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**Speech by
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Ladies and Gentlemen,

I am delighted to be here and I want to thank IFRI for the invitation.

Energy questions have shot to the top of the international agenda. It is easy to see why. Hardly a day goes by without a decision or event highlighting how much energy questions are linked to international politics. This is an important challenge which will stay with us for years to come. But it is also an urgent one. The lead time in energy is long. Our decisions today - or, more often, the absence thereof - greatly influence the options we will have tomorrow.

Let me start by briefly stating the broader context. Or what some call the "three hard truths".

First, growth in demand is accelerating. By 2050 it is expected to double, driven by population and economic growth, especially in Asia. The mere expectation of this surge is already triggering all sorts of behaviour. Hence, the talk about a "scramble for energy" or a "dash for gas".

Second, the days of "easy" oil and gas are over. The molecules are there, but the investment needed to get them out, runs into hundreds of billions of dollars.

Third, climate stresses are increasing too, especially because of higher use of coal. Coal may be attractive for energy security reasons. But unless we make rapid progress on "clean coal", it's generally bad for climate change.

By 2020, world energy markets will be tighter, leading to more political tensions. In all scenarios the power of resource-holders is set to increase.

What are my conclusions?

First, there are no easy solutions. Especially for a Europe which is increasingly dependent on energy imports. Second, there is no single solution. We will have to work on multiple fronts: savings and efficiency, renewables and biofuels; carbon capture, interconnections and storage. Third, there is not just an internal solution. We also need a credible European external energy policy.

Clearly, we do not have one yet. Indeed, we are not always implementing our internal energy policy. We have set ourselves ambitious targets to put this right. In 2006, the European Council endorsed the paper "An external energy policy to serve EU energy interests". But we have to match words with deeds. I sometimes wonder if we are keeping up with the speed and scope of the changes in the international energy landscape.

Big deals are being made every day. In the Middle East, the Caucasus, the Balkans and Asia. From decisions on pipelines, to exploration deals to strategic partnerships among producers. Our future options seem to be narrowing while others move in a determined manner.

In Europe, we have seen real progress on tackling climate change; some progress on the internal energy side; but rather less progress on the external side. Too often, we see mixed messages. And the defence of narrow, national interests at the expense of broader, European interests. It does not have to be this way. It's time to think and act a bit more as Europeans. And do so with a sense of urgency and discipline.

Beyond this general observation, there are a few specific elements that I want to mention.

The link between energy and foreign policy works in two directions. We talk a lot about how we can use our foreign policy instruments and relationships to secure our energy interests. Call it energy security through foreign policy. In practical terms, this means being more united and disciplined in our energy diplomacy. Promoting sound market principles and investment protection in our neighbourhood and beyond. Developing joint crisis mechanisms and strategic reserves, especially in gas. Above all, it means making progress with diversification in supply and transit routes. I will come back to this later on.

But there is also energy security in foreign policy. Recent academic research has confirmed what many long suspected. Oil and gas rich countries are nine times more likely to suffer from violent conflicts than those which are non-resource rich. Nearly all experience political instability, poor governance and human rights abuses. This is partly because oil and gas revenues often lead to corruption, rent-seeking behaviour and insufficient economic diversification. But also because they shield countries from external pressure, including us, to promote good governance.

I am glad that the European Union and Africa have agreed to step up co-operation to break the cycle of energy, conflicts and human rights abuses. It is essential that resources are developed in a way that benefits the entire population.

For billions of people the daily reality is extreme energy poverty. An estimated 1.6 billion people, 25% of the world's population, do not have access to electricity. Our support for bio-fuels is raising food prices world-wide, making it harder for poor people to afford basic food ingredients. This has serious social and economic consequences - and can threaten political stability.

So, we need a broad perspective, and see the effects of our choices in other areas. We should also go beyond a narrow Western prism. This means thinking about changing the governance system of energy, involving new players. Is there a case for bringing countries like China, India and others into the International Energy Agency? Would that strengthen their legitimacy and hence effectiveness? I think so.

Russia will remain the mainstay of our energy imports. We are right to insist on a genuine partnership based on a simple reality: interdependence. Consumers need to buy but producers need to sell. It is worth recalling that all existing infrastructure in Russia runs West, not East. And in the last two years about half of the existing gas supply contracts have been extended by 25-30 years. Still, there is a justified concern across Europe about Russia seeming more interested in investing in future leverage than in future production. Contrast Gazprom's strategic spending spree abroad with the lack of investment and waste at home.

Russia's energy policy follows a tight script. There is a sense of strategic purpose. There is, in principle, nothing that stops us, the Europeans, from matching their determination with our own discipline. We are, perhaps, unlikely to see big changes in Russia's domestic energy behaviour, including its stance on the Energy Charter. After all, Russians see their strategy as a rational way to maximise rents.

But there are things we can change tomorrow. It is up to us to avoid the kind of fragmented, bilateral negotiations which leave all of us worse off. A more united, and comprehensive approach would enhance our bargaining position.

Perhaps this cannot happen over night. But it's important to get started. For instance by ensuring a better flow of information on bilateral negotiations. And by showing more discipline and loyalty within these bilateral settings to wider European commitments.

We should also stick to our insistence that there has to be reciprocity in terms of investments upstream and downstream. And we can and should be more serious in our diversification strategy. This means making sure that Nabucco actually happens. But it also means developing a broader energy partnership with Turkey, the Caucasus and Central Asia, including a possible trans-Caspian pipeline. When I travelled in Central Asia, all leaders said they wanted a closer energy relationship with Europe. But they also asked what concrete projects and resources we were willing to commit.

Let me also say a word about climate change, which is connected to energy and geo-political questions, in a variety of ways. Climate change is obviously influenced by the energy choices we make - and vice versa. For example, climate change is creating easier access to the Arctic, including for energy exploration purposes. This opens up new avenues for potential co-operation, but also possible territorial disputes. We are already seeing different countries asserting various claims.

Climate change itself is already having profound consequences for international security. These effects are not just of a humanitarian nature. They include political and security risks that directly affect European interests. In essence, climate change acts as a threat multiplier, worsening existing tensions in countries and regions which are already fragile and conflict-prone. Because of water shortages, loss of arable land, mass migration and new border disputes.

At the next European Council, there will be a report on this very question, prepared together with the Commission. I hope that in the months ahead we can make real progress in addressing this problem, mobilising all levers of EU foreign policy.

There is one other aspect on the interplay between climate change, energy and foreign policy and that is nuclear energy. More and more countries are interested in nuclear power. Russia, India and China are planning the construction of 100 nuclear reactors. Others in the Middle East and elsewhere are moving in the same direction. How we react collectively to this expansion of nuclear power will in part be determined by our non-proliferation policy.

Dear friends, let me end with a word on trust. Both markets and international politics depend on trust. And in energy issues there is an obvious trust deficit. This is clear if you look at the behaviour of producers and consumers; governments and companies; in Europe and outside.

All of us need to think how we can generate greater confidence. This is essential if we want energy markets to function as openly as possible. History suggests that dialogue and politics are essential for generating trust, as are practical projects of co-operation. You need both the theory and the practice.

As for Europe, we now have clear provisions on solidarity in relation to energy integrated in the Lisbon Treaty. This is about time. And it is time to act. One should hope that full implementation of these provisions will alleviate some member-states' concerns.

Solidarity and trust. Dialogue and practical co-operation.

These should be the elements of a credible External Energy Policy for the European Union.
