Energy Community

# SUMMARY OF THE REPORT ON THE IMPLEMENTATION OF THE DECLARATION ON ENERGY SECURITY AND GREEN TRANSITION IN THE WESTERN BALKANS

# INTRODUCTION

**The Declaration on Energy Security and Green Transition in the Western Balkans**, signed by leaders from the Western Balkans Six in Berlin on November 3, 2022, marks a pivotal moment in the region's pursuit of sustainable energy policies and a greener future.

The Declaration acknowledges the urgency of transforming economies and energy sectors to align with international commitments enshrined in **the Paris Agreement, the Energy Community Treaty, and the European Green Deal**. It reflects the collective determination of the Western Balkan Six to prioritize sustainability, regional cooperation, and the well-being of their citizens. They commit to a series of actions that will shape the region's energy landscape for years to come.

The Declaration was signed at a time when the **Western Balkan** region faced significant **energy challenges**, exacerbated by the broader context of global energy crises The region has been confronted with record-high electricity prices, and the resulting economic and geopolitical uncertainties. **The crisis exposed systemic weaknesses in the energy markets and systems in urgent need for investments** and further reforms. It also came at a time when the profound transformation towards climate neutrality, known as the Green Deal, has been in full swing in the rest of Europe. There was a risk that the Western Balkan Six could lose touch and be left behind.

By signing the Declaration on **Energy Security and Green Transition** in the Western Balkans, the leaders of the Western Balkans Six lived up to the manifold challenges. They demonstrated a strong commitment to the green transition and the common goals and objectives under the Energy Community Treaty. **At the heart of the Declaration** lies the recognition that the answers to the challenges and crises can only be found at the **regional level**. The rules and initiatives adopted by the Energy Community Ministerial Council in 2021 have proven to be powerful catalysts for advancing **green reforms** on national and regional level. In December 2022, the Ministerial Council took a momentous step forward by adopting the largest and most ambitious **set of new *acquis***, complementing the Clean Energy Package, most notably ambitious 2030 energy and climate targets that align with the EU's ambition level. The ultimate objective remains achieving **climate neutrality by 2050**, reflecting the region's commitment to playing a crucial role in global efforts to combat climate change.

While commitments to green transition are promising, the Western Balkan Six still face **specific challenges** during the reporting period. Progress depends on swift and efficient implementation.

The **energy sectors** in the region, which are comparatively less affluent than their Northern and Western European counterparts, have been exposed to **vulnerabilities** stemming from inadequate regulation and underinvestment. This challenge is particularly relevant for regions heavily **reliant on coal**, where holistic solutions addressing governance, environmental, and social issues must be found.

The focus on crisis management has, at times, diverted attention from critical systemic reforms. It is paramount that crisis-driven measures do not impede the energy transition. The focus should remain on **systemic and regional responses** such as the full integration of the Western Balkans' electricity markets with the European one, which in turn will facilitate the deployment of more renewable energy.

In addition, **energy efficiency has emerged as a top priority** for the Western Balkan Six. They pledged to prioritize and incentivize effective energy efficiency measures to tackle the region's energy challenges. This includes introducing appropriate **energy price signals**, promoting building renovations, modernizing district heating networks, and implementing **highly efficient technologies** to optimize energy consumption. By focusing on renewable energy and energy efficiency, the Western Balkan Six will enhance their energy security and sustainability while taking significant steps towards a greener and more equitable future.

Currently, the Secretariat is evaluating the **draft integrated national energy and climate plans** submitted during the summer months. Through this scrutiny, the Secretariat aims to ensure that these plans are robust, aligned with international commitments, and capable of attracting and streamlining the much-needed investments in a **greener and more resilient energy future**.

**The Electricity Integration Package adopted in 2022** lays the foundation for integrating the Contracting Parties in the Western Balkan Six into the EU's internal electricity market, including the implementation of single day-ahead and single intraday coupling. While the Contracting Parties are still in the process of transposing the Package, set to conclude by the end of 2023, notable progress has been achieved in establishing day-ahead markets in four of the six Western Balkan countries. Apart from Serbia, in 2023, Albania, Montenegro, and North Macedonia successfully launched their respective markets.

