

4th Meeting of the CBSS Energy Ministers (Reykjavik, 28 October 2005)

COMMUNIQUÉ

The Ministers of Energy of the countries of the Council of the Baltic Sea States and the European Commission (the BASREC members) met in Reykjavik, Iceland, on 28 October 2005. The meeting took stock of the co-operation in the period 2003-2005 and to set priorities for the period 2006-2008 following the work endorsed in the conferences of the ministers of energy of the Baltic Sea States in 1998 in Stavanger, in 1999 in Helsinki and in 2002 in Vilnius.

The delegations of the Netherlands, United Kingdom, Slovenia, Energy Charter, European Bank of Reconstruction and Development (EBRD), International Energy Agency (IEA), Nordic Council of Ministers (NCM), Nordic Investment Bank (NIB) and Nordic Environmental Finance Corporation (NEFCO) attended the meeting as observers.

The meeting was organized at the invitation of the chairperson of the Baltic Sea Region Energy Co-operation (BASREC), the Icelandic Minister of Industry and Commerce **Mrs. Valgerdur Sverrisdottir**.

The BASREC members noted the emphasis of 5th Baltic Sea States Summit of June 2004 on regional cooperation in accomplishing EU Enlargement and the importance it attached to further development of energy networks.

The Council of Baltic Sea States (CBSS) reiterated the importance of regional cooperation in accomplishing EU Enlargement at its 13th meeting in June 2005 and CBSS role the EU-Russia dialogue. Furthermore, CBSS expressed satisfaction with the results of the work of the BASREC, which has proved to be a useful framework for the monitoring and development of energy policy in a period of rapid changes in energy markets and has created an effective contact network between governments, commercial actors and the European Commission.

The meeting of the EU energy ministers on June 28, 2005 took note of information delivered by the Polish Presidency on recent activities and topics of BASREC.

At their meeting on 28 October 2005 the BASREC members confirmed their will to continue and strengthen energy sector co-operation in order to further develop energy markets and sustainable energy systems in the region.

The regional co-operation on Energy actively contributes to the development of a sustainable energy system in the region and internationally aiming at securing the supply of energy, economic growth and technological development, market integration and reducing the impact from the sector on the climate and environment. The Baltic Sea Region (BSR) has a large potential for profitable investments in the production, transmission and use of energy, including renewable energy sources, and in energy efficiency.

The BASREC members reviewed current status and results achieved so far. They took note of the report prepared by the Group of Senior Energy Officials (GSEO) on BASREC 2003 – 2005 and in particular noted:

- BASREC has been a useful framework for the monitoring and development of energy policy in a period of rapid changes in energy markets, and as the interdependence of the BSR countries as regards energy supply is growing. BASREC has created an effective contact network between the governments, business actors and the European Commission in the energy sector.
- The Testing Ground Agreement (TGA) for Flexible Mechanisms of the Kyoto Protocol is the main concrete result of the cooperation and has been adopted. A steering committee reporting to the GSEO is managing the TGA. In addition the Testing Ground Facility (TGF) is operative.
- Under the GSEO there have been five working groups; chaired by different CBSS member countries dealing with bio energy, climate, energy efficiency, electricity and gas issues.
- The organisational arrangements of BASREC were in accordance with the decisions taken at the previous conference of the ministers of energy and the European Commission in Helsinki on 24 October 1999, with a Group of Senior Energy Officials (GSEO) as the responsible body and assisted by a secretariat.

The establishment of a large internal EU energy market in the region provides new opportunities and challenges for the energy sector. Entry into force of the Kyoto protocol and the establishment of the EU emissions trading scheme are important framework conditions and challenges for the energy trade and investment, which will strengthen the development towards sustainable energy systems in the Baltic Sea Region.

The BASREC members recognised that the mutual benefits of the co-operation in the field of energy and the complementarity in energy supply mix and structures form an excellent basis for further co-operation. The objectives of this co-operation have to be implemented step by step.

BASREC provides a venue for exchanging information, views and experience on best practises on how to optimise the benefits of new market conditions. As additionally four BASREC members have recently become also EU member states, the focus of regional energy sector co-operation is to be developed correspondingly.

