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ENERGY COMMUNITY SECRETARIAT
Mr. Slavtcho Neykov, Director of Energy Community Secretariat

Am Hof 4
1010 Vienna
AUSTRIA

Dear Mr. Neykov,

As agreed, I am sending you the explanation of our Proposal for Regional Energy Strategy.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'P. Škundrić'.

Dr Petar Škundrić
Minister

Why Regional Energy Strategy?

The countries within Southeastern Europe region have numerous specificities with reference to national energy sectors, as well as many common characteristics which qualifies them to define common energy sector development strategy.

The current regional energy cooperation is primarily characterized by the implementation of the Treaty establishing the Energy Community (TeEC) i.e. the Energy Community process and by different bilateral arrangements and agreements between the countries in the region. Due to historical heritage, as well as due to recent events and certain level of mistrust, the countries of the region expressed their tendency to have a high level of energy self-sufficiency, while mostly importing only primary energy, the most indispensable one. It is obvious that small countries, such as the countries of the region, will not be in a position to achieve this. In particular, this will be the case under economic and financial crisis with indeterminate ending and being under severe pressure for strengthening the competitiveness of their economy. Therefore, each country of the region cannot have all the necessary energy capacities. On the contrary, it has to be integrated with others and use the advantages of the economy of scale. Through increased cooperation and energy trade, different energy arrangements, bigger-scale energy sector integration and the creation of common energy market – all this being in the spirit of the TeEC, the countries of the region could meet their energy demand. This integration process should be based on comparative advantages of some of the countries of the region. It should be valorized through full technical and objective optimization of the energy sector implemented on the regional level.

Different options for meeting necessary energy demand are currently considered at the time of temporary stagnation or decrease due to global economic and financial crisis. These are capital projects which the countries cannot finance on their own. Therefore, only with more intensive cooperation, adequate coordination and joint investments while attracting private sector, such projects can be realized and be useful to all countries of the region to a varying extent. Respect for comparative advantages of some of the countries would stimulate fair distribution of vital energy capacities in the countries of the region and thereby, their greater interdependence and cooperation.

The European Union (EU) was established based on the European Coal and Steel Community. In our region, the energy sector was selected as the pillar for upgraded cooperation between the countries of the region, reconciliation and subsequently European integration. The energy sector was selected since it there is relatively well-developed energy infrastructure (with all the limitations present), especially in the power sector. For that reason, TeEC was established and it represents a reliable legal basis for the preparation and initiation of such an initiative on necessity for the elaboration of a Regional Energy Strategy.

The Energy Community Secretariat is the most relevant institution for additional development of such a demanding project proposal as well as for its subsequent implementation. For sure, significant support would be also provided by the countries of the region, as well as other relevant regional and international organizations.

Regional cooperation is recognized by the EU as one of the most important preconditions in the European integration process (enlargement policy). Therefore, the EU support it through different support instruments and programs, especially through Multi Beneficiary Instrument for Pre-Accession Assistance (MB IPA) and recently established Western Balkans Investment Framework (WBIF).

The necessity to create a Regional Energy Strategy is ever more resulting from growing global challenges, above all climate changes and other ecological limitations which affect the region to a great extent. The countries of the region with clearly expressed aspiration to the full membership in the EU will identify the need to significantly reduce carbon-dioxide emissions primarily originating from the energy sector pursuant to the expected post-Kyoto arrangements.

The key reasons for the elaboration of a common regional energy sector development strategy are the following:

- energy import dependency of the region – oil and gas,
- necessity to implement infrastructure projects of regional importance (e.g. South Stream, regional gas pipelines and gas interconnection, PEOP, transmission grid, etc.),
- many investment projects require closer interstate cooperation (nuclear capacities, the construction of PS HPP Djerdap, HPP Gornja Drina, etc.),
- energy efficiency upgrade,
- coordinated and optimum use of renewable energy sources and new clean energy sources,
- attracting investments and the creation of stimulating investment atmosphere,
- growing energy carriers, i.e. energy consumption trend,
- energy indicators improvement, especially in environment protection field, etc.

Except for the selection of adequate regional energy sources and their rational distribution, it will be also necessary to improve the regional energy grid significantly, especially the power grid so as to have bigger integration of renewable energy sources. All these great challenges can be met more easily on the regional level than on the national one.

The Republic of Serbia, geographically being the country with central position in the region, as well as the country with significant statistical basis for the area of former Yugoslavia as the center of significant Yugoslavian institutions – those energy-related as well, would be willing to

make all its capacities available for the promotion of and support to the activities on further development of a Regional Energy Strategy.