Geopolitics, risks and economics: Energy Law in the new reality

VIII CONFERENCE

EUROPEAN AND WESTERN BALKAN COOPERATION IN ENERGY LAW

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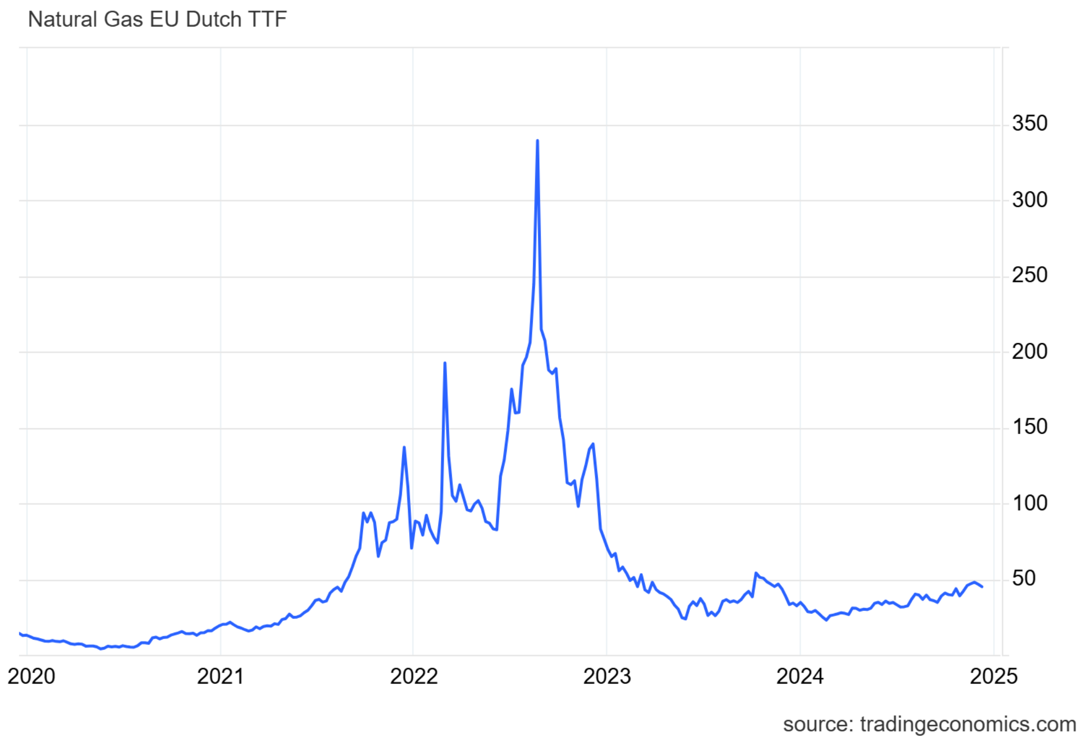
Key policy instruments to prolong fragmentation…

Fragment	Issues	Fragment
Black Sea & Central Asia commodity market	**River-to-Sea going transport along Danube**: **Outdated Danube Convention**: Fertilizers, oil products, crude oil, coal, cereals, timber…	Central Europe commodity market
Western Balkans electricity market	**CBAM:** **Access to Modernization Fund** Hydro power & grid stability, Decarbonization	European electricity market
Mediterranean	**Balkan railways, pipelines and port access** Food, fertilizers, LNG, natural gas, industrial products, vehicles…	Central Europe
Black Sea Market	**LNG transit through Bosphorus**	Mediterranean
Mediterranean & Black Sea	**Belgrade intermodal transport hub functionalities?**	Central Europe
Western Europe	**Soft budget constraint to support policy priorities**	Central & South East Europe

