

ANNUAL REPORT

ON THE ACTIVITIES OF THE ENERGY COMMUNITY TO THE PARLIAMENTS

1. BACKGROUND

This report, which covers the implementation period, concerning the first half of 2011, constitutes a summary of the Energy Community's activities. It has been prepared following the requirements of Article 52¹ of the Energy Community Treaty ("the Treaty"), according to which the Ministerial Council of the Energy Community is requested to present an annual report on the activities of the Energy Community to the European Parliament and the Parliaments of the Adhering Parties and of the Participants.

The report is based on the actual state of developments in the Energy Community with a focus on the first half of 2011, but indicates also the trends of development till the end of the year. Additionally, substantial information on the actual and planned work is available on the Energy Community website (www.energy-community.org).

2. THE IMPLEMENTATION OF THE LEGISLATION AND MARKET DEVELOPMENTS – MAJOR STEPS ON NATIONAL AND REGIONAL LEVEL

In the reporting period, further steps were undertaken both by the Contracting Parties and the Energy Community institutions towards the implementation of the legal framework as outlined by the Treaty in all *acquis* areas (energy, environment, renewables, competition, security of supply and energy efficiency). This process was supported also via various formats by the work of the Donors' Community, chaired by the European Commission. The activities, undertaken on national level, were in parallel considered via the regional perspective – thus, the process of harmonization in the implementation of the *acquis* on the one side and the concrete single energy market considerations on the other continued in a streamlined approach.

Nevertheless, the common conclusions need to be seen bearing in mind the complexity of developments both on national and regional level, which also concerns the changes of political and economic nature throughout Europe as well as on global level.

¹ Article 52 – The Ministerial Council shall submit an annual report on the activities of the Energy Community to the European Parliament and to the Parliaments of the Adhering Parties and of the Participants.

On this ground, the following findings and trends of development should be noted since the beginning of 2011 in the Energy Community context:

- Within the first half of 2011, the Contracting Parties continued to actively work on the implementation of the acquis. Particularly, but not exclusively, this refers to Albania, Bosnia and Herzegovina, Croatia, Moldova, Serbia and the Ukraine.
- Following the Secretariat's new approach for streamlining the work with the Contracting Parties on the adoption of the acquis, concrete Implementation Partnerships were concluded with those Contracting Parties, which were assessed to have mature primary legislation – namely Former Yugoslav Republic of Macedonia, Moldova and with the Kosovo² institutions.
- Further to the principle findings on the acquis implementation side, the convergence of the market designs between the Contracting Parties (and in some cases between Contracting Parties and EU Member States in the region of South East Europe) continued to be in the center of attention on regional and national level via the work of the Energy Community institutions on one side and of the governments, national regulatory authorities and market operators on the other. In particular, aside the establishment of adequate market models, within the first half of 2011 the development of CAO was further promoted in concrete – this was done by the transmission system operators (TSOs) with the strong support of the Donors and the Secretariat. However, the process of establishing the CAO shall actively continue in the second half of 2011 and at the beginning of 2012.
- This intensified work on legislative, regulatory and TSO level is expected to stimulate proper wholesale market opening, which continues to be one of the key issues in the context of the Treaty implementation. Therefore the efforts in this aspect should continue in 2011 and beyond in a coordinated manner.
- Recalling the extensive need of common regional approach, in 2011 the Energy Community created conditions for further deepening the cooperation between the governments and the regulators. In concrete, common PHLG – ECRB meetings turned to be efficient tool in this aspect, where governmental officials and representatives of the national regulatory authorities discuss all aspects of the work, which presupposes interventions on both levels.
- A major format of the common efforts for establishing a regional platform for developments in line with the Energy Community Treaty, which was materialized in 2011, is the Regional Energy Strategy. The consideration of such a unique document clearly identifies the total positive change in the understanding of the role of regionality in dealing with energy issues and evident dominance on perception level of regionalism over energy nationalism. Additionally, what makes this document valuable is the fact that its development was proposed by a Contracting Party (Serbia), which is a strong indication of ownership over the cooperation processes.
- Aside the implementation process of the existing acquis, concrete activities were undertaken in 2011, related to the implementation of the Third Energy Internal Market Package. It is expected that the relative legislative acts will be included in the acquis within the Energy Community format in 2011. In addition, preparatory

² Under UNSCR 1244

steps, concerning adoption of new acquis in the field of oil stocks and statistics are ongoing.

