

# **Energy sectors and economic development in post-communist European countries**

Martin Jirušek, PhD

# Regions and defining features

# The Baltics

- Russian proximity as an ever-present feature
- Exceptionally close structural ties to the former USSR
- Experience of supply leveraging
- Geopolitical reasoning dominating the discourse
- Natural gas and power generation as the most significant features of past ties, and also sources of concern
- Strong self-consciousness even during the CW, higher living standards comp. to the rest of the USSR, exceptionalism (within the USSR)

# Central Europe (Visegrad)

- Crucial transit countries
- Self-perception of exceptionalism
- Self-distancing from the eastern Europe
- Head start in economic transition
- Diverging attitudes towards Russia in later years
- Borderline of the former spheres of influence

# Southeast Europe

- Delayed economic transition
- Higher dependence on Russian supplies
- Unstable political environment
- Subjected to political bargaining (also in connection to infrastructural projects)
- Sparse or incompatible infrastructure
- Declining role in transit

# Western Balkans

- Plagued with internal struggles
- Delayed transition
- Constraints to public administration and governance
- Diverging trajectories (North vs. South)
- On the periphery (transit- and supply-wise)
- Missing incentives

# Infrastructural projects and trends

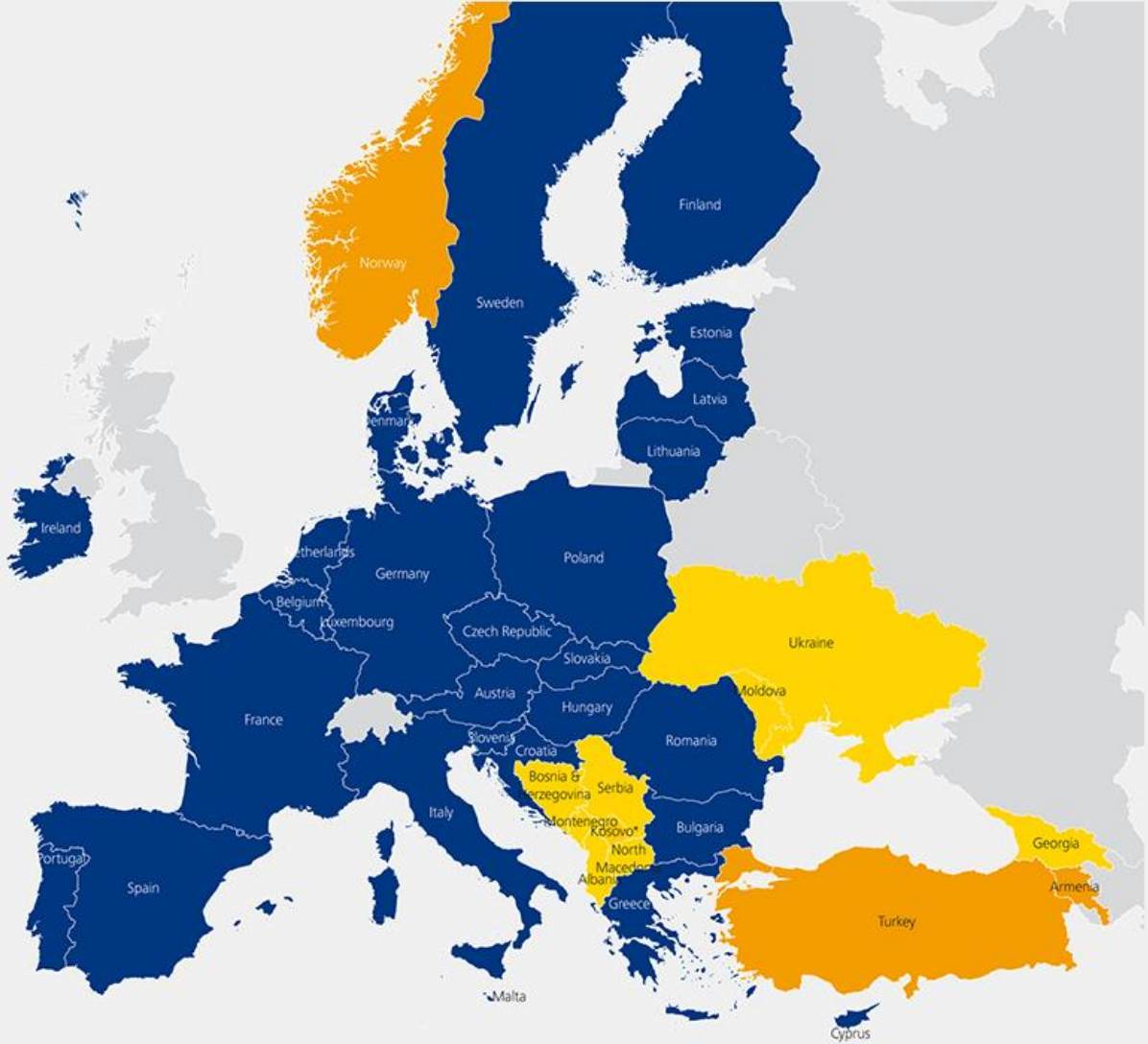
- Various platforms for infrastructural development – PCI, PECE/PMI
- Number of various projects (pipelines, interconnectors) with varying viability
- Often dubious financial/market reasoning – insufficient potential demand to justify the project in several cases (e.g. projects in the western Balkans)
- Non-EU members on the path to implement IEM rules – Energy Community
  - Penetrating the formerly monopolized area with market principles

