

EnC Membership: Prospects and Challenges for Georgia

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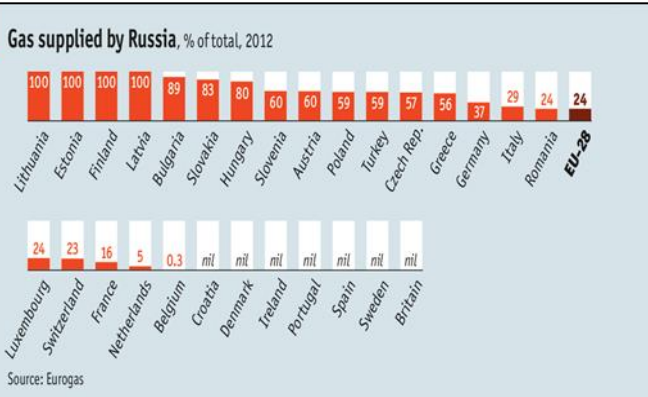
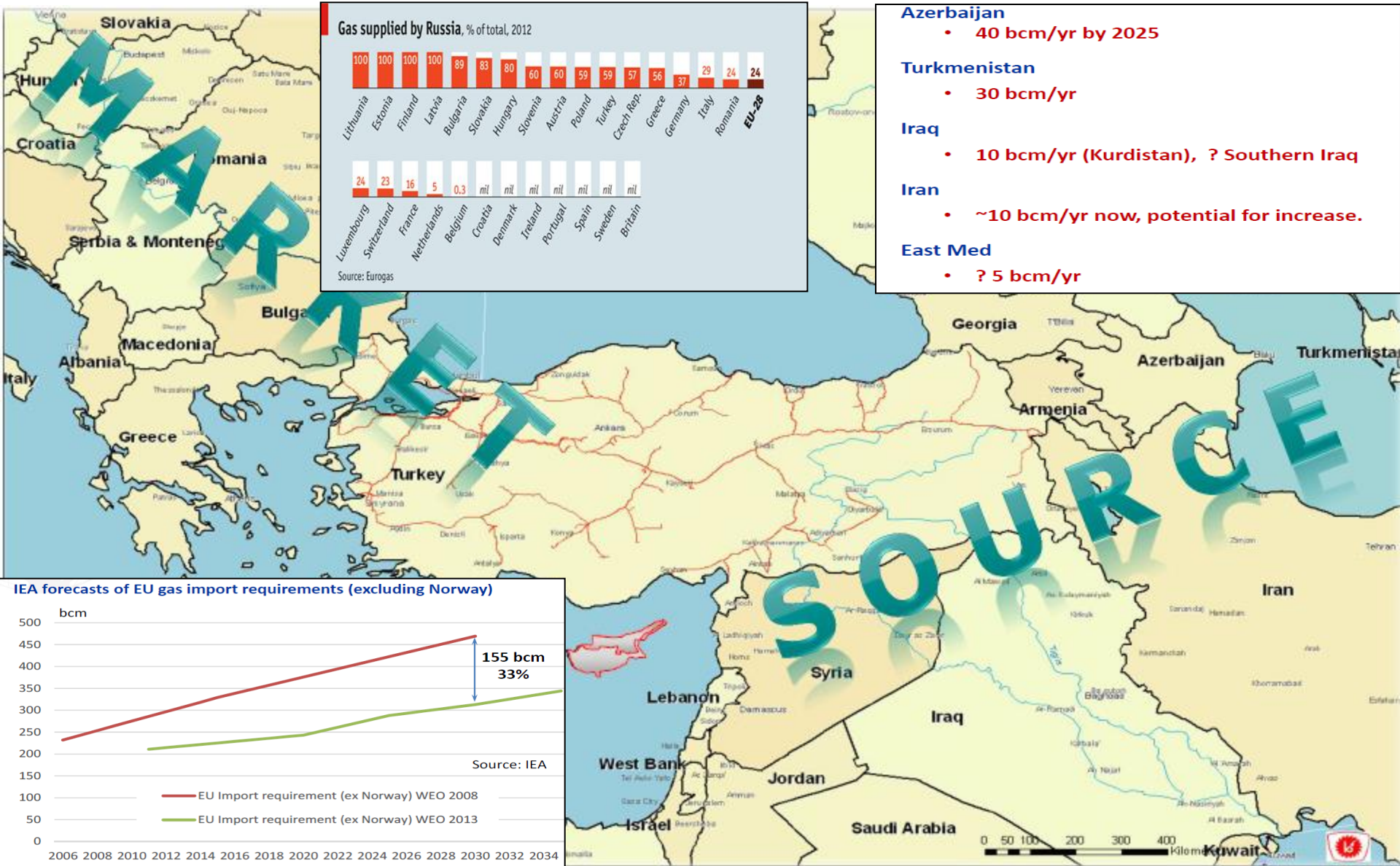
Tbilisi

