



Along with agriculture, energy could be the driving force behind development. We have the potential to be energysafe, and I am not talking about gas or oil, since we have very little of those to have sufficient energy security. As far as electricity goes, we cannot only be safe but we can even export it. We have a huge untapped potential, and all of the Ministry's activities will be focused on the maximum utilization of this potential and on opening our county to foreign investors

For over two decades, not a single infrastructural energy facility has been built and, simply put, the energy system is ruined. Investors are not able to invest since obtaining the required permits takes as long as constructing the facility. Despite having an ambitious strategy of which very little has been implemented, Serbia is still a land of unregulated landfills. If the plans put forward by Zorana Mihajlović, Minister of Energy, Development and Environmental Protection, come true, next year investors will be able obtain the necessary papers from the Ministry and, in a foreseeable future, Serbia could become a huge building site with many energy facilities under construction. In an exclusive interview for CorD, the minister talks about the Ministry's plans, the current situation in energy and environmental sector, and announces new projects and a new state strategy for both sectors.

You have taken over two former departments and said on quite a few occasions that you were not satisfied with the situation that you found there. In a few short lines, could you tell us what has to be changed in order to create the basis for the implementation of strategic projects in these two sectors?

I have been dealing with energy issues for that past twenty years, and I have always said that energy is the sector that can move Serbia forward, but also inhibits economic growth. In the previous period, unfortunately energy did the latter.

Could you provide arguments to support those claims?

There wasn't a single infrastructural energy facility built in the last 27 years. At the same time, consumption of electricity was growing between three and five percent annually regardless of the country's battling economic crises for years and industry not developing. This means that it was the population that has been paying for electricity consumption. Just think what would have happened if the industry grew! What would happen to electricity then? Our current deficit is 20% and, on top of that, we import electricity during the winter and sometimes even in summer. If we had a developed industry, I am afraid that we wouldn't be able to produce the needed quantities. What we are talking about is a ruined energy sector where nothing has been constructed for years. There isn't a single good reason why no hydro or thermal-power plants have been built. The TENT B2 thermal-power plant was supposed to be connected to the grid in 2007, and we have only now signed a memorandum on its construction. The Kolubara B plant could have also been built in 2005

or 2007. I don't even want to talk about hydro-facilities on the Drina River or small hydro-power plants. Serbia has 900 locations suitable for small hydro-power plants and, for the past 12 years, all 900 could have been built. In terms of gas, we haven't built gas systems all over the country, although we made a commitment that we would do so.

Let's talk about your dissatisfaction with the environmental protection sector. What are you planning on changing?

It seems to me that with all of these numerous energy and environmental strategies that Serbia has, we have no results to show for them. No new facilities have been built, no landfills regulated, no new landfills or recycling facilities constructed; we don't have cleaner water, air or land. In short, there are several things that have to be changed. As far as energy goes, we need to launch and build new facilities, find new mineral fields, raise energy efficiency and use the resources we have at our disposal: hydro-resources and renewable energy sources. If we are talking about environmental protection, we need urgently to open recycling facilities and regulate landfills, that is, recultivate the existing landfills and open new ones.

You claim that a lot more could have been done.

In just over two months, which is how long we have been in office, it became clear to us that serious investors are interested in investing here. However, they have been put off by bureaucratic procedures and severe problems they had with public enterprises and ministries, as well as with a huge number of permits they had to obtain.

At the beginning of your term in the office, you talked about three strategic priorities - increasing energy efficiency, constructing new facilities and establishing recycling centres.

Where is the money for these projects going to come from?

From several venues. One option is forging strategic partnerships, and this applies mainly to large-scale infrastructural projects. Also, in certain cases Serbia will own a facility, while a strategic partner would provide equipment and render consulting services.

Could you give us an example of that?

We are going to try to finish some hydro-power plants like Bistrica, in that way. Public-private partnership is something that still hasn't taken off here, since we had to have certain bylaws in place. Now, when we do have those bylaws, we might not need to borrow money to build. Energy efficiency projects can be drafted only by the state. The state, banks and potential investors need to collaborate. I believe that, in the following three to four years, we are going to see the first effects of energy efficiency. We are waiting for the results in that area. For instance, Poland needed 12 years to reduce its consumption of final energy by 20%.

You have already mentioned that foreign investors were interested in investing in other projects apart from energy and environment. This was confirmed at a recent meeting between the Foreign Investors Council and the German-Serbian Business Association. Have

you already instigated talks about these topics and which key criteria are you going to insist on?