# Membership

- Contracting Parties
- Observer
- EU Participants

 European Union

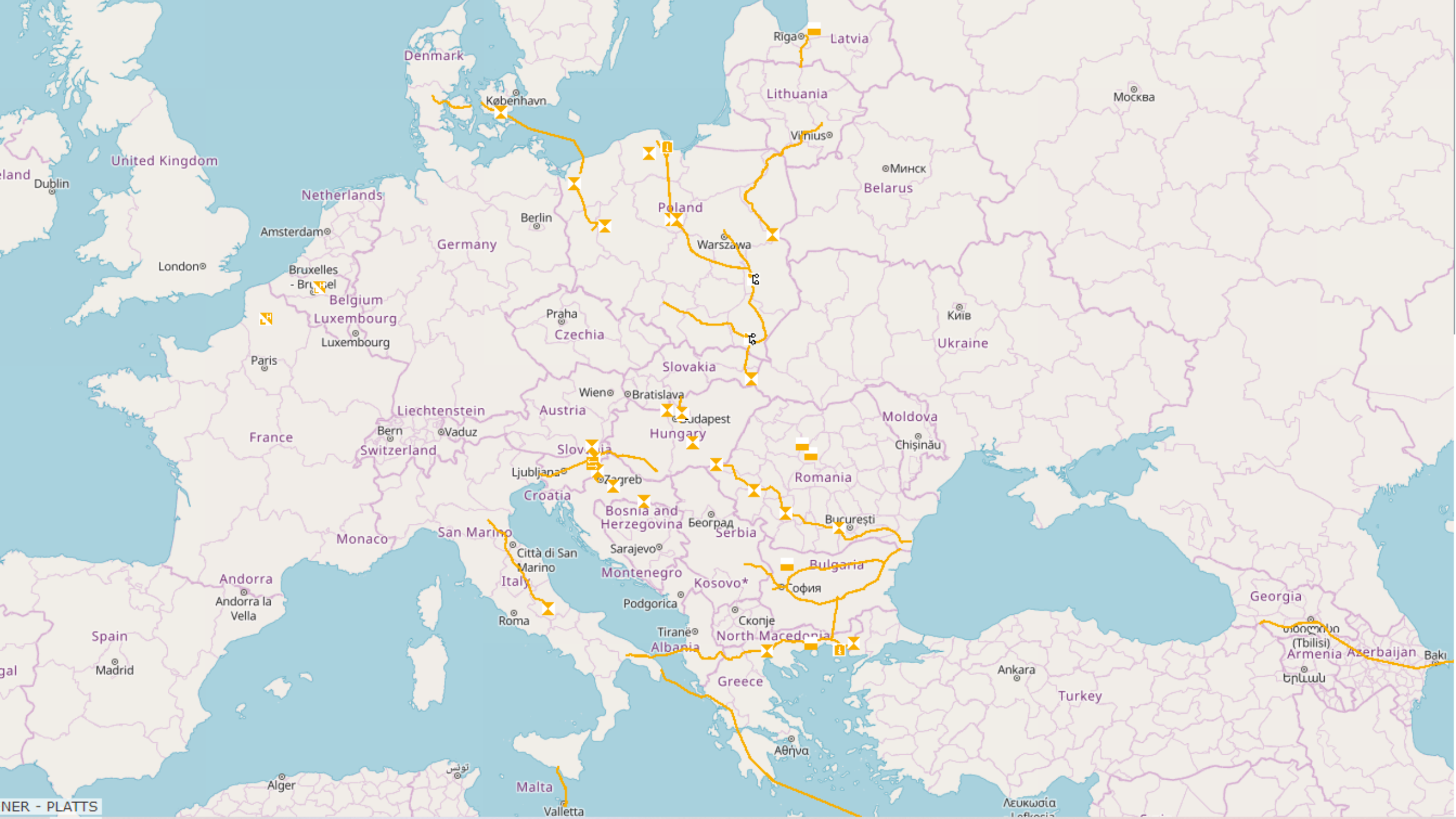
\* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.





