Background Paper

"Energy Transition and the Need for Achievable Solutions – Global and Regional Perspectives"

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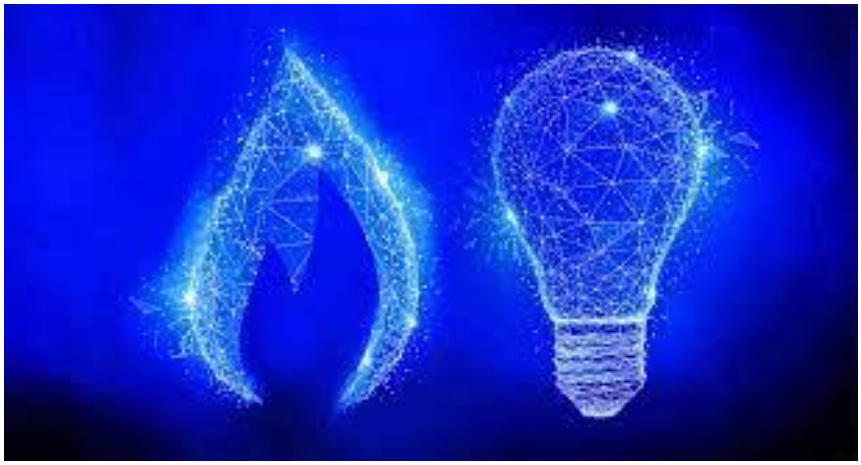

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Introduction

SE Europe[1] is embarking on a transition towards an energy-efficient, renewables-based economy. Not all the countries are actively embracing it yet, but the impacts can nevertheless be felt. Coal/lignite is becoming unprofitable and the decreasing cost of wind and solar is increasing investments. But this process needs to speed up. SE Europe's aged and highly polluting coal plants need to be replaced by sustainable forms of renewable energy, and the region's energy wastage needs to end. To address the global climate emergency and fulfil its Paris Agreement and Glasgow Climate Pact commitments, the EU – which in the coming years should also include the Western Balkan countries – has to stop using fossil fuels by 2050 at the latest. This means not only coal/lignite – which has to be phased out much earlier – but oil and gas as well.

In order to succeed, decarbonisation has to be economically, environmentally and socially sustainable. Its potential benefits include clean air, warm and comfortable housing, and employment generation. But it also has costs for those currently employed in the fossil fuel industry. And, if not done well, it can result in serious environmental damage, e.g. for forest biomass or hydropower. The EU's flagship European Green Deal policy strives to tackle these issues together, combining net zero emissions of greenhouse gases by 2050, decoupling resource use from economic growth, and making sure that no one is left behind in this major transition.

But while Greece and Hungary have pledged to phase out coal by 2028, it is no secret that many of their regional neighbours are lagging behind. As EU members, Romania, Bulgaria and Croatia had to act earlier than the Western Balkans. But they have been slow to commit to coal phase-out dates and have made serious mis-steps, being distracted by gas investments and developing their renewables sectors in an environmentally and economically unsustainable way.

For the six Western Balkan countries, membership in the Energy Community Treaty helps them to prepare for EU accession. Under the Treaty, they have committed to implement selected EU rules on market reforms, energy, State aid and the environment. In November 2020, these countries also signed the Sofia Declaration on the Green Agenda for the Western Balkans. Among others, this meant they formally committed to adopt the EU's Climate Law and thus to decarbonisation by 2050.

Yet Serbia and Bosnia and Herzegovina are still planning new coal power plants, while air pollution from the region's existing coal plants, heating and transport causes premature deaths across the region and further afield. Several studies attempt to examine the barriers to an environmentally, socially and economically sustainable energy transition in SE Europe. It looks at the causes for inaction and mis-steps by decision makers, private interests, and other structures and identifies political avenues and platforms that could circumvent or overcome opposing factors. To succeed in speeding up a sustainable energy transition, these

[1] As defined by IENE, SE Europe includes Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Greece, Hungary, Kosovo, Montenegro, North Macedonia, Romania, Serbia, Slovenia, Israel and Turkey

would have to be likely to receive popular and/or political support and actors who are key to achieving this have been identified. The key factors identified that hinder a sustainable energy transition vary for each country, but regionally they can be summarised as follows, starting with the most important:

- **State capture, geopolitics, and lack of rule of law and accountability:** This broad set of issues encompasses energy sector decision-making which puts special interests ahead of the public interest. It includes everything from state-owned utilities' excessive influence on policymaking, to non-transparent energy deals with Russia and China and renewable energy incentives schemes that benefit businesses close to governments.
- **Outdated view of the energy system, false solutions and lack of understanding of the speed of change:** It is often difficult to tell whether poor decisions on energy policy result from serving special interests or a lack of knowledge and analysis of the current state of the sector. International experience suggests that a mixture of both is often involved.
- **Incomplete transposition and implementation of EU rules affecting the energy sector:** EU environment, climate, energy and State aid rules, although not perfect, drive energy transition. The EU's environmental legislation also helps prevent destruction of sensitive areas, e.g. by energy and transport infrastructure. Though the countries vary in their adherence to EU law, pollution control, air quality, State aid and biodiversity protection remain problems in most cases.
- **Lack of political courage to tackle mine closure and just transition:** Direct political pressure from coal mining unions is not as high in some of the countries as might be expected, but indirect pressure exists. The governments count on public utilities' employees and subcontractors for political support in elections, again raising the issue of state capture. This, together with the fact that most governments have developed no plans to mitigate the social impacts of the transition in coal regions and other fossil fuel-dependent areas, makes many decision makers reluctant to commit to a coal or wider fossil fuel phase-out.
- **Lack of political will to open markets, cooperate and realise regional synergies:** Opening markets and moving to cost-reflective energy tariffs is a major political difficulty in several countries. People are used to low, regulated prices and many cannot pay more, due to a vicious circle of energy inefficiency and energy poverty. Political barriers between certain countries clearly exist, but experience shows that national authorities can mostly cooperate with their neighbours when they want to, they just do not always prioritise it.
- **Political instability and lack of institutional capacity:** In countries, such as Montenegro, North Macedonia and Croatia, which are politically in favour of energy transition, a shortage of experienced staff at the central and local government levels is emerging as a key issue preventing better progress. It is also an issue in the other countries, but other factors such as state capture seem to play a stronger role at the moment.

The international community has a major role to play. For the EU Member States, the EU's role in oversight and enforcement of EU legislation is clear, but needs to be stepped up. For the Western Balkans, the EU and EU governments can also make a difference by supporting the strengthening of the Energy Community Treaty, sending consistent messages to governments, sticking to no-regrets investments and insisting on transparency, real public participation, institutional ownership and coherence with EU policies as conditions for any donor-funded projects.

Considering the potential benefits of a sustainable energy transition, decision makers across the region need to take ownership of the process. They need to utilise the collective expertise available from experts, civil society and the private sector to find ways of making decarbonisation work for the wider public in their countries, including at the local and household level.