

Conference “Energy security in the Western Balkans – policies and challenges”

5 November 2014

The conference is jointly organized by Konrad Adenauer Foundation and Analytica Think Tank

The aim of the conference “Energy security in the Western Balkans – policies and challenges” which took place on 5 November 2014 in Skopje organized jointly by KAS and Analytica was to offer a platform for discussing energy security from policy and geopolitical perspective relative to the Western Balkan region and to raise energy security challenges as well as the domestic readiness to address them. The idea behind this conference was to be an open forum for exchanging on the matter of energy security in the Western Balkans including the input of various stakeholders.

The intended short-term impact is to raise awareness about the importance of discussing energy security with various stakeholders. The mid- and long-term planned impacts were contributing to creating policy solutions that go in direction of improving the state of energy security in Macedonia and beyond.

The target audience was representatives from the relevant institutions (Ministry of Economy, Energy Regulatory Commission etc.), civil society, representatives of municipalities, energy companies, academia, researchers, professionals in the area, donor communities from Macedonia.

The discussed topics in more detailed were the state of energy security in the EU, the South Stream project, the energy security strategy of the EU, the challenge of dealing with electricity and gas shortages in Macedonia, the liberalization of Macedonia’s electricity and natural gas markets as well as the challenge of achieving greater share of renewables by Germany with taking into consideration energy security aspects.

There were two panels. On the first titled *Role of geopolitics in energy security* there was the presentation of Noemie Rebierie, from the French Institute of Geopolitics who spoke about the EU view on energy security; Martin Vladimirov from the Center for the Study of Democracy based in Bulgaria who focused on South Stream as a case study; and Metodi Hadzi Janev from the Military Academy “General Mihailo Apostolski”, Skopje, Macedonia who talked about the security perspective of energy security.

The second panel titled *Domestic readiness to respond to energy security challenges* included Marko Bislimoski and Julijana Dimoska – Isajlovska from the Energy Regulatory Commission of Macedonia who presented the cases of development of the electricity market and the natural gas market of Macedonia, respectively. Next was Hans-Helge Sander from the German Embassy in Skopje who presented the way Germany deals with energy security challenges. And last but not least was Viktor Dimitrievski from EVN Macedonia who discussed the readiness to deal with low temperatures and lack of electricity.

CONCLUSIONS

Energy security is not a single policy – it is defined by different aspects. Different stakeholders point out different aspects of energy security: protection of the environment, supply of energy or national security. Energy security affects political stability because of competition for resources, security of infrastructure caused by natural disasters or human factor etc. Energy security affects social stability since it may cause loss of job posts or new job posts. Energy security is a mix of national security and security of energy supply.

There is no single approach of energy security. If viewed from the perspective of an energy import dependent country, the main challenge is to secure its energy supply by diversifying sources and routes. From the perspective of an energy export oriented country, the energy security issue depends on the need of having reliable long term buyers. Energy security is about reliability, affordability and sustainability. The aim is to have clean, cheap and secure supply of energy, but it is difficult to achieve all three aspects.

The concept of energy security of the EU is mostly focused on security of supply. However energy security apart from security of supply needs to include climate change and protection of critical infrastructure. Critical infrastructure is often considered a terrorist target.

Lack of oil could be a driver of energy security. Nevertheless, the gas crises in 2009 affected Macedonia in a way that the prices of heat energy were much higher in the winter 2009/2010. The gas consumption in Macedonia was smallest in 2009 due to the crisis.

Basis of long term energy security is reducing import dependence, increasing the number of suppliers, utilization of indigenous resources and renewable energy resources and reducing overall energy demand by introducing energy efficient technologies. Security of energy supply may be distorted due to factors such as technical issues with the energy system, lack of renewable energy, unsuitable organization of the energy sector, political factors, wars, natural disasters, terrorism etc. Energy security is a crucial part of a country's national security; but significantly influenced by the country's geopolitical position.

The EU is energy import dependent. 53% of its energy consumption is imported. Fossil fuels have the biggest share in EU's energy consumption and its energy demand is growing. External factors include climate change and having limited resources. Therefore, it is important for it to define energy security, to enable coordination of national energy policies and to diversify roots and suppliers. It is also significant to reduce its import dependence and increase the number of suppliers in order to create competition. Energy efficiency and renewable energy could contribute to the reducing of the overall demand; new technology could play a part in it as well. Energy is becoming a major issue for the EU due to the growth of global energy demand with the arrival of emerging economies such as China and India, because the resources of oil and gas are limited, climate change, the emergence of terrorism, and the return of Russia as a major actor on the international scene, notably with the Ukrainian crisis of 2006, 2009, and the one which began in February 2014. Germany began its energy transition after the Japan nuclear disaster aiming to phase out nuclear energy and diversify supply.

