EU-EASTERN EUROPEAN PARTNERS COOPERATION IN ENERGY SECURITY: ACHIEVEMENTS, BARRIERS AND PROSPECTS

AFET

EN 2012
EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES OF THE UNION

DIRECTORATE B

POLICY DEPARTMENT

WITH THE SUPPORT OF THE

COMMITTEE ON FOREIGN AFFAIRS

AND THE

EURONEST PARLIAMNTARY ASSEMBLY’S COMMITTEE ON ENERGY SECURITY

EU-EASTERN EUROPEAN PARTNERS COOPERATION IN ENERGY SECURITY: ACHIEVEMENTS, BARRIERS AND PROSPECTS

WORKSHOP

Held on Wednesday 19 September 2012

09.00 - 18.00

Room: Jozef Antall (JAN) 4Q1
This workshop was requested by the European Parliament’s Committee on Foreign Affairs and the EURONEST Parliamentary Assembly’s Committee on Energy Security.

**AUTHOR:**

Dr. Laure DELCOUR, Senior Research Fellow, IRIS, FRANCE

**ADMINISTRATOR RESPONSIBLE:**

Julien CRAMPES
Directorate-General for External Policies of the Union
Policy Department
WIB 06 M 075
rue Wiertz 60
B-1047 Brussels

Editorial Assistant: Elina STERGATOU

**LINGUISTIC VERSIONS**

Original: EN

**ABOUT THE EDITOR**

Editorial closing date: 26 October 2012.
© European Union, 2012

*Printed in Belgium.*

DOI: 10.2861/7559

The Information Note is available on the Internet at

If you are unable to download the information you require, please request a paper copy by e-mail: poldep-expo@europarl.europa.eu

**DISCLAIMER**

Any opinions expressed in this document are the sole responsibility of the author and do not necessarily represent the official position of the European Parliament.

Reproduction and translation, except for commercial purposes, are authorised, provided the source is acknowledged and provided the publisher is given prior notice and supplied with a copy of the publication.
# EU-Eastern European Partners Cooperation in Energy Security: Achievements, Barriers and Prospects

## TABLE OF CONTENTS

### EXECUTIVE SUMMARY

4

### 1. PROGRAMME

5

### 2. SUMMARY REPORT

8

#### 2.1 OPENING REMARKS

8

#### 2.2 INTRODUCTORY REMARKS

8

#### 2.3 CURRENT LANDSCAPE OF THE EU-EASTERN PARTNERS’ COOPERATION IN THE ENERGY FIELD AND POTENTIAL FOR DEVELOPMENT

9

##### 2.3.1 Discussion

11

#### 2.4 DEVELOPING AN INTEGRATED AND INTERCONNECTED ENERGY MARKET

12

##### 2.4.1 Discussion

13

#### 2.5 SUPPORTING INFRASTRUCTURE DEVELOPMENT AND DIVERSIFYING ROUTES FOR ENERGY SUPPLIES

13

##### 2.5.1 Discussion

14

#### 2.6 IMPROVING ENERGY EFFICIENCY AND DEVELOPING NEW SOURCES OF ENERGY, INCLUDING RENEWABLE ENERGIES AND SHALE GAS

15

#### 2.7 THE ‘WAY FORWARD’: PROSPECTS OF THE ENERGY COOPERATION UNDER THE EASTERN PARTNERSHIP

15

#### 2.8 CONCLUDING REMARKS

17

### 3. BIBLIOGRAPHY

18

### 4. ANNEXES

19

#### 4.1 INOGATE

19

#### 4.2 EU-EASTERN PARTNERS ENERGY COOPERATION

20

#### 4.3 ENERGY COMMUNITY TREATY

22

#### 4.4 INTERCONNECTION OF EASTERN PARTNERS AND EU ELECTRICITY SYSTEMS

23

#### 4.5 EU INFRASTRUCTURE PRIORITIES

25

#### 4.6 STAGES IN BEMIP IMPLEMENTATION

26

#### 4.7 INTEGRATION OF ELECTRICITY MARKETS : PROSPECTS OF ENTSO-E

27

#### 4.8 INFRASTRUCTURE DEVELOPMENT AND DIVERSIFICATION OF ROUTES AND SUPPLIERS

29

#### 4.9 ENERGY EFFICIENCY

33

#### 4.10 TRENDS IN PRICES AND CONSUMPTION

34
EXECUTIVE SUMMARY

The workshop ‘EU-Eastern European Partners cooperation in energy security: achievements, barriers and prospects’, organised under the patronage of the EURONEST Assembly’s Committee on Energy Security and the AFET Committee, took place on 19 September 2012 in the European Parliament. The workshop aimed at facilitating exchanges of views on policies and initiatives for energy cooperation within the Eastern Partnership. Four sets of issues were discussed: the current landscape of the EU-Eastern partners’ energy cooperation and the potential for development; the integration and interconnection of energy markets; the development of infrastructures and the diversification of routes; and the prospects of energy cooperation under the Eastern Partnership.

Energy is an area of strategic importance in the context of the Eastern Partnership (EaP). Energy cooperation between the EU and its Eastern partners has inter alia developed under Platform 3 of the EaP’s multilateral track. Although energy situations, needs and policies are diverse, including amongst the six Eastern partners, there is substantial complementarity between the EU and its partners and therefore scope for enhanced cooperation. In particular, energy security is a key challenge both to the Union and partner countries. As underlined in the discussion, the response to this challenge is multifaceted. Participants stressed that the EU and Eastern partners share the objective of ensuring a sustainable, secure and affordable energy.

Building up a pan-European, well-regulated and transparent energy market is critical in light of this objective. The EU has engaged in developing a well-functioning internal energy market. At the same time, energy challenges call for both increased cooperation with, and a coherent approach vis-à-vis Eastern partners. As emphasised by participants, domestic and external energy policies are therefore tightly interconnected. The Energy Community Treaty is the core reference to integrate neighbouring countries in the European energy market. The need for a common legal basis to develop further energy cooperation was thoroughly acknowledged. In this respect, expanding the regulatory scope of the Energy Community and ensuring an effective enforcement of its rules were identified as priorities.

