

All coal-based electricity generation incumbents in aspiring EU members from the region would go bankrupt immediately if they joined the bloc and had to respect the EU's Emission Trading Scheme Directive, a new report from the Energy Community report finds.

The study concerns Bosnia & Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia, all of which depend heavily on coal power. There are also plans to build several new power plants in the region, most of them with Chinese funding.

Electricity prices in five Western Balkan countries would have to be increased by 23%-49% if governments decide not to subsidise coal-fired energy producers, the Energy Community secretariat said on March 25.

According to the preliminary results of the study released by the Energy Community secretariat, its contracting parties directly or indirectly subsidise electricity generated from coal with some €2.4bn per year. The report refers mainly to the five major coal users in the Western Balkans, as it does not have complete data for Ukraine (the increase in average electricity prices would exceed 30%), while the remaining contracting parties — Albania, Georgia and Moldova — are not big coal consumers.

Without direct and indirect subsidisation of electricity generated from coal, in particular cross-subsidisation between industry and households, the price of electricity for households would need to be increased by some 23% in Kosovo, 29% in North Macedonia, 31% in Bosnia, 37% in Montenegro and 49% in Serbia.

Under such conditions, prices for industrial consumers would have to be increased by 36% in Montenegro, 34% in North Macedonia, 30% in Bosnia and Herzegovina and 18% in Serbia, while in Kosovo they would be decreased by 9%.

The study concludes that with the elimination of state aid via direct subsidies to coal and the introduction of a carbon price, not a single coal power plant in the Energy Community countries would be able to operate without significant losses.

Energy Community secretariat director and co-author of the study Janez Kopač added his voice to criticisms of the heavy dependence on coal in the region: "The Energy Community Contracting Parties can no longer look away from the consequences of maintaining an unprofitable, inefficient and unsustainable coal-based energy system," he said.

"On top of the damage done to health, environment and climate, favouring coal distorts the electricity market and raises serious questions when it comes to compliance with state aid rules. It is high time for serious thoughts to be given to at least gradually introducing a carbon pricing mechanism in the Energy Community for the benefit of energy efficiency measures and enhanced renewables deployment."

Coal continues to account for the lion's share of the energy mix in countries from the region

at an extremely high 97% of electricity generation in Kosovo, 70% in Serbia and Bosnia, more than half in North Macedonia, around half in Montenegro and 28% in Ukraine.

“If the Energy Community Contracting Parties where coal is the dominant source of energy would become EU Member States and would thus have to respect the Emission Trading Scheme Directive, all coal-based electricity generation incumbents would go bankrupt at once,” states the report.

“If all direct and indirect subsidies were eliminated and all costs associated with power production in mainly state-owned generation plants were recognised, the unit costs of production of electricity in the existing coal-fired generation fleet, based on conservative estimates, are in the range of 50 to 90 EUR/MWh.”

Not only do countries in the region rely heavily on coal at present, there are plans in several countries to increase their coal-fired generation capacity, even though their primary political goal is to join the EU at a time when it is striving to achieve net-zero greenhouse gas emissions by 2050.

Among the projects under consideration are Bosnia’s plans to build a new unit at the Tuzla coal-fired plant, for which the parliament of Bosnia & Herzegovina’s Muslim-Croat Federation approved a guarantee for a loan from China’s Exim Bank on March 7, unfreezing the controversial project.

This was despite the secretariat of the Energy Community ruling earlier that the Federation had breached its regulations when issuing a guarantee for the loan from China’s Exim Bank. The new unit at Tuzla has also provoked numerous objections by environmentalists.

The 450 MW unit is estimated to cost €722mn and was supposed to replace units 3 and 4 that are due to be shut down, updating the facility but keeping its capacity the same. It was agreed to be built, as well as funded, by Chinese companies. Bosnian state-owned power company EPBiH selected the consortium of China Gezhouba Group and Guandong Electric Power Design back in 2014 to build the new unit after the original frontrunner, Hitachi, pulled out.

European Union’s Enlargement Commissioner Johannes Hahn has criticised Bosnia & Herzegovina’s decision to extend the guarantee. “I am very surprised by the large majority decision of the Federation of BiH and the House of Representatives on a public guarantee in favour of China’s Exim Bank loan for Tuzla7,” he commented. Hahn added that the Bosnian authorities should now explain their decision to citizens and warned that the EU will monitor such issues closely when deciding whether to grant the country candidate status.

“Issues like environmental impact assessments, state aid + public procurement procedures will certainly be closely looked at during the opinion process,” he added.

The Tuzla power plant expansion is one of a numerous coal-fired power plant investments in the Western Balkans — five in Bosnia alone — most funded by Chinese banks, that are either at the planning stage or underway. Indeed, the existing Tuzla plant and the brand new Banovici plant are just 30km from each other, which raises questions about their economic viability. Both lined up funding from Chinese banks, and multilateral development banks are increasingly wary about financing new coal projects.

Observers have warned about the risks of over-reliance on coal and hydropower. “The Western Balkans has a deeply precarious energy sector. Even Serbia and Montenegro, touted as the frontrunners for EU accession, have poorly-diversified and highly-polluting energy mixes,” wrote *bne IntelliNews* columnist Henry Stanek.

“Montenegro gets a third of its energy from a single, nearly 40-year-old coal plant; the vast majority of the rest comes from large-scale hydro. Serbia’s mix is even more lopsided.” A report from the European Bank for Reconstruction and Development (EBRD) also urges governments in the region to switch from coal to hydropower, renewable energy sources and gas. The dependence on coal “is not surprising given the substantial reserves of coal in the region, but it is a major problem because most of it is lignite, which is the most polluting kind of coal,” the December 2018 report noted.

It added that the amount of carbon that is emitted into the atmosphere, adjusted for the size of the economy, is up to three times the EU average.

“Among the 10 most polluting coal power plants in Europe, seven are from the Western Balkans, including Serbia’s Kolubara, Kostolac B and Nikola Tesla A, FYR Macedonia’s Bitola, and Kosovo’s A and B,” the EBRD said in the report.

This was reinforced by a report from the environmental NGO Health and Environment Alliance (HEAL) that in February urged the Western Balkan states to close all existing and ageing coal-fired power plants and not to build new ones as they are a major source of air pollution to the EU.

The report, released by HEAL on February 19, pointed out that 16 outdated coal-fired plants in the six Western Balkan states are a public health and economic liability for the whole continent, with people in the EU bearing the majority of the health impacts and costs. While Serbia is the single worst affected nation, with 570 premature deaths linked to air pollution, the study shows that EU member Romania follows with 380 premature deaths and Italy with 370. Overall, 2,013 of the total 3,906 premature deaths caused by emissions from Western Balkan coal power plants occurred in the EU.

The report noted that eight of the ten top polluters in terms of sulphur dioxide (SO₂) emissions in Europe are located in the Western Balkans with the leader being

Serbia's Kostolac B with 128,000 tonnes of SO₂ emissions in 2016.

Source: intellinews