ENERGY UNION: THE EUROPEAN UNION AND THE SOUTHEAST ENERGY COMMUNITY FACING NEW GLOBAL AND REGIONAL CHALLENGES

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Abstract

Issues relating to energy are among the most important and difficult challenges confronting the world today. Providing sufficient energy to meet the requirements of a growing world population with rising living standards will require major advances in energy supply and efficiency. Given the dynamic and unpredictable form of supply and demand for energy in a global and globalized context, creating long-term policies as well as regional interior is vital to ensure energy security. Europe is emerging from a deep financial and economic crisis and it is widely agreed that stronger European industrial competitiveness is vital as a driver for economic growth and job creation. In this context, the European Union, - as a main global actor- throughout the reform of the energy sector, wants to be on the cutting edge in the use of new technologies and the creation of a single energy market, not only inside the twenty eight member countries. Balkan countries have an important role in this process, which takes place inside the Energy Community. In these conditions, this article aims to analyse the recent transformation on European Union energy policy and provide an analysis of the commitments undertaken by Albania as a member of the Energy Community.

Key words: *energy, global context, long-term policies, European Union energy, Energy Community, Albania energy sector*

1. INTRODUCTION

The European Union is in a critical stage of its energy policy. As the implementation phase of the 20-20-20 targets has already reached its interim point, the 28 member states are now discussing the targets for 2030. However, with an unfinished internal market for gas and electricity and with member states continuing to pursue bilateral energy relationships with supplier countries, the EU is still at the beginning of a common EU energy policy (CEPS, 2014). The EU is finally accepting that energy is too important to be ignored. Recent years have given us sufficient evidence that energy matters for the economy, for the environment, for social cohesion and solidarity and for local development and municipalities. Citizens care deeply about these areas, and the EU must be seen as addressing them. Energy Union should also be seen – at least from the perspective of the European Commission – as an attempt to infuse a new dynamic into the stuttering energy market and a more complicated climate change debate (S.Kurpas, Ch.Meyer, K. Gialoglou, 2014).

2. EUROPEAN UNION ENERGY POLICY: TOWARD THE IMPLEMENTATION OF NEW POLICIES

Energy union has been under discussion for more than a decade, with successive national governments and European commissioners debating how such a system could be made to work in practice. In his mission letter to Arias Cañete, Jean-Claude Juncker asked the designated Commissioner for Climate Action and Energy to focus on further developing EU policy for renewables in order to "be a world leader in this sector" and on promoting the EU Emissions Trading System "to ensure that we reach our climate goals in a cost-effective way". Furthermore, he would like Alenka Bratušek, the designated Vice-President for Energy Union, to focus on "completing the internal energy market" and on "increasing competition"(F. Genovese, Ch, Egenhofer, 2014).