A major issue that was discussed in light of the energy security objective is that of infrastructures. Two interwoven needs were identified: the need for new infrastructures to diversify energy routes and suppliers; and the need to strengthen the regional approach to building infrastructure. In this respect, the 2011 Commission proposal co-financing the investment of large trans-European infrastructure projects was widely welcomed. At the same time, concretising large-scale projects (e.g. Nabucco) proves to be difficult. Participants called for developing a common EU external energy policy and resisting third countries’ attempts to divide and rule.

Strengthening energy security also entails saving energy and maintaining the diversity of energy sources. The necessity to improve energy efficiency was identified as a key priority in the context of EU-Eastern partners’ cooperation and success stories (e.g. the Covenant of Mayors) as well as best practices were presented in this respect. Energy autonomy can also be enhanced by increasing the use of renewable energy sources (RES); some Eastern partners (e.g. Ukraine, Moldova, Georgia) have engaged in developing RES (e.g. wind, hydro-power, biomass). Finally, the development of non-conventional energy sources (e.g. shale gas, methane gas), which can also contribute to enhancing energy security, hinges crucially on research. Participants broadly agreed on the need to engage in technological innovation in order to make use of all available resources.
## PROGRAMME

<table>
<thead>
<tr>
<th>Time</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>9:00-9:30</td>
<td>Registration</td>
</tr>
<tr>
<td>9:30-9:35</td>
<td>Opening Remarks</td>
</tr>
<tr>
<td></td>
<td>Mr Kristian VIGENIN, MEP, Co-President of the EURONEST Parliamentary Assembly</td>
</tr>
<tr>
<td>9:35-9:50</td>
<td>Introductory Remarks</td>
</tr>
<tr>
<td></td>
<td>Mr Miloslav RANSDORF, MEP and Mr Fuad MURADOV, Member of the Parliament of the Republic of Azerbaijan, Co-Chairs of the EURONEST Committee on Energy Security</td>
</tr>
<tr>
<td>9:50-11:20</td>
<td>Current landscape of the EU-Eastern European Partners' cooperation in the energy field and potential for future development</td>
</tr>
<tr>
<td></td>
<td>Co-Chairs: Mr Miloslav RANSDORF, MEP and Mr Fuad MURADOV, Member of the Parliament of the Republic of Azerbaijan, Co-Chairs of the EURONEST Committee on Energy Security</td>
</tr>
<tr>
<td>9:50</td>
<td>The energy cooperation through the European Neighbourhood Policy and the Eastern Partnership Platform on Energy Security</td>
</tr>
<tr>
<td>Speaker:</td>
<td>Mr Fabrizio BARBASO, Deputy Director General, European Commission, Directorate-General for Energy</td>
</tr>
<tr>
<td>10:05</td>
<td>The INOGATE programme: achievements and current development</td>
</tr>
<tr>
<td>Speaker:</td>
<td>Mr Kevin McCANN, Team Leader, INOGATE Secretariat</td>
</tr>
<tr>
<td>10:20</td>
<td>Energy situation and drivers of energy external policies in the EU and Eastern European Partners - Common interests, opportunities and barriers for further cooperation</td>
</tr>
<tr>
<td>Speaker:</td>
<td>Mr Murman MARGVELASHVILI, Director, World Experience for Georgia</td>
</tr>
<tr>
<td>10:35</td>
<td>Questions &amp; answers session</td>
</tr>
<tr>
<td>11:20-11:30</td>
<td>Break</td>
</tr>
<tr>
<td>11:30-12:45</td>
<td>Developing an integrated and interconnected energy market</td>
</tr>
<tr>
<td>Co-Chairs:</td>
<td>Mr Gerben-Jan GERBRANDY, MEP, Rapporteur of the EURONEST Committee on Energy Security and Mr Volodymyr LEMZA, Member of the Parliament of the Republic of Ukraine, Member of the EURONEST Committee on Energy Security</td>
</tr>
<tr>
<td>11:30</td>
<td>Establishing a common regulatory framework for energy markets: Achievements and prospects of the Energy Community</td>
</tr>
<tr>
<td>Speaker:</td>
<td>Mr Slavtcho NEYKOV, Director, Energy Community Secretariat</td>
</tr>
<tr>
<td>11:40</td>
<td>The interconnection of electricity markets in the EU-Ukraine framework through the prism of the Energy Community Treaty</td>
</tr>
<tr>
<td>Speaker:</td>
<td>Mr Mykhalo GONCHAR, President, Centre for Global Studies</td>
</tr>
<tr>
<td>11:50</td>
<td>Improving the integration of electricity networks: Prospects of the European Network of Transmission System Operators for Electricity (ENTSO-E)</td>
</tr>
</tbody>
</table>
**Policy Department DG External Policies**

**Speaker:** Mr Konstantin STASCHUS, Secretary General, ENTSO-E

12:00  **Experience of and lessons from the regional integration of the Baltic States**

**Speaker:** Mr Oliver Pearce, Senior Consultant, Pöyry Management Consulting

12:10-12:45  **Questions & answers session**

12:45 - 14:00  **Lunch**

14:00-15:10  **Supporting infrastructure development and diversifying routes for energy supplies**

**Co-Chairs:** Mr Krišjānis KARIŅŠ, MEP and Mr Alexander ARZOUMANIAN, Member of the National Assembly of the Republic of Armenia, Vice Co-Chairs of the EURONEST Committee on Energy Security

14:00  **How to develop common-interest and trans-European infrastructure projects and to attract investment**

**Speaker:** Ms Beate RAABE, Secretary General, Eurogas

14:20  **How to diversify oil and gas supplies** to EU Member States and Eastern European Partners

**Speaker:** Mr Mykhailo GONCHAR, President, Centre for Global Studies

14:40-15:10  **Questions & answers session**

15:10-16:20  **Improving energy efficiency and developing new sources of energy, including renewable energies**

**Co-Chairs:** Ms Michèle RIVASI, MEP and Mr Gia TOLTADZE, Member of the Parliament of the Republic of Georgia, Vice Co-Chairs of the EURONEST Committee on Energy Security

