Energy Community Treaty: conclusion

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The Commission presents a report on the experiences gained from the implementation of Council Decision 2006/500/EC on the conclusion by the European Community of the Energy Community Treaty. The report reviews the achievements of the Energy Community and its main challenges for the future.

It is recalled that the Energy Community is based on a Treaty signed between, on the one hand, the European Union and, on the other hand, the following nine Contracting Parties: Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Moldova, Montenegro Serbia, Ukraine and UNMIK. Fourteen European Union Member States have moreover a special bond with this organisation, reflected in their status as "participants" in the process

(Austria, Bulgaria, Cyprus, the Czech Republic, France, Germany, Greece, Hungary, Italy, the Netherlands, Romania, Slovakia, Slovenia and the United Kingdom). To date, Georgia, Norway and Turkey have the status of Observers.

By joining the Energy Community, the Contracting Parties committed themselves to an ambitious project that demanded a huge effort in terms not only of legislative work, administrative capacity and resources, but also of political and social perception.

A success story: the report concludes that after 4 years of existence, the Energy Community has grown into a mature organisation, which provides a solid institutional framework for cooperation, mutual support and exchange of experiences and therefore serves as a model for regional cooperation on energy matters.

The Energy Community has highlighted the advantages for the Contracting Parties of following a regional approach, compared with the traditional bilateral relations with the European Union. It has proved that, independently of the prospect of future accession to the European Union, Contracting Parties can already benefit in the short term from the advantages of the EU internal energy market. The Commission considers that the progress made so far indicate that the Energy Community is called to extend its existence beyond 2016.

Main challenges: while recognising the considerable efforts made by the Energy Community so far, especially from the institutional perspective, the Commission is aware of two key areas where there is room for improvement.

a) Implementation of the acquis and enforcement of the rules: despite intensive legislative work, the first level of ambition – the existence of open, transparent and competitive national energy markets in all Contracting Parties – has not yet been completed. Bridging the existing gap between theory (political commitments) and practice (full implementation of the Energy Community acquis and enforcement of the rules adopted) remains the main challenge, and the key question is how to prompt Contracting Parties in the region to apply and enforce the rules.

Formal transposition of the "Energy Community acquis" cannot be an end in itself, but must be a means to achieve the objectives of the rules. The goal is to create a true energy market, starting by reforming of the existing system of regulated prices and blanket subsidies. Setting realistic objectives and realistic deadlines will help to avoid situations of lack of compliance, as will appropriate accompanying provisions that duly take into consideration the profile and needs of the Contracting Parties.

b) Promoting investment: the Energy Community has succeeded in identifying a number of priority projects of strategic importance for the region, which were endorsed by the Ministerial Council in 2010, whereby precedence is given to projects facilitating cross-border exchanges. The current insufficient interconnection capacity is indeed an obstacle to developing regional markets.

The Energy Community has helped the Contracting Parties attract significant public financing, be it from bilateral donors (e.g. KfW or USAid) or from international financial institutions (e.g. the EIB, the World Bank or the EBRD).

Despite the high level of funding from international financial institutions in the region, the level of private investments remains relatively low. Reasons for that include the unreliable implementation of the regulatory framework and the small scale of national markets. However, the biggest challenge still appears to be the failure of governments to restructure regulated end-user prices and the associated implicit and explicit subsidies on all energy markets.

Next steps : on the basis of the report, the Commission intends to contribute to achieving the goals of the Energy Community, as follows:

- promote **changes in the working methods** of the institutions and bodies of the Energy Community, including organisation of ad hoc meetings at Ministerial level on specific priorities related to the fulfilment of the objectives of the Energy Community;
- proactively prompt the implementation and effective enforcement of the rules;
- promote the implementation of the Third Internal Energy Market Package and of the Directives on Renewables and Energy Efficiency as a means to speed up the full integration of the Energy Community in the single European energy market; and consider the inclusion of further acquis to promote the de-carbonisation of the energy sector;
- promote **appropriate investments** in the region by means of adoption of a coherent investment strategy that takes into consideration in particular the infrastructure needs of the energy sector, the necessity to decarbonise the energy supply, the impact of energy savings and the potential for development of sources of renewable energy, and

- promote the implementation of the Memorandum of Understanding on Social Issues.