

Observations on Ten Years of US and Eurasian Energy Cooperation

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Outline

- Key Sectoral Reform Problems and Indicators
- Progress over 10 Years
- Important Causal Factors
- Assessing USAID's Role
- Areas for Future Emphasis

Sectoral Baseline Conditions and Reform Indicators

- **Subsidies and Political Resource Allocation---** *→ Sound Energy Policy and Tariff Rationalization*
- **Wasteful Consumption and Excessive Pollution---** *→ Energy Efficiency and Emissions Reduction*
- **Monopolistic and Inefficient Enterprises ---** *→ Restructuring, Commercialization and Privatization of Energy Subsectors*
- **Unsafe Nuclear Power Plants and Weak Safety Regulation ---** *→ Improved Nuclear Safety and Independent Regulators*
- **Over-Dependence on Soviet Energy System---** *→ Integration with W. Europe and Int. Energy Markets*

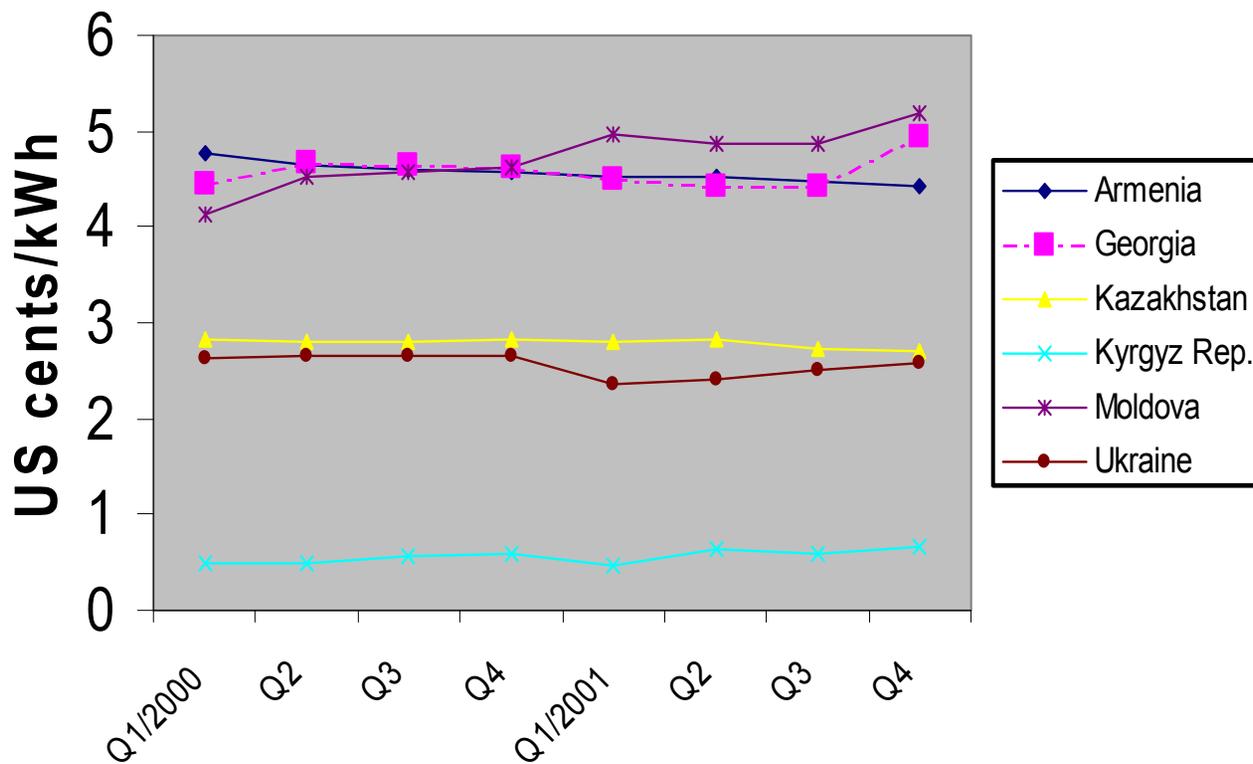
Progress Over 10 Years

- **POLICY AND TARIFFS:** Mixed record on tariff reform -- inadequate overall energy policy frameworks: fragmentation
- **REGULATORY FRAMEWORK:** Most countries have energy regulators but autonomy, authority and accountability have been weakened in some instances
- **RESTRUCTURING:** Substantial legal unbundling and initial wholesale market development has occurred but financial settlements and economic dispatch remains problematic in some countries -- problems with single buyer model.
- **COMMERCIALIZATION:** Considerable improvement, especially over past two years in Eurasia collections situation; serious problems remain.
- **PRIVATIZATION:** Privatization is still in early stages with Hungary, Poland, Kazakhstan, Georgia, Moldova and now Ukraine examples of strategic investment.

