

EU AND EAP – ENERGY COOPERATION COMMON INTERESTS, OPPORTUNITIES AND BARRIERS

A GLANCE FROM GEORGIA

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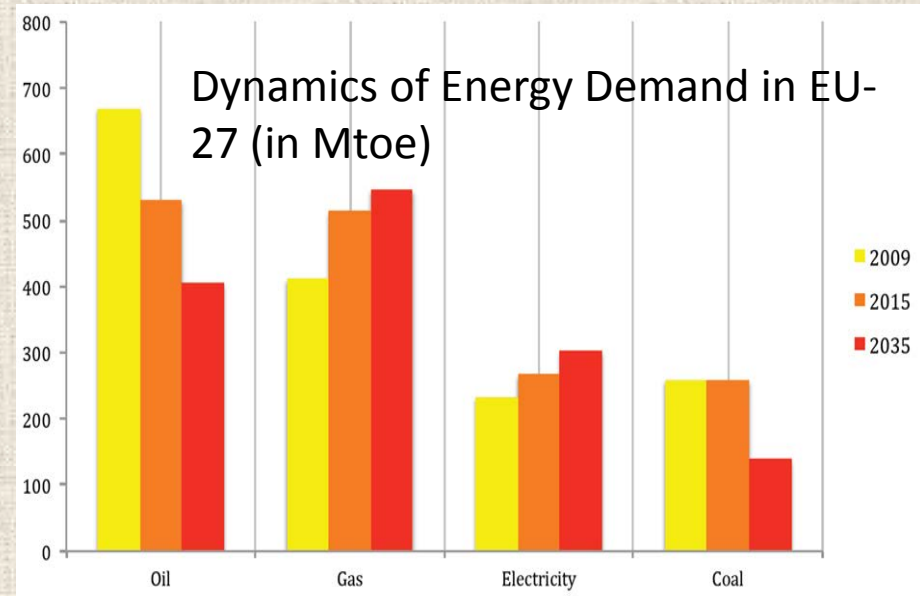
EU - EAP - ENERGY CONTEXT



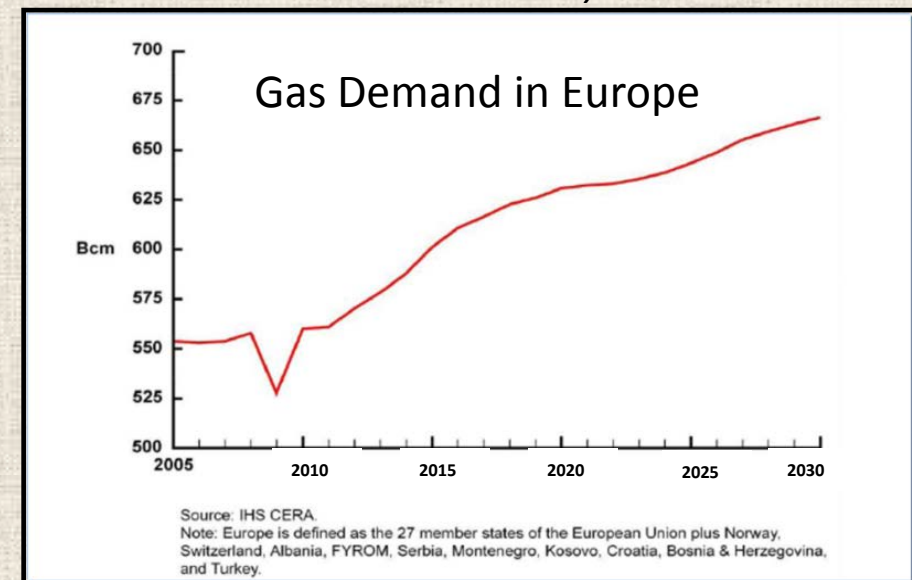
Main Objectives

- Increase in energy security
- Clean Energy development goals 2020 and road map to 2050
- **Reduced role of Oil and Coal**
- **Potential contribution from Alternative fossil fuels – tight (shale) gas, shale oil etc.**
- **Increased role of LNG**
- **Nuclear power will still have important role**
- **Increase in EE & RE**
- **Increased importance of Natural Gas as a transition fuel**

