

2nd Meeting of the CBSS Energy Ministers (Helsinki, 24-25 October 1999)

Helsinki Conference in 1999

The Ministers of Energy of the Member States of the Council of the Baltic Sea States (CBSS) and the and the European Commission met in Helsinki on 24 - 25 October 1999. The Conference was also attended by the delegations of the Member States of the European Union outside the Baltic Sea area, the United States of America, the European Council Secretariat, the Energy Charter Secretariat, the International Energy Agency, the Council of the Baltic Sea States, the Nordic Council of Ministers, European Investment Bank, Nordic Investment Bank and Nordic Environment Finance Corporation as observers.

The Conference was organized at the call of the Finnish Minister of Trade and Industry given at the previous Conference of the Ministers of Energy of the Member States of the Council of the Baltic Sea States and the European Commission in Stavanger, Norway, on 30 November - 1 December 1998. The Helsinki Conference was also the final event of the 16 months' long EU co-operation initiative, the EU Baltic Energy Task Force and the Joint Programme of the Task Force, the Nordic Council of Ministers, the Baltic Council of Ministers and the member countries of the Council of the Baltic Sea States, started by the Stavanger Conference.

Dr. Erkki Tuomioja, Minister of Trade and Industry of Finland, Mr. Pablo Benavides, the Representative of the European Commission, and Ms. Marit Arnstad, Minister of Oil and Energy of Norway, the chair country of CBSS, chaired the meeting. The Ministers and the European Commission confirmed their will to co-operate for the goals defined in the communiqué of the Conference of Ministers of Energy in Stavanger: effective, economically and environmentally sound and more integrated energy systems in the Baltic Sea region. Co-operation in the Baltic Sea region collects together countries with a great variation in energy supply structure, environmental impacts of the production and consumption of energy and energy efficiency, participation and role in the international trade of energy and energy technology. The variations and the common goal to build up the Baltic Sea region as an area of democracy, stability and open integrating economies accentuate the role of the work in the energy sector for the region. As already stated at the Stavanger Conference of the Ministers of Energy, co-operation in the energy sector is a key factor in promoting political stability, economic growth and sustainable development in the Baltic Sea region.

The Ministers and the Commission welcomed the results of the Joint Programme set up for the follow-up of the Stavanger Conference as a basis for their discussion and decisions. The following groups have been active:

- working group on electricity markets, chaired by Estonia and the Commission,
- working group on natural gas markets, chaired by Germany and Russia,
- working group on climate policy, chaired by Lithuania and Sweden,
- working group on energy efficiency chaired by Denmark and Poland.

The Ministers and the Commission also took note of the results and conclusions of

- The Conference on investments, organized by Latvia in Riga in April 1999
- The seminar on renewables, organized by the Commission and Denmark in Riga in September 1999

- The Joint Energy Workshop for North-West Russia, organized by the Nordic Council of Ministers, the Commission, the Working Group on Energy of the Barents Euro-Arctic Council of Ministers and Russia in St. Petersburg in October 1999

and the following reports and materials:

- “Vision for the Baltic Sea Energy Market” compiled by a consultant team to the Commission
- Input by the Baltic Agenda 21 energy network.

The Ministers and the European Commission stated that the results of the Joint Work Programme and the studies and other materials prepared for the Conference of Ministers are an impressive manifestation of the good and creative co-operation atmosphere between the authorities, administrative bodies and energy market actors in the region. The work done is a good base for the further specification of the scope, field and methods of the energy co-operation in the Baltic Sea region.

The Ministers and the European Commission concluded the following:

A. Energy market developments, investments and financing

The previously national energy markets in the region are becoming more integrated. This process has advanced earlier in the coal and oil trade. At the moment, this kind of development is intense on the electricity and gas markets.

The Baltic Sea region brings together developed and transitional economies. The challenge is to understand and implement the process of deregulating the energy sectors step by step to a mutual benefit. The overall emphasis must be to secure a sustainable development in the region.

It is the task of the governments and administrative bodies to develop and harmonize the legislation, administrative practices and framework conditions in the way that efficient energy exchange is facilitated and energy sector companies can and are willing to invest in energy production and transmission networks considered desirable by political decision-makers, industry and consumers. The framework conditions can be changed, but the changes must be predictable and well prepared. The companies role is - even in rapidly changing conditions - to exploit the possibilities to trade and invest and build up capacity and develop international co-operation networks and alliances needed to create the interoperability rules that flexible and effective international energy transmission calls for.

In some cases, strategic and catalytic investments, with an essential system or social benefits, can be recommended for public support.

It is also important, in order to weigh in on structural change and actions towards more effective and sustainable energy consumption and production, to create new financing instruments suited for i.a. energy efficiency projects and for small-scale combined heat and power production.

Regarding the oil transit sector, the oil resource basis for exports from the East are forecasted to increase in the next years. This could open possibilities for new oil transit investments and increased competition between different transit routes.

