



**German Economic Team**  
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**Eastern Partnership: Prospects for  
intensifying the Belarus – EU relations  
in the energy sector?**

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# Eastern Partnership: Prospects for intensifying the Belarus – EU relations in the energy sector?

## Executive Summary

The Eastern Partnership is a new policy framework for the cooperation of six East European countries and the EU. Following a phase of relaxation in the EU-Belarus relations, Belarus participates in the multilateral dimension of this new initiative. This decision will shape the EU-Belarus relations in the years to come. The Eastern Partnership agreement treats energy issues with high priority. As Belarus happens to be a pivotal energy transit country for Europe, there appears to be much room for tightening the cooperation in the energy sector. This article asks whether the Eastern Partnership will live up to the high expectations expressed by Belarus and what the country could do to benefit from this new initiative.

The aspirations of the EU connected to collaboration on energy issues are significant. The topics for cooperation include security of supply agreements, harmonisation of technical and economic standards, improvement in the transit infrastructure etc. But in its current design the Eastern Partnership is unlikely to provide the appropriate framework for a closer cooperation on energy issues with Belarus for two reasons: *First*, the potential Eastern Partnership funding for energy projects in Belarus will probably be between EUR 1 m and EUR 20 m per year. This is not the appropriate dimension for effective financial assistance in the notoriously capital intensive energy sector. And *second*, due to political restrictions Belarus is not part of the bilateral dimension of the Eastern Partnership. This implies that in general only energy projects with a multilateral component are considered. This significantly limits the scope of the agreement as most of the crucial energy transit issues are of bilateral nature. Besides, strict multilateralism in energy transit questions is not beneficial for the EU as the competition of transit routes is probably in the interest of the EU.

Consequently, the Eastern Partnership is no complete change in the Belarus-EU relations but it is an indication for an ongoing shift in the EU's stance towards its Eastern neighbour. As a result, the main advantages from the Eastern Partnership for Belarus are: *First*, by participating Belarus could increase the international acceptability of any kind of cooperation with Belarus. Consequently, the Eastern Partnership might act as a catalyst helping to provide the framework conditions for loans from international financial institutions and bilateral agencies. *Second*, participating in such a multinational framework increases the ability of Belarus and its officials to compete for major technical and financial assistance projects. And *third*, by closer contacts with European officials Belarus could hope that its interests are taken more into consideration in the next EU budget.

To pave the way for an increased inflow of technical and financial assistance Belarus has to clear its backlog. The EU acknowledges that Belarus' has no sufficiently professionalized system of assistance acquisition. To rectify this situation we suggest that Belarus should increase its efforts to build up a powerful competence centre of competitively paid, aptly trained and English speaking experts to attract technical and financial assistance. Furthermore the project proposals need to be designed from the "buyers" perspective, clearly pointing out the value added to the foreign project partner. Correspondingly we suggest that an infrastructure based "security of supply insurance" might be an interesting offer of Belarus to its Western neighbours. Concerning financial assistance projects we suggest that only such projects should be proposed in the frame of the Eastern Partnership that do not harm the interests of competing energy transit countries.

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# 1. Introduction

The Eastern Partnership is a multilateral policy framework for the relations between the EU, its eastern neighbours (Ukraine, Belarus, Moldova) and the Caucasus countries (Georgia, Azerbaijan, and Armenia). It is intended "to create the necessary conditions to accelerate political association and further economic integration between the European Union and interested partner countries".<sup>1</sup>

The Eastern Partnership emerged from the European Neighbourhood Policy that formed the framework for the EU external policy towards most of its neighbouring countries since 2004. While the Polish-Swedish initiative from spring 2008 for a special eastern dimension of the European Neighbourhood Policy faced some initial reluctance in Brussels; the Russian-Georgian conflict in summer 2008 changed the political climate in favour of a regional policy. Consequently, the European Commission presented a far reaching document on Eastern Partnership, which also found a favourable response from the European Council in December. The Czech EU Presidency took the project forward organizing an Eastern Summit of the EU and the six partner countries in Prague in May 2009. There, the Eastern Partnership was officially inaugurated.

Belarus has expressed high hopes associated with its partnership. Strong media echo in Belarus and repeated optimistic statements by Belarusian politicians indicated that Belarus attach high importance to this new development in the Belarus-EU relations. This positive Belarusian stance towards the Eastern Partnership could be attributed to different political and economic factors.

In particular, Belarus considers it advantageous to participate in EU cooperation programmes targeted on its Eastern neighbours, from a large part of which it has been excluded in the past. While, for some countries, such as Ukraine, the Eastern Partnership might just be a different label for the already close cooperation, for Belarus the Eastern Partnership could imply a completely new dimension of collaboration. Even though Belarus was an official member of the European Neighbourhood Policy (ENP), it was excluded from the Partnership and Cooperation Agreements and the linked ENP Action Plans due to disagreement over common values (e.g. democracy and human rights). Thus, Belarus hopes that the Eastern Partnership will add further momentum to the currently observable relaxation of the EU-Belarus relations. This easing of tension was indicated by the visit of Belarusian foreign minister, Syarhei Martynau, to Brussels, EU high commissioner for foreign and security policy affairs, Javier Solana, to Minsk and External Relations Commissioner Benita Ferrero-Waldner to Minsk.<sup>2</sup> Whether, and under which conditions this hope will materialize is a political question that is beyond the scope of this study.<sup>3</sup> We will also not treat the strategic political dimension of the Eastern Partnership (relations of the EU and Belarus with Russia<sup>4</sup>, recognition of South Ossetia and Abkhazia, EU membership perspective of the Eastern Partnership countries, relation between Eastern Partnership and Union for the Mediterranean etc.) that are widely discussed elsewhere.<sup>5</sup>