# EC's Projects of Common Interest

- EC's way of supporting infrastructural projects, updated every 2 years
- Financial assistance, visibility, reliability for potential investors
- Dubious (economic) logic – projects come and go
- Current list (2019) - many projects drop out or were stripped of some financial support
  
- Dropped out: Eastring, follow-up infrastructure to the Krk LNG terminal, BACI (CZ-AUT)
- Decreased support: BRUA



# Nord Stream 2

- Victory of commercial rationale over geopolitical reasoning?
- 55 bcm/y (110 combined with NS I)
- Change to traditional directions of gas flows
  - From E-W to N-S(E)
- Important factor in replacing the UA transit
- Contested by (some) CEE countries
  - Main (remaining) opponets – PL & UA
- In potential breach of IEM rules
  - update to the Gas Directive – application of the liberalization package to pipelines coming to and from 3rd countries

# Nord Stream as a game-changer

- Compromise proposal – maintaining certain level of UA transit (12/2019)
- UA transit as the sticking point
  - Agreed amount as a guarantee of political stability?
- 12/2019 – agreement on five-year transit
  - 65 bcm/y in 2020 (25% < 2018)
  - 40 bcm/y in 2021-2024
  - Favourable setting for Gazprom
  - UA transit secured on a low, yet stable level
- Change of supply patterns to Europe confirmed
- Sticking point in US-EU(German) relations

# New challenges to the region

- Issue of Russian supplies/pipelines spills over to foreign policy
- Cleavages in Europe but also within CE/V4
- 2016 – letter to the EC president (CZ, EST, HU, LAT, LIT, PL, SVK, ROM) objecting NS2
- 2017 capacity auctions – 50bcm/y to go through CZ, SVK southwards
  - Network expansion to accommodate increased volumes
- 2020 – CZ, SVK content with the outcome, HU uninterested (TurkStream?), PL against
  - Missing unity in goals and measures in V4
  - After transformation and integration, goals diverged

# Update to the Gas Directive

- 3rd Energy Package rules applied to pipelines to/from 3rd countries
- Germany's push to clear the way for NS2
- 2/2019 GER-FRA compromise
  - Application of the rules as a duty of the state of landfall
  - 11/2019 Germany adjusted the legislation so that NS2 will comply
- 12/2019 – US sanctions, NS2 construction stopped
- Allseas pipe-laying company pulled out
- “Race to the shore” (3/2021)

