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**Energy Crisis and Climate Change –
Challenges for Politics and Business
in South East Europe**

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**PANEL I: ENERGY CRISIS AND CLIMATE CHANGE –
CHALLENGES AND CHANCES FOR SOUTHEAST EUROPE**

**Energy Crisis and Climate Change:
Challenges and Opportunities for Politics and Business in Southeast Europe**

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Energy Community Treaty and its implementation

Ladies and Gentlemen,

It is my pleasure to present you one of the greatest success stories of the SEE regional cooperation that is Treaty establishing the Energy Community. Treaty's main goal is to ensure effective integration of small national energy markets into the regional energy market and its further integration into the wider single energy market of the European Community.

The idea of creation of the regional energy market in South East Europe was born more than a decade ago. European Union has strongly supported this idea as well as the overall development of South East Europe energy sector choosing the energy as a milestone of the European integration of the region.

Process of establishing the regional energy market in South East Europe and its expansion to the pan-European energy market, coordinated by the European Commission, is the best proof that energy offers outstanding opportunities for the strengthening the relations with the EU as well as for founding of even stronger mutual ties in the region to the benefit of all its states.

Participation of countries from the region in the Treaty is not only important for the success of its energy sector reform but also for its appropriate participation in the Stabilisation and Association process i.e. for the overall European integration process.

Treaty offers the framework for energy cooperation between South East Europe countries as well as between them and EC and facilitates transfer of experience and harmonisation with the EU requirements in the field of energy and other related areas. This harmonisation primarily relates to:

- EU directives on internal electricity and gas market and Regulation on conditions for access to the network for cross-border exchange in electricity what will enable necessary interoperability of national energy systems and compatibility for the fully operational integrated regional energy market,

- EU directives on environmental impact assessment, on large combustion plants, on reduction in the sulphur content of certain liquid fuels and on the conservation of wild birds what will contribute to decrease of the major negative impact of the energy activities on the environment and alongside EE and RES getting more and more importance in the Energy Community process to the development of sustainable energy sector,

- EU directives on the promotion of electricity produced from RES and on the promotion of the use of biofuels or other renewable fuels for transport,

- EU competition requirements in accordance with the rules of Articles 81,82, 86 and 87 of the Treaty establishing the European Community.

Parties included in the Treaty resolved to establish among them an integrated market in electricity and natural gas, based on common interest and solidarity, and at a later stage they may involve other energy products and carriers or other essential network infrastructure as it is currently case with the oil.

Treaty will largely contribute to enhancement of cooperation, attraction of investments for energy facilities necessary for stable and continuous energy supply that is essential for economic development and social stability, security of energy supply, development of energy market competition, improvement of the environmental situation and sustainability of the energy sector in general.

To achieve these aims, a broad ranging and integrated market regulatory structure needs to be put in place supported by strong institutions and effective supervision, and with the adequate involvement of the private sector.

At this stage the most important step for the regional countries is full harmonization of its legislation with the requirements of the Acquis communautaire on energy, environment, competition and renewables previously mentioned. However, Energy Community Treaty is expanding both in geographic and legislative scope as a result of its implementation managed by the institutions of the Energy Community. To that end, Contracting Parties to the Treaty need to harmonize its legislative frameworks with the additional requirements primarily concerning the EU directives on security of electricity and gas supply, Regulation on conditions for access to the natural gas transmission networks and compliance with generally applicable standards.

Appropriate implementation of the Treaty will enable each country participating in the process access to funds of IFIs for financing energy projects.

Although we could notice significant progress in the Treaty implementation by the Contracting Parties a lot of job remains to be accomplished to reach fully operational regional energy market. There are important differences in the Treaty implementation by various Contracting Parties, but, major issue in its implementation refers to opening up the national fragmented markets to transparent and unrestrained cross-border trading what will be reached through the operational regional Coordinated Auction Office. Some of other important activities include introduction of instruments for adequate safeguard measures in event of sudden crisis on the energy markets and its monitoring and mutual assistance in the event of disruption of Network Energy supply as well as development of adequate dispute settlement mechanism among the Contracting Parties that will ensure efficient and sustainable implementation of the commitments under the ECT although demonstrated political will have the major role.

It is of paramount importance to take regional approach and establish stable and compatible national frameworks because improvement in energy trade and market regulation, planning and attracting energy investments, ensuring the stable and continuous energy supply can be addressed in the best way on a regional basis.

Regional approach in planning energy sector investments will decrease investments needed to meet regional energy demand through the increased energy trade. This is essential if we take into account increasing electricity deficit in the region and serious limitations in financing huge energy projects.