The focus of this contribution is the energy policy section in the Eastern Partnership. Energy is an crucial component in the past, present and future cooperation between the EU and Belarus. For the EU member states, Belarus is an important energy transit country.<sup>6</sup> For Belarus the EU could

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<sup>1</sup> EC (2009a).

<sup>2</sup> EIU (2009).

<sup>3</sup> EC (2008).

<sup>4</sup> The reluctance of Russia to dispense a USD 500 m credit to Belarus (and other economy related disputes) might have, for example, motivated the Belarus administration to demonstrate to their "strategic partner" that they have alternative foreign policy options.

<sup>5</sup> IFRI (2009), I (2009), Bertelsmann (2009), SWP (2009).

<sup>6</sup> In its Second Strategic Energy Review the EU commission postulates that „A strategy on Belarus should be developed, taking account of its importance as a neighbour and transit country“. Second Strategic Energy Review, 13.11.2008, COM(2008) 781 final.

be a principal investor in energy infrastructure. In the somewhat comparable, though much bigger Ukraine, companies, countries and international financial organizations from the EU invested/lend billions of Euros in transmission lines, power plants and pipelines. A similar cooperation could be of high value for Belarus as it might provide external financial resources that help to renew the largely worn out energy infrastructure, stabilize the crisis-affected macroeconomic situation and restructure the inefficient energy sector.

Therefore we first want to analyze in which aspects the Eastern Partnership goes beyond existing policies. Second, we want to line out the energy related EU programmes in which Belarus is participating and what could be expected from the Eastern Partnership. Based on this analysis we will describe how Belarus could increase the benefits from this cooperation.

## **2. What is “new” in the Eastern Partnership**

In this section the bilateral and multilateral cooperation programmes between the EU and Belarus are described. Based on a brief introduction of previous and existing programmes the “new” features of the Eastern Partnership are presented.

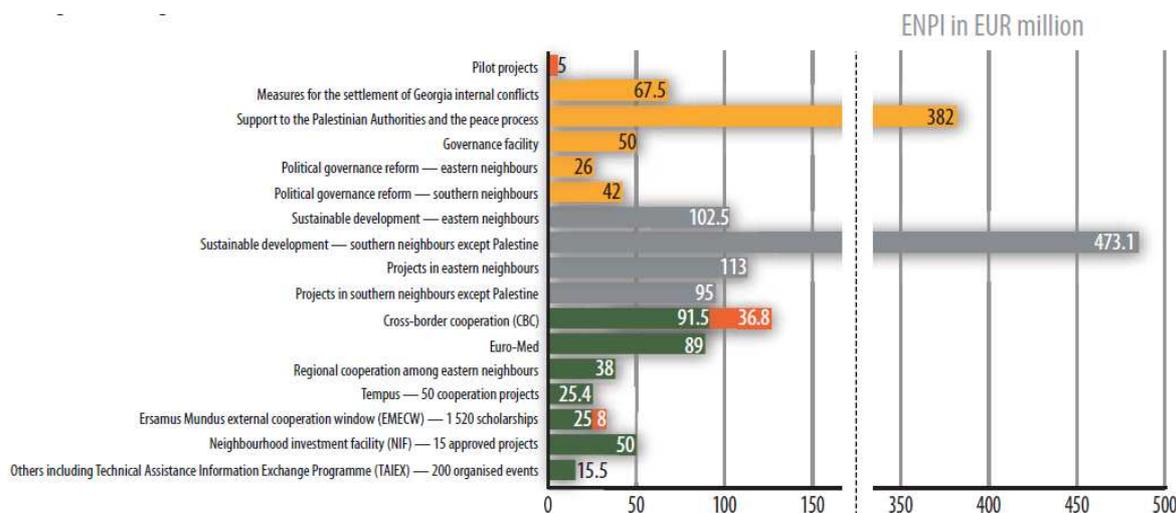
The Eastern Partnership is not the first EU policy programme towards a closer cooperation with Belarus. Until 31 December 2006, EU assistance to the countries of the European Neighbourhood Policy was provided under various geographical programmes including TACIS<sup>7</sup> for EU's eastern neighbours (including Belarus) and Russia. For the budgetary period 2000-2006, the funds available were approximately EUR 3.1 bn for TACIS, as well as approximately EUR 500 m in European Investment Bank lending for the TACIS beneficiary region.

