E U R O P E A N E C O N O M I C A R E A

J O I N T P A R L I A M E N T A R Y C O M M I T T E E

Ref. No.: 1065526
11 May 2006
Brussels

DRAFT REPORT ON

EUROPE'S HIGH NORTH: ENERGY AND ENVIRONMENTAL ISSUES

Co-rapporteurs: Mr Svein Roald HANSEN (Labour Party, Norway)
Mr Paul RÜBIG (EPP/ED, Austria)

The deadline for tabling amendments to the draft resolution has been set for

Tuesday, 16 May 2006 at 12.00

Amendments shall be tabled in English only and sent to the JPC secretariat:

Henrik OLSEN
EEA JPC Secretariat
e-mail: holsen@europarl.eu.int

Index

I. Introduction

1. With an ever increasing global dependency and global competition on energy resources the international community has had to refocus its efforts as both regards alternative energy sources and more importantly, the yet undiscovered petroleum resources. Europe's northernmost parts were for decades an economically sidelined area due to cold war politics, leaving what are thought to be vast resources of the Arctic Sea in general and more specifically the Barents Sea, relatively untouched. Today, with technical innovation and strong political and economic impetus there is an intensified drive towards the exploitation of the gas and oil of the Arctic Seas. Long-term strategies and projects have already been launched or are currently in the making and the prospects are promising. On the other hand, the eco-system of the far north represents huge challenges. The area is characterised by a very delicate marine environment that needs protection and in addition, cold war relics such as obsolete nuclear material in abundance, are challenges that need to be overcome. Economic activities in the far north are therefore to a great extent environmentally preconditioned. Sustainability is the key to utilise the opportunities and confront the challenges that are represented in the High North. Although it is still far too early to evaluate the outcome, developments in the North will have an important impact on Europe's future growth. The same naturally goes for the European Economic Area.

2. With this report the co-rapporteurs intend to draw attention to the opportunities and challenges of the relatively uncharted frontiers in Europe's High North and its prospective effects on the European Economic Area and Europe as a whole. The main aim is to raise the awareness of Europe's High North as an area that is characterised by great energy prospects and rich marine resources that have been carefully harvested by Norway and Russia in collaboration with Iceland and EU Members States. But on the other hand it is also an area where climate change takes place more rapidly than anywhere else. It is the view of the co-rapporteurs that these defining factors warrant the attention of legislators from the European Economic Area. For the purposes of this report, the co-rapporteurs focus on the one hand on the Barents Sea area which has become to be known as the High North. In this report it will be referred to as the 'High North – Barents Sea area'. On the other hand the focus will be on the Northern Dimension area which is geographically defined by Iceland and Greenland in the west, North-west Russia in the east and the Baltic sea in the south. The focus is on the potentials of the area's rich energy resources and the environmental concerns. The report's topic is a very broad one by definition and is as such partly relevant for the EEA and the Internal market and partly relevant for the EU, Norway, Russia and Iceland as defined under EU's Northern Dimension. But beyond that, the topic is highly relevant for all EEA Member States and its partners.

3. Chapter II of the report highlights the opportunities and challenges in the High North – Barents Sea area, the need for sustainable development and international cooperation. Chapter III focuses on the objectives of the Northern Dimension and its future. And in Chapter IV the co-rapporteurs concentrate on the need for a European Strategy for sustainable, competitive and secure energy as recently presented by the European Commission, and its possible relevance in terms of the EEA.

II. Opportunities and Challenges in the High North – Barents Sea area

4. For a geographical area that was to a large extent politically and economically frozen during the Cold War era, the Barents Sea region has for the last decade undergone significant changes. The High North – Barents Sea area constitutes a geographical area where not only Norway and Russia have rich interests but an area which has a potential long-term affect on the prosperity of EU, the EEA and Europe as a whole. The area is a sea of opportunities but equally, it is mired with environmental challenges that need to be dealt with in a responsible manner. Petroleum activities in the Arctic are not new as such. For many years, Russia, the U.S. and Canada have exploited gas and oil with Alaska and Siberia as two of the world's most important areas for oil and gas production. Apart from these areas where operations have largely been pursued onshore, the Arctic and its waters such as the Barents Sea represent new frontiers. The new opportunities that have been presented in the Barents Sea area are mostly related to the large oil and gas resources that are perceived to exist under the sea bed. The exploitation of these resources, although still in its early days, will influence developments in the region for decades to come as it may potentially become Europe's most important petroleum province in the not too distant future.

5. In Northern Russia large-scale onshore production has already started and in the years to come both Norway and Russia will start offshore production. The development of petroleum resources in the High North – Barents Sea area is taking place at a time when oil production in other parts of the Norwegian continental shelf is already reaching its peak and this has made it especially important to develop production in the area. Interest in the area has existed for quite some time. The first production licence in the Barents Sea was awarded as early as 1980 but the whole of the Southern Barents Sea was formally opened for petroleum operations in 1989. So far a total of 41 production licences have been awarded and over 60 exploration wells have been drilled in the area[1]. Developments are however rapidly unfolding and concentrated efforts are currently being undertaken on both the Norwegian and Russian side of the Barents Sea.

[1] Report No. 30 (2004-2005) to the Storting. Opportunities and Challenges in the North. Norwegian Ministry of Foreign Affairs.

6. In 2000 the U.S. Geological Survey completed an assessment of the world's undiscovered petroleum resources and estimated that about a quarter of the world's undiscovered petroleum reserves are located in the Arctic basin as a whole[2]. As for the Barents Sea, according to the 2005 Norwegian Foreign Ministry's White Paper to the Storting on opportunities and challenges in the North, rough estimates of the undiscovered resources indicate that about one million cubic metres of oil equivalents remain to be discovered in the Southern Barents Sea area which would represent about a staggering third of the total undiscovered resources on the Norwegian continental shelf. The potential is therefore great but on the other hand Barents Sea is still Norway's least explored petroleum province considering that in comparison to the 60 exploration wells in the Southern Barents Sea, 1000 exploration wells have been drilled in the other parts of the Norwegian continental shelf. So far, a number of small and medium-sized discoveries have been proven in the Barents Sea, most of which are gas. The gas field Snøhvit, which is the first field to have been approved for development is being developed with a Liquified Natural Gas (LNG) processing plant on Melk-island. As for Russia, authorities have announced plans for systematic exploration activities on its side of the Barents Sea where major deposits of oil and gas have been proven. These are huge reserves with the best-know discovery off northern Russia, the Shtomkmanovskoye, the world's largest offshore gas field, holding resources estimated to be about 3,200 billion cubic metres. Russia is now the largest exporter of gas to Europe and Norway is the second largest. A similar scenario exists as concerns oil. These two countries are EU's strategic energy partners and in EU's quarters there is a big impetus in fostering future cooperation with the two nations, not least due to the opportunities presented in the High North – Barents Sea area.

