North Macedonia:

Greening as part of a European perspective

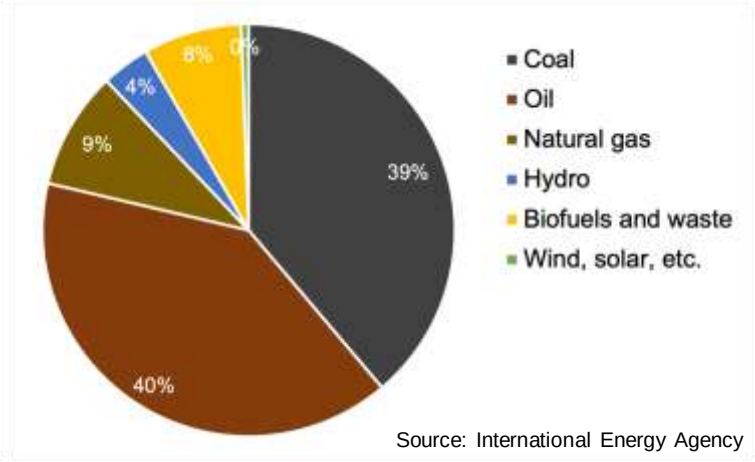
North Macedonia is a country of two million people at the intersection of several great powers' influences. Since 2016, when the government of the pro-Russian and pro-Chinese Nikola Gruevski fell following widespread protests, North Macedonia has strongly leaned towards a European perspective, as evidenced by the country's name change. In **July 2022, almost seventeen years after obtaining a candidate status, its accession talks with the EU have begun**. Energy and environmental reforms represent some of the biggest challenges in the integration process.

Despite a relatively strong transition trend, **North Macedonia's energy sector remains significantly dependent on fossil resources**, mainly coal and oil. Last year, the local government decided to close the two remaining coal-fired power plants, Bitola and Oslomej, as early as 2027. However, as a result of the energy crisis leading to power outages in late 2021-22 (similar to neighbouring Serbia) and following the resignation of progressive Prime Minister Zoran Zaev, the **coal phase-out was postponed until 2030**. At the same time, the past decade has seen a relatively significant development of gas capacity, but this is still entirely dependent on Russian supplies due to the still missing connection to the southern pipelines.

The share of renewables is still marginal, with only hydroelectricity producing significant output so far. **North Macedonia had built the region's first major wind farm in 2014**, but has not followed this up with any increase in installed capacity since. **Solar energy remains underdeveloped despite significant potential**, but several larger projects are planned, particularly on former coal sites. For example, a large photovoltaic park (120 MW installed capacity) is to be developed in cooperation with Bulgarian and Turkish investors on the site of the existing Oslomej mine and thermal power plant.

North Macedonia became the first Western Balkan country to adopt its National Energy and Climate Plan (NECP) in June 2022, providing a low-carbon transition roadmap for the next decade according to European Commission standards. It is also one of the countries in the region that has taken the first steps towards compliance with the EU ETS.

Total energy supply by source, 2019 (%)



Source: International Energy Agency

Key challenges for the energy transition

- ➔ **Moving away from mining and burning lignite and reducing the share of electricity imports** while maintaining a stable and affordable supply.
- ➔ **Eliminating dependence on Russian gas imports**, in particular through participation in the EU LNG joint purchasing initiative, and thanks to the construction of a link to the southern pipelines transporting natural gas from Turkey and Azerbaijan.
- ➔ **Accelerating the introduction of carbon taxation** or an EU ETS-linked trading system to avoid the prospective negative impacts of the of CBAM.
- ➔ **Substantially reducing local pollution from coal-fired power plants, transport and heating of buildings,** one of the highest in Europe, with negative impacts on the health of the population and the economy.

Position of domestic actors

The former state-owned energy monopoly was split into three separate companies in 2005: **the Electricity Supply Company of North Macedonia (ESM)**, which manages most of the country's key generating capacity, the transmission system manager **MEPSO**, and finally **EVN** as a distribution and supply company privatised years ago into Austrian hands. **GA-MA** is the manager of the still underdeveloped gas transmission system, while fuel distribution is handled by **Makpetrol**. The role of regulator is played by the Energy Regulatory Commission, whose independence is positively assessed by the Energy Community.

The energy agenda falls under the responsibility of **the Ministry of Economy**, for more than five years headed by **Kreshnik Bekteshi**, representing the most important party of the Albanian minority in North Macedonia, DUI. The party announced last year that it wanted to prioritize to environmental issues, which cross ethnic divides, causing scepticism among analysts and environmentalists.

In recent months, the ministry under Bektehsi's leadership has allowed households and businesses to sell surplus clean electricity from their own generation to the grid, and it has introduced an obligation for the distributor EVN to supply all households installing solar panels with free smart meters, a necessary part of the effort to introduce a so-called smart grid.

However, the North Macedonian government must **currently prioritise addressing high energy prices and the lack of electricity supply** that have led it to declare a state of crisis lasting the entire first half of 2022, and then again from August. This situation has resulted in the **postponement of the planned closure of domestic lignite power plants**, **efforts to purchase millions of tonnes of coal from Kosovo, and a plan to open up new coal deposits** in the North Macedonian territory, driven also by the activities of the ESM.

In June this year, the **Open Balkan initiative established a working group on energy cooperation** between North Macedonia, Albania and Serbia with the aim of creating joint investment plans in renewable energy or taking steps to integrate energy markets. If successful, it can serve as an example of good practice in regional cooperation, which could be built upon over time with further activities and possibly the participation of other countries.