This Ministry is completing a very important document on which I have been insisting. It is a plan that contains investment priorities in the energy and environmental protection sector. In this document, projects will be ranked, since one of the reasons that investments here have been insufficient is not having set priorities. Several projects were implemented at the same time without a clear goal. We know what we want, and I believe that investments will be made much quicker than before. Investors from all over the world - from China and Germany to Russia and Canada - have been expressing their interest in investing here. All of them are waiting for this document to be finished and for talks about concrete projects to start. Chinese investors are interested in Đerdap 3 and we have already had initial talks with them. We are now waiting for a draft memorandum for Đerdap 3 to be sent to us so that we can move on with the project.

Speaking of memoranda, what is the status of the memorandum that was signed with RWE in Germany recently about construction of the Nikola Tesla 3 thermal- power plant and a hydro-power plant on the Morava River?

A task force has been formed, and we expect them to give us their opinion early next year so that we can proceed with drafting a feasibility study or preliminary project documents. After that, we are going to sign a contract which, in my opinion, is the most important. Once we do that, the project becomes binding for both sides and, until that happens, we can change or add to the document.

Even when you sign a contract that doesn't mean that we have a favourable investment environment in Serbia that will facilitate investments.

Because of difficult and serious bureaucratic problems, an investor can lose up to two years in trying to obtain all documents, while, at the same time, Serbia is losing new quantities of heat or electricity. Hence, we are going to finish writing a rule book. Once that is done, we are going to reduce the number of permits required to build a small hydro-power plant from 27 to five or six. Next year, we are going to have a department in the Ministry whose sole purpose will be to prepare the documents that investors need. So, once an investor wins a public tender and is allowed to build one or five small power plants, he won't have to wander from institution to institution but will come to the Ministry that will do the job. All of this will be regulated by contracts. It is in our best interest for construction to start as soon as possible. It takes two years to build a small power plant which is exactly how long it takes an investor to obtain all the permits now. While we are wasting time, we are also losing 4.5 million kilowatts of electricity each year.

Does the government support your plans for reforming the energy and environmental protection sectors?

Maybe there hasn't been enough awareness about the importance of the energy sector in

the past, but there is no doubt now that energy is virtually the only sector that can push Serbia forward. What else do we have? I am not talking about gas or oil, since we have very little of those to have sufficient energy security. If we are talking about electricity, we can be safe since we are even exporting it. We have enough potential, primarily hydro-potential. By endorsing the Memorandum that we have signed with German RWE, the government is also raising awareness about the importance of this sector.

A regional energy strategy has been adopted recently. What do you expect from it and what will the strategy mean to the economy and citizens?

Only a framework strategy has been adopted. As far as its importance is concerned, everybody in the region finally understands that we need to connect to each other.

Southeast European countries don't have enough electricity, and estimates have shown that it will take at least EUR 20 billion in investments in order to secure sufficient quantities of electricity. Each regional country has submitted its projects, just as we have submitted the projects for mĐerdap 3 and power plants on the middle Drina. Also, at the ministerial summit, where the framework strategy was adopted, each of the countries presented an overview of their energy situations. Apart from that, very important EU directives have been endorsed, one of them being the modulating of statistical data on energy. We undertook to have enough oil and oil products to last us at least 90 days in case a crisis strikes, and we need to do this by 2023. Serbia also undertook to generate at least 27% of its electricity from renewable energy sources by 2020.

Do you think that we can do what these directives want us to do?

We can and we have to if we are serious about tackling the aforementioned problems. If we don't do that, without a grid or relevant facilities, we are going to be excluded from the energy transit.

When are the projects from the regional strategy going to be implemented and which countries are Serbia's project partners?

We have already been talking with the Republic of Srpska and Montenegro which are our natural partners. We have been discussing the projects on the mid-stream Drina with the Republic of Srpska. This is already stipulated in the energy treaty that we have signed with Italy and which is supposed to be ratified soon. With Montenegro, we are probably going to cooperate on the Brodarevo I and Brodarevo II projects, but I will be able to tell you more about that once we discuss the details.

In terms of the pace at which the energy sector should develop, which investment projects could be realistically implemented in the next three years?

