

Chaotic and
fake decarbonization
of power sectors
in the Western Balkans

Evaluation of international policies

November 2023



Chaotic and fake decarbonization of power sectors in the Western Balkans

This policy paper is a result of the joint effort of more than a hundred experts from the Western Balkan countries to assess and evaluate key international policies and bottlenecks regarding sustainable energy transition of the power sector in the region.

This document was created due to the work of RESET-Center for Sustainable Energy Transition on implementing the project RePower Western Balkan.

The project is supported and funded by The European Climate Foundation.

The views expressed in this document are solely those of the authors and do not necessarily reflect the views of the above-mentioned organizations or any particular expert participating in the process.

November 2023

Authors:

Mirza Kušljugić

Damir Miljević

Nikola Rajaković

National coordinators:

Danilo Drndarski (Serbia)

Gazmend Pula (Kosovo*)

Ljubo Knežević (Montenegro)

Aleksandar Dedinec (North Macedonia)

Kledi Xhaxhiu (Albania)

Nihad Harbas (Bosnia and Herzegovina)

Kosovo: This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.*

CONTENT

CONTENT	3
EXECUTIVE SUMMARY	5
INTRODUCTION	8
1. ELECTRIC POWER SECTORS IN THE WESTERN BALKANS – A SHORT REVIEW	10
1.1. The basic characteristics of the Western Balkans power sectors	10
1.2. Transformation of electric power sectors in the WB countries – a review	12
1.3. Adoption of EU acquis	12
1.4. The Energy Crisis 2021/2022	13
1.5. Restructuring of the coal-based power systems, socioeconomic and structural challenges	14
2. EU APPROACH TO DECARBONIZATION OF THE WESTERN BALKANS POWER SECTOR - AN EVALUATION BY THE REGIONAL EXPERTS	16
2.1. EU approach to the energy transition in the Western Balkans countries	16
2.2. Energy Community and decarbonization of electric power sectors in the Western Balkans	18
2.3. Evaluation of the energy transition concept promoted by the EU through the Energy Community (EnC)	19
3. ANALYSIS OF THE DECARBONIZATION PROCESS IN THE WESTERN BALKANS POWER SECTORS	21
3.1. The decarbonization concept promoted by the governments and power utilities in the Western Balkans countries	22
3.2. Private investments in renewable energy projects	23
CONCLUSIONS AND RECOMMENDATIONS	25

EXECUTIVE SUMMARY

The consensual view of energy experts in the Western Balkans (WB) region is that the existing European Union (EU) policies, support measures, and established mechanisms for the implementation of the energy transition, especially for the realization of the decarbonization targets until 2030 and 2050 adopted within the Energy Community (EnC), will not attain the expected results and will not secure implementation of the sustainable energy transition in this European region. Quite the opposite, the expert's opinion is that without significant adjustments of EU policies and support mechanisms for the WB, the trend of disordered decarbonization where the countries provide merely lip service in their policies towards decarbonization will continue.

This is the key conclusion of the research, based on a survey of more than 100 experts from the WB countries performed from January to September 2023. The research objective was to evaluate how experts view the effectiveness of the current EU energy and climate policies in this region and to identify challenges and bottlenecks in the decarbonization of the WB power sectors. The research was coordinated by the RESET - Center for Sustainable Energy Transition from Sarajevo, Bosnia and Herzegovina.

These are the identified reasons for this alarming conclusion:

- a)** A non-transparent, non-democratic, and non-inclusive top-down mechanism established by the international treaty of the EnC does not secure broad public support for the energy transition processes in the WB countries, which is a necessary prerequisite for the sustainability and acceleration of this process.
- b)** Application of the EU Carbon Border Adjustment Mechanism (CBAM) will not contribute much towards accelerating the decarbonization of the WB power sectors, nor will it urge the introduction of a carbon pricing mechanism in this region (despite current statements of intent from the governments).
- c)** The WB governments consider that the public electric utilities will be the main pillars of the energy transition process and will lead the development of renewable energy. However, these companies do not have the necessary financial and expert capacities for such a task since they must first undergo internal restructuring. In contrast, the role of other players (i.e., private investors, local governments, SMEs, and citizens) in a sustainable energy transition is mainly neglected.
- d)** Although one of the main focus areas of EU energy policy is the just transition, making available an extensive set of technical and financial assistance to the coal regions within the EU, in the Western Balkan, there is an insistence on implementing the just transition programs without the fundamental preconditions (i.e., political decision of the governments for the power sector decarbonization, the legal basis for reaching climate neutrality including binding decision for the coal phase-out data, strategies and plans for shutdown of the thermal power plants, secured proper funding) been adopted.
- e)** Without allocating cheaper public funding (including international financial assistance), making it concessional, and tying it to programs for a just and inclusive energy transition (supporting citizens' energy, mitigating energy poverty, and socioeconomic restructuring of coal-dependent regions), the decarbonisation will not be achieved. Therefore, it is unrealistic to expect that the energy transition in the WB will be financed mainly by state budgets and local energy consumers (citizens and businesses). Implementing a sustainable energy transition in the Western Balkan (economically the poorest European region) will not be possible without substantial financial support from the EU and the other developed countries, to which they committed within the Paris Climate Agreement.

To speed up the process of sustainable, just, inclusive, and locally driven energy transition in the WB that is aligned with EU energy and climate policies and activities, the EU institutions should:

- a)** Regularly evaluate the work and results of the EnC, based on the reviews performed by independent evaluators, aiming to encourage a wide debate regarding the progress of the energy transition in the Western Balkan.
- b)** Greater involves a broader set-up of EU institutions, like the EU Parliament, in the oversight of the policies are rules introduced by the European Commission (EC) and EnC when it comes to the decarbonisation of the Western Balkan.
- c)** Initiate changes in the Energy Community Treaty to explicitly include the national parliaments of the contracting parties in the decision-making procedure, thus ensuring a democratic, inclusive, and just policy-making process in the EnC Secretariat. This is necessary to secure national ownership of the process and to ensure that the energy transition is not seen as something administered top-down on the WB countries by the EU.

- d)** Ensure full inclusion of non-governmental organizations and expert community in the processes of creating, implementing, monitoring, and evaluating the energy transition policies in the WB countries and on the regional level, thus ensuring expertise and transparency in the energy transition process in the EnC.
- e)** Program increased and long-term dedicated technical and financial assistance directed towards the decentralized energy transition (development of citizens' energy and small-scale installations by households, local public entities, and small and medium enterprises) to initiate active participation of the local actors: local governments, non-governmental organizations, local businesses, and citizens and their communities in the decarbonization process.
- f)** Provide dedicated support for improving professional capacities in the WB countries to increase the adoption of new technologies and business models by facilitating the actual transfer of R&D and up-skilling and re-skilling of the workers, especially those in the coal regions.
- g)** Prepare a plan for the gradual integration of the WB countries in the EU ETS and cease promoting the establishment of the regional ETS system. In negotiating conditions for integration into the EU ETS, the WB countries should be provided with free allocation of CO₂ certificates. This approach will secure initial funding for decarbonizing the dirty industries in the WB countries, which are ready to commit to the coal phase-out.
- h)** Start fighting energy poverty with increased funding and technical assistance, enabling long-term sustainable solutions instead of applying palliative short-term solutions that do not bring people out of poverty.
- i)** Establish a dedicated EU fund for co-financing technical assistance, projects, and socioeconomic restructuring programs in the coal regions in transition in the WB, focusing on the projects planned and implemented by the local actors, not external consultants, with a dedicated decade-long budget for each coal region.
- j)** Support immediate re-structuring of the power utilities, which includes improving the liquidity of their accounts and designing a plan for retiring the coal assets.

