieving our climate change goals**. Thus far, the EU has assumed a position of leadership through adoption of the Kyoto protocol and the establishment of an EU wide carbon trading scheme, the EU Emissions Trading Scheme (EUETS). But, in order to mitigate the effects of climate change, further pan-European and wider international action is vital. Unilateral action is not feasible in the absence of multilateral action. Strong action needs to be taken and the UK fully supports the development of an EU consensus on the main elements of a post-2012 Climate Framework and agreement on the future shape of the Emissions Trading Scheme. Both are areas where the EU can continue to demonstrate global leadership. This is the right moment, working multilaterally, to be strengthening the EU ETS and we should seek to provide clear and convincing signals about its continuity beyond 2012, indicating the likely level of future

ambition, and considering how it can be structured to act as the nucleus of a global carbon market. Europe has consistently been a world leader in the development and deployment of renewable energy sources. In order to maintain our competitive advantage, the EU needs to invest in research and development and provide support in bringing these newer technologies to market where they can operate without aid. An EU framework for the development of sustainable energy supplies with the flexibility to ensure that member states' comparative advantage in different renewable technologies can be exploited is key to maintaining leadership in this area.

8. Demand side management of energy including energy efficiency should remain key priorities for the EU and the UK. Managing down our demand not only contributes to our climate change objectives but also enhances our security of supply. The answer will be a mix of specific policy levers deployed at the national level, recognising the differing nature of Member State's domestic and industrial sectors, and at EU level to create the framework within which Member States can improve their performance. This should include the development of common product standards, mandating EU wide labelling requirements and adopting a common approach to tackling the impact of fuel consumption in transport.
9. The UK strongly believes that introducing competition into our markets has brought benefits to the UK, including security of supply benefits and those resulting from more efficient allocation of resources. Liberalisation and competition in the EU markets can only be achieved through concerted EU level action, involving Member State Governments, National Regulators and the Commission. But it is clear that the current framework is still not delivering the competition required. The duties and powers of EU regulators, unbundling and transparency are all areas that need to be urgently address to make the market work better. Member States should work towards regional markets as an interim step to wider market integration.
10. The UK strongly supports the Commission's Inquiry into the gas and electricity sectors and welcomes the infraction proceedings recently launched by the Commission for incomplete implementation of the second package of

liberalisation directives. There is no place in an internal energy market for member state protectionism or the nurturing of national champions.

11. Security of energy supply continues to be a key theme at both the national and EU level. Collective action can add value to our external energy policy. We must involve Foreign and Energy Ministers, and also Environment Ministers, in pursuing our energy objectives and have the appropriate institutional arrangements in place to do so. By developing common objectives with external supplier countries and engaging with other major consumers and transit states, the EU can exert its influence in a cohesive and focused way to export market principles, engage with supplier countries, particularly Russia, on an equal footing and ensure that energy and climate change objectives are consistently linked. Working with neighbours on improving security of supply, including safe transit of energy supplies should form an important part of the EU's external energy policy.

The Strategic Annual Energy Review

12. Developing a European energy policy will be a long-term challenge. It will require flexibility to react to changing circumstances and priorities at the European level. The Green Paper proposes a **Strategic Annual Energy Review**; the UK agrees that this would be a good framework within which to develop and debate the EU's energy policy. It should constitute both a stock take on progress and a flexible plan of action, to ensure the long-term development and prosperity of a common EU energy policy. It remains to be seen whether an annual review is the most appropriate. The exact intervals between energy reviews should be discussed to ensure the right balance is struck between additional information and additional work.
13. A key role of Government in a competitive market is to release accurate and timely information, in order to facilitate investment decisions. In the UK, this is done through the Joint Energy Security of Supply (JESS¹) group which assesses and publishes available data relevant to security of supply; identifies the gaps in

that data; and develops appropriate indicators. We believe that there is a need for similar information to be provided at the EU level, over a timescale of at least seven years ahead in order to provide clear investment signals to the market and encourage pan-European investments. The types of indicators that we suggest should be published are:

Gas

- o Potential daily gas delivery capability (various supply scenarios)
- o Demand duration curves
- o Daily gas deliverability
- o Annual gas supply and demand

Electricity

- o Electricity generation by fuel type
- o Generator margin
- o Generation profile summer/winter
- o Load duration of back-up fuel supplies assuming full output

Market signals

- o Forward gas prices
- o Forward electricity prices
- o Spark spread

Market response

- o Gas: planned major new gas projects
- o Electricity capital expenditure
- o Electricity: planned new electricity projects

¹ For more information on JESS please see www.dti.gov.uk/energy/energy-reliability/security-supply/jess/index.html

PART 2: UK RESPONSE TO THE SIX PRIORITY AREAS

PRIORITY AREA 1: ENERGY FOR GROWTH AND JOBS IN EUROPE: COMPLETING THE INTERNAL EUROPEAN ELECTRICITY AND GAS MARKETS

14. The UK Government fully supports the Green Paper's emphasis on the importance of a genuine single market to achieve sustainable, competitive and secure energy. Competitive markets and increased cost transparency at each stage of the energy supply chain increase diversity, raise productivity, support investment and lead to competitive energy prices. The UK believes that competitive markets are an essential pre-requisite, upon which any other necessary public policy instruments should be layered.

The Green Paper posed the following questions:

Is there agreement on the fundamental importance of a genuine single market to support a common European strategy for energy?

