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THINK VISEGRAD V4 THINK-TANK PLATFORM

1st meeting of the Working Group “Energy Security”

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Prague Security Studies Institute (PSSI), Pohořelec 6, Prague, Czech Republic

Background paper

Recommendations for governments of V4 countries with respect to regional energy cooperation adopted after the 1st Meeting of the Working Group on Energy Security of the V4 Think-Tank Platform

The Working Group calls for enhanced energy cooperation between V4 countries to meet immediate and long-term challenges of ensuring security of supply, through setting up functioning liquid market for gas and electricity and meeting climate policy commitments. To be truly operational, proposals should be first of all aimed at formulating joint response to current initiatives in the field of EU energy policy (i.e. Infrastructure Package and Communication on the Future Role of Regional Initiatives), since these will eventually set the framework for regional cooperation. The V4 countries should pursue the policy based upon two pillars: developing common positions with respect the EU initiatives in parallel to launching and implementing concrete projects of regional added-value. Moreover, there is a necessity for coherent regional response to the risks emanating from the Russian project of the Baltic Pipeline System 2 that might significantly change the geography of oil supplies within the region in the near future. Finally, given the potential socio-economic impact of climate policy and using the experience of joint coalition during negotiations of climate and energy package V4 countries should give special attention to mutual cooperation in this field.

(1) Joint responses to the EU policy initiatives and improving energy cooperation between V4 countries in the field of gas and electricity

- With respect to the Communication of the EC on the Future Role of Regional Initiatives. V4 countries should opt for preserving present character of gas regions. However, the Communication does not envisage a region, where all Visegrad countries could join their efforts. Thus, having in mind common cross-border projects, ownership structure of energy industries within the region and the need for harmonizing regulatory policies it is important to ensure that all V4 countries belong to one region with participation of Romania and Bulgaria, and with Croatia as an observer. This would reflect achievements of V4+ cooperation and improve coordination of joint projects. Governments should be more active in the process of shaping regional gas initiatives and fully open national gas markets for competition instead of limiting market opening to EU requirements.
- Consensus within V4 on developing North-South gas corridor should be welcomed. Yet, joint infrastructure projects should be supplemented with transparent, predictable, homogenous and competitive regulatory environment. Thus V4 governments should aim at harmonizing regulatory and tariff policies, capacity allocation mechanisms, and network codes. To identify regional commonalities and discrepancies the governments should prepare a joint study on desirable regional market design and its implications for individual countries and the region as a whole.
- V4 should develop common position towards the EC Infrastructure Package of November 2010, especially with respect to more balanced cost-sharing within the EU of planned investments. V4 should work on minimizing the risk of becoming just an end-consumer of electricity generated from uncompetitive sources outside the region. Joint V4 cost-benefit analysis seems necessary in the light of long-term financial and technical challenges that might be posed by current Commission's plans. Moreover, V4 should implement common position on new EU funding mechanisms for energy projects, as indicated in the V4 letter to the EC of 14th September 2010, bearing in mind effectiveness for the V4 countries of existing programmes and instruments i.e. the cohesion policy.

- V4's diverse electricity generation portfolios hold synergy benefits that could be extracted through organizing a regional electricity market balancing mechanism, instead of the current small scale national balancing. With adequate infrastructure upgrades it would bring market and supply security benefits to the customers throughout the region. In the framework of this initiative joint renewable grid integration plan may be set up, easing the connection of new wind and solar capacities to the network, provided that it enhances competitiveness and does not hamper stability of the regional electricity market.
- V4 should examine the possibilities of harmonized renewable supporting schemes. For instance, common policy towards biogas production and its natural gas network feed-in protocols could increase self-sufficiency and security of gas supply across the region.
- V4 should consider the harmonization of national energy strategies. Due to various ownership structures and corporate strategies of energy companies throughout the region, the detailed map of corporate actors and interests should be drawn. To narrow down the gap between state and corporate interests and expectations participation of industry is indispensable.
- The nuclear renaissance may produce base-load capacities surplus and drop in base-load electricity prices that can harm investors. The harmonization of large scale state-supported power generation projects would make the environment for investors more stable. Proper look out should be given to V4 cooperation in the field of nuclear energy, including joint research projects, e.g. the development of a reactor of new generation.
- V4 countries should make use of the possibilities envisaged by the Regulation on security of gas supply in preparation of regional risk assessment studies, as well as joint preventive and emergency plan, if necessary. Common efforts to minimize regional exposure to the external risks requires regular cooperation between governments and respective institutions (Competent Authorities, national regulatory authorities, transmission system operators), exchange of information, harmonizing national strategies, and synchronized implementation of security standards set up by the regulation.

(2) Ensuring security of oil supply

- Russian oil project BTS-2 gave rise to growing uncertainty about the future of "Friendship" pipeline system and oil supplies to the Central Europe. V4 countries individually and jointly should turn European institutions' attention to the oil supply problem and its technical, financial and political implications. Using its own and EU channels (i.e. EU-Russia post-PCA talks) V4 should strongly demonstrate its concerns about oil supply security and ask Russia for clarification of its plans.
- Political activity should be supported by joint practical cooperation in mitigating potential risks is necessary. V4 countries should without delay prepare multi-variant analysis of various hypothetical scenarios of supply disruptions based on joint risk assessment. The study should cover an evaluation of current technical resilience of the pipeline system in the region, as well as assessment of potential economic implications of these scenarios for the industry and states.
- Moreover, V4 countries should take further steps to instigate already identified projects (*inter alia*, capacity expansion of TAL-IKL pipeline, Adria pipeline and Slovak-Hungary link, construction of the Litvinov-Spergau pipeline and finalization of Odessa-Brody-Plock) aimed at reducing regional vulnerability to oil supply disruption. V4 countries should also coordinate their efforts to gain EU financial support for these projects.

(3) Climate change

- V4 countries proved to have much in common with respect to climate policy. Now there is a need for translating general political consensus into more practical, pragmatic, business-oriented cooperation to ensure more beneficial/less costly distribution of costs and benefits of EU climate policy. Instead of climate policy following, V4 should consider joint and proactive climate policy development that would improve the regions' bargaining position in EU level Climate Policy discussions.
- V4 should act in accordance with the adopted 20-20-20 strategy of the EU emphasizing at the same time that any attempts to increase the level of binding CO2 emission reduction from current 20% to 30% in 2020 would be acceptable only after

other participants of international climate change negotiations are ready for similar commitments.

- V4 (and V4+) countries should consider developing a joint position towards the EU's decarbonisation policy up to 2050. It should be examined if the seemingly diverse interests of V4 countries – namely between coal-abundant Poland and the Czech Republic and the others – can be accommodated in joint regional strategy that would bring mutual benefits for the whole group. A cost-benefit analysis would help V4 policy makers to consider a development of a region-wide low-carbon strategy, where coal run economies would not need radical energy generation restructuring and could introduce clean coal technologies in V4+ countries. All technologies shall be subject to security analysis, taking into account further enhancement of competitiveness of power generation within the region as well as in relation to non-EU countries.
- V4 countries should also be more active in using the opportunities offered by the climate policy, for instance through initiating collective research programs, enhancing cooperation between administrations and expert communities. Currently V4 countries pursue individual policies with respect to such issues as reaching bio-fuel goals, subsidization of renewable energy sources, and energy efficiency. Harmonization of policies would be welcomed as regional markets are too small to act alone.