Serbian Minister Zorana Mihajlović (left), North Macedonian Minister Kreshnik Bekteshi and Albanian Minister Bellinda Baluku - initiators of the Joint Energy Task Force. Source: Facebook/Bellinda Baluku (2022)

International actors

Although **North Macedonia has been fully dependent on Russian gas supplies, the planned steps should open up access to alternative suppliers**. By contrast, the country imports almost no oil products directly from Russia. The key exporter of petroleum products to North Macedonia is Greece, with which the country is currently cooperating on the construction of a floating LNG terminal. The country has also started talks with Bulgaria to secure electricity and gas supplies for next winter.

In the renewable energy sector, apart from domestic investors, **Turkish companies are the most active** as they stand behind large photovoltaic and wind projects. Slovenian and Bulgarian companies are also investing in PV in the country and German and French investors are expected to enter as well.

China's role in the North Macedonian energy sector is limited at the moment. The Chinese state-owned company CWE built the HPP Kozjak hydroelectric power plant in the country at the turn of the millennium. Later, China was implicated in the Gruevski government's corruption scandals, and the new administration focused on building relations with the West. With the coming renewable energy boom, its increased role can be expected, but no information is available on specific projects. **The focus of Chinese influence is currently on transport infrastructure projects.**

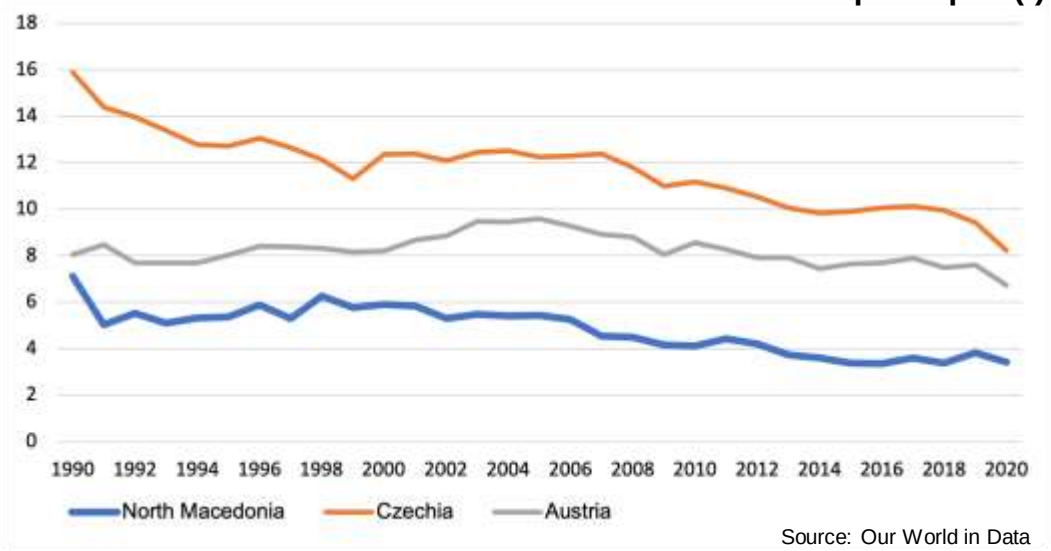
Role of the EU

Although North Macedonia was granted candidate status in 2005 already, accession talks with the country did not start until the summer of 2022. **The role of the European Union in the country is nonetheless crucial**, having been significantly strengthened especially after the so-called colour revolution in 2016 and the arrival of pro-EU Prime Minister Zoran Zaev. He also co-hosted the Sofia Summit in 2020, where the so-called **Green Agenda for the Western Balkans** was adopted, promising compliance with EU targets of climate neutrality by 2050, continued interconnection with the EU ETS (a condition for exemption from the effects of the planned introduction of CBAM, the so-called carbon tariff), development of renewable energy sources or energy savings.

North Macedonia is part of the Energy Community, where it regularly ranks among the most advanced of the six Western Balkan countries in terms of energy sector reforms. This year it also **became the first Energy Community country to adopt a National Energy and Climate Plan (NECP)**, following the example of EU Member States.

The European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) are among the most important investors in the modernisation of the country's energy sector.

CO2 emissions per capita (t)



Source: Our World in Data

Relevance for Czechia

Historically and due to its geographical location, North Macedonia has not been one of the most interesting partners for the Czech Republic in the region, but this may be different in the future. Given its long-standing strong pro-European orientation and the progressive reform process, **North Macedonia may offer attractive opportunities for cooperation in areas related to energy transformation and decarbonisation**.

The energy crisis, manifested by high prices and insufficient energy supply, has led the North Macedonian government to increase support for the construction of renewable energy sources, creating **an interesting situation for potential foreign investors in strategic projects**. According to available information, the Czech Embassy in Skopje has already been in contact with several domestic companies in this regard. However, it should be noted that obtaining state support and implementing projects is preceded by a rather complicated administrative process.

In addition to supporting the development of low-emission energy, investment opportunities for specialised Czech companies in the field of technological solutions to the high level of local pollution from outdated coal-fired power plants or from domestic heating can also be considered. The modernisation of the building and transport sectors may also prove promising for a potential entry of Czech firms.

Last but not least, the Czech Republic can look for ways to assist the local highly active civil society in its efforts to support the implementation of environmental reforms.

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