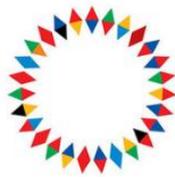


Background Paper: Green agenda in the Western Balkans

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Introduction: A beginner's guide to climate policies

The EU and the Western Balkans (WB or WB6¹) are members of the international treaties² which set the course for global decarbonization strategies. It relies on an agreement to keep the increase in global average temperature well below 2°C compared to the pre-industrial level, set via the Paris Agreement treaty signed in 2015. EU initiated many discussions and complementary strategies since the 1990s, which ultimately led to the most relevant strategy framework of the EU – the European Green Deal (EGD) – launched in 2019.

EGD is a cornerstone of the EU climate agenda, and the Western Balkans declared the importance of the EGD by signing the Green Agenda for the Western Balkans (GAWB) in 2020, also known as the Sofia Declaration on the Green Agenda³, upon a proposal of the EU. It reflects the importance of the EU climate strategy for regional policymaking and alignment with the EU efforts to have climate neutral Europe by 2050⁴.

EU's bright future

We can identify four levels of climate governance: International agreements; EU level; Member states; Sectoral stakeholders and citizens⁵. Decarbonization is only a part of the climate story; EGD is an EU-level strategy framework based on a comprehensive set of policies. It sets specifically three main goals. Firstly, to achieve a net zero economy by 2050, not allowing to emit any greenhouse gases which cannot be offset by other means. Secondly, to decouple economic growth from resource use. Lastly, to lead a just and fair transition where no one is left behind.

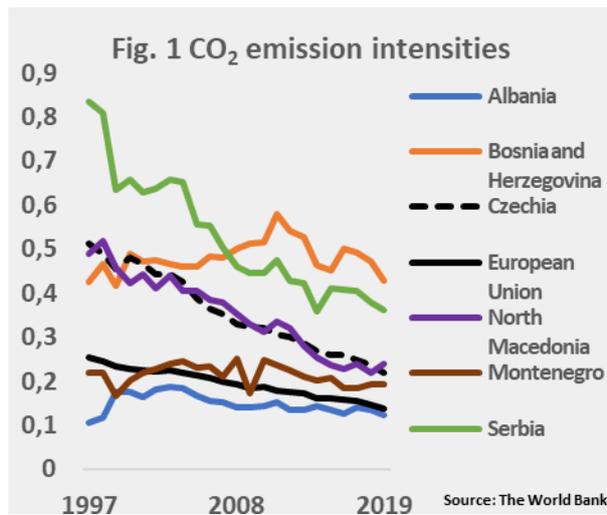
¹ The Western Balkans include Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, Serbia and Kosovo.

² With the exception of Kosovo.

³ European Commission. 2020. "Guidelines for the Implementation of the Green Agenda for the Western Balkans". https://neighbourhood-enlargement.ec.europa.eu/system/files/2020-10/green_agenda_for_the_western_balkans_en.pdf.

⁴ Mitrović, Sava. 2022. "The Green Agenda for the Western Balkans". <https://cep.org.rs/wp-content/uploads/2022/04/The-Green-Agenda-for-the-Western-Balkans.pdf>.

⁵ Mindeková, Tatiana. 2022. "Industrial decarbonisation policies in the EU". <https://v4decarb.org/publications/industrial-decarbonisation-policies-in-the-eu/>.



An example of one of these policies, and a core mechanism to internalize the cost of GHGs since 2005, is the EU Emission Trading System (ETS). The system is based on the "cap and trade" principle, with a limited amount of CO₂ emitted and a market for allowances to emit this limited number of emissions. Such allowances can be distributed the market way via auctions or free allocation to specific emission sources.

Climate neutrality is written into the law by the European Climate Law. This step allows for countries to be made responsible for taking necessary measures. Without this, the EGD would be just plain words.

Intermediate steps and actions need to be implemented throughout the three decades to achieve the 2050 target. As we are running out of time and the pledges seem not to be fulfilled, the EU has published a new set of specific targets to achieve 55% emissions reduction by 2030 compared to 2005, called "Fit for 55" package. It includes more than 10 files aiming at different sectors of the EU economy and sets new targets for already existing policy measures, some of them already undergoing triologue procedure. Examples include widening the sectors covered in the EU ETS, a more ambitious target to reduce emissions outside the EU ETS scope, a CO₂ border adjustment mechanism for foreign trade and many more.