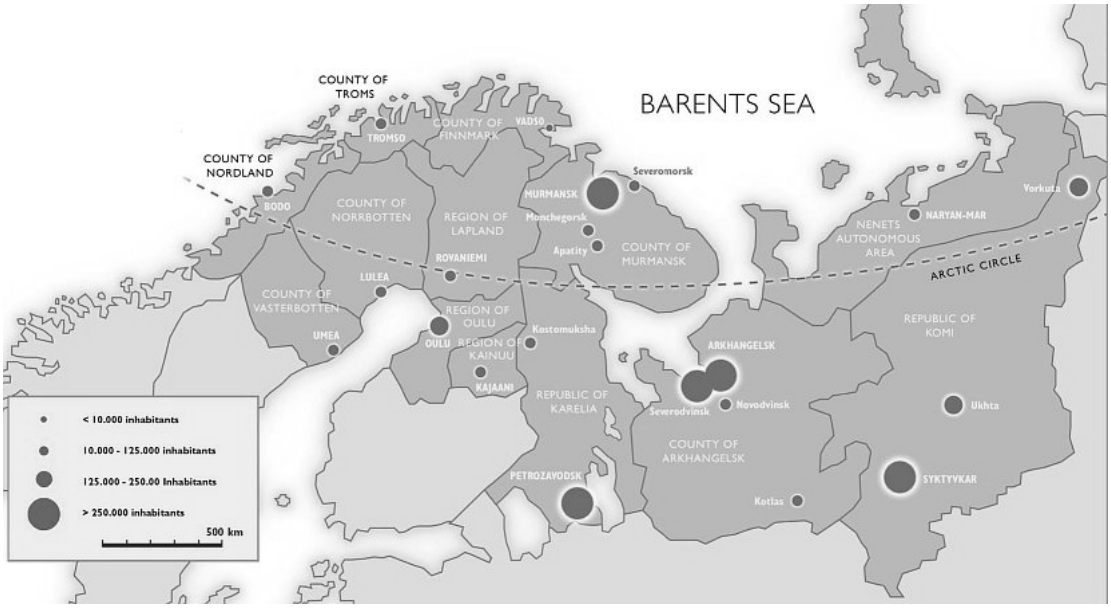
7. Global petroleum consumption in 2002 was four times higher than resources added by new discoveries and U.S. Geological Survey figures indicate that 23% of the world's total petroleum resources have already been consumed[3]. Growing demand for energy, high oil prices due to political instability and security concerns in the Middle East and Northern Africa and the development of new cost-effective technology has the potential to make it commercially viable to produce oil and gas in the High North – Barents Sea area far offshore. As for the European market, reserves are concentrated in few countries as roughly half of the EU's gas consumption comes from only Russia, Norway and Algeria[4]. The European Commission estimates that on current trends, gas imports will increase to 80% over the next 25 years.

---

2 USGS World Petroleum Assessment 2000 (2000). New estimates of undiscovered oil and natural gas, natural gas liquids, including reserve growth, outside the United States.

3 Ibid.

4 Commission Green Paper on "A European Strategy for Sustainable, Competitive and Secure Energy", 8 March 2006.



Map 1. The High North - Barents Sea area.
http://www.barentsinfo.org/

Environmental challenges

8. The growing interest in Norwegian and Russian energy resources in the High North – Barents Sea area and the opportunities that are presented in the area do however also pose imperative questions as to the major challenges of combining petroleum production with protection of the vulnerable marine environment. As a significant share of the world's oil and gas reserves are deposited in the Arctic region in general and more specifically in the High North – Barents Sea area, the exploitation of these resources bring substantial environmental dangers. The Arctic contains natural resources that are of global importance. Resources such as fish stocks, timber, petroleum and minerals have been exploited by many nations in the past decades and although the Arctic environment is relatively undisturbed, substantial research indicates that it is under increasing threats from pollution, climate change and unsustainable development.

9. The prospect of offshore petroleum activities underscore the importance of cooperation between the main actors involved as concerns environmental criteria for exploitation and managing the natural resources and for ensuring that the environment in the High North – Barents Sea area is adequately protected. As the marine resources in the Barents Sea do not recognise official borders, the environmental challenges are regional and even global in scope. It is therefore vital that the Barents Sea States ratify multilateral environmental agreements that provide the most important international framework for environmental protection and resource management. An important step in this direction was Russia's ratification of the Kyoto Protocol in 2004 and its

subsequent entering into force in February 2005[5]. Moreover, the concentration of nuclear facilities and the accumulation of radioactive material in North-west Russia constitute a potential risk of radioactive pollution that can affect the immediate environment and have repercussions for the whole of Europe. These potential dangers, stemming from the nuclear power plants on the Kola Peninsula, decommissioned nuclear submarines and the nuclear fuel and waste storage sites and nuclear waste dumping sites, have been well documented in recent years and received much warranted attention. In spite of this, the challenges continue to persist. It is therefore of great importance for Europe that Russia continues to be assisted closely by Norway, the EU and other partners in its efforts to deal with the serious environmental problems that persist in North-west Russia, in and around the Kola Peninsula.

10. For its part the Norwegian government has defined the High North – Barents Sea area as Norway's most important strategic priority area in the years ahead and is currently leading intensified efforts to ensure the sustainable management of the area's rich natural resources. The overall aim of this policy is to protect the environment, maintain settlement patterns and promote business development in the north. Inherent in that is further development of cooperation with Russia and other partners in the north. One part of that strategy is the establishment of a new and more coordinated system for monitoring the marine eco-system in the 'High North', launched on 31 March 2006. The aim with the strategy is to gather more knowledge of the area, as concerns e.g. pollution and stocks, so as to be better able to manage the resources of the Barents Sea and safeguard the marine eco-system. Particularly vulnerable areas in the Barents Sea that require special attention are mapped out and linked to a framework on where it is ecologically sound to start additional petroleum activities and where not. Such efforts are of obvious importance, not only for the Norwegian part of the Barents Sea, but potentially for the High North – Barents Sea area as a whole.