# EU's climate goals

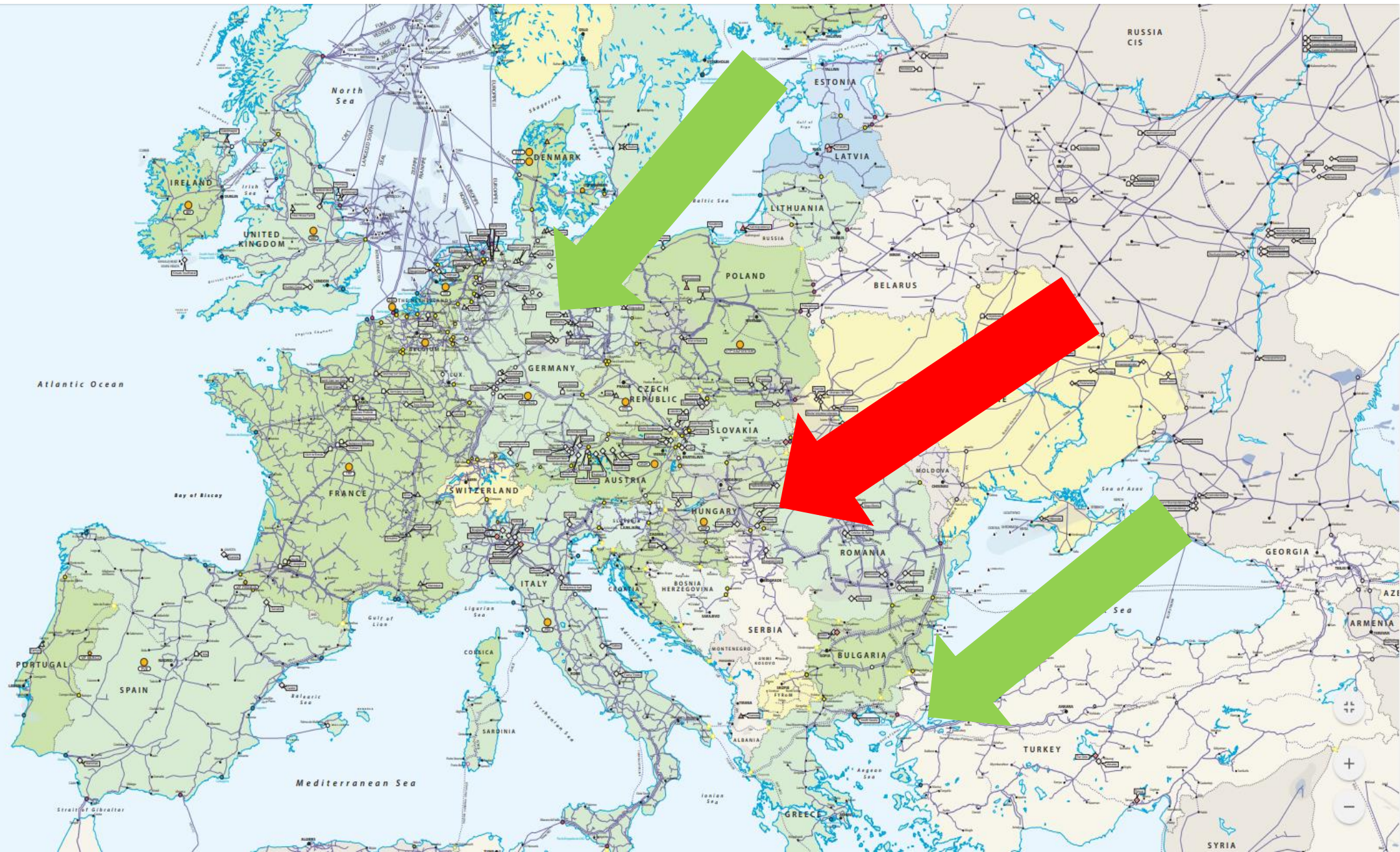
- Decarbonisation – EU's goal of carbon neutrality by 2050
- CE - Energy-intensive economies with a cautious approach
  - CZ, HU, PL, EST – initially refused to join the initiative (6/2019)
  - CZ – conditionally agreed
  - PL – given time to adjust
- EC “mentioned” that nuclear energy can be a part of the solution
  - Meaning?
  - Got CZ & HU aboard

# EU's climate goals

- A spur to the CEE countries or a punching bag?
- Use of the Just Transition Fund financing
  - Big players vs. decentralized power generation
- Lack of dedicated (non-transactional) policies
- Impact of Green Taxonomy?
- Post-pandemic recovery as a part of energy transition
- Departure from hydrocarbons - Support for natural gas as a transitional technology?
  - Reduced (if any)
  - Mid-term only (2025)
- Impact on Russia's position?



# Supply patterns



# Supply directions – Northern route

- Utilization of UA transit declines
- Gazprom prefers to supply CE & WE via non-UA lines (NS, Yamal)
- UA transit utilization – around 50% in 2017-18
- 2018-2019 supply to CE & WE = current non-UA transit +NS II, TS
  - i.e. UA transit can be decreased and will be needed in case of demand increase/balancing
  - UA transit as (underutilized) backup (?)
- Transit deal signed for 2020-2024 period
  - looming US sanctions?
- Sustainability of UA network?
  - need for stable flow and transit fees to maintain the infrastructure

## Supply directions – Southern route

- South Stream
  - Sign of growing Gazprom's appetite in late 2000s
  - (Geo)politicized
  - Clash with EU principles
  - To circumvent UA
  - To challenge competitors in the South – Nabucco, TAP
  - Cancelled 2014

