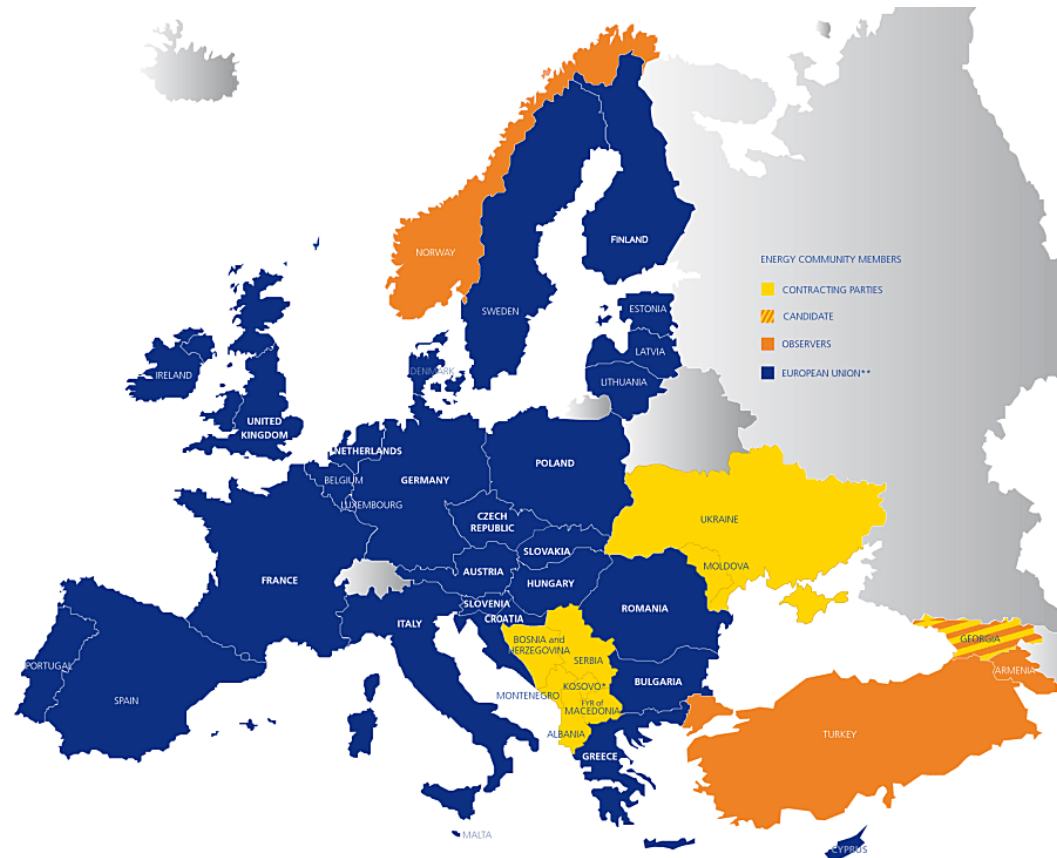


Progress toward Energy Union from the Energy Community Treaty Perspective

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Energy Community Treaty (EnCT)



** This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.*

*** 19 of the 28 European Union Member States hold a [Participants](#) status to the Treaty.*

See: www.energy-community.org

Energy Community Treaty (EnCT): Some Aspects

- Some EnCT Contracting Parties are not signatories to the Energy Charter
- EnCT considered as EU accession instrument
- EnCT considered as an instrument to improve energy security and eradicate energy poverty
- EnCT imposes material obligations and deadlines
- EnCT facilitates market reforms and harmonization toward EU regulations

EnCT Material obligations

- Implement EU environmental rules to existing and future energy facilities
- Improve energy efficiency
- Increase market share of renewable energy
- Build up compulsory oil stocks
- Implicit obligation to improve cross border connectivity

How to accomplish EnCT material obligations?

- In a given period of time
- In conjunction with procedural rules and regulations (Aarhus Convention, etc)
- Without state aid!
- In conjunction with the forthcoming Climate Change obligations
- Under exposure to actual climate change risks (note 2014 floods)
- If key decision makers perceive EU accession negotiations and formation of the Energy Union as an opportunity to re-negotiate or delay EnCT obligations

Climate change risks in this region may have stronger impact:

- Current structure of the energy sector with significant lignite / coal / nuclear facilities prone to climate change risks due to flooding, cooling water and grid disruptions
- Massive and persistent loss of quality forest cover caused change in water regime toward more floods and lower return on hydro power assets
- Quality of governance enhance exposure to risks
- Cross border disputes (cross border water resources in Western Balkans, cross border pollution, Ukraine) limit capacity to respond to risks

GDP formation paradox in South East Europe

- Natural resource rent economies
- Very low productivity of conventional energy resources
- Export remains competitive only when international energy prices are high
- During period of low energy prices: contraction of export competitiveness

Investment requirement?

- Need to transform the energy sector AND the structure of economy in parallel requires ...
- Massive and urgent implementation of private investments that implies ...
- Cross border cooperation and openness as well as ...
- Advanced investment framework that is all ...
- Missing.
- Note: Some EnCT contracting parties are not signatories to the Energy Charter and lack scope and framework for effective energy efficiency and private investment frameworks

Investment context

- Energy demand is most likely decreasing while...
- Most of energy supply (lignite power plants, existing district heating plants, oil refineries) under pressure to close.
- Large energy consumers under competitive pressures from international markets due to low energy prices and ...
- Massive improvement in transport infrastructure.
- Depression of supply MAY exceed depression in demand if ...
- The EnCT is enforced.

Enforcement?

- Enforcement of the EnCT in all its aspects (material obligations, environmental regulations, state aid, transparency, etc) may disrupt status quo while ...
- Uncertainty about its enforcement effectively eliminates the case for private investments and ...
- Creates a risk that is not manageable within the scope of private investment.
- Taking into account lead time to construct new power facilities, any further delay in decisive enforcement of EnCT is going to be a signal that EnCT is not going to be enforced that, in turn, is going to prevent even investments that are feasible today.

Conclusions

- Current structure of the energy sector in EnCT contracting parties is not sustainable within given international energy market
- That structure creates massive risks for macroeconomic and political stability as well as overall security in the wider region
- Accession of all EnCT contracting parties to the Energy Charter is critical aspect of eventual enforcement of the EnCT
- Strong commitment of the EU to enforcement of the EnCT and actual demonstration of that commitment is critical for integration of the EnCT area into wider Energy Union
- Stream of private investments into power generation assets is key criteria to assess effective enforcement of the EnCT and success of the Energy Union in this part of Europe