

POLICY PAPER

SOUTH-EASTERN EUROPE: MORE THAN A GAS TRANSIT REGION



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Brussels / Strasbourg, 10 March 2015

The region of south-eastern Europe (SEE) has long been considered by the European Union as a gas corridor only. This lack of leadership from Brussels created political vacuum, with a lot of space for Russian, Turkish and Chinese interests to mature pipe-line projects, anchoring the region in a debate exclusively focused on security of gas supply.

Did you know that?

- The largest European on-shore wind farm is located in Romania, in the delta of Danube, with 240 turbines and 600 MW installed.
- Bulgaria installed 843 MW pf photovoltaic in 2012 and ranks sixth out of EU28 with 140 W/capita in 2013.
- Almost 100% of the electricity generated in Albania comes from large and small hydro power plants. This figure amounts to 57% in Montenegro and 46% in Croatia.
- Up to EUR 282 million have been lent by the EIB to the municipality of Bucharest to proceed with the renovation of family housing in four districts of the city, leading to 50% energy efficiency gains.

However we trust that SEE is much more than a gas corridor and should be considered for its own merits. SEE is showing tremendous progress on renewables and energy efficiency, which remain largely under-estimated in the rest of Europe (see besides).

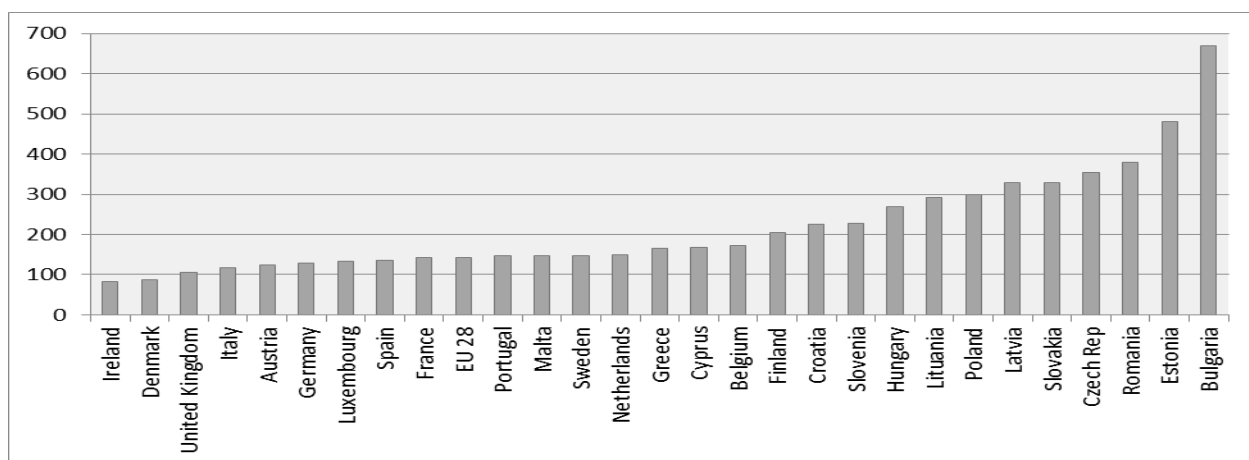
In this context, we would like to propose a real strategy for SEE, aiming to tap the full potential of renewables and efficiency in the region. This goes through the establishment of a functioning macro-regional market, as they started to emerge in other regions of Europe such as the Pentalateral (France, Germany, Benelux), NordPool (Denmark, Finland, Norway, Sweden) and the Baltic Energy Market Interconnection Plan (Estonia, Latvia, Lithuania). But our objective goes also beyond pure market interconnection, with the ambition to promote joint projects or joint support mechanisms in the sectors of renewables and efficiency.

1. Geographical scope

It is of utmost importance that the SEE macro-regional collaboration includes EU countries as well as countries which are not in the European Union such as Albania, Bosnia and Herzegovina, the Former Yugoslavian Republic of Macedonia, Kosovo, Montenegro and Serbia. Amongst EU countries, the most relevant member states are of course Austria, Bulgaria, Croatia, Greece, Hungary, Italy, Romania and Slovenia.

2. Energy Efficiency

Despite noticeable progress in the renovation of buildings in parts of the region (notably Bulgaria and Romania), SEE is still relying on a highly inefficient buildings stock and shows very high energy intensity in their economy. Overall, the most energy intensive country in Europe, Bulgaria, shows intensity eight times higher than the best performers, Ireland and Denmark (670 compared to 83 toe/M€GDP).



Energy intensity in EU 28, in toe/M€ GDP¹: investments in efficiency are key to reduce the economic divide¹

Other parts of the region such as Western Balkans countries are in an even more worrying situation. As the Energy Performance of Buildings Directive (EPBD) does not apply, even new buildings are not complying with the state of the art.

We propose the establishment of an energy efficiency fund for SEE under the European Fund for Strategic Investments (EFSI). The EFSI leaves room to support decentralised or regional platforms, and offers technical assistance in order to bundle small renovation projects into larger ones, more bankable and less risky for investors.

The upcoming strategy for heating and cooling announced by the Commission in the Energy Union should also address the SEE region and show incentives to modernise district heating systems with a shift from gas to biomass or solar. In cities like Copenhagen, waste to energy and cogeneration represent 97% of the whole city's heat needs.² Why wouldn't it be possible in countries of SEE which benefit from way higher solar irradiation conditions?

