

Janez Kopač is the director of the Energy Community Secretariat, and he spoke on the topics of energy transition in Western Balkans.

The key objective of the Energy Community is to extend the EU internal energy market to countries in South-East Europe and the Black Sea region. Leaving aside special cases like Ukraine, and Georgia, how far have we come towards reaching that objective? Are all countries on track when it comes to implementing EU energy law?

They're at different stages. According to our implementation indicator, which was last updated in November, Contracting Parties transposed approximately 60% of the EU 'acquis' in terms of energy law. But there are big differences among countries. North Macedonia and Montenegro are very advanced, Kosovo and Serbia are in the middle, and Bosnia-Herzegovina is struggling with their constitutional dilemma. Our organisation is based on the rule of law. And our Ministerial Council adopted the Third energy package, Energy Efficiency Directive, the Energy Performance of Buildings Directive, and many other energy-related directives. Now, we're entering the next phase, with the implementation of the Clean energy package that was finalised in 2019 at the EU level. This will be on the agenda of our next Council meeting in the autumn.

Are those countries closing the gap with the EU, or are the differences getting bigger? Differences between markets are growing, mainly because we don't have the Emissions Trading Scheme Directive in place in those countries. So there is a growing difference between the electricity generated in South East European countries and in EU member states. In practice, this means electricity from Southeast Europe is much cheaper, which makes exports to the EU very profitable. But this, I believe, will be tackled by the Carbon Border Adjustment Mechanism that the European Commission will table in July.

So you expect the carbon border charge will apply to the southeast European members of the Energy Community?

I hope they will have special status, because they are participants to the EU single market. And if they are treated as third countries in the same way as Russia, Turkey or Morocco, this could endanger the whole European integration process which has taken place in the last 15 years when they were transposing EU legislation.

Why are these countries not part of the Emissions Trading Scheme? All of them, I guess, are signatories to the Paris Agreement, so wouldn't it make sense for them to join the ETS now? Yes, it would make sense. But many of them are postponing this for as long as possible. The only country which introduced a form of carbon pricing is Montenegro, which transposed parts of the ETS Directive voluntarily, without being obliged to do so. But Montenegro is a small country, there are less than five participants in the carbon market. And they enacted a

carbon price cap, which is decided by the government and is currently set at €24 per tonne of CO₂. So in reality, it's more like a small carbon tax but it's still efficient.

The carbon price has risen considerably on the ETS, which justifies the introduction of a carbon border adjustment mechanism. And with a strengthening of the EU's 2030 climate target, the disparity between the EU and its neighbours will only get bigger. So how can these countries avoid the EU's carbon border charge if they don't join the ETS?

Implementing the ETS fast would be challenging for those countries, both technically and logistically. So I believe the simplest would be to implement a carbon tax for the beginning. That is doable, they already have emission registers based on environmental laws. In many of these countries they are already paying some tiny taxes on sulphur dioxide and other emissions, so this would be low-hanging fruit for them. The European Union could combine pressure and incentives to reduce emissions in these countries. Many have electricity incumbents which are heavily dependent on coal and they are postponing the necessary steps as long as possible because they are afraid of the social unrest this could create.

Implementing carbon pricing will definitely mean an increase in electricity prices and this is something politicians are afraid of. Electricity prices for households in all these countries are not cost-reflective and are set well below the EU average. Then again, the situation varies from country to country. In Montenegro, for example, electricity prices are already close to the EU average. But in places like Bosnia or Serbia, electricity prices are really low. In November last year, these countries signed the Sofia declaration, where they committed to implementing the ETS or some other form of carbon pricing in the future. But the declaration doesn't specify when this should happen, so there needs to be some kind of pressure and roadmaps coming from the EU to drive this forward.

What do you mean by pressure and incentives?

By pressure I mean bringing carbon pricing policies as a legal obligation under the Energy Community framework. And on the other side with financial incentives, because these countries are in different socio-economic situations and they don't have access to the EU's just transition fund to assist coal regions in the transition. This is where I see a long-term need to restructure the EU's financial assistance and make it more targeted. One way of doing this could be to set up national carbon or climate funds where all the carbon-based income would be channelled, and be governed separately from the regular state budget. That fund could be merged with financial assistance coming from the EU as well as other international donors. And the management of that fund would be centralised, with high transparency and governance standards. This money, I believe, should be dedicated to energy efficiency measures, sustainable transport and renewable energy support, like is the

case with the ETS in the EU. On top of that, it could also include financing programmes for coal regions in transition. Because if there is no stable financial mechanism for the transition, it simply won't happen.

Who would manage this fund?

There is a precedent, it's an energy efficiency fund in Ukraine that was established by the EU, Germany and the Ukrainian government. It merges funds coming from the state budget with international assistance for energy efficiency measures. And I think this is a good example that could be repeated for this national climate fund.