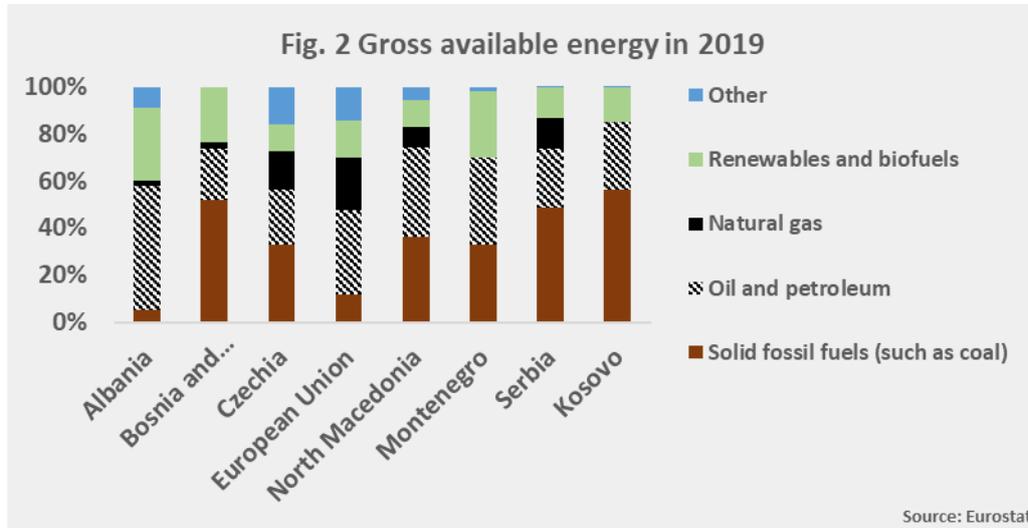
What role of the Green Agenda

Not only is the GAWB a reflection of the importance of the EGD from the perspective of a climate neutrality target, but also a reflection of a leading strategy with the key reforms that strive to transform the regional economy and protect its environment⁶. However, the region has been previously rather failing to comply with the previously agreed National Emissions Reduction Plans⁷, which are under a broader framework of the Energy Community.

⁶ Mitrović, Sava. 2022. "The Green Agenda for the Western Balkans". <https://cep.org.rs/wp-content/uploads/2022/04/The-Green-Agenda-for-the-Western-Balkans.pdf>.

⁷ Perović, Maša and Viktor Berishaj. 2021. „Country reports on Western Balkans call for concrete actions towards decarbonisation“. <https://caneurope.org/country-reports-on-western-balkans-call-for-concrete-actions-towards-decarbonisation/>.

Fig. 1 represents an overview of the CO₂ emission intensities of selected countries and the EU. In simple words, Bosnia and Herzegovina and Serbia do emit the most CO₂ to produce their



GDP compared to other countries and the EU average.

Looking at the four levels of climate governance, the GAWB take its role of a regional-level climate strategy instead of the EU-level policies of the EGD. However, still without any enforcement mechanism. From the international perspective, the Western Balkans have ratified the Paris Agreement⁸ and are part of international climate treaties in the way the EU is. From a national standpoint, WB6 countries do commit to fulfilling their climate governance via the National Determined Contribution, recently revised, and submitted. Sectoral and citizens' perspectives would still need much more attention in the EU and the WB6.

The GAWB is comprised of five pillars⁹. 1) carbon neutrality, 2) circular economy, 3) depollution, 4) sustainable agriculture and 5) biodiversity. The EU issued guidelines for implementing the GAWB to achieve the main goals. Moreover, the Regional Cooperation Council issued an action plan for the implementation, which was adopted by the WB6 governments, and which is written explicitly in a way to align with the EGD set of policies and actions taken via the Fit for 55¹⁰. So far, these are only plans without any specific fund allocation or any monitoring mechanism.