15:10  **The success stories of the Covenant of Mayors**

**Speaker:** Ms Kristina DELY, Head, Covenant of Mayors Office (tbc)

15:20  **How to enhance cooperation for improving energy efficiency and increasing the use of renewable resources**

**Speaker:** Mr Vladimir PEREGUDOV, First Deputy Head, Dnipropetrovsk Regional Council

**Expert:** Mr Ruslan SURUGIU, President, Centre for Energy Efficiency and Renewables, Moldova

15:40-16:20  **Questions & answers session**

16:20-16:30  **Break**

16:30-17:45  **'The way forward': Prospects of the energy cooperation under the Eastern Partnership**

**Co-Chairs:** Mr Miloslav RANSFORD, MEP and Mr Fuad MURADOV, Member of the Parliament of the Republic of Republic of Azerbaijan

16:30-17:30  **Round-table** with the participation of representatives from the energy sector
What are the future common challenges and related objectives?
On which model should a long-term bi-regional integration be based?
How can EU and Eastern European Partners elaborate common policies to enhance energy security and sustainable development?

Speakers:

**Mr Valeh ALASGAROV**, Deputy Speaker of the Parliament of the Republic of Azerbaijan

**Ms Edit HERCZOG**, MEP, Rapporteur, EP-Committee on Industry, Research and Energy

**Ms Paula PINHO**, Member of Cabinet of European Commissioner for Energy

**Mr Dietmar PREINSTORFER**, Head of International Relations, E-Control, Council of European Energy Regulators

**Mr Jacek SARYUSZ-WOLSKI**, MEP, Rapporteur, EP-Committee on Foreign Affairs

17:30-17:45  Summary of the conclusions of the debate

17:45  Concluding remarks

**Mr Elmar BROK**, Chairman of the AFET Committee of the European Parliament

18:00  Reception
2. SUMMARY REPORT

2.1 Opening remarks

Kristian VIGENIN, Member of the European Parliament and Co-President of the EURONEST Parliamentary Assembly, opened the seminar by emphasising the importance of energy for EURONEST. Amongst the four thematic areas in which the Parliamentary Assembly supports the Eastern Partnership, energy is a field of strategic importance. Kristian VIGENIN referred to the resolution adopted at EURONEST second ordinary session in Baku which sets out political avenues for strengthening the energy security of both the EU and Eastern European Partners.

He stressed that this resolution serves as a good basis for further cooperation between the EU and its Eastern neighbours, which share the objective of ensuring a sustainable, secure and affordable energy. As mentioned by Kristian VIGENIN, the EU has engaged in building up a single, integrated and interconnected energy market and it has set itself ambitious energy policy objectives. At the same time, energy challenges call for further cooperation, especially with those partners covered by the European Neighbourhood Policy. Kristian VIGENIN concluded by underlining that the seminar provides an opportunity to make progress in better understanding how to address common challenges.

2.2 Introductory remarks

Miloslav RANSÖRF, Member of the European Parliament and Co-Chair of the EURONEST Committee on Energy Security, introduced the debate by calling for a regular dialogue on energy issues. Such a dialogue is critical to avoid any energy shock like affecting EU Member States, such as the one experimented in 2009.

Miloslav RANSÖRF pointed to the increasing energy dependence faced by several EU Member States. Lithuania has been importing 70% of electricity since the Ignalina nuclear plant was closed; prior to the plant closure the country was an exporter. Slovakia is facing a similar situation.

In this context, it is crucial to improve interconnection, energy infrastructures and storage capacities. The overarching objective for the EU and its partners is to build up a stable and predictable energy market.
Fuad MURADOV, Member of the Parliament of the Republic of Azerbaijan and Co-Chair of the EURONEST Committee on Energy Security, identified energy diversification and new infrastructures as priority issues for the Committee on Energy Security. In particular, infrastructure is key to enhancing EU-Eastern partners’ cooperation. The existing infrastructures are not sufficient to increase oil and gas supplies; new infrastructures are therefore needed. Mr. Muradov indicated that a series of meetings are currently held to discuss harmonisation of energy legal frameworks. He also called for an annual seminar at expert level to discuss concrete issues.

2.3 Current landscape of the EU-Eastern Partners’ cooperation in the energy field and potential for development

Fabrizio BARBASO, Deputy Director General, European Commission, Directorate-General for Energy, described the state of play in energy cooperation under the Eastern Partnership. The European Union is increasingly promoting a regional strategy when it comes to energy. The Communication prepared by the European Commission in 2011 set up the policy agenda for EU-Eastern partners’ cooperation. The overarching objective is to build a pan-European, well-regulated and transparent energy market with a view to tackling the energy challenges faced by both the EU and its Eastern partners. A well-functioning Internal energy market is critical in light of this objective. At the same time, a coherent approach vis-à-vis energy trading partners is needed to complete the Internal Market by 2014. Therefore, domestic and external energy policies must go hand in hand.

The Energy Community Treaty is the reference point for the majority of the EU’s neighbours willing to be a part of the European energy system. Following Ukraine’s and Moldova’s accession, the Energy Community has the potential to link the EU market with nine neighbouring countries; Armenia and Georgia (as well as Norway and Turkey) are currently observers. The regulatory scope of the Community should be extended and combined with more effective enforcement. According to Fabrizio BARBASO, accession to the Energy Community should be considered for those countries that negotiate a free-trade agreement with the European Union and that demonstrate a willingness to implement the

---

2 Members of the Energy Community include Albania, Bosnia and Herzegovina, Croatia, FYROM, Kosovo, Moldova, Montenegro, Serbia, and Ukraine.
3 According to the Procedural Act 2006/05/MC-EnC, the Observers to the Energy Community have the following rights and obligations:
   1. The Observers to the Energy Community have the rights to be represented at the institutional meetings.
   2. The Observers are entitled to receive any information distributed before, during and after the relevant meetings.
   3. The Observers follow any requirements for confidentiality, which are valid to the Parties.
   4. The Observers may make statements upon request and consequent permission by the Chair.
Source: http://www.energy-community.org/portal/page/portal/ENC_HOME/ENERGY_COMMUNITY/Stakeholders/Observers
commitments stemming from accession. For other partner countries, selected cooperation on the basis of mutual interest is envisaged as a first step. It is developed in the Eastern Partnership context.

