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The impact of the liberalisation of electricity and gas markets on the Romanian economy

(European Institute of Romania, Conference Room)

– EVENT REPORT –

The European Institute of Romania (EIR) organized on 12 June 2014 a debate on the study “The impact of the liberalisation of electricity and gas markets on the Romanian economy”, part of the campaign for promoting and disseminating the results of the research project Strategy and Policy Studies (SPOS) 2013. The event benefited from the participation of Mrs. **Elena Popescu**, Director General, Department of Energy, Ministry of Economy, Mr. **Bogdan Badea**, Director, Ministry of Foreign Affairs, the team of authors coordinated by Mr. **Aureliu Leca**, PhD Prof., Politehnica University of Bucharest, Mr. **Cristian Pârvan**, General Secretary, Romanian Businessmen's Association (AOAR) and Mrs. **Gabriela Drăgan**, Director General, EIR.

The event was attended by members of the research team, representatives of the beneficiary institutions and representatives of the diplomatic, academic and research institutions, civil society, media etc.

Mr. **Balazs Barabas** outlined the framework of the debate, by presenting the liberalisation process of the Romanian electricity and gas markets.

Mrs. **Gabriela Drăgan**, EIR's Director General, mentioned the research themes of the Strategy and Policy Studies (SPOS) 2013. Thanking the prestigious team of authors for their economic, technical and political analysis, Mrs. Drăgan pointed out the study's main coordinates. The paper concerns the impact of gradual elimination of regulated tariffs, according to Romania's previously assumed commitments within European and international institutions. The result of this process, a steep rise in prices, will have social effects, by making some groups vulnerable, as well as economic, affecting the economy's competitiveness and the functioning of six industrial sectors. Mrs. Drăgan also mentioned that the achievement of the Strategy and Policy Studies (SPOS) involves working groups which provide feed-back throughout the elaboration process.

Mrs. **Elena Popescu**, Director General of the Department of Energy, Ministry of Economy, highlighted the institutional perspective of the liberalization process, reiterating the weaknesses identified by the study, as well as the steps required, namely investments in the energy system, re-balancing the energy sources through renewable energy, and network interconnection. Romania has similar problems to those of the Visegrád countries and shares the same points of view. Pointing out that the scenario envisioned by the authors presents the minimum energy and gas price growth, the speaker showed that the job losses in the energy intensive companies will diminish the number of payers to insurance schemes and will reduce the general consumption. For the preparation of the system, the Department of Energy formed a working group including energy and renewable energy producers and representatives of energy intensive consumers. The development of a win-win policy requires the producers to accept smaller profits, the banks to reschedule some debts and to improve the energy intensive consumers' efficiency. The EU market integration requires reducing disparities and Romania's alignment to the European energy system.

Mr. **Bogdan Badea**, Director, Ministry of Foreign Affairs, presented the European regulations framework which targets a gradual improvement of the situation, with a focus on the most recent documents, the European Commission's Communication from February 2014 regarding EU's energy and climate goals for 2030 and the Energy Security Strategy of 28 May 2014. The speaker underlined the major news and directions of progress brought by the regulations. The new framework regarding



energy and climate changes for 2030 requires reducing EU domestic greenhouse gas emissions by 40%, providing a share of renewable energy of at least 27% at the level of the entire EU and increasing the energy efficiency. These objectives are not yet adopted. Some states, among them the Visegrád countries, Romania, Bulgaria and Croatia, would like to maintain some facilities with effects similar to those provided by the current framework for the transition period. The Energy Security Strategy, as a Commission proposal, requires a unitary vision regarding the foreign energy policy, based on an integrated and functional internal market, strengthening the emergency and solidarity mechanisms, increasing energy production in the European Union and moderating the energy demand. Using statistical data, the speaker also presented Romania's position within the EU.