15. The UK agrees that a competitive single market must form the foundation of a common European strategy for energy as open markets, not protectionism, will strengthen Europe and help it face the challenges ahead. The EU's 2003 energy liberalisation package provided a framework for liberalisation and the UK maintains its view that the agreed measures must be implemented fully and promptly. However, the UK also agrees that significant barriers to completion of the single market remain. The Green Paper makes a number of proposals for action in five core areas that are addressed below.

How can barriers to implementing existing measures be removed? What new measures should be taken to achieve this goal?

16. The Commission's sectoral inquiry into the structure of the industry, together with its review of the implementation by Member States of the 2003 package will identify these barriers. The UK has submitted evidence to the Commission on areas we believe need to be addressed. We urge the Commission to start work on tackling the obstacles already identified wherever possible (and we welcome the action already initiated by the Commission), and to take any further action which

appears necessary in the light of the final reports of the inquiry and review, together with the conclusions drawn from responses to the Green Paper.

How can the EU stimulate the substantial investments necessary in the energy sector?

17. A properly functioning market with a stable and clear regulatory framework that adequately rewards investment is crucial for timely investment in the energy sector. Furthermore, a framework is required at the EU level that provides investors in cross-border infrastructure with sufficient regulatory certainty and coherence. For players operating in a competitive market, for example generation, prices provide an important signal for investment. Investors need to have confidence in the price setting mechanisms, and, as the preliminary findings of the Commission's sector inquiry have shown, this is not currently the case. It is imperative that much more information is released to the market; this would have the double benefit of promoting investment and trading.

18. The Commission has a role in providing European level analysis and information to the market in order that market players can understand where there is insufficient pipeline and transmission capacity and where commercial opportunities will arise by providing this capacity. As noted above, the **Strategic Annual Energy Review** would be an appropriate vehicle for this. The precise routes taken by networks are best left to the commercial judgement of those paying for them.

How to ensure that all Europeans enjoy access to energy at reasonable prices, and that the internal energy market contributes to maintaining employment levels?

19. The UK believes that competitive markets provide the most efficient means of delivering services, including energy, to consumers. The completion of the internal market is therefore the best means of ensuring competitive and reasonable energy prices. Although over the short term efficiency gains from competition may result in a reduction in the numbers working in the energy sector, over the longer term, the entry of new firms, efficiency gains and lower prices are likely to have a more positive impact on employment. In addition, the positive impact of

market opening on productivity will deliver spill over gains on the wider EU economy increasing competitiveness, growth and employment.

On the specific proposals put forward by the Commission in this chapter of the Green Paper:

A European Grid

20. The UK agrees that faster progress needs to be made in removing the existing barriers to cross-border trade and it welcomes the regional initiatives recently launched by ERGEG, which should put impetus into the process. The UK does not believe that we need a European Grid Code, as the term is generally understood, but agrees that a **common approach on regulatory issues that affect cross-border trade and investment should be a priority**. National Grid Codes are highly complex technical documents covering the operation of transmission networks; harmonising them would be time consuming and unnecessary for promoting trade. A better approach would be to seek to harmonise those parts of the Grid Codes relating to cross-border trade. Greater and more effective cooperation between both regulators and TSOs is also needed, but we do not believe that this calls for the creation of new institutions, specifically a **European energy regulator** or a **European Centre for Energy Networks**. Efforts should remain focussed on maximising the effectiveness of existing arrangements.
21. As the Green Paper points out, there are great disparities in **regulators' powers** at present and not all are independent of government. To function effectively regulators must be independent of government and, moreover, have powers to monitor and regulate competition in all the areas which impact on the operation of the national and, where appropriate, European market. They must also be able to impose penalties for non-compliance with the rules, and have sufficient resources to fulfil their functions. Without a levelling up of powers (so that they have the powers of the strongest) regulators will not be able to carry out their tasks effectively and in a coherent manner, even with the fullest cooperation.
22. Moreover, consideration needs to be given to the powers that regulators may require in order to establish functioning and effective regional markets as a step

towards establishing a single EU energy market. A key factor in the successful development of regional markets and, ultimately, a single EU market, is the existence of a regulatory framework that provides investors in cross-border infrastructure with sufficient regulatory certainty and coherence. Therefore, to help encourage further market integration, regulators need to improve their coordination and achieve a more consistent approach on cross-border issues, as has been achieved in the area of Financial Services. They do not have sufficient powers and duties to do this at present, as their responsibilities are limited to safeguarding the interests of consumers in their home markets. They could not, for example, approve investments that would benefit consumers in another Member State. National regulators therefore need to be able to take account of the interests of consumers in a wider area than their national markets and to share information with other national regulators (which is prohibited under some national legislation).

23. Such an approach could be more effective than the establishment of a **European Regulator** to deal with cross-border issues. Both approaches have the same objective, viz to provide a coherent supranational regulatory framework. We are concerned that the creation of a single EU regulator could involve an additional layer of regulation interfacing with national regulators that might risk increasing regulatory uncertainty and thereby deter cross-border investment. Similarly, the present cooperation between European TSOs through ETSO and GIE is working reasonably well and their role could be enhanced. They could, for example be formally charged with collecting, analysing and publishing historic and forward-looking data on Europe's supply/demand balance as ETSO have already started to do. However, there is no doubt that the effectiveness of ETSO and GIE could be improved with more effective separation of network businesses in some vertically integrated companies. This would remove the conflicts of interest that are reducing the value of these bodies at present, particularly in gas.

A Priority Interconnection Plan

24. The UK agrees that greater interconnection is needed to support further market integration. Wherever possible, the capacity on existing interconnectors should firstly be freed up and made available to third parties through effective congestion

management procedures and rigorous scrutiny of grandfathered rights in legacy contracts, including use-it-or-lose-it mechanisms.