The ministers took note of the results of EU-Russia Energy dialogue and confirmed that the regional co-operation is an important element in complementing and supporting the dialogue. Furthermore, they noted the EU work for a new framework for the Northern Dimension policy from 2007 and the importance of regional co-operation for its implementation.

The ministers took note that the UN Commission on Sustainable development, CSD, in its cycle 2006/07 covers energy for sustainable development as one theme, which also forms part of the context in which the BASREC co-operation will take place.

The BASREC members recognise

- that the Baltic Sea Regional Energy Co-operation in the period 2006-2008 must deliver visible and measurable results.

- that the co-operation should focus on meeting the essential challenges concerning sustainability, security of energy supply, competitiveness, economic growth and the environment.
- the regional co-operation should play an active role and try to make impact on the global agenda and within international bodies when appropriate.
- that the regional cooperation should show strong complementarity with the EU-Russia dialogue.
- that the regional cooperation should play a role in the implementation of Northern Dimension policy of EU in the field of energy.
- that in order to effectively address these challenges there is a need to modify BASREC working structures.
- that the countries in the Baltic Sea Region can achieve added value by jointly focusing on the energy markets and the transmission of energy in the Baltic Sea (and North Sea regions), sustainable energy systems, co-operation and connections with neighbouring countries of CBSS members
- that the aim concerning the energy markets in the Baltic Sea Region is to secure optimal frameworks for development of regional energy markets with a focus on electricity, gas, energy efficiency and heating systems:
 - Electricity: The regional co-operation aims at an effective and reciprocal cross border trade including the adjacent areas. The aim is an effective and well functioning regional market with a sufficient number of actors, a high degree of security of supply, level playing field, environmental protection, effective transmission and regulatory systems and transparency.
 - Gas: The aim is to explore possibilities for further co-operation on the development of gas markets in relation to relevant EU-legislation and to promote effectiveness and inter-operationability of gas transmission in the region.
 - Heating systems: A regional co-operation on heating supply aims at strengthening the framework conditions for an effective and sustainable market based development of this sector. One important instrument in this respect is exchange of information on best practices.
- that the co-operation will promote increased use of renewable energy on regional and international energy markets by developing cost effective market tools and by using the strong regional position and competitiveness to make impact on the international and regional agenda.
- the relevance to analyse the implications of the EU Green Paper on Energy Efficiency for the region and the importance of EU leadership on energy efficiency in Europe.
- the relevance of the forthcoming EU Biomass Action plan.
- that other regional and global efforts to improve energy efficiency, including initiatives within the IEA, Energy Charter (PEEREA) and UN-ECE, may contribute to achieving the region's objectives in this key area.
- the value of exchanging information of best practises with a focus on development of market oriented instruments to enhance the impact of energy efficiency and to improve a cost effective and sustainable balance between the demand and supply of energy.
- that by establishing the Testing Ground framework for the use of the joint implementation mechanisms of the Kyoto protocol the regional co-operation has given a clear signal in the international arena of the importance of Kyoto flexible mechanisms. Now the follow-up on the Testing Ground Agreement (TGA) and Testing Ground Facility (TGF), strengthening the competence and capacity, and the

dissemination of experiences is a central task. The regional co-operation will focus on common analysis and understanding of emissions trading and joint implementation (the Kyoto mechanisms) in the area, continue the efforts to efficiently reduce green house gases and support the countries to reach their commitments and address issues connected to the development of the future climate regime.

