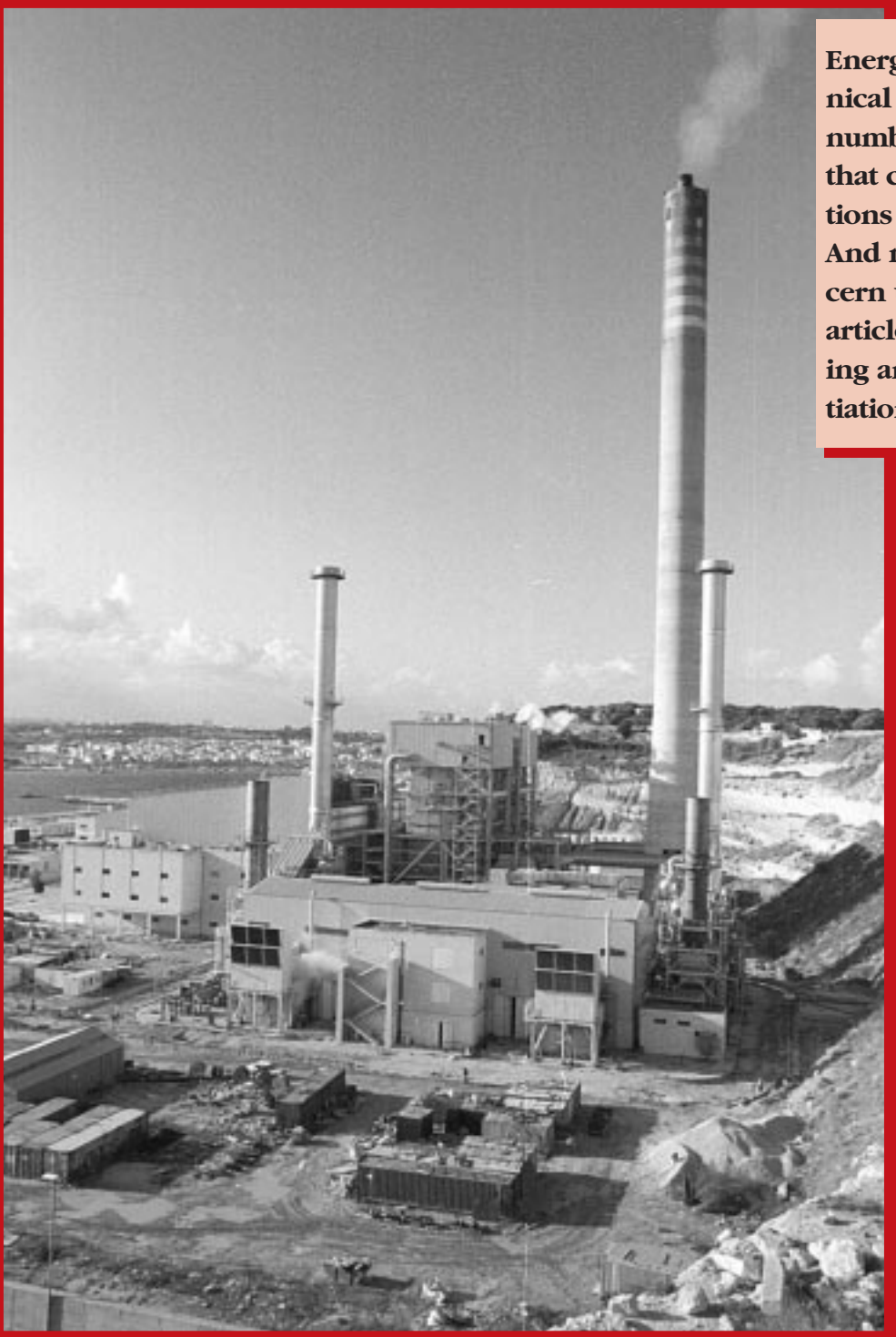


Outcome of Malta-EU negotiations on Energy

Shedding Light on Energy

By Romina Rieck Zahra, MIC information officer



Energy may sound like a technical subject. But there are a number of interesting issues that came out from negotiations with the EU in this area. And most of these issues concern us as consumers. This article focuses on the meaning and implications of negotiations in this area.

