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*Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort*

Key note speech at 20th World Petroleum Congress

Doha (Qatar), 6 December 2011

Ministers,
Excellencies,
Distinguished Guests,

I am delighted to take part in the 20th World Petroleum Congress and would like to thank the Qatari authorities as well as the organisers for inviting the European Commission to deliver a keynote speech on the occasion of this prestigious event.

Today, I would like to share with you my views on three topics:

- In the first place, how I see the EU international energy relations and interdependency evolving,
- Then, being in the "20th World Petroleum Congress", some considerations on oil and oil markets,
- And, finally, being kindly hosted by Qatar "the world capital of liquefied natural gas", a few words on gas, its role in the EU energy mix and its perspectives for the future.

Ladies and Gentlemen,

The prosperity and competitiveness of any country or region depend on getting all the elements 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. To name few of them: the oil price peak of more than 140\$ per barrel in summer 2008 and the subsequent oil price volatility; the disruption of gas supplies to Europe in early 2009; the oil spill in the Gulf of Mexico in May last year; the nuclear accident in Fukushima; the interruption in oil and gas supply from Libya that is now slowly coming back, and most recently the oil spill off the coast of Brazil. But on the demand side the situation is also insecure: the economic and financial crisis that EU and other partner countries are currently facing reduces our energy demand.

In a world full of uncertainty and challenges, I think there is a broad agreement on two things:

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

My visit 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 this year. Further to the political endorsement of February 2011, the European Commission adopted on 7 September 2011 a Communication on Security of Energy Supply and International Cooperation. Our Communication sets out for the first time a comprehensive, inclusive and ambitious strategy as regards the EU relations with third countries in the energy field. Today, I would like to share with you the key messages in this strategy:

- 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 must reflect the existing interdependence in the energy markets. They 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. In other words, we should avoid having relationships focusing exclusively on demand and supply of energy, but on the variety of subjects of mutual interest to the EU and its respective partners.
- 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. This means that our partners can gain from cooperating with the EU just as much as us.
- The EU is already very engaged with major oil and gas producers through its active participation in relevant initiatives, at regional cooperation and at bilateral levels. Relations between producing and consuming countries are sometimes seen as security of supply versus security of demand. We need to change this perspective and focus on mutually beneficial approaches among producers and consumers.
- In this respect, we view the Gulf Cooperation Council as a key partner in energy issues. It is not only about demand and supply of oil or gas: we want to engage in a comprehensive dialogue, encompassing a whole range of issues, from nuclear to renewables, from safety of oil drilling to networks and infrastructure. You are experienced in oil and gas and ambitious in renewable energy and efficiency. We are ready to work with you on this, developing and reinforcing a mutually beneficial relationship.
- We 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 makes sense to pool or coordinate our efforts.**

I have talked extensively about the EU's external interests. However, for our external partners there are also clear benefits to engage with a EU that be more coordinated and consistent in its external approach. As I have already indicated the integration of the EU market offers access for global suppliers and investors to half billion consumers in an integrated, reliable and predictable market.

Finally, let us also not forget that those relationships should go beyond 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.

Ladies and Gentlemen,

Let me now turn to the second point of my presentation, 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 as well as number of unprecedented events. Many examples can be given:

- the oil price peaking at above 140 \$ per barrel in July 2008 and then falling down to a range just above 30 \$ per barrel by the end of the same year;
- the devastating accident of the Deepwater Horizon in May last year which resulted in the largest ever oil spill in the world; Just last month, the oil spill in Brazil shows once again that **offshore drilling safety is an absolute priority**;
- the supply disruption of Libyan crude earlier this year which is now being gradually recovered.

With reference to high oil prices and volatility, this underlines the need for closer cooperation between producers and consumers aiming at more transparent and predictable oil markets. There is broad agreement that volatile and excessively high oil prices are damaging both for producers and for consumers.

With the world economy in a fragile state, current price levels pose a real risk of a repeat of the negative development in 2008 when record oil prices were responsible, at least partially, for the global economic crisis.

A further enhancement of the already existing good cooperation between consumers and producers must be a priority. I look forward at 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 we will 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.

