



FACT SHEET

EU/South Eastern Europe Energy Community

What was the motivation behind the creation of the Energy Community?

Damaged Infrastructure

A stable and reliable supply of energy is one of the prerequisites for sustainable economic development and social stability. In South Eastern Europe, the conflicts of the 1990's inflicted further damage on, and in some cases destroyed, an a system already struggling to cope with the effects of the break up of the former Yugoslavia. Therefore power cuts and "brown outs" are all too familiar events in the region – events that damage economic development and ones that can lead to social unrest.

Investment Needs

A recent study undertaken by the European Commission and the World Bank estimates that €12.5 billion will be required in the next 15 years to rehabilitate existing power plants and construct new ones and this is on top of the €8.5 billion required for investments in transmission and distribution.

All of these demands must be placed in the context of the limited borrowing capacity of the SEE countries, competing demands for other infrastructure development (e.g. €16 billion between now and 2015 for road and rail requirements) and the fact that donor grants are decreasing. Therefore regional co-operation to reduce costs and improve efficiency must be a key element of government's development strategies.

Diversity of Supply

For the EU and SEE, an energy community provides an important geopolitical opportunity to diversify supply routes for different forms of energy and reduce reliance on one or two sources of supply.

How was this Community developed?

The creation of the Energy Community in SEE is the outcome of the so-called "Athens Process" for regional energy co-operation. This process was launched by the European Commission with the support of the Stability Pact in 2002. Thanks to the dedication of all the parties involved it made rapid progress including the signing of a Memorandum of Understanding on Electricity in November 2002 in Athens and the expansion of this co-operation to the gas sector through a second Memorandum of Understanding in December 2003. Under these, the SEE countries committed themselves to introducing common rules based on EU legislation in these two sectors. The process received a significant boost through the physical reconnection of the SEE grids to the UCTE network in October 2004.

The SEE countries efforts are being supported by a well co-ordinated group of donors led by the European Commission and including the World Bank, the EBRD, IEA, EIB, USAID, CIDA (Canada), Austria, Italy, France, Germany, the Czech Republic and Greece.

The Stability Pact's role has been to complement the European Commission's lead by generating political support for the process among the SEE governments and the international community as well as promoting the process to the business community.





Who are the signatories of the Treaty?

The signatories will be the European Union (represented by the UK who currently holds the EU Presidency), Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the former Yugoslav Republic of Macedonia, Romania, Serbia and Montenegro and the Special Representative of the Secretary General on behalf of the United Nations Interim Mission in Kosovo. Moldova has observer status.

What will be the results of this Treaty?

The Treaty aims to create a single stable regulatory framework for the trading of energy across borders through ensuring that the SEE countries adopt the EU's *acquis communautaire* in areas such as energy, environment and competition.

The **economic** impact of this will be to create a larger, predictable market that is attractive for investors. A modern market that provides a level playing field for all participants and one that increases the reliability and security of the energy systems. It will also encourage the development of the market for gas, which is under developed in the region and provide greater opportunities for the skilled labour force in the region. The preparatory work including identification of rehabilitation and investment projects should facilitate investments from both the public and private sector as the industry is restructured and opportunities to build and operate new

power plants or manage distribution companies emerge. The World Bank has already put in place a US\$1 billion "fast track" loan to assist investments throughout the region.

The **political** significance of this treaty should not be underestimated. The SEE countries have formalised their commitment to regional co-operation in the energy sector including providing mutual assistance, with an internationally binding treaty. Implementation will result in the **countries of SEE becoming part of the EU's internal market in a key economic sector before their accession to the EU**. Many have compared this Treaty to the 1951 European Coal and Steel Community Treaty that paved the way for the European Community.

What Challenges Lie Ahead?

This Treaty is a highly ambitious one. It commits the SEE countries to a rapid timetable for restructuring a largely state-owned industry and adopting challenging directives in areas such as environment. Their progress on this will be monitored closely by the European Union and by the private sector as it considers what investments it can make. The socio-economic impact of the transformation including restructuring of companies and the introduction of tariff reforms must be acknowledged and programmes to create a social safety net, particularly for vulnerable groups. The EBRD and the World Bank are already working on these areas but more is needed.

About the Stability Pact

Launched in 1999, the Stability Pact for South Eastern Europe is the first comprehensive conflict-prevention strategy of the international community, aimed at strengthening the efforts of the countries of South East Europe in fostering peace, democracy, respect for human rights and economic prosperity. The **Stability Pact** provides a framework to stimulate regional co-operation and expedite integration into European and trans-Atlantic structures. The Pact's secretariat, located in Brussels, is organised into three units - Working Table I deals with issues of **democratisation and human rights**, Working Table II with **economic reconstruction, cooperation and development** matters and Working Table III with **security issues**.