It is realistic to expect that the construction of the 700-megawatt TENT B3 thermal power plant will start within that period. We are going to find out soon whether Edison will sign an agreement on construction of the Kolubara B thermal power plant and start with the works. Also, it is realistic to expect not only a memorandum but also a contract to be signed on the

construction of the Đerdap 3 hydropower plant, as well as the Bistrica hydro-power plant. Also, we have projects to be implemented on the mid-stream Drina for constructing four hydro-power plants. On top of that, there are projects like building small power plants. We are going to accommodate investors as much as possible in order for them to come here and start building. Very little has been said about modernizing heating plants which are also going to produce electricity.

Where will you get money for that?

Through opportunities offered by public-private partnerships. In terms of how high the investment is going to be, that will depend on what fuel the heating plants use. We estimate the figure to range between EUR 10 and 100 million.

How can we improve energy efficiency?

There are plenty of opportunities to do that! Our task is to encourage investors to use technology that is energy efficient. Households cannot do that by themselves so we are going to try to financially help them, as well as educate them about the importance of energy efficiency. We are going to conclude certain financial arrangements with banks so that we can help people to use energy rationally in their homes and at work.

From everything that you have said we can conclude that your plans are pretty ambitious.

Do you think that Serbia has enough professionals to implement all of those projects?

Our ministry is open to people with the know-how and experience. There are such people in Serbia and they are welcome to come to us.

As you said, one of the priorities is opening recycling facilities and reducing harmful gas emissions. This entails education and big investments. How are you going to approach this problem?

The current strategy has proved to be too optimistic, which can be seen from its results or rather lack thereof. Out of 27 recycling centres, only four were opened, and out of 30 landfills that were supposed to be recultivated, only three have been recultivated and two built. These are very disappointing results achieved in the last six years. We want to build five regional landfills in the next two years. We are going to talk to local authorities in order to find partners for public-private partnerships. It is important to use the best possible technology, to avoid bank loans, and for the landfills to be profitable both for investors and the towns.

What plans do you have for generating electricity from renewable energy sources? The hot issue right now is reducing feed-in tariffs.

A feed-in tariff offers long-term contracts to producers of electricity from small hydro power plants, biomass facilities, solar energy, wind and biogas. These contracts are valid 12 years from the beginning of production. By having feed-in tariffs, countries, including Serbia, stimulate investments in renewable energy sources. Due to the crisis, many countries have abolished these tariffs. We are going to re-examine ours, and we are probably not going to

reduce them. We might reduce the length of the contracts. We need to review the subsidies for investors who are investing in renewable energy sources since the current policy hasn't yielded results. No solar or wind power plants have been built in the past period. However, we are going to increase the preferential quotas for manufacturers of solar and wind energy since the existing ones have already been reserved.

So, why have no investments been made in renewable energy sources despite the feed-in tariffs being so incentivising?

Because of the red tape and quiet resistance from Electric Power Industry of Serbia (EPS). If you have privileged independent energy producers, EPS is obligated to sign a contract with them that will stipulate buying energy according to the said feed-in tariffs. This hasn't been done in order for EPS to maintain a monopoly. That is going to change, and we are not only going to have cleaner energy, but also force EPS to be more efficient because of the competition.

EPS is the biggest financial loser in Serbian economy if we consider that accumulated debts have been reducing the company's value year-on-year. How are you going to resolve the problems in this company?

The two biggest public energy enterprises - EPS and Srbijagas - have sustained huge losses and have big loans to repay. You cannot tell which one is worse, but EPS has a better chance of recuperating since it produces electricity. With every new facility, EPS should do better. We are not going to sell these companies, but we will try to reform and restructure them. We are working on the incorporation of EPS by consolidating the management in order to save money and to have a clear picture of who does what in the company. This will cover everything from public acquisitions to minute details. We think that we can save at least 15% to 20%. Finally, the electricity price needs to change, but only when the state finishes what it has set out to do: change the tariff system and social map. As of next year, we can start talking about a more realistic price of electricity.

EPS keeps on saying that the company would be more efficient if the electricity price was more commercial. What do you think about that?

Analyses conducted by several globally renowned consultancies have shown that the price of electricity makes up only 40% of the company's problems. Other problems pertain to its efficiency. We can have any price we want as long as the people can pay it. Also, a billion euros in liabilities pose a problem. We are going to try to have interest rates written off. Nevertheless, everybody should understand that electricity and gas bills have to be paid. We are going to allow people to pay their bills in instalments, but we are also going to insist on payments being made on a regular basis.

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