



Supporting the Energy Transition in the Western Balkans

POLICY BRIEF

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On 12 December 2019, EU heads of state and government endorsed the objective of achieving a climate-neutral European Union by 2050. The European Union and its Member States will significantly step-up action to combat dangerous climate change, most importantly by further accelerating the energy transition. This momentum should also engage the Western Balkan countries (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia) as the European Commission stresses in its foundational document on a European Green Deal.

Indeed, the countries of the Western Balkans require support to start the process towards achieving a net-zero greenhouse gas emissions economy. While this should be done in a regionally coordinated manner, it also requires action at national level. The framework for the transition exists already to a large extent, with the notable exception of clear and ambitious 2030 and 2050 energy & climate targets which are currently negotiated in the Energy Community.

Yet, the political commitments to the Paris Agreement, the legal commitments under the Energy Community Treaty and the accession process to the European Union need to be translated into a set of actions that will facilitate decarbonisation of the energy systems in a cost-effective and socially acceptable way, while ensuring power system adequacy and continued security of energy supply.

To advance the energy transition and to reduce greenhouse gas emissions, countries of the Western Balkans should within the next 3 years:

- Develop plans and set concrete dates for phasing out coal-fired power generation in line with the commitments under the Energy Community Treaty and the Paris Agreement;
- Develop regulatory, administrative and financing frameworks to enable a massive and rapid scaling

of renewable energy sources, in particular wind and solar PV;

- Cooperate to make best use of the highly interconnected transmission infrastructure within the Western Balkans and with the EU and tap the potential for creating one integrated power market in the region. Indeed, cross-border and regional cooperation will strengthen security of electricity supply and significantly reduce the costs and practical challenges of decarbonising the power sectors in the Western Balkan Region.

This multifaceted objective should be realised through concrete measures that increase penetration of renewable energies, reduce greenhouse gas emissions, and develop a liquid and undistorted regional energy market. Such measures are essential building blocks of national energy transition roadmaps.

For the Western Balkan Region, 2020 is a year of many political opportunities that should not be lost. The political momentum of the European Green Deal and final negotiations on the EU's Budget for 2021-2027 under German EU Presidency in the second half of 2020 create a unique window of opportunity to link concrete political commitments by leaders of WB6-countries with concrete commitments of the EU and some Member States to offer financial, administrative or technical support. In our view, time is ripe for the WB6-countries to develop concrete energy transition roadmaps that chart the pathway to an affordable and clean energy future. In many respects, the development of such roadmaps can leverage on experience from "energy transition first-movers", many of which Member States of the EU.

We propose to develop such roadmaps around six elements: **(1) Commitments to reduce greenhouse gas emissions, (2) Measures to increase energy efficiency, (3) Frameworks for rapidly scaling renewable energy, (4) Measures for improving energy markets, (5) A just transition framework, and (6) Education and Innovation programmes.**

The specific measures listed under the six elements interact with and complement each other in many respects. They constitute in our view no-regret measures under all circumstances. And while the specific commitments under each element will differ from country to country and region to region, it is important to design energy transition roadmaps as concretely as possible to attract public and private investment and identify areas where administrative or technical support is needed most.

1 Reducing emissions

Robust and reliable energy and climate frameworks are crucial to achieve lasting emission reductions. The following measures should be implemented:

- Early adoption of 2030 targets for greenhouse emission reductions, renewable energy deployment and energy efficiency improvements;
- Transposition of the EU's Clean Energy Package under the Energy Community Treaty and of additional legislation targeting greenhouse gas reductions (e.g., Energy Performance of Buildings, Effort Sharing Regulation in the non-trading sectors, Land Use Land, Use Change and Forestry (LULUCF));
- Regional coordination in shutting down and replacing the eight coal-fired power plants opted out from the Large Combustion Plants Directive;
- Transposition of the Air Quality Directive in the Energy Community to limit toxic emissions from CO₂ emitting installations;
- Regional coordination of national energy and climate plans and long-term strategies;
- Stakeholder involvement in transparent and inclusive planning processes;
- Drafting, adoption and implementation of national climate and air protection laws, making use of experience gathered by other countries in Europe;
- Introduction of a carbon pricing system in individual WB6 countries for the power, industry and transport sectors on the basis of a modest