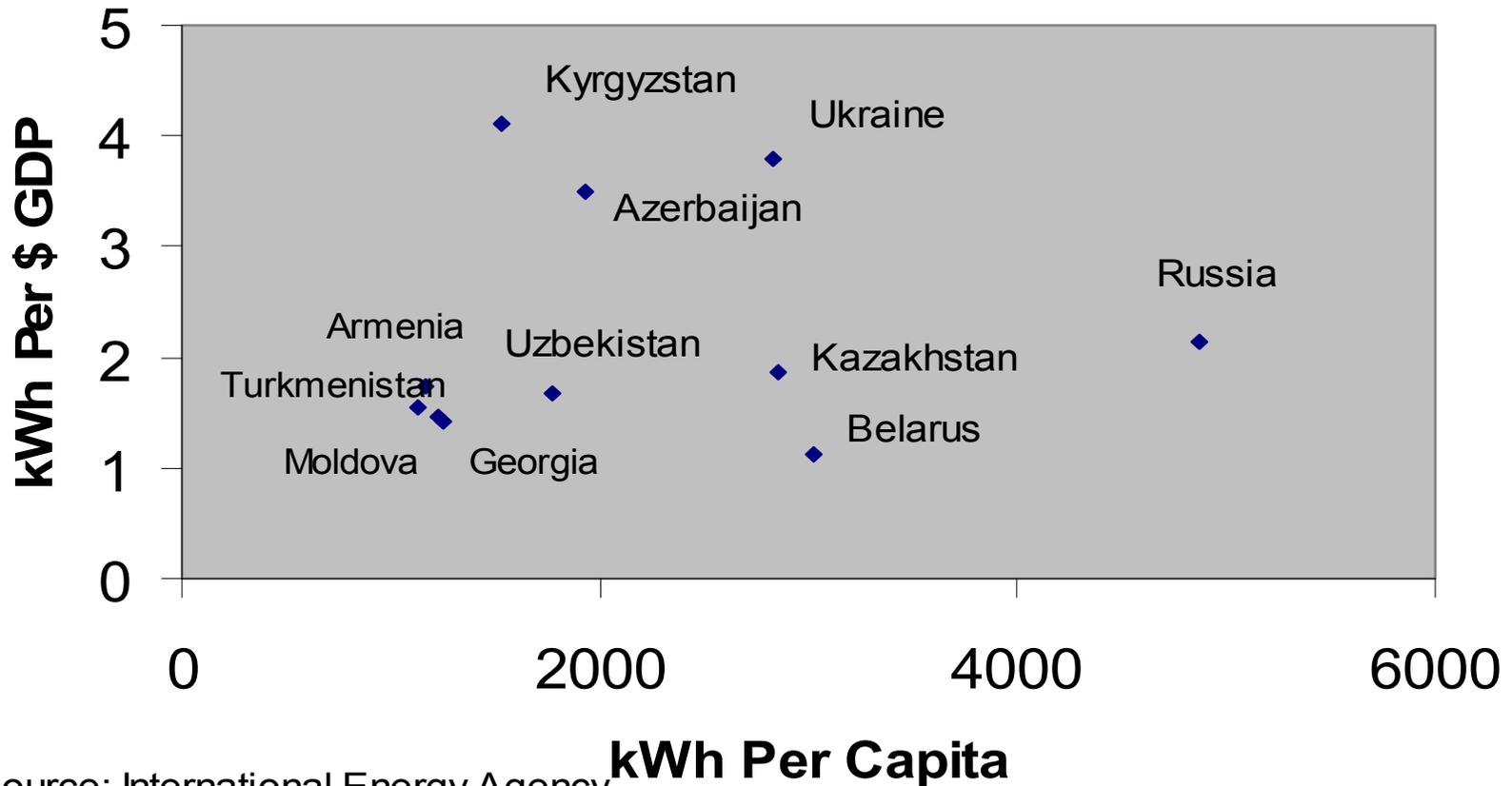
Progress (continued)

- **NUCLEAR SAFETY:** Progress made in closing high-risk reactors in Ukraine, Lithuania, Slovakia and Bulgaria and improving competence of nuclear regulators.
- **REGIONAL MARKETS:** Diversification of oil supplies; movement towards expanded regional electricity integration with UCTE; and new East-West oil and gas pipelines developing