INTRODUCTION

The European Union (EU) intends to become a global leader in the fight against climate change and adopted the European Green Deal and a vision of “*Europe - the first climate-neutral continent by 2050*”. Accomplishing the vision of European climate neutrality is not possible without implementing a green transition everywhere on the continent, including in the Western Balkans (WB) countries, which are on the path towards becoming member states. Historically, these countries have never been among the leaders of social and technological change but rather the followers. Consequently, it is realistic to expect that the energy transition in the WB countries is initiated and supported by EU actions rather than resulting from domestic processes. Considering that the WB is economically the least developed region in Europe, which also substantially depends on coal/lignite for electricity production, it is necessary that the EU facilitates decarbonization of the electric power sectors in this region, providing necessary technical and financial assistance.

Underlining components of the WB energy transition are expressed in the *Declaration on Energy Security and Green Transition in the Western Balkans*¹, in which, among other things, a strong connection between implementing the energy transition and the EU accession process is emphasized. The EU plans to coordinate its activities in supporting the decarbonization of the WB power sectors through the Energy Community (EnC). Consequently, the Council of Ministers of the EnC in 2021 agreed to start transposing the directives and regulations from the EU *Clean Energy for All Europeans package* and adopted *The Decarbonization Roadmap of the EnC*.

One of the key tools for managing and controlling the speed of the decarbonization process of a power system is the carbon pricing mechanism. Thereby, a coordinated regional carbon pricing model (the WB ETS system) is advocated by the EU and the EnC Secretariat so as to have a ‘real’ price for each ton of CO₂ being emitted. However, many unknowns exist about how that regional

¹ https://www.berlinprocess.de/uploads/documents/221103-energy-declaration-final_1678468569.pdf

ETS would function and whether it would encourage necessary investments. This is one main reason for the countries' "indecisiveness" in accepting the regional ETS. Hence, at the informal Ministerial Council meeting of the EnC in June 2023, the WB countries did not unconditionally support the proposal for establishing the WB ETS but instead required additional analyses as well as financial support for implementing the energy transition.²

Such an act indicates that the EnC member states from the WB are reluctant to begin the decarbonization process of their power systems based on the framework currently proposed by the EU and the EnC Secretariat.

The key objectives of the research presented in this analysis are to evaluate whether the political, legal, and financial framework for supporting the energy transition in the WB, designed by the EU, will spur the process of decarbonization of the WB power sectors and to identify barriers and bottlenecks to the decarbonization process in this region. Particularly, it is analyzed if the proposed energy transition model will be sustainable, meaning it will, in addition to *decarbonization*, also contribute to *decentralization, demonopolization, and democratization* (i.e., to *4D energy transition*) of the WB power sectors.

In this document, a synthesis of the key opinions of more than 100 multidisciplinary experts from Albania, Bosnia and Herzegovina (BiH), Montenegro, Kosovo*,³ Serbia, and North Macedonia, who participated in the research, are presented. The survey was conducted from January to September 2023 using the following research methods: analysis of publicly available documents, individual interviews with the selected experts, synthesis of the conclusions from the national workshops that were held in each WB country, and from several regional conferences and the regional coordination meetings of the research team. The conclusions, proposed modifications, and improvements of the EU policy towards the energy transition in the WB are presented based on the conducted research activities.

2 <https://balkangreenenergynews.com/introducing-emissions-trading-requires-eus-financial-support/>

3 In accordance with the UN resolution 1244 without prejudice to the decision regarding the final status of Kosovo.

1. ELECTRIC POWER SECTORS IN THE WESTERN BALKANS – A SHORT REVIEW

1.1. The basic characteristics of the Western Balkans power sectors

Total electricity generation in the WB region in 2022 was 69.5 TWh (Figure 1), with the contribution from coal-fired thermal power plants (TPPs) amounting to 43.8 TWh (63%). The biggest share of coal TPPs in the generation mix is in Kosovo (92%), followed by North Macedonia (72%) and Serbia (70%). Albania does not have coal TPPs in its generation portfolio. In the WB region in 2022, 36 coal TPP units operated with a total installed capacity of 8,255 MW. In the TPPs and the affiliated coal mines, approximately 46,000 workers were directly employed. Additionally, 80,000-100,000 workers were employed indirectly.⁴ In 2022, hydropower plants (HPPs) generated 23.5 TWh (34%). The share of variable renewable energy sources (vRES) - solar photovoltaic plants (PVPs) and wind power plants (WPPs), in the generation mix was small and amounted to a negligible 3.5%. In the last two years, a substantial increase in the installed capacity of PVPs was recorded. However, PVP share in the total generation mix in the region in 2022 was a meager 0.44%. The total installed capacity of WPPs in 2022 was 801 MW, and their share in the generation mix amounted to 3%.⁵ Therefore, in 2022, there was 1,130 MW of installed vRES capacity for the WB population of 17.5 mill. amount to 0.0645 kW/pc. In the EU in 2022, the installed capacity of vRES per capita was 1 kW. Hence, 15.5 times more kW of vRES per capita is installed in the EU than in the WB region.

4 Based on own research and data from the study “Recent trends in coal and peat regions in the Western Balkans and Ukraine,” <https://publications.jrc.ec.europa.eu/repository/handle/JRC126154>

5 For the comparison, in Croatia in 2022, 25 WPPs were operational with a nominal installed capacity of 834 MW and a 12.49% share in the total electricity generation.

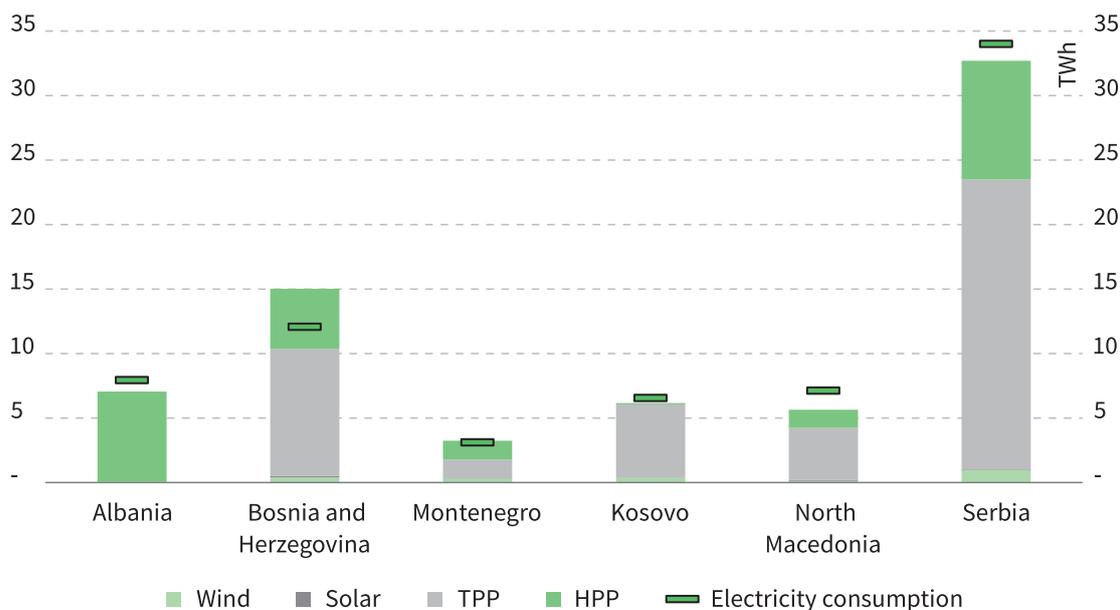


Figure 1. Electricity generation and consumption in the WB countries in 2022

Organized power markets (power exchanges with day-ahead markets) have been established in all WB countries except BiH. However, all these markets are illiquid, and transactions are mostly carried out between the state companies (the dominant producer and the system operator for covering losses); hence, the spot markets in the region will not be liquid without market coupling with the EU market. On the biggest SEEPEX day-ahead market in 2022, only 3 TWh of electricity were traded, representing less than 10% of the total consumption of Serbia. To illustrate price level trends on the WB regional markets, the average monthly prices on the selected EU power exchanges and on the SEEPEX are presented in Figure 2. Figure 2 shows a noticeably strong price correlation between the EU markets and the WB power markets. This indicates that the prices on the EU markets dictate the prices on the WB wholesale markets, substantially impacting the prices for unregulated customers (commercial companies).

