

About Georgia's Accession to Energy Community

Implementation of the EU Association Agreement (AA) requires complex reforms in Georgian energy sector through introduction of EU energy acquis. These requirements can be fulfilled in AA format or in Energy Community (EC) format. If Georgia does not become a full member of the EC till September 2016 (which only requires an agreement on terms and conditions of reform implementation) the negotiations will continue in AA format. The main difference between these two is that EC format is more flexible while AA format might require stricter terms and more complicated conditions. There is no assurance that in AA format the same derogations and the same level of political support can be achieved as in EC format.

In February 2014 the EC and Georgia, currently an observer state, started full membership negotiations which were expected to be concluded by October. However, two years later the negotiations are still not completed and the plan of AA implementation is not agreed. The next round of negotiations which was planned to take place in January was postponed for unclear reasons and thus the deadline for the accession set for September 2016 can be missed. The delay of the negotiation process indicates its inefficiency and puts the EC membership under risk, it also arises some doubts about political will for implementing the AA requirements.

At the same time the high dependence of Georgia on imported energy resources and non-transparent internal environment create the high risks of national security and make the need for reforms in energy sector are especially urgent.

Why Energy Community?

The EC is an international organization focusing on energy policy established in 2005 under the treaty between the European Union (EU) and a number of non-member states with the aim to extend the principles of EU internal energy market to Southeast Europe and the Black Sea region. The main objectives of EC are attract investment in power generation and networks to ensure stable and continuous energy supply, create an integrated energy market allowing cross-border energy trade and integration with the EU markets, and improve the environment in relation with energy supply in the region. Today, besides Balkan Countries, Moldova and Ukraine are also members of the EC.

According to the AA a number of EU directives pertaining to energy should be implemented in accordance with the timeline agreed by Georgia in the framework of the EC treaty. should Georgia's accession to the EC treaty not become effective within 2 years of the entry into force of AA, a proposal for a timeline will be submitted to the Association Council. **EC membership is not an obligation under Association Agreement, but being a full-fledged member will allow Georgia to be part of a mechanism that facilitates the implementation the obligations the AA**

foresees. EC does not impose any additional material requirements, it is a mechanism to receive additional help and derogations:

- ✓ *In special, country specific cases derogations may be offered from full implementation of EU Acquis. In case of Georgia the most important issue is the derogation in gas transit allowing the country to keep its current the beneficial commercial deals despite different EU practice.*
- ✓ *The EC offers supporting mechanisms to ensure country's energy security in emergency situations,. Despite the non existing common borders with the EU countries, special supporting mechanism can also be developed for Georgia (through Turkey)*

Ukraine is an interesting example. Ukraine, as a member of Energy Community receives Russian gas from Hungary and Slovakia, this fact radically reduces the energy supply and security risks, considering the tense political relationship between Russia and Ukraine.

- ✓ Energy Community membership also increases the available financial and technical support for implementation of European legislation. This is an important possibility for Georgia to support different infrastructural projects.

Not using all these mechanisms Georgia loses valuable time and benefits.

Why EC membership and implementing reforms are urgent?

Recent negotiations with "Gazprom" have revealed that the dependence on external energy sources is critical for Georgia. This energy dependence can be used against free political choice of the country. In addition, non-transparent and non-balanced institutional and legislative environment, as well as absence of strategy and control mechanisms further increase the risks of corruption and political influence on decision makers.

Delaying EC membership and reform implementation preserves this dangerous environment, increases the risks and complicates an implementation of Association Agreement. The current practice of Memoranda is an interesting example in this regard. In the most of the cases, Memoranda (with HPP developers, other country's energy companies, etc.) opposes the free market principals and regulation, rises future obligations, hampers progressive development of the sector and reform implementation. Continuing this practice will negatively impact on implementation of Association Agreement, which might only be profitable for those opposing Georgia's EU integration.

A noteworthy fact is, that in 2013 Russia offered Moldova to refuse joining the Energy Community in return of reducing the gas price by one third. But Moldova demonstrated the political will and rejected the offer by entering EC. This shows once more the high political importance of this step. In case of Georgia other influence instruments may be applied.

EC membership will indicate the maturity of political choice and thus can increase the political and economic support from the EU. This is extremely important for Georgia considering its existing tense environment.

Conclusions

Georgia's energy security risks and economic or political dependence on foreign countries are driven from external energy dependence and internal institutional or legal disorder. EC membership is an opportunity to mitigate these risks through implementing reforms in the energy sector while receiving support from the EU. Important compromises are already achieved in the negotiations and delaying the process is unjustifiable.

Refusal to use this mechanism and delaying the membership process puts AA implementation at risk and raises some doubts about European and Euro-Atlantic aspirations of the country; reduces western support, and perspectives of implementing strategic energy projects.

Implementing reforms in the energy sector and developing internal market mechanisms are benefits for Georgia by themselves. **According to the National Security Concept, European integration and strengthening the energy transit function are the national interests of Georgia. Thus hampering EC membership processes can be considered as neglecting national interest.**

Recommendations:

Considering the above:

- Negotiations on EC membership shall be conducted effectively and ended as soon as possible, so that implementation of AA in EC format is not under risk;
- Ministry of energy shall start consultations with stakeholders to create a realistic action plan for implementing EU directives and speed up the sector modernisation;
- Government shall establish monitoring and oversight over the new agreements in the energy sector signed on behalf of different state entities, to assure that they are in line with EU Acquis required under AA.
- EU integration in the energy sector shall be discussed widely to gain public support in the process of reform implementation.

We want to express our support and confirm readiness to participate in energy sector reform and modernization.