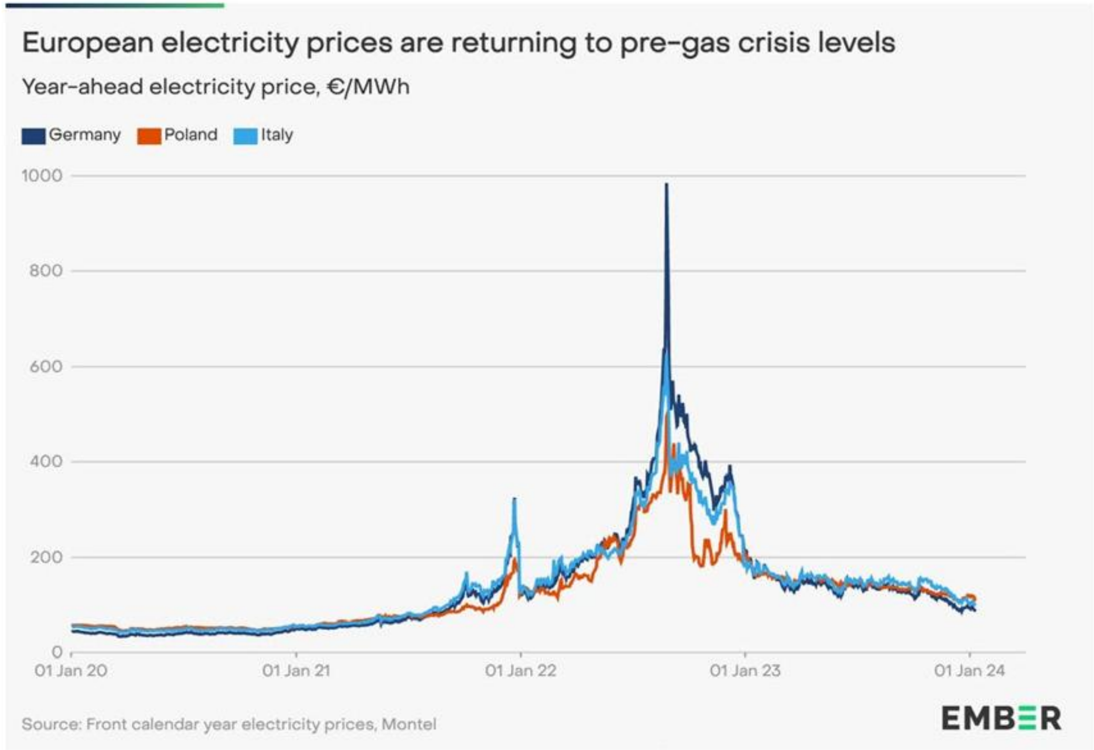
Prices of natural gas and electricity: reaction on availability of public money to finance build up gas stocks

Natural Gas EU Dutch TTF (EUR/MWh)



