

**Panel speech by Energy Commissioner Günther Oettinger
13th International Energy Forum – Kuwait, 13 March 2012**

Session 1: Meeting Future Energy Demand: Planning and investment for the long-term

Ministers, Excellencies, Distinguished Guests,

I am delighted to take part in the 13th International Energy Forum and would like to thank our host, His Royal Highness the Emir of Kuwait, as well as the IEF Secretariat for inviting the European Commission to this important event, gathering the largest group of oil & Gas producing and consuming nations.

Last year this Forum saw important milestones:

- The 20th anniversary of the global energy dialogue (1991-2011) and
- The 10th Anniversary of the Joint Organisations Data Initiative (JODI)

Over those years this forum has contributed to increasing market transparency through JODI e.g., improved the understanding of market operations and conditions for investment and thus been very useful to producer and consumer countries alike.

The 2 joint Symposiums led by the IEF together with the IEA and OPEC in 2011 and this January have equally been a useful contribution to better understanding the respective energy outlooks that regularly get prepared.

Today the IEF Charter provides a robust framework necessary to further members common interests also in building a sustainable energy future.

On this last point and on how to 'Meet Future Energy Demands and how to plan and invest for the long-term' I would briefly like to share a few points with you:

Ladies and Gentlemen,

The prosperity and competitiveness of any country or region depends on getting all the elements right that are essential for a successful economy. To be a successful economy, we need sufficient, reliable, affordable and sustainable energy supplies. Energy is the fundamental element in our growth and is defined by many as the "lifeblood of our economy".

However, in the past three years, the energy sector has been confronted with a number of unprecedented events and challenges, which together generate a sense of uncertainty. In this world full of uncertainty and challenges, two things seem certain though:

- firstly, rising incomes and populations will push energy needs higher in the years to come and, consequently also higher onto our common political agenda,
- secondly, the various challenges and uncertainties call for reinforced cooperation among all energy actors worldwide.

My participation today should be seen in the context of the European Union's determination to enhance and strengthen its external energy policy, as agreed by all 27 European Union Heads of State and Government in February last year. Further to this political endorsement, the European Commission adopted on 7 September 2011 a Communication on Security of Energy Supply and International Cooperation. The key messages are:

- As a major energy consumer, importer and technology provider, the European Union has an interest in the energy policy developments of all its partners across the globe. It is in the EU's strategic interest to build and enhance comprehensive and long-term partnerships with historical suppliers, new suppliers, as well as other major consumer countries and emerging economies.

- Such comprehensive partnerships should be mutually beneficial and should address a wide range of topics such as regulatory issues, the enhancement of market transparency, cooperation on energy efficiency and renewables, research & technology innovation, assessment of long-term energy supply and demand perspectives. We should thus avoid having relationships focusing exclusively on demand and supply of energy.
- I personally see energy as an important instrument to achieve broader and more strategic goals, such as creating closer links between our respective countries, economies, cultures and peoples.
- The EU has a lot to offer to its international partners: an integrated internal market of some 500 million consumers, a world-class energy technology industry, very advanced research in renewable energy and energy efficiency and a stable, transparent, non discriminatory and legally binding energy policy framework.
- As we build stronger ties with suppliers, we also need to keep in mind that demand growth in developed and emerging economies is a major element of change on the global energy scene. We should therefore promote sustainable exploitation of energy resources. To this end we have a common interest to promote energy efficiency and renewables, as well as the highest safety standards for key energy technologies and products. We all share similar interests in these areas and it make sense to pool or coordinate our efforts.

Ladies and Gentlemen, let me quickly now turn to oil and oil markets:

Oil is one of the main drivers of the EU economy; more than a third of our energy portfolio and almost all the energy use in the transport sector rely on oil. The European Union is currently importing more than 80% of its oil needs. Even with our energy efficiency and decarbonisation strategy, this figure may increase up to 90% or

more within ten years. Our challenge therefore is to keep secure and affordable oil supply against a background of rising demand from other parts of the world maintaining at the same time the highest environmental standards.