May 21, 2014

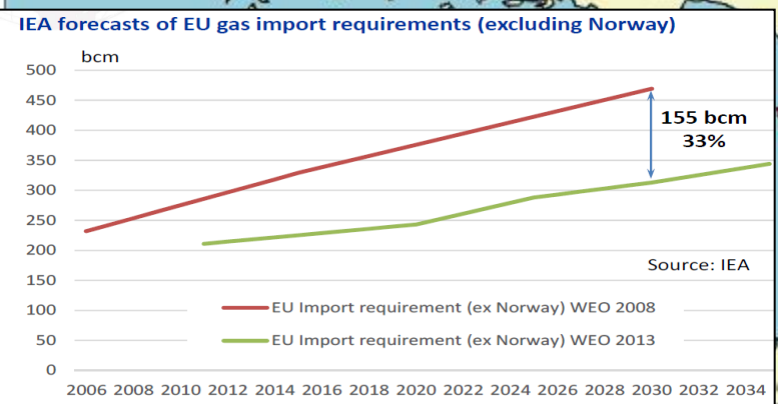
Content

- EU Market and Transit of Caspian Recourses;
- European energy policy and 3rd Energy Package;
- Georgian Gas Market;
- Georgia: Challenges and Opportunities;
- Recommendations;
- Summary

Market Outline



- Azerbaijan**
 - 40 bcm/yr by 2025
- Turkmenistan**
 - 30 bcm/yr
- Iraq**
 - 10 bcm/yr (Kurdistan), ? Southern Iraq
- Iran**
 - ~10 bcm/yr now, potential for increase.
- East Med**
 - ? 5 bcm/yr

