

Introduction

The resolution of the ownership of the natural gas network for Macedonia has now been stalled for over a decade. It has faced legal, political and business blocks and has been referred to in 5 successive EC Progress Reports.

A functioning gas network is important for Macedonia as it represents the best possible transition fuel (certainly better than coal or nuclear) in the context of moving towards the EU 20/20/20 and road Map 2050 goals.

The resolution of this problem should be seen as critical for the state and its citizens in terms of providing a relatively clean carbon fuel, which has the flexibility to meet peak demand and can be used directly as a fuel by consumers or also as a fuel for electricity generation.

2.1 Democracy & Rule of Law (important sub sections - Judicial System & Anti-Corruption)

- *Unsolved legal dispute over the ownership over the existing transmission network*

The ownership over the existing gas transmission network is a subject of a still ongoing legal dispute, which is over a decade long, between the state and Makpetrol, which influenced the functioning and the development of the gas market¹. Although the Expert Testimony Institute has stated that the state owns around 54% of the gas transmission network, up until today there is no final judgment about who is the dominant owner over the existing transmission network. In the meantime, the Government and Makpetrol founded GA-MA for a joint managing of the transmission network. However, GA-MA was proved to be an “unhappy marriage between the Government and Makpetrol” and the unsolved disputed continued hampering the gasification process. Therefore, the Government decided to establish MACEDONIAGAS giving this company the new activities with Gazprom² regarding the South Stream project³. The EC and other international institutions have urged Macedonia many times to solve this issue in order foreign investors not to be discouraged.⁴

¹Energy Community Secretariat, “Annual Report on the Implementation of the Acquis under the Treaty establishing the Energy Community”, (2010), p.69.

² Gazprom is a Russian joint stock company and one of the world’s largest energy companies.

³Internet page of Vreme:

<http://www.vreme.com.mk/DesktopDefault.aspx?tabindex=1&tabid=1&EditionID=2151&ArticleID=150540> last accessed on 13.05.2011.

⁴European Commission, Progress reports on Macedonia, (2007, 2008, 2009, 2010); World Bank, *FYR Macedonia Energy Policy Paper* (2004), p 10;

The consumers have to be directly connected to the transmission gas pipeline if are to use the gas. The experts claim that entering South Stream will not mean anything if the gas distribution network is non-existent⁵.

4.15 Energy (including Energy Efficiency and Renewables)

All infrastructure projects including the gasification one require significant amount of funding. The Public Investment Programme envisages that the construction of the gasification network amounts 283,10 millions EUR⁶. The Government has decided that the finances for the gas project will be provided by the Russia's clearing debt towards Macedonia as well as by funds from the EIB and the EBRD⁷. In the current Public Investment Programme 2011-2013 it is mentioned that the finances for the gasification project) have not been provided yet⁸.

The Energy Strategy of Macedonia adopted in 2010 suggests that the Government should invest directly from the development programme of the state budget or indirectly by giving state guaranties to the companies in state ownership; by issuing concessions; the companies responsible to invest own resources in the transmission network; establishing public-private partnerships; as well as utilizing funds from the IFIs.⁹.

- *Short term political needs mitigate against long term plans?*

The main issue which determines this policy as a worst case scenario is in its non-consequent dynamic. Prof. Borozan emphasized that the completion of the energy projects takes time and political will of several governments in continuity. The topic of the development of the gas network in Macedonia is a subject of discussion for about 20 years in which period several studies have been made.

The government is always more interested to invest the resources in projects which results can be seen within 3 to 4 years¹⁰. This was underlined by the lack of long term strategic planning in the energy policy. The EC in its progress reports on Macedonia has emphasized many times the necessity of an energy strategy, which was finally drafted in 2010.¹¹

⁵Internet page of Nova Makedonija/ On-line issue from 06.10.2010: <http://www.novamakedonija.com.mk/NewsDetal.asp?vest=106101016227&id=9&setIzdanie=22101> last accessed on 13.05.2011.