- The Social Dimension of the Energy Community shall be further elaborated – on the one side, in 2011 it is expected that Moldova and Ukraine shall join the Social Memorandum and respectively develop their Social Action Plans; on the other – strengthening the social dialogue shall be explicitly targeted. The focus on vulnerability remains a major issue and therefore – substantial focus of attention.

2. THE ENLARGEMENT OF THE ENERGY COMMUNITY

It is expected that in 2011 Armenia, which has filed officially its application for getting an Observer status, gets it in October 2011.

3. FOCUS ON INVESTMENTS

The Energy Community shall continue to follow the development of energy projects of regional value and support actively this process along the available means. With the support of the Donors' Community and the established in 2010 Business Advisory Panel both the progress and barriers to investments in the energy sector in the Energy Community are continuously followed.

In the context of needed investments, another key issue, which becomes strongly valid and raises both expectations and concerns, is linked to the adequate treatment of the environmental challenges awaiting the Contracting Parties, most notably the timely implementation of the Sulphur in Fuels and Large Combustion Plants Directives. These topics were particularly referred to during the 2011 Investment Conference.

However, the timely identification of both problems and possible solutions is expected to provide for adequate results. Nevertheless, the topics shall continue to be discussed by the Energy Community institutions, including the Environmental Task Force, which became operational within the first half of 2011.

5. CONCLUSIONS

The current reporting period of activities of the Energy Community – although being relatively short – includes substantial amount of steps, targeting the implementation of the Treaty in concrete. In addition, however, it is characterized by steps of principle nature, which contribute to strengthening the regional approach towards dealing with the energy related challenges. Despite this, however, it should be noted that the practical development of the energy markets remains a major objective. Without any doubt, this will bring to increased security of supply on the basis of solidarity – the new acquis to be included in 2011 as well as the common consideration of investments shall certainly contribute substantially in this aspect.

ANNEX: ABOUT THE ENERGY COMMUNITY

- The Energy Community Treaty entered into force on 1st July 2006. Albania, Bosnia-Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Moldova, Montenegro, Serbia, Ukraine, the United Nations Interim Administration Mission in Kosovo pursuant to the United Nations Security Council Resolution 1244, and the European Union are Parties to the Treaty.
- Georgia, Norway and Turkey have status of Observers. The negotiations with Turkey are ongoing.
- The general objective of the Energy Community is to create a stable regulatory and market framework in the energy sector in order to:
 - Attract investment in power generation and networks as to ensure stable and continuous energy supply that is essential for economic development and social stability;
 - Create an integrated energy market allowing for cross-border energy trade and linked to the EU market ;
 - Enhance the security of supply;
 - Improve the environmental situation in the region.
- In order to pursue these objectives, the main instrument of the Energy Community Treaty is the implementation of parts of the EU acquis:
 - Key electricity and gas directives and regulations;
 - Key environment directives;
 - Key directives on renewables and biofuels;
 - The main principles of the EU competition policy;
 - Key directives, related to energy efficiency;
 - Major acquis in relation to security of supply.
 - Concrete list of acquis in relation to oil stocks and the new EU RES directive, as well as the legislation under the Third Internal Energy Market Package, are at different stages of current consideration for being implemented.
- The Contracting Parties have the obligation to implement these instruments within specific timeframes.
- Compliance may be enforced through a specific dispute settlement system.

- The Institutions of the Energy Community are the Ministerial Council, the Permanent High Level Group, the Regulatory Board, the Fora (Electricity, Gas, Social, Oil), and the Energy Community Secretariat in Vienna. The donors are organized in a Donors' Community, chaired by EC.
- All documents related to the activities of the Energy Community are available on www.energy-community.org .