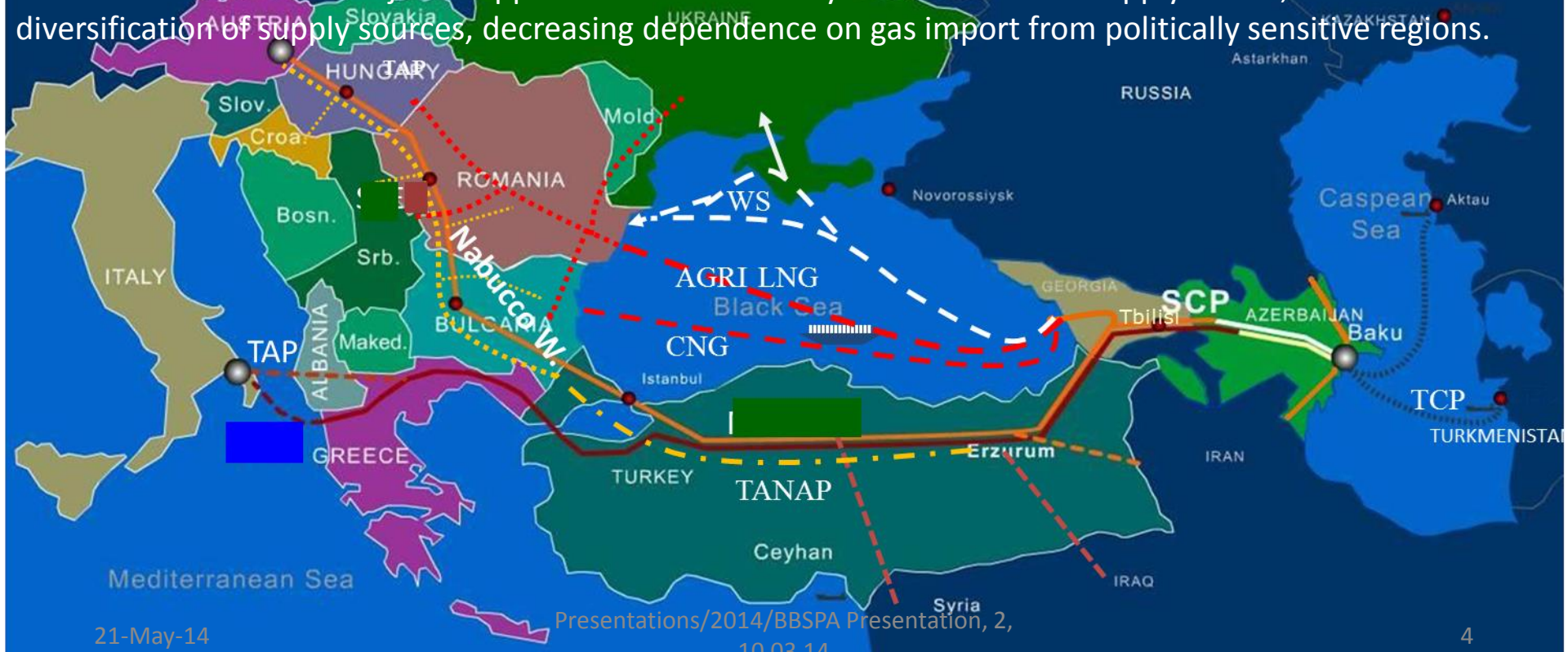


Southern Gas Corridor

Due to Geopolitical Considerations and Economic attractiveness the EU has been giving Political support to the Southern Gas Corridor Projects

Business supportive environment, liberalized market and moderate tax regime are appealing factors to develop Southern Gas Corridor projects considering Transit of Caspian Gas through GEORGIAN territory

Southern Gas Corridor projects support to ensure not only diversification of supply routes, but also diversification of supply sources, decreasing dependence on gas import from politically sensitive regions.



EU Projects of Common Interests (PCI)

List of Infrastructure which is planned and implemented for the period up to 2020 and beyond on **GEORGIAN** territory

6.22. AGRI Project (European Sections of Infrastructure);

7.1.1. Combination of TANAP, SCP-(F)X, and TCP Pipelines;

7.2.2. Upgrade of the pipeline between Azerbaijan and Turkey via Georgia: SCP-(F)X;

7.2.3. Submarine pipeline linking Georgia with Romania (White Stream);

9.1. PCI Adamowo-Brody Pipeline (EAOTC, Ukraine-Poland section)

A more pro-active approach to external energy policy

- ▶ Energy security should feature in EU Neighbourhood Policy
 - ▶ EU urged to play a full role in international energy relations and negotiations,
 - ▶ Recognition of need for level playing field for EU and non-EU players in international markets
- ▶ Call for deepening and extending Energy Community
 - ▶ Support for new gas import developments, such as Southern Corridor

**Energy Community
Membership: Prospects and
Challenges for Georgia**

Energy Community

Implementation of the internal energy market

- ▶ Effective and efficient unbundling – Separation of transport and supply/production
- ▶ Transparency
- ▶ Market integration through framework guidelines and network codes



- ◆ Agency for the Cooperation of Energy Regulators (ACER) in Ljubljana (Slovenia)
- ◆ ENTSO-G/E

