

Brussels, 25 October 2005

## The EU and South East Europe sign a historic treaty to boost energy integration

***Today the first ever multilateral treaty in South East Europe was signed in Athens. Signing the Energy Community Treaty, the European Union and nine partners of South East Europe – Croatia, Bosnia and Herzegovina, Serbia, Montenegro, the Former Yugoslav Republic of Macedonia, Albania, Romania, Bulgaria and UNMIK on behalf of Kosovo – will create the legal framework for an integrated energy market. Negotiations with Turkey are ongoing for joining the treaty at a later stage. European Commission President Jose Manuel Barroso hailed the Treaty as “a major achievement for peace and stability in Europe”. Commissioner Andris Piebalgs in charge of energy, who signed the treaty on behalf of the European Union, commented that “the Energy Community Treaty will enhance security of supply and give support to a strategically vital sector”.***

As a result of the Energy Community Treaty, the Internal Market for Energy will be extended into the Balkan Peninsula as a whole. This means that the relevant *acquis communautaire* on energy, environment and competition will be implemented there. Market opening, investment guarantees and firm regulatory control of the energy sectors will be enhanced.

This is the first time in history that all of these states and territories have signed a legally binding treaty and is a milestone in reconciliation after the wars of the 1990s. The Energy Community Treaty is consciously modelled on the European Steel and Coal Community that was the genesis for the European Union.

The treaty will also create, firstly, an agreed policy framework for the World Bank and the EBRD support to infrastructure investments – which are estimated at \$ 30 billion in the electricity sector to reach EU standards by 2015 – and, secondly, the expansion of the natural gas system to create an intermediate gas market between the Caspian Sea and the European Union.

From the strategic point of view, the treaty creates a supply route for gas into the European Union from the Middle East and the Caspian region and this will eventually increase competition in the core EU markets and reduce dependency on single sources of gas. European Union companies that have invested at the far end of the supply chain will be able to better export to the EU.

The treaty will address the very local and specific energy and environment concerns of South East Europe, such as increased mortality rates from winter cold and environmental degradation from emissions in old power stations, the use of wood for domestic heating that results in deforestation and the unsustainable development of wetlands and watercourses for hydroelectric power.

Significant new investments in the mining and metallurgy sectors are expected as short term results from this initiative, but in the longer term, the stabilisation of the energy sector will considerably assist the macro-economic regeneration of the region, contributing to lower emigration rates, economic growth and peace

For Further information :

[http://europa.eu.int/comm/energy/index\\_fr.html](http://europa.eu.int/comm/energy/index_fr.html):

## Energy and Poverty

Having access and connection to reliable and safe sources of energy is not universal in South East Europe. Energy sources can be directly dangerous – using combustible material in apartments without fireplaces, poisoning from sub-standard appliances – or indirectly so, by poisoning the local air and water. Connection is often capricious and electricity, gas and district heating can all be cut off for many reasons. Chief amongst these reasons is the ability to pay. In South East Europe, energy is generally under-priced; nevertheless, substantial portions of the population cannot pay. Reform of the energy sector will lead to rebalancing of prices: for those who can pay, prices will rise. The challenge is for those who cannot, where targeted support systems will be needed.

Take a look at the impact of poverty on one country. In its Study *Stuck in the Past, Energy, Environment and Poverty in Serbia and Montenegro*<sup>1</sup>, the UNDP came to the following conclusions:

- Average energy consumption per square metre of living space is about 2.5 times greater than in Northern Europe, yet in more than one in four households the amount of heated space per person is below minimum health standards.
- Mortality is 30% or more higher in winter months than the monthly average, with poor households disproportionately affected. Child mortality, which is high comparatively, is directly related to energy poverty.
- More than half the population uses wood and lignite coal as the major source of energy for heating and cooking, creating high levels of indoor air pollution and leading to chronic illnesses.
- Substandard heating devices and high emissions from thermal power plants, district heating plants and industrial energy use expose poor people to severe air and water pollution.
- Carbon dioxide emissions per unit of GDP are more than twice the world average.
- To improve energy efficiency and reduce poverty new energy policy should remedy the uneven distribution of welfare benefits, especially the sizeable cross-subsidy from poor to rich (implicit in the generally low retail tariff and the fact that the energy sector is subsidized out of taxation).
- Implementing energy efficiency measures could contribute to a boost in the GDP growth rate to 5%-7% a year, a leap that no other policy change could achieve.

## Energy and the Balkan Wars

At the start of the wars (1992) that tore apart the ex-Yugoslavia, the strategic cutting of energy supplies was very evident. Take the example of Bosnia and Herzegovina. The cutting of energy supply for citizens was one of the main war targets in BiH. The besieging forces in Sarajevo destroyed all the infrastructures under their control. Sarajevo did not have any of its own power resources. All high voltage transmission lines supplying Sarajevo with electricity were cut, although the nearest power plant at Jablanica could produce some electricity.