From 1 January 2007 onwards, various programmes have been replaced by the European Neighbourhood and Partnership Instrument (ENPI). The main focus is on country programmes that support the partners' countries implementation of their own political, governance, economic and social reform programmes. The ENPI is responsible for both the southern and the eastern neighbours. For the current budgetary period (2007-2013), approximately EUR 12 bn in EU funding are available to support these partners' reforms. According to the preliminary draft of the general EU budget for 2010 (see Figure 1) a large fraction of ENPI funds is dedicated to the southern neighbours. The budget lines also relevant for the cooperation between the EU and Belarus are: “Political governance reform – eastern neighbours”, “sustainable development – eastern neighbours”, “projects in eastern neighbours”, “cross-border cooperation”, “regional cooperation among eastern neighbours” and “Erasmus Mundus”. This EUR 400 m (of the total EUR 1.7 bn) for 2010 will have to be shared with at least five other countries, some of which are most probably higher on EU's priority list.

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<sup>7</sup> TACIS stands for Technical Assistance to the Commonwealth of Independent States. The TACIS Programme provided grant-financed technical assistance to 12 countries to “support their transition to democratic market-oriented economies”. In the energy sector various national programmes were financed by TACIS: e.g., “Support to the Ministry of Energy Armenia”, “Coal sector policy support Ukraine”. In addition, multilateral programmes like the “INOGATE Programme” and the “Nuclear safety programme” were financed from the TACIS budget

**Figure 1: ENPI funding for 2010**



Source: Draft of EU Budget for 2010

The ENPI website lists 18 support programmes in which Belarus participates whereby some are significantly better funded than others.<sup>8</sup> In the context of ENPI (and former TACIS), six important multilateral programmes could be highlighted:

- Cross-Border Cooperation (CBC): a large fraction of ENPI funds is spent on cross-border cooperation of the EU and the partner countries to enhance the territorial cohesion. For the Latvia-Lithuania-Belarus Programme EUR 42 m are foreseen in 2007-2013 and for the Poland-Belarus-Ukraine Programme EUR 186 m are planned.
- Technical Assistance and Information Exchange (TAIEX): is an EU programme to organize workshops and short-term visits of EU and member states experts to improve the administrative capacities in the partner countries. In 2008 Belarus significantly reduced its participation in the corresponding programme (2007: 309; 2008: 79 participants).
- Twinning: is a long-term expert delegation programme. EU and Member States' administration staff is sent to partner countries public services to assist in capacity

<sup>8</sup> On [http://www.enpi-info.eu/list\\_projects\\_east.php?country=58](http://www.enpi-info.eu/list_projects_east.php?country=58) [last visit: 1 October 2009] one can find:

1. Air Quality Governance in the ENPI East Partner Countries
2. CBC - Cross-border cooperation
3. EAST-INVEST - Support to SME Sector in ENP Eastern Partner Countries
4. Eastern Partnership Culture Programme – Part I
5. Erasmus Mundus II – Action 2 Partnerships
6. FLEG - Improving Forest Law Enforcement and Governance
7. INOGATE
- 8-11. Multi-country cooperation instruments (East): NIF, TWINNING, TAIEX, SIGMA
12. Prevention of Drug Abuse and Fight against Drug Trafficking - BUMAD 3
13. Regional Information & Communication Programme
14. SKPI - Support to Kyoto Protocol Implementation
15. TEMPUS IV for higher education
16. The EU Water Initiative (EUWI) – Eastern Component
17. TRACECA
18. Water Governance in Western EECCA Countries

building. Currently, Belarus does not participate, inter alia because Belarus law forbids officials to work together with officials from a foreign state.<sup>9</sup>

- Neighbourhood Investment Facility (NIF): is a fund to support international financial institutions (such as EBRD and EIB) lending in the 16 ENP partner countries. Large scale lending by EIB and EBRD has been slightly topped up (0-5% contribution) from the EUR 700 m seven years budget of the NIF. Belarus did so far not profit from NIF support.
- Governance Facility: additional support (EUR 50 m annually) to the partner country that has made most progress in implementing the governance priorities agreed in their Action Plans. Belarus did so far not profit from a Governance Facility.
- Inogate: is an international energy co-operation programme that aims to stimulate the technical and legal convergence of the national energy sectors by facilitating IFI investment in energy transportation infrastructure and providing technical, financial, legal and environmental expertise. So far, Belarus only participates in some smaller "standard harmonisation" projects.

While countries like Ukraine or Georgia were in the focus of the mentioned programmes for years, Belarus was for political reasons so far largely excluded from EU support.<sup>10</sup> As for example only countries that have signed Partnership and Cooperation Agreements have ENP Action Plans, Belarus was in general not eligible to projects in the frame of the Neighbourhood Investment Facility (NIF) or money from the Governance Facility.

Direct bilateral programmes in the framework of the ENPI are laid out in the Country Strategy Paper 2007-2013 and National Indicative Programme 2007-2010. The National Indicative Programme identifies two priority areas of assistance to Belarus: "Social and Economic Development" and "Democratic Development and Good Governance". Based on the National Indicative Programme concrete Annual Action Programmes are developed. Those quite specific annual ENPI Action Programmes in which Belarus participates are not to be confounded with the more strategic three year ENP Action Plans from which Belarus was so far banned. The Action Programme 2007 relates to the energy sector, the Action Programme 2008 deals with environmental issues and the Action Programme for 2009 is concerned with food safety. The last programme has been financed by the EU with EUR 10 m.<sup>11</sup> As indicated in Table 1 the corresponding budget allocation for 2007-2010 is negligible.