⁶Government of the Republic of Macedonia, *Public Investment Programme of the Republic of Macedonia 2011-2013*, (Skopje, 2011).

⁷Ministry of Economy, obtained by the Law on free access to public information in March 2011.

⁸Government of the Republic of Macedonia, *Public Investment Programme of the Republic of Macedonia 2011-2013*, (Skopje, 2011).

⁹Ministry of Economy of the Republic of Macedonia, *Strategija za razvoj na energetikata vo Republika Makedonija do 2030 godina*, (Skopje, 2010), p.184, 185.

¹⁰E-mail interview with PhD Vesna Borozan, Associate Professor at FEIT Skopje, conducted in March 2011.

¹¹European Commission, Progress reports on Macedonia (2007, 2008, 2009, 2010).

- *Cost-ineffective electricity price*

The not cost-effective price of electricity used for heating which makes the investment in the gas distribution infrastructure also not cost-effective¹². The European Commission must continue emphasizing that the tariff models for electricity pricing do not cover the costs¹³ and to push the government authorities to find a solution before the fully opening of the regional energy market in 2015.

4.27 Environment (including Directives esp. EIA (environment impact assessment) & SEA (strategic environmental assessment), Conventions, Nature Protection & Gov Administrative Capacity)

In the case of heating, utilizing electricity for this purpose is both inefficient and undesirable from an environmental point of view in comparison to the usage of gas for heating.¹⁴

Very important point is that gas should be a substitute for coal fired electricity plants. Introducing gas could obviate the need for building new dirty thermal plants. This is an important argument that a good SEA would cover. Further more there are the external costs of Coal vs. Natural gas. The EU calculates that the cost of coal/lignite has a hidden extra cost of 30% per Kwh in terms of children with asthma, acid rain and other negative side effects. Thus Macedonia has no choice but to speed up the gasification of the country.

Future plans

The project on implementation of the Gas Ring concept on the territory of Macedonia is ongoing. The Ministry of Transport and Communications implemented the procedure for selection of the team responsible for the preparation of the feasibility study for the gas system in Macedonia and defined the five priority intersections for the gas infrastructure at an inter-ministerial meeting¹⁵. At the moment the Ministry manages the next step – the project preparation for the 5 priority intersections¹⁶. The project documentation will be prepared by the end of 2011¹⁷.

¹²E-mail interview with PhD Vesna Borozan, Associate Professor at FEIT Skopje, conducted in March 2011.

¹³European Commission, Progress reports on Macedonia (2007, 2008, 2009, 2010).

¹⁴World Bank, *FYR Macedonia Energy Policy Paper* (2004), p.13

¹⁵Internet page of the Ministry of Transport and Communications/ Interview with the Minister of Transport and Communications for the magazine Kapital from 03.05.2010:

http://www.mtc.gov.mk/new_site/mk/storija.asp?id=2500 last accessed on 13.05.2011.

¹⁶Government of the Republic of Macedonia, *Nacionalna programa za usvojuvanje na pravoto na Evropskata unija – revizija 2011*, (Skopje, 2010), p.242.

¹⁷Ibid, p.244.

Recommendations

Since the independence of Macedonia the country has not succeeded in achieving major progress regarding the construction of the gas transmission and distribution network. In the last few years, obliged by international law and the prospect of EU integration, Macedonia has begun the gasification process and it remains to be seen whether it will turn out to be a sustainable one. In order for the gas sector not to remain the “painful part” of Macedonia’s energy policy, this case study recommends:

- The responsible court to pass the final judgment about the ownership dispute between Makpetrol and the Government;
- Establish a broad consensus among all relevant stakeholders especially among all political parties and relevant institutions for a long term investment in the establishment and the development of both the gas transmission and distribution network;
- Focus both on development of the gas transmission and distribution network in the country;
- Continue the implementation of the Gas Ring concept on its territory;
- Continue investing in the gas transmission and distribution network by utilizing state budget funds, public-private partnerships, concessions as well as loans from the IFIs;
- Introduce step by step cost-effective electricity price.

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