The European strategy for energy security includes several points, some of which include strengthening emergency and solidarity mechanisms including protection of strategic infrastructure; increasing energy production in the EU; further development of energy technologies; diversifying the supply; and improving coordination of national energy policy as well as speaking with one voice in external energy policy. There is a need of a wider debate on the protection of strategic energy infrastructure such as crucial gas and electricity transmission systems. Concerning the diversification of supplies the figures for the importation of gas for the year 2013, diversification of the sources of the EU is already well advanced: 39% from Russia, 33% from Norway, 22% from North Africa, 4% from other sources, LNG imports from Qatar and Nigeria reach 15%. About the imports from North Africa, Algeria and Libya, there is a geopolitical risk. About diversifying routes and sources the establishment of the Southern Gas Corridor and projects such as TAP are considered as important elements to respond to the mid-term and long-term energy demand of the EU.

Energy policy is not only national policy, but in order to have a single energy market, there is a need of interconnections. New possible source which could be important in the future is shale gas.

South Stream was considered a political project by Russia to bypass Ukraine. It is connected with state capture risks. That could mean that politics is shaped by big interests of individuals, not by national interests. This has happened in Bulgaria when a law was changed because of the South Stream project. It was considered an example of non-state actors having influence over policies. South Stream project became more expensive than its initial calculations and South Stream project's costs compared with Nord Stream, both with same diameter are more than 3 times higher per km in EUR. Related to the South Stream project is that Gazprom is a monopoly and that clashes with EU legislation.

Cooperation in the field of energy is a necessity and not only in terms of joint energy projects but also in cases of natural or man-made disasters. Bulgaria and Macedonia for example could build a gas storage.

Macedonia, as well as the countries of the Western Balkans, even Bulgaria are faced with high shares of **energy poverty**. Energy efficiency measures are something that households can undertake themselves to combat energy poverty. Wasteful use of electricity for heating is highly polluting. It is important for households to understand that energy is not a social category. On the other hand, feed-in tariffs for renewable energy increase the electricity price.

The Western Balkan countries are still **vulnerable to electricity and gas cut-offs**, and have many external and domestic risks to settle on the way of improving their energy security.

Closely related to energy security is the **import dependency issue**. For Macedonia approximately 30% of its electricity consumption is being imported. Additional information about this dependence is the fact that the imported electricity has increased in the period 2009-2013. Also, the share of electricity in the final energy consumption in households has increased in the period 2010-2013. It is cheaper to import electricity than to make the power plant in Negotino functional for instance. Experts recommend that Germany's example should be followed allowing natural persons to produce and sell electricity from renewables.

In case of electricity shortages, electricity consumption restrictions are being made in order for the system not to fall apart. There is a need for prevention plans on what to do in case of crisis. There are always some consumers which cannot remain without electricity like hospitals, kindergartens etc. One issue is the difficulty in storing electricity. In February 2012 the electricity crisis arose as a result of the ban on export of electricity from many countries, so Macedonia could not import electricity and was faced with electricity shortages.

While EU is concerned with gas shortages, Macedonia is more **vulnerable to electricity**. This is visible from Macedonia's energy balances, the share of electricity used by households and the industry, as well as the fact that electricity import increases. Also, by taking into consideration the event of the 2012 electricity crisis, efforts should go in direction of mitigating this state of electricity vulnerability. This can be achieved by offering other sources of heating than electricity for households (natural gas, developing district heating, efficient use of fuel wood, energy efficiency measures etc.), focusing on increasing the utilization of renewables, and of natural gas.

Macedonia's **dependence on natural gas** is demystified by the fact that although natural gas is 100% imported from Russia and the import of natural gas has doubled in the period 2009-2013, it still has a small share in the final energy consumption (1.7% in 2010). The utilization of the capacity of the system for gas transmission remains low and was only 20% in 2013. Positive development is that this share has increased over the years. Municipalities demand for support in their gasification endeavors. The gas distribution network has to be built in order natural gas to reach households. Only a small share of households is connected to gas, before 2013 there were no households connected to gas supply. Therefore, local gasification projects should continue in order to increase the share of households utilizing natural gas for heating.

Although, not the highest energy security concern at the moment, the increasing utilization of **natural gas** means that the country should think more intensively about the energy security concerns of natural gas, to try to join as many as possible gas pipelines, but most importantly to undertake all measures that is able to achieve on its own in the meanwhile - to utilize the maximal capacity of its gas network as well as to increase its capacity. Macedonia as EU candidate country should follow EU's advice on streamlining the agreements for joining different projects in accordance with the EU energy law.

The **liberalization of the electricity market** in Macedonia needs to take place step by step. The postponement of the full electricity market liberalization was announced suddenly on 9 October 2014. This makes the country in breach of the Treaty establishing the Energy Community. The Macedonian Government's explanation is that the electricity price for households will increase upon the full electricity market liberalization. The Government should reconsider the decision to delay the liberalization of the electricity market.

As the **electricity prices** will be increasing in the upcoming period, Macedonia should intensively continue with the energy reforms for mitigation of the consequences from rising energy prices such as: reforms to improve the heat market, improving energy efficiency, support of the local gasification projects and gasification on central level.

Prepared by: Ana Stojilovska, Analytica: astojilovska@analyticamk.org