Why energy is important

The energy sector has a key role in the completion of the EU's internal market. EU policy in this area seeks to achieve market integration, deregulation, public intervention that is limited to what is strictly necessary in order to safeguard the public interest, sustainable development, consumer protection and economic and social cohesion. Energy policy must also reconcile competitiveness, security of supply and protection of the environment.

There are various EU laws that attempt to ensure this and which every EU country and candidate country has to take on board.

What Malta has negotiated

There were three specific issues that Malta wanted to negotiate in this area.

- One related to the issue of fuel stocks where, for security and emergency purposes, each EU country must maintain a stock of fuel for internal consumption covering at least 90 days. Here Malta wanted more time – until 2007 - to build its stocks and storage up to this level.

- Secondly, Malta wanted more time – until 2006 - to adapt to the removal of Enemalta Corporation’s monopoly on the importation of fuels.
- Finally, Malta wanted to negotiate a point on how its electricity system should be treated under EU law.

Fuel Stocks and Storage

The EU has laws which act as safeguard measures in emergency and crisis situations. These laws oblige EU countries to maintain at all times their stocks of crude oil and/or petroleum stocks at a level corresponding to at least 90 days internal consumption. One might question the necessity of such measures considering the financial implications. Yet, one must not overlook the fact that Malta imports all fuels for energy purposes and that a substantial amount of electricity is taken up for the production of water.

It has been estimated that for Malta to purchase the required stocks and to construct more storage space, it would cost approximately Lm21 million. In order to absorb the impact of this cost, the Maltese Government requested more time to spread the cost over a six-year period, until 2007. This is why the transition period was requested. On its part, the EU agreed to Malta’s request.

Liberalisation of fuel importation

Under EU law, the importation of fuel must be liberalised. In Malta, so far, the importation of fuel was under the monopoly of Enemalta and this will now need to change, allowing other companies to compete with Enemalta Corporation. However, the Maltese Government called for time until 2006 before full liberalisation in this area. This was requested in order to allow sufficient time for adaptation. During the course of negotiations, it was agreed that this issue is not simply an energy issue but also a competition

Malta’s Negotiations on Energy

Screening of laws	October 1999
Negotiations opened	June 2001
Negotiations provisionally closed	June 2001

Special arrangements	Requested	Obtained
Minimum Stocks of crude oil and/or petroleum products	4 year transitional period to allow for purchasing stock and extending storage	YES
State trading monopoly in the oil sector	3 year transitional period to adjust operations	To be negotiated under Competition Chapter
Malta’s electricity system	Exemption from certain parts of EU law because it is a “small isolated system”.	Procedure for derogation applies after accession.

issue. For this reason, this request has now been transferred for further discussion in the ongoing negotiations on competition policy. Malta is therefore still awaiting the outcome of negotiations on this point.

Malta's Electricity System

The EU has a specific law on electricity which seeks to open this market to competition. The law also deals with issues such as the transparency required in the charges for accessing the electricity grid for transmission and distribution



of electricity. It also sets rules to ensure public service obligations are met, that is to say, the need to guarantee that everyone can have access to electricity at an affordable price.

Yet, this EU law does not impose full competition to electricity systems which are known as “small isolated systems”. Malta claimed during negotiations that it falls within the classification of a small isolated systems because of the island’s geographic size and geographic isolation, because of its comparatively low level of consumption and because the Maltese electricity sector is not connected to other systems. The annual consumption of electricity in Malta is less than 2,500 GWh. Malta also argued that it was not feasible for the country to split the transmission and distribution functions. Malta therefore applied for derogations from certain aspects of the directive, particularly the full application of liberalisation of the distribution network.

On its part, the EU informed Malta that whereas it is most likely that Malta’s request on this point would be accepted, this derogation can only be requested – and obtained - after membership.

Other than this, Malta intends to implement the EU directive by 2003. In practise, this will allow for new generating capacity and companies other than Enemalta will be able to execute small installations within defined parameters. Public service obligations will also be imposed to safeguard the interests of consumers.