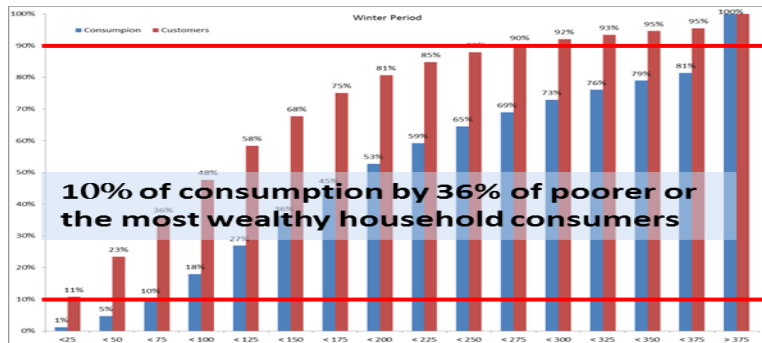
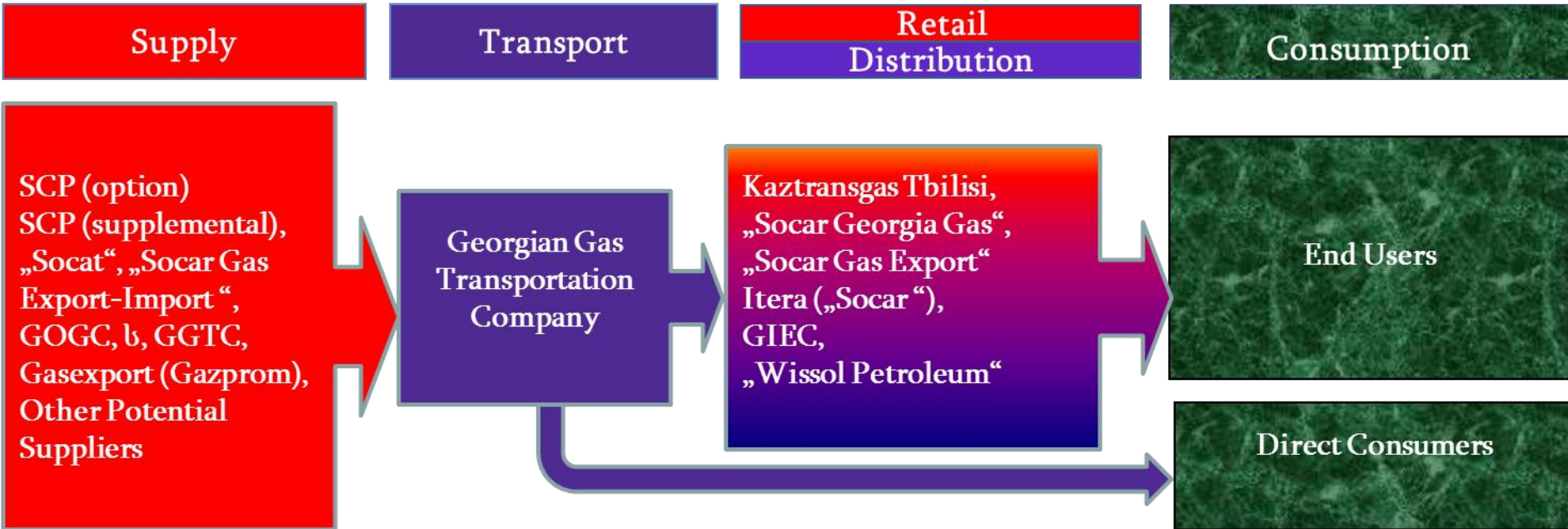


- ▶ Community-wide 10-Year-Network Development Plans as starting point for joint and consistent investment planning

The timetable for implementation of the acquis communautaire in Georgian Oil and Gas Sector (project)

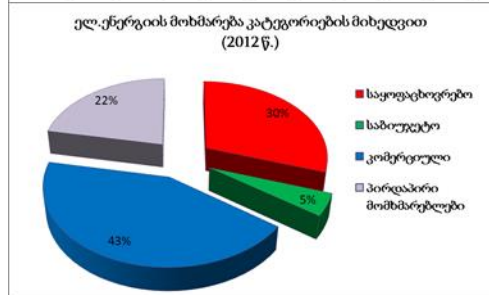
Directive 2009/73/EC concerning common rules for the internal market in natural gas	By [31 December 2020]
Regulation (EC) No 715/2009 on conditions for access to the natural gas transmission networks	By [31 December 2020]
Directive 2004/67/EC concerning measures to safeguard security of natural gas supply	By [31 December 2016]
Directive 1999/32/EC relating to a reduction in the sulphur content of certain liquid fuels	By [31 December 2021]
Directive 2009/119/EC imposing an obligation on Member States to maintain minimum stocks of crude oil and/or petroleum products	By [1 January 2023]
Directive 2008/92/EC concerning a Community procedure to improve the transparency of gas and electricity prices charged to industrial end-users	By [31 December 2017]