25. New investment should be encouraged by putting in place the right regulatory environment and incentives. At present investment within the EU is generally driven by the need to provide national system users with a network that meets a specified security standard. If the national regulator approves the investment the costs, plus a fair rate of return for the TSO, are passed through to system users. There are no mechanisms for the national regulators or TSOs to be involved in investments which do not benefit their national system users directly, which hinders the development of a pan-European systems. Regulatory arrangements are therefore needed which allow regulators and TSOs to consider investment needs on a regional or EU basis. Without such arrangements cross-border investment will continue to be stymied.

26. Externally sourced investment in the EU has usually been underpinned by long term contracts. This is particularly the case for gas. If the EU is to access secure and diverse supplies of gas in the future investment in new infrastructure, in particular for gas, will be required. The Commission have rightly highlighted in the sector inquiry that anti-competitive conditions in long-term contracts are restricting the development of a fully functioning European Energy market. Market players are, however, uncertain about the regulatory treatment of such contracts, and this applies to both existing and future contracts. This uncertainty must be addressed if market players are to have the confidence and flexibility they need to make the large-scale investments that the EU will require. The role that long-term contracts can play in underpinning investment in infrastructure is apparent, but at the same time there must be a regulatory framework in place which ensures that no anti-competitive effects ensue. The Commission, assisted by the regulators, should develop a clear regulatory framework to accommodate long term contracts.

27. Finally, projects are currently experiencing significant delays because of complicated and time-consuming planning procedures. The UK agrees that

authorisation procedures should be streamlined and accelerated at national level so that they do not impede essential and timely investment.

A level playing field: the importance of unbundling

28. The UK believes that **effective unbundling of network businesses** is essential if there is to be fair and non-discriminatory access to the network for all system users. Without this access, the incumbent operators of networks and storage can favour their own affiliates and thereby prevent the entry of new competitors. Moreover, proper separation should also deliver greater data transparency and confidence in the operation of the market, leading to lower prices. A study carried out in the UK has demonstrated that where the TSO has been successfully unbundled, gas prices have fallen by around 15%².

29. Legal unbundling as laid down in the 2003 Directives can be effective if rigorously regulated by the national regulatory authorities. All Member States must take urgent action to ensure that the existing unbundling provisions are implemented in a manner that guarantees independent network operation. Failing that, the EU should move to ensure ownership unbundling.

Boosting the competitiveness of European industry

30. The UK agrees that one of the principal aims behind establishing the internal energy market is to increase efficiency and thereby lower energy prices. Lower energy prices should boost the competitiveness of EU industry. However, the benefits will not be limited to industrial users as all energy consumers, large and small, will reap the rewards of an efficient, integrated EU energy market operating within a well-designed and stable regulatory framework – in terms of prices, choice, service quality and security of supply. To achieve this goal **the Commission, national energy regulators and national competition authorities must cooperate closely together**. Strict application of the competition rules and rigorous enforcement of EU legislation are necessary and the two must go hand in hand. The European Competition Network is a good start, and should be developed further to achieve consistent application of rules in the energy sector.

² A report by Ernst & Young for the DTI.

PRIORITY AREA 2: AN INTERNAL ENERGY MARKET THAT GUARANTEES SECURITY OF SUPPLY : SOLIDARITY BETWEEN MEMBER STATES

31. The UK continues to believe that a well functioning internal market in energy is the primary method for ensuring security of supply in the European Union. However, the UK recognises that there will be unplanned events for which the EU should make contingency plans and share best practice on how to remedy and avoid such eventualities.

The Green Paper posed the following questions:

What measures need to be taken at Community level to prevent energy supply crises developing and to manage them if they do occur?

32. A distinction should be drawn between energy supply crises that occur because of system failure within the European Union and those caused by an external source of energy supply being interrupted, such as happened with gas supplies from Russia via Ukraine in January 2006. The responses to these supply interruptions will be necessarily different.

33. In the case of infrastructure failure within the EU, the response to this will be immediate and involve market players in the area affected. In this case, preparing for, avoiding and, if necessary, dealing with supply emergencies is primarily a matter for those states concerned and the market players involved. However, the UK would welcome increased collaboration and information exchange, as well as sharing best practice in preparing for and responding to emergency situations between Member State Governments and Transmission System Operators. There UK agrees that a monitoring mechanism to provide early warning and enhance response capabilities in the event of an external energy crisis is necessary (see paragraph 87) .

On the specific proposals put forward by the Commission in this chapter of the Green Paper:

Enhancing Security of Supply in the Internal Market

34. The Green Paper proposes that the **Energy Supply Observatory** should identify infrastructure shortfalls and priorities to enhance security of supply. Whilst we support efforts to bring transparency on supply and demand data to provide clear market signals, the UK would not support any attempt at EU level to prescribe where infrastructure is built. Moreover, a new body is not needed to be established to provide this information.
35. The Energy Green Paper also make proposals relating to the **physical security of infrastructure**; including elements that have already been proposed as part of the Commission's proposals for a **European Programme for Critical Infrastructure**³. The UK's view, as underlined in our separate response to the proposals for a European Programme for Critical Infrastructure Protection (these go much wider than energy), is that protective measures should be based on assessed risks particular to the piece of infrastructure; and be proportionate to the risks and potential impact that its loss would have. **Common standards** would not be appropriate as, by definition, in some cases they would be too low to mitigate risks and in others they would be over-prescriptive, and therefore costly.
36. The Green Paper proposes a mechanism to prepare for and ensure rapid solidarity and possible assistance to a country facing difficulties following damage to its essential infrastructure. The proposed mutual assistance mechanism seems superfluous because:
- The **Civil Protection Mechanism** enables any EU Member States (plus Bulgaria, Romania, Iceland, Liechtenstein, Norway) to seek or offer mutual assistance to deal with the consequences of a disaster or major emergency.
 - The **Solidarity Fund** (DG Regions) allows Member States/accession countries to apply after an event for financial assistance to cover uninsured losses. Recent applications included requests for the costs of the January 2005 storms that damaged infrastructure in Northern Europe.
 - It is for market players, particularly the Transmission System Operators (TSOs), to get the system up and again, not for Governments, and it is likely

³ The Commission's Green Paper on CIP of 17th November 2005.

that any fault will be rectified by the time that the EU can coordinate a response.