**Table 1: Distribution of ENPI budget line in 2007 and country programmes indicative funding 2007-2010 in EUR m**

	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine
2007-2010	98	92	20	120	210	494

Source: ENPI

**Conclusion:** The described examples indicate that Belarus has already been involved in numerous EU programmes before 2009. For lack of own interest (TAIEX), absent legal basis in Belarus (Twinning) and EU's reluctance to engage in large bilateral investment (NIF) most of the programmes are either narrowly focused (FLEG), sparsely funded (Action Programmes) and/or part of large multilateral projects (CBC).

<sup>9</sup> In 2007-2013 the budget for Twinning for all south and east ENPI countries is Euro 12 bn.

<sup>10</sup> Funds allocated to individual country programmes depend on their needs and absorption capacity as well as their implementation of agreed reforms. [[http://www.enpi-info.eu/mainmed.php?id=340&id\\_type=2](http://www.enpi-info.eu/mainmed.php?id=340&id_type=2)]

<sup>11</sup> Commission Decision C(2009) 4274 of 09/06/2009.

Based on the brief description of the *status quo ante* the new cooperation programmes in the framework of the Eastern Partnership should be introduced. In principle there will be biannual meetings of Heads of States or Governments involving the 27 EU Member States and the partner countries of the Eastern Partnership. Annual meetings of Ministers of Foreign Affairs would review progress and provide more detailed political guidance.

Apart of this general declaration of intention to more closely coordinate on the highest political level<sup>12</sup>, three new features of the Eastern Partnership that have economic policy implications, could be identified:<sup>13</sup> "multilateral thematic platforms", "flagship initiatives" and increased funding.

The **thematic platforms** should provide a framework in which common multilateral challenges can be addressed. This includes seminars to improve the understanding of EU legislation and standards, sharing of experience, and where appropriate development of joint activities. Four policy platforms exist: (1) Democracy, good governance and stability; (2) Economic integration and convergence with EU sectoral policies; (3) Energy security; and (4) Contacts between people.

In each thematic platform senior officials hold regular meetings (twice a year in Brussels). The first meeting round took place in summer 2009.<sup>14</sup> According to the General Guidelines "each platform will adopt a set of realistic, core objectives that should be updated periodically, with a corresponding work programme, and will review the progress achieved" and can establish expert-level working groups (panels). So far no information on the decided objectives or eventual working groups are made public. Consequently, it remains to be seen, whether this official discussion forum will become successful. Unless the partner countries see no real decision making power with respect to budget allocations it is, however, possible that the partner countries will prefer to employ their scarce administrative resources elsewhere, i.e., withdraw their best experts from the platforms.

A promising approach to quickly demonstrate the capacity of EU programmes and build capacity in the partner countries administration are the **flagship initiatives**. In the Prague declaration five areas for "flagships" have been defined: (1) Integrated Border Management Programme, (2) SME

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<sup>12</sup> Currently, the most largely covered initiative in the Eastern Partnership is the Civil Society Forum.

<sup>13</sup> The ten „new points“ in the Eastern Partnership according to the press releases of the European Commission (<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/09/217>) are not all innovations of the Eastern Partnership. Most of them (all apart of 6, 9 and 10) simply carry forward existing policies:

1. Voluntary new association agreements including free trade agreements
2. EU funded programmes to improve partners' administrative absorption capacity
3. "mobility and security pacts", allowing for easier legitimate travel to the EU
4. EU wants to study the possibilities for increased labour mobility
5. Enhance energy security in the partner countries
6. Multilateral platforms
7. Enhanced cooperation on environment and climate issues;
8. Increased people-to-people contacts and greater involvement of civil society
9. Additional financial support of EUR 350 m for the period till 2013.
10. flagship initiatives

<sup>14</sup> „According to the Joint Declaration of the Prague Eastern Partnership Summit, the multilateral framework of the Eastern Partnership will provide for cooperation activities and open and free dialogue serving the objectives of the Partnership. It will operate on a basis of joint decisions of the European Union and the partner countries. It will provide a forum to share information and experience on the partner countries' steps towards transition, reform and modernization and give the EU an additional instrument to accompany these processes. It will facilitate the development of common positions and joint activities. The multilateral framework is aimed at fostering links among partner countries themselves and will be a forum for discussion on further developments of the Eastern Partnership.“ Source: Eastern Partnership Multilateral Platforms - General Guidelines and Rules of Procedure, Brussels, 5th June 2009.

Facility, (3) Regional electricity markets, improved energy efficiency and increased use of renewable energy sources, (4) Southern energy corridor, (5) Prevention of, preparedness for, and response to natural and man-made disasters.

By September 2009 two flagships (1 and 5) were prepared to be launched in the end of 2009. To give a rough idea on the financial dimension, in the first phase EUR 6 m are aimed for flagship 5 while significantly more should be spend in the second phase.<sup>15</sup> Overall the Commission proposals for flagships 2, 3 and 5 foresee mainly technical assistance to improve coordination but seem to allow/encourage financial assistance from international financial institutions.

The third highlight of the Eastern Partnership is the **additional financial support** of EUR 350 m for 2010-2013 (2010: EUR 25 m; 2011: EUR 53 m; 2012: EUR 113 m; 2013: EUR 159 m). However, "the Commission would need Council approval for allocations to Eastern partner countries on an annual basis, which would enable other claims on the margins and other external relations priorities to be considered".<sup>16</sup> Consequently, in extreme situations the Eastern Partnership funding might not be fully assured.

