

Overview

Summary

- Emerging Europe and Central Asia, the region made up of the countries of Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS), is a major energy supplier to both Eastern and Western Europe. However, the outlook for both primary and derivative energy supplies is questionable, with a real prospect of a significant decline during the next two decades.
- Western Europe is heavily dependent on energy imports from this region. It will therefore be affected by declines in primary energy supplies. But Western Europe has the financial capacity to secure the energy supplies it needs (albeit at the expense of others). In contrast, the region's energy-importing countries are caught between Western Europe, which has increasing import needs, and the region's exporters, whose exports will likely decline. These countries face the prospect of being squeezed both financially and in terms of energy access.
- This difficult prospect is compounded by the deterioration of the region's energy infrastructure, including power generation and district heating. Although the public sector will have to finance a portion of these investments, it will not have the capacity to meet the full investment needs. It is therefore essential that countries in the region move quickly to put in place an enabling environment to support investment in the sector.

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- Overlaying all of this are environmental concerns, in particular concern about climate change. Member states of the European Union (EU) and those with EU ambitions will need to meet the challenging EU greenhouse gas emissions targets. At the same time, a number of countries in the region will face the temptation to use environmentally unfriendly technology to meet their immediate energy needs.
- Policy responses need to emphasize demand-side management and the use of energy efficiency measures. The Russian Federation, as the region's major energy exporter, needs to direct additional resources to energy production over the longer term if export levels are to be maintained. Incentives need to be devised and implemented to encourage countries to avoid environmentally unfriendly solutions.

Following the break-up of the Soviet Union, the countries of Central and Southeastern Europe (CSE) and the Commonwealth of Independent States (CIS) experienced six years of dramatic economic decline, starting in 1990. The CEE/CIS region then stagnated for three years, through 1998 until, in 1999, a vigorous economic recovery began for the region as a whole, enabling it to become one of the most economically dynamic in the world. With the onset of the economic and financial crises in 2008, the region's economic performance experienced a sharp reversal, with economic declines that were among the largest in the world.

This economic performance was reflected in the region's energy sector. The initial economic decline was accompanied by a sharp reduction in the production and consumption of energy. Maintenance and upgrading of the stock of energy assets became an early investment casualty of the economic decline. As the region's economy recovered, both production and consumption increased. However, the deterioration in the asset base and the associated loss of both capacity and efficiency proved such that by the end of 2007, a number of countries in the region were experiencing periodic energy shortages, and a serious energy crunch appeared imminent.

The rapid rise in energy prices in 2008 followed by the onset of the financial and economic crises dampened demand significantly, creating some breathing room before energy availability again becomes a serious concern. But this is only a temporary respite. Energy prices have moderated, and the assumption in this report is that although significant price volatility will continue to be the norm, prices will average out at a level close to long-run marginal cost. In the case of oil, this is estimated to be \$60–\$70 a barrel in 2008 dollar terms.