Mr. **Aureliu Leca**, the coordinator of the authors' team, made an in-depth presentation of the study entitled "The impact of the liberalisation of electricity and gas markets on the Romanian economy". The objectives set included understanding the liberalization process of the electricity and gas markets, identifying the risks and challenges and formulating recommendations. The speaker mentioned the main elements of the analyses, highlighting Romania's economical and social context, the provisions of the Third Energy Package, the liberalization calendar, the most affected economic sectors, the National Efficiency Programme and the social effects of the process. The heating problem is really a social problem. A solution could be for the national budget to provide special measures for social protection. Another problem detected is that Romania transposed only partially in its national legislation the Third Energy Package, Regulation (EC) No 713/2009, Regulation (EC) No 714/2009, Regulation (EC) No 715/2009. Mr. Leca also underlined several conclusions and recommendations of the authors, among which the improvement of the institutional framework, through a National Institute of Strategic Planning and a national energy strategy. A broader perspective revealed the need to identify and adopt an economic development model for Romania, to request derogations for these priority sectors in order to benefit from state aid and to increase the energy efficiency through the improvement of the institutional and legislative framework.

Mrs. **Eugenia Guşilov**, Managing Director, Romania Energy Centre, highlighted the problem of the industrial sectors that will be affected by the liberalization, which will happen in an asymmetric manner, depending on the consumption, investments etc. This matter also involves inherited problems, such as the size of Romania's industrial sector prior to '89 and the implications of the transition to a market based economy. The main industrial sectors affected are: steel, fertilizer, construction, aluminium, automotive and cement industries. The speaker underlined the fact that Romania's industry is based on cheap workforce and a low energy price. The increase of the energy cost is a vulnerable point for the Romanian industry, until now some price elements being controlled through administrative tools.

Mr. **Cristian Pârvan**, General Secretary, Romanian Businessmen's Association (AOAR), highlighted the weaknesses of the energy regulating institutional system and the lack of vision in achieving a single energy market. Other weaknesses include the lack of transparency and efficiency of the institutions in charge. In Mr. Pârvan's opinion, liberalisation is a political price. At European level, there is a lack of unity regarding the points of view, while economic interests are prevailing. At the same time, Romania's industry will not be able to easily cope with such high pressures, given the fact that its modernisation was not done in time.

Mr. **Virgil Muşatescu**, PhD Professor, Politehnica University of Bucharest and member of the research team, outlined the need to find solutions for the vulnerable consumers. The market liberalisation needs to happen, and in case the household consumers are not able to ensure a decent energy supply service, assistance measures are required. Thus, the liberalisation of energy and gas prices in Romania will force the government to rethink its welfare system, in order to include special provisions for the social protection of vulnerable consumers. As a social effect, the increase of energy prices is higher than the increase of the aggregate price index, therefore the energy poverty will spread faster than other types of poverty; the number of households in this situation is expected to increase. Even at EU level, the implementation of the Third Energy Package is regarded with special attention, due to the difficulty of its achievement. However the reform is necessary for several reasons: separating the areas of competition from those of natural monopoly; completion of the internal energy markets - same rules in all Member States - legislative packages at the EU level; the need to adopt uniform regulations to coordinate state entities.



The main proposed solutions recommend: to optimize the vulnerable consumers' use of energy, to review the heat supply systems, to strengthen the financial power of the localities for a compensatory participation in helping this type of consumers and to develop methodologies for an accurate assessment of energy poverty and proper sizing of the welfare needs.

According to Mr. **Victor Ionescu**, Director General of OPCOM S.A. and member of the research team, the study's major goal is to identify the potential risks that the transposition of the legislative package could incur. The solutions mentioned include expanding stock trading to electricity trading operations, which would lead to lower costs, especially because the Romanian stock market has all the elements of the European stock markets as well as the separation of property regime between energy distributors and suppliers by introducing a distinct trader license. Also risks related to the European legislative framework were identified, since Romania is included in South-Eastern Europe, which is a disadvantage in developing mechanisms to connect to the European market; in this sense, the solution would be the inclusion among Central and Eastern European countries.

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