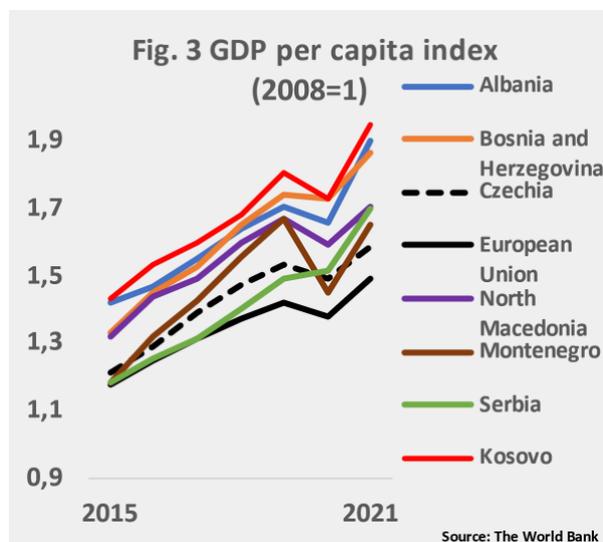
⁸ With the exception of Kosovo.

⁹ European Commission. 2020. "Guidelines for the Implementation of the Green Agenda for the Western Balkans". https://neighbourhood-enlargement.ec.europa.eu/system/files/2020-10/green_agenda_for_the_western_balkans_en.pdf.

¹⁰ Regional Cooperation Council. 2021. "Action Plan for the Implementation of the Sofia Declaration on the Green Agenda for the Western Balkans 2021-2030". <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>.

According to the action plan, the WB have now three years to enable an alignment with the existing European Climate Law. In 2025, the alignment should be visible in the regional laws. What's more, the action plan sets a very ambitious goal to introduce a regional-level emissions trading system and align it with the EU ETS already by 2024¹¹. It again stresses the importance of CO₂-related costs internalization as well as many other needs identified in the action plan. However, policymakers might poorly manage such an ambitious plan in times of political, economic and energy crises. First and foremost, an institutionalization on a national level is needed.

Highway to hell



Both the EU and the Western Balkans have been facing difficult economic and energy challenges in recent years. Although the economic rebound from COVID-19 looked promising at first (see Fig. 3, which shows that the economic recovery was relatively successful in 2021), the Russia-induced war conflict in Ukraine halted the optimistic scenarios. Energy security and skyrocketing energy prices are examples of the war

consequences that both regions must respond to¹².

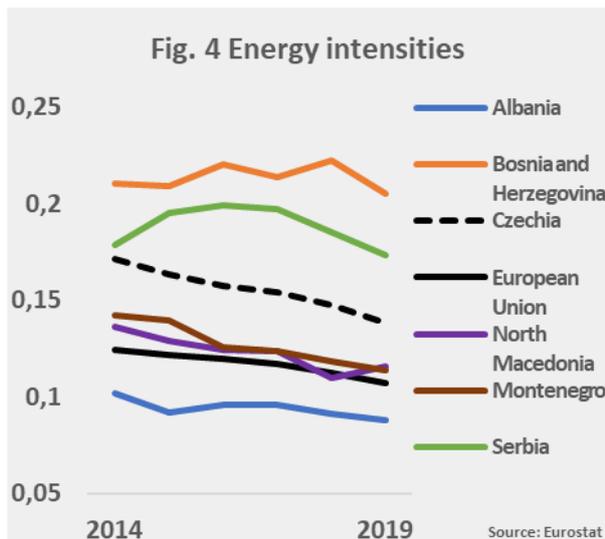
As a reaction to the war, the EU launched a new initiative – RePowerEU. It is a set of policy proposals which aim for a faster roll-out of many low-carbon technologies and solutions drafted through the EGD and Fit for 55 proposals. One of the main goals is to eliminate the dependency of the EU on Russian fossil fuels by 2027. Four key areas of the initiative include 1) energy efficiency and savings, 2) energy supply diversification, 3) clean energy transition acceleration and 4) investment and reform. Unity of the EU member states is a prerequisite for a well-functioning EU Energy Purchase Platform and overall gas supply security in the future¹³.

¹¹ Ibid.