Fabrizio BARBASO recalled the major objectives of energy cooperation under the Eastern Partnership multilateral track: approximation of regulatory frameworks, development of infrastructures and interconnections (aiming at diversifying energy supplies), promotion of energy efficiency and increased used of renewables, cooperation in establishing and strengthening the regulatory framework in nuclear safety. To progress toward these objectives, a number of activities have recently been organised under the Eastern Partnership third thematic platform. For instance, several infrastructure projects of regional interest were discussed under the 7th meeting of the platform in June 2012. Additional activities are foreseen under the Roadmap to the Vilnius Eastern Partnership summit, where energy will figure prominently.

Fabrizio BARBASO concluded his presentation by stressing that energy cooperation between the EU and its partners is shaped by challenges. He identified energy efficiency as the most urgent issue to be addressed. While the energy situation of the six Eastern Partnership partner countries differs greatly, energy security is a key issue for most of them and stop wasting energy is the first answer to this challenge.

Kevin McCANN, Team Leader, INOGATE Secretariat, presented the activities and current developments of the INOGATE programme. Since its inception in 1996, INOGATE has been focusing on four key areas: energy market integration, security of supplies, sustainable energy and investment facilitation. The Roadmap adopted in Astana in 2006 defines energy market convergence, safety and security, sustainable energy and investment attraction as major objectives. INOGATE assesses partner countries’ needs and their progress toward the Astana Roadmap. INOGATE also serves the Eastern Partnership and cooperates with the Energy Community Treaty. The project’s focus is to create a favourable investment climate for energy infrastructure and sustainable energy.

Kevin McCANN identified low tariffs as a major issue in many partner countries and a barrier to increasing energy efficiency and developing the use of renewables. Investment is hindered by varying degrees of political commitment, the lack of a proper legislation and the lack of capacities when it comes to interconnection.

Kevin McCANN then reviewed Eastern partners’ needs and interests. Armenia shows a great interest in energy statistics and capacity-building, as well as in the system of standardisation in harmonisation with EU and cross-border trade. Azerbaijan is interested in developing renewables (e.g. wind energy), and in EU assistance and best practices in this respect. The country starts developing biogas and aims at creating a more favourable climate and regulatory aspects for RES. Start. Georgia’s strategy entails maximising the use of renewable sources, diversifying imports and developing interconnection with Turkey (which has implications for accession to the Energy Community). Belarus intends to turn into a green economy by decree but such a shift is hampered by very low tariffs. Moldova is particularly interested in energy statistics and unbundling. It is the first country connecting unbundling and the need to have a very good corporate governance. Finally, Ukraine is a very important partner for the EU. The country is developing its biomass potential and is conducting awareness-raising campaigns to disseminate EU practices in energy savings. Mr. McCann concluded by stressing that partner countries are heading toward the same direction but at different speeds.

Murman MARGVELASHVILI, Director, World Experience for Georgia, pointed out the wide range of common interests between the EU and Eastern partners in the sphere of energy. He identified energy security as the most important of these. He also emphasised the critical role of Caspian hydrocarbon resources for the EU’s and Eastern partners’ energy security. The Southern Corridor is therefore a key
infrastructure priority, especially with a view to reducing dependence on politically-sensitive supplies from countries (such as Russia) that do not follow market-based strategies. For Eastern partners, energy cooperation with the EU also offers an opportunity for modernisation. At the same time, cooperation is progressing slowly and it is hindered by a number of barriers, e.g. different interests among partner countries, vested interests, weak institutional capacities. Referring to the case of Georgia, Murman MARGVELASHVILI indicated the need for technological progress and for improving the quality of legislation in order to support investment. He recommended the creation of an ad-hoc task force to identify the barriers to cooperation and to develop country-specific road maps. These should include benchmarks and take into account partner countries’ interests. He also advocated for a greater involvement of civil society to ensure transparency in the policy planning and implementation processes.

2.3.1 Discussion

Following the presentations, the floor was opened for questions and comments from Members of the European Parliament and the audience. Mr. KIRILOV, Member of the European Parliament, stated that Nabucco was a failure and asked what the real chances of extending the Southern Corridor to North West are. Mr. BARBASO answered by emphasising that diversification of gas supply is a priority for the EU because Gazprom has a monopoly of exporting Russian gas. He recalled that the European Commission recently launched an investigation for abuse of dominant position against Gazprom that prevents importing countries to re-export to other destinations. In this context, the opening of the Southern Corridor is crucial. Nabucco is evolving, but the gas supply remains the same: the gas produced in Shah Deniz is exported to Europe via Turkey. The inter-governmental agreement between Turkey and Azerbaijan to build Transanatolia pipeline has to be ratified. This would allow gas to flow through the Southern Corridor. The EC also started negotiations for a Transcaspian pipeline. The first gas could flow to the EU in 2017-2018. Mr. BARBASO underlined he was rather optimistic regarding the Southern Corridor. The objective is to find alternative suppliers, but this also entails building infrastructure allowing to irrigate partner countries.

Mr. MURADOV indicated he was not optimistic for technical reasons and because no concrete steps have been taken. He added that the later these steps will be taken, the more it will cost. Mr. BARBASO answered that he is optimistic because there is an objective need for this gas, therefore economics will dictate the outcome. Mr. KIRILOV said the Southern Corridor is primarily a matter of geopolitics for the EU, and therefore the Union has to put all its weight behind it. Mr. ALASGAROV argued that the main problem comes from the fact that the project not dictated by economics but by politicians. He noted that there are different positions among EU Member States. The EU needs a common and strong policy supporting the development of this corridor. Mr. ALASGAROV recalled that China was successful in Turkmenistan: the country succeeded in making operational a pipeline of 5000 km in 6 years). Shah Deniz can produce 30 bcm if needed and a pipeline can be built in 6 months. Mr. ALASGAROV stressed that the EU should make an attractive proposal to Turkmenistan. Mr. RANSFORD indicated that EU representatives were told in Azerbaijan that only one third of the volume is available for the project. The gas supply issue can be solved by importing gas from Turkmenistan.

