

***GEOPOLITICS OF ELECTRICITY, NATURAL GAS & LNG IN THE BALKAN REGION:
THE ENERGY COMMUNITY TREATY AND THE TARGET YEAR 2050 (GREEN DEAL)***

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Overview

For the Balkans, in SouthEast Europe, as a whole, a key element of the reform effort is the Energy Community Treaty – a regulatory and market framework to which the entire region (and beyond) has now subscribed. This Treaty aims to create an integrated regional market for electricity and gas compatible with the European Union's internal energy market.

Climate change and environmental degradation are an existential threat to the Balkan region, Europe, the Union, and the world. To overcome these challenges, The European Commission adopted a new growth strategy that will transform the Union into a modern, resource-efficient, and competitive economy, whereas neighbouring regions will also benefit in the process (Green Deal). As part of the European Green Deal the EU has set itself a binding target of **achieving climate neutrality by 2050**. This requires current greenhouse gas emission levels to drop substantially in the next decades. As an intermediate step towards climate neutrality, the EU has raised its 2030 climate ambition, committing to cutting emissions by **at least 55% by 2030**. Furthermore, clean energy can also fuel economic recovery in the aftermath of the Covid-19 pandemic and the natural gas price spike. The final aim would be that no net emissions of greenhouse gases will affect our environment by the year target 2050. Is the hydrogen economy the answer for a carbon neutral world?

The Western Balkans, composed of Albania, Bosnia & Herzegovina, Croatia, North Macedonia, Montenegro, Serbia and Kosovo, is a complex region facing significant energy challenges. The conflicts over the break-up of the former Yugoslavia in the 1990s damaged much of the energy infrastructure. They compounded to a clear challenge of providing reliable energy supply and addressing energy poverty in all seven countries. Of the above countries only Croatia is, since 2013, an EU Member State. For the region of the Western Balkans any reform effort will be focused on, and will depend upon, the advancement of the Energy Community Treaty.

Lack of reliable electricity supply is a serious obstacle to economic development and investment in the region. Furthermore, a reliable natural gas distribution network is crucial, as the Western Balkan Region is strategically located between the resource-rich regions of the Caspian basin (and the Middle East) and the consuming areas of Western and Central Europe. At present, Russia is the dominant supplier of natural gas to the region. The currently unfolding Ukrainian crisis has already led to significant price increases and threatens the overall security of supply.

Although none of the Western Balkan countries has experienced major energy supply disruptions or price shocks in, at least, the past ten years, there are significant risks associated with the ability of the respective governments in their efforts to address challenges in the energy sector. The lack of fully transparent and open energy markets makes it difficult to adapt to everchanging market dynamics in the short term, and significant barriers remain to securing investment for required energy infrastructures, in the long run.

This increased ambition is to be achieved by strengthening the current provisions and extending the scope of the EU scheme. The European Commission's proposal notably aims to:

- include emissions from maritime transport in the scheme,
- phase out free allocation of emission allowances to aviation and to the sectors that are to be covered by the carbon border adjustment mechanism (CBAM),
- implement the global carbon offsetting and reduction scheme for international aviation (CORSA) through the EU ET Scheme
- increase funding available from the modernisation fund and the innovation fund for non-EU bordering countries

In addition, the Commission proposes to create a new self-standing emissions trading system for buildings and road transport to support EU member states and Energy Community countries in meeting their national targets.

Methods

The legal basis for the formation of a European Internal Energy Market (IEM) is provided by the EU Treaty itself. The goal is to create a well-functioning pan-European electricity and gas markets, putting fair access and a high level of consumer protection in the centre, while guaranteeing adequate levels of power generation and interconnection capacity across the continent. Over the years, the EU secondary legislation (Regulations, Directives and Recommendations) has built the road from a historically defined monopolistic regime, to a well-functioning free market. The author will look into the prospect of applying the *acquis Communautaire* and of integrating the Western Balkan Region into the European Internal Energy Market (IEM) before 2030.

In principle Western Balkan states expressed consistent support for energy efficiency policy measures, and agreed on their multiple benefits and the crucial role they should play in the decarbonisation of Europe's overall economy and in reaching the increased climate ambition by 2030 (fit for 55) while achieving climate neutrality by the year 2050. However, although there are no fundamental differences between developed (EU member states) and developing Western Balkan countries in their regulatory reaction to the present crisis in the energy sector, there are significant differences in their economic recovery planning. While developed countries aim for a green economic recovery and the creation of green jobs, Western Balkan countries are allocating least resources to social protection and general economic stimulus programs, temporarily postponing climate objectives. The paper will look into such discrepancies and attempt at addressing relative issues arising in energy efficiency and consumer protection.

Results

The smooth launch of the Serbian Day-Ahead market was an important signal for the electricity market in South-eastern Europe as SEEPEX is the first organized marketplace in the region that provides high level standards both in terms of trading and in clearing infrastructures. Athens, Greece, has also launched its energy exchange (HENEX) in October 2020. The Hellenic Energy Exchange (HENEX) is providing access to new liquid energy markets and products that, among others, support greater domestic competition, reduced barriers to entry for new energy market participants and allowed the effective participation of renewable energy producers in the electricity markets. It will also support regional integration by facilitating market coupling with Greece's neighbours, for the instance Italy and Bulgaria, both EU Member States. Due to the strong relationship between confinement measures and electricity demand reduction, the demand is expected to recover gradually by mid-2022, after lifting any remaining lockdown measures. Thus, electricity demand can be used as an indicator of economic recovery compared to the pre-pandemic period. In the EU, the electricity generation from coal, natural gas, and nuclear sources decreased by 35%, 25%, and 20%, respectively, during the lockdown period (2020 – 2021), compared to 2019. The author will draw conclusions from similar consumption patterns in the western Balkan states.

As far the Gas infrastructure is concerned the completion of the Trans Adriatic Pipeline (TAP) is significantly altering the broader picture by reducing Gas dependency from the Russian Federation. Energy storage, the use of hydrogen and the increased participation of Renewable Energy Sources (RES) in the available to the final consumer energy mixture, provides a viable road path to the Fit for 55 mission targets for the year 2030.

Furthermore, the paper / presentation will evaluate the proposal to introduce a Carbon Border Adjustment Mechanism (CBAM), by the year 2025, to the countries adhering to the Energy Community Treaty, aiming to impose a charge on certain imported products for emissions released during their production in the country of origin / exportation. The products covered are aluminium, cement, electricity, fertilizers, iron, and steel.

Conclusions

Having examined the efforts undertaken by the western Balkan states to adhere to the principles and rules of the Energy Community Treaty, the present paper / presentation will conclude by drawing assumptions based on the intimate relationship between energy production and power demand; it is, thus, imperative to determine local factors that influenced the magnitude of the drop in power demand in different Balkan states, i.e. seasonal factors, level of development, intensity of the pandemic outburst, degree of electrification or even idiosyncrasy of the key players, in order to understand better the behaviour of the electricity sector and energy industry in any similar scenario in the future.