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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND  
THE COUNCIL**

**under Article 7 of Decision 2006/500/EC  
(Energy Community Treaty)**

# REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

## under Article 7 of Decision 2006/500/EC (Energy Community Treaty)

This report is established pursuant to Council Decision 2006/500/EC of 29 May 2006 on the conclusion by the European Community of the Energy Community Treaty which provides that "three years after the entry into force of this Decision, the Commission shall submit to the European Parliament and to the Council a report on the experiences gained from the implementation of this Decision, accompanied, if appropriate, by a proposal for further measures". The present report reviews the achievements of the Energy Community and also its main challenges for the future.

### 1. Introduction – From disintegration to working together

The Energy Community is based on a Treaty signed between, on the one hand, the European Union<sup>1</sup> and, on the other hand, the following nine Contracting Parties: Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Moldova, Montenegro, Serbia, Ukraine and UNMIK.<sup>2</sup> Fourteen European Union Member States have moreover a special bond with this organisation, reflected in their status as "participants" in the process (Austria, Bulgaria, Cyprus, the Czech Republic, France, Germany, Greece, Hungary, Italy, the Netherlands, Romania, Slovakia, Slovenia and the United Kingdom). To date, Georgia, Norway and Turkey have the status of Observers.

The Energy Community is about investments, economic development, security of energy supply and social stability; but – more than this – the Energy Community is also about solidarity, mutual trust and peace. The very existence of the Energy Community, only ten years after the end of the Balkan conflict, is a success in itself, as it stands as the first common institutional project undertaken by the non-European Union countries of South East Europe.

The Energy Community has three levels of ambition: national, regional and pan-European. In the short term, it aims at creating open and transparent national energy markets based on stable regulatory and market frameworks capable of attracting investments in power generation and networks (security of energy supply being essential for economic development and social stability); in the medium term, an integrated energy market should be in place across the region which allows for cross-border trade in energy, guarantees energy supply and takes into consideration climate and social aspects; in the long term, the regional market should be fully integrated in the European Union's internal energy market.

To achieve these objectives, the Energy Community Treaty foresees appropriate courses of action by the Contracting Parties, either unilaterally or together with some EU Member States or with the European Union as a whole. By joining the Energy Community, the Contracting Parties have committed themselves to implement the relevant EU rules on energy,

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<sup>1</sup> Signed originally by the European Community, succeeded in the meantime by the European Union.

<sup>2</sup> This list reflects the present Contracting Parties, following the 2007 Enlargement of the European Union and the recent evolution of this organisation.

environment and competition; the Treaty moreover provides the tools for the adoption of an *ad hoc* regulatory framework facilitating the cross border operation of the energy markets in the region and for the establishment of a single energy market.

The Energy Community has its own institutional framework. In close cooperation with the Commission's services, the Energy Community Secretariat, based in Vienna, represents the key administrative actor; it ensures the necessary coordination and provides support for the work of the other institutions: the Permanent High Level Group, the Ministerial Council, the Energy Community Regulatory Board and the Fora.<sup>3</sup> The Secretariat is also responsible for reviewing the proper implementation by the Contracting Parties of their obligations under the Treaty and it submits yearly progress reports to the Ministerial Council. To this extent, the Secretariat acts as a "*guardian of the Energy Community Treaty*"; for its part, the European Commission plays a general coordinator role under the same Treaty.

The Energy Community budget for 2011 amounts to EUR 3,380,000 and is financed to a 98% by the European Union (EUR 3,312,400). Since 2009, the European Union contribution is being paid from an ad hoc IPA Regional Programme. This budget serves basically to finance (1) the operation of the Secretariat; (2) the organisation of +/- 60 institutional meetings and events per year and participation of the Contracting Parties and Observers in those events; and (3) Studies. The bi-annual budget (2012-2013) for an enlarged Energy Community should be established and adopted in 2011.

The Energy Community was created for a period of 10 years, expiring in July 2016 and it can be extended by unanimous decision of its Ministerial Council.