Ms. Stela VELICHI asked whether an international gas market that would be responsible for setting prices could be a solution. Mr. BARBASO replied that a similar experience with oil had not been positive. Besides, Russia is opposed to the creation of a gas market. An alternative solution would be to gather consumers and negotiate together with Russia. Gazprom’s attempts to divide and rule indeed call for a common energy policy. Ms. VELICHI also emphasised the need to combine national and European energy projects. Mr. BARBASO answered that developing national resources is one of the pillars of EU energy policy. The EU promotes the use of environment-friendly resources that also create jobs. The
main problem relates to gas imports. At the same time, EU Member States do not have the same position regarding shale gas which opens new perspectives but also raises environmental issues. Ms. VELICHI finally enquired about energy statistics. Mr. McCANN replied that there is a demand among Eastern partners for improving the quantity and quality of energy data, which are not currently as used as they should be. INOGATE supports these countries in improving methodology to collect data.

2.4 Developing an integrated and interconnected energy market

**Slavtcho NEYKOV**, *Director, Energy Community Secretariat*, emphasised the importance of realism when discussing energy issues. For instance, Albania made one of the best gas laws but the country has no gas. EU Member States’ competence on energy is another important fact. Realism is key to determining the level of cooperation to be reached. The Energy Community establishes a common regularity framework for energy market, based upon 20 legal acts. While member countries are not required to implement the whole *acquis*, they are committed to enforcing rules pertaining to electricity, renewable energy (included in the Energy Community Treaty); security of supply (2007); energy efficiency (2009); and the third energy internal market package (2011). Additional rules on statistics and renewable energy sources (following the EU Directive are under consideration and their adoption is planned in October 2012.

Slavtcho NEYKOV also stressed the links between energy and the social dimension of the reform process. This social dimension has been neglected, but it is being developed. All social partners should be involved and have a clear say. Finally, Slavtcho NEYKOV stressed the need for harmonisation beyond the law. In this respect, a regional energy strategy will be adopted this year.

**Mykhailo GONCHAR**, *President, Centre for Global Studies*, analysed the interconnection of electricity markets between the EU and Ukraine. Amongst the Eastern Partnership countries, Ukraine has the most powerful electricity generation and transmission sector, which includes thermal, nuclear, hydro generation, and more recently wind and solar generation. The Ukrainian power potential exceeds the total power output of the other Eastern partners. Historically, the Unified Electricity System (UES) of Ukraine is connected to the EU power system through the cross-border transmission lines with neighbouring EU member states, but it is not integrated with European Networks for Transmission System Operators of Electricity (ENTSO-E). Ukraine needs a transition toward general synchronisation. This requires reforming its electricity sector in line with EU rules. Membership in the Energy Community is the basis for Ukraine's integration into ENTSO-E and electricity market.

According to Mykhailo GONCHAR, integrating Ukraine in the EU market requires a transparent system of access to networks and possibility for qualified foreign sellers to operate on the Ukrainian market. This means creating a liberal and competitive market. It is necessary simultaneously to prepare the ground for the transition to a model of free access to networks and to create a competitive environment and implement the price reform.

To integrate Ukrainian UES into the electricity network of the European countries, Mykhailo GONCHAR underlined that a set of technological measures should be taken with the EU support in order to meet the following requirements: regulation of frequency and power agreed with ENTSO-E in the Ukrainian electricity system; requirements of the European Commission Directives on the environmental performance of the thermal power units with capacity of over 50 MW in line with Ukraine’s commitments as a member of the Energy Community. In addition, European standards of Regulatory Policy need to be applied in Ukraine by involving the National Energy Regulation Commission (NERC) in the Agency for the Cooperation of Energy Regulators (ACER) activities.
Finally, Mykhailo GONCHAR recommended that the Project ‘Research of simultaneous association of Ukrainian and Moldovan grids with continental European Networks ENTSO-E’, become a pilot project for the integration of both Eastern Partnership and Energy Community member countries (Ukraine and Moldova) to the European electricity network.

Oliver PEARCE, Senior Consultant, Pöyry Management Consulting, presented the experience of, and lessons from, the regional integration of the Baltic States. Regional integration and connection of energy islands was identified as a priority in the EU’s second energy strategic review (2008). The BEMIP programme aims at integrating the Baltic States with the Nordic States by defining trading rules and establishing connections one common market and one price exchange. Whereas progress has been made, a full functioning market is not yet in place; for instance, Latvia still has no price area and no direct connection to Nordic countries.

Obstacles include domestic political condition and vested interests, cheap supplies from third countries, cross-border issues with third countries (e.g. Belarus and Russia). Oliver PEARCE concluded his presentation by stressing the need for a consistent treatment of imports from third countries.

Konstantin STASCHUS, Secretary General, ENTSO-E, emphasised the importance of integrating electricity networks to achieve the Eastern Partnership’s energy objectives. The current context is characterised by quick changes in the system, more pan-European markets, more distributed generation, and more fluctuating renewable energy sources. In this context, energy can be affordable and secure only if the largest area can be used. Cost will then be lower. For instance, 5% of generating costs could be saved by interconnection. Konstantin STASCHUS then presented the activities of ENTSO-E. These are set out in Regulation 714/2009 and include the delivery of network codes which are binding to all users and of network plans developing a regional view of system needs. The first Network Code on Requirements for Generators was delivered for ACER Opinion in July 2012. Konstantin STASCHUS also underlined the need to have an adequate framework for integrating electricity networks. The framework currently developed covers market, system operations and connection issues.

2.4.1 Discussion

Mr. ALASGAROV noted that business investors are concerned about Ukraine being able to achieve its objectives on solar energy and asked whether the country could find investors for wind and solar energy. He also asked whether it is ethical to open new nuclear plants or to buy electricity from nuclear countries. According to Mr. GONCHAR, the main risk pertains to the use of old, Soviet-time technologies. This is the reason for Lithuania’s concerns regarding the construction of a new plant in Belarus that will draw upon old technologies. Finding a balance between various energy sources is the key challenge. There are various interests involved and gas producers do not wish that Ukraine finds or uses alternative energy sources. Mr. NEYKOV indicated that the use of renewable energy sources causes an increase in electricity prices, e.g. 30% in Bulgaria. Renewable energy sources should be discussed simultaneously at two levels: regional (with the view to having common rules facilitating the market) and principally at a national level. Mr. LEMZA recalled that the agreement negotiated by Yulia TIMOSHENKO with Russia in 2009 helped to save Ukraine, the EU and Russia. Therefore the EU was also accountable when Timoshenko was sentenced but Mr. LEMZA regretted the weakness of EU reactions.

