



POWERING

SOUTHEAST EUROPE

The region should focus on cooperation in producing and distributing energy

BY JULIAN POPOV, *energy policy advisor*

Smoke billows from the towers of a coal-powered power plant in Obilić, Kosovo. Coal remains a heavy contributor to the energy supply of many Southeast Europe countries.

REUTERS

The Schuman Declaration that laid the foundations of the now vast and complex European Union had one main objective: to prevent another devastating conflict in Europe. And it had one main mechanism for achieving its objective — making war “materially impossible.”

The founding fathers of the EU knew painfully well — “unthinkable” is not enough. Europe was recovering from two consecutive world wars that at some moment in time had been unthinkable. However, they did happen. We are now witnessing another unthinkable conflict unfolding in front of our eyes — the aggressive erosion of Ukraine.

The rational agreements that were supposed to make future European conflicts unthinkable are failing. And in this degradation of the post-war European order, energy is playing a key part.

ENERGY PRESSURE

Ukraine runs one of the least energy-efficient economies. The energy waste and the distorted, or even nonexistent, energy market made the country highly dependent on energy imports from Russia. The amalgamation of the political and the energy-sector elites made the country highly vulnerable to external influence.



Southeast Europe, a region that extends from Italy to Turkey, might not be an immediate target for a Russian, or any other, external destabilizing ambition, but historically the region has proven to be highly susceptible to conflicts that could spill beyond its borders.

In a 2006 interview, just before Bulgaria joined the EU, Vladimir Chizhov, then-Russian ambassador to the EU and a former deputy foreign minister, said that he hoped Bulgaria would be a Russian Trojan horse in the EU. This may have been a slip of the tongue. The statement, however, remains to this day a symbol of how Russia treats, or would like to treat, countries in the Balkans. Energy projects are the bloodstream of such a strategy.

SOUTH STREAM

Southeast Europe is traditionally an attractive target for Russian influence. The recent saga of the South Stream gas pipeline project, which was supposed to cross the Black Sea and enter the EU on the Bulgarian coast, was yet another reminder of Russia's nostalgic imperial aspirations. The highly politicized pipeline project grew more and more expensive, its projected cost reaching an estimated 7.4 million euros per kilometer. Analysts suggest comparable infrastructure would cost just over 2 million euros per kilometer if built in Germany, where land and labor are considerably more expensive. While the precise numbers could be debated, it is clear that every kilometer carried a vast price tag above any commercial justification.

The bloated cost supported activities and interests that were heavily influencing political decisions, and even legislative processes, in a number of countries. The negotiations regarding South Stream in Bulgaria have been blamed for the collapse of a major bank in the country and even the government in 2014. South Stream is just one example, though probably the most dramatic. Nuclear projects, coal power plants and large hydroelectric projects are often justified without transparent political debate or commercial logic.

BALKAN FRAGMENTATION

The political fragmentation of Southeast Europe produces the best environment to enable the Trojan horse theory. For a region that gave management theory the term "Balkanization," meaning internal organizational division, this is not surprising.

Today, some Southeast European countries lack a solid common platform for a coordinated energy policy. Some countries are part of the EU; others are not. Some countries are part of the Energy Community; others are not. Various conflicts mark the history of the region, where most people have a distorted but remarkably strong memory of past wrongs.

South Stream is an intriguing reminder of regional fragmentation. It is difficult to say to what extent the pipeline would have brought energy security or economic benefits to the region. However, had the countries affected by the project acted collectively and transparently, the pipeline would probably not have been canceled, and its cost would have been comparable to that of similar infrastructure in Western Europe.

Electricity generation overcapacity is another reminder of problems arising from the region's fragmentation. Countries such as Bulgaria or Romania have an excess of generation capacity. Others — Turkey and some Western Balkan countries — cannot always meet their power supply needs. The lack of a developed regional power market does not allow generation capacity to be shared properly. As a result, some countries will continue to experience power cuts while others will develop additional capacity by building isolated plants that won't pay a return on the significant investment.

