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CEE Bankwatch Network proposals for areas to be covered by ex-ante conditions for IPA 3 for the Western Balkans¹

- **IPA funds should not fund fossil fuel infrastructure at all.**

Justification: The IPCC² and International Energy Agency³ have shown that if we are to limit climate change to 1.5 degrees Celsius, net zero emissions will have to be reached between 2040 and 2055, meaning there is simply no more time left to build new fossil fuel infrastructure. Grant funds should also not be used for the improvement of existing fossil fuel infrastructure as these costs should be borne by the companies involved, in line with the polluter pays principle.

- **Power sector projects financed by IPA need to be conditional on existing coal plants' compliance with the Large Combustion Plants Directive (LCPD), as required under the Energy Community Treaty, in order to avoid further enabling IPA countries to export electricity to the EU from non-compliant plants and exacerbating market distortions and carbon leakage.**

Preliminary emissions reporting from 2018⁴ shows that almost all plants across the region vastly exceeded the 2018 ceilings in the National Emissions Reduction Plans, especially for SO₂. The Western Balkan countries committed to meet the LCPD requirements back in 2005 when signing the Energy Community Treaty, so the failure to make more progress towards this is inexcusable. Meanwhile the countries sell electricity to neighbouring EU Member States such as Croatia, and soon also to Italy via the undersea cable from Montenegro, at artificially low prices enabled by lack of investments in their coal plants, distorting the market while also causing transboundary pollution that also seriously affects EU states.⁵

- **Energy sector projects can be financed by IPA only when independent, functional State aid authorities are in place and operating, as required by the SAAs and Energy Community Treaty.⁶**

¹ Some of these may not apply to Turkey so we have focused rather on the Western Balkans.

² IPCC Special Report no. 15, Summary for Policymakers, October 2018

https://www.ipcc.ch/site/assets/uploads/sites/2/2019/05/SR15_SPM_version_report_LR.pdf

³ World Energy Outlook 2018, November 2018:

<https://webstore.iea.org/download/summary/190?fileName=English-WEO-2018-ES.pdf>

⁴ For more details see <https://www.eionet.europa.eu/>

⁵ HEAL et al: Chronic Coal pollution, February 2019:

<https://www.env-health.org/wp-content/uploads/2019/02/Chronic-Coal-Pollution-report.pdf>

⁶ Article 18 of the Treaty prohibits any public aid which distorts or threatens to distort competition by favouring certain undertakings or certain energy resources, implying that an authority needs to be in place to implement this provision.

Justification: This is crucial to address ongoing subsidisation of coal by the Western Balkan countries⁷ and to address the imbalanced support for renewable energy, which favours damaging hydropower plants and in most cases continues to be based on feed-in tariffs rather than more transparent and efficient auctions and premiums.⁸

Only North Macedonia and Montenegro have State aid authorities that could be structurally considered independent, and in practice even these have not proven that they are able to function effectively. Although this situation will not change sufficiently, until there is a supranational authority performing ex ante assessments of proposed State aid measures in the countries,

- **Infrastructure financed by IPA needs to be dependent on the country or city having long-term sectoral strategies that are in line with EU policies.**

Justification: According to our understanding, IPA II funding for Bosnia and Herzegovina was conditioned on the country adopting a state-level energy strategy. The UK provided financing for this, but the resulting Strategy was neither in line with the EU's decarbonisation goals, nor can it really be called a sufficient basis for decision-making, as none of the scenarios was selected, and no Action Plan or other document was subsequently drawn up that would specify which scenario would be followed. As a result, the document is very limited in its usefulness.

Similar issues can be observed in the waste sector, where the countries have very little ambition or alignment with EU targets in terms of separate collection, waste prevention and recycling, and tend to concentrate most of their efforts on infrastructure like landfills and incinerators.

- **IPA funding for just transition of coal regions would be welcome as follows:**
 - If it is conditioned on **clear closure dates for plants and mines,**
 - If it **targets the communities affected** rather than providing money to the mining companies,
 - If the **coal region either already has, or agrees to develop using IPA funds, a long-term, cross-sectoral strategy for the redevelopment of the region coherent with Paris goals, created in a bottom-up, participatory process on the local level,** rather than by the central government.

Perhaps it is possible to increase the amount of IPA funding available for this task if the countries set national coal phase-out dates as well, as an incentive to take faster action.

Justification: Based on our experience with the EU's Coal Regions in Transition Platform and the projects proposed for funding in central Europe, we have observed that it is important to be clear from the beginning that just transition funding has to be for real transition, not a hand-out for the coal industry. Additionally, regional development plans coming from the central governments have not tended to respond

⁷ For more information, see:

<https://www.energy-community.org/news/Energy-Community-News/2019/06/20.html>

⁸ For more information, see CEE Bankwatch Network: Hydropower in the Western Balkans: Who pays, who profits? September 2019:

https://bankwatch.org/press_release/new-report-hydropower-subsidies-wreak-environmental-havoc-and-line-influential-pockets-in-the-western-balkans

to local needs and have been heavily influenced by large energy companies, whereas locally developed plans, such as the one for Upper Nitra, Slovakia, seem more grounded in local realities.⁹

- **Is IPA 3 planned to include a guarantee instrument that could be used to de-risk renewable energy investments?¹⁰ If so, we would welcome such an instrument, as long as it concentrates on technologies whose price may still drop.**

Justification: Wind and solar have developed very slowly in the Western Balkans and require action to give them a chance to develop relative to other technologies. In contrast, supporting even more hydropower in the region, or supporting waste or biomass usage, is highly likely to conflict with EU policies on biodiversity and waste.

- **Any strategies, programmes, action plans or other documents financed by IPA must be compatible with EU accession and following EU legislation and long-term policy (eg. climate policy).**

Justification: We have noted the development of several strategic documents being supported by the EU and EU countries, but which are incompatible with meeting eg. the EU's climate targets. Using EU funds for actions which delay alignment with EU policies and accession is counterproductive and not a good use of the EU's leverage.

- **When preparing, implementing and monitoring IPA assistance, the European Code of Conduct on partnership needs to be followed.¹¹**

Justification: Originally developed for the Structural and Investment Funds, we would like to see the Code of Conduct extended to the IPA Funds, in order to better include bodies representing civil society in monitoring the quality and transparency of decision-making. Until now, CSOs have been invited to participate in monitoring committees, however this is a very late stage as it only relates to implementation, and the selection process for representatives has not always been logical or transparent.

⁹ See for example

https://bankwatch.org/press_release/slovak-government-approves-just-transition-plan-for-upper-nitra

¹⁰ As recently outlined by Agora Energiewende in its report Clearing the way for renewable energies in Southeast Europe, 16 October, 2019.

<https://www.agora-energiewende.de/en/press/news-archive/clearing-the-way-for-renewable-energies-in-southeast-europe/>

¹¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0240&from=EN>