2.5 Supporting infrastructure development and diversifying routes for energy supplies

Beate RAABE, Secretary General, Eurogas, examined how best to develop common-interest and trans-European infrastructure projects and to attract investment. She started her presentation by taking stock of the achievements so far. In recent years, policy makers have acknowledged that the regional approach to building infrastructure needed to be strengthened. The adoption of the Third Package in
2009 was clearly a step in the right direction and lessons learnt have been reflected in the Infrastructure Package, which enhances the regional dimension. Nonetheless, Beate RAABE noted that the national and bilateral focus still seems to prevail; in addition, the old TEN-E included too many projects.

As indicated by Beate RAABE, EUROGAS welcomes the European Commission’s latest proposal put forward in October 2011, and due to be adopted soon, which aims to develop a trans-European energy infrastructure further. This is the first time that the Commission has put forward a single funding instrument in which it will co-finance the investment of large trans-European infrastructure projects. According to Beate RAABE, efficiency of investments and viability of projects should be key factors in determining the EU’s support. Moreover, the EU should ensure that infrastructure goes hand in hand with other actions and brings economic and social benefits. Finally, EU funding should also act as a lever to attract more private investment. Beate RAABE concluded her presentation by stressing that competition should not be distorted by EU funding.

Mykhailo GONCHAR, President, Centre for Global Studies, discussed how to diversify oil and gas supplies to EU Member States and Eastern European Partners. He stressed that there is no common vision of energy security under the Eastern Partnership multilateral track. In a context characterised also by Russia’s attempts to undermine the EU’s energy policy in the post-Soviet area, the EU needs to define a clear position on a number of issues. It should concentrate on developing those projects of potential mutual interest with Eastern partners in the oil and gas sector: Azerbaijani LNG in the Black Sea, White Stream pipeline, transportation of Azeri oil to Central Europe. Mykhailo GONCHAR called the European Commission to adopt a clear position concerning the priority of White Stream and AGRI projects. He also stressed that the EU should envisage joint action with Eastern partners as a response to the efforts deployed by third parties to block EU projects within the Southern gas corridor (e.g. Trans-Caspian pipeline, which Russia opposes strongly). According to Mykhailo GONCHAR, the EU should support the introduction of an Energy Transparency Regime for gas deliveries from Russia to the EU under the bilateral EU - Ukraine relations, with a subsequent possible involvement of the Russian side in accordance with the Commission Communication ‘The EU Energy Policy: Engaging with Partners beyond Our Borders’. Finally, Mykhailo GONCHAR proposed to include in the draft of the next FP8 Framework Programme a separate financial allocation for research on methane hydrate based on the model of nuclear research under FP7.

2.5.1 Discussion

Mr. RANSDORF noted that there is a huge concentration of methane gas in the Arctic region, which would be sufficient to replace natural gas for several hundred years. Mr. GONCHAR confirmed that methane gas will be a third revolution after shale gas and shale oil. However, there is currently no technology to extract it without a risk. Mr. GONCHAR deplored the weakness of EU involvement in research on these issues. Ms. HERCZOG agreed on the need to incorporate these issues into the next research programme, or even better the technology plan. The EU must also maintain the diversity of energy sources. Ms. RAABE added that research should be as wide as possible. There are currently proven gas reserves for over 60 years and 250 years if unconventional sources are agreed. Ms. HERCZOG mentioned two energy races, one for resources and the other for technology. She stressed that the EU should not lag behind in the latter.

Mr.SURUGIU asked whether reversed gas supplies for the region as a whole would be feasible and how two different owners could operate together under the third energy package. Mr. GONCHAR replied that it is not so difficult technically to have a reversed gas supplies. At the same time, developing synergies between different gas players is difficult.
Ms. RAABE stressed that energy policies, interests, challenges are not static. They are in motion. She indicated that when it comes to energy, the political and business levels are different. Mr. KARIŅŠ added that the EU legislative machine is working. The EU executive on competition (i.e. the Commission) is now paying increased attention to energy. Mr. RANSDORF said that the EU legislative machine is moving, but in an irrational way.

### 2.6 Improving energy efficiency and developing new sources of energy, including renewable energies and shale gas

Michèle RIVASI, Member of the European Parliament and co-chair of the session, underlined that the key energy challenges are interwoven. Saving energy is a priority given the expected surge in energy prices. Energy security hinges crucially on autonomy, which can be enhanced by increasing the use of renewable sources.

Kristina DELY, Head, Covenant of Mayors Office, further emphasised the importance of energy efficiency and presented the achievements of the Covenant of Mayors, created in 2008 in connection to the third energy package. The Covenant of Mayors aims at fostering change toward more sustainable energy patterns by targeting local authorities, which are altogether producers of energy and regulators. The Covenant of Mayors gathers 4263 signatories from 47 countries, which are committed to a single goal: decrease by 20% their CO2 emissions. Main domains of action include buildings, urban planning, urban mobility, renewables. Kristina DELY stressed that beyond this objective, the Covenant is also a platform for exchange and a tool for multilevel governance.

Vladimir PEREGUDOV, First Deputy Head, Dnipropetrovsk Regional Council, presented his region’s efforts to enhance cooperation for improving energy efficiency and increasing the use of renewable resources. The Dnipropetrovsk region is a test case since it is a very industrial area with resources and the possibility to generate energy. The main goal is thus to decrease energy consumption without decreasing industrial production. Priority was given to the use of alternative energy sources through use of green tariffs and exemptions, the modernisation of heat-generating enterprises and the prospection of shale gas. Vladimir PEREGUDOV insisted on the importance of cooperating with other regions to achieve these objectives.