Growing gas demand is combined with declining indigenous production - reduced 2.5% over 2000-2010



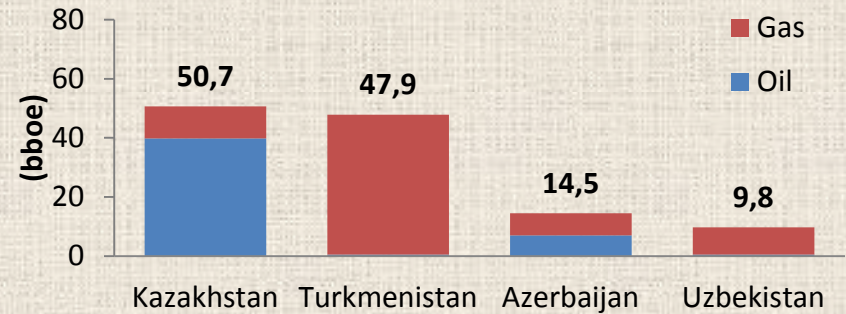
AFET DG External Policies Study 2012



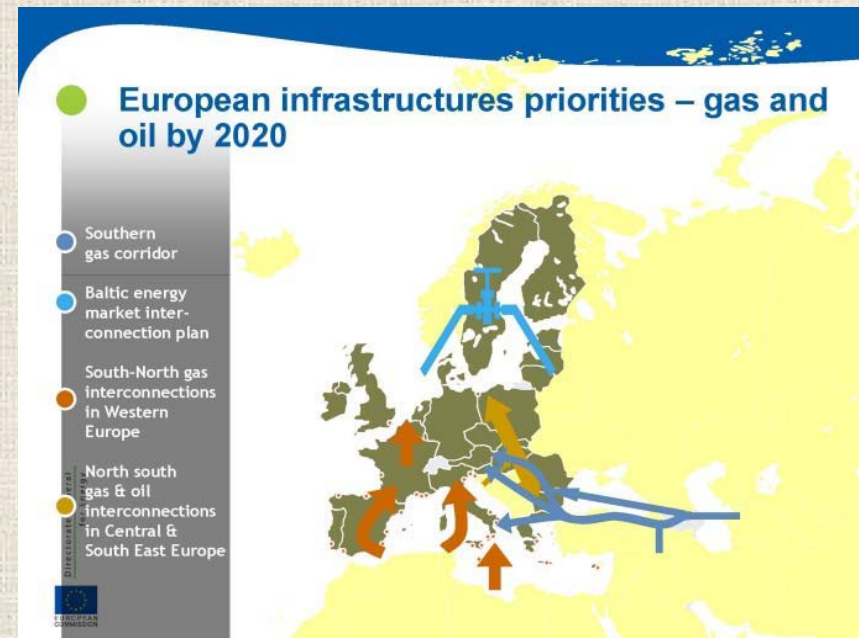
ROLE OF THE CASPIAN FOR EU ENERGY SECURITY



- Can significantly reduce dependence on monopoly gas supplies
- Proven hydrocarbon reserves **123bboe**
- Caspian production of gas can grow strongly, with exports from the region potentially reaching 100 - 105 bcm, Southern corridor to supply 45-90bcm
- Success of Southern Gas Corridor may radically affect the Europe's energy mix **370 - 600bcm** of gas according to Commissioner Oettinger