11. In the High North – Barents Sea area, activities and settlements are concentrated in few central areas with long distances between them which is considerably challenging as concerns transport and infrastructure. The already existing infrastructure was not designed for cross-border transport and as future development of large offshore petroleum fields will increase, so will maritime transport with oil and Liquified Natural Gas (LNG). However safe and environmentally sound maritime transport is in principle, increased activities will bring challenges as to transport security. In 2003 Russia and Norway agreed to intensify cooperation in this field. Further close cooperation between Norway and Russia to improve safety at sea and emergency response system in this field is

[5] Report No. 30 (2004-2005) to the Storting. Opportunities and Challenges in the North. Norwegian Ministry of Foreign Affairs.

therefore also essential for the EU and the EEA. In addition, a decline in the Arctic Sea ice will open new shipping routes. Apart from the obvious opportunities these developments can provide, they also underscore the potentially negative impacts from increased transport for reasons such as oil spills and other accidents. Due to the characteristics of the northern seas' eco-system, it is thought that the effects of oil spills in the cold ocean environment last much longer and are far worse than has been suspected. Much attention needs to be given to this in the years and decades ahead, not only by the Arctic States but by all stakeholders.

Sustainable development

12. The Arctic's nature is unique. It holds only about 10% of the plant and animal species that can be found in temperate regions and only a fraction of what can be found in the tropics. The ecological activity is both accelerated and slowed down. Biological activity during the short summer season is heightened, while cold weather during the rest of the year slows other biological processes such as decomposition and absorption. The relatively few animal and plant species that live in the Arctic are extremely well adapted to life under marginal conditions. And the indigenous peoples that live in the Arctic have used its natural resources in sustainable manner for thousands of years.

13. By all measures, the viability of natural resources extraction in the Arctic in general and more specifically the High North – Barents Sea area will last for generations to come. Fish stocks of the Arctic seas are renewable for as long as they are utilised in a responsible and sustainable way and not affected negatively by other activities. It should be noted that the marine resources in the Barents Sea have been carefully harvested throughout the years. As opposed to for example the North Sea or the banks off Newfoundland, the Barents Sea is still rich in fish due to the sustainable harvesting by Norway and Russia in collaboration with Iceland and EU Member States. And as such, the area represents an example to follow in other parts of Europe and the world. However, installations, roads and pipelines contribute to land fragmentation and offshore activities and transportation risk oil spills and the disruption of marine eco-systems. Currently, there are a number of activities taking place in northern waters that affect or that could affect the marine environment and living resources. The effects of the various activities must be weighed against each other so that a coherent eco-system based management regime can be established that will safeguard the quality of the environment and ensure that the resources are exploited in a sustainable manner. The opening up of the Barents Sea for petroleum production will have to depend on a careful assessment of the inherent environmental risks. Those seeking to exploit resources need to abide by the most stringent environmental regulations and the most advanced technologies available will need to

be applied. Increased offshore petroleum production will also bring challenges and opportunities for nearby coastal regions so due consideration needs to be taken on the potential effects on civil society and indigenous populations.

14. In general terms, the environment in the High North – Barents Sea area is satisfactory and human activities have had less impact than further south. The eco-system is however vulnerable to pollution, over-exploitation and developmental strains and is under pressure as a result of not only the growing utilisation of natural resources but also long term pollution and climate change which has an intense affect on the Arctic in general. A good deal of evidence points to the direction that climate change in the Arctic may be more rapid and unpredictable than previously thought[6].

15. The average temperature in the Arctic has risen at almost twice the rate of the rest of the world in the past few decades. In addition, melting of glaciers and sea ice and rising permafrost temperatures provide further evidence of warming in the Arctic. The effects of climate change are expected to have great impact on the survival of arctic species such as polar bears, some species of seals and caribou and reindeer populations. Furthermore, migratory birds, including several globally endangered seabird species, are projected to lose more than 50% of their breeding grounds. This will in turn have the potential to affect the livelihood and the cultural and social identity of the indigenous peoples in the area.

16. It has been established that certain Arctic species at the upper end of the food chain and birds of prey carry high levels of persistent organic pollutants (POPs). These chemicals break down slowly in the environment; they accumulate in organisms and become concentrated in the fat of animals. High levels of POPs can have adverse effects on wildlife and human health, such as on reproduction, development and resistance to disease. Such adverse effects have been detected in some of the most exposed or sensitive species in some areas of the Arctic, such as in polar bears and birds. Most of the POPs detected in the Arctic environment are derived from distant sources, including industrial actives in Europe. Other pollutants of concern for the Arctic environment are heavy metals, mainly mercury, lead and cadmium. High level of mercury can have harmful effect on mammals causing nerve and brain damage especially in foetuses. In birds high levels of mercury can cause erratic behaviour appetite suppression, and weight loss. At lower levels, egg production and viability are reduced, and embryo and chick survival are lower.

---

[6] See Arctic Climate Impact Assessment (ACIA) Policy document. Issued by the Fourth Arctic Council Ministerial Meeting Reykjavík, 24 November 2004.

Importance of international cooperation

17. As indicated above the Arctic environment in general is a vital source of renewable and non-renewable natural resources that are of utmost importance not only for the nations in the area, but for Europe as a whole, including the EEA. It is therefore of interest for these nations to ensure that the exploitation of resources and management of the marine environment in the High North – Barents Sea area is done in an environmentally sound and sustainable manner. And since the sources of many of the area's challenges such as pollution lie largely outside the Arctic region, measures taken at a regional or global level to address these issues will be beneficial for the area.

18. Many of the environmental policies and measures designed to reduce pollution in Europe contribute not only to the local environmental management and protection but also support reducing the negative impact of pollutants in the Arctic environment. The Water Framework Directive, the Air Quality Directives, The IPPC directive and the Sixth Environmental Action programme and its Thematic Strategies are important examples of this. The conclusion, ratification and implementation of global environmental agreements such as the Kyoto Protocol, the Stockholm Convention on POPs, the UN ECE LRTAP protocols on Heavy Metals and POPs will also contribute of reduction of pollutants in the area.

19. In addition, there is also significant international cooperation in place to deal with Arctic issues in various international forums such as the Arctic Council, the Nordic Council of Minister and the Barents Euro-Arctic Council. The EU and the relevant EEA EFTA States need to continue to attach great importance to these international organisations as vehicles to drive international cooperation and policy coordination between European partners in this vital area.