Rethinking the EU's approach to emergency oil and gas stocks and preventing disruptions

37. The UK welcomes the recognition of the need for the IEA's continuing lead in coordinating response measures to **oil emergencies**, given the oil market's global nature, and the success of the current system in reacting to Hurricane Katrina. It was clear after Hurricane Katrina that any additional collective discussion within the EU would have delayed the speedy response needed. The IEA's system for responding to disruption of oil supplies is well established and successful. The UK sees no reason for any duplication of these at the Community level.
38. On more **frequent and transparent publication of Community oil stocks**, the UK agrees that the current system for publishing EU monthly stocks data is flawed, because the data is out of date and not clearly presented enough. However, the priority should be to improve the usefulness and relevance of the existing data rather than increase the frequency of publication.
39. The proposal to review the effectiveness of the **Gas Security of Supply Directive (2004/67/EC)** appears premature as this Directive has only just come into force,. We welcome the coordination of action in emergencies by the Community where this is likely to be productive; the Gas Coordination Group established by Art 7 of the Gas Security of Supply Directive (2004/67/EC) provides an appropriate forum for such discussions in relation to gas. The group should have a broad outlook and remit, including a horizon-scanning function.

***PRIORITY AREA 3: TACKLING SECURITY AND COMPETITIVENESS OF ENERGY SUPPLY:
TOWARDS A MORE SUSTAINABLE, EFFICIENT AND DIVERSE FUEL MIX.***

40. As a general principle the UK believes that control over fuel mix for generation should be left to commercial actors to invest in what they consider to be the most appropriate form of generation given local market conditions and politics. In the UK, the precise generation mix is left to the market, although the UK Government provides incentives to promote the development of renewables, CHP and new and emerging technologies.

The Green Paper posed the following question:

What should the EU do to ensure that Europe, taken as a whole, promotes the climate-friendly diversification of energy supplies?

41. The UK agrees that further diversification of the energy mix, **especially towards low and zero carbon technologies**, is an important element of climate change objectives. The EU ETS should remain a key market-based instrument for promoting climate-friendly diversification of energy supplies and encouraging energy efficiency both within Europe and, via JI/CDM. Other instruments, such as the UK's Renewables Obligation also have a part to play.

On the specific proposals put forward by the Commission in this chapter of the Green Paper:

42. The Green Paper proposes a European wide strategic objective to balance the sustainable, competitive and affordable aspects of an EU-wide energy policy through the development of a **energy mix benchmarks**. The UK firmly believes that the make-up of a nation's energy mix is a matter of subsidiarity. In the UK, the market, within an overall policy framework set by the Government, determines the fuel mix. The UK, however, does support the development of an overall strategic objective based on a EU wide energy mix benchmarking assessment. This UK envisages that this exercise would evaluate the EU mix composition in terms of sustainable energy use, competitiveness and security of supply and would form a strong evidence base for the development of future

objectives proposed in the annual Strategic EU Energy Review to be agreed by the Council.

PRIORITY AREA 4: AN INTEGRATED APPROACH TO TACKLING CLIMATE CHANGE

43. **Energy and climate change policy are intrinsically linked.** The UK fully supports the emphasis in the Green Paper on the need to tackle climate change and on the role that clean energy technologies, renewables and energy efficiency can play in reducing carbon emissions, whilst also contributing to the diversity and security of supply and advancing Europe's technological leadership in these sectors. The relationship between energy consumption and climate change is beyond doubt and there is a need to ensure that EU positions on energy and climate change are compatible and reinforce each other, for example with regards to the revised European Climate Change Programme due to be published in the Autumn of 2006.

44. The UK believes that **energy efficiency** is the cheapest, cleanest and safest way of simultaneously addressing our energy, environmental and competitive objectives. Further action is needed on energy efficiency if we are to meet our objectives in each of these interlinking areas. Decoupling energy consumption from CO₂ has been a cornerstone of the UK's energy policy since the publication of the 2003 Energy White Paper and we are committed to decoupling energy demand from economic growth through energy efficiency with the aim of putting ourselves on path to cut CO₂ emissions by 60% by 2050 with real progress by 2020.

The Green Paper poses the following questions:

How can a common European Energy Strategy best address climate change, balancing the objectives of environmental protection, competitiveness and security of supply?