While the European Union continues its efforts towards meeting the 2020 targets and completing the internal energy market, maintaining the balance among the three goals of the EU energy policy – competitiveness, energy security and environmental sustainability in the longer term – in the new global context is more important than ever before (IEA, 2014). Europe's security of supply is closely related to the gas market, which is related to physical infrastructure, whether pipelines or liquefaction or regasification. The 2014, so far, has been characterized by an event potentially negative for global energy supply: the crisis in Ukraine and the subsequent deterioration of relations between Russia on the one hand and the United States, in addition to some Western allies, on the other . However, Europe for the moment does not seem to have a problem of security of supply. The impact of a crisis similar to that of 2009 may be lower today, whereas in the meantime the European networks have become more interconnected (the Nord Stream pipeline, which provides an alternative transit especially important for the stability of supply in Germany). The main lines of gas supply for Europe, are in fact the ones that come from Russia, which has developed about 200 billion m3 / year of capacity export1; but it is possible to access other suppliers, the most significant of which is Norway; the four export pipelines from North Africa to Europe account for about 70 billion m3 / year (for instance the Greenstream from Libya and Algeria Transmed). This impact could be reduced also because of the stagnant European economy that is affecting energy demand. Since 2008, Europe has seen a decline in gas consumption in the order of about 15% (U. Saccone, 2014). Energy supplies are spread unevenly across Europe: oil and gas are predominantly in the North Sea, accessible only to the UK and the non-EU member Norway; coal is more widespread, with fields in Germany and eastern Europe, but varying in quality; hydro-power plants supply clean and cheap power in Nordic countries, but are seasonally influenced; renewables are spread across Europe, with a high proportion of solar power in Germany and wind in Spain; France gets the vast majority of its power from nuclear reactors (The Guardian, 2014). Making the most of its diversity, the European Union must strengthen the internal energy market to enhance both its energy security and the competitiveness of its industry. Yet, important interconnections are missing, and, despite the opening of the wholesale market and decreasing prices, concentrated and regulated retail markets do not deliver benefits to consumers. As member states adopt different decarbonisation pathways and energy policy choices, a strong “Energy Union” is needed with effective energy market rules and policies that support the development of low-carbon technologies, within the new energy and climate policy framework for 2030 (IEA. 2014).

Last year, Energy Commissioner Günther Oettinger said that the European Union wanted strong and stable partnerships with important suppliers such as Russia, but that it must avoid “falling victim to political and commercial blackmail”. He also said that the EU needed to complete the internal energy market, improve the energy infrastructure, become more energy efficient, and better at exploiting its own energy resources. Moreover, the Union needs to accelerate the diversification of external energy suppliers, especially for gas, he said (F. Genovese, Ch, Egenhofer, 2014). “The energy union has great potential – it could be a grand Marshall Plan for the EU,” says Sandrine Dixson-Declève, director of the Prince of Wales’s Corporate Leaders Group, which brings together businesses urging action on climate change. “It could unlock investment across Europe, and could bring lower emissions and greater efficiency.”

In this context, on 23/24 October 2014 the European Council decided on a new set of targets for 2030 by adopting the “2030 Climate and Energy Policy Framework.” This framework includes binding targets for (i) domestically reducing greenhouse gas emissions by 40% until 2030 compared to 1990 and for (ii) increasing the share of renewables to 27%. Finally, there is an indicative target to improve energy efficiency by at least 27% compared to “busi-ness-as-usual” projections of the future energy demand. The framework decided raises several practical questions that need to be addressed in the upcoming legislative process, specifically regarding renewables. The main issues revolve around the need for dedicated support for reaching the renewables target, how to ensure a legally binding character of the EU-target in the absence of binding national commitments and how to share the overall 27% target among individual entities such as single EU member states or groups of EU member states (A. Held, M. Ragwitz, G. Resch, L. Liebmann, F. Genovese, 2014).

2.1 EU energy priority: Southern Gas Corridor

Gas is a crucial component of the energy mix of the European Union, constituting 1/4 of primary energy supply and contributing mainly to electricity generation, heating, feedstock for industry and fuel for transportation. The EU gas import requirements have increased rapidly over the last decade, leading to higher levels of import dependence and ultimately outlying the need to address the issue of security of gas supply at the EU level. The official document on which the Southern Gas Corridor is centred is represented by the Communication delivered in 2008 -"Second Strategic Energy Review – An EU Energy Security and Solidarity Action Plan." The document recognized in the Southern Gas Corridor one of the EU's highest energy security priorities (NGE, 2015). TAP's role in realising that vision will not only provide economic benefits. It will also ensure that one of the continent's vital energy routes remains viable for decades to come. TAP's design offers various connection options to a number of existing and proposed pipelines along its route. This would enable the possible delivery of Caspian gas to destinations throughout Europe:

- TAP will connect to the Italian natural gas grid operated by Snam Rete Gas, from which all Italian gas exit points to European destinations can be reached.
- Austria and Central Europe: natural gas transported via TAP can reach the Central European gas hub in Baumgarten, Austria via the Trans Austria Gas (TAG) pipeline, using swaps and reverse flow.
- Germany and France via Switzerland: using reverse flow through the Transitgas pipeline.
- United Kingdom: grid operators Snam Rete Gas and Fluxys have agreed to develop physical reverse flow capabilities between Italy and the UK by interconnecting the gas markets of Italy, Switzerland, Germany, the Netherlands and Belgium, enabling Caspian gas to reach the UK.
- Bulgaria: TAP can provide a new source of gas by linking to existing and planned pipeline infrastructure, including reverse flow through an interconnector to the Kula-Sidirokastro line, and/or a proposed connection with the planned Interconnector Greece Bulgaria (IGB) pipeline.
- South East Europe: Caspian gas could be flowing to growing markets in the Balkans and South East Europe that are currently dependent on a single gas supplier. TAP is cooperating with the developers of the planned Ionian Adriatic Pipeline (IAP) to discuss connection possibilities to markets without gas in Southern Croatia, Albania, Montenegro, and Bosnia and Herzegovina.

3. THE ENERGY COMMUNITY: THE CONTEXT

The development of the Energy Community has often been compared to the establishment of the Coal and Steel Community and the subsequent genesis of the European Union. By encouraging cooperation in a highly technical subject area, both initiatives were based on the assumption that this approach encourages communication and integration between countries that might otherwise be hesitant to cooperate (L. Deitz, L. Stirton, K. Wright, 2008).

The Energy Community is an international organisation dealing with energy policy. The organisation was established by an international treaty in Oct 2005 in Athens, Greece. The Treaty entered into force in Jul 2006. The Treaty establishing the Energy Community brings together the European Union, on one hand, and countries from the South East Europe and Black Sea region. The key aim of the organisation is to extend the EU internal energy market to South East Europe and beyond on the basis of a legally binding framework. Their objectives are to:

- Attract investment in power generation and networks to ensure stable and continuous energy supply that is essential for economic development and social stability;
- Create an integrated energy market allowing for cross-border energy trade and integration with the EU market;
- Enhance the security of supply;
- Improve the environmental situation in relation with energy supply in the region; and

- Enhance competition at regional level and exploit economies of scale.

The Energy Community Treaty provides for the creation of an integrated energy market (electricity and gas) between the European Community and the contracting parties. The members of the Energy Community are the European Community, Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia and the United Nations Interim Administration Mission in Kosovo pursuant to United Nations Security Council Resolution 1244. In addition, one or more Member States of the European Union (EU) may participate in the Energy Community at the request of the Ministerial Council. Third countries may be accepted as observers. The Energy Community acquis communautaire comprises the following sectors:

Electricity

The Contracting Parties have committed to implementing the Second Energy Package in 2006 and the Third Energy Package in 2011. The implementation deadline for the Third Package is 1 January 2015. In addition, they have to comply with security of electricity supply rules.

Renewable Energy

Since 2012, the Contracting Parties are implementing the 2009 EU Renewable Energy Directive, including binding national targets for renewables by 2020.

Oil

In the area of oil, the Contracting Parties are implementing the 2009 EU Directive on the minimum stocks of crude oil and/or petroleum products by 1 January 2023.

Competition

The acquis on competition rests on three pillars, namely the prohibition of cartels, abuses of a dominant position and State aid.

Gas

As with the electricity acquis, the Contracting Parties are implementing the Second Energy Package since 2006 and the Third Energy Package since 2011. The implementation deadline for the Third Package for gas is also 1 January 2015. Security of gas supply rules are also in force.

Energy Efficiency

In the area of energy efficiency, the Contracting Parties implement the EU acquis on energy endues efficiency and energy services; energy performance of buildings, and labeling of the consumption of energy by energy-related products.