Will subsidies on electricity be removed?

EU law makes it clear that subsidies are permitted if they are given on social grounds and are passed on directly to the benefit of consumers. In Malta, both subsidies on electricity and water fall within this category and therefore need not be removed because of EU membership.

The Structures that were set up

The Malta Resources Authority (MRA) was set up in February 2001 with the aim of regulating, monitoring and licensing in the energy sector. Formerly, Enemalta Corporation carried out the responsibility of a regulator in the energy sector while also being a player in the field. This will no longer be the case. The MRA will now regulate this sector.

The MRA will also manage Malta's participation in two EU programmes relating to energy, namely Altener and Save II (two programmes dealing with renewable energy sources and energy efficiency).

Will Malta have a pipeline of natural gas to Sicily?

This may happen if Malta chooses to do so, but as such it is not an EU requirement. So far, Malta does not use natural gas and this is imported in liquified form. The gas turbine at the power station is fuelled by diesel oil. Malta also has no interconnections or networks. If Malta opts to do so, then EU law will apply. EU law in this area takes on the principles of the electricity directive, while also taking account of the specific features of the gas market, particularly the transmission, distribution, supply and storage of natural gas. As with the electricity directive, Malta would be able to negotiate exemptions from certain parts of the directive (mainly with the organisation of the sector and access to the system) upon accession.

Petroleum

Malta is already in line with EU legislation on conditions for granting and using authorisation for prospecting, exploration and production of hydrocarbons following the adoption by Parliament of amendments to the Petroleum (Production) Act last September. EU countries retain the right to determine the





specific areas available, although they must ensure that once identified, there is no discrimination between entities as regards access to and exercise of these activities.

Yet, EU countries may refuse on grounds of national security, to allow access to and exercise of these activities to any entity which is effectively controlled by third countries or third country nationals.

Nuclear energy, coal and others

Malta has no nuclear power generation and no plans are foreseen in this area. Nuclear power generation is certainly not a requirement imposed by EU membership.

Malta is a signatory of the International Atomic Energy Agency (IAEA), although certain exemptions were agreed upon later. To this effect, certain safeguards are already being applied. By the end of 2002, Malta will sign an additional protocol. There are issues relating with radiation protection and nuclear waste which will be dealt with under the chapter of environment.

With regards to coal and solid fuels, given that Malta does not currently utilise coal for energy production and there are no coal mines on the island, EU law in this area does not really affect the Maltese.

Data collation

For statistical purposes, EU countries provide data on transparency of gas and electricity prices charged to industrial end-users, investment projects of interest to the EU in the petroleum, natural gas and electricity sectors, registration of crude oil imports and deliveries in the EU, as well as information and consultation on crude oil supply costs and the consumer prices of petroleum products.

In Malta, the Environment Statistics Unit within the Malta Statistics Authority will fulfill this function by the end of 2001.

Energy vs Environment

Energy efficiency and renewable energy are becoming increasingly important in the EU which is looking at an "environmentally compatible energy system". Moreover, the problem of climate change has led to a discussion on how to reconcile the objectives and the consequences of more competition with the widely discussed Kyoto Protocol commitments to reduce the emissions of greenhouse gases. These issues will also be discussed during negotiations on the environment.

Malta has long been a signatory to the Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects, together with the Energy Charter Treaty. However, these were only ratified earlier in 2001.

Energy labelling of household appliances

Malta intends to align its legislation with that of the EU regarding energy labelling (even of household appliances). Given that labelling of household appliances is a consumer issue, these laws (which will enter into force by the end of 2002) will be adopted under Malta's Product Safety Act. The Consumer and Competition Division within the Ministry for Economic Services will be responsible for enforcement.

Energy efficiency in buildings

The final aspect relates to energy efficiency in buildings. Here, the EU has a directive dealing with the performance of heat generators, the production of hot water in new and existing non-industrial buildings and the insulation of heat and domestic hot-water distribution in new non-industrial buildings. Malta has already drafted new building regulations taking these measures into account, which will enter into force in 2001.

Malta's official negotiating position paper on this area is also available free-of-charge from MIC or from its web site:

www.mic.org.mt



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