III. Objectives and history of the Northern Dimension 2001 – 2006

20. The Northern Dimension region, which is geographically defined by Iceland and Greenland in the west, North-west Russia in the east and the Baltic sea in the south, is one of the most challenging in Europe and its future development is of importance not only to the countries in the region itself but to the whole of the EU, the EEA, and to a wider Europe. For the Northern Dimension parties, the EU, Russia, Iceland and Norway, the region offers obvious opportunities for economic growth, linked partly to the rich resources of the Barents and Baltic seas but at the same time the area, or parts of it, constitute vast challenges. The Northern Dimension area is

characterised by a vulnerable eco-system which requires long-term strategies for sustainable development and cross-border cooperation, taking the specific qualities of the region into account, including the wishes of its indigenous people. The Northern Dimension seems to be gaining momentum not least due to the current focus on energy and nuclear safety, as spelled out in the Operational programme for the Austrian and Finnish Presidencies of the Council in 2006.[7]

21. The European Union's Northern Dimension Policy (ND) was adopted by the European Council in December 1997 and has since become an integral part of the EU's external relations policy. The ND was designed as a framework to promote dialogue and co-operation in Northern Europe and the main objective is to improve welfare through regional and cross-border cooperation. A particular emphasis is placed on subsidiarity and on ensuring the active participation of all stakeholders in the North, including regional organisations, local and regional authorities, the academic and business communities and civil society. The ND is implemented within the framework of the Partnership and Cooperation Agreement (PCA) with Russia, as well as the Agreement on the European Economic Area (EEA – Norway, Iceland).

22. The EU enlargement of 1 May 2004 modified the focus of the ND policy to a considerable extent. Since that date eight of the nine countries around the Baltic Sea are EU Members. After the EU enlargement, the ND has led to enhanced activities with Russia, especially in North-west Russia. EU-Russia relations have further been strengthened by the adoption of the "Four Common Spaces" in 2005 when the Road Maps on how to proceed with the establishment of the common spaces were agreed between the two sides. ND is referred to in the EU-Russia Road Maps for the Common Spaces, particularly under the heading of Common Economic Space: "… The implementation of actions under the CES, priorities jointly identified in the framework of regional organisations and initiatives, such as the Council of Baltic Sea States, the Northern Dimension etc., will be taken into consideration[8]."

23. The Second Northern Dimension Action Plan (NDAPII)[9] entered into force in January 2004. It is a three-year plan (2004-2006) covering five priority sectors: 1) economy, business and infrastructure; 2) human resources, education, scientific research and health; 3) environment, nuclear safety and natural resources; 4) cross-border cooperation and regional development; and 5) justice and home affairs. Within each of these areas, the Action Plan provides strategic priorities and specific objectives and indicates the priority actions to be followed in order to achieve the

[7] Council of the European Union. Operational Programme of the Council for 2006 submitted by the incoming Austrian and Finnish Presidencies. 22 December 2005.

[8] Road map of the Common Economic Space – Building blocks for sustained economic growth. 15th EU-Russia Summit, Moscow, 10 May 2005.

[9] Source on the NDAPII available at: http://europa.eu.int/comm/external_relations/north_dim/ndap/com03_343.pdf

objectives. In the current Action Plan, specific attention is paid to two geographical zones where development gaps and sectoral problems exist, i.e. the Arctic and sub-Arctic regions and the Russian Kaliningrad Oblast. The current ND aims to enhance synergies between the three regional organisations in Northern Europe, i.e. the Council of Baltic Sea States (CBSS), the Barents Euro-Arctic Council (BEAC) and the Nordic Council of Ministers (NCM), and the Arctic Council (AC), which has a wider geographical coverage, maximising the use of the resources available for the region while avoiding possible overlapping. Currently there are two Partnerships within the ND framework; the ND Environmental Partnership (NDEP) and the Northern Dimension Partnership in Health and Social Wellbeing (NDPHS). Where financial support from the EU is required, the ND draws on the existing EU financial instruments Tacis and Interreg.

24. For its part, the European Commission plays an active role in the implementation and monitoring of the Action Plan and co-ordinates with e.g. the four regional organisations in the North and by compiling the list of current ND projects in the ND Information System (NDSys). The Second ND Action Plan (NDAPII) is based on the proposals made by the European Commission and the ND Partners. Implementation of the NDAPII is monitored annually and the European Commission prepares progress reports on it.

Political guidelines and future action

25. A Northern Dimension Ministerial Conference was held in November 2005 in Brussels where the Foreign Affairs Ministers of the EU Member States and the Partner Countries (Iceland, Norway and Russia) agreed on political guidelines for the future of the ND[10] and set up a joint steering group to draft a political declaration and framework document in line with these guidelines. The aim is that the group completes its work by September 2006 and that later in the autumn of 2006 the parties decide on the continuation of the Northern Dimension policy on the basis of these texts.

26. In the political guidelines for the ND Policy from 2007 the aim is to create a stable and permanent basis for this policy as opposed to the previous three-year action plans. The future ND Policy will be the regional expression in Northern Europe of the four common spaces between the EU and Russia, with the full participation of Iceland and Norway. The new ND Policy framework will identify areas of co-operation where a regional emphasis brings added value but it will also continue to include additional

[10] Guidelines for the development of a political declaration and a policy framework document for the Northern Dimension Policy from 2007, DG E VI (14358/05 – Annex I)

objectives of specific relevance in the North, such as the fragile environment, indigenous peoples' issues and health and social well being. The current co-operation areas are therefore to be re-focused and reflect the common spaces. In the political guidelines six co-operation areas are indicated: Economic co-operation; freedom, security and justice; external security; research education and culture; environment, nuclear safety and natural resources; and social welfare and health care. Moreover, the guidelines emphasise that the ND co-operation activities are to focus on a realistic number of themes to be decided jointly to maximise the use of the limited resources.

27. The ND activities are to be implemented by various actors and financed from different sources such as the existing EU financing programmes, national budgets, international regional organisations, international financial institutions, regional and local public organisations, other public bodies and private sources. And as far as the EU is concerned, the new European Neighbourhood and Partnership Instrument (ENPI) will be the central source of EU financing for ND activities. The guidelines also highlight that the principle of co-financing from the EU, Russia, other ND parties, as well as from international and private financial institutions should be the general rule.

The Northern Dimension from 2007

28. The ND from 2007 will have a different character than the previous ND Action plans. The ND will have a more permanent nature and the general aim is to increase its visibility and attention. It is therefore important that the parties to the ND agree on a clear-cut, visible and dynamic policy, with strong political commitment by all partners. Equally important is the replacing of the existing concept of action plans with a more permanent policy where all efforts can be put into implementation of continuous action rather than spending considerable time and efforts making new plans every three years.