Sarajevo was without electricity for three years and for some of that time without water because the water supply system could not work without electricity. In 1995, a partial re-supply by underground cable connection was achieved.

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<sup>1</sup> [http://www2.undp.org.yu/energy\\_environment/stuckinthepast/stuckinthepast.html](http://www2.undp.org.yu/energy_environment/stuckinthepast/stuckinthepast.html)

The gas supply (from Russia through Serbia) was also cut.

The result was several cold winters in Sarajevo, and the loss – in this once forested town - of all its trees. Similar situations arose across the region.

These two witnesses, a journalist and a young child, give some indication of why energy is now considered so important.

*"Do whatever you can to stop the killing, to bring about peace, and then bring us trees. There aren't any left in Sarajevo. All city trees, all parks, have been cut for wood to give some warmth to people freezing in a city with no windows, no gas, no electricity."*

Kemal Kurspahic<sup>2</sup>

*"Toward the end of summer (1992) and the beginning of fall, around September, we no longer had electricity, and there were problems with water. The winter was approaching but we had no supply of firewood. We made a stove shaped like a box out of tin. The end of November and the beginning of December I remember from the cold and the shortage of food.*

*People were cutting the trees everywhere; in the parks, around homes and anyplace where it was possible. I would spend all day outside collecting wood. Evenings were spent in darkness, and there was by then no electricity for several months."*

Dejan Ljavric<sup>3</sup>

## **Energy, Investment and Mutual Assistance**

The basis for investment decisions in the Energy Community will move from national/state level approaches to regional approaches. This latter approach is far cheaper. The aim is to save money. However, regional approaches imply regional co-operation and trust. And to avoid that each country is put at risk, the European Union has guaranteed – under Articles 44-46 (Mutual Assistance obligation) – to help the regional states in the event of supply disruption by their neighbours.

## **Electricity**

The World Bank, the United States and the European Commission have co-operated to establish an investment needs assessment in South East Europe. To bring the region up to EU levels of security of supply in electricity will need investments in the region estimated at being up to \$ 25 billion (rehabilitation, new construction and interconnections).

For example, the rehabilitation of existing generation facilities and the building of new, in a reference scenario, will amount to a cost of \$ 15.4 billion.<sup>4</sup> This cost is a regional cost; if reconstruction was done on a country by country basis, the cost would be about \$18 billion. So working at regional level is cheaper.

EU levels of security of supply means near perfect system stability and the application of EU environmental and technical norms.

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<sup>2</sup> Kemal Kurspahic is former editor-in-chief for the Bosnian independent daily "Oslobodjenje" in Sarajevo. The World Press Review named him International Editor of the Year in 1993 for publishing under fire in wartime Sarajevo. His memoirs, "As Long as Sarajevo Exists," were published in 1997 by Pamphleteer's Press. This extract is reprinted from "American Forests" magazine, Spring 1998.  
<http://www.rec.org/REC/Bulletin/Bull81/Sarajevo.html>

<sup>3</sup> <http://safekids.survivorsartfoundation.org/kfeatured.html>

<sup>4</sup> [http://siteresources.worldbank.org/INTECAREGTOPPOWER/Home/20551044/Volume%201%20-%20Exec%20sum\\_final.pdf](http://siteresources.worldbank.org/INTECAREGTOPPOWER/Home/20551044/Volume%201%20-%20Exec%20sum_final.pdf)  
On the World Bank Strategy see,

## **Gas**

The region is relatively undeveloped from a gas perspective. Gas is used extensively in Romania, but in Albania there is none. The region is a potential if small market, especially for Caspian and Middle Eastern gas. Delivered prices on gas from these sources are expected to be competitive. As a result there are various pipeline projects in the region, though all of them expect to connect the EU to the gas, and develop the local market as an add-on.

The World Bank is leading efforts on the economics of gas expansion with a study.

The Energy Community Treaty is expected to adopt legislation that will make the regulatory framework for the long-distance transmission of gas much easier and will facilitate the investments of European Union companies in the Caspian and the Middle Eastern region. The aim is to have a substantial proportion of EU gas consumption coming from this region from 2010 onwards.



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## **Ceremony of the signing of the Treaty of the Energy Community**

Athens, 24 -26 October 2005

### **Programme**

#### **Monday 24 October 2005**

Arrival of the Official Delegations

20:30 Welcome reception, King George Hotel Athens

#### **Tuesday 25 October 2005**

#### **Ceremony of the signing of the Treaty of the Energy Community**

#### **Sarogleion Megaron, Athens**

10:30 Opening Statements

Signing of the Treaty of the Energy Community

Brief declarations by the signatory parties

12:00 Family Photo

12:30 Press Conference

14:00 Official Lunch

16:00 Free afternoon

20:00 Dinner, Yachting Club Piraeus