Gas Market



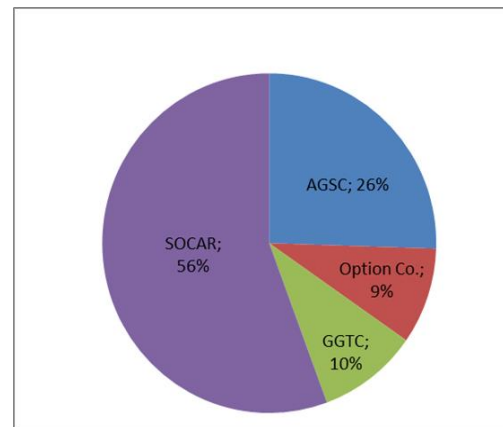
Market liberalization, Unbundling of monopolist and competitive activities (in compliance with EU policy) and subsidizing only vulnerable consumers – the main priorities of gas market restructuring.

Harmonization of legislation and technical regulations with EU – the main tools in the achieving of targeted goals

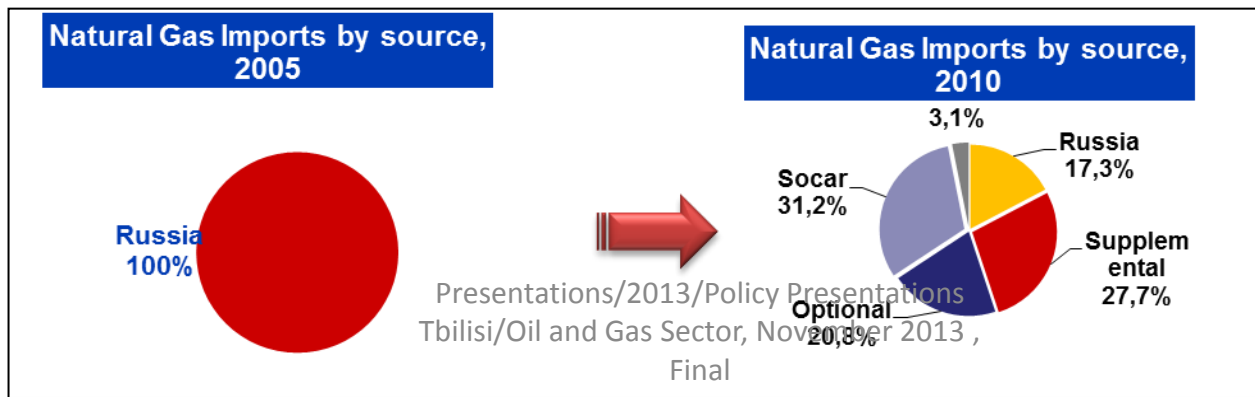


Gas Supply

Source of Supply, 2012	Mncm
Shah Deniz (SCP off-take)	730
“SOCAR” (Kazakh off-take)	1030
GazpromExport (Chmi off-take)	205



- Gas supply to Georgia started in 1959;
- Peak of gas consumption, 6,2 bcm per year, was reached in 1989;
- Import of Azerbaijani gas to Georgia started in 2006, only source of gas supply at that time was– Russia.