In the past three years, oil prices have seen extreme levels of volatility and prices in real terms are close to the highs of 2008 again today. This underlines the need for closer cooperation between producers and consumers aiming at more transparent and predictable oil markets.

A further enhancement of the already existing good cooperation between consumers and producers must be a priority. I look forward to a further deepening of our relations with global oil and gas producers, both at governmental and company level. Only through dialogue and increased mutual understanding will we be able to cope with the challenges ahead of us.

I am often asked how we can reconcile our efforts to strengthen relations with oil producers with our stated aims of decarbonising the economy. While we have ambitious decarbonisation policies for the long term, oil is, and still will be, the main driver of our economy in the long term. All our scenarios, including the most ambitious ones, indicate that by 2030 oil will still represent approximately a third of our energy needs.

That is one reason why we need to ensure that its exploration & production is carried out with the highest possible safety standards. The Macondo accident was a wake-up call for all of us. We cannot afford another accident like that, not in the European Union not in any other waters.

This is why the Commission, after wide-ranging consultations with major stakeholders, proposed in October last year new legislation setting strict health, safety

and environmental standards for offshore operations across the European Union. This legislation will not apply to operations of EU-headquartered companies outside the EU, but operators will have to "endeavour" to conduct their worldwide offshore oil and gas operations in accordance with its principles.

Ladies and Gentlemen, finally let me make a few remarks on gas:

Gas transformed Europe's energy market in the 1970s, and 1980s, when major European gas fields were discovered and brought to production in the North Sea and in Netherland. Currently, natural gas represents approximately a quarter of both the total European Union Primary energy supply and the European Union power generation mix.

Global demand has rebounded from the 2009 level, by almost 8%. A similar increase took place also in Europe. Against this backdrop, indigenous gas resources in the EU are rapidly and steadily decreasing and we will need in the future to import considerable amounts of gas from third countries.

So, what will be the role of gas in the future EU energy mix? We expect natural gas to remain a key element of the EU energy mix in the years to come due to its advantages in terms of: 1) sustainability and flexibility, 2) availability and security of supply, 3) competitiveness vis-à-vis other fuels.

Natural gas is the fossil fuel with the lowest CO₂ emissions and can therefore contribute, if used in highly efficient power generation plants, to a considerable reduction of our greenhouse gas emissions. There is a broad agreement amongst different stakeholders that in the short to medium term (until 2030), gas will provide a unique opportunity to reduce our greenhouse gas emissions by replacing more carbon

intensive fuels. Even in a longer term energy perspective (2050 scenarios) I would argue there will be a key role for natural gas.

Gas is rightly said to be the ideal partner for variable renewables given its flexibility. An increased quantity of variable renewables sources will be ideally complemented by more gas power generation. Besides their flexibility, gas power generation plants are relatively cheap and quick to build. Finally, underground gas storages can provide an additional option for energy storage.

For the long term it is imperative for gas to be used in combination with Carbon Capture and Storage. This will allow gas to maintain and possibly increase its role in our energy mix.

The EU is already the largest importer of natural gas; a competitive, integrated market remains the best tool to ensure gas security. Completion of the internal energy market is expected by 2014 and it represents a fundamental tool of our external policy. The completion of the EU internal market for gas by 2014, a political objective set by the EU Heads of State and Government, constitutes an opportunity and not a threat for gas suppliers to access the largest integrated gas market in the world.

By participating in a fully integrated EU gas market, gas suppliers will gain access to a growing market of half a billion consumers which represents the largest single regional market for gas and electricity in the world.

But in order for gas to play its flexible role and exploit its potential, we need to make the gas market much more flexible. Rigid pricing structures that couple the gas price to oil, and rigid transport contracts that prevent gas to be easily transported where it's most needed, don't help.

Thank you very much for your attention