BRIEFING PAPER MARCH 2017

ENERGY-SYSTEM TRANSFORMATION IN CENTRAL AND EASTERN EUROPE

COUNTRY BRIEFING: SLOVAKIA

Slovakia's stance on EU climate and energy policy

Slovakia is aligned with the Visegrád Group on most issues. As the smallest member state, the group is seen to help Slovakia punch above its weight at the EU level. At the same time, tensions within the Visegrád Group have been rising and Slovakia, together with the Czech Republic, has been opposing Hungary and Poland on a growing number of issues.

Slovakia typically cites the local impacts of energy and climate policy, e.g. on energy prices or competitiveness as reasons why it is reluctant to implement ambitious climate policies. The country so far did not have significant problems to fulfil its EU targets and its government has not shown any leadership on more ambitious climate policies. But there are promising efforts at the regional level to support smart energy, mostly in the least developed regions.

Generally, the Slovak government insists strongly on national sovereignty in determining their energy mix. It is against more ambition coming from the EU level and favours more flexibility on how to reach climate and energy targets. The country is generally opposed to binding national targets, e.g. on renewables. If they cannot avoid binding regulation, Slovakia negotiates strongly to keep standards as low as possible (see EU 2020 targets), or strongly advocates for its industry (see unrealistically high amount of allowances under the ETS).

At the same time, Slovakia pushed through swift ratification of the Paris Agreement when it held the EU Council Presidency. Prime Minister Fico considers this a big success of Slovakia and of the major goals of the Slovak Presidency. This should not be overrated, as the first position of Slovak diplomacy on the EU 2030 targets negotiations shows the business as usual approach. Slovakia, in alignment with the Visegrád Group, typically prefers the non-binding UN process to taking on binding obligations under EU energy and climate policy. While they realistically know that they cannot avoid 2030 targets, we may expect strong opposition and a tendency for minimising obligations for CO_2 reduction, renewables and energy efficiency targets.

General data

Population (2015)	5.43 million
GDP per capita (2015, current prices)	€14,500
Corruption Index (0= highly corrupt, 100= very clean)	51 in 2016, 51 in 2015
Democracy Index (ranking of 167 countries)	42 in 2016, 43 in 2015

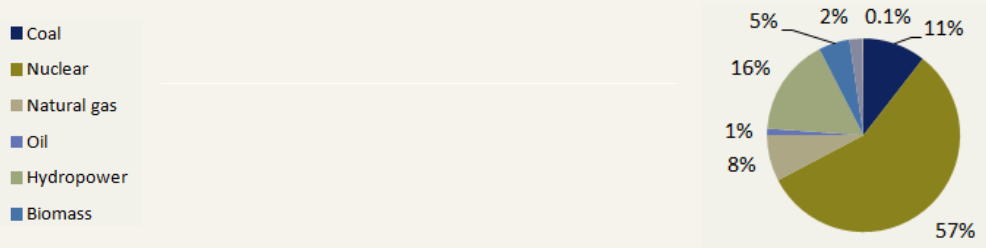
Value added per sector (% of GDP)

Allocation and use of EU Funds (2014-2020)

Total allocation of European Structural Investment Funds	€20.1 billion
Planned investments in energy efficiency and renewables	€1.35 billion
EU Cohesion Policy Investments as share of public investment (2007-2014)	52.1%

Energy statistics

Gross inland energy consumption (2015, ktoe)	16,425
Electricity generation (2015, TWh)	47.49



Energy intensity (2015, kgoe/1000€)	448.5
Energy poverty (inability to keep home adequately warm)	13.6%
Employment in coal sector (2015)	3486 in lignite mining and approx. 500 in related activities
Renewable energy capacity of individuals, collectives, public entities and small enterprises (2015)	1MW wind 30MW solar
Renewable energy potential	2,100MW wind, 14,900MW solar PV, 4,600MW biomass, 400MW small hydro

Sources: Eurostat **(2016)**, TI **Corruption Perception Index** 2016, EIU **Democracy Index 2016**, European Commission **(2013**, **2014, 2016)**, **Bankwatch (2016)**, BPIE **(2015)**, HBP **(2015)**, CE Delft **(2016)**, UNDP **(2014)**

Key political economy insights on Slovakia

Uniquely among CEE countries, the Slovak coalition government elected in March 2016 has a binding provision to develop a 2050 low-carbon strategy in its coalition agreement.[1] Junior coalition partner Most-Hid, which is in charge of the Environment Ministry, pushed for this provision to be included. Slovakia has signed a cooperative agreement with the World Bank, bringing in World Bank experts to help with modelling transition pathways and developing policy interventions. Regional and local low-carbon strategies are also being pursued. Money has been allocated for this purpose in the Operational Programme "Quality of the Environment" in the framework of EU Cohesion policy.