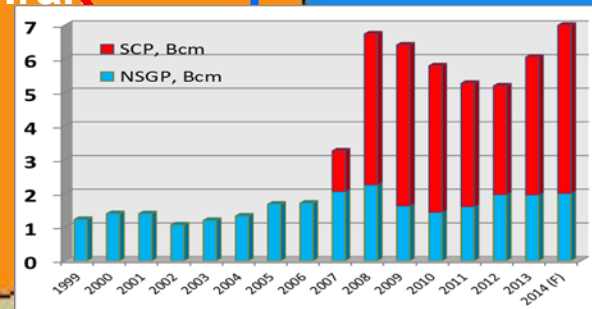
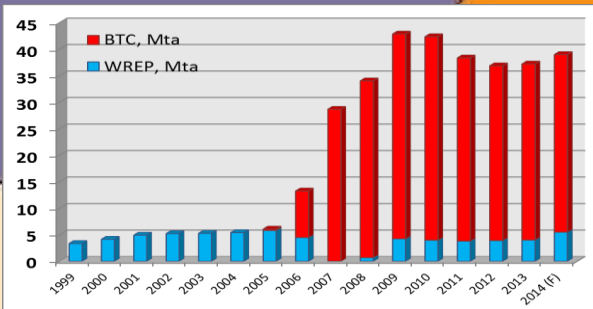
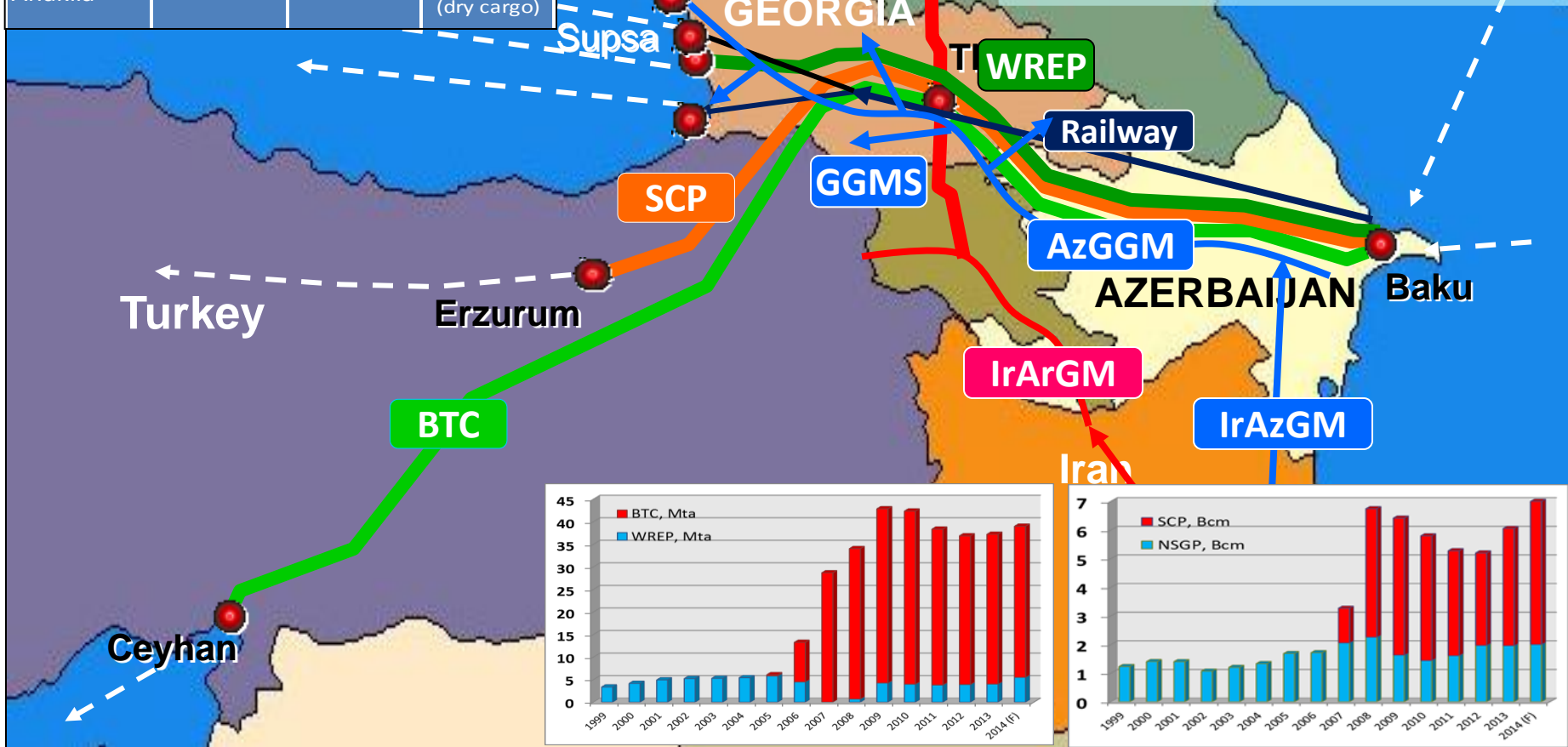