RENEWABLES

Southeast Europe enjoys by far the richest economically viable renewable energy potential in Europe. It has plentiful wind, abundant biomass and geothermal energy, and up to 50 percent higher solar irradiation



This dry shoreline in April 2014 at the confluence of the White Drin and Black Drin rivers near Kukes, Albania, is normally covered by water. Albania, which relies almost entirely on hydroelectric generation, saw water flows cut by 40 percent from drought, demonstrating the need for regional cooperation in energy provision. REUTERS

than areas in Germany where some of the largest European photovoltaic solar power plants are located. Southeast Europe is also the only European region where the significant potential for hydroelectric power generation is not fully developed. The hydro potential of the region offers a good solution for plugging holes in intermittent generation from other renewables sources.

Renewables are a clean and indigenous energy source that could significantly increase the energy security of Southeast Europe, create jobs and make the region a valued contributor to EU climate mitigation objectives. To benefit fully from this renewable resource, much closer regional coordination is required, not least because of the need to compensate for intermittent generation.

Southeast Europe is a politically vulnerable and economically promising region, with the Balkans offering the most economical option for a foreign power wishing to destabilize Europe. Its energy security is not simply a matter of guaranteeing uninterrupted national energy supplies; it is also a matter of reducing national and regional security risks.

Going back to the Schuman declaration,

Europe needs an arrangement that would make using energy to destabilize Europe “materially impossible.” Europe needs formalized Southeast European energy cooperation that would closely interlink energy infrastructure and markets. The question is, however: What kind of infrastructure and what kind of markets?

IT'S NOT ABOUT GAS

When we talk about energy security, we tend to focus on natural gas. There are good reasons for this. Many countries are highly dependent on gas, and it is usually imported through cross-border pipelines with a high level of political sensitivity. The picture, however, is more complicated.

Southeast Europe includes countries with high levels of gas consumption — Austria, Italy, Romania and Turkey — and countries with low levels of gas consumption — Albania, Bulgaria, Greece, Kosovo and Serbia. It's unlikely gas prices will significantly increase in the near future.

First, gas is not price competitive with Southeast Europe's biomass. Many countries in the region do not have developed infrastructure that could bring gas to most homes. The cumulative investment to connect the majority of



Two pipes mark the site where Serbia began construction of its section of the South Stream natural gas pipeline to bring Russian gas to Southeast Europe. Bulgaria halted work on its section in August 2014 because it does not meet European Union competition laws, causing indefinite postponement of the project. AFP/GETTY IMAGES

households to the gas network is huge.

Second, new energy-efficiency policies are starting to work. They not only reduce energy use, but also bring deep energy system changes. From 2018, the new Near Zero Energy (nZEB) standard for new buildings will be introduced across the EU. This will mean that gas would most likely not be needed in new buildings.

The nZEB standard, as well as other high-efficiency building standards, are starting to have an effect outside the EU. The new building standards, including retrofitting older structures, could make electricity much more efficient for heating and could reduce reliance on gas.

We are witnessing a parallel trend of electricity, not just in buildings, but transport. We might treat electric cars as an eccentric and expensive novelty (as we treated digital photography and mobile phones 20 years ago), but they will soon

significantly impact the energy system.

In that sense, the most probable cause of increased gas consumption in Europe would be replacing coal and lignite power plants with gas generation. This is particularly relevant for Southeast Europe, where domestic gas infrastructure is very limited and lignite deposits abundant.

Gas, of course, will continue to play an important role in the foreseeable future. In order for the gas trade and infrastructure agenda not to be hijacked, the region must develop a functioning gas market to guide infrastructure development.

ELECTRICAL NETWORK IMPROVEMENTS

For Southeast Europe, energy security cannot stop at gas, even if the region develops a fully liberalized gas market, an objective still far beyond the horizon. Developing a functioning regional electricity market should be a priority. The reason is simple. Southeast Europe has limited deposits of natural gas. It does, however, have a widely varied and well-developed power-generation sector spanning hydroelectric and renewables.

Given the trend for building and transport electrification, the region will benefit hugely from well-connected transborder power grids, a liberalized power market and proper integration of growing renewables generation capacity.

Contrary to popular opinion, renewables will reduce wholesale power prices and open opportunities for stable and lower, market-driven consumer power prices. This development, however, is difficult to achieve simply in the framework of national power systems. Renewables generation needs a larger territory for sharing, storage and balancing of the system, including across time zones. Properly structured regional energy cooperation is required for the utilization of hydroenergy. Currently, the region is strewn with conflicts or disagreements that block the mutually beneficial development of available hydro resources. Regional cooperation is needed to ensure the environmental sustainability of hydroenergy potential.