29. The shift in the ND towards making it a regional expression in the North of the EU-Russia cooperation (PCA) and the "Four Common Spaces" is an important milestone in deepening relations between the ND partners. Appropriate arrangements to link Iceland and Norway to this context should in parallel be created, respecting the EEA Agreement. The concept of "joint ownership" is also of critical importance and should be the core building block of the new policy. The non-EU Partner Countries should, accordingly, have a fully-fledged involvement and have the opportunity to participate on an equal footing with the EU Member States in the preparation, implementation and monitoring of the ND policy.

30. In all countries, both in the EU and non-EU partner countries, too little is known about the Northern Dimension policy. With regard to action at European level, it is therefore important that the Commission further develops and promotes its Northern Dimension Information System[11]. This could help increase the visibility of the policy in general, and more specifically facilitate increased contact between stakeholders and increased participation in ND projects.

31. Northern Europe needs close multilateral regional cooperation, which also includes non-EU states in the region. A joint Northern Dimension policy between the EU, Iceland, Norway and Russia, based on cross-border actions and projects of mutual interests is well suited for this aim. Multilateral cooperation will complement existing bilateral cooperation between individual countries in the region and between the EU and individual countries. Enhanced regional cooperation in northern Europe will thus help promote stability, well-being and sustainable development in the Northern regions and Europe as a whole.

Improving cooperation in energy and environmental protection

32. In the past years ND cooperation has produced some very positive achievements in the field of environment. It is therefore important that the new ND further strengthens efforts in this field, with the aim to rapidly reduce the water pollution in the environmentally sensitive Baltic Sea and the Gulf of Finland and to reduce the high risks of nuclear waste in the Kola Peninsula. In the Baltic Sea area the value and impact of the ND environmental policy has been especially evident in the case of the St Petersburg water treatment facility. Further priority areas where enhanced cooperation between EU Member States and between EU and Russia should materialise is to reduce the risk of oil tanker accidents and the risks associated with oil field exploitation and to improve nuclear safety and nuclear waste management.

33. The EU enlargement and the international trends in energy underline the importance of increased co-operation in Northern Europe in the field of energy. As a region with vast energy resources, the Northern Dimension area is not only important for the countries in the area itself, but has considerable impact on the EU as a whole. Potentially playing a crucial role in the security of future supplies of oil and gas to the EU, it deserves the attention of a wider group of States than have traditionally engaged themselves in the ND policy. The increased focus on Northern Europe in the new Energy Policy for Europe (EPE) should also contribute to raising the profile of the new Northern Dimension policy. It should also be noted that the Commission in

[11] NDSys is accessible at http://europa.eu.int/comm/external_relations/north_dim/nis/index.htm#2005

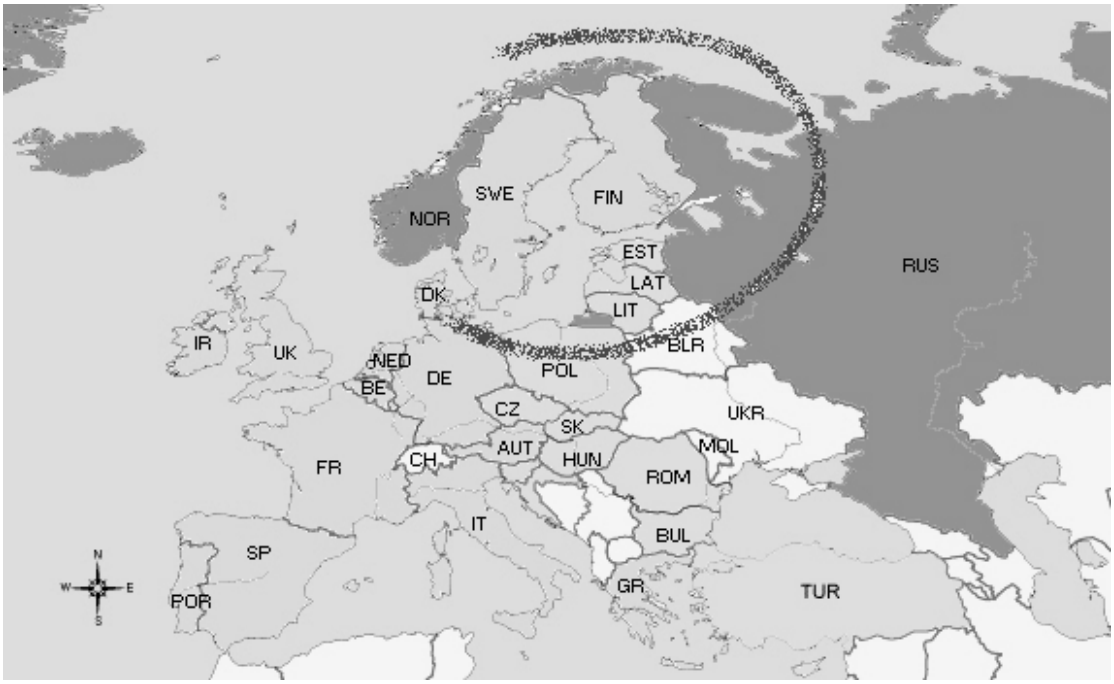
its new green paper on energy[12] specifically mentions Russia and Norway as important partners in a possibly new coherent external energy policy of the EU.

34. The Northern Dimension is an important element in the balanced development of Europe's energy infrastructure. A considerable level of investment will be needed in the Northern Dimension region to secure a sufficient level of energy supplies in the future, both with regard to infrastructures for energy transport and with regard to the exploitation of the area's gas resources. Increased investment means economic growth, including increased employment and higher activity levels also in industries not directly linked to the exploitation of the resources in the sea. This development is welcome in a region that has experienced decline in several industry sectors over the last years. However, it is important that this positive growth, and specifically the exploitation of the vast gas resources, is based on sustainable development, the highest level of environmental standards and the respect for the wishes of the indigenous people.

35. Ongoing trends in international energy supply and demand also call for greater coordination of regional cooperation in the context of the EU-Russia energy dialogue so as to improve energy security and availability. A ND partnership in energy established under the new ND policy would be highly valuable in this regard. The focus would be on sustainable development of existing natural resources, energy efficiency and renewable energy resources, and safety of energy transport. Apart from Russia, the other non-EU ND partners have a great role to play in such a partnership. Norway with its reserves of crude oil and natural gas, and Iceland with its renewable geothermal energy, present significant opportunities to develop common strategies for energy policy in the area.