Although the Treaty has been in force since July 2006, the fact is that the Energy Community did not become fully operational until 2007, when the Secretariat was set up. While the Energy Community was originally conceived as a European Union pre-accession instrument, its membership has in the meantime been opened to countries in the European Neighbourhood Policy area (the first newcomer being Moldova since 1<sup>st</sup> May 2010; and Ukraine having joined with effect from 1<sup>st</sup> February 2011) and beyond (Armenia has applied to become an observer). Since the signature of the Energy Community Treaty, the importance of strengthening the external dimension of the EU energy market has become more and more evident, starting with the 2008 Commission's Second Strategic Energy Review. The recent Communication "Energy 2020 – A strategy for competitive, sustainable and secure energy" identifies the Energy Community concept as a key component for a strong international partnership with the EU's neighbours.

## **2. A "success story"**

After four years of existence, the Energy Community has grown into a mature organisation, which provides a solid institutional framework for cooperation, mutual support and exchange of experiences and therefore serves as a model for regional cooperation on energy matters.

By signing the Energy Community Treaty, the Contracting Parties committed themselves to an ambitious project that demanded a huge effort in terms not only of legislative work, administrative capacity and resources, but also of political and social perception. This commitment is being renewed at every meeting of the Energy Community institutions, and is

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<sup>3</sup> Four Fora, devoted to electricity, gas, oil and social aspects, gather all interested stakeholders from the industry, regulators, industry representative groups and consumers.

moreover reflected in the daily work carried out at technical level by the different working groups and task forces.

The Energy Community Treaty identified a series of EU provisions that the Contracting Parties committed themselves to implement within a specific timeline and which basically concerned the Second Package of common rules for the internal market in electricity and gas, selected Directives on environmental protection and main antitrust and state aid rules. The Contracting Parties moreover committed to establish implementation plans for the Directives on the promotion of energy from renewable sources.

In 2007 the "Energy Community *acquis*" was extended to the EU directives on security of electricity and gas supply.

Since 2010, it also covers the main EU legislation on energy efficiency, in particular the Directives on the energy performance of buildings, on energy labelling, and on energy end-use efficiency and energy services. This legislation shall generally be implemented by the Contracting Parties by the end of 2011.

The Contracting Parties have moreover agreed to start implementing parts of Directive 2009/28/EC on the promotion of renewable energy and the "Third Package" on the internal market in electricity and gas on a voluntary basis, as a first step, following recommendations issued by the Ministerial Council.

The Energy Community's activities have been increasingly expanded to other areas. Based on the *Memorandum of Understanding on Social Issues*, all the Contracting Parties – apart from Moldova and Ukraine, as newcomers – have prepared Social Action Plans and have started to take measures to address social consequences related to the implementation of the Treaty. Some progress has been achieved in this area; however, this process seems to be rather slow and uneven due to the non-binding nature of the Memorandum and/or the weak commitment to social issues. Moldova and Ukraine are expected to sign the Memorandum without delay.

On the "*Oil Dimension*" preparatory work is being done with a view to a timely adoption of the 2009 Directive related to oil stocks.

Efforts are also being made to assist Contracting Parties to harmonise their energy statistics with the methodology and reporting requirements applied by Eurostat, based on a detailed roadmap established for the period 2010 - 2012.

The extension of the Energy Community's activities to other areas shows not only the commitment of the Contracting Parties to align with EU standards, but also the dynamic approach of this organisation and the flexibility of its decision-making mechanisms.

The evolution of the Energy Community's legislative framework is reflected in the 2010 Annual Implementation Report prepared by the Secretariat of the Energy Community. It focuses on the implementation of the *acquis* under the Treaty establishing the Energy Community and describes the progress made by each Contracting Party and assesses the overall situation. The Secretariat's Report<sup>4</sup> confirms the legislative effort made by the Contracting Parties, which have managed to adapt their energy regulatory frameworks in a relatively short period of time (whereby some of them started "from scratch"); the report also

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<sup>4</sup> The full text of the report is available at <http://www.energy-community.org/pls/portal/docs/722178.PDF>

warns about the widening gap between formal adoption of the rules and true implementation, and points to the identified obstacles preventing the effective opening of the energy markets and slowing down investments.