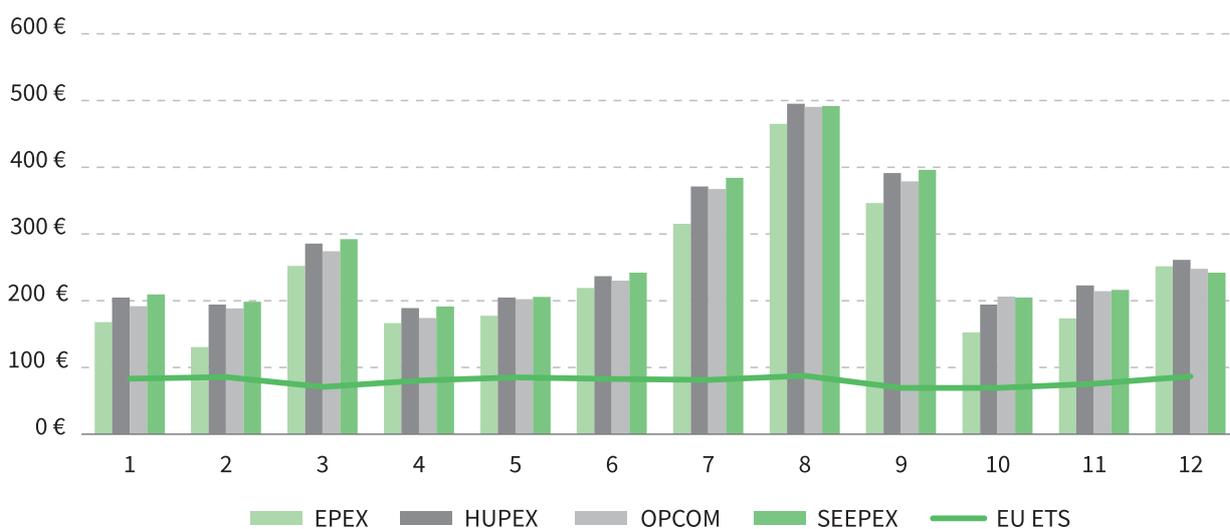


Figure 2. Average monthly prices of electricity on the power exchanges in Europe in 2022 (€/MWh)

1.2. Transformation of electric power sectors in the WB countries – a review

As one of the most important industrial sectors in the WB countries, power sectors have substantial economic, social, and political significance. Predominantly state-owned power utilities are the biggest companies in the national economies, electricity producers, and dominant suppliers. They employ many workers, substantially contribute to public finances, and cooperate with many companies in their supply chains. The key feature of the power sectors in the WB region is the political dominance of the national governments and ruling political parties over the main actors in the industry: power utilities, transmission and distribution system operators, and sector regulators. In practice, the governments, through the appointed representatives in the management positions in the sector, control not only the macroeconomic aspects, like strategic development plans but also daily operations.⁶ The main problem of this management practice is the contradictory objectives that the government usually imposes on the power utilities, such as:

- Achieving “energy sovereignty” and, if possible, exporting energy;
- Preserving “social peace” by maintaining low, subsidized electricity prices, especially for the regulated customers (households and micro enterprises);
- Maintaining a high level of employment in the sector regardless of financial results;
- Realizing major investment projects, especially in power generation.

This political set-up framework for the operation of the power utilities in the WB frequently results in poor management practices and hazardous investment decisions, which endanger these companies’ economic viability in the long term. To support this politically dominated management practice, the governments regularly provide state aid support, especially for coal production in state-owned mines. Besides that, the utilities with a substantial share of HPPs in the generation mix (with low electricity production costs) subsidize costlier production from TPPs, thus achieving a relatively low level of the average production costs. In this way, the utilities prevent the entry of independent suppliers and maintain a monopoly in the electricity supply (in most WB countries, the state-owned utilities capture more than 95% share of the local electricity markets). Hence, although the electricity market is formally open, there is no competition in the wholesale market. *The characteristics of the power sectors in the WB countries described above should be considered while analyzing the power sector liberalization and decarbonization process.*

1.3. Adoption of EU acquis

Until the energy crisis in 2021, the reforms in the WB power sectors, which aim to align with the EU market principles, were initiated by the EU through the EnC. Implementing the reforms was supported by various programs of the International Financial Institutions (IFIs), technical assistance projects of the EU, and other development agencies. The key driver for implementing the market reforms was the requests for transposition of the EU *acquis* stated in the Stabilization and Association Agreements (SAA) with the EU. However, implementation of the adopted obligations through the EnC was very slow.⁷

Implementing the material obligations, like the ones specified according to the EU Large Combustion Plant Directive (LCPD) to reduce the level of local pollutants, especially took time.

⁶ International financial institutions (i.e., IMF and EBRD) frequently indicate that the OECD corporate management standards should be introduced in the power utilities in the WB region.

⁷ <https://www.energy-community.org/implementation/report.html>

According to the report of the Secretariat of the EnC for 2022, none of the members of the EnC achieved the specified targets in their National Emission Reduction Plans (NERP).⁸ However, apart from the cases opened against them by the EnC, there were no substantial consequences of these breaches (i.e., all TPPs that were planned in the NERPs for the “opt-out” regime have continued their operation after exceeding the permitted limit of operation of 20,000 h).

Therefore, the process of decarbonizing the power sectors in the WB countries has been initiated while the previously started process of the electricity market liberalization, based on the EU acquis (according to the second and the third EU energy package), was not finalized yet.⁹ Objectively, the demand for a simultaneous, double energy transition – market liberalization and power sector decarbonization, imposes an enormous challenge to the EnC member states from the Western Balkan. It also brings with it the risk that if market liberalization increases energy prices, it will be blamed on climate policies.

1.4. The Energy Crisis 2021/2022

The energy crisis in Europe in 2021/2022 has outstanding negative consequences for the energy sectors in the WB countries. The power utilities experienced especially dire consequences since all WB countries were forced to import electricity at enormous prices. Whereas the governments, by their decrees, limited the rise of the costs for the final consumers, power utilities as dominant suppliers recorded huge losses despite the substantial financial support provided by the governments.¹⁰ The energy crisis exposed all critical weaknesses of the security of electricity supply in the region, namely on the supply side:

- Substantial dependence on the electricity production from old TPPs that use locally available, poor-quality coal (lignite) and operate with very low efficiency and reliability;
- Problems with technical operation and financial results of the mines that supply coal for TPPs;
- Significant dependence on the electricity generation from HPPs that is very susceptible to hydrological conditions;
- Sluggish development of modern RES (i.e., PVPs and WPPs);
- Lack of qualified personnel for preparation and implementation of large investment projects in power generation facilities.

The cumulative impact of the critical weaknesses of the power systems in the WB region caused in 2021/2022 an unprecedented energy crisis with the unplanned import of a large amount of electricity. As in a *perfect storm scenario*, the reduced production caused the problem due to simultaneous failures in several TPPs across the region, an insufficient amount of coal being supplied to TPPs and/or its poor quality, and the reduced production from HPPs as a result of the poor hydrology. However, the fundamental cause of the problems in the power sectors in all countries in the WB region is the absence of investments in new production capacities and adequate infrastructure, making the region a net importer of electricity (during the crisis, only BiH was the net exporter of electricity).

The important consequence of the crisis is that nowadays, all governments in the WB emphasize the imperative of providing the security of electricity supply from their own energy source (the so-called imperative of “energy independence”).

8 <https://www.energy-community.org/implementation/report.html>

9 <https://www.energy-community.org/news/Energy-Community-News/2023/07/05.html>

10 For example, the Electric Power Company of Serbia (EPS) in the last quarter of 2022 and the first quarter of 2023 due to the exceptional circumstances during the crisis recorded losses amounting to €713 million.

