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European energy security: Come together right now over gas

Peter Mandelson International Herald Tribune
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BRUSSELS Russia's choice of energy security to top the agenda of its Group of Eight presidency was both prescient and timely. In Europe, we have to address urgently the dual problems of our fragmented internal market and our increasing energy dependence, particularly on imported gas, which brings new risks to Europe's energy security.

In this, robust thinking about our long-term relationship with Russia is of crucial importance.

Next year sees the full liberalization of Europe's energy markets following a decision of the European Council in 2002. Not surprisingly, there is a jockeying for position in this emerging single market among national companies.

Industry consolidation is both desirable and inevitable. The creation of bigger companies helps spread supply risks and enables a strategic response to the capital intensive energy needs of our future.

But these companies will be stronger, and the interests of consumers better served, if they operate on a cross-border basis and invest in strengthening much-needed cross- border interconnections. This will make the single market more robust and more flexible.

The European Commission has a responsibility to help this happen. Fifteen or so years ago Leon Brittan, pushed the powers of the Commission to the limit in liberalizing European telecoms, with highly beneficial results that no one questions.

Today, the competition and merger investigations under way are a test ofdetermination of the Barroso Commission to further press forward the single market.

The Commission's recent Green paper on energy makes clear that such a genuinely competitive internal market and a more integrated external EU energy policy go hand in hand. We need a coherent - though not uniform - framework among member states.

Energy has become an important issue in our external policies. Europe needs a stronger common voice in negotiations on energy issues. We have become a resource-dependent continent that will need to import as much as 70 percent of its supplies in just 25 years' time.

I believe it is vital that international energy commerce becomes subject to more of the market disciplines and open trade rules that apply to other internationally traded goods. Nowhere is this need for rules and for a more meaningful dialogue more apparent than with our main supplier, Russia.

So far, the EU, and our leading member states, have not got the relationship with Russia right. Europe's leaders have sometimes been tempted to compete with each other in vying for a close personal relationship with President Vladimir Putin.

But Europe will only be able to negotiate successfully with Russia if we determine first, together as a Union, how we want our relationship to develop.

The political climate is favorable for a mutually beneficial bilateral energy initiative between the EU and Russia. Fossil fuels will remain the first source of energy for the next 30 years. After that, nobody knows. So today Russia has a historic opportunity to consolidate her position as Europe's supplier of choice. But without reassurance and legal security, Europe will seek to diversify more rapidly, and to develop other energy types and suppliers.

So we need to get this energy relationship right. Although trade in oil is also significant, gas trade is at the heart of the challenge. Russia has an enormous need for investment in new projects just to keep production at current levels. New fields in Russia will be smaller than current ones, further afield, and more difficult to exploit. And pipeline infrastructure - vital to bring gas to market - urgently needs upgrading.

Europe wants to participate in and contribute to the long-term development of Russia's exploration and infrastructure. We are ready to do so on reasonable terms agreed with the Russian government.

But this requires reviewing the privileges granted by the Russian government to Gazprom, which go back to the days when decisions were in the hands of just one producer: the Soviet Ministry of Gas.

Many Russian energy companies are now flaring their gas because Gazprom refuses to give them access to its pipelines. This is terribly wasteful and damaging to the environment. We want to encourage more market-based rules for access of other companies to the Russian gas grid, including the pipes that deliver for export.

This would not reduce Russian state income - it will increase it.

What else can Europe bring to the table? We should be ready to welcome Russian investment in our market, including the downstream assets.

This will deepen our interdependence. There are elements of a grand bargain here. We can embed them in a wide and deep free trade agreement that covers all goods and services as well as sharing technology and know-how.

Are the EU and Russia ready to move in this direction? This question should be answered in the months to come.

Peter Mandelson is the European trade commissioner.