The role of a well-functioning electricity market for facilitating the successful **deployment of renewable energy sources** can hardly be overestimated. The regional and ultimately pan-European market ensures efficient, transparent, and competitive electricity trading, enabling various renewable energy technologies to actively participate. Furthermore, it provides **long-term certainty and revenue stabilit**y for renewable energy projects, attracting much-needed investments and supporting sustained growth. Additionally, an effective system for guarantees of origin can further support the energy transition and promote investments in renewables within the region. The demand generated by corporate buyers for renewable energy through guarantees of origin-backed Power Purchase Agreements (PPAs) can attract additional investment in the renewable energy sector.

**Diversification of gas supplies** remains a significant challenge. Only Serbia participated in the EU joint gas purchasing mechanism. There have been some efforts by other countries to diversify their supplies, North Macedonia taking the lead, which started also purchasing gas in the neighboring Bulgaria from the gas hub. These actions should be **accelerated by new infrastructure developments** – new LNG terminal in Greece and interconnector SRB- BUL on board late this year.

In addition to joint purchase and efficiency measures, the Energy Community adopted important ***acquis*** in the field of **gas storage** last year, which contributed to strengthening winter preparedness also ahead of the next heating season.

Currently, the discussion about carbon pricing in the region takes center stage in the Energy Community. The recently adopted EU Regulation on the **Carbon Border Adjustment Mechanism (CBAM)** further emphasizes the need to expedite the energy transition by giving carbon emissions a price, as well as further market integration. The CBAM Regulation imposes administrative and financial costs on importers of CBAM goods, including electricity exported by the Western Balkan Six to the EU. There is a possibility of receiving an exemption from CBAM application for electricity exports if specific conditions are met. These conditions include coupling the region's electricity markets with the EU market and implementing an emissions trading system (ETS) by 2030. This underscores the close connection between electricity market integration and decarbonization, necessitating a regional approach to policy planning, implementation, and monitoring under the Energy Community framework.

Under the Declaration, the Energy Community Secretariat was assigned the responsibility of reporting on the implementation of these actions at the upcoming summit scheduled for 16 October 2023 in Tirana. The Energy Community framework, aligned with the politically driven Berlin Process, is rooted in the principles of the European Green Deal and the priorities outlined in the Green Agenda for the Western Balkans. It relies on well-defined legal tools for monitoring and insisting on the implementation of crucial policy and legal actions. These actions are necessary at both the national and regional levels to advance the green transition in the region.

# KEY CHALLENGES AHEAD

While the deadline for transposing the non-electricity related parts of the Clean Energy Package expired in late 2022, Western Balkan parties **are still working to integrate the provisions of the package into national legislation,** with some delays in the transposition and implementation**.**

The primary hurdle lies in **the development of ambitious and resilient NECPs** that can serve as fundamental blueprints for the energy transition. By promoting coordination and collaboration among stakeholders, NECPs can open pathways to international finance mechanisms such as the WBIF, fostering an environment conducive to the progression of renewable energy projects.

**The implementation of a reliable system for guarantees of origin (GOs)** has shown promising progress thanks to the Energy Community regional project. However, several challenges persist. While four out of ten issuing bodies have successfully launched their registries, others are still in the process of doing so. The Contracting Parties on several occasions have extended an invitation to the European Commission to present a set of preconditions for recognition to the Energy Community Ministerial Council in December 2023.

**Energy poverty** remains a pressing concern in the region, with high indicators pushing low-income households towards cheaper yet more polluting energy sources for heating. Publicly funded initiatives to replace outdated heating systems are limited, highlighting the need for stronger policies that provide long-term solutions.

**A successful green and just transition** hinges on phasing out of coal, which requires strategic guidance aligned with national plans to facilitate this shift.

Sustained support across all paths is vital for a viable green transition, which in turn depends on **synchronized and complementary implementation of national policies**. Concurrently, revising wide-spread fossil fuel subsidies and energy price support measures are imperative to promote energy diversity and encourage investments in efficiency.

To qualify for an exemption from the application of CBAM on electricity exports to the EU and to maintain a pathway towards coupling with the EU electricity market, one prerequisite is the commitment to the development and advancement of an emission trading system (ETS) in the field of electricity by 2030. Considering these requirements, it is recommended that **Contracting Parties invest significant, coordinated political and technical efforts to discuss and introduce ETS at the regional level over the next seven** years to meet this specific exemption criterion.