- the importance of reducing business uncertainty and creating stable and long-term market conditions for EU emissions trading and other flexible mechanisms.
- the need for considerable investments in energy transmission infrastructures in order to integrate separate gas and electricity markets in the region and to note important initiatives in this sector, such as the Baltic Ring, TEN priority projects through the Baltic Sea region and between the countries and projects of common interest of the European Union. Furthermore, it is important that the legal frameworks, where appropriate, allow the Transmission System Operators (TSO) to provide appropriate funds in order to strengthen the transmission infrastructure.
- the importance of stable, more harmonised, transparent and non-discriminatory legal and regulatory frameworks relating to investments in new production and transmission capacity and energy trade. It is important, where appropriate, that barriers should be removed.
- that energy technology research and development should be encouraged and co-operation between the scientific institutions in the region increased.
- the role of BASREC as a venue for exchanging information on developments, including technical innovations.
- that oil, gas and coal will continue to be important sources of energy for decades to come. Increased attention to questions related to the utilisation, capture, safe storage and sequestration of CO₂ are important when addressing security of supply and climate challenges.
- that the development of fuel cell technology and hydrogen is of global interest as a way to reduce green house gas emissions.
- the importance of including Russia in the process of integrating and liberalising the energy markets around the BSR. This integration process, which should be based on reciprocity, should be seen together with the EU–Russia energy dialogue, the Northern Dimension Action Plan of the EU and the Energy Charter process.
- that work for the development of a secure and sustainable energy system in the Baltic Sea Region is to the benefit for each participating country and the region aiming also at continuing to implement the EU Northern Dimension Policy and the EU-Russia dialogue on Energy.
- that close cooperation with regional organisations such as the Council of Baltic Sea States, and there within the Baltic 21, also with structures within the network of the latter, and with Helcom is essential to fulfilling BASREC objectives.

BASREC members

- recognise the need to address all key issues from a regional perspective in order to meet the challenges in the region in the most effective way
- emphasise that participation in the activities on the Testing Ground Agreement for Flexible Mechanisms of the Kyoto Protocol in the BSR should involve public and private entities in particular in the BSR States, and encourage business, industries, energy utilities, and financial institutions, regional and local authorities to take an active role in the activities. The implications of entry into force of the Kyoto protocol

and the use of flexibility mechanisms should be further explored and suitable measures implemented.

- highlight the importance of energy efficiency in the region. Efforts should be focussed to use the regional partnership to reduce and if possible remove the disparities in energy intensity in the region.
- welcome the preparation of studies on Security of Supply in the Baltic Sea Region.
- welcome the further development/establishment of an internet based collaborative portal to support and facilitate the co-operation, strengthening the co-operation network, building a platform for exchange of experiences and information.

The BASREC members decide

- to continue BASREC for the period 2006-2008.
- to build a strong project portfolio for the Testing Ground and increase involvement of industry in the Testing Ground Facility.
- to collaborate with various international and regional organisations to initiate energy projects in the region.
- to support projects of regional relevance through co-financing.
- to pay attention to energy efficiency in order to reduce disparities in energy intensity.
- to commission a study on security of supply in the region.
- to work closely with industry and, where possible, elaborate measures to remove barriers to investments in the region.
- to continue to exchange views and information among all regional players for the whole spectrum of regionally relevant energy topics.
- to establish an executive committee chaired by the BASREC presidency consisting of the chairmanships during the period (GSEO representatives of Iceland, Sweden, Latvia and Denmark) supporting the presidency and present to the GSEO a draft annual work program including use of resources.
- to create a secretarial function attached to the BASREC presidency, financed by the respective presidency countries in addition to the CBSS secretarial services.

The BASREC members note

- that financing of the regional Energy co-operation in Baltic (and North) Sea regions and projects decided to be conducted in co-operation with the regional industry should if possible be obtained through EU TEN programme when appropriate, (the new ENPI programme of EU) and contributions from participating countries
- that since the regional co-operation is important for the realisation of the energy sector work in the Northern Dimension Action Plan of the EU the opportunities to submit applications for funding from other relevant EU programmes will be utilised.
- that the BASREC co-operation takes place within the CBSS cooperation with close contact to the CBSS secretariat in Stockholm.
- that the CBSS secretariat supports BASREC work by a technical secretary function
- that the GSEO has established a temporary taskforce to review the structure of BASREC to ensure that it is sufficiently flexible to allow adjustment to the different needs for development in the Baltic Sea Region and the EU-Russia dialogue. It should present its conclusions to the GSEO before mid 2006.

The BASREC members confirmed their will to widen the regional co-operation within the above mentioned areas as recognised and recommended in this Communiqué.

The GSEO is assigned to organise the work for the implementation the recommendations agreed upon, seek the financing for the fulfilment of the tasks, and secure adequate reporting and a good co-ordination of the work with other international energy organisations.

The BASREC members at ministerial level will meet when necessary but not later than in the year 2008.