Moreover EUR 250 m that was already allocated to the ENP regional east programme will be reallocated to initiatives relevant for the implementation of the Eastern Partnership, bringing the total for implementing this new initiative to EUR 600 m.<sup>17</sup>

According to SIPU (2009) the Commission proposes that the new funds should be used to finance the multilateral elements of the Eastern Partnership. Remaining funds should be divided roughly equally between the economic and social development objective (~ EUR 75 m) and the multilateral dimension (~ EUR 75 m). The multilateral dimension will presumably cover the work within the thematic platforms and certain of the flagship projects. Obviously this level of finance is insufficient on its own to fund the envisaged major flagship projects.

The reason for this lack of funding is that the Eastern Partnership was decided in the middle of the budget period 2007-2013. Consequently, the resources had to be found within the existing financial framework and were therefore fairly constrained. However, the described large number of projects acknowledged by the EU but not properly funded could also be interpreted as a promise for the next budget period (2014-2020). SIPU estimates that while the total EU-Budget will not increase markedly rescheduling of financing lines might, conditional on political will, allow an Eastern Partnership funding between EUR 1.5 bn and EUR 3 bn in 2013 prices. Such an adjustment of budget priorities will, however, probably meet the opposition from southern member states and accession critical countries. Therefore, good progress in the partner countries might help to find arguments for such an increase in Eastern Partnership funding. Another source of finance probably envisaged by the EU was co-financing from interested (central European) member states and international financial institutions.

Apart of the new instruments and the improved finance for programmes in the eastern neighbourhood, the most important point for Belarus in the Eastern Partnership might be the fact that is allowed to participate. The decision to make Belarus a full member of the Eastern Partnership was not uncontested but followed an obvious relaxation in the EU-Belarus relations. Those were indicated by a series of high ranking visits in 2009: Belarusian foreign minister, Syarhei Martynau to Brussels, EU high commissioner for foreign and security policy affairs, Javier Solana to Minsk and External Relations Commissioner Benita Ferrero-Waldner to Minsk.

Despite its full member status in the Eastern Partnership, Belarus participation in bilateral projects remains conditioned on "the overall development of EU - Belarus relations". This implies that

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<sup>15</sup> Source: Presentation of DG RELEX: "Prevention of, preparedness for, and response to natural and man-made disasters An Eastern partnership Flagship initiative".

<sup>16</sup> UK House of Commons European Scrutiny Committee. A part of the Eastern Partnership budget comes from a margin under heading 4 of the ENP budget, thought as a reserve in crisis situations in the neighbourhood countries, e.g. in Palestine.

<sup>17</sup> "Available funding was reduced to this level during negotiations within the Commission" (SIPU).

decisions on concrete projects are subject to a case-by-case decision by the EU. On the one hand it is probable that the criteria for funding Belarusian proposals might be stricter than those for other countries; on the other hand the case-by-case approach does not categorically preclude any type of project.

**Conclusion:** the Eastern Partnership does not leave the path of the European Neighbourhood Policy<sup>18</sup> but slightly widened its scope. While especially the flagship projects indicate a significant increase in the scale of European engagement in the region, the funding in the current EU budget period (2007-2013) is rather modest. This could be interpreted as a promise for the coming EU-budget (2014-2020) to adjust the means to the aims. For Belarus, being in the Eastern Partnership is potentially more important than for other partner countries. While Georgia, Ukraine and Moldova were already on track towards a closer integration in the European market Belarus would have risked being uncoupled from this regional dynamics.<sup>19</sup> Concerning funding, however, the Eastern Partnership is also for Belarus more a promise than a reality as bilateral investments remain restraint to political conditions.

### 3. EU – Belarus cooperation in the Energy Sector

In the first part of this section existing programmes of cooperation between the EU and Belarus in the energy sector are presented. The new instruments under the Eastern Partnership are discussed in the second part.

Under National Indicative Programme 2007-2010 (see page 11), energy sector issues are considered as a part of the first priority area (“social and economic development”). Consequently, energy was the subject of the 2007 ENPI Annual Action Programme. In addition, climate change and electricity network issues have also been part of the TACIS regional action programme 2006. Including multilateral programmes, we were able to identify five ongoing EU projects in the field of energy that involve Belarus:

- **Support to the Implementation of a Comprehensive Energy Policy for the Republic of Belarus:** This ongoing study funded by EUR 5 m is carried out under the ENPI Annual Action Plan 2007.
- **Safety and security of main gas transit infrastructure in Eastern Europe and the Caucasus:** This TACIS project that is implemented by INOGATE involves six countries. The total funding of EUR 1 m should be used to study the losses in the gas network and coordinate the corresponding policies. Based on the studies projects are to be promoted to the IFIs for financial support.
- **Harmonisation of technical standards and practices in the oil and gas sector in Europe and Northern Caucasus:** This multilateral TACIS project has a total budget of EUR 2.8 m.
- **Harmonisation of electricity standards:** This multilateral TACIS project (concerns INOGATE countries) has a total budget of EUR 1.5 m.