¹² The World Bank. 2022. "Western Balkans Face New Economic Headwinds Despite Strong Post-Pandemic Recovery". <https://www.worldbank.org/en/news/press-release/2022/05/04/western-balkans-face-new-economic-headwinds-despite-strong-post-pandemic-recovery>.

¹³ Tagliapietra, Simone. 2022. "REPowerEU: will EU countries really make it work?". <https://www.bruegel.org/blog-post/repowereu-will-eu-countries-really-make-it-work>.

Furthermore, in a non-precedented energy crisis, the EU launched a new initiative and regulation on natural gas demand reduction as Russian imports to the EU plummeted. Moreover, the energy market and its price mechanism led to extreme prices and volatility in natural gas and electricity prices. Therefore, the EU set the course to limit its electricity consumption, too, and possibly other mechanisms to prevent the EU citizens and industries from the worst consequences of the energy crisis.¹⁴



The WB are under the same pressure. Gas demand reduction will be crucial for both this and the following winter. The Western Balkans are also expanding renewable energy and aim to achieve the targets for the share of renewables set via the Energy Community framework. However, fossil fuels remain the backbone of the national economies (see Fig. 2). Russian share of natural gas imports is almost 100% in Serbia, North Macedonia, and Bosnia and Herzegovina, just like in Czechia

(compared to 40% in the EU total). Yet the share of natural gas in the WB6 energy mix is not that high. Furthermore, Fig. 4 pinpoints the energy intensities of selected countries and the EU average – both Bosnia and Herzegovina and Serbia stand far above the EU average and consume much more energy to produce their GDP.

To make the green transition happen in the Western Balkans, the EU has developed and launched the Economic and Investment Plan (EIP)¹⁵ for the WB6 that complements the GAWB. In total, it should mobilize almost €30 billion in the upcoming years of the implementation period. €9 billion will be directed to the region in the form of grants and €20 billion in the form of guarantees. The plan supports both green and digital investments and human capital development. The 2019 GDP of the WB6 was slightly above €100 billion. EIP, therefore, represents a pool of money equal to 30% of the annual WB6 GDP in 2019.

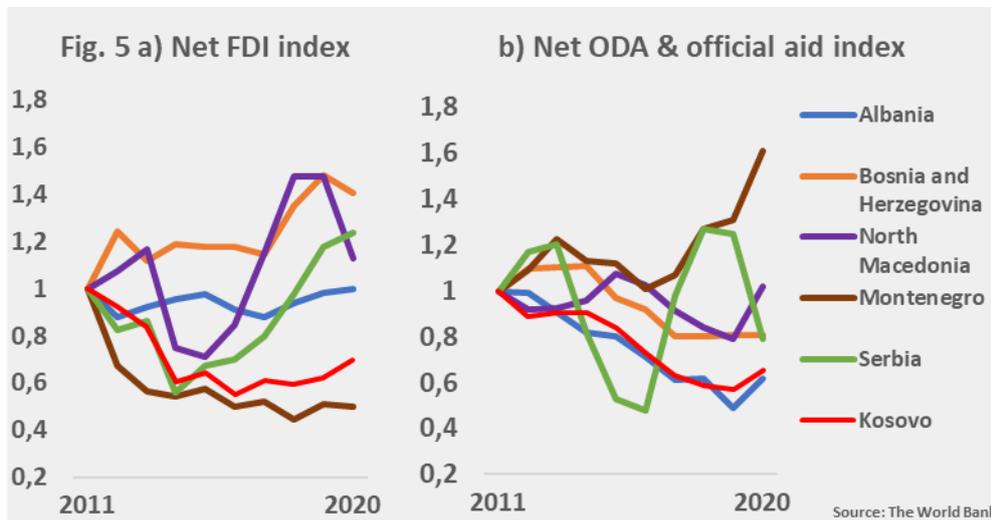
¹⁴ Hrubý, Michal. 2022. "Evropská solidarita s plynem: jak je na tom Česko?". <https://europeum.org/data/articles/plyn-v-cislech.pdf>.

¹⁵ European Commission. 2022. "Economic & Investment Plan for the Western Balkans". <https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-02/EIP-WB-GG-2022.pdf>.