Ruslan SURUGIU, President, Centre for Energy Efficiency and Renewables, Moldova, analysed Moldova’s policy to improve energy efficiency. He stressed that the country has been dependent on energy imports (more than 95% of energy is imported) since its independence. However, energy issues have recently become more stringent due to tensions related to energy security and the increase in energy prices. These issues are reflected in the Energy Strategy until 2020, where a diversification of gas and power supply, increased energy efficiency by 20% and increase of renewable energy source to 20% are envisaged to overcome the challenges related to energy production, supply and consumption. However, Ruslan SURUGIU listed a number of obstacles which may affect the implementation of this Strategy. As far as renewable energy sources are concerned, their potential is not yet estimated (owing to poor statistical data); the impact of an increased use of renewable sources on the electricity price has not been assessed neither. In conclusion, Ruslan SURUGIU underlined that the use of renewable energy sources cannot really diminish the level of dependency on Gazprom because it cannot replace the share of gas in energy consumption.

### 2.7 The ‘way forward’: Prospects of the energy cooperation under the Eastern Partnership

Valeh ALASGAROV, Deputy Speaker of the Parliament of the Republic of Azerbaijan, focused presentation on recent trends in energy prices and consumption. He argued that the increase in prices can not only
be explained by market fundamentals but also by the role of speculative traders. For instance, in 2007 consumption increased by 1.57% as compared to 2006 while prices were raised by 72.7%. Proved reserves is another factor affecting the process. In this context, Valeh ALASGAROV explained that it is very difficult both for governments and companies to forecast market developments. He indicated that global energy demand would increase by 30% in 2040 as compared to 2010 if there is no new economic crisis.

Valeh ALASGAROV identified insufficient political will and support from EU Member States to the Southern Corridor project as a key challenge. He mentioned North Stream, which was never justified from an economic point of view, and the pipeline recently built between China and Turkmenistan as examples of successful projects driven by governmental support.

**Edit HERCZOG, Member of the European Parliament, Rapporteur, EP-Committee on Industry, Research and Energy,** identified two different challenges: the lack of resources and the lack of technologies. She stressed how important it is to avoid lacking both. The EU needs a feasible solution. At the same time, the problem starts with the question of the model for integration. Should energy contracts with third countries be concluded on a 1-to-1 basis or on a 27-to-1 basis? As stressed recently in a resolution of the European Parliament, Member States have to share information; otherwise there is no chance to move from 27 to 1. At the same time, energy is not a Community policy under the Treaty. **Edit HERCZOG** stressed that the EU should strive for a common policy which is about finding common standards and not only about connecting pipelines.

**Paula PINHO, Member of Cabinet of European Commissioner for Energy,** started her presentation by underlining that security of both supply and demand is needed. Diversification is a priority for both energy supplies and energy routes. The EU should try to ensure a certain degree of independence within dependence (to imports). Paula PINHO argued that while South Stream diversifies energy routes but not sources, the Southern Corridor combines both dimensions. She added that the time of 27 policies may be gone. At the same time, there are attempts to 'divide and rule' by third countries but according to Paula PINHO, it is up to the Member States to resist these.

Paula PINHO emphasised that the Energy Community provides a model and a reference for bi-regional integration. Russian threats to Moldova are a signal of its importance. It is also critical to have bilateral relations with Eastern partners since these have different roles.

**Dietmar PREINSTORFER, Head of International Relations, E-Control, Council of European Energy Regulators,** stressed the importance to have the same rules in place. A well-functioning market is key to energy security. He recalled that the European energy market is based upon sustainability, competitiveness and security of supply. As the biggest market in the world, it is attractive.

**Jacek SARYUSZ-WOLSKI, MEP, Rapporteur, EP-Committee on Foreign Affairs,** underlined that prospects are good for energy cooperation, but reality is not. The EU’s partners are more prepared to discuss with the Union than the Union is with them. This is because there is still no fully-fledged external dimension in the EU’s energy policy. Jacek SARYUSZ-WOLSKI further differentiated between Eastern partners’ situations, with Azerbaijan being both a supplier and a transit country and all other partners except Armenia being transit countries. According to Jacek SARYUSZ-WOLSKI, there is a potential, complementarities and opportunities for future cooperation. Part of the common future should be a common legal basis. However, a political framework and changes are needed from the EU side. Furthermore, EU solidarity with Eastern partners should be more intense. Finally, Jacek SARYUSZ-WOLSKI advocated for joint EU efforts with Moldova and Ukraine to explore shale gas.
2.8 Concluding remarks

Elmar BROK, Chairman of the AFET Committee of the European Parliament, underlined that the topic of energy security is a very much debated one in the Committee of Foreign Affairs, as a strategic priority for the Union which must be coherently lined up with overall EU foreign policy priorities, and supporting other EU priority policies such as employment, economic growth and reinforcing competitiveness in Europe.

Elmar BROK recalled that there is an urgent need to secure diversified external supply sources and transit routes. This was stressed in the recently adopted CFSP resolution following a report of the Foreign Affairs Committee. It is in particular of the utmost importance to reduce energy dependency from such third countries that do not share, or that act against, EU values. Elmar BROK referred to two recent Parliament resolutions respectively calling for better coordination between the Union and the Member States and acceleration of efforts to diversify suppliers, routes and sources of energy, and asking the Commission to issue a communication specifically on the external dimension of the energy policy. Elmar BROK stressed that the Committee on Foreign Affairs has contributed to these resolutions and is again at the moment drafting an opinion on the external dimension of the Energy Roadmap 2050.

4Resolution on Engaging in energy policy cooperation with partners beyond our borders: strategic approach to secure, sustainable and competitive energy supply(adopted 12 July 2012); Resolution based on Commission’s proposal for setting up an information exchange mechanism on intergovernmental agreements in energy between the Member States and third countries (adopted 13 September 2012).
3. BIBLIOGRAPHY


Grigas Agnia, The Politics of Energy and Memory between the Baltic States and Russia, Ashgate, forthcoming.