Currently, the biggest security of supply problem in the region is its dependence on outdated and unreliable technology in TPPs, whose average age is over 40 years. From 2028, operators of these facilities will be obliged to respect strict requirements of the EU Industrial Emissions Directive (IED). Significant financial investments are necessary for the ecological modernization of the old TPPs to satisfy the standards of the IED. Considering the old age of technology in TPPs, the economic justification of these investments is questionable. That is why substituting TPPs with new capacities from RES is an optimal approach to the power system development in the WB, which simultaneously satisfies both security of supply and environmental sustainability criteria. In this RES-based approach, significant investments in upgrading and modernization of the transmission and distribution networks and investments in the socioeconomic restructuring of the coal-dependent regions are needed.

Since the decarbonization of the WB power sectors requires substantial financial resources, the crucial question of the energy transition in the region is: How will the process of sustainable energy transition be financed?

1.5. Restructuring of the coal-based power systems, socioeconomic and structural challenges

The power sector decarbonization process will have a significant economic and social impact on the coal-dependent regions due to the closure of coal mines, primarily because of the loss of direct and indirect jobs and the consequential decrease of income in local communities. This problem is more pronounced in the WB countries, considering that the coal-dependent regions have already experienced the outflow of young people, qualified specialists, and population to large urban centers and abroad.

The socioeconomic restructuring of the coal regions is not yet a subject of public debate in the WB countries primarily due to two fundamental reasons. The first is that among the policymakers, there is no sincere commitment to closing the coal mines. The other reason is that local communities, dependent on the use of coal, are not included in the planning and implementation of the decarbonization policy. Hence, they lack information and knowledge of the problems that the transition will impose on them.

The subject of coal regions in transitions in the WB is mostly treated by international organizations (i.e., UNDP) and the IFIs (e.g., the World Bank, the EBRD). The EBRD, with its 2022 document “*Just transition diagnostic and just transition Action plan*” for North Macedonia, and the World Bank, with its 2023 document “*Road Map for the coal regions in transition in Bosnia and Herzegovina,*” provided necessary technical assistance for the coal phase-out basic planning. However, they base their restructuring concepts on their mission of providing commercial loans. The EBRD in 2023 also commenced the preparation of its document “*Just transition diagnostics*” in Serbia for the coal regions that supply coal to the Electric Power Company of Serbia (EPS).¹¹ In addition, in Montenegro, with the support of the UNDP, a *Working group for the just transition* was established, and the work on the first documents started. Within the EU project *Initiative for coal regions in transition in the WB and Ukraine* for the third year, exchange visits to the coal regions in the EU, national workshops, and yearly conferences have

11 It is interesting to note in the example of Serbia that its restructuring documents are related to the transition of the coal regions that are mainly associated with the interest of the International Financial Institution (IFI) for placement of loans since the diagnosis is performed for the coal mines in the EPS utility, which this IFI also finances. The study does not cover the other coal regions in Serbia, like the nine underground coal mines in JPEU Resavica, which operate with long-standing unprofitable businesses and will be the first to face the reduction in demand for their production.

been organized to spur interest and dialog in the WB countries for more serious dealings with the coal phase-out problems.

Although coal regions themselves are highly dependent on the jobs of the coal sector, there are also some local initiatives for the transition due to the health and environmental costs associated with the air and water pollution caused by coal mining and power generation. Unfortunately, though several local communities and coal regions in the WB initially showed significant interest in the just transition projects due to the lack of dedicated financial funds from which their proposals for restructuring the local economy and coal-dependent utilities could be financed, these local initiatives were not implemented. On the contrary, the pace and dynamics of just transition activities in the region were directed by the interests of individual donors instead of the interests and needs of the coal regions.

As for the capacities of the key domestic actors (governments and power utilities) to carry out necessary reforms, especially in the process of power sector decarbonization, according to a study from 2022, the governments and power companies in the region did not have either organizational or human skills to implement this complex process¹². In this study, the orientation of the governments that lignite, as a locally available energy source, should be used to guarantee the security of supply was also identified. Therefore, among the decision-makers in the region, a prevailing stance is to postpone the start of the decarbonization process, which indicates that the energy transition was not seen as a development opportunity, even when those plans which have elaborated the commitment to a gradual reduction of the use of coal dominated the discourse in the energy sectors.

During the research performed for this policy analysis, the problem of defining the role of the power utilities in the energy transition was identified. Generally, the governments expect the electric power companies, as the most significant economic actors in the sector, to lead the decarbonization and to stay dominant market players in the production and supply of electricity. The experts' opinions in this analysis stress that the power companies cannot be leaders of the energy transition, mainly because they do not have the necessary financial and expert capacity for realizing the process of substituting the production from fossil fuel-based TPPs with the production from RES-based plants. However, the power companies should be an important factor in the transition, especially in providing power system flexibility and the security of supply. Although some public utilities will invest in new RES capacities, they will not maintain the current monopoly in electricity production. It is expected that new production capacities will mainly be financed by local businesses, citizens, and local communities, which will be investing in production for their self-consumption, and by domestic and foreign private investors, which will invest in commercial projects. However, a unique challenge for the governments is to find regulatory models for how to direct the commercial RES projects to contribute to the decarbonization of local consumption, hence reducing the use of coal within a context where single state-owned entities still dominate an overwhelming share of the market.

12 <https://nerda.ba/view-more/download-barometer-of-the-countries-and-questionnaire-energy-transition-barometer/127>

2. EU APPROACH TO DECARBONIZATION OF THE WESTERN BALKANS POWER SECTOR - AN EVALUATION BY THE REGIONAL EXPERTS

2.1. EU approach to the energy transition in the Western Balkans countries

The energy transition presents the biggest socioeconomic transformation through which society will pass in the 21st century. Leaders of the transitions (the third industrial revolution) will be technologically the most developed countries of the world: China, the USA, and the EU. The goal of the EU is to achieve a net-zero continent in 2050, including the non-EU members. That is also relevant for economically the poorest European region – the Western Balkans. Due to its geopolitical significance, the region is the zone of interest of many global, primarily European, powers. After the war started in Ukraine, the region's importance for the EU grew, mainly due to its significance for the security of Europe's energy supply. In the past 20 years, the EU has been implementing the process of political and economic stabilization of the region (based on the Stabilization and Association Agreement – SAA), intending to foster the development of democratic societies and sustainable liberal economies. After signing the Paris Climate Agreement, the green transition of the WB has become an important component of the sustainable development of Europe. The EU specifically supports this aspect within the framework of the EU SAA.

Interconnection between the EU SAA and the EU energy and climate policies will be crucial for the relevance of the EU in the green transition in the WB.

European Green Deal (the Green Deal) is a new EU growth strategy comprising actions for realizing a vision of “Europe – the first climate-neutral continent by 2050”. The Green Deal aims to transform the EU into a fair and prosperous society with a competitive economy. It is also a crucial part of the EU's plan to achieve the 2030 Agenda for Sustainable Development. To encourage other countries to adopt similar policies, the EU plans intensive diplomatic activities, primarily within the scope of the Paris Climate Agreement. The EU and its member states are determined to remain the leading world donor of development assistance and to provide more than 40% of the world's public financing for the fight against climate change.