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<sup>18</sup> Fridé (2009).

<sup>19</sup> SIPU (2009): „The proposal on bilateral relations in the Eastern Partnership is fundamentally to extend the offer which has already been made to Ukraine to the other five countries of the region. This means that, when they are ready, the other five countries will be offered the chance to negotiate an Association Agreement with the European Union.“

- **Support to the extension of the Covenant of Mayors to NIS countries:** The objective of this project under consideration is to encourage and support local authorities to achieve a more sustainable local energy policy.

Besides this rather limited EU programmes, bilateral technical assistance agencies and international financial institutions are also active in the Belarus energy sector.

**International Financial Cooperation (IFC):** The "Belarus Energy Efficiency Survey Project" is the only energy sector project of IFC in Belarus. The main goal of this ongoing technical advisory project is to assess the current market for energy efficiency (EE) financing in Belarus.

**UN Development Programme/Global Environment Facility (UNDP/GEF):** The GEF is the second largest foreign donor in the Belarus energy sector. So far two major projects are/were conducted: (1) Between 2003 and 2007 the "Biomass energy for heating and hot water supply" project was a USD 9 m (USD 3 m by GEF) initiative to promote biomass usage in Belarus. (2) A second project running from 2006 to 2010 "Removing barriers to energy efficiency improvements in the State sector in Belarus" supports local authorities and state enterprises in identifying energy efficiency opportunities, particularly in the distributed heating and combined heat and power sector. The total projects budget is USD 9 m (USD 1.6 m by GEF).

**World Bank:** The World Bank has been the most active donor in the energy sector in Belarus. In spring 2009 the Board of Executive Directors of the World Bank approved a USD 125 m loan to the Republic of Belarus to support a USD 193 m Energy Efficiency Project aimed at improving energy efficiency in heat and power generation in selected towns in Belarus. This is the largest World Bank project in Belarus. In addition World Bank also conducted the "Social Sector Energy Retrofitting Project" (USD 23 m) and the related "Climate Change Pilot Project" (USD 1 m).

**German Technical Cooperation Agency (GTZ):** The GTZ conducted projects on sustainable restructuring of energy systems in buildings and the promotion of renewable energies.

This incomplete (but indicative) compilation of energy sector projects by international donors indicates that Belarus has until 2008 received only very modest support. Many important international financial institutions, very active in neighbouring countries (e.g., EBRD, KfW) were not involved in the Belarus energy sector. Up to 2008 Belarus attracted less than USD 50 m from all donors (EU, bilateral and IFIs) in the entire energy sector. In the same period Ukraine was able to attract projects for its electricity sector from the World Bank alone, worth USD 877 m. In 2009 the climate apparently changed with the first significant loan to the Belarus energy sector by the World Bank and the discussions within the EBRD to potentially get active in the Belarus energy sector.

In the remainder of this section we thus want to analyse whether the instruments of the Eastern Partnership in the Energy Sector could contribute to the upsurge in donor activity. Being mentioned several times in the relevant documents, energy is as an important component in the Eastern Partnership.<sup>20</sup> Actually, two instruments of the Eastern Partnership practically deal with the energy sector: the third platform and the third flagship. Both should be briefly introduced:

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<sup>20</sup> „Finalisation of a European Commission- Belarus declaration on energy, as a basis for further development of energy cooperation. This cooperation could cover, inter alia, hydrocarbon transit and energy sector reforms". Eastern Partnership, 3.12.2008, COM(2008) 823 final.

"The Eastern Partnership aims to strengthen energy security through cooperation with regard to long-term stable and secure energy supply and transit, including through better regulation, energy efficiency and more use of renewable energy sources. Provisions on energy interdependence could be included in the new Association Agreements or other bilateral arrangements between the EU and the partner countries. Energy cooperation should take into account the EU's Second Strategic Energy Review and each partner country's energy policy." (Prague Declaration)

The **"Energy Security" Platform** is a high-level discussion forum in which representatives of the EU Commission (in particular from the Directorate-General for Transport and Energy (DG TREN) and the Directorate-General for External Relations (DG RELEX)) meet with officials from the partner countries. From presentations of DG TREN and the EU's second strategic energy review one can deduce that the EU is very interested in becoming more active in securing energy supplies from the East (a task certain member states prefer to care for themselves). This translates into three EU core objectives of the Energy Security Platform: (1) Enhancing framework conditions and solidarity, (2) Support for infrastructure development, interconnection and diversification of supply and (3) Harmonisation of energy policies. For all main objectives, different sub-goals have been defined:

### **1) Enhancing framework conditions and solidarity,**

- Development and implementation of mutual energy support and security mechanisms, including early warning mechanisms and joint security actions
- Strengthening of energy security contacts and enhancement of energy crisis preparedness by establishing an energy security panel
- Development of an Energy Infrastructure Action Plan based on corresponding EU positions

### **2) Support for infrastructure development, interconnection and diversification of supply**

- Support for the rehabilitation of the gas transit network (for example through international investment conferences)
- Create a level playing-field for energy transits.
- Multinational public-private partnerships to the rehabilitation of gas transit networks
- Enhancement of political and practical support for the realisation of the Southern energy corridor
- Support of the extension of the Odessa-Brody oil pipeline
- Mobilisation of additional technical assistance and loans from EIB (and other International Financial Institutions), notably through the NIF (Neighbourhood Investment Facility), e.g. to increase partners' gas, oil and oil products storage capacities, hydrocarbon processing and transportation infrastructures, and to upgrade electricity interconnections
- Support for the acceleration of Moldova's and Ukraine's accession to the UCTE (Union for the Co-ordination of the Transmission of Electricity) network
- Promotion of the development of Liquefied Natural Gas (LNG) facilities at Black Sea

### **3) Harmonisation of energy policies**

- Organisation of seminars, workshops and training sessions on the EU energy acquis.
- Twinning and networking between EU and partner countries energy institutions.
- Development of an energy dialogue with participation of EU and partners' industry.