https://tradingeconomics.com/commodities

Year ahead electricity price EUR/MWh

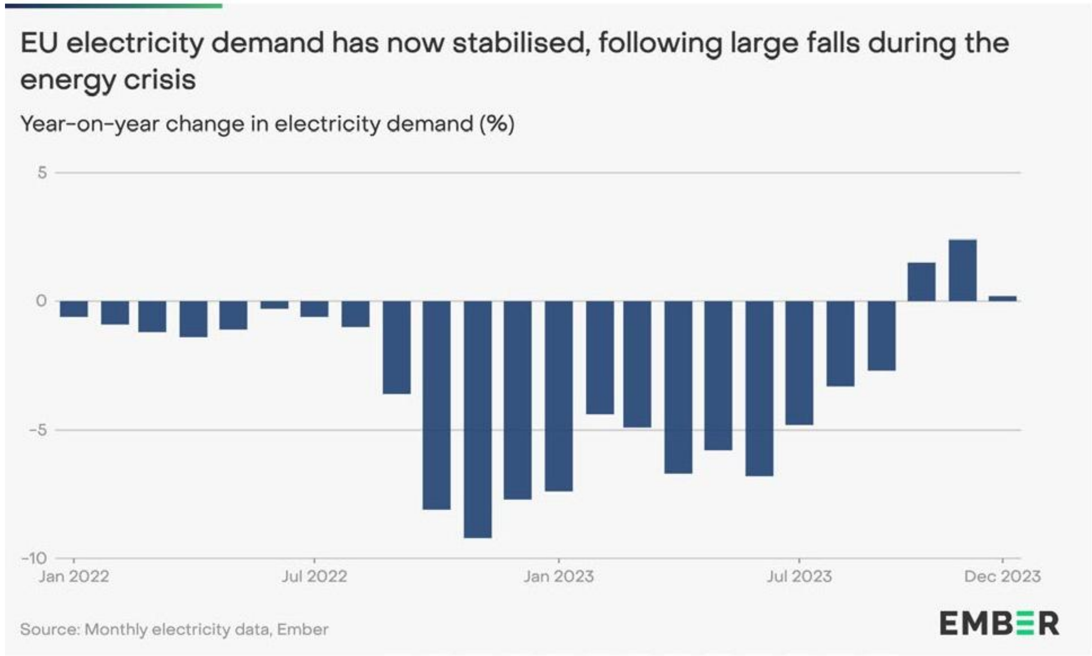


Further reaction of prices of wheat and industrial demand for electricity

Wheat prices

source: tradingeconomics.com

Drop in industrial electricity demand has not been recovered



Theory: Demand for the rule of law

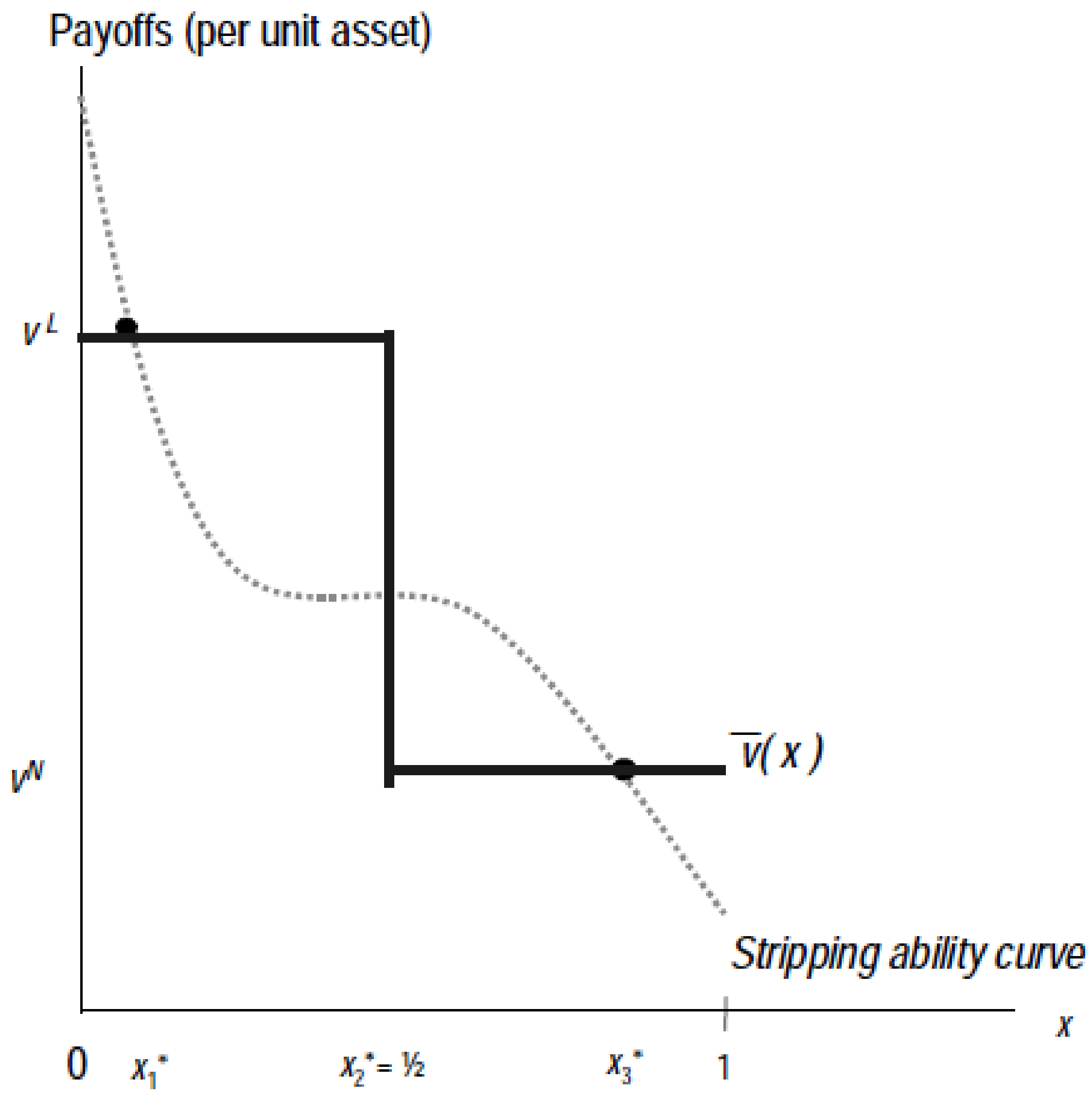
Fragmented market is heavily exposed to policy determined fluctuations in transaction costs

Policy determined transaction costs turn typical payoff function V(X) into step curve creating bad equilibrium X_3 without demand for rule of law.

VL: payoff to building value under the rule-of-law

VN: payoff to building value in the no-rule-of-law state

"The constituency for the rule of law has three equilibrium values. The "good equilibrium" occurs at x1*, where the demand for the rule of law is strong, and the "bad equilibrium" occurs at x3*, where the demand for the rule of law is weak. The equilibrium at x2* is unstable because at that point there are increasing relative returns to stripping assets (relative to building value). "



Source: The Transition from Communism: A Diagrammatic Exposition of Obstacles to the Demand for the Rule of Law; Karla Hoff, Joseph Stiglitz, Policy Research Working Paper;No.3352. © World Bank. March 2004 (https://openknowledge.worldbank.org/entities/publication/09148cd3-2a0b-5a54-890e-8f1582b564d9)

The role of the Energy Law when demand for the rule of law is diminished

- Prevent fragmentation of the market and remove barriers to trade
- Promote unobstructed access to public infrastructure
- Promote free access to seaborne markets
- Promote property rights
- Promote reduction in transaction costs
- Distinguish between club goods and public goods