

# The Eastern Neighbourhood Region and the EU's energy interests

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For more information

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## Executive summary

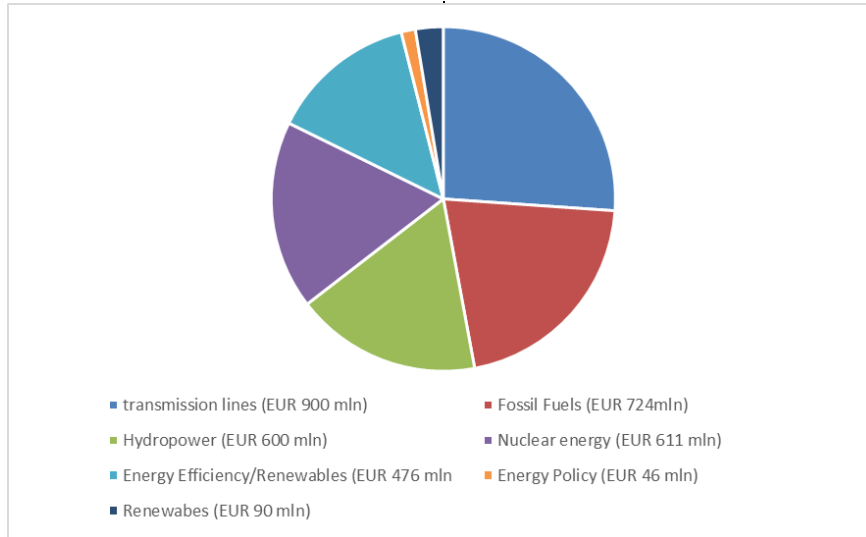
Since the early 1990s, the EU has actively sought the development of both the oil and gas sectors in former Soviet republics. Energy security, the cornerstone of the EU's foreign policy, was reflected in the 2009 Eastern Partnership (EaP) declaration and became the driving force behind the European Neighbourhood Policy.<sup>1</sup> Investments through the EU's Neighbourhood Policy Instrument and public banks have supported the development of unsustainable energy systems in most EaP countries.

The energy infrastructures in EaP countries is based on hydrocarbons and transmission – whether over land or water – giving each country strategic significance, for even those completely deprived of oil or gas will act as a transit country. The region is heavily polluted due to leakages, waste and emissions from energy infrastructure, both in oil, gas and the nuclear industry (in Ukraine and Armenia), while hydropower causes coastal and river erosion, degrading water quality.

The EU's external energy policy, while claiming to guarantee energy market operations, ensure energy supplies and promote environmentally sustainable and low carbon energy sources, is not achieving these goals due to the overarching focus on security of supply.<sup>2</sup> Within the EaP region, the EU is interested in diversifying energy sources, their country of origin, as well as country of transit.<sup>3</sup>

For EaP countries, ensuring diversity means consistently planning for new capacities according to their natural resources, costing economic, political and environmental capital, and pushing for exporting more energy. This leads to the development of traditional energy infrastructure (oil, gas, nuclear energy, large hydropower) while renewable energy and energy efficiency, despite being addressed by ENP Action Plans and the Baku Process<sup>4</sup>, playing a negligible role in the regional energy mixes.

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- 1 A CORRIDOR THROUGH THORNS: EU ENERGY SECURITY AND THE SOUTHERN ENERGY CORRIDOR, Oscar Pardo Sierra [http://www.dtic.mil/dtic/aulimp/citations/gsa/2010\\_168393/184463.html](http://www.dtic.mil/dtic/aulimp/citations/gsa/2010_168393/184463.html)
  - 2 European Energy Policy: An Environmental Approach, edited by Francesc Morata, Israel Solorio Sandoval, 2012, published by Edward Elgar Publishing Limited, UK
  - 3 ibidem
  - 4 The "Baku Initiative" was launched on the occasion of the Energy Ministerial Conference held in Baku on 13 November 2004 with the participation of the European Commission and the Black Sea and the Caspian Littoral States and their neighbours, namely Azerbaijan, Armenia, Bulgaria, Georgia, Iran (observer), Kazakhstan, Kyrgyz Republic, Moldova, Russian Federation (observer), Romania, Tajikistan, Turkey, Ukraine and Uzbekistan.



Bankwatch research reveals that during the period of 2007–2014, the EU financing institutions and programmes awarded at least EUR 9 billion to 220 energy projects among its eastern and southern neighbours, with EUR 3.5 billion going to EaP countries for 170 projects. Like in other countries, the EaP region received more for fossil fuels than renewable sources of energy. One aspect of lending in the EaP region is that funding for the construction of transmission lines exceeded financing for fossil fuels.<sup>5</sup> Overall, traditional energy sources like nuclear, gas and large hydropower were the priority for EU funding during 2007–2014.