While certain of the EU objectives are not shared by all EU member states, others are undisputed and could provide mutually beneficial fields for cooperation between the EU and the Eastern partners (see section 4). However, some of the EU objectives concerning energy transit are not in the interest of all partner countries. Thus, it is for example unclear what role Belarus would play in a platform discussion about the support to Ukraine's UCTE accession or the Southern Energy Corridor as those initiatives are clearly against the interest of the Belarus energy sector. The same holds true on Ukraine's incentives to strengthen the natural gas transit through Belarus.

Consequently, it is not clear whether this EU “wish-list” could become the basis for a fruitful multilateral discussion. Thus, the success of the platform depends both, on the willingness of all partners to collaborate, the possibility to focus on common objectives and the ability to find tailor-made solutions for each partner country that fit in a common framework.

The “Regional electricity markets, improved energy efficiency and increased use of renewable energy sources” **Flagship** contains energy related fields for setting up a visible joint project. According to DG TREN the objectives are to either support the extension of interconnections and/or to improve energy efficiency and expand use of renewable resources. DG RELEX identifies four main elements for the energy flagship:

- Technical assistance for studies/expertises in matters of regulatory and policy framework, capacity building and occasional (small scale) pilot project financing.
- Feasibility studies and other activities to improve access to available financing sources for investment in the energy sector.
- Support the establishment and implementation of “sustainable energy action plans” by cities having signed up for the “Covenant of Mayors”.
- Promote the participation of Eastern Partnership countries in the Intelligent Energy Europe Programme

As indicated in Section 2 the drawback of the described high-aiming objectives of the Eastern Partnership is their funding. At best, the Belarus energy sector might expect some EUR 20 m annually (potentially less as equally distributing EUR 600 m over four years, six countries and five policy fields is EUR 5 m per country, year and subject and assuming that Belarus could only benefit from the EUR 150 m for the flagship and the platform the annual contribution of the Eastern Partnership might be around EUR 1 m for Belarus energy issues). This is not the appropriate dimension for effective financial assistance in the energy sector. Consequently, the Eastern Partnership funding might only act as a catalyst helping to provide the framework conditions for loans from international financial institutions and bilateral agencies.

At first glance, the highly human capital intensive multilateral expert rounds installed via the Eastern Partnership might thus not be very attractive to Belarus policy makers in particular as they do not guarantee a direct payoff in terms of EU financial assistance. Such thinking would, however, be short-sighted. We see three major motives why Belarus should become seriously engaged in the Eastern Partnership: (1) to increase the acceptability of any kind of international cooperation with Belarus, (2) to increase the ability of Belarus to attract and conduct major projects and (3) to increase the chances of a growing EU budget allocation towards technical and financial assistance to Belarus.

### **(1) Increasing acceptability of any kind of international cooperation with Belarus**

By demonstrating the willingness and ability to successfully conduct smaller projects in the framework of the Eastern Partnership Belarus sends a strong signal to the EU and other western donors. Already in the short and mid-term when the EBRD decides about its country strategy (the EU and the member states are in the executive board of the EBRD), the EU prepares its 2014-2020 budget and other IFIs (e.g. KfW) reconsider their level of activity in Belarus, the preparedness of Belarus to meet EU project standards and follow corresponding procedures will be an important argument.

### **(2) Increasing the ability of Belarus to attract and conduct major projects**

Smaller multilateral projects and expert talks are a good way to familiarise Belarus experts and officials with the functioning of EU project procedures. Furthermore, increased direct contact will help Belarus officials to learn the objectives and constraints of EU-politics, which will be highly beneficial when drafting future proposals for major projects.

### **(3) Increasing the chances of a growing EU budget allocation towards technical and financial assistance to Belarus.**

The decisions on EU funding are not only made based on the potential outcomes but they are also related to past successes/failures. Consequently, the EU monitors closely the development of past/ongoing projects when deciding about new ones.<sup>21</sup> Funding for the Eastern Partnership from 2011 to 2013 is for example linked to the mid-term review of the European Neighbourhood and Partnership Instrument which is due in March 2010.<sup>22</sup> More importantly, the negotiations on the next EU budget for 2014-2020 will probably begin as soon as the new Commission is in place (end of 2009). There, important decisions on the scale of funding for the Eastern Partnership and other instruments of technical and financial assistance will have to be made. In this context it will be essential for Belarus, as for other countries, to play an active role in this budget development process (i.e., lobby for Belarus interest). To do so, the corresponding (formal and informal) procedures need to be known, the pivotal institutions and persons need to be identified and good contacts should be established. Thus, Eastern Partnership provides invaluable insight into the complex Brussels cosmos.