(minimum) price per tonne of CO₂, if only to avoid the introduction of a carbon border adjustment mechanism for electricity exports from the Western Balkan countries to the European Union;

- Complementary to CO₂-pricing, a socially just distribution of additional revenues;
- Introduction of an EU ETS-compatible emission trading scheme on national level coordinated through the Energy Community, with gradually increasing prices.

2 Increasing energy efficiency

Energy efficiency is an important lever for modernising energy systems. To increase energy efficiency the following measures should be considered as priorities:

- Development of national building renovation strategies in line with the Energy Performance of Buildings Directive;
- Programmes to replace household stoves, insulation of facades, and replacement of energy inefficient windows and lighting;
- Setting up long-term financing programmes at low interest rates for investments in refurbishment, modernisation, and construction of residential, commercial and public buildings, with high efficiency standards and large use of distributed renewable energy – solar, biomass heating, heat pumps (e.g. as implemented in Germany by the KfW);
- Development of strategies for the decarbonisation of district heating networks in cities;
- Supporting SMEs to manufacture locally energy efficient technologies/appliances, and small renewable energy equipment, for households: e.g. efficient biomass/biogas heating boilers, solar heating panels or heating/cooling pumps;
- Introducing obligatory energy audits and schemes based on Article 7 and 8 of the Energy Efficiency Directive.

3 Increasing the share of renewable energy

Renewable energy technologies have undergone strong cost reductions in recent years. To unlock the huge renewables potential the following measures should be implemented:

- Reducing the risk of renewable energy investments by establishing robust frameworks for the planning, permitting and grid-connection of renewable energy projects together with complementary financial tools and guarantees to reduce investor risk;
- Supporting socially and economically disadvantaged households as well as supermarkets to install rooftop solar PV systems;
- Transposition of the Water Framework Directive in the Energy Community;
- Support design and implementation of river basin management programmes, including coordinated hydropower generation and environmental protection.

4 Improving energy markets

Power markets should ensure that the demand for electricity is covered by the cheapest power plants available. To improve energy markets the following measures should be implemented:

- Early implementation of the EU Electricity Market Directive & Regulation;
- Introducing support mechanisms for SMEs, including start-ups in the area of energy and decarbonisation, also to reduce the high degree of state influence in the energy sectors;
- Transform mechanisms to address energy poverty to allow for phasing out of regulated end-use prices;
- Empowering customers and enabling prosumers to take active part in decarbonisation and democratisation of energy systems;

- Establish programmes to support demand side response and aggregation and complementary to that accelerate the roll-out of smart meters;
- Gradually phase-out direct and indirect coal subsidies;
- Enforce EU State aid disciplines under the Energy Community Treaty.

5 Enabling a just transition

Phasing out coal in a socially acceptable way is crucial for a successful energy transition. To enable a just transition the following measures should be implemented:

- Establish a dialogue between EU countries that have committed to phasing out coal with individual countries in the WB6 (Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia) to arrive at concrete coal-phase out dates and roadmaps consistent with the target of greenhouse gas neutrality by latest 2050;
- Twinning projects between individual EU “Coal Regions in Transition” and coal regions in the WB6.

6 Improving education and innovation

Energy transition and climate protection span all walks of society and rely on broad support. To improve education of society and innovation of the industry sectors the following measures should be implemented:

- Set-up education programmes/curricula with focus on energy transition/climate management;
- Establishment of a regional energy transition/climate academy;
- Supporting programmes that seek to tap the potential for innovation in the WB6 region and the rapid deployment of new technologies.



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