45. It is right to highlight the importance of global leadership from the EU in tackling climate change. It is also right to be seeking now EU consensus on the main elements of a post-2012 Climate Framework. This will not only help secure the EU's leadership well into the future, but will help improve certainty for EU installations and will help stimulate the necessary investment in low carbon

technologies. The UK agrees that the EU-**Emissions Trading Scheme** is the most effective market-based instrument for delivering more climate friendly energy production and, potentially, improving security of supply. But, to drive global carbon markets in the long term, and to deliver the volumes of private finance required to invest in lower carbon technology, the future EU ETS should be seen as a nucleus of global emissions trading, and swift agreement on the long-term shape of the EUETS is, therefore, urgently required. Going forward, therefore, we expect the Commission to want to set clearer long term objectives, in line with 2005 Environment and Spring Council conclusions and we would like to see key decisions on future phases being reflected in energy policy deliberations. Improving Energy efficiency can, uniquely, simultaneously deliver emissions savings, reduce energy demand and improve competitiveness through lower bills for consumers and business and should be at the heart of efforts to address climate change.

What further action is required at Community Level to achieve existing targets?

46. The Green Paper correctly recognises that many of the tools to deliver more efficient energy consumption rest at Member State level. Action at Community level should remain focussed on areas where this has demonstrable added value and be subject to rigorous cost-benefit analysis.

Are further targets appropriate?

47. The UK does not believe that further targets for energy efficiency are warranted at present beyond those recently adopted under the Energy End Use Efficiency and Services Directive.

How should we provide a longer- term secure and predictable investment framework for the further development of clean and renewable energy sources in the EU?

48. The EU is correctly regarded as the world leader in renewable energy development. The development of a long-term cohesive renewables roadmap is welcome and should help to maintain this leadership in the long-term. The UK believes that the establishment of a strong market framework reinforced by long term policy measures will give investors, business and consumers the right

incentives to find the balance that will most effectively meet our renewables and clean energy goals.

On the specific proposals put forward by the Commission in this chapter of the Green Paper:

Making More from Less: Leading on Energy Efficiency

49. Given energy efficiency is a cross-cutting tool that contributes towards all of our energy policy objectives the UK believes that there should be significant commitment from all Member States to achieving our energy efficiency goal. to reach a 20% reduction in energy consumption by 2020 across the EU. This goal should be reflected in the proposals set out in the forthcoming **Energy Efficiency Action Plan** and incorporate a long-term focus beyond existing commitments under Kyoto. The UK looks forward to an ambitious and realistic action plan from the Commission, but one that does not involve binding targets. Energy efficiency is a vital cross-cutting measure and driver for positive change delivering not only CO₂ emissions reductions, but also, and simultaneously, improving security of supply by reducing energy demand and increasing business competitiveness by reducing fuel bills.

50. Demand side management of energy, including energy efficiency, are rightly key priorities for the EU. Specific policy levers are best deployed at the national level, due to the very different nature of Member States' domestic and industrial sectors. However, the EU can play a key role in creating the framework for Member States to improve their performance on energy efficiency including through the development of common product standards, mandating EU wide labelling requirements and adopting a common approach to tackling the impact of fuel consumption in transport.

51. On the proposal to promote an **International Agreement on Energy Efficiency**, the UK agrees that short-term global competition and trade concerns can hinder the development of cross-border agreements on energy efficiency and that a co-

ordinated global agreement on energy efficiency could have merit, depending on the specifics of what an international agreement would actually contain. The UK would not support any binding energy efficiency agreements or proposals on areas already covered as part of other discussions, for instance as part of the Energy End Use and Energy Services Directive. However, there could be potential for such an agreement to focus on key areas of global interest that have the potential to significantly impact efforts on climate change, for example global agreements on standards for globally traded appliances and stand-by power (linking into the existing international sustainable products taskforce considering this issue).

On the specific proposals put forward by the Commission in this chapter of the Green Paper:

52. Energy Efficiency Campaigns, including efficiency in buildings, notably public buildings. The Public Sector should play an exemplary role in the promotion of energy efficiency measures and the UK recognises that there is scope for improvement regarding energy efficiency improvement measures in homes and specifically public buildings. However, recognising cultural and national differences, it's imperative that any proposed campaign adds value and is flexible enough to work in different Member States. This could be through a framework campaign that Member States could tailor using their own messages.

53. Improving Energy Efficiency in the Transport Sector: The UK recognises that more effort is needed to improve energy efficiency in this sector. It is clear that despite past improvements there remains significant potential for additional energy efficiency gains in the transport sector. Further action is needed to achieve this and should focus, not only on the promotion of more sustainable forms of transport but also the wider efficiency of all vehicles and their components including e.g. tyres, lighting and air conditioning. This is an area where the IEA is already undertaking work under the Gleneagles Plan of Action and early recommendations suggest the scope for considerable energy savings. In the UK we have seen a 10% improvement in fuel efficiency of cars over the last decade, due in part to measures such as the voluntary agreements between manufacturers and the European Commission, due to end in 2008/9. We would like to see a

successor to these voluntary agreements finalised as soon as possible. In addition, effort should be focussed on the reduction of the fossil carbon content of transport fuels, a good example of which is the UK's Renewable Transport Fuels Obligation that requires 5% of all fuel sold to come from renewable sources by 2010-11. Emphasis also needs to be placed on the inclusion of the transport in emissions trading regimes. The UK believes that the inclusion of aviation in the EU Emissions Trading Scheme is the best way for the industry to contribute to climate stabilisation and that serious consideration should also be given to including surface transport in the EU scheme.

54. Mechanisms to stimulate Bank investment in Energy Efficiency projects and

Energy Services Companies (ESCOs). The UK agrees that financial instruments have a role to play in promoting energy efficiency, but harmonised instruments at EU level could create an inflexible approach to facilitating investment. Instead the UK would advocate flexibility for Member States to pursue these mechanisms within a broad agreed framework. Where the EU does possess levers, such as State Aid, Cohesion funds and mobilisation of the European Investment Bank, the UK supports moves to establish favourable conditions for investments in energy efficiency. The UK welcomed this in our response to the Green Paper on Energy Efficiency, and we look forward to seeing these proposals reflected in an ambitious and realistic plan of action.

