

The Eurasian economic community in the global energy system

Mishalchenko, Yuri; Toropygin, Andrey

Postprint / Postprint

Zeitschriftenartikel / journal article

Empfohlene Zitierung / Suggested Citation:

Mishalchenko, Y., & Toropygin, A. (2010). The Eurasian economic community in the global energy system. *Baltic Region*, 1, 18-22. <https://nbn-resolving.org/urn:nbn:de:0168-ssoar-255303>

Nutzungsbedingungen:

Dieser Text wird unter einer Basic Digital Peer Publishing-Lizenz zur Verfügung gestellt. Nähere Auskünfte zu den DiPP-Lizenzen finden Sie hier:

<http://www.dipp.nrw.de/lizenzen/dppl/service/dppl/>

Terms of use:

This document is made available under a Basic Digital Peer Publishing Licence. For more Information see:
<http://www.dipp.nrw.de/lizenzen/dppl/service/dppl/>

*Yuri Mishalchenko
Andrey Toropygin*

THE EURASIAN ECONOMIC COMMUNITY IN THE GLOBAL ENERGY SYSTEM

The article considers the IEA data on energy reserves in terms of global and national energy security. The authors describe methods for regulating the energy market in the European Union and the Eurasian Economic Community. The authors support the idea of applying the experience of the EU.

Key words: energy security, energy producers, energy consumers, international organizations, European Union, the Eurasian Economic Community.

According to the International Energy Agency, the global demand for oil will have increased by 40% by 2030. Developed economies are growingly dependent on the petroleum import against the background of dramatic decrease in oil extraction in many non-OPEC member states. By 2030, the share of the leading Middle East and North African oil producing countries in the global oil supply will increase from the current 35% to 44%, and the share of the Russian Federation and Central Asian States will rise to 15% reaching the level of the Saudi Arabia and exceeding North American extraction volumes. It should mention that, jointly they will cover 35% of the global oil demand [1]. Though these forecasts were prepared in the pre-crisis period, experts still rely on them.

In 2008, the total global primary energy resource consumption exceeded 11 bln tons of oil equivalent; just to compare in 1990, it amounted to only 8 bln tons. By 2030, global energy consumption is expected to increase by 52% above the 2003 level. In 2000-2020, the annual global energy demand growth rate is expected to reach 2.2%. According to forecasts, in China, this rate will amount to 4.7% during this period.

In terms of the market share, the most widely used energy resource is oil (35%); this is explained by the size of the transport sector, where oil is still the main fuel and does not seem to have a serious competitor. The next most widely used energy resources are coal and natural gas (23% and 24% respectively). Nuclear energy accounts for only 7% of the global consumption. The share of hydropower and other renewable energy sources is approximately 11%, while that of fossil fuels – to 82%.

Geographically, energy consumption distribution indicates that the largest consumer is North America (29%). The EU energy consumption accounts for only 17% of the global rate. The share of developing Asian countries exceeds 20% (China – 11%, India – 4%). Energy consumption in Latin

America is insignificantly more than 6% of the global total, in Africa, it is less than 3% [2].

As we know, there is no strict definition of the notion of energy security. In general, it can be described as the "availability of useable energy sources supplied to the point of final consumption at an economically viable price, in sufficient amounts, and in due course, which enables – in view of the measures taken in the field of energy efficiency – to remove material limitations to the country's economic and social development [1]. It obviously necessitates a reduction of risks. Though, global risks to energy security have drastically increased due to the following reasons:

- a dramatic growth in oil import demand in the developed and, to a much greater extent, developing countries;
- a narrowing gap between oil supply and demand resulting in the rise in prices;
- wild fluctuations of oil prices related to international tensions, terrorist attacks and possible interruptions to supply;
- the concentration of the explored fossil fuel reserves in a limited number of the world's subregions;
- limited access of oil and gas companies to hydrocarbon reserves in certain countries;
- growing costs related to the diversification of energy supply sources;
- extension of supply routes;
- lack of sufficient investment at every stage of energy supply chain, including the electrical power industry.

It goes without saying, the governments of producing and consuming countries can reduce these risks by attracting investment to energy development. It requires the creation of a legal framework specifying, first of all, conditions for granting tax exemptions combined with the impartial and transparent mechanisms for strengthening public-private partnership in order to protect investment in both existing and new oil and gas supply routes. It also requires the removal of barriers to private trade and investment and the operation of public energy companies as well as the encouragement of the mutual interest of energy producers and consumers.

The policy of confidence can benefit from a more active and coordinated multilateral dialogue between producers and consumers at the level of governments, industry, financial community and corresponding international organisations. Such dialogue is being held at the level of the UN Economic Commission for Europe (UNECE) and other international organisations, for instance, the International Energy Agency (IEA/OECD), the International Energy Forum (IEF), the Organisation of Petroleum Exporting Countries (OPEC). A closer multilateral cooperation and support at the political level can contribute to current international efforts.

So, over many years, the issues of energy security have been occasionally considered by the UNECE Committee on Sustainable Energy and its other UNECE subsidiary bodies. The committee is still the best forum for the dialogue at the scale of the whole UNECE region on these and other related issues, such as the interdependence between financial markets and energy security.