And this brings me to my next point, offshore safety. As oil will remain a key element in our energy portfolio, for a substantial period, **we need to ensure that its exploration & production is carried out with the highest possible safety standards**. The Macondo accident last year was a wake-up call for all of us. We cannot afford another accident like that, either in European Union or in any other waters.

This is why the Commission, after wide-ranging consultations with major stakeholders, proposed in October this 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.

The proposed legislation covers the whole lifecycle of all exploration and production activities from design to the final removal of oil or gas installation. Under the control of national regulatory authorities, European industry will have to assess safety standards for offshore operations on a regular basis and upgrade continuously taking into account new technology, new know-how and new risks.

Our ambition is to promote in the coming months and years **improved safety standards not only in the EU but also beyond our borders**. To this end, cooperation with third countries and relevant organisations to promote the highest standards for offshore operations worldwide is needed. The Commission has started contact with relevant international partners to promote offshore safety, both in adjacent regions with potential direct impact on European shores and on a global scale. We would like to work more closely with all stakeholders, as the issue at stake is fundamentally global. The environmental, economic and social damages caused by offshore accidents cross all borders.

Oil will remain an essential part of our energy consumption in the future. Even if in Europe its importance in the transport sector may decline, demand for oil, and in particular high quality petroleum products, will remain. Oil is not only a fuel but an important for feedstock for our production industry, and our refinery sector needs to adapt to the changing situation.

But without respecting the highest safety standards, we are constantly putting our environment at a very high risk. The Deepwater Horizon oil spill should have served as a lesson, but just last month a new catastrophe occurred in Brazil. **We cannot continue to operate offshore drilling platforms in these conditions.**

Ladies and Gentlemen,

Finally let us move from oil, the "black gold", to the third point I wanted to address today, the so called "blue gold" natural gas, its role and perspectives in the EU energy mix. Above all, I would like to stress that our policies today aim to make gas can take on the vital role it could have in our future energy mix. For these policies to work I need your cooperation.

Gas transformed Europe's energy market in the 1970s, and 1980s, when major European gas fields were discovered and brought to production starting with the 'Groningen field' in the Netherlands. During that period major gas pipelines were also constructed bringing gas from the North Sea and from Russia to Europe's mainland. In 1983 the first trunk of the Transmed pipeline, bringing gas from Algeria to Italy, was completed.

In the following years natural gas progressively increased its market share in Europe, and was used more and more in electricity generation: Something that the developers of the Groningen field did not have in mind at all. Currently, natural gas represents approximately a quarter of both the total European Union Primary energy supply and the European Union power generation mix.

Latest reports indicate that, in 2010, at global scale, gas 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:

- sustainability and flexibility,
- availability and security of supply,
- competitiveness vis-à-vis other fuels.

When we consider sustainability, natural gas is the fossil fuel with the lowest CO₂ emissions. It can therefore contribute, if used in highly efficient power generation plants replacing older installation, 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.

In the long term, there are different views on the future of natural gas. It is considered by some as simply a transition fuel towards a low-carbon economy, implying that for the longer term we will need to exploit different options.

I would argue for a number of reasons, that even in a longer term energy perspective (2050 scenarios) 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.

However, in spite of being the cleanest fossil fuel, gas still emits CO₂ when burned and Europe must also try to achieve its long term targets of reduction of emission of greenhouse gases. For the long term it is therefore 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. It is crucial that CCS projects will be realised on a large scale and investment in the technology ensured in this decade, and then deployed from 2020, for widespread use by 2030 to be feasible.

To ensure security of supply, we need more sources and routes to deliver gas to the EU. This is the essence of the European Union's diversification policy. It is a policy of risk mitigation and economic interest which offers mutually advantageous opportunities to us and to our suppliers.

We need to develop new routes that bring gas from different suppliers and regions and further promote the penetration of liquefied natural gas. In the past decade, liquefied natural gas has progressively increased its share in our imports. It currently accounts to approximately a fifth of our imports, and much of this thanks to Qatar and its astonishing accomplishments in engineering and constructing huge LNG facilities. New liquefaction plants currently planned or under construction globally, lead us to believe that its contribution can only increase in the years to come. In the EU new LNG terminals are under development to benefit from these new opportunities.