55. An EU wide White Certificates Trading System.

The UK is currently carrying out an assessment of a number of options to deliver energy efficiency in those sectors not covered by the EU Emissions Trading Scheme or the UK's Energy Efficiency Commitment. Options include the use of white certificates but also the possible extension of cap and trade instruments. We will return to this issue when this assessment is complete.

56. Improved information on performance of energy using products.

Informing consumers about and enabling manufacturers to compete on the energy efficiency performance of products is a key priority for the UK. Urgent progress with the review of the EU Labelling Framework Directive is vital. We also need a coherent strategy in each of the areas identified by the green paper, including where

necessary, revision of existing product standards, adoption of standards for new problematic products such as set-top boxes and the inclusion of horizontal issues such as stand-by power and set top boxes.

Adoption of a long-term Road-map for Renewable Energy Sources

57. The UK remains fully committed to our target of **10% of the UK's electricity supply coming from Renewable Obligation eligible sources of energy by 2010**, providing the cost to the consumer is acceptable⁴. While the UK recognise that this target is ambitious we are making significant progress. In 2004, 3.1% of electricity came from renewable obligation eligible sources, rising to 4.39% on a renewables directive basis (including renewable energy imported into the UK). We are currently looking at how best to bring forward emerging renewable technologies in the context of the national energy review currently being undertaken.

58. The Green Paper notes that **consideration of targets or objectives beyond 2010 are necessary**. Our overall climate change objective is to move towards a low-carbon emitting economy in a cost-effective way. This can be achieved through the establishment of a strong market framework reinforced by long term policy measures like our national Renewables Obligation, which will give investors, business and consumers the right incentives to find the balance that will most effectively meet our overall goals. The UK is not convinced that additional targets on fuels, electricity and heating will contribute to achieving the overall goal in the most cost-effective way, but this area is being looked at as part of the UK's Energy Review currently underway.

59. The UK remains fully committed to the development of renewables and agrees the need to provide long-term certainty to investors. Before considering whether a 15% target by 2015 is suitable, further clarification is needed on whether the Commission is proposing simply extending the 2010 target on the same basis as that set out in the Renewables Directive, i.e. a European target with different member states moving at different paces as currently established within the

⁴ The Renewables Obligation is a market-based mechanism supported by £500m of Government

Directive. The UK would not favour a requirement on every Member State to meet this target individually as we do not believe that further Member State level targets are warranted at this time.

60. Recognising that 49% of final energy consumption in the EU is used for **heating and cooling**, the UK agrees that geo-thermal, solar-thermal and biomass all can play an important part in diversifying the EU energy mix and reduce dependence on fossil fuels. Action needs to be taken to support more coherently the generation of heating and cooling from renewable sources, but it is important to identify the most effective means of doing this.

61. The heat market is vastly different from the electricity market, in that it is highly fragmented with many small businesses involved, so careful consideration needs to be given in determining whether a **Directive on Heating and Cooling** is necessary. Given the limited analysis available in this area at present, as a first step the UK would support an assessment of the potential for heating and cooling in the different national markets. Any Directive should have a clear purpose, whilst provide the flexibility for Member States to develop national support schemes to support renewable heating and cooling development. Before considering any proposals for targets for the development of RES-H, the UK would have to be convinced that they could be effectively measured. Moreover, if obligations on suppliers were proposed, consideration would have to be given as to how they could be placed as a form of target implementation mechanism, given the very little control that they have over the various users of heat.

62. The Green Paper proposed a **detailed plan to reduce EU dependence on imported oil**. The UK recognises the need for the EU to increasingly diversify its fuel sources and welcomes the Biomass Action Plan and the Biofuels Strategy. The UK believes that biomass for fuel and energy has major unrealised potential and can make an important contribution to reducing total carbon emissions in both the energy and transport sectors, whilst benefiting many other areas of sustainable development, for example a more market-focused and competitive EU farming industry, which could supply some of the demand. In the long term, hydrogen

will play an increasingly important role as evidenced by the priorities identified within Framework Programme 7 and the Joint Technology Platform in this field.

63. One of the stated aims of the EU Biomass Action Plan was to seek to achieve a balance between imports and domestic production. The UK considers that this is an integral part of the Action Plan as such a balance will help contribute to all three of the main objectives of the Green Paper, i.e. competitiveness, sustainability and security of supply. We recognise that diversification of supply away from traditional suppliers of fossil fuels can enhance security of supply and, as the Commission has noted, that biomass productivity is highest in tropical environments and the costs of biofuels, notably ethanol, are comparatively low in a number of developing countries and the emissions reductions are greater. However sustainability of bioenergy/biofuels must be a key aim and objective for the UK and the EU - not just in relation to domestic production but also for imports. It is, of course, essential to ensure that bioenergy/biofuels and other renewable energy supplies, wherever they are produced, are truly sustainable, i.e. they take full account of environmental and social as well as economic factors. Risks need to be addressed, especially environmental concerns, and life cycle analysis will be a useful tool for assessing and comparing the cost and sustainability of biomass feedstocks.

64. The UK is aiming for a balanced approach to end-use to include generation of heat and electricity as well as transport fuels using a wider range of biomass feedstocks (forests, energy crops, waste materials from agriculture and municipal waste). We are pleased that the EU is placing high priority on R&D in this area, including on second generation biofuels, as these new processes will allow a much wider range of materials to be used such as woody materials and waste. They also offer better environmental performance compared with 'conventional' biofuels. We see these advanced technologies as a key way forward as we seek further development of biofuels to improve the environmental impact of transport and use of biomass and bioenergy more widely.