The energy crisis in Europe in 2021/2022 displayed all the weaknesses of EU concepts of the security of supply and the decarbonization of power sectors, which substantially depended on the supply of (cheap) gas from Russia as a transitional fuel. In the aftermath of the crisis, some EU member states started activities to find alternative routes for the gas supply (mainly by beginning construction of LNG terminals) and/or, in the short term, restarted generation from their standby coal TPPs. For the moment, it seemed that Europe “was returning to fossil fuels.” On the contrary, the EU and its member states initiated a review of their energy strategies. The previous Fit-for-55 plan was revised, and in the new REPowerEU plan, a concept based on the accelerated decarbonization of the energy sector was adopted. The key components of the REPowerEU plan are dramatically improving energy efficiency, accelerating substitution of gas consumption through electrification of the heating sector, and rapid deployment of RES (especially WPPs and PVPs). *Therefore, the innovative EU concept of the security of supply is based on the accelerated energy transition, especially on an intensified deployment of variable RES.*

The EU member states have available numerous EU funds for supporting the accelerated energy transition: EU Structural and Investment Fund, Modernization Funds, Recovery and Resilience Facility, and Just Transition Fund, as well as several programs for social cohesion. The availability of such a financial ecosystem is considered the key catalyzer of accelerated decarbonization in Central and Eastern Europe.¹³ However, despite having available EU funds for the energy transition, some countries (i.e., Bulgaria) have shown intentions contrary to the REPowerEU spirit, indicating possible postponement of the coal phase-out date.

The EU plans to provide support to the countries in the immediate neighborhood for the implementation of green transition policies. So, the EU proposed the *Green Agenda for the WB* as a regional development strategy founded on the Green Deal concept. The EU established the Economic and Investment Plan for the WB to support this strategy financially. By signing the Sofia declaration in 2020, the WB countries have expressed a formal political commitment to accepting the green agenda to contribute to achieving climate neutrality in Europe by 2050. The *Regional Cooperation Council (RCC)*, which was consigned to coordinate the implementation of the Green Agenda, prepared *The Action Plan for the Implementation of the Green Agenda for the period 2021-2030*.¹⁴ The main components of the Action plan are the low-carbon development strategy until 2050, the integrated National Energy and Climate Plans (NECPs) until 2030, and the establishment of carbon pricing mechanisms in the WB countries.

The concept of the energy transition in the WB that the EU promotes is summarized in the *Declaration on Energy Security and Green Transition in the WB countries*, which was adopted in 2022 within the framework of the Berlin process.¹⁵ The components of this concept, which represents the accelerated decarbonization of power sectors in the WB that is aligned with the REPowerEU plan, are:

- Accelerated and systematic abandonment of the use of coal for electricity generation;
- Consistent implementation of the Large Combustion Plant Directive;
- Regional coordination of the activities aiming to establish a carbon pricing mechanism to prepare the WB counties for joining the EU ETS;
- Preparation of just transition plans for coal-dependent regions;

13 https://bankwatch.org/wp-content/uploads/2023/06/2023_06_30_National-energy-and-climate-plans_catalysts-for-the-energy-transition-or-box-ticking-exercises.pdf

14 <https://www.rcc.int/docs/596/action-plan-for-the-implementation-of-the-sofia-declaration-on-the-green-agenda-for-the-western-balkans-2021-2030>

15 https://www.berlinprocess.de/uploads/documents/221103-energy-declaration-final_1678468569.pdf

- The use of gas as a “cheaper, cleaner and more flexible fuel than coal” as a transitional fuel;¹⁶
- Construction of significant capacity of renewable energy (mainly solar and wind);
- Connection of trading and balancing markets in the region and their coupling with the EU electricity market.

The basic mechanism the EU implements to manage the decarbonization of its energy system is a carbon pricing scheme based on the “cap and trade” model – the *EU Emission Trading System (EU ETS)*. Funds collected through the auctions of the allowances in the EU ETS are used to finance decarbonization projects. It is generally understood among the policymakers in the EU that the EU Regulation *Carbon Border Adjustment Mechanism (CBAM)*, adopted in May 2023, would induce the WB countries to introduce a carbon pricing mechanism that is compatible with the EU ETS, thus accelerating decarbonization of their power systems.

2.2. Energy Community and decarbonization of electric power sectors in the Western Balkans

The EU intends to support the implementation of decarbonization policies in the WB power system primarily through the Energy Community (EnC). Relations amongst the electric power sectors in the WB region are also regulated through the European network of transmission system operators - ENTSO-E, whose members are the transmission system operators from all WB countries except Kosovo. To start the energy transition process in the WB countries, the EU in 2021 initiated the adoption of the *Decarbonization Roadmap of the EnC*. Afterward, in 2022, the EnC contracting parties agreed to transpose the EU acquis from the *Clean Energy for all Europeans package*. *The EnC Decarbonization Roadmap contains the timetable for implementing EU energy and climate regulations, EU Electricity market regulations, and developing conditions for introducing carbon pricing.*

Through the EnC, the EU favors the concept of a coordinated regional approach to implementing the reforms in the power sector. Based on that concept, the Secretariat of the EnC initially envisaged the establishment of a regional power exchange as a transitional stage in coupling with the EU electricity market. Also, it encouraged initiatives that aimed to facilitate the coordination of providing power system balancing services in the region to increase the capacity for the integration of variable RES. Both of these initiatives were not implemented. Instead, in the Decarbonization Roadmap, a direct coupling with the EU trading and balancing platforms was proposed.

Finally, a regional approach to reforming the WB power sectors was replaced with a concept of direct integration with the EU electricity market.

The EnC Secretariat regularly reports on the EnC member states’ progress in transposing the EnC *acquis*. In the last report for 2022, a special focus is put on the preparedness of the WB countries for introducing the CBAM mechanism and, consequently, on the proposal for establishing the regional ETS system. Namely, the EU and the EnC Secretariat believe that the CBAM mechanism will catalyze the introduction of a regional, EU-compatible ETS system. It is also expected that introducing the ETS system would provide a means for financing the energy transition. According to the EnC Report, the production from thermal power plants in the countries of the WB in 2022, if the CO₂ taxation had been applied with the average price of €82.11/tCO₂, would have paid the carbon price in the amount

16 <https://euneighbourseast.eu/news/publications/final-report-on-carbon-pricing-design-for-the-energy-community/>

of € 3.6 billion or 2.3% of the region's GDP. These are huge resources that could be used to finance the energy transition but would substantially increase the electricity price, also.¹⁷

However, these funds would have to be mainly provided by the local consumers and TPP operators (the state-owned utilities), which would be a huge social and economic challenge for economically poor WB countries. This is especially relevant for Serbia, BiH, North Macedonia, and Kosovo, which substantially depend on coal for electricity generation. Mostly because of that, at the informal meeting of the Council of Ministers of the EnC, in June 2023 in Tirana, the WB member states did not unconditionally support the proposal of the EU and the EnC Secretariat for the introduction of an EU-compatible ETS regional system. Instead, they required additional analyses to be performed as well as financial support from the EU for power sector decarbonization.¹⁸

Such an act indicates the reluctance of the WB governments to commence the accelerated decarbonization of their power sectors based on the concept currently advocated by the EU and the EnC Secretariat, as this is contrary to one of their most important political aims – to keep electricity prices low for end consumers.

Key instruments for managing the energy transition in the EU are the National Energy and Climate Plans (NECPs). The WB countries started preparation of their NECPs, whose adoption is set for June 2024. Currently, in most WB countries, the initial drafts of the NECPs are being publicly discussed. At the moment, it is difficult to assess if the NECPs are aligned with the adopted EnC decarbonization targets for 2030 and with the commitment to achieve climate neutrality by 2050.

2.3. Evaluation of the energy transition concept promoted by the EU through the Energy Community (EnC)

Key international organizations for implementing EU energy policies in the WB region are the EnC and the Regional Cooperation Council (RCC). The EU mainly plans to support the transition in the power sectors in the region, based on the concept of accelerated decarbonization, through the EnC and the IFIs. This concept implies a substantial decrease in the use of coal for electricity generation by 2030, followed by the coal phase-out at the latest by 2045. The coal scale-down would be compensated by the increased building of generation capacities based on RES (primarily WPPs and PVPs). To facilitate efficient integration of variable RES the EU proposed integrating regional electricity markets into the EU trading and balancing platforms. Additionally, to ensure the security of supply and to increase the WB power system flexibility, the EU proposes the construction of new gas-based TPPs and upgrading the gas transport infrastructure in the region. The EU plans to support the implementation of this concept through the Economic and Investment Plan and the IFIs (i.e., EBRD, KfW, EIB). The Western Balkans Investment Framework (WBIF) is in charge of coordinating the preparation of decarbonization projects. However, in practice, financing of most decarbonization projects is expected to be provided by private investors and through a carbon pricing mechanism, hence by the final consumers.