The 2019 GDP of the EU was around €14 trillion. The EU announced the European Green Deal Investment Plan in 2020, which aims to mobilize around €1 trillion in the following years¹⁶. It, therefore, represents a pool of money equal to 7% of the annual EU GDP in 2019. These two levels of planned investments in the EU and the WB are not possible to compare, but they can at least give a clue about the importance of the EIP to WB6 countries. However, reports highlight that some of the flagship projects nominated via the EIP are not representing a strong focus on the green energy transition¹⁷.

First come, first served?

Although the WB6 countries have a significant economic catch-up potential, investments and foreign trade decisions are largely influenced by unstable political, social and environmental conditions. Fig. 5 shows the development of the inflows of foreign direct investments and official development assistance to the WB6 countries. In the ten years, Montenegro and Kosovo saw their foreign direct investments (FDIs) decrease, while Bosnia and Herzegovina and Serbia saw the opposite. On the contrary, Montenegro was the only country to see a steady increase in official development assistance.



The economic condition in the 20 years has mostly deteriorated compared to the German benchmark and EU member states in CEE¹⁸. While the EU is still the largest investor and trade

¹⁶ Mindeková, Tatiana. 2022. "Industrial decarbonisation policies in the EU".

<https://v4decarb.org/publications/industrial-decarbonisation-policies-in-the-eu/>.

¹⁷ Bankwatch. 2022. "Flagships or red flags?". https://bankwatch.org/wp-content/uploads/2022/03/2022-03-24_Flagships-or-red-flags.pdf.

¹⁸ Grieveson, Richard. 2020. "A change of EU strategy in the Western Balkans is long overdue". <https://wiiw.ac.at/a-change-of-eu-strategy-in-the-western-balkans-is-long-overdue-n-459.html>

partner in terms of FDIs inflow and foreign trade, delivering 70% of total FDIs, China exhibits very strong influence in the region and “*already has one foot on the continent.*”¹⁹ Especially when looking at different coal and power projects. Between 2009 and 2021, China invested around €32 billion in the WB (compared with the single yet comprehensive €30 billion EIP plan by the EU for the upcoming years)²⁰.

The WB6 countries now start to perceive the limits of China's role. The current geopolitical development could decide whether the warm welcome to the EU still holds for the WB. Moreover, the WB countries will have to discuss strategic decisions on the role of gas and other fossil fuels in the upcoming months and years. China's and Russia's influence in the energy sector is significant. Russia has already used this power to exhibit this influence, especially in Serbia, North Macedonia, and Bosnia and Herzegovina, where natural gas is imported from Russia via Bulgaria²¹. These countries already invested into projects of a new interconnector through Bulgaria and Greece or the North Macedonia's LNG terminal in Greece. The ongoing debate on the reduction of gas demand and supply diversification on the EU level should definitely signal the WB6 countries. Investments' role in achieving energy security will be intensified towards the Western Balkans and should highlight the EU-WB bond.

The energy security narrative has become a broader framework for newly designed policies that include decarbonization strategies. Roll-out of renewables, energy-efficient solutions, and supply diversification will be more important than ever, as well as the just transition and sustainable policymaking. The EGD and the GAWD implementation could be perceived as medium and long-term mitigation tools for some of the geopolitical risks. Overcoming these risks is now the key task for both the EU and the WB. A clear message and support of the EU to the WB could be the deciding act on the future EU-WB relations or the EU accession.

¹⁹ Holzner, Mario. 2022. “Serbia, China's gateway to Europe”. <https://wiiw.ac.at/serbia-china-s-gateway-to-europe-n-566.html>.

²⁰ Stanicek, Branislav and Simona Tarpova. 2022. “China's strategic interests in the Western Balkans”. [https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/733558/EPRS_BRI\(2022\)733558_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/733558/EPRS_BRI(2022)733558_EN.pdf).

²¹ Ichord F. Jr., Robert. 2022. “The war in Ukraine and gas in the Western Balkans”. <https://www.atlanticcouncil.org/blogs/energysource/the-war-in-ukraine-and-gas-in-the-western-balkans/>.