ENERGY EFFICIENCY

The first question should be: How much energy does the region need? There is not a simple answer, but one thing is clear — Southeast Europe does not use energy efficiently. Low energy efficiency represents an additional and significant energy burden. Romania and Bulgaria are the two least energy-efficient countries in the EU. Most of the Western Balkans score no better. Finding a workable and scalable model for reducing energy intensity will provide economically and socially attractive energy security in the region.

This is much easier said than done. A major problem is the low energy efficiency of housing stock. Residential properties are mostly privately owned, and finding a way to develop large-scale energy-retrofit projects for residential buildings is proving hard. Most residential retrofitting for energy efficiency is now done by private owners and municipalities, but it could become a regional initiative. Climate conditions, building standards, materials and skills are similar throughout the region. Heating and cooling systems also share similarities. A regional initiative for retrofitting buildings would be complex and initially unattractive for financial institutions, but the return in terms of economic activity, social benefits and energy security would be huge.

ENERGY UNION

These opportunities and ideas have been floating around for some time, but only serve as partial solutions for a region that has been traditionally seen as troublesome and — as far as energy is concerned — as a corridor connecting Central Europe with alternatives to Russia gas sources.

Following the Ukrainian crisis, the EU embraced creating a European Energy Union. Essentially, this would strengthen the resilience of Europe against energy supply interruption and the use of gas imports for geopolitical ends. The idea quickly evolved beyond gas and is now moving toward a deeper coordination of all key European energy policies. A regional approach to energy infrastructure and market integration with a specific focus on Southeast Europe have taken an important place in the concept.

The Energy Union should recognize the full complexity of Southeast European energy policy integration — from development of a common concept for gas and power infrastructure and markets, through regional energy efficiency policy to research and development. In any case, it is essential that regional energy integration is based on a strong governance arrangement with proper involvement of the European Commission and the Vienna-based Energy Community Secretariat to develop a common approach for bringing the region together.

TURKEY

In the process of integrating energy systems and policies in Southeast Europe, one big question remains: What is Turkey's role? In composing a European energy policy, it is easy to ignore Turkey. The energy chapter for Turkey's

accession to the EU has still not been opened. Turkey has a tense relationship with Cyprus regarding gas exploration in the Eastern Mediterranean and some now see Turkey as siding with Russia on South Stream.

These are not reasons to ignore Turkey, which is a natural part of the European energy system. One reason is its place as the main part of the Southern Gas Corridor, but Turkey also is an EU electricity trading partner, and that relationship has excellent potential for expansion.

Turkey has an ambitious renewables programs and plans to install 20 gigawatts of wind capacity by 2023. The country could offer vast renewables potential to the region and beyond. Integrating Turkey into regional energy cooperation initiative as part of the Energy Union process is essential.

RUSSIA

Russia cannot be omitted when discussing a Southeast Europe energy security agenda. Russia is widely seen as an aggressor, often using or protecting energy interests with its behavior. This view is not unjustified. This should not mean that Southeast Europe, or the rest of Europe, should work toward cutting energy supplies from Russia. Regarding Russia, the main task should be to reduce to a minimum the Trojan horse mentality of Russian energy policy and force Russia to play according to the rules of the energy market.

These rules are tough on Russia for two reasons. First, Russia depends excessively on energy exports for its economic survival. Second, gas consumption in Europe is falling, and energy diversification is growing. Russia is facing big risks to its gas export position, which it is trying to defend by nonmarket means. Everyone loses from this approach, including Russia. In that sense, defending the EU's market is an essential approach to reducing the energy, political and territorial security risks for European countries.

COOPERATION AND SECURITY

For most of the countries of Southeast Europe, the security of the gas supply is not as serious a problem as many are trying to suggest. The debate of "gas from Russia or gas not from Russia" is a fake dilemma. Energy solutions in the region are much more complex than dependency on Russia or cooperation with Russia.

These solutions can only be addressed by a strong Southeast European energy cooperation arrangement that covers the full spectrum of current and expected future energy developments. Such arrangements require a high level of transparency, effective operational mechanisms and a regulatory framework that would encourage rapid market-based development of the energy sector.

In that way, Southeast Europe will make its destabilization not just unthinkable, but also materially impossible. And that will block one of the main avenues to destabilizing the rest of Europe. □