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.

The EU is already the largest importer of natural gas; a competitive, integrated market remains the best tool to ensure gas security. 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 for gas suppliers to access the largest integrated gas market in the world.

Increasing diversification means increasing the trust in gas as a fuel. Countries relying heavily on Coal for electricity generation are a possible growth market for

gas. But for them to increase gas consumption they need to know it's secure and competitive.

Besides diversification of our routes and sources, we also need to improve the market within Europe. We need to increase the flexibility of the European gas network, both in terms of easy and transparent access for all interested parties, as in terms of more physical interconnection.

As the industry rightly says, apart from the cleanest of fossil fuels, the biggest value of gas is its flexibility, in storage and generation. Yet the gas market is inflexible. As long as the gas market is inflexible how is anybody supposed to recognise its value? It is the gas industry itself that is responsible for the creation of a real flexible gas market.

This does not mean we do not need LT contracts: we need both LT contracts and liquidity. But we don't need oil indexation in a liquid market with competing gas sources.

- As long as there is a gas price that is not related to supply and demand for gas, but related to supply and demand for oil;
- And as long as we have separated markets because there are destination clauses, either legally or practically, even though they are illegal;
- And as long as markets are separated because cross-border capacity is unused but not available to other parties;

Gas is pricing itself out of the market!

For example, there is still transportation from high-price areas to low-price areas going on in Europe. Some Member States at times pay 30% more for their gas than others, even when they are physically well-connected!

Our internal market aims to make the gas market flexible and integrated, but gas producers' and suppliers' cooperation is needed to put it in practice. For example in getting rid of old inflexible and discriminatory transit contracts, for example in implementing flexible and harmonised network operations in the EU.

On a global scale, this needs to be mirrored by a transparent and flexible LNG market so that gas goes where it's most needed and most valuable. I would like to intensify the cooperation with LNG-producing countries, as well as the major LNG importers, to create such a market.

Gas will likely remain a fundamental element of our energy mix, but to what extent depends on the industry itself. In particular after decisions that will heavily affect the future of nuclear in some European Union Member States, its role in our future energy mix will greatly depend on its merits and attractiveness in terms of sustainability, security of supply, and affordability.

But gas can also be used in innovative ways, and its role in transport is increasing. Here in Qatar, you have realised the PEARL project that was commissioned this year. I would like to congratulate our host the Qatari authorities, as well as all companies and engineers involved, with their achievement to develop the largest and most technologically advanced gas-to-liquids project worldwide. You have created a possibility to arbitrate between oil and gas prices, and a real market link between oil and gas. That is innovation and it's the way forward. Hanging on to artificial oil-gas links that do not reflect the real world, is not.

Ladies and gentlemen,

I would like to conclude my intervention with few key messages:

- Firstly, **natural gas will continue to play key role in the EU energy mix** in the years to come, on sustainability and competitiveness ground providing that it remains a secure and reliable source. To what extent gas will remain important depends on you, and on the way the gas market develops. A transparent, flexible gas market will create opportunities to increase the role of gas.
- Secondly, oil is also set to remain an important fuel and it will still represent approximately one third of our energy mix in 2030. However, if oil aims at remaining such a key factor in our economy some conditions have to be met: we need to avoid high oil prices and excessive volatility, which will be damaging both for producers and for consumers and we must **ensure that exploitation of oil reserves is carried out in accordance with the highest safety standards.**
- Thirdly, the EU has a lot to offer to its international partners an integrated internal market of half billion consumers, a leading energy technology industry and a stable energy policy framework. Increased cooperation and investment of all energy partners in the EU will be welcomed and mutually beneficial and it will enable faster development and deployment of new technology.
- And, finally, no matter what the market is doing, no matter where prices are going, the importance of an open dialogue based on mutual respect and trust among all stakeholders cannot be over-emphasized. I believe that, more often now than ever, our interests converge. We must build on what unites us in order to better tackle and find solutions to what divides us.

Thank you for your attention and I wish you a successful conference.