

The negotiations to amend the Energy Community Treaty remain in a deadlock, after the last Ministerial Council of the Energy Community, held on November 30 in Belgrade. The issue has been on the negotiating table for quite some time, with the aim to adopt amendments that will make the Energy Community ready for market integration and fit for energy transition away from fossil fuels. The nine Contracting Parties resisted all efforts of the European Commission and the Energy Community Secretariat to find common ground on Treaty amendments. Serbia has been one of the main blockers of the process, in particular on amendments regarding reciprocity, financial penalties, state aid and competition. Delays in adopting these amendments keep contracting parties at bay regarding market integration, as the 2021 Energy Community Implementation Report shows.

So close, yet so far away

Year 2021 started enthusiastically in expectation that the EU Commission will expand its modelling reach beyond the EU member states, namely to include the Contracting Parties. This is meant to be used as a basis for setting the 2030 greenhouse gas emission reduction targets, as well as targets on renewable energy and energy efficiency. Unfortunately, the results have not yet been finalised, further delaying the 2030 target setting process of the Energy Community Contracting Parties. Nevertheless, establishing clear targets is at the centre of finalising the National Energy and Climate Plans (NECPs), which are currently under preparation. So far, only North Macedonia and Albania managed to make available for public consultation drafts of the NECPs. CAN Europe has argued that 2030 targets must be ambitious enough in order to enable Contracting Parties, especially the Western Balkans, to contribute to the achievement of the Paris Agreement goals.

On a positive note, the Ministerial Council has adopted key legislation to support the energy and climate goals of the Treaty. Namely, the adoption of EU's Governance of the Energy Union and Climate Action Regulation (hereafter the Governance Regulation), while the relevant legislation for renewable energy and energy efficiency has been updated. However, only the Energy Community Treaty adapted version of the current EU renewables directive has been published so far. Although we expect that the adapted legislation will bring the EU and its neighbours closer, the ambition still needs to be assessed. Overall, we underline that it is crucial for the Contracting Parties to transpose, within the shortest possible time frame, the new *acquis* in order to strengthen the ongoing processes, such as drafting of the National Energy and Climate Plans.

Moreover, it is particularly important for the Contracting Parties to make the most of the Governance Regulation to improve cohesion of the short-medium term ambition with long

term goals; to incentivise integrated / cross-sectoral reporting on climate and greenhouse gas emissions; and to enforce a wide public participation in the energy and climate decision-making processes.

The future outlook

Over the years substantial efforts have been made to raise awareness about the true cost of outdated and inefficient energy systems in the Western Balkans - namely heavy reliance on coal for electricity production. This inefficient constellation is kept alive by constant financial enabling, paid by the citizens of the Western Balkans through state subsidies. Additionally the health bill is shouldered not only by the Western Balkans but also by the EU countries due to the transboundary nature of pollution from the coal powered plants. As such, the polluters are neither accountable for the economic nor for the health and social cost of burning coal. It is therefore imperative to immediately introduce a carbon pricing mechanism as a way to incentivise and speed up the energy transition in the region. Throughout the past year the Energy Community Secretariat, together with the EU Commission, has held a number of consultations with the Contracting Parties about identifying pathways to achieve integration of the energy market as well as address climate change issues. The outcome of this process is the Decarbonisation Roadmap which aims to achieve climate neutrality within the Energy Community, through setting ambitious 2030 targets, establishing decarbonisation priorities and timelines, and working towards phasing out of coal and of fossil fuel subsidies. This should help shape the implementation of the political agreement stemming from the signing of the Sofia Declaration on the Green Agenda for the Western Balkans, as well as its recently adopted Action Plan. In parallel there is an opportunity to introduce carbon pricing in two phases. The first phase foresees adoption of Energy Community *acquis* relevant legislation, in particular the Monitoring and Reporting of greenhouse gases Regulation, and the Regulation on verification and accreditation of data. According to the current timeline, the adoption of this legislation by the Ministerial Council is scheduled for the end of 2022, with transposition by end of 2023, and full implementation by 2026. The second phase relates to the introduction of the Directive on Emissions Trading System (ETS) but this does not include a timeline. There should be no delays in establishing a comprehensive framework for the introduction of carbon pricing, therefore Phase I and II can be executed simultaneously, in order to adopt the ETS as soon as possible.

Towards a successful energy transition

The Contracting Parties of the Energy Community are inching towards cohesion with the EU. The Energy Community Treaty has been so far the main drive of the energy transition

for the Contracting Parties. The introduction of the updated *acquis* will facilitate further action.

For many, especially the Western Balkans, this is the key moment to set the necessary ambition, develop thorough action plans and start implementing them.

Our key recommendations on the process are as follows:

The European Commission must provide timely results of the study on the 2030 targets and make them available for consultation with all stakeholders. Taking into account the health, social and economic costs of coal, these targets must be in line with achieving climate neutrality by mid-century. The Energy Community Secretariat should work on having an extraordinary Ministerial Council in Spring 2022, in order to adopt the proposed targets.

The Contracting Parties must work towards finishing, in a transparent manner, the process of drafting and adopting the National Energy and Climate Plans. These plans must be ambitious, credible, with specific timelines, policies and measures, as well as financial planning. The Contracting Parties must immediately revise their submitted National Determined Contributions, in order to ensure cohesion between the NECPs and NDCs.

Furthermore, the Governance Regulation, as well as the legislation on renewables and energy efficiency, must be transposed as soon as possible. This should be combined with ensuring a credible process for the energy and climate long and short term planning, based on reliable results of the emissions monitoring.

Without any delay **the Energy Community Secretariat should work closely with its working groups to prepare for the introduction of the carbon pricing *acquis*.** We call for synchronicity in working on Phase I and II for the introduction of a carbon pricing system for the Contracting Parties in order to speed up its adoption across the region.

The Energy Community Secretariat, together with the EU Commission must work closely with the Contracting Parties to amend the Treaty in order to ensure implementation of the Energy Community *acquis*. As such the Treaty will support the region towards achieving the long term decarbonization goals; act to level the playing field between the Contracting Parties and the EU with regards to competition; phase out fossil fuel subsidies; and introduce enforcement mechanism which will incentivize the Contracting Parties to comply with the Treaty.