The interest in the Energy Community is growing throughout the region. The first enlargement of the Energy Community was completed in 2010 with the accession of the Republic of Moldova; with the accession by Ukraine, the size of the potential regional market has almost tripled (from approximately 26 millions inhabitants to around 73 millions). Negotiations with Turkey were opened in September 2009; Georgia is envisaging applying for membership and Armenia has requested to become an observer. The centre of gravity of this project – which was inspired by a strong EU pre-accession component – has therefore started to shift towards the East.

### **3. Main challenges**

While recognising the considerable efforts made by the Energy Community so far, especially from the institutional perspective, the Commission is aware of two key areas where there is room for improvement.

(a) From theory to practice. Despite intensive legislative work, the first level of ambition – the existence of open, transparent and competitive national energy markets in all Contracting Parties – has not been completed yet; as for the achievement of a regional market, the lack of progress on establishing a Coordinated Auction Office for electricity in the 8th Region (South East Europe) – despite the considerable financial and human resources deployed in this project – is an example of the systemic difficulties encountered; regional initiatives are often blocked based on irreconcilable positions of principle resulting from political, ethnic and religious discrepancies that are a legacy from the past. Continued obstructions by a number of parties of Kosovo's<sup>5</sup> full participation in regional mechanisms are particularly damaging. Under these circumstances, the ultimate ambition – integration into the EU's internal energy market – seems, for the time being, just a long-term objective.

Bridging the existing gap between theory (political commitments) and practice (full implementation of the Energy Community *acquis* and enforcement of the rules adopted) remains the main challenge, and the key question is how to prompt Contracting Parties in the region to apply and enforce the rules.

Setting realistic objectives and realistic deadlines will help to avoid situations of lack of compliance, as will appropriate accompanying provisions that duly take into consideration the profile and needs of the Contracting Parties, as explicitly stated in Article 24 of the Treaty.

Formal transposition of the "Energy Community *acquis*" cannot be an end in itself, but must be a means to achieve the objectives of the rules. The goal is to create a true energy market, starting by reforming of the existing system of regulated prices and blanket subsidies. No real opening of the national energy markets, let alone integration of the regional market, will therefore be achieved as long as obsolete market designs remain in place that hinder competition and investment and are based on public suppliers linked to incumbent domestic generators applying regulated prices that are not clearly defined, transitional, transparent, non discriminatory (including between suppliers) and verifiable, as well as not distortive of

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<sup>5</sup> Under UNSCR 1244/99.

competition, as required by the case-law of the Court of Justice of the European Union.<sup>6</sup> Adopting national laws that merely "translate" the EU rules into national acts does not suffice if they are not accompanied with the necessary secondary rules, administrative capacity and supervision and enforcement mechanisms. Strong Energy Regulatory Authorities are needed, with enough powers, resources and independence to perform their duties and capable to ensure non discrimination, effective competition and efficient operation of the energy market.

The dispute settlement mechanism provided for in the Treaty has proved efficient in cases where parties were open to negotiating an amicable solution. Experience has shown, however, that the ultimate solution of the dispute may go beyond the strict interpretation of the Energy Community *acquis* and relate to complex issues of public international law. Given the limited number of cases opened so far (only six cases, mainly prompted by complaints) and the lack of a systematic approach for addressing simultaneously similar breaches in several Contracting Parties, it is too early at this stage to draw appropriate conclusions on the efficiency of the infringement procedure laid down in the Treaty. The Commission considers that all parties need to step up the efforts to ensure compliance.