36. A coordinated system for monitoring the marine ecosystems in the north is needed and should be part of the ND cross-border cooperation. It is important that the exploitation of gas and oil resources go hand in hand with a viable fishing industry and a healthy marine environment. The highest possible safety levels for maritime transport of oil and gas in the ND region needs to be ensured; this need will increase with more extensive transportation of Liquified Natural Gas (LNG) in the future. The Norwegian government's proposal of 31 March 2006 for a new and more coordinated system for monitoring the marine ecosystems in the north is welcome in this context.

[12] Commission Green Paper on "A European Strategy for Sustainable, Competitive and Secure Energy", 8 March 2006



Map 2. The Northern Dimension area
http://europa.eu.int/comm/external_relations/north_dim/nd2.jpg

Financing the ND

37. The European Neighbourhood and Partnership Instrument (ENPI) will from the EU's side be the main source of financing for the ND actions. Gathering existing programmes into one, an overall instrument will hopefully streamline the financing of the Northern Dimension policy and make it more transparent. It is important that an appropriate part of the instrument's resources is allocated to the ND actions, including adequate resources for administrative purposes. On numerous occasions in the past years, the European Parliament has claimed that the reason for the lack of visibility and attention of the ND has been that it has suffered from not having its own budget line. The European Parliament called on the Commission to "consider whether a separate budget line for the Northern Dimension would help to raise its profile, while being in line with the Northern Dimension's character as a framework policy for the northern region"[13]. Although this may prove difficult to achieve from the start of the new ND policy in 2007, it is important to consider this in the future. It is also essential that the International Financing Institutions (IFIs) and the Partner Countries continue to support cross-border ND actions.

38. It would be equally valuable if the Norwegian and EEA financial mechanisms had a central role in the financing of ND actions. The two financial mechanisms offer specific opportunities for civil society organisations and it is important that the ND countries covered by the two mechanisms use these opportunities to their fullest and

[13] European Parliament resolution on the future of the Northern Dimension (P6_TA (2005)0430), of 16 November 2005

that through them relevant stakeholders can learn from the experiences and competencies of other EEA stakeholders. The current Financial Mechanisms run the period from 2004-2009 and it would therefore be recommended that when establishing of the future Financial Mechanisms, the EEA EFTA States would give the instruments a central role in financing ND actions.

Regional cooperation and coordination

39. Four regional organisations operate in Northern Europe and the Arctic Area with which the European Union institutions have relations and co-operation as regards ND policies, i.e. CBSS, BEAC, AC and NCM. Two of the EEA-EFTA Member States, Iceland and Norway, are active members of these organisations which provide an additional venue for the European Commission to maintain co-operation with its partners on matters relating to the ND. An added value is that Canada and the United States, who enjoy observer status in the ND higher structures, participate either fully or as observers in three of the four organisations where their Arctic interests are reflected. It is however essential that the existing bodies for regional cooperation in the Northern and Arctic regions have a central role in the execution of ND activities. It is equally important to improve cooperation and coordination between these bodies so that they are more directly linked to the Northern Dimension policy.

40. By the same token it is very important that elected representatives and parliamentarians within the ND get a greater role in promoting and coordinating the integration of different forums for regional cooperation in the northernmost part of Europe. As for the involvement of members of parliament from non-EU States, the Althingi in Iceland and the Storting in Norway, are members of the parliamentary structures linked to the regional organisations in the Northern and Arctic regions. The European Parliament delegation for relations with Switzerland, Iceland and Norway and to the EEA JPC (SINEEA) has maintained regular meetings with these parliamentary structures such as its regular meetings with the Standing Committee of Parliamentarians of the Arctic Region (SCPAR) and the Nordic Council. In the last years, there have been calls for a parliamentary dimension to the ND, i.e. a Northern Dimension forum, bringing in all the stakeholders and elected representatives from the ND partners[14]. The establishment of such a forum would substantially raise the profile of the ND and strengthen its foundations with regular interaction of elected representatives. As such, a ND forum would also provide a vehicle to increase both policy and financial co-ordination between the various regional organisations focusing on and operating in the area.

[14] Ibid.

IV. A European Strategy for Sustainable, Competitive and Secure Energy

41. Europe has still not developed fully competitive internal energy markets although the energy policy has historically been one of the driving forces for European integration in the Coal and Steel Community (ECSE) and EURATOM Treaties. In June 2003, an energy Article appeared in the draft Constitutional Treaty and in July 2005 the G8 Summit gave new priority to energy. Consequently, in October 2005, Heads of State and Governments in the EU called for a more common energy policy. A drive towards a European energy strategy has topped EU's political agenda in recent months partially culminating in the European Commission's Green paper on a European strategy for sustainable, competitive and secure energy, on 8 March 2006 and the subsequent EU Presidency Council Conclusions in late March 2006. The extensive attention and coverage of the situation in the European energy landscape has not been unwarranted. The energy crisis in Ukraine in late 2005 raised poignant questions on the security of energy supply and drew attention to an ever increasing energy dependency and hence the vulnerability of the European energy market. And as the Commission's Green paper points out, EU's import dependency is rising and unless the EU Member States make energy more competitive within the next decades, around 70% of the Union's energy requirements will be met by imports, compared to 50% today. Reserves are moreover concentrated in a relatively few countries, some from regions that are threatened by insecurity. Global demand for energy is on the increase as world energy demand is expected to rise by some 60% by the next 25 years[15].

42. Against this backdrop, a new energy landscape has emerged where regions inter-dependent for ensuring energy security and effective action against climate change. This is also a landscape which requires a common European response as is reflected in the EU Presidency Council Conclusions from March 2006[16]. The reasons for a more common approach are to equip the EU to play a full role in global markets, to improve sustainability in the EU and globally, to complete the internal market, and to reflect on the strategic role of energy in achieving other political objectives. Such a common European response will inevitably affect Europe's northern regions and the High North – Barents Sea area as both Russia and Norway are specifically mentioned as strategic partners in the paper. And this approach will also pose important questions as to the EEA relevance of the proposed internal energy market.

43. The common energy goals can be seen to be built upon three principles: Competitiveness, Environment and the Security of Supply. Moreover, six priority areas have been identified.

---

[15] Commission Green Paper on "A European Strategy for Sustainable, Competitive and Secure Energy", 8 March 2006

[16] Presidency conclusions.