The means by which Belarus could increase its benefits from cooperation are outlined in the next section.

## 4. Increasing the benefits from cooperation

Belarus has the political will, the appropriate projects and the technical capacity to attract more energy sector projects for the mutual benefit of Eastern Partners, the EU and Belarus. Nevertheless it could not be taken for granted that the Eastern Partnership will bring a breakthrough with respect to foreign financial and technical assistance to the energy sector. One important reason is that Belarus' has no sufficiently professionalized system of assistance acquisition. To rectify this situation we suggest that Belarus strengthen its abilities to successfully interact with potential donors and deliver strong proposal (Institutional Component), and that a limited number of highly appropriate, internally coordinated, well-founded projects are identified (Project Identification Component).

### **Institutional Component**

Attracting technical and financial assistance is like attracting investments or selling goods not only depending on the technical characteristics of the product. Consequently, also assistance projects require appropriate marketing. General recommendations are building trust-relationships with the potential "buyers" (i.e., EU officials) to reduce transaction cost or transparently providing the information required by the buyer and thereby reduce costly frictions from information asymmetries. In more specific terms the suggestion we consider most important is to employ specialised experts. In the short term this would require the collaboration with expensive, though cost-effective, external experts. In the long term educating internal experts for the project acquisition processes is essential. Taking into account the potential resources at stake, those should form a competitively paid team of aptly educated and English speaking experts. In its "Action fiche for Belarus 2009" the EU acknowledges frankly: "the vast majority of Belarusian institutions have limited if no knowledge of the requirements for successful implementation of EC assistance programmes has been attributed to the political isolation the country has been in with regards to the EU. The intensified technical cooperation between the European Commission and Belarus has given rise to the need to strengthen the institutions responsible for the implementation of sector programmes of mutual interest – and specifically the ones targeted by the ENP Annual Action Programmes." Consequently the EU has explicitly entered in the food safety programme the objective of a "Strengthened National Coordination Unit to effectively coordinate the implementation of the programmes under ENPI and to deal with identification and

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<sup>21</sup> This is efficient in economic terms as trust is an appropriate tool to reduce transaction cost.

<sup>22</sup> UK House of Commons European Scrutiny Committee.

programming issues;<sup>23</sup> Currently, the installation of the National Coordinating Unit (NCU) is supported by the EU with a EUR 600,000 project.<sup>24</sup> The objective of this project is to support the capacity of Belarus to make the best use of EC assistance.<sup>25</sup> The existing efforts to build up a powerful competence centre as a joint resource for all Ministries should not only be pursued but need to be strengthened financially, administratively and human capital wise.

In addition to this explicit capacity building the possibilities of an effective learning-on-the-job should be enhanced. That is, the same group of people should be involved in as many proposals as possible.

### **Project Identification Component**

For attracting investments it is not sufficient to just present a large list of potential projects without clear priorities originally designed to be internally financed. Suggesting a limited number of highly appropriate internally coordinated projects that provide clear value added to all partners is much more promising. Thereby, it is important to draft the proposal from the “buyer” perspective. That is, more emphasis should be devoted to highlight the advantages for the EU than on presenting why the project fits well into Belarus plans. This is crucial because the EU is no monolith organization but an institution with diverging interests. Thus, providing good arguments to those EU units/officials who support Belarus efforts is essential so that they have the tools to convince their more reluctant colleagues.

Projects of mutual interest were already identified by the EU (especially DG TREN appears to be rather active). In the field of **technical cooperation** security of supply agreements on natural gas, oil and electricity seem to be high on the agenda. This might for example consist of formalized mutual help in case of disruptions. In case of uneven risks and benefits such cooperation agreement might well contain a financial component. It is for example thinkable that the usage of security of supply infrastructure (e.g., pipelines and storage facilities) in one country is allowed to another country under certain circumstances. In case of a natural gas supply disruption Belarus might for example allow Poland to use gas from Belarus’ natural gas storage facilities. Such a formalized “insurance” contract might well be coupled to the annual payment of an insurance payment. Concerning **financial assistance**, joint infrastructure projects to increase the technical security of supply come to mind. Enhancing the reliability of natural gas, oil and electricity infrastructure is in the shared interest of the energy importing EU and its energy transiting neighbours. Concrete proposals in the framework of a multilateral proposal have of course to be cross checked with respect to potentially competing interests among the partner countries (e.g., it would be natural to assume a competition between Belarus and Ukraine for natural gas transit volumes).

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<sup>23</sup> Action fiche for Belarus 2009 - support to quality infrastructure in Belarus – food safety.

<sup>24</sup> Within the framework of the TACIS Action Programme 2005-2006 provision was made to support the National Coordination Unit in Belarus. The contract was signed on 05 May 2008 and the project activities in Belarus started on 12 May 2008.

<sup>25</sup> The project Terms of Reference specify four specific objectives:

1. Promote the long-term self-sustainability of the NCU.
2. Assist the Belarus government to participate in the Neighbourhood Policy Instruments.
3. Strengthen the capacity in relation to EU external assistance programmes.
4. Increase public awareness of EC assistance programmes.

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