(b) How to promote investment? The Energy Community faces investment challenges that are well known,<sup>7</sup> such as those resulting from the modernisation of the electricity transmission and distribution networks and interconnectors, from the EU requirements and measures related to energy efficiency or from implementation of the Large Combustion Plants Directive, the Sulphur in Fuels Directive and emissions standards of the European Union, requiring rehabilitation of existing generation plants or decommissioning and possible replacement of a number of them by December 2017.

The Energy Community has succeeded in identifying a number of priority projects of strategic importance for the region, which were endorsed by the Ministerial Council in 2010, whereby precedence is given to projects facilitating cross-border exchanges; the current insufficient interconnection capacity is indeed an obstacle to developing regional markets. Promoting region-wide energy systems and exchanges will help not only the region but also the EU's security of supply. Some steps have been taken so far based on the "Gas Ring" concept, as developed in the "South East Europe Gasification Study" (sponsored by the World Bank and the Kreditanstalt für Wiederaufbau [KfW] and published under the title "The future of the natural gas market in Southeast Europe")<sup>8</sup> and considerable efforts have been made at institutional level to support and promote the priority projects identified.

The Energy Community has moreover helped the Contracting Parties attract significant public financing, be it from bilateral donors (e.g. KfW or USAid) or from international financial institutions (e.g. the EIB, the World Bank or the EBRD).

Despite the high level of funding from international financial institutions in the region, the level of private investments remains relatively low. Reasons for that include the unreliable implementation of the regulatory framework (rules are not implemented and/or not correctly

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<sup>6</sup> See Judgment of the Court (Grand Chamber) of 20 April 2010, *Federutility and Others v Autorità per l'energia elettrica e il gas*, Case C-265/08 (European Court reports 2010 Page 00000). Outstanding gaps are analysed in the report released by the World Bank in June 2010, *South East Europe Wholesale market opening*, <http://www.energy-community.org/pls/portal/docs/594181.PDF>

<sup>7</sup> See e.g. the report prepared by the World Bank *Lights out? : the outlook for energy in Eastern Europe and the former Soviet Union* [http://siteresources.worldbank.org/ECAEXT/Resources/258598-1268240913359/Full\\_report.pdf](http://siteresources.worldbank.org/ECAEXT/Resources/258598-1268240913359/Full_report.pdf)

<sup>8</sup> See the report at <http://go.worldbank.org/ZM7XE8RM10>

applied) and the small scale of national markets (the very same reasons that gave birth to the concept of the Energy Community back in 2005).

However, the biggest challenge still appears to be the failure of governments to restructure regulated end-user prices and the associated implicit and explicit subsidies on all energy markets. These subsidies, which are indiscriminately applied, keep, in particular, the wholesale electricity price below the capital replacement level and discourage energy savings and investments in energy efficiency. The result is a continued use of ageing, inefficient and environmentally unfriendly capital stock, that is unable to provide the energy security the population of the Energy Community's Contracting Parties deserve. This result crowds out investment of any sort – public, private or by international financial institutions.

The Commission considers that improving the conditions for investment must become a priority for the next steps of the Energy Community and it will work together with the Secretariat and the Donors community to make good on this commitment.

#### **4. What future for the Energy Community**

Following from the conclusions set out above, the Commission considers that the future of this international organisation should be designed taking into consideration three main objectives: the Energy Community needs to focus on enforcement of the rules, it has to adopt the Third Internal Market Package and the Renewables Directive and a coordinated investment strategy needs to be developed. Inclusion of further *acquis* should be considered, notably to promote de-carbonisation of the energy sector.

##### (1) Focus on implementation

Unlike other existing regional initiatives, the Energy Community is based on an international treaty that creates a framework of legally enforceable rules:

- By joining the Energy Community, the Contracting Parties have given a legal commitment not only formally to adopt the relevant EU rules, but also to apply and enforce them in practice.
- The Energy Community institutions ensure a permanent and independent monitoring of the relevant markets by the Secretariat, which assists Contracting Parties with implementing the rules and checks the formal compliance of the national transposing rules (even before they are adopted) and their application in practice, by means of country visits, among other measures;
- The Energy Community Treaty provides for a dispute settlement mechanism which allows to identify and to address any breaches of the relevant rules, either following a complaint or on the Secretariat's own initiative, even though this mechanism has not been applied in any systematic way so far.