17 According to the Agora study the complete decarbonization of the WB power sectors by 2040 would cost around €43 billion: <https://www.agora-energiawende.de/en/publications/powering-the-future-of-the-western-balkans-with-renewables/>

18 <https://balkangreenenergynews.com/introducing-emissions-trading-requires-eus-financial-support/>

During the research performed in the preparation of this policy analysis, the experts from the WB region evaluated the current EU approach to the decarbonization of the WB power sectors and identified the following major shortcomings:

- The EU has been coordinating the implementation of the energy transition in the WB region primarily with the national governments and ministries, without participation from the national parliaments. This technocratic approach results in the absence of wide public participation, making it difficult to build national ownership and indispensable social consensus regarding important socioeconomic transformations such as the energy transition.
- The EU allocated initial funds to support the green transition in the WB region through the Instrument for Pre-Accession, IPA and the connected Economic and Investment Plan. These funds are insufficient, and there is no precise allocation of the available financing for the energy transition. Without long-term plans for financing the transition and the determined support mechanisms from the EU, it is not realistic to expect the WB governments to honestly start such a complex and costly process as the energy transition.
- The EU intends to coordinate the decarbonization of the WB power sectors through the EnC. However, important structural shortcomings in the EnC Treaty have been identified in the past, primarily the absence of an efficient mechanism for liability for the breach of the Treaty. An instructive example is the lack of significant consequences for the breach of the obligations adopted in the EnC regarding implementing the LCPD Directive.
- Although the EnC stresses in its regular progress implementation reports an unsatisfactory level of the implementation of the adopted obligations, which is visible from the number of open cases against the EnC member states for the breach of the Treaty, the Secretariat did not consistently inform the EU authorities, especially the European Parliament, about the problems in the implementation of the Treaty.¹⁹ This prevented the EU institutions from using the conditionality of the EU SAA as an effective tool to encourage the implementation of the Treaty, thus upholding the energy transition process.
- The EU initiated through the EnC the introduction of a carbon pricing mechanism as a fundamental mechanism for managing the WB power sectors' decarbonization. However, the proposed regional, EU-compatible model was not elaborated upon in the necessary detail, and the impact assessment analyses were not performed. Since this is a very important fiscal process with substantial socioeconomic consequences, in the opinion of the experts from the region, its implementation through the EnC will require substantial changes in the Treaty.

While identifying the shortcomings of the international support mechanism, the experts underline that the main causes for delaying the decarbonization of the power sectors in the Western Balkan are the result of the obstructions from the key national actors, mainly the national governments and state-owned utilities. Moreover, the systemic shortcomings on the side of the international actors, identified by the regional experts, are frequently misused by the opponents of the energy transition in the region as an excuse for postponing the beginning of decarbonization of the WB power sectors.

¹⁹ The last briefing regarding the Energy Community Treaty was submitted to the European Parliament in 2015: [https://www.europarl.europa.eu/RegData/etudes/BRIE/2015/569011/EPRS_BRI\(2015\)569011_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2015/569011/EPRS_BRI(2015)569011_EN.pdf)

3. ANALYSIS OF THE DECARBONIZATION PROCESS IN THE WESTERN BALKANS POWER SECTORS

According to recently published studies, there is sufficient technical potential of RES and economic feasibility for the complete decarbonization of the power sectors in the WB by 2040.²⁰ That means necessary prerequisites for reaching climatic neutrality until 2050 are present. According to the estimates from these studies, implementing the energy transition will also contribute to sustainable economic development in the region. However, the energy transition is complex, requiring substantial institutional capacities and significant investments. Hence, the WB governments are still hesitant to start transforming their energy sectors seriously. *Therefore, it is vital that the EU provide necessary technical and financial support to the countries in the WB.*

The international community initiated the energy transition in the WB and has been implemented under the guidance of the EU. How each country in the WB region will react to the available support from the EU depends on numerous political, economic, and social factors. The initial state of each national power system, especially its generation mix and available potential of RES, will significantly determine the opportunities and challenges of its power sector's decarbonization. In the WB countries, which substantially depend on the electricity production from coal (actually all countries except Albania), the currently prevailing concept of decarbonization is to “increase the share of RES in the generation mix while gradually reducing production from coal.” However, in this concept, the term *gradually reducing the use of coal* is not specified. Namely, neither one of the WB countries has legally adopted the “coal exit” date (apart from North Macedonia, which has, however, extended the initially determined date for the coal phase-out from 2028 to 2030 while at the same time evaluating the plans for opening two new coal mines).

In general, at the moment, the energy transition is not a priority on the current political agenda in each WB country.

²⁰ <https://op.europa.eu/en/publication-detail/-/publication/434fb711-a5a4-11ec-83e1-01aa75ed71a1/language-en>

3.1. The decarbonization concept promoted by the governments and power utilities in the Western Balkans countries

One option to evaluate trends in power sector decarbonization is to monitor investments implemented and/or planned in power generation. Currently, in the WB countries that rely on coal for electricity generation, the most significant investments of the electricity utilities, as the main actors in the sector, are planned for reconstruction and modernization of the coal-fired thermal power plants and coal mines. The impact of carbon pricing is usually neglected in evaluating the related investment plans. This strategic orientation is justified by the requirements of the security of supply. *Thus, the governments continue to rely on coal-based electricity generation by justifying the investments in the thermal power sectors by the security of supply imperative.* The bitter experience of the recent energy crisis has additionally reinforced this trend. Some experts interviewed in the research even advocate that coal should be considered a transitional fuel in the region.

Some proponents of the use of coal for power generation emphasize its importance as the base load power and frequently confirm their position with the following perceptions/myths:

- The EU imposes the closure of TPPs to create a situation in which the WB countries will depend on the import (of expensive) electric energy from the EU (from RES);
- Construction of RES (mainly WPPs and PVPs) requires enormous capital, which could only be provided by foreign investors and banks. Hence, the EU promotes the concept that local consumers will depend on the electricity supply not owned by the public national utilities.

The listed myths are also referred to when justifying politically motivated decisions of the public utilities for directing the majority of their investments to ecological modernization of the existing TPPs (to comply with the IED Directive) and even in the construction of new TPP capacities (like TPP Kostolac B3 in Serbia and TPP Tuzla 7 in BiH). At the same time, the public utilities declaratively support the construction of RES-based facilities. Indeed, some public utilities are developing RES projects, mainly financed by international loans (i.e., by KfW and EBRD), usually backed by state guarantees. The focus of such investments is on new HPPs, like the recently commenced construction of the HPP Bistrica and the HPP Dabar in Bosnia and Herzegovina.

Therefore, the governments equalize the power sector transition with the transition of the public utilities. Hence, they advocate “*gradual and delayed decarbonization*” of their power sectors. In the best case, they predict that the increase in the installed RES capacities will match the increase in the local consumption until 2030, or even until 2040, which will require using the coal-fired TPPs “*as long as possible.*” This stand is the main reason why the governments still have not defined the coal exit date, nor do they engage in the just transition of the coal regions.

While discussing the scale-up of modern RES (WPPs and PVPs), many opinion makers in the WB power industry emphasize the problem of variability and intermittence of these energy sources, thereby advocating the concept that balancing of variable RES should be primarily provided by local sources of flexibility. Such an autarkic approach to the integration aspects of variable RES usually results in a low level of the maximum allowed capacity of WPPs and PVPs.²¹ The concept of increasing the absorption capacity of a power system regarding the integration of variable RES, which is based on intra-day market coupling and cross-border provision of balancing services that the EU promotes through the EnC, is only declaratively accepted by key regional stakeholders.

