



FACULTY OF
SOCIAL STUDIES

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Main challenges to the gas market development in southeastern Europe



SEE – situation report 1

- High dependency on Russian sources, original infrastructure & technology
 - Structural dependency
- Heritage of planned economy
 - Energy intensive
 - Industry-based, supply sensitive
- Belated economic transformation

- As a result, countries in the region are prone to politicization of energy supplies & security

SEE – situation report 2

- Fragmentation in various aspects (EU membership, diversification, FP discourse, economic development,...)
- Sparser infrastructure compared to WE
 - regional differences
- **Potential for new transit infrastructure**
 - South Stream, Turkish Stream, Nabucco, EastMed, Tesla, TAP, IAP, BRUA, ...
 - From underdeveloped to an important (transit) region?
- **Potential for the sector development**
 - parts of the region still largely non-gasified
- **New sources of supply**
 - Black Sea, Mediterranean Sea, Adriatic Sea

Main challenges 1 – diverging policies, goals and problems

- Diverging policies and discourses
 - SEE countries differ in foreign policy discourses, which influences their energy policies
- Varying sectoral goals embedded in starkly different conditions
 - e.g. Slovenia vs. Romania vs. Montenegro
- Factors undermining market integration also on the level of inner-state administration
 - ethnic divisions, territorial disputes, corruption, ...

Main challenges 2 – missing policies

- Lack of strong & clearly formulated sectoral policies
 - Often ambiguous, vague or entirely missing
- Missing policies undermine development particularly in underdeveloped and dependent countries
 - Sector development requires long-term policies for predictability, investment & legal stability
 - No guidelines mean no goals and hence inability to conduct reforms
- Lack of focus hinders the ability to tackle one of the most imminent threats of the region - **energy poverty**

Main challenges 3 – IEM rules insufficiently implemented

- Non-EU SEE states struggle with implementing or enforcing the IEM rules ranging from minor issues to entire missing acts
- IEM as an effective tool against misconduct in the sector
- IEM principles are levelling the field, eliminating the advantage of market incumbents/changing the environment in favor of consumers
- **The EU's IEM rules are the crucial factor in pulling countries towards a functional energy market, partly substituting lacking policies, providing the countries with a purpose for the development**

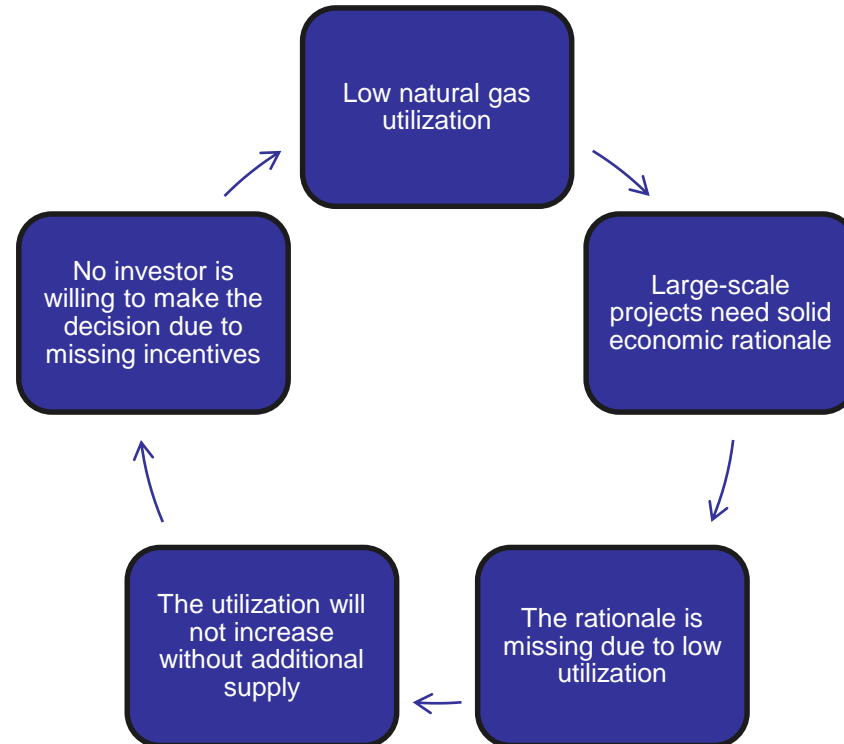
Main challenges 4 – insufficient infrastructure

- Insufficient infrastructure
 - East-West-oriented supply infrastructure with little flexibility
 - Sparser compared to the CE (not mentioning the WE)
 - The infrastructure is East-West oriented, overly dependent on a single supplier (Russia)
 - The situation is changing only slowly
 - Inadequate intra-state infrastructure and mutual interconnectivity
- SEE states often depend on a single supplier and/or supply route

Main challenges 5 – underdevelopment of the sector

- Low natural gas utilization and sector development
- Anchor loads for large-scale projects are higher than the current demand (e.g. IAP, EC Gas Ring)
- Lacking incentives for large-scale as well as intra-state projects
- Lack of indigenous resources
 - insufficient domestic resources
 - unclear potential of reserves

Low natural gas utilization and sector development



Main challenges 6 – insufficient information sources

- Lack of necessary information hinders cooperation and advising
- Poor information coverage of SEE countries
- Internal issues may hinder information exchange
- Cooperating on information exchange is crucial for developing the functioning market and also supporting programs



Recommendations 1

- Implement and enforce the IEM rules to
 - enable market functioning
 - strengthen the position of consumers at the expense of suppliers
 - increase transparency on the market
 - provide the sector with clear guidance
 - acquire better supply conditions

Recommendations 2

- Focus on transparency within the sector
 - Non-transparency (or outright corruption) hinders the development of a flexible, open, competitive market and breeds politicization
 - Intermediaries as likely culprits of high prices in number of cases
 - Non-transparent environment deter foreign investors

Recommendations 3

- States should focus on expanding intra-state gas grids and connecting as many consumers to the grid as possible
- To secure needed anchor loads, demand should be aggregated within cluster of states rather than individually
- Interconnectivity can help alleviate dependency on a single source and supply route
- Flexible infrastructure that can distribute supplies based on the demand - supply nexus is a key precondition for a functioning market

Recommendations 4

- Implement comprehensive sectoral policies, improve exchange of information & data
 - Clear guidance helps to implement reforms
 - Exchange of data improves transparency, cooperation & sharing of experience



Challenges and opportunities of natural gas market integration in the Danube Region

The South-west and South-east of the region
as focal points for future development

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Úřad vlády České republiky



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Thank you for your attention

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