65. The UK strongly supports **initiatives to bring clean and renewable energy sources closer to markets**, which could be delivered through existing

mechanisms such as ‘Intelligent Energy Europe’. The UK has encouraged this through a number of capital grants programmes and the UK Energy Review will also be looking at mechanisms to bring forward new technologies. The UK recently launched a Micro-generation Strategy aimed at creating the right conditions under which small-scale production of electricity from low carbon sources are deployed widely in the UK, initiatives such as this demonstrate how renewable energy sources can be brought closer to wide market deployment.

PRIORITY AREA 5: ENCOURAGING INNOVATION: A STRATEGIC EUROPEAN ENERGY TECHNOLOGY PLAN

The Green Paper poses the following questions:

What action should be taken at both Community and national level to ensure that Europe remains a world leader in energy technologies? What instruments can best achieve this?

66. The UK welcomes the Green Paper’s proposal to establish a **Strategic Energy Technology Plan**, recognising that this area should be looked at holistically. At present there is no over-arching mechanism for Member States to prioritise their support for technology platforms or to engage in a dialogue with the Commission on the prioritisation of energy technologies. The proposed plan should have a strong focus on energy efficient technology and clean energy technology, whilst taking into account the existing EU Technologies Technology Action Plan (ETAP) and ‘Methane to Markets’ initiative, exploiting synergies where possible.

67. On **financing a more strategic approach to energy research**, the UK is interested in the possibility of providing top-up funding for national partners involved in EU projects but at this stage we are not able to specify what proportion of existing national funding might be allocated for this purpose. We do not currently have plans for issuing co-ordinated calls in parallel with Commission calls, which raises very major practical difficulties.

68. The UK fully supports the proposal to better **mobilise the European Investment Bank to target market failures in financing for R&D** and innovation in

possible future forms of energy. The UK also welcomes the EIB's commitment to the Plan of Action on Climate Change, Clean Energy and Sustainable Development agreed at the G8 Summit at Gleneagles in 2005.

69. The UK believes that the EIB should be better focussed on addressing market failures and its operations should result in tangibly better outcomes than the market alone would offer. To achieve this the UK would like to see the EIB take more risk and better cooperate with the Commission and mobilise private sector funding. Therefore the UK would like to see EIB support focussed away from big energy infrastructure projects, where lack of market financing is often not the key issue, and more towards supporting access to finance for innovative or R&D intensive organisations. This should include projects in fossil fuel power generation and carbon capture and storage (although these would have to demonstrate they have the potential to become economically viable within a reasonable timeframe).

PRIORITY AREA 6: TOWARDS A COHERENT EXTERNAL ENERGY POLICY.

70. The UK agrees with the statement in the Green Paper that Europe needs a coherent external policy to enable the EU to play a more effective international role in tackling common problems with energy partners worldwide.

The Green Paper poses the following questions:

Should there be a common external policy on energy, to enable the EU to speak with a common voice?

71. The UK believes that the EU wields more weight when speaking with one voice and that we should aim to forge a common external energy policy. In order for an external energy policy to reap the greatest benefits, the UK strongly believes that there needs to be greater transparency and interaction between the Commission and Member States and to provide assurance that legitimate interests of Member States are not prejudiced in areas where the Community has no competence. The UK firmly believes that a long-term external energy strategy should be developed, covering both climate change and security of supply objectives, with defined

actions and which has the support of Member States and to which Member States have the opportunity to contribute. The EU should also develop mechanisms to review the effectiveness of actions to date and draw lessons from these.

72. At the same time, a common EU external energy policy must be in the context of any future bilateral or regional trade agreements.

How can the Community and Member States promote diversity of supply, especially for gas?

73. The EU must seek to ensure that it increases the range of sources supplying its energy in order to avoid over-reliance on any single supplier, which could be vulnerable to disruption. To achieve this, the EU must focus on supporting the development of alternative sources and supply routes, promoting open and competitive markets in third countries and to strive to put our energy relations with neighbours and third countries on a clear rules-based framework to increase transparency and predictability.

74. The UK believes that deepening energy relations with all of our major producers and consumers is important as a counter-balance to EU dependency on one major source of supply. It is important that we diversify our contacts along with our supply sources.

75. Promoting climate change and energy efficiency objectives **should be a major component** of our external energy policy; this will also contribute to our security of supply goals.

76. The UK proposes that Inogate be reviewed to consider to what extent their expenditure of €6m is meeting EU external energy relations objectives and how this can be improved.

Should the EU develop new partnerships with its neighbours, including Russia, and with the other main producer and consumer nations of the world?

77. As is noted above, the UK does believe that there is a case for a coherent external energy policy at the European level. However, before proposing new partnerships,

the UK believes that there should be a review of the existing partnerships, dialogues and mechanisms that the EU employs to interact with third countries. The Strategic Annual Energy review would be a suitable vehicle for this.

On the specific proposals put forward by the Commission in this chapter of the Green Paper:

A clear policy on securing and diversifying energy supplies

78. There is a clear case for the Strategic Annual Energy Review to take stock of the EU's different dialogues and partnerships with third countries. We also believe that there is a role for the Commission in providing intelligence and analysis to the market, most notably through the publication of market indicators to encourage investment into the EU and alternative projects to be brought forward (see paragraphs 13-14).

Energy Partnerships with producers, transit countries and other international actors.