However, the lack of progress made in practice with reforming and opening up the energy markets suggests that so far enforcement of the energy *acquis* has been insufficient. In order to improve enforcement, the Contracting Parties should move ahead with establishing strong and independent energy regulators and competition authorities that are fully empowered and equipped to monitor compliance and impose effective sanctions in case of infringement. National courts and investment tribunals also have a crucial role to play in enforcing the rules adopted and in granting proper redress in case of violations. Finally, the Secretariat must fully



play its role of guardian of the Energy Community Treaty, drawing on the independence and expertise it has.

The Commission is committed to furthering implementation and active enforcement of the Energy Community rules as follows:

(a) For Contracting Parties that have reached the status of EU candidates or potential candidates, the level of national implementation and enforcement of the relevant Energy Community *acquis* will be considered decisive in the negotiations for accession to the European Union. The lack of enforcement will be assessed negatively in the Commission's progress reports and could lead to re-opening the Energy Chapter of the accession negotiations. The converse is also true: candidate countries should expect smoother progress in their accession discussions on the Energy Chapter in return for implementing the *acquis* under the Energy Community Treaty.

(b) Based on transparent rules and procedures, and taking into account the proportionality principle, the European Commission will examine how to better link bilateral financial assistance to the respect of commitments under the Energy Community Treaty, especially in case of a persistent breach by a Contracting Party, in line with the recommendation made by the European Parliament in its Resolution Towards a new Energy Strategy for Europe 2011-2020, adopted on 25th November 2010. In the Commission's view, Contracting Parties' compliance with the *acquis* should be assessed not only on the basis of transposition of the *acquis* in their national legislation but also on the basis of effective implementation and enforcement, which should in turn play a positive role when it comes to allocating additional financial support.

In its role as Coordinator of the Donors Community, the Commission will consider moreover inviting other International Financing Institutions and bilateral donors to follow the same policy and make financing conditional on implementation and enforcement of the rules.

(c) Furthermore, stronger enforcement mechanisms will also be a condition for the Contracting Parties to benefit from the provisions on cooperation under the Renewable Energy Directive and in particular its provisions on statistical transfers with Member States.

(d) The Commission will support measures aiming at facilitating implementation and at preventing situations of non compliance from happening, by increasing administrative cooperation and partnership. It will also foster closer involvement of participants from EU Member States in the technical meetings of the Energy Community, so that Contracting Parties can benefit from their experience and best practices.

(e) The Commission will promote systematic recourse to the dispute settlement mechanism which duly respects equal treatment of Contracting Parties and will support initiation of the relevant procedures on the Secretariat's own initiative. In case of serious or reiterated breaches of the rules, the Commission believes that the European Union should exercise its right under Article 90 of the Treaty and should consider submitting the case directly to the Ministerial Council.

(f) In the Commission's view, accession of new members to the Energy Community should be open only to countries showing willingness and the ability to incorporate the relevant Energy Community *acquis* into their legislation within a reasonable timeframe before accession and in line with the credibility demanded from the other Contracting Parties.

## (2) Implementation of the Third Internal Market Package and the Directives on Renewables and Energy Efficiency, as a means to speed up integration of the region in the single European energy market

The Commission considers that the effective implementation of the agreed rules is a key condition for the prospective adoption and implementation of the Third Internal Energy Market Package and for participation by the Contracting Parties in the Agency for the Cooperation of Energy Regulators (ACER) or the European Networks for Transmission System Operators.

The Commission will promote the extension of the Energy Community *acquis* to the directives and regulations in the "Third Internal Energy Market Package". Adoption and implementation of the Third Package will allow the Contracting Parties to reform their energy markets faster and more thoroughly, paving the way for full integration with the EU markets and enabling businesses and consumers in the Contracting Parties to reap the benefits from smoothly functioning markets.