The Energy Security Forum, which brings together representatives of the energy industry and financial sector, organised under the auspicious of the UNECE, did some research and held discussions on the assessment of new risks to energy security that the UNECE states face. In particular, such risks were assessed from the perspectives of the EU, the Russian Federation, and North America.

The forum also recommended to the G8 governments to hold a comprehensive multilateral dialogue between energy producers and consumers on the following issues:

- sharing data and information and increasing transparency,
- infrastructure investment and financing,
- legal, regulatory and policy framework,
- harmonization of standards and practices,
- research, development and introduction of new technologies,
- investment/transit guarantees and burden sharing, etc.

According to the International Energy Agency (IEA), in 2030, almost 70% of European energy needs will be met by import (today import accounts for only 50%). It means that, in the EU, 90% of oil and 70% of gas will be imported [2]. In such conditions, EU energy security will be aimed at the reduction of risks related to the dependence on imported energy resources rather than at minimal self-sufficiency or the minimisation of the dependence. Nevertheless, the situation in the EU energy market is a matter of concern for the European Commission. In 2005, two reports draw the following conclusions:

- the gas and power markets are still excessively concentrated;
- national markets remain highly fragmented;
- most of traditional operators still exert major influence on the market and on the level of prices;
- there is a conspicuous lack of transparency on both the market and the pricing mechanisms.

At the same time, it is important to mention that all these negative phenomena do exist despite the long history of energy market regulations in the EU. In 1957, the European Economic Community (EEC) and the Euratom, the cornerstones in the future European integration, were founded on the basis of the European Coal and Steel Community. Articles 154-156 of Section 15 ("Trans-European Networks") of the 1957 treaty stipulate support of the

Community to the projects aimed at the development of trans-European energy structures.

The EU activity in the field of energy is based on Paragraph 1 of Article 3 of the 1957 Treaty of Rome. The EU power in the field of energy policy is exercised by the application of Article 95 of the EC Treaty that specifies measures aimed at further harmonisation of the member states' legislation in order to ensure the functioning of the internal market.

In May 1998, the European Commission regarded the formation of the internal energy market as the principal goal of the EU in the document entitled "Internal Energy Market".

Therefore, the EU took measures to stimulate investment in energy, to increase the efficiency of energy supply and energy use as well as introduced stricter requirements for environmental safety for different types of energy, especially nuclear energy production.

The central role in the development of the EU energy policy is played by such international documents as the European Energy Charter (1991) and the Treaty of Lisbon (1994).

The analysis of the EU energy legislation reveals the following crucial principles of its energy policy:

- non-discrimination,
- transparency,
- environmental protection;
- the social factor in the energy policy.

The European Commission plays the leading role in the implementation of EU energy policy. The functions of the European Commission in this field consist in the coordination of activities of the energy market actors, as well as exercising control and supervision. In particular, the Council Regulation (EC) No 736/96 of 22 April 1996 grants the Commission the right to control EU investment projects in the field of energy.

The organisational structure of the Commission includes the Directorate-General for Transport and Energy. The Commission has also established a number of special institutions, for instance, the European Energy and Transport Forum, the European Regulators' Group for Electricity and Gas.

In 2008, the European Commission adopted the document (it is a unified stance of the 27 EU member states) entitled "The European Union and the Arctic Region" that defined the Arctic region as crucial for energy and regional security of the EU (according to research estimates, 70% of world's energy resources are concentrated there).

The legal framework of the EurAsEC is established in a number of documents.

Article 3 of the Treaty on the Customs Union and Common Economic Space (CES) (the agreement on the EurAsEC was concluded in the year 2000 to promote and develop these initiatives) emphasises the fact that the common objective of the EurAsEC member states is the development of unified transport, energy and information systems. Article 7 of the Treaty on the Customs Union and the CES specifies that the second stage, following the establishment of the EurAsEC Customs Union, shall be aimed at the formation of a single economic space, a single economic policy, the creation of single infrastructure and complete harmonisation of legislation.

The regulation of the EurAsEcC energy market primarily rests upon either the national legislation of the EurAsEC member states or on bilateral agreements. It is important to mention that the EurAsEC does not include a unified international body for the regulation and control over the EurAsEC energy market.

In our opinion, the EurAsEC states should take into account the positive experience of the European Union in the creation of a single energy system and the provision of its ecological safety in the framework of the supervision and control over the system by the EurAsEC integration bodies (the Interstate Council, the Integration Committee, the EurAsEc Parliamentary Assembly) on a regional legal base (i.e. on the basis of intergovernmental agreements). The implementation of this project is possible provided the Eurasian Development Bank established in 2006, takes part in it. The authorised capital of the bank amounts to \$1.5 bln.

Bibliography

1. *Новые риски для глобальной энергетической безопасности и пути их снижения: глобальный обзор* / ЕЭК ООН. Нью-Йорк; Женева, 2006. С. 4. URL: <http://www.vnece.org>
2. *Компендиум международных договоров, норм и стандартов*. 2007 / ЕЭК ООН. Нью-Йорк; Женева, 2007. С. 13. URL: <http://www.vnece.org>