B. Electricity markets

The electricity network infrastructure is well developed in the main part of the Baltic Sea area. There are, however, technical differences that bar, in addition to geographic hindrances the chances to connect the region to a common electricity transmission network.

The nuclear power plants play an important role in the electricity production of some states in the region. The work to develop nuclear safety and waste management and to create the premises for the decommissioning of unsafe reactors is one of the most important co-operation fields in the region.

The differences in some framework conditions, like in the environmental legislation and regulations, belong to the main obstacles that delay the development of the regional markets. Integration of the electricity markets in the Baltic Sea area must be based on a step-by-step development towards common rules, market mechanisms and environmental framework conditions while considering the specific situations in the different countries in the region.

The implementation of the Electricity Market Directive reduces barriers between most of the countries in the Baltic Sea region. Compared to the situation before, especially the functional position of the network will be changed. The role of system operators and their independence of commercial electricity production or sales interests are important framework conditions. International co-operation between system operators should be increased.

The enlargement process of the EU, the Energy Charter, the EU policy to promote the trans-European networks and a good co-operation with the organizations of electricity market actors are important instruments in order to develop harmonized conditions and an operational framework for the electricity market in the Baltic Sea region. Furthermore, the experiences of the Nordic countries concerning the opening of the electricity markets are also important.

The Ministers and the European Commission stated that the prerequisites for the integration development in the electricity markets are political co-operation and institutional arrangements which set the framework for appropriate trade arrangements in the different phases of market integration. In this process, common rules of reciprocity are of vital importance before a fully developed trade built on common rules and harmonized standards might be developed.

The next step is to develop a level playing field with harmonized technical standards and tariff principles where discriminatory effects of differences in regulation, taxation and environmental aspects are reduced by specific measures such as flexible mechanisms according to the Kyoto Protocol leading to the most cost-effective use of common resources. The long-term goal is a fully integrated electricity market in the Baltic Sea area where the harmonization of regulations governing energy trading and environmental requirements is carried out.

C. Natural gas markets

A more integrated gas sector is essential for the security of supply in the region and for the functioning of the EU internal market. The replacement of coal and oil in heat and electricity production by gas can make an important contribution to the follow-up of the Kyoto Protocol.

Prerequisites for further sustainable development of the gas markets in the region are stable and sufficiently favorable framework conditions. This would support the development of gas markets and efficient use of natural gas, including the use of gas in combined heat and power plants.

There is a need for step-by-step investments and for better interoperability conditions of the transmission networks. The indigenous production of gas in the EU is expected to gradually decline in the beginning of the next millennium. This and the growing gas demand will cause a need for new gas supplies by imports and will require large investments in gas production, transmission and storage in the medium- and long-term.

A liberalized gas market is likely to lead to a new situation with regard to the sharing and coverage of risks in relation to large investments. It is essential that the framework conditions of investments are monitored and, if needed, improved.

Electricity and gas companies in the Baltic Sea region have decided, in co-operation and with the support of the EU, to jointly study the interdependencies of the gas and electricity markets and the necessary investments, taking into account the results of the earlier separate studies. The presumptions and results of this joint study on gas and electricity market and investments - could and should be discussed in a dialogue between administrations and companies of the Baltic Sea area and the Commission Services.

D. Climate policy, energy efficiency and renewables

As regards climate policy and environment policy goals the Ministers and the Commission the Commission stated that energy savings, a more effective use of fuels in heat and electricity production, and converting to cleaner fuels, are policy actions needed to fulfill the Kyoto commitments.

The Baltic Sea region countries could draw on specific common competence in areas such as combined heat and power production, insulation, district heating, and renewables, as well as the experience from the existing activities implemented jointly (AIJ projects implemented during the pilot phase). These conditions, together with the favorable possibilities of interconnecting with larger European energy networks, determine an interesting potential for the exchange of emission reduction units including emission trading. This would make it possible to realize many of the advantages of trade and at the same time to fulfill the Kyoto commitments in a cost-efficient way.

In order to encourage national development of policies and technologies to enable energy savings, energy efficiency and utilization of renewables, a good information network between the Baltic Sea region countries is needed.

Climate policy

Although the climate change problem is global and long lasting, a regional approach might be effective when addressing its mitigation. The Baltic Sea region offers some very specific

advantages to regional co-operation in climate change mitigation including opportunities for trade in energy and emission reductions. The Ministers considered appropriate to recommend that

- further work should be done with a view to make a decision on a Baltic Sea region testing ground for international co-operation in the use of flexible mechanisms after the sixth Conference of the Parties to the United Nations Framework Convention on Climate Change to promote accountable application as well as to provide more concrete information on these mechanisms
- a starting point for the preparation of a plan for implementation of some AIJ/Joint implementation (JI) projects in the Baltic Sea Region should be a voluntary participation and involvement by industry and a start of projects as soon as possible
- the involvement of Nordic Investment Bank/Nordic Environment Finance Corporation could be considered as a possible approach for project-based climate change investment activities in the Baltic Sea region
- further work has to be carried out to contribute to capacity building and common understanding of proper and accountable implementation of the Kyoto mechanisms in the energy sector in the Baltic Sea region.