Taking a step back, the Southeast European region has a history of armed conflict and still today, there are diplomatic tensions, for example, when it comes to the recognition of Kosovo, or the name dispute between Greece and North Macedonia. How does this context affect energy integration in the region? Does it make cooperation on energy more challenging?

I wouldn't say so. On energy, cooperation is actually going quite well under the umbrella of the Energy Community. There can be tensions, of course, for example, there is an ongoing dispute between Serbia and Kosovo, and there are no electricity flows between the two of them at the moment. But apart from that, I don't see any major barriers for cooperation. Because on energy issues, there is a shared 15-year history of membership in the Energy Community. Sure, there were tensions at the beginning between Serbia and Kosovo but this is now settled and cooperation on energy issues is going quite smoothly.

Can energy therefore be seen as a catalyst to bring these countries closer to EU membership? Because most of them are also EU candidate countries.

Most of them have the aspiration of becoming EU members, yes. If the EU does not bring them together, then nothing else will. And the Energy Community is a most useful tool for that, which was even recognised by EU leaders at the European Council a few years ago. We were very proud of this.

The energy mix in the Southeast European region is currently largely dominated by coal. How many of them have coal exit dates and are they on track to meet the Paris climate goals when it comes to ending fossil fuels?

There is no uniform answer to this. Albania for example has no coal power plants. They have issues with transport and industry but at least their energy is clean. North Macedonia announced a coal phase-out by 2030, and is investing heavily in renewables and developing fast. So for them, I'm quite confident. Montenegro has only one coal-fired power plant, which is currently being refurbished to align it with EU norms - the Large Combustion Plants Directive. And if it is still profitable, which I doubt, this coal plant could still be

around in the next 10-15 years.

When it comes to coal, the biggest problem countries are Serbia, Kosovo and Bosnia-Herzegovina. Both Serbia and Bosnia are 70% reliant on coal and Kosovo is 95% dependent. Now, they all signed up to the Sofia declaration, meaning they committed to phasing out coal by 2050. But in practice, things can be different. Bosnia-Herzegovina for instance is currently building one coal power plant. We initiated an infringement against them because we are convinced that they violated State aid rules, giving full guarantees to Chinese banks which are financing this. And the outcome of this dispute is not clear yet - we could stop them building it but it's not certain yet.

In Kosovo, the government had plans to build a coal power plant that would be financed by a US investor. Again, here, we launched an infringement procedure related to state aid and were successful. They cancelled the deal. This means Serbia is the only country in the region that is still building its future on coal - it is constructing one new coal power plant and refurbishing another two.

So there is no single answer to your question, every country is moving at a different pace. Why are these countries still interested in building new coal plants? After all, renewables nowadays are cheaper so why would they want to do that? Is it because they receive financial support from the US or China?

First, it has to do with perception, it's a mindset. Coal was a symbol of industrial development in all these countries after the second world war. And coal miners are politically extremely strong, every prime minister is afraid of them.

In Serbia, Milošević survived attacks from NATO but he was eventually kicked out of office by coal miners. In Bulgaria, Prime Minister Borissov stepped down some years ago because of a 15% rise in electricity prices. In addition, these power plants have no particulate filters for SO₂ and NO_x like in Western European countries. To give you an idea, the 16 thermal power plants in the Western Balkans produce more hazardous emissions than 250 coal power plants on the territory of the European Union. And since they do not invest in filters and do not pay CO₂ costs, production is cheap. Moreover, all these power plants are already amortised, so they're milking them until the bitter end. There is also enormous cross-subsidisation going on, with large transfers of income going directly from the coal power plants to households, which makes the coal link with society harder to break. And of course, all this cross-subsidisation keeps the social peace between the population, the coal industry and the coal miners. This linkage will break one day, but politicians are trying to postpone this moment for as long as possible.

How can this toxic link between the coal industry and society be broken, then? I guess it

requires action on different fronts, both on carbon pricing but also on the social aspect. Like I said, the first thing is to apply pressure and oblige these countries to adopt carbon pricing policies. And the second thing is to provide targeted financial support. The EU is currently abundantly assisting Western Balkan countries through different programmes. One is called REEP - regional energy efficiency programme - another one is called the Green for Growth Fund, there will be a new Guarantee Fund for infrastructure leveraging loans from other international financial institutions. Another one is the Western Balkans Investment Framework, so there is quite a lot of money for all these purposes. But none of these funds are dedicated to coal regions in transition and related problems. This is why we should think together about how to reorganise this. My suggestion is to establish these national climate funds but maybe there are other ideas worth putting on the table as well. My conviction is that these countries need a funding mechanism that is very stable. Currently, they have a promise of €9 billion through the so-called Economic and Investment Plan for the Western Balkans that was adopted in October last year by the European Commission. That's all good, but it covers only the EU budget for the next few years. Decarbonisation is a much longer process. And it is not clear how the countries will finance social, environmental and energy costs of closing coal mines, which is at the heart of decarbonisation efforts. What is needed is something more long term, because decarbonisation is a process which lasts at least 10, 15 or 20 years. This is why I think there should be a mechanism that will last until these countries join the EU or until 2050 when Europe is aiming to achieve net-zero emissions. But as I said, this fund should be governed jointly, involving stakeholders of course and with a lot of transparency, monitoring, and some conditionality as well. That's what works well in the Western Balkans - conditionality. Most of these countries are also members of the Energy Charter Treaty (ECT). Is this helping the transition to clean energy or is it holding them back?