Environment

The implementation of rules on industrial emissions from large combustion plants, sulphur content of certain liquid fuels and environmental impact assessment constitute the core of the environment acquis.

From Jan to Dec 2015 Albania holds the function of the Energy Community Presidency in Office. Gjiknuri presented the priorities of the Albanian Presidency and the main objectives:

- Albania’s utmost priority will be the reform of the Energy Community and bringing to life the recommendations proposed to improve the functioning of the Community, not only by the High Level Reflection Group. This will be a demanding process, including a public discussion of all the reform proposals, followed by legal drafting of Treaty amendments and, hopefully, their successful adoption at the next Ministerial Council in Albania in autumn 2015. It will be the time of creation of a new Energy Union.
- The second priority will be the implementation of the Third Energy Package. While achieving this task will not be an easy one, it is the prerequisite for a stable and coherent regulatory framework

as the foundation for an integrated European energy market, which ensures effective competition and empowers consumers.

- Policies that ensure secure, competitive and sustainable energy supply are at the top of our agenda. This is why our third priority will be the adoption of new acquis, which will help us address the many challenges we are facing today. This includes Regulation 994/2010 on security of gas supply; Regulation 347/2013 on energy infrastructure, Regulation 543/2013 on transparency on electricity markets; the Energy Efficiency Directive and the first set of network codes.
- Investments
- Active participation in the creation of Southern Gas Corridor with the TAP project having the leading role in i.e. very much look forward to working on all these challenging issues with each and every one of you.

3.1 The Energy Community: energy sector reforms in south-eastern Europe

Most of the countries in the region such as Albania, FYR Macedonia, Montenegro and (partially) Serbia are electricity deficit countries. They are importing electricity and only a few countries in the region have export capacities in place. The lack of transmission capacities has led to high cross-border energy export prices. Some countries in the region still experience power cuts of up to six hours per day. These countries urgently need investments to improve the environmental performance and the efficiency of existent energy generators in order to provide better services to their citizens.

One potential means for increasing energy production in the region is renewable energy. Nearly 30 per cent of the electricity in south-eastern Europe is already generated by hydro but there are other renewable energy sources to be explored. Wind, biomass and solar energy are the emerging new sources of energy. The region has huge benefits to gain by using these sources. European Bank for Construction and Development has extracted some main characteristics of this region like (EBCD, 2014):

- Key elements of the energy infrastructure were built in the 1960s and 1970s, with standard Eastern Bloc technology.
- Much of the energy infrastructure was damaged during the conflicts related to the break-up of the former Yugoslavia in the 1990s.
- The Balkans are strategically located between hydrocarbon-rich regions (Russia, the Caspian basin and the Middle East) and key energy-consuming regions of western and central Europe.
- All Balkan markets depend heavily on hydrocarbons imported from outside the region.
- Households represent the largest share of electricity consumption in most countries in the Western Balkans.
- Oil and gas production in the Balkans is limited. Oil reserves are located mainly in Romania and some in Albania, whereas gas is mostly located in Croatia and Romania.
- Coal (mostly lignite) dominates the primary energy supply in the Western Balkans.
- The Balkan region is 2.5 times more energy intensive than the average for OECD Europe.

4. CONCLUSIONS

The events of recent years in terms of issues related to energy have shown that the future will be uncertain if measures and long-term policies are not taken by now. These policies should take into account recent developments and have a more analytical approach and less political, or more political will towards investment in new technologies and less rhetorical. Now, it seems that the European Union has undertaken the right path and the new approach the Commissioner of the European Union shows this. Raising energy policies in the range of European Energy Union demonstrates that there is

willingness to change. In this context, the Balkan countries remain on alert. Their involvement in the energy community shows the readiness of the European Union to direct and integrate them following the new path. Albania, of course, has an important role in the Balkans, and this year it has the weight of the energy community presidency. Developments within the country and commitments made in the framework of energy community shows its readiness to be part of the transformation processes of the European Union.

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