Competitiveness

44. The Competitiveness principle is related to the Lisbon process and focused on the completion of the internal energy market, competition, inter-connectors, European electricity grid, and research & innovation. The first priority is to complete the internal market. The following measures have been suggested: a European energy grid code, a priority European interconnection plan, a European Energy Regulator, and new initiatives to ensure a level playing field, particularly regarding the unbundling of networks from competitive activities.

45. The fifth priority area relates to Competitiveness, since it concerns a strategic energy technology plan. This strategic energy technology plan will ensure that European industries are world leaders in this new generation of technologies and processes.

Environment

46. With regard to the Environment, the requirements of Kyoto are essential. Issues referred to hereunder are renewable energy, energy efficiency, nuclear energy, research & innovation, and emission trading. The Commission suggests as a fourth priority a series of measures to address the challenges of global warming. In particular, it puts forward possible contents for an Action Plan on energy efficiency to be adopted by the Commission later this year. This Action Plan will identify the measures necessary for the EU to save 20% of the energy that it would otherwise consume by 2020. In addition, it proposes that the EU prepare a new Road Map for renewable energy sources in the EU, with possible targets for 2020 and beyond, in order to provide a stable investment climate to generate more competitive renewable energy in Europe.

Security of supply

47. The issue of security of supply is one of the most important aspects of this strategy and can be seen with regard to risks from natural catastrophes and terrorist threat, as well as political risks, including interruption of supply. Solidarity between the EU Member States is a key word in this regard. The Commission's Green paper points to several areas for possible future actions such as: the establishment of a European Energy Supply Observatory; improved network security; the development

of a mechanism to assist a country experiencing damage to essential infrastructure, and, common standards for the protection of infrastructure.

48. The Commission is also trying to rethink the EU's approach to emergency oil and gas stocks. It proposes to have a more coordinated Community response in the event of a decision from the International Energy Agency (IEA) to release stocks. In this regard, there should be a Commission legislative proposal ensuring the publication of the status of Community stocks, on a more regular and transparent basis. Regarding gas, the Commission envisages a new legislative proposal concerning gas stocks, to ensure that the EU can react to shorter term emergency gas supply disruptions.

49. The Commission is also discussing the diversification of the energy mix in the Community where the emphasis will be on the subsidiarity principle applies. Each Member State is competent to choose its own energy mix. Importantly for the EEA, the Commission also stresses the need for a common external energy policy. This raises the question as to whether there should be a common external policy on energy, to enable the EU to speak with a common voice. Furthermore, the Commission raises the issue of the development of new partnerships with the EU's neighbours, including Russia, and with the other main producers and consumers in the world.

50. In its paper, the Commission states that if a "common regulatory space" was created around Europe, this could consequently lead to the development of the common trade, transit and environmental rules, market harmonisation and integration. This would in turn create a predictable and transparent market to stimulate investment and growth, as well as security of supply, for the EU and its neighbours. Existing political dialogues, trade relations and Community financing instruments can be further developed and, for other partners, there is potential for new agreements or other types of initiative.

51. The Green Paper also raises the question as to whether there should be a pan-European energy Community. The Commission states that such a pan-European energy Community could be created both through a new Treaty, and through bilateral agreements. Certain essential strategic partners, including Turkey and Ukraine, could be encouraged to join the South East European Energy Community Treaty. Moreover, the Caspian and Mediterranean countries are indicated as important gas suppliers and transit routes.

52. A common European external energy policy will permit better integration of energy objectives into broader relations with third countries and the policies which support them. That means increasing the focus in relations with global partners facing similar energy and environmental challenges – such as the US, Canada, China, Japan

and India – on issues such as climate change, energy efficiency and renewable sources, research and development of new technologies, global market access and investment trends. This goes in hand with the current emphasis put on the resources in the High North – Barents Sea area as described in chapter I and corresponds also to the future goals of the ND policy as discussed in chapter II above.

53. The Commission also suggests that the EU could significantly step up bilateral and multi-lateral cooperation with these countries with the aim of encouraging the rational use of energy worldwide, of reducing pollution and encouraging industrial and technological cooperation on the development, demonstration and deployment of energy efficient technologies, renewable energy sources and clean fossil fuel technologies with carbon capture and geological storage. The Commission's statement regarding Norway is very important in this context: "as one of the EU's most important strategic energy partners, attention should be given to facilitate Norway's efforts to develop resources in the high north of Europe in a sustainable manner as well as facilitating its entry into the South East Europe Energy Community".

Presidency Council Conclusions

54. The European Council emphasises the importance of completing the internal market in order to ensure the competitiveness of European economies, but also with regard to safeguarding the security of supply for Europe. The European Council welcomes the promotion of environmental sustainability by continuing the EU-wide development of renewable energies, by adopting a realistic Action Plan on Energy Efficiency and by implementing the Biomass Action Plan.

55. The European Council also welcomes the Commission's intention to present a Strategic Energy Review on a regular basis, addressing in particular the aims and actions needed for an external policy on the medium to long term. The Council also welcomes the proposal for a more transparent assessment of the European energy resources, and states that the Member States' sovereignty over primary energy sources and their choice of energy-mix should be fully respected.

56. Moreover, with regard to the security of supply, the Presidency Council Conclusions of 23/24 March 2006 outlines the importance of developing a common voice in support of the energy policy. Consequently, the EU should secure the entry into force of the Energy Community Treaty, and develop a common framework for establishing new partnership with third countries, including transit countries. It is to be noted that Council invites the Commission to start developing a strategy for exporting the internal energy market approach to neighbouring countries.

Possible impact on the EEA

57. With regard to completing the internal market, the EEA EFTA Member States would likely be obliged to take over the future adopted acts within this field, since this legislation is usually based on Article 95 of the EC Treaty which concerns the harmonisation of the internal market. The same approach would probably be taken with regard to the environment. Concerning security of supply, one issue is the future oil and gas stocks proposals.

58. Another issue concerning the security of supply is the impact an extension of the internal energy market might have on the legal position of the EEA EFTA Member States under the EEA Agreement. A key question in this regard is whether the extension of the internal energy market to the South East European States only with regard to some Contracting Parties to the EEA Agreement (i.e. the Community) might affect the rights and obligations of the remaining Contracting Parties to the EEA Agreement (i.e. the EEA EFTA Member States). The answer to this question depends on whether it is possible to operate with two overlapping market definitions (one between the Community and the EEA EFTA Member States, and one between the Community and the South East European States). According to Article 8 EEA, the rules of the internal market apply only to products originating in the countries of the Contracting Parties, and as such, energy qualifies as a product in the EEA Agreement.

