

Government upon Government, you’ll always hear this mantra that renewable energy is “nice”, but that Serbia is not rich enough for it. Germany, Belgium, Norway, Sweden, Denmark...they can afford to “go green” but Serbia simply cannot. We are not rich enough. This is THE myth of the Serbian energy sector. Hence it needs to be carefully analyzed.

The electricity price in Serbia is currently €5.4 cents per kWh (for households, i.e. everyone on the low voltage). The electricity price in Serbia is one of the lowest, if not the lowest, in Europe. It is obviously heavily regulated and heavily subsidized. The current price was set on 1 August 2013 and, at the time, represented an increase in price of 11,3% on average which, as pointed out by the State electricity company EPS, did not even cover inflation increase which, from the previous price increase, was 14,1%. Just how regulated the price really is can be seen when one compares this price to the price currently being offered to large industrial consumers. As of 1 January 2013, the market was liberalized for everyone on the high voltage line, which ended EPS’ monopoly in this segment. In the liberalized market, EPS offered to sign contracts with large industrial consumers at a price of about €7 cents per kWh (approximately 46% increase compared to regulated price) although, as they stated, the real market price would represent 60% increase compared to regulated price of electricity. All but one company in Serbia signed contract with EPS which goes to prove that EPS is right – the real market price is indeed higher.

Going back to the still subsidized prices, economically bizarre is the apologetic argument that EPS stated in their press release when the increase in price took place in which they emphasize that “with the prices which are far below market level we will continue to support economic stability of the citizens and the State”. It continues to say that “EPS has renounced considerable financial resources which it was supposed to invest in modernization, new production capacities and environmental programs, as well as into its internal reorganization”.

That right there is the myth captured in two sentences. For decades now, the entire Serbian energy sector was based on the logic that with the heavily subsidized prices, the state-owned company is “supporting economic stability of the citizens and the State”.

Firstly, there is no such thing as heavily subsidized price – citizens, as tax payers, end up paying for everything. If not through the energy bill, we pay for it through other taxes, but at the end of each year, citizens have to, and have been for years, cover the deficit on the accounts of public utility companies such as EPS. Therefore, we all share the costs, regardless of when we pay it and regardless of how much we’ve actually consumed. In addition to that, since EPS decided to give up on its profits, not only has this not supported the economic security of the citizens and the State, but that policy also endangers energy security as well as environmental safety. For years now, EPS has no means to invest in new production capacities, modernization or environmental protection, and private investors have no interest to invest in new capacities in the heavily regulated market. Year after year,

Serbia’s energy production capacities grow obsolete and with no new investment, the country becomes more energy insecure, more import dependent, and with slightly less clean air to breathe.

To sum up, regulated price of electricity and its treatment as a social category represents one of the most important causes of stagnation and degradation of Serbia’s energy sector.

Therefore, electricity prices are one of the greatest challenges for the sector’s modernization.

In the past two to three decades, the subsidized price of electricity caused multiple problems for the energy sector. Economically, the prices discouraged any serious investments in the energy sector, including new thermal power plants or large hydro, since they cannot be financially viable. At the same time, they prevent adequate maintenance of the system as State-owned companies, EPS primarily, suffer losses. In the long run, this leads to significant energy insecurity and dependence on imports. Politically, such prices, under false pretense of “preserving social peace”, protect the State monopoly on the energy market and thus represent an obstacle on the EU accession path with regards to market liberalization, emissions of gases with greenhouse effect into the atmosphere, and lack of utilization of renewable energy sources. Finally, the most notable consequence of heavily subsidized prices of electricity is energy inefficiency. Simply put, citizens do not have financial incentives to save energy. The lower the prices, the higher the consumption. Naturally therefore, Serbia is on the very top of the European list of energy consumption per capita. According to the Consumer Association of Serbia (APOS), average consumption of electricity in Serbia is 150-200 kWh per square meter a year in residential buildings, which is three to four times more than the European average .