Trends of Residential Average Tariffs in Selected NIS Countries

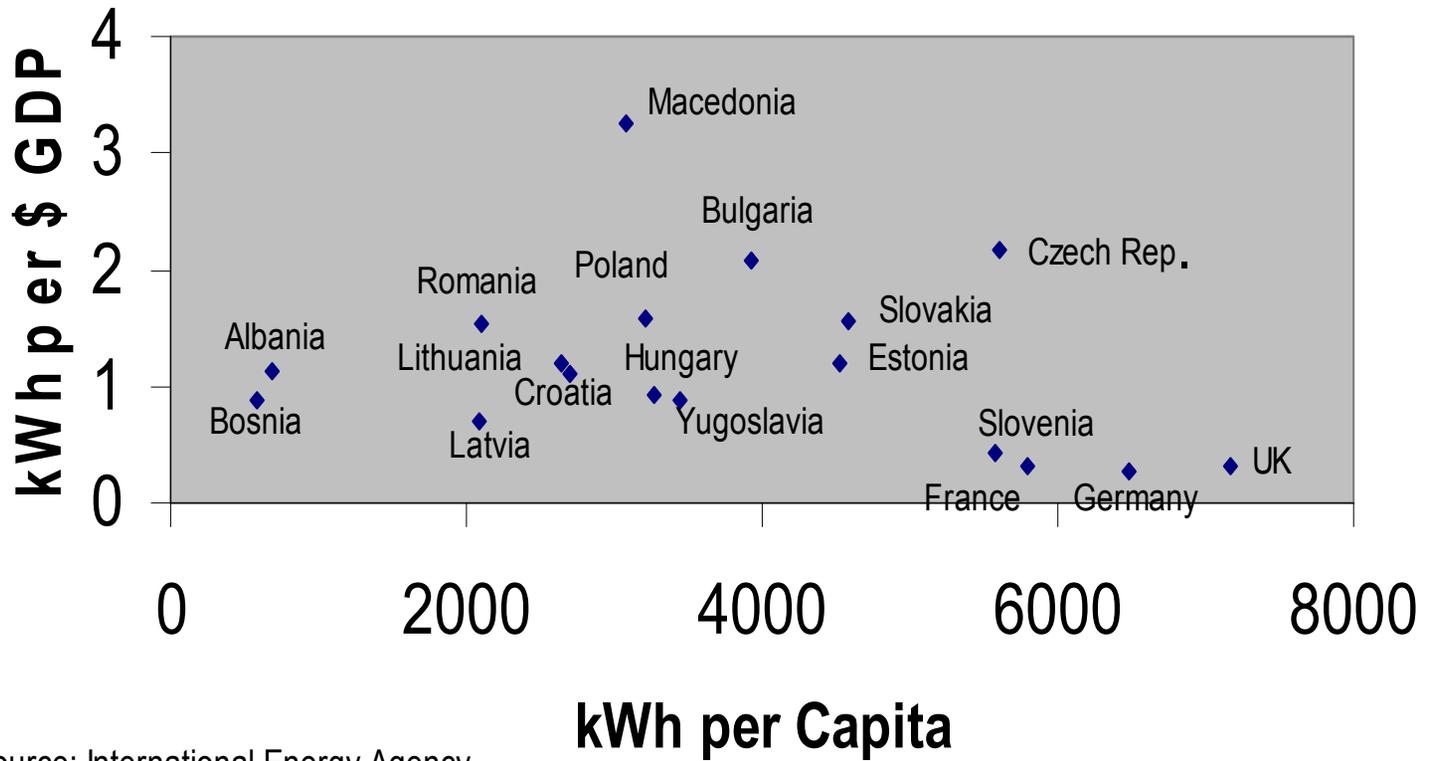


Electricity Use in Eurasia: Per Capita vs. Per \$GDP 1998



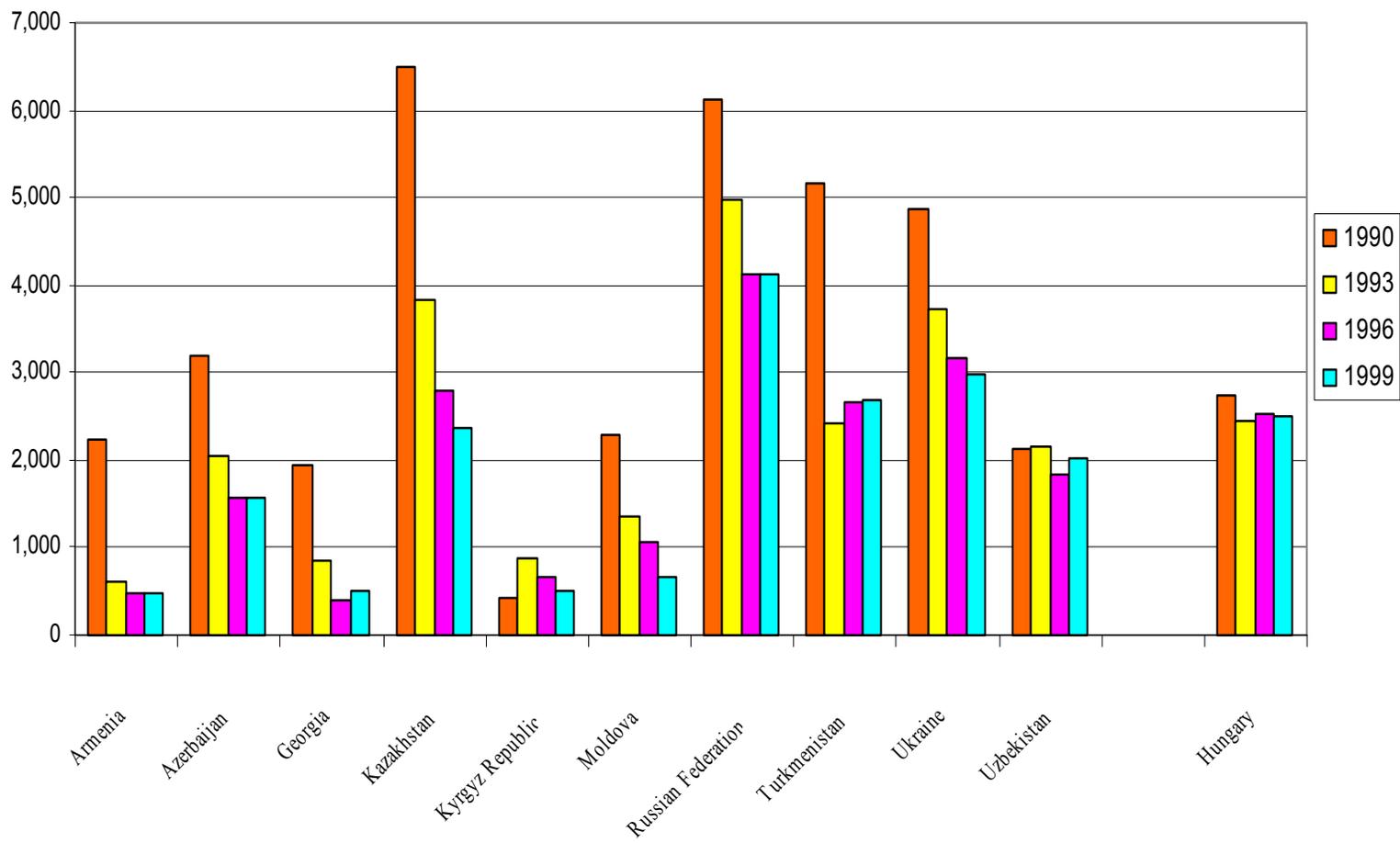
Source: International Energy Agency

Electricity Use in Europe: Per Capita vs. Per \$ GDP 1998



Source: International Energy Agency

Commercial Energy Use per capita in NIS (kg of oil equivalent)



EBRD Energy Transition Report

- **Weak Rule of Law -- Need for Stable, Predictable Business environment**
- **Poor Corporate Governance -- Need improved regulatory supervision and open and non-discriminatory access to pipelines and markets**
- **Dissipation of Resource Wealth -- Need to reduce subsidies and better manage rents**
- **Low Tariffs and Incentives for Efficiency: Need price reforms, targeted subsidies and lifeline tariffs and strong, independent regulators**
- **Collections and Non-Payments: Need to privatize power and heat distribution within effective regulation and liberalization framework**

World Bank Lessons

- **Energy sector subsidies delay industrial reform and closure of loss-making firms**
- **Unpaid taxes and debts of energy enterprises increase budget deficit and undermine macroeconomic stability**
- **Cash extracted from the energy sector finances alliances between corrupt politicians and businessmen**
- **Unreliable energy supply and widespread corruption hampers growth of SMEs and deters foreign investors**

Important Causal Factors

- Leadership -- Individuals Matter
- Budgetary Pressures
- IMF and IFI Conditionalities
- Cross-Country Sharing of Experiences
- Vested Interests, e.g. Labor Unions, Oligarchs
- International Investment Climate
- EU Market Liberalization and Directives

Assessing USAID's Role

- Legal and Regulatory Reform
- Utility Management Development
- Commercial and Financial Improvement
- Donor Coordination
- Privatization
- Environmental Issues
- Anti-Corruption
- Social Transition

Areas for Future Emphasis

- East-West and Sub-regional Energy System Integration and Cooperation
- Off-Budget Debt and IMF Role
- Social Safety Net Approaches
- Commercial Financing of Municipal Energy Efficiency/Private Options for Heat
- Alternatives to Strategic Investment
- Transmission/Market Rules and Operation
- Assessment of Mechanisms of Corruption
- World Bank must reconsider sovereign lending in selected countries for power/heat generation and distribution