To make sure that the implementation of the legislation is accompanied by real reforms on the market, the Commission, in coordination with the Energy Community Secretariat, intends to give specific advice to the Contracting Parties, in the form of implementation programmes, priorities, and possibly gradual adoption of the *acquis*. Naturally this will be an integral part of the advice on market reform that sets the basis for the promotion of investment.

The Commission will also promote adoption of the Renewables Directive by the Energy Community. The Contracting Parties have an unexploited renewable energy potential which would allow them to contribute to the fight against climate change, increase Europe's energy security and to address local environmental and health concerns.

In the area of energy efficiency, effective application of the relevant EU legislation in the Contracting Parties will be important to ensure that they contribute as soon as possible to reaching the energy saving and efficiency targets and to de-carbonising the energy sector. Significant related advantages include savings on energy bills for Contracting Parties' nationals as well as opportunities for creating new jobs. The possibility of considerable savings as a result of increasing energy efficiency in the region was analysed in a recent report released by the World Bank.<sup>9</sup>

These rules are already the point of reference for bilateral negotiations between the European Union and the Contracting Parties of the Energy Community (either for accession to the European Union or in the framework of the European Neighbourhood Policy).

The Commission will therefore promote adoption of the relevant directives and regulations by the Energy Community as soon as possible, taking into account the Energy Community institutional framework and the specific situation of the Contracting Parties.

## (3) Coordinated investment strategy

The Energy Community needs to build an attractive investment environment based on a coordinated investment strategy. The Contracting Parties offer a good geographical base to

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<sup>9</sup> "Status of Energy Efficiency in the Western Balkans, Stocktaking report" available at <http://www.energy-community.org/pls/portal/docs/664179.PDF>

gain access to the wider European energy market and the potential to turn their objective advantages, such as abundant renewable hydro-electric resources, into export opportunities. Admittedly there are problems, such as bottlenecks to cross-border trade unstable planning systems, and very narrow, limited ambitions.

The primary condition for new investments is undertaking price/subsidy reform. The current price and tariff levels, often below cost recovery, constitute a market distortion and hamper policies to promote demand management and energy efficiency. This, compounded with low levels of electricity billing and revenue collection imperil the financial viability of some of the power utilities, which is currently remedied by costly state subsidies. Special efforts therefore need to be made on price and tariff reform with due attention to the protection of vulnerable consumers, to the removal of administrative burdens and the establishment of an independent Regulatory Authority which guarantees transparency of the market and non-discriminatory treatment of the market participants. The Commission recognises that it is unreasonable to expect reform without offering an alternative plan for investment, for price restructuring and for targeted protection of vulnerable consumers. The Commission intends to take the lead in this area by offering specific advice on structural reform.

Emphasis will be placed on the social impacts of reform. The Contracting Parties need to develop efficient energy welfare systems and targeted subsidy schemes. The most notable efficiency is to increase the level of payment coverage (that is, to reduce the number of persons to whom energy is supplied, but who do not pay). Another efficiency that must be considered is removing of blanket subsidies, and targeting subsidies on the poor and the vulnerable. The Contracting Parties need to realise what are the costs of not-reforming, in terms of increased energy intensity, lost welfare, lost economic growth, a degraded environment and health impacts.<sup>10</sup>

A secondary condition is that the Contracting Parties must look beyond their borders and realise the economies of scale offered by regional investment plans. This requires the political will to rely on neighbours, and to do that the European Union must take a direct and high level interest in the Energy Community at every opportunity.

Thirdly, the Commission will raise the level of importance attached to environmental and climate criteria in the debate on energy in the Contracting Parties. The necessity to invest in new generation capacity to replace old, inefficient and polluting power plants is all the more urgent when taking into account the environmental legislation of the EU. The ability of the Contracting Parties to implement the requirements of Directive 85/337/EEC, on environmental impact assessment, as amended, along with the provisions of Article 4(2) of Directive 79/409/EEC, on the conservation of wild birds, will also deserve specific consideration from the Commission.

