

Chairmanship Conference of the Heads of the Energy Agencies
“Integrating Global Energy Markets – Providing Energy Security”
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“Integrating Energy Markets – Providing Energy Security”

Your Excellencies,
Ladies and Gentlemen,

I am honored being invited to address this distinguished audience today.

Since time is very limited I would like to bring to your attention only one issue, the most important of course – the issue of *energy security*. And I would like to present it through the example of Baltic Sea Region and Baltic States in particular. Lithuania, Latvia and Estonia are small countries, but a very good case to analyze. Let’s have a closer look.

What are the main challenges of three Baltic States – dependency on single external energy supplier, fragmentation of their energy markets and thus – vulnerability. For example, up to 80% of Lithuanian primary energy mix is provided by a single external supplier. Today, Lithuania is the biggest electricity importer out of all EU countries (up to 70%) and imports of oil and natural gas are from a single external supplier. Talking about transmission system it should be noted that natural gas to Lithuania is imported through a single gas pipeline, and oil – through a single offshore oil terminal because, surprisingly, it is already 5 years that we are not in a position to repair “Druzhba” oil pipeline. Yes, we do have oil pipeline, but we are not using it. The fact of not using this oil pipeline is even more strange than we think about its very symbolic name – “Druzhba” – “Friendship”.

What is the solution of energy vulnerability? Integration of three Baltic States energy markets, development of energy interconnections with other energy markets and thus diversification of energy supply. And this is exactly what three Baltic States are doing now:

- harmonizing their energy sector legislation,
- constructing new power interconnections with Finland, Sweden and Poland and thus integrating into power market of Nordic countries “Nordpool” and of Continental Europe,
- working on new projects in gas sector – gas interconnection with Poland, LNG terminal, new underground gas storage, exploring possibilities to extract shale gas in Lithuania,
- and last but not least – developing regional New Nuclear Power Plant project (“Visaginas Nuclear Power Plant”), project of four countries – Lithuania, Latvia, Estonia and Poland – what is, in fact, a unique case in the world of nuclear project development and of regional cooperation.

This strategy of three Baltic States is a part of European Union Energy Policy and is called Baltic Energy Market Interconnection Plan – BEMIP. What is BEMIP? BEMIP is, again, a regional energy initiative where Heads of the States of 9 Baltic Sea countries agreed on establishment of common and integrated energy market and on development of concrete energy interconnections with concrete timelines and

BEMIP in itself, of course, is a part of the EU energy market integration plan – from national markets to regional markets and then to a Pan-European Energy Market. Pan-European Energy Market would considerably enhance a Common Internal EU Market with free movement of goods, as you know, services, capital and people, and this is, of course, for the benefit of European consumer, business and industry. Here EU is using step by step approach, but in our today's – OSCE framework, I am saying that there is a need for one more step, even more further – from Pan-European to a *global* energy market.

Ladies and Gentlemen,

So let's come back to *energy security* topic. Energy security undoubtedly is our global challenge. How we can respond to it? We can respond to it by diversifying energy supply and by placing energy into free market. While talking about energy security I would like to highlight the interest of... *consumer*. Yes, consumer, the interest of whom, sometimes, we are forgetting. So what is energy security for consumer? It is a security of supply for affordable price. And what is the security of supply – availability of choice and freedom to choose. Consumer should be able to choose from a number of suppliers and energy suppliers should *compete* for consumer. A *free* energy market guarantees security of supply and secures the interests of consumer.

Energy should become a commodity! Trade in energy should be based on the same principles as trade in goods. In some part of the world it is already the case and these are a success cases, therefore these principles should become global. One can argue, that energy cannot be treated as a simple commodity since there are particularities with extracting and generating energy, it is transported by pipelines and wires what, in fact, is natural monopoly. But, technological development reached such a high level that, to my mind, today, we are in a position to *liberate* energy from the status of natural monopoly and to create the choice not only of different energy products, but also the choice of the same energy product, from different suppliers and of different origin. Development of renewable energy and smart grids will make supply of energy even more flexible, reliable and consumer friendly. So the best way to ensure free market in energy is just to treat energy as a commodity.

So where is the problem? Unfortunately, trade in energy is still used not only for economic, but also for *political* purposes. I am sure that all of you, Ladies and Gentlemen, here in the conference room, would easily provide with an example of energy politics.

What is the solution? In order to create a well functioning global energy market we have to organize it, therefore we need an appropriate legal framework on a global level – something like treaties of World Trade Organization. Global energy market should be much more *united* and *disciplined* and should be based on sound *market principles* such as:

- non-discrimination,

- contractual relations,
- protecting investments,
- securing transit;
- partnership between consumer and supplier,
- transparency and exchange of information.

The need of these principles in energy sector may be illustrated by the following example: I am from a small energy consuming country and I always hear that we are *getting* energy from a supplier, but... we are not getting, we are *buying*, and we are *paying* a market price and paying on time.

As we all know, energy security is also about interdependence – interdependence between energy consumers and suppliers. This interdependence in the best way could be addressed in the free energy market by ensuring equal rules of the energy game for all participants. Finally this will ensure that the interests of consumers are secured.

Here again, European Union Energy policy may serve as a good example. To my mind, one of the most *ambitious* from recent political decisions taken in energy sector is – so-called 3rd EU energy legislation package, containing provisions organizing relations between suppliers, transmission and consumers with famous “transmission system ownership unbundling” option in electricity and in gas sectors. I can share with you, what I witnessed myself personally: in case of small and fragmented energy regions, no one vertically integrated energy company comprising supply and transmission activities, in both electricity and gas sectors, will not be interested to diversify energy supply. Why? The list of reasons could be quite long, but the main one is very simple – direct conflict of interests which results in damage of dominating supplier’s economic interests.

Ladies and Gentlemen,

Responding to the title of our today’s conference I am saying – “yes” – energy security can be provided by integrating energy markets. Over 20 years of my carrier in public sector I was working on organizing global trade in goods, than services, than development of energy infrastructure projects and I am saying that the time has come for creating a global market of energy. OSCE framework is a good forum to address this issue. Let’s look at the map of major consumers of oil in the World and major consumers of gas in the World and then – at the map of OSCE members – our today’s forum is representing basically all the most intensive consumers of oil and gas.

So ladies and Gentlemen, let’s change our thinking... Let’s depoliticize trade in energy... We have to do that for the benefit of consumers, for the benefit of people.

Thank you for your attention.