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MINISTARSTVO ZAŠTITE OKOLIŠA I ENERGETIKE
Ministar Tomislav Čorić

Radnička 80, 10000 Zagreb

Dear Minister Čorić,

Allow me first to wish you and the Government of the Republic of Croatia successful European Union Presidency, as well as organization of the EU-Western Balkans Summit in Zagreb.

The Croatian presidency is significant remark and symbol for entire South East Europe. Presented agenda, and in particular Green agenda for the Western Balkan would represent a strong impulse for sustainable energy future of Energy Community Contracting Parties and would also contribute to the Green Deal of the European Union.

Aforementioned is even more important as Croatia achievement stands as a role model for the Contracting Parties to the Energy Community, which remain committed and working hard to join the European Union.

Energy Community has changed during the years, by extending its geographical and legislative scopes, but more important we all are witnessing tremendous changes of entire energy world (in order to adapt to tremendous changes/a constantly changing context of the energy world). Therefore, those changes require a strong cooperation between different sectors and stakeholders, different technologies, and going beyond administrative borders but with institutional political support. The sustainable energy future can be ensured for the Energy Community Contracting Parties, helping the sustainable agenda of the European Union, but coordinated actions are needed.

Taking a proactive approach, the Energy Community has prepared a proposal: Green energy agenda for Western Balkans. This could be part of the agenda of Croatian presidency, and could be presented at the upcoming Western Balkan Summit in Zagreb. As Montenegro takes over the presidency of the Energy Community during 2020, I wish to kindly ask you to consider eventual inclusion of the attached document as a part of/into preparatory process of /preparations for the event, and inform us of your decision following consultation of all included parties and formal approval of the Energy Community Secretariat.

Looking forward to your understanding and support,

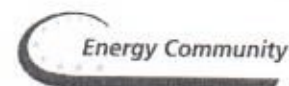
Cc: Janez Kopač, Director of the Energy Community Secretariat

S poštovanjem,

Dragica Sekulić

MINISTARKA





Green energy agenda for Western Balkans

Defining the problem

The European Union and its Member States are in a process of ambitious decarbonisation of their economies and are accelerating the energy transition. Due to strong infrastructural connectivity, the sharing of a single market within the Energy Community, there is a high potential for carbon leakage from EU to the Western Balkans.

Following the vision of integration of Western Balkan countries into the EU, a similar decarbonisation process needs to take place, that is equally ambitious, but also beneficial for these countries (Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, North Macedonia, Serbia).

However, these countries, many of them heavier reliant on coal than any other EU Member State, would require not only significant financial and technical support, but also political/legal stimulus to kick-start the process towards achieving net-zero greenhouse gas emissions economies.

Despite the fact that up to date neither 2030 nor 2050 energy and climate targets are set in the Energy Community, some Contracting Parties are ambitious in designing their own targets, while some other are far from that. While decarbonisation of the energy sector would be achieved in a regionally coordinated manner,

This could best be achieved within the rule of law set by regional multilateral Treaty frameworks. There are two such organisations in the region: Energy Community and Transport Community.

Besides the regional coordination, the success also requires actions on national level.

Taking Action:

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

Decarbonisation will require phasing-out coal-fired power generation in line with the commitments under the Energy Community Treaty, in parallel with a massive deployment of renewable energy sources, while making the best use of the highly interconnected transmission infrastructure within the Western Balkans, and with the EU. in single, integrated power market. Cross-border and regional cooperation will significantly reduce the costs, and alleviate some de-facto challenges of decarbonising the power sectors, such as power system integration and strengthening security of electricity supply.

Supporting this multifaceted objective should be realised through the implementation of a set of measures aimed to support energy efficiency, penetration of renewable energy sources, reduction of greenhouse gas emissions, and the development of a liquid and undistorted energy markets full integrated in the single European energy market.

Concrete measures should focus on:

- I. *Reducing greenhouse gas emissions, through, inter-alia:*
1. **Transposition of an Energy Community adapted Emission Trading Scheme (ETS) Directive** through national Climate Laws (similar to Montenegrin one) aligned/harmonised in all 6 countries. These should first introduce a national CO2 allowances market for ETS sector, with regionally agreed large quantity of allowances resulting in a rather low CO2 price; this would be gradually decreased in all countries over years, until final incorporation into the EU ETS and reach of its CO2 allowances price.
 2. **Introduction of a carbon tax.** For the non ETS sector, a carbon tax with approximately similar tax burden in all 6 countries should be introduced, reflecting the price of CO2 in the ETS sector.
 3. **Setting up special carbon Fund** to finance energy transition. All the income from ETS and CO2 tax should be used nationally for energy efficiency measures, renewables support, sustainable transport and financing of just transition of coal regions that have an adopted program of transition. EU funds should be added to additionally support such special carbon Fund.
 4. **Adoption of 2030 targets** for emissions reduction, renewable energy deployment and energy efficiency improvement, **and the transposition of the key provisions of Clean Energy Package** under the Energy Community Treaty (Energy Efficiency and Energy Performance of Buildings Directives, Governance, Binding Annual GHG Reductions, LULUCF (???) Electricity Market Regulations) in 2020.
 5. **Adoption of integrated energy and climate plans in all 6 countries by latest 2021.** Support from international stakeholders, as well as the regional coordination of national energy and climate planning activities, and long-term strategies is needed.
 6. **Adoption of national coal phaseout plans with the implementation deadline before 2050.** Assistance to these countries in establishing an inclusive and legitimate phase-out process is needed.
 7. **Transposition of Air Quality Directive** to further limit toxic emissions from CO2 emitters.
- II. *Increasing energy efficiency*
8. **Support programmes aimed** at replacement of household stoves, insulation of facades, replacement of energy inefficient windows and lighting.
 9. Design and implement a **long-term financing programme 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.
 10. Design and implement **support programme for 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, heating/cooling pumps, etc.
 11. Financial **support for voluntary energy audits and energy management schemes** and implementation of efficiency measures in SMEs
- III. *Increasing the share of renewable energy*

12. **Implement risk-mitigating schemes boosting competitiveness of renewable energy sources** through de-risking of financing and policy environments
13. Support improving the **system of registering guarantees of origin for renewable electricity** (allowing for trade even in the presence of a carbon border tax)
14. Support design and **implementation of river basin management programmes**, including coordinated hydropower generation and environmental protection
15. Support design and implementation of prosumer schemes, promoting the importance of fair market based electricity prices for all end consumers
- 16.

IV. *Improving energy markets*

17. Early **adoption of the Electricity Market Directive & Regulation**
18. Reducing the high degree of state influence in the energy sectors by designing **support mechanisms for socially vulnerable customers**
19. Support action **alleviating energy poverty, empowering customers and enabling prosumers** to take active part in decarbonisation and democratisation of energy systems
20. Support design and implementation of programmes to support to **demand side response and aggregation**, including acceleration of smart meter roll-out
21. Insist on the **phase-out of non-compliant direct and indirect coal subsidies**
22. Support **improvement of State aid enforcement** under the Energy Community Treaty

V. *Enabling a just transition*

23. **Share EU experience in agreeing on a coal-phase out date/road maps** with individual countries (Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia)
24. Put in place a **financial mechanisms based on EU and IFIs contribution (under or similar to WBIF platform)** for regional development and regeneration of coal regions

VI. *Improving education and innovation*

25. Support **education programmes/curricula with focus on energy transition/climate management**
26. Establish a **regional energy transition/climate academy**
27. Design and implement programmes tapping the potential for innovation in the WB6 region and the **rapid deployment of new technologies**