Enhancement of energy interconnections and construction of new generating facilities are very important steps in regional energy cooperation development and necessary technical prerequisites for realization of an operational regional energy market. Establishment of the appropriate financing mechanisms is crucial, taking into consideration the fact that energy

facilities completion is capital intensive activity. Effective implementation of the Treaty will contribute in that respect.

Given the global character of energy, development of the energy sector in transitional countries is also beneficial for the donor states. Reduction of the negative impact of energy activities on the environment is beneficial globally, but this process is closely connected to massive investments that South East Europe countries could not afford. To that end, meeting the environmental requirements of the Treaty will be a serious challenge for each country in the region. Active participation of the Civil Society Actors in relation to huge energy investments that have massive environmental, health and social impacts, having a legal basis in the relevant international and EU legislation, would be extremely important. This participation should include overall project circle (project proposing, preparation, development, project implementation and monitoring).

Implementation of the Treaty establishing the Energy Community is tied to serious economic, political and social implications. Energy sector reform inevitable requests economic level of energy prices i.e. cost reflectivity determined by the fully Independent National Regulatory Bodies in a socially acceptable way not only to make energy utilities economically viable but also to create a competitive level playing field and to support energy investments particularly energy efficiency projects. Appropriate targeting of the most vulnerable social groups and providing the most suitable support schemes in the regional countries would be of paramount importance. It is also necessary to take into account how steep energy price increase could impact the government stability and macro-economic situation. Restructuring and substantial improvement of economic performance of energy undertakings require adequate adaptation of both the management and the workforce. The most comprehensive support of the public primarily through sound inclusion of the social partners and civil society actors in the energy reform process would be substantial. Otherwise it would be very hard to provide comprehensive support for the reform and its success. On the other hand, trade unions should defend realistic social action plans that do not discourage investors and that enable the right balance between protection of existing jobs and creation of new ones.

Taking into consideration the above mentioned, countries of the South East Europe need significant assistance of the international community to meet the requirements of the Treaty Establishing the Energy Community and perform appropriately energy sector reform. This assistance relates not only to providing massive financing for capital intensive energy projects realisation but also to strengthening the administrative capacities of the regional countries concerning both proposing, development and implementation of energy projects to be co-financed by the IFIs and private sector, and the implementation of the Treaty Acquis.

Thank you for your kind attention

Energy Security and Climate Change

Ensuring secure and affordable energy supply and dealing with climate change are key global objectives. Addressing these issues requires urgent, continuous global action and an integrated policy approach, using a wide range of locally, nationally or internationally defined policy measures. Access to affordable, clean and secure energy to boost sustainable economic growth will require innovative and well coordinated actions. Tackling the challenge of energy security will also need extraordinary level of international cooperation in several areas, including increasing energy efficiency, market transparency, diversifying energy supplies and protecting the world's energy supply system.

Energy and climate change are affecting national security to be three major global challenges. These three areas are interconnected through continual and growing dependence on fossil fuels. It is impossible to solve one of these challenges in isolation but all three have to be addressed.

Energy security should be based on major priorities of:

- Reducing carbon emissions to contribute to limitation of climate change.
- Keeping integral earth's carrying capacity and avoiding impacts on biodiversity, water flows and other natural systems.
 - Avoiding relying on long and fragile lines of supply vulnerable to both attacks and natural disasters.
- Being supplied from a variety of different sources and applying various diversification tools.
- Being based on fair arrangements that do contribute to social, political or economic stability and predictability.

Previous mentioned priorities would be reached by different activities.

Firstly, by promoting, investing in and regulating energy efficiency measures, as the most cost effective means to reduce reliance on long, insecure links to fossil fuel supplies, especially in the transport sector, buildings and appliances.

For newly sold passenger cars the EU intends to take measures to ensure average emissions of 120 g CO₂/km by 2012. Improved vehicle efficiency is extremely powerful option, biofuels and hybrids are inevitable for road transport but also electric and hydrogen cars are realistic options in the long term.

It would be crucial to support energy efficient products what includes public procurement programs and incentives for their purchase by consumers, constantly raising the bar on minimum efficiency standards for buildings, electrical equipment and vehicles and energy labeling as a norm for all energy using products.

The great potential of combined heat and power technologies should be supported by growth targets and improved access to grids.

Secondly, by developing policy and market instruments that support diversification of energy types, sources, routes of energy supplies and technological diversification, particularly promoting the switch to low carbon options.

Thirdly, by creating better opportunities for alternative, renewable and clean energy resources through redirecting subsidies from conventional to clean fuels.