4. ANNEXES

4.1 INOGATE

Source: Presentation by Kevin McCANN, INOGATE Secretariat, European Parliament, 19 September 2012

INO Gate Policy Framework 1996-2012

INO Gate in numbers 1996-2011

- Over 60 projects implemented
- Over 40 million EUR in small-scale emergency equipment and supplies
- Over 7,000 persons trained
- 125 million EUR in technical assistance
- Policy changes & legislative support
- Technologies
4.2 EU-Eastern Partners Energy Cooperation

Source: presentation by Murman MARGVELASHVILI, Director, World Experience for Georgia, European Parliament, 19 September 2012
4.3 **Energy Community Treaty**

*Source: Presentation by Slavtcho NEYKOV, Director, Energy Community Secretariat*
4.4 Interconnection of Eastern Partners and EU electricity systems

Source: presentation by Mykhailo GONCHAR, President, Centre for Global Studies, European Parliament 19 September 2012
Western Electricity Export to EU countries from Burstyn Island now and Khmelnytsk NPP in the future.
4.5 EU Infrastructure priorities

Source: Presentation by Oliver Pearce, Senior Consultant, Pöyry Management Consulting, European Parliament, 19 September 2012
4.6 Stages in BEMIP implementation

Source: Presentation by Oliver Pearce, Senior Consultant, Pöyry Management Consulting, European Parliament, 19 September 2012

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreement on BEMIP</td>
<td>Fulfilment of market opening requirement</td>
<td>Market functioning fine tuning</td>
<td>Full functioning market integration with Nordic market</td>
<td></td>
</tr>
</tbody>
</table>

- Decision to start Baltic market integration
- Removal of regulated tariffs
- No cross border rest
- Subsidised RES in market
- Unbundling of TSO
- Basic transparency rules
- Congestion management
- Markets open for trade
- Common position towards Russia
- Common day ahead market
- Introduce intra day market
- Market based congestion mgt
- Transparency ERGEG
- Common reserves and balancing power
- Harmonised imbalance settlement and pricing
- Common market monitoring
- Fully functioning integration with Nordics
- Fully open retail market
- Common exchange
- CTC market
- Network tariff harmonisation
4.7 Integration of electricity markets: prospects of ENTSO-E

Source: presentation by Konstantin STASCHUS, Secretary General, ENTSO-E, European Parliament, 19 September 2012

TYNDP 2012 main results and approach

- 5% of generating costs saved by new interconnection
- Direct connection for 125 GW RES
- -170 Mt/y CO₂ emissions savings

2020 Europe - 100 bottlenecks in the transmission system

RES is triggering 65% of assets growth
4.8 Infrastructure development and diversification of routes and suppliers

Source: presentation by Mykhailo GONCHAR, President, Centre for Global Studies, European Parliament
19 September 2012
White Stream Pipeline or Azeri LNG: unclear future for projects of Azeri gas to Central Europe. Who will be first, second? Will both projects exist only on paper? Who is a real PCI?

Reversible Opportunities for Gas Supply to Ukraine from EU. (UkrTransGas Vision)
EU-Eastern European Partners Cooperation in Energy Security: Achievements, Barriers and Prospects

Scheme of the Energy Transparency Regime for Gas (ETR-G) based on physical data on-line interchange as a Early Warning Mechanism

Transmitters EaP countries (UA, BY, MD)

Producer (RU)

Consumer (EU)

Technical opportunities of oil deliveries for Ukraine and CEE countries via Odesa – Brody – S. Druzhba

AFRAMAX <100 000 t.
Location of World Deposits of Methane Hydrated (MH) Accumulations
(220 fields, global MH reserves: ~250 trillion cubic m)

Global natural gas reserves: 187 trillion cubic m
(JIP Statistical Review 2011)
4.9 Energy efficiency

Source: Presentation by Ruslan SURUGIU, President, Centre for Energy Efficiency and Renewables, Moldova

![Energy Efficiency Chart]

The energy intensity in Moldova is three times higher than the average European level.

Source: National Rio+20 Report
4.10 **Trends in prices and consumption**


### Spot crude oil prices, $/bbl

<table>
<thead>
<tr>
<th>Years</th>
<th>Average annual prices</th>
<th>% change on year earlier</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Brent</td>
<td>WTI</td>
</tr>
<tr>
<td>2003</td>
<td>28.83</td>
<td>31.07</td>
</tr>
<tr>
<td>2004</td>
<td>38.27</td>
<td>41.49</td>
</tr>
<tr>
<td>2005</td>
<td>54.52</td>
<td>56.59</td>
</tr>
<tr>
<td>2006</td>
<td>65.14</td>
<td>65.02</td>
</tr>
<tr>
<td>2007</td>
<td>72.39</td>
<td>72.20</td>
</tr>
<tr>
<td>2008</td>
<td>97.36</td>
<td>100.06</td>
</tr>
<tr>
<td>2009</td>
<td>61.57</td>
<td>61.92</td>
</tr>
</tbody>
</table>

### Consumption *

<table>
<thead>
<tr>
<th>Years</th>
<th>Consumption</th>
<th>%change on a year earlier</th>
<th>Spot Brent prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Min. tonnes</td>
<td>%change on a year earlier</td>
<td>%change on a year earlier</td>
</tr>
<tr>
<td>2004</td>
<td>3858.7</td>
<td>+4.08</td>
<td>+52.74</td>
</tr>
<tr>
<td>2005</td>
<td>3908.7</td>
<td>+1.12</td>
<td>+42.5</td>
</tr>
<tr>
<td>2006</td>
<td>3945.3</td>
<td>+0.94</td>
<td>+19.5</td>
</tr>
<tr>
<td>2007</td>
<td>4007.3</td>
<td>+1.57</td>
<td>+11.12</td>
</tr>
<tr>
<td>2008</td>
<td>3996.5</td>
<td>-0.27</td>
<td>+34.35</td>
</tr>
<tr>
<td>2009</td>
<td>3908.7</td>
<td>-0.22</td>
<td>-39.6</td>
</tr>
</tbody>
</table>

*Including commercially traded biofuels.*
POLICY DEPARTMENT

Role
Policy departments are research units that provide specialised advice to committees, inter-parliamentary delegations and other parliamentary bodies.

Policy Areas
Foreign Affairs
  Human Rights
  Security and Defence
Development
International Trade

Documents