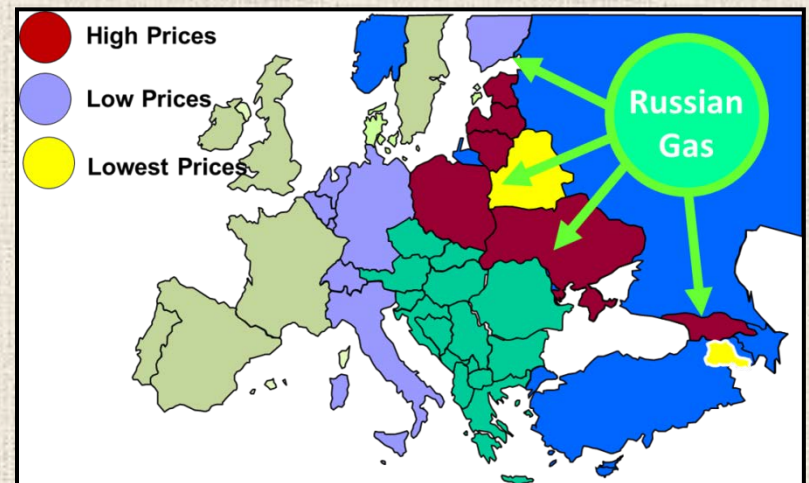
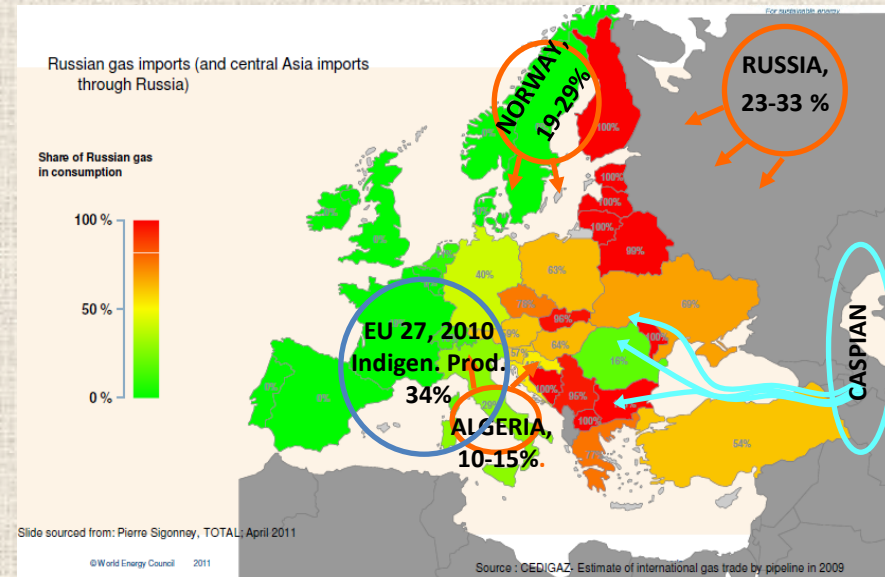
Courtesy T.Gochitashvili



GAS SUPPLY SOURCES



- Increasing reliance on politically sensitive Russian and Algerian gas supplies
- Political pricing of gas and threat of supply disruptions
- Existing gas transit infrastructure through Eastern EaP countries will remain to be important and requires significant investment



Source: Presentation of J.M. Barroso to the European Council, 4 February 2011

EU EAP COOPERATION



EaP Partners –significant common benefits to be achieved:

- **Energy security** – resulting from transit flows or security of energy market (Azerbaijan)
- Energy cooperation with the EU entails more **support for independence** of the EaP countries
- The process of association and economic integration with the EU is a an **opportunity of modernization** and technology transfer that will allow to improve the regulatory framework, market efficiency, quality of policymaking and sustainability of reforms as well as technological know-how and people's capacities.
- Efficiently combating the climate change and reducing the energy intensity through **development of EE & RE** also promotes economic development.
- **Energy trade** including **green energy trading**
- **Investment facilitation** by creating stable and transparent environment
- **These benefits can be achieved only through coordinated common action of the EU and EaP by creating a united market and regulatory environment**

BARRIERS



In spite of obvious benefits and commitments taken by EaP countries on regulatory approximation the progress is slow. A number of barriers may be preventing the process:

- Insufficient motivation and interest in some countries due to their energy and political situation
- Political difficulties in changing the existing market ownership structures and unbundling the systems
- No direct connection to European markets and need for development of specific models for isolated small markets
- Territorial unresolved conflicts and related vulnerabilities;
- Vested commercial and political interests in existing vertically integrated systems
- External influence acquired through control of strategic infrastructure
- Difficulties in implementation of EU directives caused by Capacity of Institutions and specialists involved , Quality of policy analysis and decision making process;