Then, by encouraging the clean and renewable energies through mandatory quantitative targets.

Renewables technologies like wind, solar, biomass, geothermal and other technologies are becoming more competitive energy suppliers, even despite massive levels of subsidies to fossil fuels and in many countries a merely rhetorical policy support.

Renewable energies diversify energy sources, promote efficiency and generally reduce reliance on extended energy supply routes and vulnerable infrastructure. While renewables are often mentioned favorably, in practice the priorities for support are often long term research and development of less proven and immediately available technologies in hydrogen, methane and carbon capture and storage. It is necessary to better support renewables with such measures as mandatory renewables targets, improved access to grids which could include supportive “feed-in” prices to help establish technologies, and through reduced subsidies to fossil fuels.

Then, by recognizing that nuclear energy is one of the most uneconomic energy technologies and that it carries risks on safety, waste disposal and weapons proliferation although still widely accepted option for combating climate change.

Also, by recognizing the value of highly efficient natural gas as a bridging fuel to a secure, sustainable, zero carbon energy future for the next three to four decades although it is not a long-term solution to climate change or to energy security.

Finally, by considering carbon capture and storage potential. In this regard, it is necessary to create a more global regulatory framework for sound, safe and environmentally friendly carbon capture and storage and so ensure that only zero-emission coal and gas power plants are built from now on.

Open, transparent, efficient and competitive markets for energy production, supply, use, transmission and transit services; transparent, fair, stable and effective legal, institutional and regulatory frameworks; physical security of critical energy infrastructure; establishing strategic reserves and emergency plans to limit consumption in order to mitigate the magnitude of physical unavailability caused by different reasons are all important prerequisites of energy security as well.

It is worth mentioning the need to identify opportunities to advance as many methane recovery-and-use projects as possible.

The scientific agreement is that the world faces serious risks of disaster if the global rise in average temperature cannot be kept under two degrees Celsius in comparison to pre-industrial times, and if global emissions do not peak and begin declining in next 10 to 15 years. If the 2°C threshold cannot be avoided, huge security implications are inevitable, such as:

- Continuing increase in frequency and severity of extreme weather events.
- Sea level rise.
- Crop failures in heavily populated or key food producing areas.
- Unprecedented environmental refugee movements.
- Border disputes over access to energy, water, food and other scarce resources. Concerning energy, hydropower generation is likely to be impacted the most by climate change due to its sensitivity to the amount, timing and geographical pattern of precipitation and to changes in temperature.
- Spread of endemic disease.
- Political, economic and social consequences of governments and other social structures becoming overwhelmed by direct and indirect climate change effects especially in developing world that is least equipped to cope with them.

Climate change is a major risk to increase conflict, insecurity and poverty. In some regions there is proven correlation between drought and the likelihood of high intensity conflicts.

Some scientific estimates point out that the region of SEE is the most climate change vulnerable part of Europe and even at the wider scale. In addition, political violence within and between the historically at risk to conflict SEE states on ethnic ground may become more likely. In that respect climate change mitigation and adaptation measures strongly supported by the international community are of the highest priority for the region.

To minimize or prevent these inconvenient possibilities, global emissions need to decline by at least 50% globally by mid century and lead to a world with low carbon energy supply soon after that, what is even above the level of progress specified in the current UNFCCC/Kyoto framework. The largest cuts are required from G8 economies, in line with a requirement for industrialized countries to reduce all emissions by about 80 percent by 2050. In the face of growing energy demand this is a challenging but not impossible task requiring improvement in energy efficiency and a wholesale switch to low or no emission energy sources. Joint consideration of energy and climate security supports just this direction.

It is crucial to follow security and climate policy options that address energy needs and climate change in an integrated way, rather than putting them in opposition, options that are environmentally effective as well as economically and politically viable through intensive co-operation between major global partners, developed and developing countries, enhanced dialogue between producing, consuming and transit countries, deploying different regional approaches that can be devised to meet common challenges.

Current sense of insecurity is based on a few reasons: belief that resources are about to run out;

the concern that the resources which remain to be developed, particularly of oil and gas, are concentrated in areas which are closed to investment and held by countries who could use their market power in times of conflict and tension; the growing concern about the impact of increasing hydrocarbon consumption on the levels of carbon in the atmosphere and the sustainability of the world's climate and finally, there is a growing concern about the credibility of the industry which has the task of meeting energy needs.

Business has an important role in providing answers and new choices. That role is in line with the fundamental purpose of business which is to provide the goods and services people need in ways and at prices which are sustainable.