Existing Oil & Gas Transportation Systems

	Volume of Tanks, M ³	Capacity, Mta Oil	Prospects, Mta Oil
Batumi	570 000	≈10	≈12
Poti	118 000	1,5-2	≈4
Supsa	195 000	≈6	≈10
Kulevi	320 000 -600 000	≈6	≈20
Anaklia	-	-	≈8-15 (dry cargo)

At the end of 19th century the Rothschild banking family build a railroad across Georgia; In 1904 famous Nobel brothers completed the first, biggest on the continent, oil pipeline connecting Baku-Batum



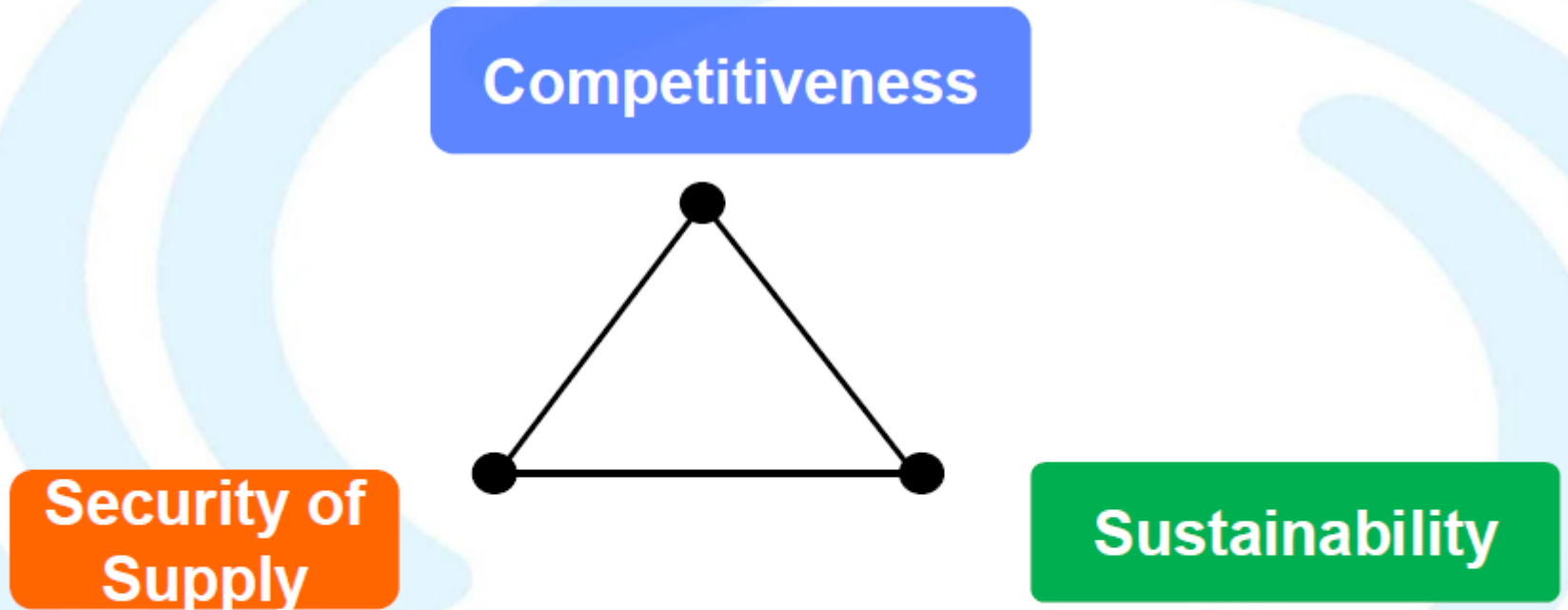
Consequences of Acquis Implementation without considering Georgia's specifics

Considering the existing political, technical and geographical constraints, great attention have to be paid to the effects resulting from implementation of new legal framework exclusively in Georgia.