59. By extending the internal market in energy to the South East European States, energy may be produced in a third country and enter freely into the Community. In order to determine whether the same energy will also be able to enter freely into the EEA EFTA Member States, it will, however, be necessary to distinguish where the energy is produced. With regards to energy sources such as coal and oil, in general, it should be possible to determine where the energy is produced and consequently the origin of the energy. The physical flow of electricity does not necessarily correspond to the contractual relationship between the seller and the buyer. If for example a generator in northern Europe sells electricity to consumers in southern Europe, this does not imply that electrons produced by one generator will actually flow from north to south. This will rather mean a shift of the power balance towards the south. It is, therefore, not possible to distinguish the concrete origin of electricity. Consequently, impediments seem to exist for the creation of two separate electricity markets.

60. With regard to gas, there could be problems in distinguishing where the gas is produced. An example is, if the gas in question is transported through certain gas hubs. In such circumstances there might be difficulties to determine the concrete origin of gas.

61. The co-rapporteurs want to underline that the Commission's Green Paper is a consultation document, and there are still several questions to be answered. In the near future a more concrete picture will emerge when the Commission provides a summary of the views of Member States and stakeholders. This will eventually lead to clearer indications as to which concrete actions will be taken. However, it is important for the EEA that the EEA EFTA Member States submit their views and follow up the consultation procedure. And with regard to the external energy policy it is important that the EEA EFTA Member States reflect upon the consequences for their legal positions under the EEA Agreement, if the Commission extends the internal energy market to new third countries or develops closer cooperation in the field of energy.

Resolution

On Europe's High North: Energy and Environmental issues

The EEA Joint Parliamentary Committee of the European Economic Area:

A. Recognising the new opportunities in petroleum exploitation in the High North – Barents Sea area that may potentially become Europe's most important petroleum province in the not too distant future

B. Recognising that the opportunities in the High North – Barents Sea area do pose imperative questions as to the major challenges of combining petroleum production with protection of the vulnerable marine environment

C. Having regard to the current Second Northern Dimension Action Plan 2004-2006 (NDAPII) as endorsed by the European Council held in Brussels on 16 and 17 October 2003

D. Having regard to the Northern Dimension Ministerial Conference in Brussels 20 November 2005 where the Foreign Affairs Ministers of the EU Member States, Iceland, Norway and Russia agreed on political guidelines for the future of the Northern Dimension

E. Having regard to the European Commission's Green paper on a European strategy for sustainable, competitive and secure energy, on 8 March 2006 and the EU Presidency Council Conclusions on 23-24 March 2006

1. emphasises that the prospects of offshore petroleum activities in the High North – Barents Sea area underscore the importance of cooperation between the main actors involved as concerns environmental, energy security and availability, infrastructure, innovation and competitiveness as well as financing criteria for exploitation and management of the natural resources;

2. stresses that the Arctic environment in general is a vital source of renewable and non-renewable natural resources which are of utmost importance not only for the nations in the area, but for Europe as a whole, including the European Economic Area;

3. calls on relevant authorities to ensure that the exploitation of resources and the management of the marine environment in the High North – Barents Sea area is done in an environmentally sound and sustainable manner;

4. stresses that natural resources extraction in the Arctic in general and more specifically the High North – Barents Sea area will last for generations to come;

5. welcomes Russia's continued close cooperation with Norway, the EU and other partners in efforts to deal with the serious environmental problems that persist in North-west Russia.;

6. welcomes the Norwegian government's policy on the 'High North' and its intensified efforts to ensure the sustainable management of the area's rich natural resources such as the new coordinated system for monitoring the marine eco-system in the High North – Barents Sea area;

7. emphasises that the eco-system in the High North – Barents Sea area is vulnerable to pollution, over-exploitation and developmental strains and is under pressure as a result of not only the growing utilisation of natural resources but also long term pollution and climate change which has an intense affect on the Arctic in general;

8. underlines the importance of the Water Framework Directive, the Air Quality Directives, the IPPC directive and the Sixth Environmental Action programme and its Thematic Strategies for reducing the negative impact of pollutants in the Arctic environment;

9. calls on relevant authorities to evaluate, ratify, conclude and implement global environmental agreements such as the Kyoto Protocol, the Stockholm Convention on POPs, and the UN ECE LRTAP protocols on Heavy Metals and POPs;

10. calls on the parties to the Northern Dimension to agree on a clear-cut, visible and dynamic policy, with strong political commitment by all partners;

11. welcomes the shift in the Northern Dimension towards making it a regional expression in the North of the EU-Russia cooperation (PCA) and the "Four Common Spaces" and calls on the relevant authorities to create appropriate arrangements to link Iceland and Norway to this context, respecting the EEA Agreement;

12. calls on the establishment of a Northern Dimension partnership in energy where the focus is on sustainable development of existing natural resources, energy efficiency and renewable energy resources, where all Northern Dimension partners have a role to play;

13. calls on relevant authorities to give the future Norwegian and EEA financial mechanisms a role in financing Northern Dimension actions;

14. calls on relevant authorities to improve cooperation and coordination between existing bodies for regional cooperation in the Northern and Arctic regions so that they are more directly linked to the Northern Dimension policy;

15. calls on relevant authorities to establish a parliamentary dimension to the Northern Dimension, bringing in all the stakeholders and elected representatives from the Northern Dimension partners;

16. stresses that the establishment of a Northern Dimension forum would substantially raise the profile of the ND, strengthen its foundations and provide a vehicle to increase co-ordination between the existing regional organisations in the Northern and Arctic regions and the EU and EEA institutions,

17. notes with concern that EU's import dependency is rising and unless the EU Member States make energy more competitive within the next decades, around 70% of the Union's energy requirements will be met by imports, compared to 50% today;

18. welcomes the European Commission's calls for a European strategy for sustainable, competitive and secure energy which will inevitably affect the High North – Barents Sea area;

19. welcomes that High North – Baltic Sea nations Russia and Norway are specifically mentioned as strategic partners in the European Commission Green paper on a European strategy for sustainable, competitive and secure energy;

20. stresses that a European strategy for sustainable, competitive and secure energy will also pose pertinent questions as to the EEA relevance of an internal energy market;

21. urges the EEA EFTA Member States to reflect upon the consequences if the European Commission extends the internal energy market to new third countries or develops closer cooperation in the field of energy.