The Ministers and the Commission underline the importance of early clarification of the international framework for the emissions of greenhouse gases including the rules and guidelines for the flexible mechanisms in the energy sector in the Baltic Sea region, stressing the need for a clear and credible framework for long-term energy investments to underpin the development to environmentally sound energy systems in the area.

Energy Efficiency

Energy efficiency belongs to the priority areas of the energy co-operation in the Baltic Sea region. In order to encourage national and regional development of policies and technologies to enable energy savings and enhance energy efficiency the Ministers recommended that the work on energy efficiency should be continued. A first step should be to give priority to and further develop the proposals and conclusions on energy efficiency, combined heat and power production and district heating, included in the background materials of the Helsinki Conference.

Renewables

By increasing the use of renewables, the dependency on imported fossil fuels will be reduced, the security of supply will be improved due to a greater diversification of energy carriers and the environmental degradation by trans-national pollutants will be reduced. The Ministers and the European Commission agreed that further work to encourage the development of policies and technologies to increase the utilization of renewables is needed. The background materials of the Helsinki Conference on renewables give a good starting-point for the work.

E. Enhancing the organizational structures of co-operation in the region

Research and technical development are important for the development of the energy sector. Therefore, an increased co-operation between the scientific institutions in the region is recommended.

For reasons of proper use of resources, the possibilities to co-ordinate the energy co-operation in the region should be used. The Ministers accepted the idea of integrating the Baltic 21 energy sector work into the activities of the energy Ministers' co-operation.

In the international markets, both business actors and administrative bodies need better information and statistics of the development in the region. Because of the new energy policy objectives, the demand for reliable statistics and market analyses is increasing. In order to ensure the necessary coherence and quality and to save resources, a better co-operation in the production of information and statistics should be considered.

The Ministers and the European Commission stated that the Joint Programme/EU Baltic Energy Task Force is an excellent example of the Northern Dimension policy of the European Union. This policy instrument offers the EU Member States, the candidate countries, the European Commission, countries co-operating with the EU subject to the European Economic Area agreement and the main energy exporter to the EU, Russia, the possibility to discuss special energy sector questions on an equal basis. This is especially important, as new development opportunities have been unfurled now that the political division between the countries in the Baltic Sea region has come to an end.

A Baltic Sea region energy co-operation after the Helsinki Conference will derive advantage from a linkage to the CBSS through country membership, chair country, and location of secretariat and information channel. Availability of a special secretariat service will secure continuity.

The Conference of energy Ministers in Helsinki 24 - 25 October 1999 agreed upon follow-up activities and that the activities will be handled within the following framework:

Energy Ministers from the member countries of the CBSS and the European Commission meet when necessary. The energy minister from the chair country of the CBSS will chair the meetings.

- A group of senior energy officials (GSEO) - consisting of representatives of the CBSS member countries and the European Commission - is tasked to organize and steer the activities agreed upon by the Ministers. The GSEO will make up a detailed work plan on the basis of the conclusions drawn from the Ministerial Meetings and the work accomplished in 1999. The GSEO will prepare future Ministerial Meetings. It will be chaired by an energy official from the chair country of the CBSS and will meet 2 - 4 times a year.
- Ad-hoc groups may be established by the GSEO in order to study particular issues.
- A special secretariat service should be available, consisting of 1 to 2 persons reporting to the GSEO. It should be a part of and share the premises of the CBSS Secretariat. The secretariat will be financed by the Nordic Council of Ministers, the European Commission and, if needed and appropriate, by the CBSS or its member countries.
- The GSEO, represented by its chairman, informs the Committee of Senior Officials of CBSS regularly about its activities and plans.

This organizational structure of co-operation in the energy field will be reviewed no later than by the end of 2002 (3 years).

The GSEO shall, on the basis of the guidelines given by the Energy Ministers, be responsible to evaluate the recommendations for further work and decide upon priorities and activities to be followed up, as well as the organization of these activities and secure adequate reporting to the Energy Ministers.

The Ministers and the Commission expressed their acknowledgement to all participants of the working groups, study projects and seminars, including representatives of the market actors, investors and financial institutions that have actively contributed to the work.

Concluding the Commission initiative, the EU Baltic Energy Task Force, the Ministers thanked the Commission for its admirable work in intensifying and expanding the scope of the energy co-operation in the Baltic Sea region.

The Ministers and the European Commission thanked the Finnish hosts for the excellent arrangements of the Conference.