The added value of the Energy Community should be preserved and duplications with the work carried out in the field of energy under other regional initiatives should be avoided (the European Neighbourhood Policy and the Eastern Partnership, the Regional Cooperation

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<sup>10</sup> The importance of meeting environmental criteria should play a central role in the strategy. The present fuel mix in the region, particularly lignite used in power stations and domestic hard fuel use (lignite, wood, coal), under-prices the environment and the related social costs, as documented by the United Nations Development Programme already in 2004 (see [http://www.undp.org/energy/docs/Stuck\\_in\\_the\\_Past.pdf](http://www.undp.org/energy/docs/Stuck_in_the_Past.pdf))

Council, the European Strategy for the Danube and the Baku Initiative). Coordination among all these initiatives is essential to avoid overlapping actions and double financing.

In its general role as coordinator of the Energy Community activities, and building on its privileged relationship with the donors, the European Commission intends to take the lead in the creation of the investment environment.

Based on the European Union Energy Strategy 2020, those infrastructure projects which contribute to enhance the European Union's security of supply, e.g through new interconnectors at the borders, should receive the same attention and policies as intra-EU projects. The Communication Energy infrastructure priorities for 2020 and beyond – A blueprint for an integrated European energy network, adopted by the Commission on 17th November 2010, identifies electricity connections in Central Eastern and South Eastern Europe, as along with the North-South gas corridor in Central Eastern and South-Eastern Europe, as two of the priority corridors. These corridors are designed with the need to integrate the Energy Community in mind. Provided the Contracting Parties agree on common investment projects, these could be qualified as "projects of European interest".

Priority should furthermore be given to the completion of regional projects, such as the setting up of the Coordinated Auction Office for electricity, the construction of a "*Gas Ring*" with its feeding pipelines, and – possibly – the establishment of a Central Oil Stockholding Entity for the Region, which are to become the flagships of the Energy Community.

The Commission will make sure that EU funding available for energy projects in the Energy Community area is optimised and, where appropriate, increased if justified by the regional nature of the projects.

## 5. **The way forward**

The Commission considers that the progress made so far and the dynamic nature of the work carried out – which is closely following developments in the energy sector at European Union level – indicate that the Energy Community is called to extend its existence beyond 2016.

The Energy Community has highlighted the advantages for the Contracting Parties of following a regional approach, compared with the traditional bilateral relations with the European Union. It has proved that, independently of the prospect of future accession to the European Union, Contracting Parties can already benefit in the short term from the advantages of the EU internal energy market.

The Energy Community model has proved an efficient framework for cooperation in the field of energy with the EU's neighbours, which could possibly be extended to other countries and geographical areas.

Regional cooperation is essential and full integration of the Energy Community into the pan-European energy market will depend on the political commitment of each of the Contracting Parties and their capacity to contribute to the establishing a regional market in the Energy Community and to making it a success.

Based on the content of this report, the Commission intends to contribute to achieving the goals of the Energy Community, as follows:

- It will promote changes in the working methods of the institutions and bodies of the Energy Community, including organisation of *ad hoc* meetings at Ministerial level on specific priorities related to the fulfilment of the objectives of the Energy Community.
- It will proactively prompt the implementation and effective enforcement of the rules;
- It will promote the implementation of the Third Internal Energy Market Package and of the Directives on Renewables and Energy Efficiency as a means to speed up the full integration of the Energy Community in the single European energy market and it will consider the inclusion of further *acquis*, in particular to promote the de-carbonisation of the energy sector;
- It will promote appropriate investments in the region by means of adoption of a coherent investment strategy that takes into consideration in particular the infrastructure needs of the energy sector, the necessity to decarbonise the energy supply, the impact of energy savings and the potential for development of sources of renewable energy, and
- It will promote the implementation of the Memorandum of Understanding on Social Issues.