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Energy Transition
Infrastructure and Financial Challenges
for the Countries of the VEF Region

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House of Industry (Federation of Austrian Industries), Vienna



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Serbia joined the **European Green Deal** by signing the **declaration in November 2020 in Sofia**, when it initiated the creation of a strategic and investment framework for energy transition that also includes **adopting new regulations aligned with international standards**. Laws on energy efficiency and exploitation of renewable energy sources were adopted this year in April. Laws on energy and mining have been amended, which, together with the previously adopted Law on Climate Change, secured a new legal framework which is more favorable to the citizens and investors and aligned with EU regulations and the Paris Climate Accords.

Community of experts, civil society, as well as the international partners, were included in the preparation of the Law on Renewable Energy Sources from the very beginning. All considerations put forward by the companies, citizens, public enterprises, environmental organizations and state institutions whose area of operation overlaps with the energy sector were evaluated in detail. As a result, we now have a **modern law, aligned with the latest EU directives**, a law that encourages exploitation of renewable energy sources in all energy sectors, but this law is also important because of environmental protection, inclusion of citizens in the process of energy transition and having more efficient investment procedures.

Among other things, this new law introduces feed-in premiums instead of the feed-in tariffs that we had before, which shall now be reserved solely for small plants and demonstration projects, in line with the rules of EU state aid. The new system of incentives will expose the producers to the effects of market and competition, thereby diminishing costs for citizens and businesses. At the same time, it will **secure a stable and predictable legal framework for investors**, which also implies more simplified and more expedient administrative procedures.

This law is also important because it opens the possibility of **using brand new, modern technologies** that are very much important to the process of energy transition and decarbonization. For instance, a **legal framework for using hydrogen derived from renewable sources has been set up**, which places Serbia on an equal standing with developed EU countries. In light of the past problems and with the aim of environmental safety, this law prohibits construction of all hydroelectric power plants in protected areas, regardless of their type and capacity.

In addition to creating a favorable legislative framework and conditions for new investments in renewable energy sources, this law is also important because it particularly **encourages households and small buyers to become active participants in the electricity market**, and to go from being passive consumers to being active green energy producers. By placing solar panels on their roofs, citizens become buyers-producers who produce electric energy for their own purposes, hence reducing their electricity utility bill, and inject the surplus energy into the power grid.

Serbia's potential in the field of renewable energy sources is much greater than what has been exploited so far. This also applies to the share of renewable energy sources in gross electricity consumption, which is now approximately 22%. In the previous years, the biggest progress was made in **exploiting wind power**, with approximately 400 MW of installed capacity and another 170 MW under construction. On the other hand, **solar power plant** capacity is merely 11 MW, and it is estimated that if solar panels were placed on as little as 10% of the total surface of the roofs, which is 600 square kilometers, this would yield new power capacities of 6 GW, and that would significantly increase the total share of renewable energy sources in the energy mix.

The Law on Energy Efficiency and Rational Use of Energy should enable energy savings, stability of supply, diminishing the environmental and climate impacts of the energy sector and it should support sustainable exploitation of natural and other resources.

Present-day statistics for Serbia are devastating, given that it consumes 40% more heat power than the EU average. As of this year, Serbia has been subsidizing energy efficiency in a systematic way, through a **pilot project** of providing financial aid to citizens for replacing outdated joinery, insulation of buildings, replacing private-owned furnaces and shifting to cleaner energy sources for heat, which is in line with the new guidelines of the national energy policy.

This project includes subsidies amounting to 50% of the total investment value, which would equally be disbursed by the Government and local self-administrations, whereas the rest of the amount will be funded by the citizens themselves. Counting on greater support from the international financial institutions, the plan is to make a yearly investment in energy efficiency of approximately 150 million euros starting with next year. **Energy efficiency** will actually be Serbia's new energy capacity, given that savings in electricity and heat power consumption are equal to costs of constructing another power plant in Serbia.

Amendments to the Law on Energy provide long-term alignment with EU acquis, stability of delivery and supply of energy and energy sources, introduction of **new participants to the energy market**, but also the introduction of the status of a vulnerable customer also in the sector of heat power, in addition to the existing categories of vulnerable customers buying electricity and gas.

When it comes to mining, the value of **verified mineral reserves** in Serbia is approximately 200 billion dollars. Amendments to the Law on Mining and Geological Exploration should enable an **efficient and sustainable exploitation** of these resources, which implies the highest environmental standards.

The adopted laws are just a first substantial step towards Serbia's energy transition, whereas key strategic documents are expected to be drafted by the end of the year and they will determine the direction for the energy sector in Serbia in the following decades. In addition to this, a **new investment plan** is being prepared which will include projects worth 17 billion euros in all areas covered by the energy sector. The plan is to invest more than seven billion euros in the electric power sector, approximately three billion euros in the mining sector, and more than five billion euros are allocated to the renewable energy projects, primarily for constructing solar power plants and wind turbines. At present, the share of mining and energy in GDP is approximately 5%, whereas with a more dynamic growth of these sectors and new investments, the share of these sectors in GDP could be as much as 10%.

While Serbia at present generates the largest share of its electricity, approximately 70%, from thermal power plants that consume coal, last year in the EU, which is a global leader in energy transition, more energy was generated from renewable sources (38%) than from fossil fuels (37%) for the first time ever, with wind and solar power making up 20% of the total production in the EU.

Having in mind our international commitments, as well as the certainty of increase in costs concerning the operation of thermal power plants (e.g., the announced carbon taxes), in addition to gradual decline of coal-based energy production, another very important aspect of energy security in the upcoming decades is the construction of new large and medium-sized **hydroelectric power plants and gas power plants**, and greater exploitation of renewable energy sources.

Among other things, there is a plan to erect new and to revitalize the existing hydropower plants with total capacity of 3.5 GW, which includes the construction of a reversible hydropower plant Djerdap on the Danube River and one on Bistrica River, as well as new medium-capacity hydropower plants on the rivers Drina, Ibar and Morava.

As of the beginning of this year, Serbia has another line of supply in the gas department. However, energy security of Serbia, as well as of the entire region, also requires a diversification of the suppliers. Serbia's plan is to establish **gas interconnections with all the neighboring countries**, with the first project of the kind being the construction of the gas interconnection Niš-Dimitrovgrad.

In addition to this, there will be incentives for investing in development of renewable, and especially solar technologies and energy accumulation technologies, production of equipment and components, all based on raw materials available in Serbia, as well as the development of green hydrogen technologies. The vision is a **green Serbia**, one in which interests of energy security are in harmony with the imperative of environmental protection and climate-neutral growth. The aim is to have a 40% share of green energy in total energy production by 2040, and 50% by 2050. It is also expected that emissions of carbon dioxide, sulfur dioxide and all other harmful substances in the following 10 years match the levels of the said emissions in the EU.

Energy transition is a process that the **entire world is going through**, and it is our mission to come out of this process as winners, with a strong and sustainable energy system and a healthy environment.