¹ European Commission, [EU Energy in figures: Statistical Pocketbook 2014](#)

² <https://setis.ec.europa.eu/system/files/1.DHCpotentials.pdf>

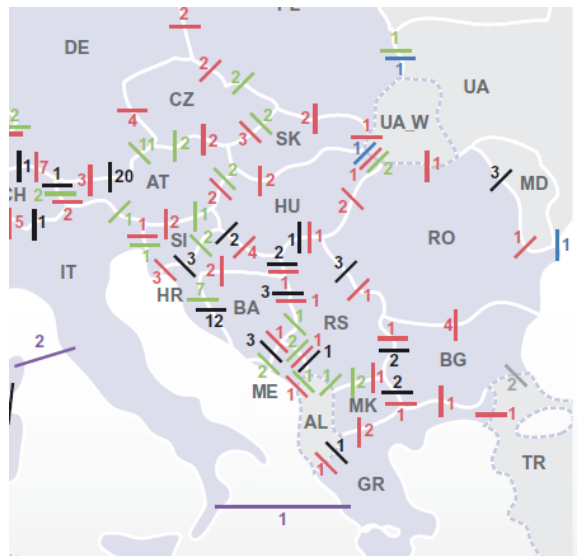
3. Renewables

The penetration rate of electricity produced from renewable sources in the region is today extremely low despite a widely acknowledged potential. Indeed, it is estimated that "the majority of countries could fully cover their electricity demand with their technical RES-E potential".³ Beyond hydro, solar is the most promising technology with very high solar radiation reported in the region. Nearly all countries also show considerable onshore wind potential. Biomass is also extremely present throughout the region. This renewable potential is all the more relevant that SEE countries show higher dependency on fossil fuel imports, leading governments to develop or extend their nuclear programmes (cf. Czech Republic, Hungary, Romania, Slovakia) and plan high-carbon investments.

Part of this potential is already tapped (wind in Romania, photovoltaic in Bulgaria, hydro in Albania) and part still needs to be exploited. However, the fact that EU member states from the region already met their modest 2020 targets does not constitute an incentive for further investments, unless countries from the region decide to use the cooperation mechanisms foreseen under the RES directive to "sell" renewable energy to countries in need for 2020: chiefly Luxembourg, the Netherlands, the United Kingdom. After 2020, countries like Austria, Germany and Italy would also become net buyers. In addition, we should also help designing effective support mechanisms and re-establish trust after retroactive changes damaged investors' confidence in some countries.

4. Electricity markets

While some of the physical interconnections between the electricity markets of south-eastern European countries are in place, more needs to be done to ensure full connectivity.⁴



³ André Ortner, Gustav Resch, Andreas Tuerk, Christoph Zehetner, *Policy brief Indigenous energy resources of South East Europe – Feasibility of enhanced RES-E deployment*, TÜ Wien, EEG, November 2014.

⁴ See Davor Škrlec, MEP (Greens/EFA), *Energy Union - Opinion and recommendations for South-east Europe (MS and neighbouring countries)*, February 2015

In addition, electricity markets in SEE are only slowly opening to competition (large domination of state-owned utilities with regulated generation) and many administrative barriers remain, marked by regulatory uncertainties, unsolved property issues, cumbersome permitting processes, lack of qualified human resources. We need to build up a fully functional regional electricity market, implying close cooperation between Transmission System Operators (TSOs) but also regulators. Countries of the region would benefit from a regional electricity market in terms of system adequacy. We recommend the development of regional market for ancillary services and the implementation of electricity network codes in the region. Existing institutions like ACER, ENTSO-E and the Energy Community have a major role to play.

5. The way forward

The need of a strategy was identified by the Commission in the Energy Union adopted on 25 February 2015: *"Given its particular vulnerability, there is a need to improve cooperation, solidarity and trust in the Central and South-Eastern part of Europe. (...) The Commission will develop guidance on regional cooperation and engage actively in regional cooperation bodies with Member States and stakeholders"*.

This call is echoing some recent initiatives in the region, like the Tirana declaration on "Energy Efficiency Policies in the Balkans: Opportunities for Regional Cooperation" adopted on 15 September 2014 by regional leaders, or the Joint Press Statement by Ministers and Representatives of Austria, Bulgaria, Croatia, Greece, Italy, Romania and Slovenia and VP Šefčovič of 9 December 2014. On 9 February 2015, a High Level Group on Central and South Eastern Europe Gas Connectivity was inaugurated in Sofia. Projects like BETTER, financed by the European Union, also try to bridge between member states and non-member states in SEE.⁵ However these attempts are rather uncoordinated, leading to the observation from CEPS that *"many regional energy policy coordination initiatives exist; one shortcoming of their effectiveness is the lack of governance framework"*.⁶

We would like to make a bigger space for efficiency, renewables, and electricity markets in these discussions and to have the European Commission in the driving seat to overcome this lack of governance. Thus we recommend the creation of a SEE platform on renewables, gathering local governments, TSOs, relevant international organisations (such as IRENA), academic experts (the Technical University of Vienna) but also progressive companies basing their development on renewables (IKEA, the vivid Bulgarian IT sector) with the mandate to explore potential synergies between the different countries of SEE. The creation of an informal "friends of renewables in SEE" group in the European Parliament is also a first step in this direction.

⁵ BETTER intends to address RES cooperation between the EU and third countries in several dimensions. The starting point is given through the cooperation mechanisms provided by the RES Directive, allowing Member States to achieve their 2020 RES targets in a more cost efficient way, and thereby including the possibility to cooperate with third countries.

⁶ CEPS, *Regional Energy Policy Cooperation Initiatives to achieve EU energy policy objectives: Focus on South East Europe*, First Meeting, 20 January 2015.

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