A major investment in Azerbaijan during the period is the loan of EUR 165 million by European Bank for Reconstruction for the development of the Shah Deniz gas field, the first stage of Southern Gas Corridor (SGC). The SGC will stretch over 3,500 kilometres and cost up to EUR 45 billion<sup>6</sup>. In 2015, the EBRD approved an additional loan of EUR 500 million for the second phase of Shah Deniz by investing in the Russian Lukoil, and the European Investment Bank will allocate around EUR 2 billion for the Trans-Adriatic pipeline<sup>7</sup>, another part of the SGC.

The EU promotes electricity exports<sup>8</sup> from the neighbourhood through existing transmission lines

and support for new ones, and as well by directly and indirectly supporting the related hydropower and nuclear developments in the region.

For example, the EBRD, the EIB, the Neighbourhood Investment Facility and the German development bank KfW supported the construction of the Black Sea transmission line in Georgia. The project is supposed to increase the stability of the grid and cope with seasonal electricity losses by linking future construction of 8000 megawatts of installed capacity from hydropower in next decade<sup>9</sup>. These projects are supported by the EBRD and include number of controversial aspects in the mountains of Georgia. In the legacy of the Soviet Union, the construction of hydropower projects does not consider the environmental or social consequences, while the involuntary resettlement of the people is viewed as a normal practice. This has led to the government using force in a number of cases.<sup>10</sup>

Public protests drew the attention of EU decision-makers: in its resolution on the approval of the EU–Georgia Association Agreement, the European Parliament recognised the need “to monitor closely the Georgian authorities in their investment programme for the construction, rehabilitation and reconstruction of hydropower plants, urging them to comply fully with EU standards and norms”<sup>11</sup>.

5 [http://www.inogate.org/projects?collection=2009\\_2014](http://www.inogate.org/projects?collection=2009_2014)

6 <http://bankwatch.org/our-work/projects/southern-gas-corridor-euro-caspian-mega-pipeline>

7 <http://www.eib.org/projects/pipeline/2014/20140596.htm>

8 <http://www.eu-energy.com/fs-import-final.pdf>

9 <http://www.gse.com.ge/new/?p=3719>

10 <http://dfwatch.net/police-beat-villagers-for-norwegian-hydro-power-in-georgia-66987-26969>

11 <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=->

In Armenia, the construction of 300 small (up to 30 MW) hydropower plants was largely supported again by the EBRD, KfW and the World Bank.<sup>12</sup> However no strategic environmental impact assessment and river basin management plans are in place. As a result, the projects have turned rivers into pipelines, with two-thirds having dried up,<sup>13</sup> leaving local villagers without drinking and irrigation water. Local communities do not benefit from the projects as they do not share income from the project, nor do they receive cheaper energy.<sup>14</sup> In 2015 Armenia began construction of a transmission line to link to Georgian supplies, supported by KfW and NIF.<sup>15</sup>

The EBRD, EIB and NIF also contributed up to EUR 650 million for the construction of high-voltage transmission infrastructure to increase power exports from Ukraine to the EU. The continuous 750 kV corridor over 1500 kilometres should connect twelve nuclear reactors and two hydro pumped storage plants to the EU grid. In addition, the EBRD and Euroatom contributed to the Nuclear Power Plants Safety Upgrade Programme, an essential element for the Ukrainian government's plans to extend the lifetimes of 12 nuclear reactors.

## Conclusion

With its priorities clear for the energy sector, the EU prioritise security of supply above all other considerations, resulting in serious consequences on neighbouring countries and ignoring the need for market convergence as well as to ensure environmental sustainability.

Despite massive investments in the EaP region, none of those countries met pledges for reforms in the energy sector. Scarce financial support for energy policy reform, while funding energy supply and transport, makes clear that from the three policy pillars, security of supply overrides the market

convergence and environmental sustainability and continues the trends that existed before the ENP and EaP, making it more difficult to meet the EU's 2030 targets.

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12 [http://www.ener2i.eu/page/34/attach/0\\_Armenia\\_Country\\_Report.pdf](http://www.ener2i.eu/page/34/attach/0_Armenia_Country_Report.pdf)

13 <https://iwpr.net/global-voices/armenias-greens-take-hydro-schemes>

14 SHHPs Under Umbrella of International Financial Institutions, Ecolur, Yerevan 2013, [www.ecolur.org](http://www.ecolur.org)

15 May 2015, <http://www.eib.org/infocentre/press/releases/all/2015/2015-056-eib-supports-high-voltage-interconnection-of-armenia-and-georgia.htm>