21 Only in BiH, by the decision of the State Electricity Regulator (SERC) in 2022, the restriction for the maximal allowed capacity of WPPs and PVPs, regarding balancing and frequency regulation, was abolished: <https://www.derk.ba/DocumentsPDFs/BIH-SERC-Annual-Report-2022.pdf>

In some countries in the region (e.g., in North Macedonia and, to some extent, Serbia), using gas as a transitional fuel is seriously considered. The EU and some IFIs (i.e., EBRD in Bosnia and Herzegovina) support switching from coal to gas for electricity generation.

3.2. Private investments in renewable energy projects

The preparation of large, utility-scale WPPs and PVPs is mainly realized by private project developers, who usually work for international investors. The most significant challenges for the developers in the region are obtaining approval for the grid connection studies, the duration of the contract to transfer the balancing responsibility, and securing a reliable power purchasing agreement (PPA) for a sufficiently long-term frame (minimum of ten years) that the banks require. Due to problems with PPA sourcing, more and more projects will seek to secure the offtake at the auctions. Also, a drastic increase in the prices of electricity in the region during the crisis and estimated high level of future prices on the EU power exchanges due to high CO₂ costs enables the construction of RES projects in the region even without PPAs for the entire production, providing that a part of the produced electricity is financially guaranteed by the state (i.e., by Contract for Difference – CfD scheme or through a combined auctions model like in Albania). Since there is a chronic deficit of electric energy in South East Europe (SEE), especially in the countries neighboring the WB region, like Italy and Croatia, more investors base the realization of their RES projects on the export of electricity.

The extremely high electricity prices in Europe during the energy crisis, especially in the first part of 2022, dramatically increased the interest of private investors in the WB for the construction of RES power plants, especially PVPs. This process, colloquially named “*solaromania*,” caused a sharp increase in requests for connection of RES facilities to the transmission and distribution grids, requiring much higher network capacity than the currently available. Even though it is not very likely that the majority of the proposed projects will be realized, mainly due to problems in securing reliable PPAs, there is a general public perception that this trend will be supported by the export of electricity to the EU. The “rationale” for this opinion is based on the premise that such RES projects will be exclusively commercial-oriented; hence, the investors will strive to realize the highest possible profit, which is only possible by exporting electricity to the EU. The backlash of this scenario is a public perception that locally available RES will not be used to decarbonize local consumption. Additionally, the enormous capacities of export-oriented RES plants would result in network congestion, thus preventing the later realization of the RES projects, which will be designated for decarbonizing local consumption. In some countries (i.e., Bosnia and Herzegovina), there is pressure from the investors in RES facilities to upgrade the transmission and distribution grids to enable the export of electricity from new PVPs and WPPs. Since the investments in the expansion of the grids would be financed by the local consumers through the network fees, this activity creates additional resistance against the construction of new large-scale renewable energy commercial projects. This perception of RES-based export risk is supported by some experts, too.

In this context, it is also important to note the perception of the concept of power sector decarbonization promoted through the EnC. Decisions of the Energy community ministerial council are mainly perceived to support and facilitate the realization of large RES projects. The EU probably expects that such projects will accelerate the energy transition in the region. However, this approach neglects the importance of decarbonization on the local level, which will encourage the participation of the local actors: citizens and their energy communities, local governments, and especially local businesses. These local actors in the WB region have substantial financial assets and investment potential that could be used for their participation in decarbonizing local consumption. However,

legislation to promote prosumers in the WB region is very recent or does not yet exist, and the first prosumers in the region came online only in 2022. and legislation for the renewable energy communities and citizens' energy communities are still not operational in any country in Western Balkan.

Based on the above-described perception of the trends in the decarbonization of the power sectors in the region, the following opinion amongst the general public, but also in some expert groups that participated in the research, of the decarbonization process that the EU supports through the EnC was identified:

- The best RES projects will be realized by private investors whose primary motive is (extra) profit²²;
- This will result in the export of electricity from local WPPs and PVPs, most likely to the EU;
- In this way, the export-oriented RES projects will capture “the places with the best potential of renewable sources,” as well as the available transmission grid capacity;
- Such a decarbonization concept will not result in the decarbonization of local consumption, hence, the energy transition in the region will not be sustainable.

The above-described perception of the concept of the power sector decarbonization in the WB region, which is “promoted” by the EU through the EnC, is based on several myths that were identified in the research during the preparation of this policy analysis, could cause a substantial resistance amongst the general public towards the energy transition, similar to the recent opposition against construction of small hydropower plants in the region.

22 Encouraged by the extremely high electricity prices during the energy crisis many private investors expected extremely high rate of return on their investments, mainly in large-scale PVPs, in the range 2-3 years.

CONCLUSIONS AND RECOMMENDATIONS

The consensual view of energy experts in the Western Balkans (WB) region that participated in the research is that the existing EU policies, support measures, and established mechanisms for implementation of the energy transition in the Western Balkans, especially for the realization of the decarbonization targets until 2030 and 2050, which were adopted within the Energy Community (decrease of CO2 emissions and increase of the share of RES in the final energy consumption), will not attain the expected results and will not secure implementation of the sustainable energy transition in this European region.

The major reasons for this are the following:

- a)** The establishment of the Energy Community Treaty was the brightest moment in the regional energy sector's recent history. Its structure fit the purpose in the early stages of the Treaty implementation. However, the complexity of the matter required a much more consistent and dedicated approach of the Contracting Parties based on transparent, democratic, and inclusive processes. *Consequently, Contracting Parties' societies never absorbed the basic principles of the EU energy acquis.*
- b)** *A non-transparent, non-democratic, and non-inclusive mechanism established by the international treaty founding the Energy Community does not secure wide public support for the energy transition processes in the WB countries, which is a necessary prerequisite for the sustainability and acceleration of this process.*

Provisions of the EnC Treaty, which determine the obligation for transposing the EU *acquis communautaire* in the legal systems of the EnC member states regarding energy, environment, competition, and renewable energy as the exclusive authority of the EnC institutions, are in opposition to the Article 7 of the Treaty which determines that “*each discrimination within this Agreement is prohibited,*” as well as against the principles of transparency, democratic governance and equality of the parties in the Treaty.²³ The EU *acquis* is adopted based on the procedure that mandatorily includes the participation of the EU member states national parliaments. The EnC member states

²³ Article 7 - Any discrimination within the scope of this Treaty shall be prohibited, Energy Community Treaty, <https://www.energy-community.org/legal/treaty.html>

are obliged to transpose the EU *acquis*. In this process, the EU is the only contracting party that, before the adoption of its *acquis*, elaborates its provisions in the national parliaments. According to the Treaty, the other contracting parties are denied such an option since the Council of Ministers of the EnC adopts the decisions related to the transposition of the EU *acquis*. Concentration of decision-making powers within the Ministerial Council established by the Treaty was never meant to derogate constitutional powers of national parliaments and governments. However, in practice many decisions of this body were made even before the consultation process within a Contracting Party was initiated. Finally, adoption of common conclusions and decisions of the Ministerial Council depended more on short term political interests of the executive governments than on long term vision and full adherence to the common energy policy goals of EnC. In this way, the aspects of discrimination and non-democratic decision-making practice are being multiplied towards the citizens of the EnC member states since the national parliaments, where the citizens' voice is presented, are excluded from the decision-making procedure in the EnC. The consequence of this discriminatory practice is non-transparent and non-democratic governance principles, which is contrary to the practice that all decisions of states are adopted by direct or indirect participation of its citizens.

This aspect becomes especially important when it is expected that the citizens and businesses of the EnC member states bear a major part of the burden of the accelerated energy transition, considering the costs of the transition and the structural social and economic changes that will originate during the transition process. Since, in general, it is vital to build a wide public consensus for the energy transition, the participation of the citizens in the decision-making process is indispensable.

c) *The application of the EU CBAM system will not seriously accelerate the decarbonization of the WB power sectors, nor will it urge the introduction of a carbon pricing mechanism in this region.*

The main reason is that the WB countries are mainly the net importers (not exporters) of electricity. Since all WB countries can directly export energy to the EU from RES (mainly hydro), thus avoiding the application of the CBAM rules, they will continue to supply the local consumption from their fossil-based generation. Consequently, this likely pattern of the electricity trade with the EU in some countries (i.e. Bosnia and Herzegovina) might increase the dependence of the local consumption on coal-based electricity production, thus slowing down the energy transition in the region.