79. The UK would only support a **new initiative with Russia** if it were based on "fair and reciprocal access to markets and infrastructure including third party access" plus ratification of the Energy Charter Treaty and conclusion of negotiation of the Transit Protocol. The UK is intensifying its efforts through the G8 process to urge Russia to ratify the Energy Charter Treaty and Transit Protocol. Any new initiative with Russia should also aim at promoting energy efficiency and working with Russia to promote climate change objectives, for instance our Kyoto goals.

80. The UK believes that any new initiative with Russia should be within the framework of any successor to the Partnership and Co-operation Agreement. We would support regular Permanent Partnership Councils (PPC) on energy, with policy content to be developed both from an external relations and energy perspective in both Council and Commission. Such joint working should be the usual way of working with Russia on energy. The UK would also support the continuation of the EU-Russia Energy Dialogue Thematic Groups, with sufficient human resource so that they can deal with real policy issues

81. The UK would also support continued working between the Commission and businesses active in Russia, Caspian and Central Asia to get a better understanding of the problems of doing business there. However, it is important that this is carried out a transparent way with clear objectives and appropriate Member State involvement. In this context, the UK would support a greater dialogue with Turkey on energy issues, in particular its role as a transit country for oil and gas and a strategic priority for improving security of energy supplies.
82. **Norway** is an important strategic energy partner for the UK and we are keen to work with Norway and others in ensuring that the High North / Barents - Arctic region is developed in a sustainable manner taking full account of the environmental sensitivities of the region, and the legal rights of others (in particular under the 1920 Svalbard Treaty). The importance of cooperation with Russia in taking forward the development of the region according to stringent standards should also be noted.
83. The UK would support the development of a **pan-European Energy Community**, encompassing not only the south-east European states but also encompassing Euromed states. The UK believes that this should be taken forward in two stages:
- o firstly the UK strongly supports **drawing Turkey, Ukraine and Moldova into the Energy Community Treaty**. The case for Norway participating in the Treaty is not so straightforward due to geographical considerations. Nor is it clear how Norway's status as an EEA member would affect her joining the Treaty. The provisions in the Treaty concerning mutual assistance mechanisms and the circumstances of the five participating EU Member States also need to be taken into account. The special status of the participating Member States was recognised because they border the area concerned; if Norway were to also join the Treaty then those Member States bordering Norway would also need to assume this status.
 - o Secondly, a similar, but not identical approach should be taken with the Euromed states. The UK supports **using the Euromed arrangements** and the structures under the Association Agreements to forward this goal and

would support the staging of a Euromed Energy Conference during 2006 or early 2007 to discuss this.

84. The UK agrees with the assertion in the Green Paper that the **Caspian and Mediterranean states** are also important gas suppliers and trade routes. The UK supports the objective of facilitating transport of Caspian oil and gas resources towards Europe both via Russia and other states, and facilitating progressive integration of the energy markets of the region into the EU market. The UK continues to support Commission work with Black Sea and Caspian Sea Littoral States and their neighbours, such as the meeting in Brussels on 28 March 2006, but such work should be mandated by Member States and have a greater degree of transparency.
85. The UK also supports using instruments such as the South Caucasus ENP Action Plans and political dialogues with South Caucasus and Central Asian countries, including through the EU Special Representatives, to actively pursue our energy, including climate change, objectives. The UK supports Commission work in the region to promote good governance, in particular in the energy sector.
86. The UK believes that a focussed approach to dialogue with **Middle East and North African** countries is essential and that the EU should concentrate on countries where there is real potential for an enhanced energy relationship and tangible results. Consequently, we would suggest that the Commission should concentrate on dialogue with **Algeria**, under the EU- Algeria Association Agreement. Algeria has significant potential and significant impact in the region, and it will be a major supplier of LNG to the Union. We should find ways to develop that relationship and define clear objectives for the dialogue.
87. We do not support proposals for developing work with the **GCC** as a whole, or with individual members of the GCC, except on a bilateral basis, not least because

the Commission presence in the GCC is limited to Riyadh. We recognise the limitations of an EU dialogue with **Libya** on energy matters at the moment.

88. The UK also believes that there is be long-term potential for an EU-**Iraq** dialogue on energy, in line with the June 2004 Commission Communication ‘The European Union and Iraq- a Framework for Engagement’ and the September 2005 EU- Iraq Joint Declaration.

89. The UK also believes that the EU should utilise its strong position as a major energy consumer and customer to promote efficiency of production and transportation in dialogue with suppliers. A dialogue with large, and emerging consumers should also be a key element of an external strategy, building on existing initiatives such as the **EU-India** and **EU-China** partnerships to help their development of a sustainable low-carbon economy.

Reacting effectively to external crisis situations

90. The Green Paper suggests a new **more formal targeted instrument to deal with external supply events**, for example a monitoring mechanism to provide early warning and enhance response capabilities in the event of an external energy crisis. The added value of the EU’s gas co-ordination meeting (after the Russia/Ukraine dispute) was evident in January; before reaching for new mechanisms, our priority should be to make this mechanism work better, giving it a broad remit and horizon-scanning mandate. The group should bring together foreign policy and energy experts, as necessary, to add real benefit.

Integrating energy into other policies with an external dimension.

91. The UK agrees with the assertion in the Green Paper that a common external energy policy will permit better integration of energy objectives into broader relations with third countries. This must include our climate change and energy efficiency objectives for it to have any real value. The UK also agrees that this will mean increasing the focus in relations with global partners facing similar energy and environmental challenges on issues such as climate change, energy efficiency, global market access and investment trends and security of energy supplies.