Furthermore, the Regulation specifies market coupling as another prerequisite for exemption from CBAM. This has increased the urgency to establish short-term markets and fully integrate them into the EU's Single Day-Ahead Coupling (SDAC) and Single Intraday Coupling (SID) by the end of 2025. **The successful achievement of integration depends on Contracting Parties promptly and comprehensively transposing and applying the recently adopted Electricity Integration Package,** including the crucial transposition of the ACER (Agency for the Cooperation of Energy Regulators) Regulation.

In addition to the mandatory full transposition of the new Electricity Integration Package, **the swift establishment of day-ahead and intraday markets across WB6 Contracting Parties is crucial.** Each Contracting Party should designate at least one NEMO for day-ahead and intraday trading, which is a prerequisite for progressing towards integration with the EU's SDAC and SIDC.

**Enhanced regional cooperation is central, and national regulatory authorities and WB6 transmission system operators (TSOs),** often in collaboration with neighboring EU Member State TSOs, need to harmonize terms, conditions, and methodologies as outlined in Network Codes and Guidelines. This alignment is crucial for coordinated capacity calculation across various market timeframes.

Looking **ahead to the winter of 2023/24**, the Contracting Parties in the Western Balkans will face familiar risks that threaten the security of their electricity supply. Stability will depend on factors such as electricity consumption, especially during cold spells, hydrological conditions and the availability of existing thermal capacities to ensure high availability and reduce risk.

The Energy Community Contracting Parties continue to demonstrate **vulnerability and reduced resilience in extreme scenarios**, highlighting the urgency of accelerating energy transition and decarbonization by integrating more renewable energy. However, obstacles tied to permitting procedures, grid connections, and power system balancing due to limited flexibility resources need to be urgently addressed.

To mitigate these challenges, the Secretariat recommends **speeding up the integration of renewables, establishing liquid electricity markets (particularly intraday and balancing markets), enhancing cross-border exchanges, and aligning retail electricity prices with wholesale rates while offering necessary support to vulnerable consumers,** particularly women, children, and minorities, who are most vulnerable to energy poverty. Energy efficiency measures are also recommended for mid-term risk reduction, with the Secretariat's support.

The Western Balkan parties will encounter similar **risk patterns related to gas** in the upcoming winter. All parties must expedite efforts to implement Regulation 2017/1938 on gas supply security, conduct risk assessments by year-end, and adopt preventive and emergency plans. Compliance with Storage Regulation targets, certification of storage operators (such as Serbia), and arrangements for meeting minimum stock requirements in Bosnia and Herzegovina and North Macedonia are essential.

Despite significant improvements in energy efficiency, the Western Balkan parties still face key challenges. Aligning national legislation and policies with the Clean Energy Package is a complex yet crucial task for achieving efficiency targets. This includes **updating energy efficiency laws**, **implementing by-laws**, and **adopting long-term building renovation strategies**.

**A significant challenge lies ahead due to the absence of a comprehensive legal framework for environmental assessment**, which results in gaps in the scrutiny of energy projects and creates uncertainty for future investments, including those in renewable projects. Strengthening the national legal framework for environmental assessment must go hand in hand with efforts to enhance institutional capacity. This is crucial to ensure streamlined procedures and the successful establishment of a unified "one-stop shop" for various assessments and permits.

**The Large Combustion Plants Directive, in particular, experienced delays in investment** for emissions abatement equipment, exacerbated by the impact of Covid-19 measures, energy price shocks, and the full-scale Russian invasion of Ukraine. These events raised concerns about supply security, which in turn undermined environmental compliance. In general, respect for the pollution thresholds established by this Directive in the Western Balkans remains low, to the detriment of citizens' lives, health and the environment.

**A more cohesive approach is essential for the development of hydropower projects**. Incorporating spatial mapping and considering sensitive siting practices could prove pivotal in mitigating conflicts related to biodiversity and water usage. Legislative instruments must be developed to gradually phase out financial incentives for small hydropower projects, detrimental for biodiversity.


**Energy Community Secretariat**
Am Hof 4, 1010 Vienna, Austria

0043 (0)1 535 2222

0043 (0)1 535 2222 11

info@energy-community.org

http://www.energy-community.org