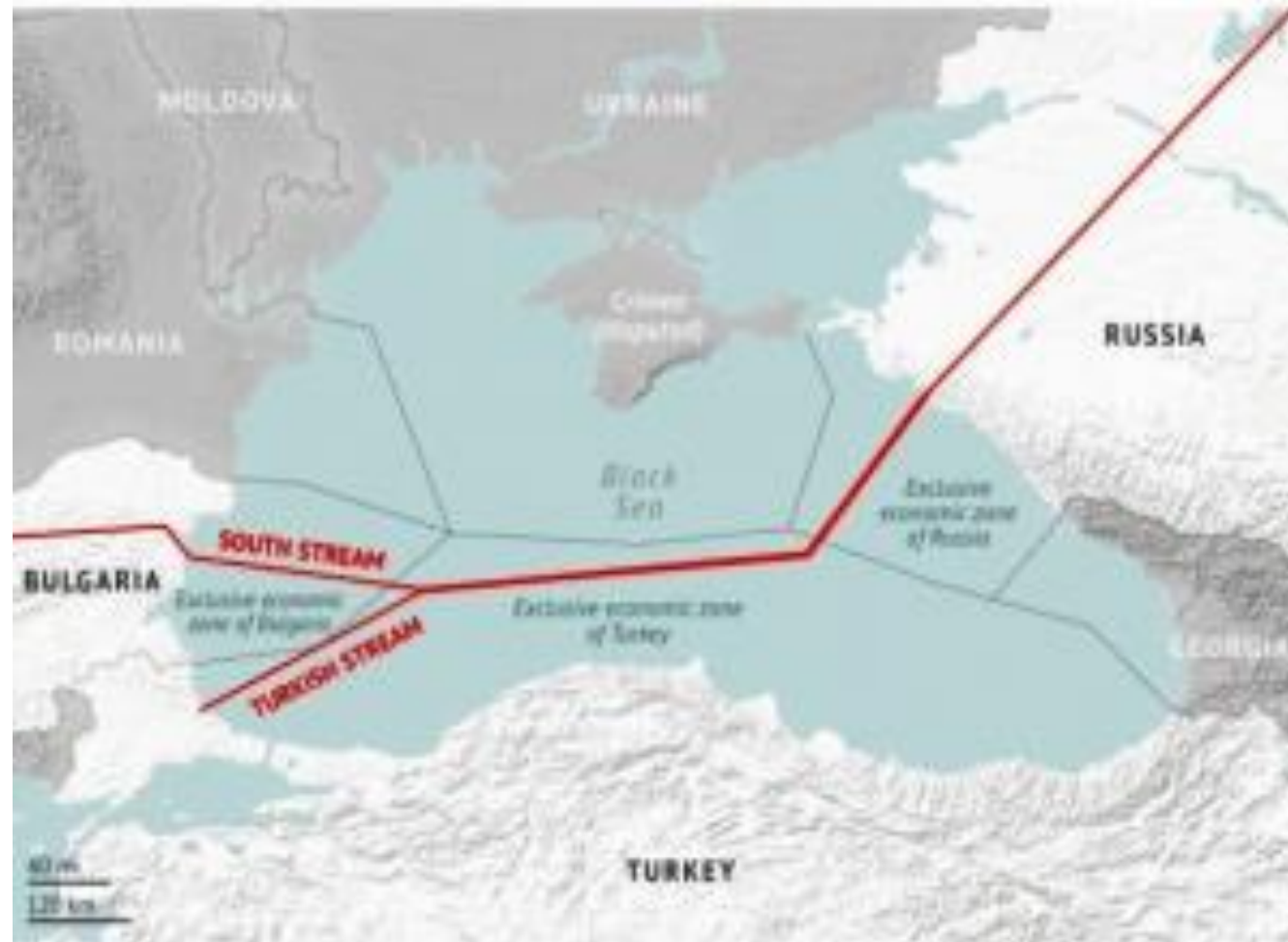


# TurkStream

- Replaced South Stream
- To Turkey instead of Bulgaria
- Turkey as an important market for Gazprom – growing consumption
  - 1st string (15,75 bcm) - to Turkey
  - 2nd string (15,75 bcm) – Bulgaria, Serbia, Hungary
- Gazprom strived to get as close as possible without struggling with the IEM rules
- Offshore section finished (11/2018)

# TurkStream

PROPOSED TURKISH AND SOUTH STREAM PIPELINES



Copyright Stratfor 2013 www.stratfor.com

Source: Gaspost

esri

# Trans-Adriatic Pipeline (TAP)

- Aimed to connect to the TANAP and supply Europe with non-Russian gas
- Part of the Southern Gas Corridor
- In competition with the Nabucco Pipeline - winner
- In operation
- Small scope (10 bcma)
- Limited supply
- Unclear prospects of expansion and thus competition to Gazprom

# Trans-Adriatic Pipeline (TAP)





# Eastring

- Pushed by Slovakia
- To retain the transit status – in the aftermath of the South Stream cancellation
- To circumvent UA
- Later, a possibility to bring gas in West-East direction introduced
- Dropped out of the EC's PCI list (see below)

# Eastring