Business is the only part of society which is organized to respond to the needs and the incentives. Business can bring together the capital, the skills and the understanding of markets to take scientific advances and to apply them through engineering and investment in ways which give people better choices.

Businesses create the jobs, the products and the wealth that make our lives possible. They contribute to the cost of our public services. And businesses meet the needs of citizens, and respond to their changing preferences more quickly and often more fairly than governments can.

Energy security and climate change issues have merged into a single issue. We cannot solve one without solving both. Energy industry should be part of the solution from different reasons:

- The best understanding of the energy supply chain.
- Knowledge of fuels that can help in research to reduce their carbon intensity.
- Technical approach and economic realism to the policies that come from government.
- Real world expertise acquired by operating in the global economy.
- Skills to make carbon capture and storage a reality.

To do so, it is necessary to work cooperatively with governments, other industries, academia, community groups and NGOs. Despite rising international concern over energy and climate, the world addresses these issues through uncoordinated and not fully integrated approaches and activities frequently not pursued with a sufficient level of urgency.

Government's involvement in addressing these issues should occur under clear rules. It should:

- Recognize that the energy and climate challenges are interdependent and then deal with them in a consistent and coordinated manner.
- Ensure a transparent process helping to inform and educate the public.
- In countries with dueling political parties, the crafting of policies should be impartial. The job will be tough enough without political grandstanding.
- Seek comprehensive national solutions, rather than have individual regions draft their own initiatives. This piecemeal approach could result in more costly, less efficient, and environmentally ineffective policies.
- Guard against creating conflicting and overlapping regulations.
- Preserve or even strengthen the international competitiveness of domestic industries including energy.
- Countries should recognize the need for international linkage of their climate programs. This would ensure that the best and most effective global investment choices are selected. In fact, this is the best way to achieve the desired emissions reductions.

Government can help to promote technological innovation; it can increase its support to education particularly in the technical skills that are so critical to our energy future. The public does not understand the effort required, what is needed, or the cost. We will not know if

people are willing to pay this cost until government formulates a plan and conveys it to the public in a transparent way. Fortunately, the world still has enormous untapped energy potential. There are promising technologies available to bring these resources to market while also reducing carbon emissions.

Partnership between the government, industry and the business can redefine energy as a challenge into an opportunity: as services we require which create technology which requires skills that create jobs that foster economic growth.

In a transition period to reaching sustainable energy, promoting strategic partnership between national oil and gas companies (NOGCs) and international oil and gas companies (IOGCs) could contribute to more secure energy and ensure mutual benefits: for NOGCs (market access, technology, project management experience and knowledge transfer, capital) and IOGCs (access to reserves, doing business in more favourable, stable and predictable environment). Additional inclusion of governments will enable huge investment needs to be met and strengthen global energy security in the long run.

The debate on energy security needs is frequently limited to security of [supply](#) question for importers and the security of [demand](#) question for exporters. Besides the issue of a climate change, issue of access to a modern energy supply by hundreds of millions of people in developing countries should be integrated as well. The most developed states' policy decision-makers should take the lead on this integration.

We do not have time to lose. We need urgently to address sustainable development, comprehensive energy policy, environmental balance, new energy technologies, reasonable resource allocation, globalization, population growth, climate change to avoid risk of even harder questions in the next few decades like economic collapse, energy chaos, loss of human habitat, oil wars, resource depletion, irreversible damage, fragmentation, famine and so on.

It is very clear; we need a demanding and sophisticated global strategy that would primarily combine energy efficiency, renewables and natural gas as a bridging fuel that can provide the way for a low carbon future.

Challenges for the SEE energy sector will be even much more outstanding taking into account its main features, as follows:

- Current legal framework is incomplete and partially contradictory.
- Existing laws are not being implemented and many by-laws are missing.
- Local and sometimes national energy strategies or plans are missing; there is no data to design, target and monitor measures and actions.
- Energy companies and particularly municipal district heating companies are overstaffed and undercapitalized with under-qualified management structures.
- Energy prices are normally subsidized. Low prices encourage waste of energy and discourage many reasonable energy efficiency investments.
- Collection rates are unsatisfactory.
- Air pollution from energy production is significantly above EU-standards.
- Use of RES is minimal due to lack of awareness and technical knowledge, no clear RES potential assessment, missing legal provisions and subsidized prices for energy generated from fossil fuels.
- Public awareness is low, specifically concerning the economic and environmental dimensions of energy efficiency.

- No effective support mechanisms identified for the sustainable options.
- Scientific capacity and expertise, which could be addressing the above deficits, is missing – especially regarding the legal and economic dimensions.