Two major questions should be answered: whether the implementation of new regulations may allow competition in the gas market (otherwise if certain preconditions are not established, liberalization may result negative consequences) and whether the country may benefit in terms of security of supply.

Gas market of Georgia is limited in terms of enhancing competition because of complexity of supply schemes. Implementation of EC acquis will be effective in this context only after the country's gas grid is connected to the system of the Community with possible reverse flows or/and region will be opened for alternative suppliers.

European Energy Policy and Energy Community



The prime aim of the European Community's energy policy is to ensure a supply of energy to all consumers at affordable prices while respecting the environment and promoting healthy competition on the European energy market

Europe's Strategy 20-20-20 by 2020

Targets: -20% of Green house emissions;
 -20% of energy consumption;
 +20% of share of renewables

Energy 2020 - A strategy for competitive, sustainable and secure energy

Priority 1: Achieving an **energy-efficient** Europe

Priority 2: Building a pan-European **integrated energy market**

Priority 3: Extending Europe's leadership in **energy technology**

Priority 4: Protecting **consumers** and achieving the highest level of **safety and security**

Priority 5: Strengthening the **external dimension** of the EU energy market

Priority 2:

Building a pan-European Integrated energy market

- *Action 1: Consolidate the regulatory framework, promote competition and transparency;*
- *Action 3: Simplified procedure for projects of “European Interest”*

Priority 5:

Strengthening the external dimension of the EU energy market

- *Action 1: Integrating energy markets and regulatory frameworks with neighbors – Energy Community, European neighborhood policy;*
- *Action 2: Establishing key partnerships – Energy framework agreements with key supplier and transit countries*

Key Priorities of EU 3rd Energy Package

- Effective unbundling
- Third Party Access
- Access to Storage
- Access to upstream pipeline networks
- Approval of tariffs by regulatory authority + tariffs non-discriminatory and proportionate

New Major Interconnectors, LNG and Storage Facilities completed after August 2003 can seek exemption from:

UNLESS an exemption from ownership unbundling supplier or producer of gas can't have direct or indirect shareholding in a network operator or system (and vice versa)

Amended Article 15 of Association Agreement (recommendation)

Article 15 of the Treaty shall apply to Georgia as from [one year] following the date of accession of Georgia.

5. The SCP Project and the Project Agreements as well as the North South Main Gas Pipeline and the agreements governing cross-border transmission (transit) of natural gas through the North South Main Gas Pipeline are exempted from the implementation of chapter IV (THE ACQUISITION OF COMPETITION) of the Energy community Treaty, Directive 2009/73/EC and Regulation (EC) No 715/2009 until 31 August 2026, the date of expiration of the Energy Community Treaty.
6. Existing agreements governing the supplies of natural gas to social sector, the respective decisions of the competent authorities of Georgia as well as the parties (including their legal successors and permitted assignees) to these agreements, within the scope of those agreements, are exempted from the implementation of chapter IV (THE ACQUISITION OF COMPETITION) of the Energy community Treaty, Directive 2009/73/EC and Regulation (EC) No 715/2009 until 31 August 2026, the date of expiration of the Energy Community Treaty

Conclusion

Georgia applied for the membership in the Energy Community, expecting to get certain benefits.

Energy Community membership and rules are advantageous because of enhancing competition in the market and attracting investments for a stable and continuous energy supply, creating an integrated energy market with the common energy market of the European Union, increasing the quality of security of supply, as well as improving environmental situation.

Georgia cannot benefit from certain provisions of the EnC membership because of its isolation from the Energy Community market. The obvious barrier for the full implementation of the EC acquis is Georgia's isolation from the Community market in terms of geography, technically and security. Therefore Georgia is limited to get all the benefits from the membership in terms of enhancing competition in the market and increasing the security of supply.

SUMMARY

Georgia has taken a strong course to Euro-Atlantic integration, which involves integration into regional energy structures as well.

To achieve this goal, one of the main priorities should be harmonization of the legislation, with the final objective to establish an open and competitive market, similar to the EU market.

Major problem for Georgia while integration into regional energy structures through Energy Community full membership - preservation of preferable conditions in the existing transit agreements and effective unbundling of competitive and monopolistic activities in the energy market.