According to the proposal from the EU and the Secretariat of the EnC the WB countries are expected to introduce carbon pricing mechanisms in a short time (a fully compatible EU ETS system until 2030) without the possibility for free allocation of the emission certificates in a longer period (which was the practice in the EU) and without financial support to mitigate social consequences of the transition. In the current situation, when almost all public utilities in the WB operate with a very low-profit margin or financial losses, the burden of payment for the CO₂ emissions would be transferred to the final consumers through the increased electricity prices. It is not realistic that the policymakers in the region will decide to transfer the whole burden of the decarbonization of their power sectors to their citizens and businesses, especially considering the complex post-energy crisis economic and social conditions.

d) *The WB governments consider that the public electric utilities will be the main pillars of the energy transition process and will lead the development of the RES sector. However, these companies do not have the necessary financial and expert capacities for such a task since they first have to undergo internal restructuring. In general, energy policies of the governments in the WB countries are primarily focussed on the position of the state-owned power companies in the future decarbonized electricity market, while other aspects and opportunities for sustainable energy transition are mainly neglected.*

This government position is the leading cause of a sluggish implementation of the power sector liberalization and decarbonization. It is mainly characterized by the resistance to change from the

public utilities, which lack the vision and competencies of their decision-makers to lead the energy transition. Additionally, the development of the RES projects undertaken by many private investors is rather random, and the participation of local actors - citizens, local communities, and businesses, is poor and generally underestimated by the governments. The auctions for RES capacities in the region have only recently started, and corporate and commercial PPA is in its infancy. The investments in upgrading and modernizing the transmission and distribution grids required to integrate larger shares of variable RES are also inadequate. The consequence of this chaotic energy transition process, mainly caused by the government inertia and resistance to implement reforms, is that decarbonization is primarily market-driven, with outstanding pressure from the private developers to capture the available capacity of the transmission and distribution grids, which threatens to undermine the development of citizens' energy and discourage activities of the serious investors in RES projects.²⁴

- e) *Although the EU energy policies focus on the just transition aspects and the EU has made available an extensive set of technical and financial assistance to the coal regions, the EU insists on the implementation of the just transition programs in the WB even though the fundamental preconditions for this process have not been created.* The coal regions in the WB are not equally and adequately represented in planning the just transition programs. Currently, they are mainly treated as the objects, not the subjects of the just transition. No clear communication strategy exists with and within the local actors in the coal regions, and the local communities have no available technical and expert assistance to kick-start the restructuring of their economies. They also lack financial support from the dedicated funds for implementing just transition projects. Because of all this, it is unsurprising that the local communities in the coal-dependent regions are currently the major opponents of the energy transition.
- f) *Decarbonizing power sectors is impossible to implement sustainably unless favourable public funding (including international financial assistance) is available through the funds allocated explicitly for a just and inclusive energy transition, mainly supporting citizens' energy, mitigation of energy poverty, and socioeconomic restructuring of coal-dependent regions. Since the above preconditions are not fulfilled in the WB, it is unrealistic to expect that the energy transition in the WB will be financed mainly by loans from the IFIs and local citizens and businesses. It will not be possible to implement a sustainable energy transition in the WB - economically the poorest European region, without substantial financial support from the EU and the other developed countries, to which they committed within the Paris Climate Agreement.*

The EU has allocated € 9 billion in the Economic and Investment Plan to support the long-term recovery of the WB economies, the green and digital transformation, faster regional integration, and economic convergence with the EU. The allocation of the funds for the green transition is not specified, and the criteria for selecting the proposed projects are questionable and not transparent.²⁵ Due to this ambiguity, a substantial portion of the grant funds was allocated to finance fossil fuel infrastructure.²⁶ In addition, the funds for supporting the development of RES capacities were mainly transferred to the public utilities.²⁷

24 As an illustration of this trend, the requested capacity of RES installations for the connection to the transmission and distribution grids could be quoted: a. In Serbia, it is requested to connect 20 GW of new capacities compared to 8,5 GW of the currently installed plants, b. in BiH, the requested capacity of RES for the connection to the grid is 11 GW compared to the existing capacity of power plants of 4,7 GW. In the other WB countries, the situation is similar.

25 More details are available at: https://www.greensefa.eu/files/assets/docs/tackling_the_immediate_challenges_of_energy_poverty_in_the_western_balkans_the_possible_role_for_the_eu.pdf

26 The following projects have been approved so far: reconstruction and desulphurization of the TPP in Kosovo (€95 million), upgrade of the district heating systems in Pristina based on coal-fired cogeneration (€33,6 million), and construction of the gas interconnection Niš - Dimitrovgrad in Serbia (€49,6 million).

27 For the nine RES projects, developed by the public utilities in Serbia, Kosovo, and North Macedonia, €115 million of the EU grant funds was approved.

To overcome the identified shortcomings of the EU approach to the decarbonization of WB power sectors, especially to debunk the identified myths regarding the development of RES in the WB region, and to prompt the process of sustainable, just, democratic, and locally driven energy transition that is aligned with EU energy and climate policies and coordinated with EU activities, the EU institutions should:

- a)** Regularly evaluate the work and the results of the Energy Community (at the European Parliament and the WB countries' parliaments) based on the reviews performed by independent evaluators, aiming to encourage a wide debate regarding the progress of the energy transition in the Western Balkan.
- b)** Initiate changes in the Energy Community Treaty to explicitly include the national parliaments of the member states in the decision-making procedure, especially regarding regulation of the power sector decarbonization, thus ensuring a democratic, inclusive, and just policy-making process in the EnC;
- c)** Facilitate the inclusion of non-governmental organizations and experts communities (professional organizations and think tanks) in policy-making, implementation, monitoring, and evaluation of the energy transition policies, thus ensuring expertise and transparency in the energy transition process in the EnC.
- d)** Plan an increased and long-term technical and financial assistance program directed towards the decentralized energy transition (development of citizens' energy) to initiate more active participation of the local actors: local governments, non-governmental organizations, local businesses, and citizens and their communities in the decarbonization process thus supporting the decarbonization of the local consumption and increasing the security of supply;
- e)** Provide dedicated support for the improvement of professional capacities in the WB countries to increase the adoption of new technologies and business models by facilitating the organization of specialized exchanges, training courses, conferences, and seminars;
- f)** Within the EnC, initiate the preparation of a plan for integrating the WB countries in the EU ETS and cease promoting the introduction of the regional ETS system. In negotiating integration in the EU ETS, the WB countries should be provided with the option of free allocation of the CO₂ certificates. This approach will secure initial funding for the countries in the region that are ready to adopt and implement the coal phase-out date;
- g)** Provide long-term technical and financial assistance to programs for energy poverty mitigation that will result in sustainable solutions instead of applying palliative short-term solutions;
- h)** Establish a dedicated EU fund for co-financing technical assistance and projects and socio-economic restructuring programs in the coal regions in transition, similar to the Just transition fund in the EU, focusing on the projects implemented by the WB's local actors.

The above recommendations are only an initial list of possible modifications and improvements in the EU energy and climate policy for the WB region that were proposed by the regional experts, which would accelerate the decarbonization of the WB power sectors. However, the main recommendation of this research is a proposal to initiate a "forward-looking" dialogue between the EU representatives and main local stakeholders (governments, expert community, coal region, local communities, and non-governmental organizations) to define a comprehensive and feasible long-term strategy and plan for the energy transition of the WB power sectors within a wide scope of the EU stabilization and association process. The experts propose the name of such a program – REPowerWB (REPower Western Balkans).



www.reset.ba