Leads to:

- Slowing down the association and integration process
- Short-term fixes versus long term solutions;
- Erosion of Energy Strategy for EU approximation

These and other causes are well presented in recent EP study published in 2012

CASE OF GEORGIA



- Key transit country for Caspian energy (Oil and Gas);
- Almost all fossil fuel (about 65% of energy supply) is imported;
- About 70% of natural gas is coming from transit agreements and constitutes the basis for relative energy security;
- Economic development results in strong (about 10%) increase in energy consumption;
- Significant hydropower potential under development with aspirations for trading to Turkey and selling green energy to the EU;
- Black Sea Transmission Line (700MW) to be commissioned in 2012- provides new opportunities by connecting to ENTSOE;
- Strongly interested in transit development and integration into EU energy markets, however needs to maintain the from transit in order to sustain energy security and economic development



CASE OF GEORGIA



- **Observer status in Energy Community since 2007. Entered the process of negotiations on Association Agreement, DCFTA and visa liberalization agreement. Ongoing processes & mechanisms: Association agreement & DCFTA, EC membership, EaP, Energy Charter, ENPI, INOGATE, TRASECA,**
- **Energy negotiations go in parallel and are handled from Brussels with little involvement of the mission in Georgia;**
- **Quality of legislation needs improvement in order to support investment in energy sector and in hydropower in particular;**
- **No EE & RE policies legislation or action plans in place (except HPP support);**
- **Vertically integrated state owned companies of neighboring countries in electricity and gas sector ;**
- **Existing long term agreements between utilities and government;**
- **Occupation of the part of territory and related vulnerability of electricity supply;**
- **Uneven size of potential market players requires careful design of market model;**
- **Regulatory authority split between regulator and government;**

Negotiations need to properly take into account the energy, political and economic problems as well as legal and regulatory issues. Different approximation venues need to be better

THE ROLE OF CIVIL SOCIETY



Recent establishment of Civil Society Forum and involvement of CSO players has created a new dimension in the process of association that needs to be further developed and capitalized on.

- CS a natural and essential stakeholder who shall be enabled to monitor the process;
- The time capacity of think tanks needs to be developed and sufficient information provided to share the responsibility by participating in discussion process;
- EaP Civil Society Forum is playing a role of catalyst in this processes;
 - Participation in EaP platform 3 meeting;
 - Development of monitoring capacity - “Energy Security Index”;

The role for Civil Society in the process has been well addressed in EURONEST resolution “On Strengthening Civil Society in the Eastern Partnership Countries ...” Baku April 2012

CONCLUSIONS AND RECOMMENDATIONS



The benefits to EU and EaP countries seem to be undoubted and of paramount importance. There is a huge amount of mutual gain to be attained and significant loss to be incurred in case of failure.

- **Reliance on attractive power of EU EaP energy cooperation is not sufficient – barriers need to be specifically addressed;**
- **Bilateral component of EaP needs to be strengthened, country specific road maps should be developed based on baseline analyses and benchmarking. Essential economic and energy security interests of the countries should be taken into account in this process. Increase the role of local missions in this process;**
- **Non-state actors shall be involved to assure the higher transparency and balance in the process;**
- **Better coordination of different venues and ongoing integration processes between EU and EaP countries is desirable.**

CONCLUSIONS AND RECOMMENDATIONS (CONT.)



- Involve more intensively and coordinate with stakeholders and process of Euro-Atlantic integration, international donors and financial institutions;
- Enhance capacity building activities with state and non-state actors (think-tanks). More attention to energy planning and policy development;
- Use sustainability –balancing the economic, social and environmental factors as the key criterion for monitoring the progress of reforms;

A focused Task force approach is needed in order to identify, highlight and address the barriers in EU EaP energy cooperation.

Baku resolutions of EURONEST lay the solid ground for improvements

Thank You

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Extension of the EU energy market to the neighbourhood