This is not an issue. Serbia, actually, is not a signatory to the ECT. I'm not aware of any dispute involving any investor and I think the ECT is irrelevant in this context.

What are the specific opportunities for the Southeast European region when it comes to clean energy and renewables? Is the potential there greater or smaller than in Western EU countries?

I think the potential is much greater than in some EU member states. This is a region full of sun and wind, so I see great potential, which has been calculated by the International Renewable Energy Agency (IRENA). What is missing is a concerted push. And that means introducing cost-reflective electricity prices for households, carbon pricing, as well as market liberalisation. Only that is missing. In the European Union, problems are often

linked to a lack of electricity interconnectors between member states. Whereas in the Western Balkans, grid interconnection is not a problem. The high-voltage grid was so well developed in the ex-Yugoslavia that cross-border connection capacities far exceed all scenarios with 100% renewables. Investments would be needed on the distribution level of course, but not for high-voltage cables. According to our calculation, cross-border connections are used maximum at 30-35% of their capacity. In the European Union, there is an electricity regulation in force from 2018, which requests that at least 70% is offered for trading of existing capacities. If this would be the case in the Western Balkans, there would be no congestion at all.

So grids are one of the strengths in the region.

Yes, plus the fact that there is a lot of sun and wind.

What would make investors more interested to invest in the region? Is it the political stability, is it the economic stability, the regulatory predictability?

Investors need predictability. First, day-ahead markets should function in every country. Currently, there is only a day-ahead market in Serbia, with an electricity power exchange. North Macedonia, Albania, and Montenegro are currently trying to establish their own power exchanges, and hopefully, this will be done this year. Another element is to organise competitive tenders. In North Macedonia for example, they offered the facilities of an ageing coal power plant to investors who were bidding for two times 50 megawatt of solar investment. The government requested that the investor take one employee from the coal power plant per megawatt installed. The coal power plant was standing idle, so the employees were happy to find a new job. In exchange, the investor got connection to the high-voltage grid free of charge and got the land for free as well. The investors then were invited to bid for a percentage of the electricity price that they were willing to pay back to the state. They got several bids and I think the final percentage was some 18% in the end. So North Macedonia as a state will receive money out of decommissioning its coal power plant. I think this is very innovative, and thanks to this, North Macedonia was capable of attracting many foreign investors. They don't have a power exchange yet but otherwise, trade is very liberalised. In Serbia, they adopted a new renewable energy law a month ago. And they held an investor conference where they collected proposals for 12 gigawatts of potential investments. Who knows how much will be commissioned in the end. But they have strong winds in the north and a lot of sun in the south, and investors are interested. So only Bosnia-Herzegovina and Kosovo are currently without major foreign investors. But with some adaptation of their legislation, it will slowly happen as well. It could only happen faster.

Corruption is also an issue in many of these countries. Is that a concern for you as well? Corruption is definitely a problem, but I don't see it as a major obstacle for investors right now. The biggest obstacle is that there were no auctions until now, except in North Macedonia and Albania. But now, legislation has been adopted in Montenegro and Serbia. And it will be very soon in Kosovo too, meaning only Bosnia-Herzegovina is behind. But if auctions are put in place in a way that is transparent enough, then it shouldn't be a problem.

Some of the founding members of the Energy Community are now EU member states, like Bulgaria, Croatia, and Romania. What is their role as part of the Energy Community? Do they have special responsibilities when it comes to helping the integration of neighbouring countries in the EU's internal energy market?

No. In our Treaty, we have a special category for EU member states, which are called 'participants' and which can be invited to the meetings if they express an interest. EU member states which are former Contracting Parties to the Energy Community are automatically participants. Some participants are active, some of them are not. But our main interlocutor is the European Commission and of course the Council. Now, there are countries which are particularly interested in our work and are active members, proposing many things. Poland for instance is one of them, because of our role in Ukraine, I believe. Other active participants include Italy, Croatia, and Austria, because we have a seat in Vienna. But on a daily basis, it's the European Commission in the driving seat.

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