Slovak Prime Minister Robert Fico considers the quick EU ratification of the Paris Agreement as a big success of Slovakia as one of the major goals of the Slovak Presidency of the Council of the EU.[2] The country's EU Presidency has led to additional capacities in the government's ministries, which created new opportunities for enhancing cooperation with different stakeholders, including on the Environmental Policy Strategy to 2030 which is currently being updated.

The country is easily on track towards achieving its 2020 climate and energy targets. This is partly due to policy implementation and use of Cohesion Funds in particular to realise energy savings [3] but also to having negotiated targets that were easily achievable. The 2020 emissions target, for instance, allows Slovakia to increase CO_2

[1] The Slovak Spectator 2016. **Government publishes coalition agreement**, 13 April 2016.

[2] EEB 2016. **Assessment of the Environmental Results of the Slovak Presidency of the EU July-December 2016**; Euractiv 2016 **Predsedníctvo sa končí. V migrácii nepresvedčilo, výsledky má inde**, 13 December 2016

[3] Baláž, V., Filčák, R., Jeck, T., Škobla, D. and Polo, M. 2015. A Pilot Project - Contribution to the EU2020 - Climate Change and Energy Sustainability: Evaluation Report 2015. Bratislava: Office of the Government.

emissions by 13% compared to 2005.[4] Achieving the 2030 and 2050 targets will be more difficult, as business as usual approaches will no longer be sufficient.[5]

A number of barriers stand in the way of low-carbon progress. The energy intensity of the economy consistently ranks among the highest in the EU and is about 80% higher than the EU average. Electricity prices are high compared to neighbouring countries and include several politically motivated price components, such as a feed-in-tariff for domestically produced lignite which is granted until 2030.[6]

The regulatory framework is very complex, unstable and non-transparent. Legislation on renewables has been subject to frequent changes, undermining investor confidence in the Slovak renewables sector. Similar to other CEE countries, a generous feed-in-tariff for renewables was introduced in 2009, only to be cut back in both 2011 and 2013 over cost concerns.[7] New regulations adopted by the Regulatory Office for Network Industries (for the period from 2017 to 2021) have retroactively lowered price support for combined heat and power systems (CHP). A wave of complaints and suits is expected from small producers although the constitutional court recently ruled in favour of the government's right to change the conditions.

The connection of new renewable energy installations to the grid is difficult because all three distribution grid operators have been refusing since 2013 to connect renewables above 10 kWp to the grid. They argue that they are still processing studies about grid capacities.[8] The European Commission started investigations on this and two other cases of regulatory obstacles to renewable energy.[9]

The Slovak energy sector is characterised by strong centralisation, which is not conducive to driving a low-carbon transition. Electricity production is overwhelmingly based on nuclear power (57%), followed by hydropower (17%), coal (11%) and gas (8%).[10] While the power system therefore has comparatively low emissions this decreases the pressure to work on distribution grid extensions and market design changes that would be needed to integrate solar PV and wind power. The rest of the economy is much more emissions intensive. Due to high fossil fuel use in the transport and heating sectors, fossil fuels cover 71.7% of gross inland energy consumption and Slovakia is almost 90% dependent on their import, fuelling energy security concerns.[11] With the completion of the third and fourth units at the Mochovce nuclear power plant on the horizon, Slovakia will have significant overcapacity, which will put the

[4] DOKUPILOVÁ, Dušana - FILČÁK, Richard. Narastanie závažnosti problému a dôsledkov zmeny klímy : 9. kapitola. In **Globálne megatrendy : Hodnotenie a výzvy z pohľadu Slovenskej republiky** [online]. - Bratislava : Centrum spoločenských a psychologických vied, Slovenská akadémia vied, 2016, s. 174-191. ISBN 978-80-970850-2-5

[5] Filcak: Landscape of climate change policies: Drivers, barriers and stakeholdres´analysis (2016)

[6] **Country Report Slovakia 2017. Rep. no. 1176/2011**. European Commission, 22 Feb. 2017. Web. 23 Feb. 2017.

[7] **http://www.pvgrid.eu/de/national-updates/slovakia.html**

[8] **http://www.pvgrid.eu/database/pvgrid/slovakia/national-profile-13/residential-systems/2679/residential-pv-system-on-rooftops-1.html#**

[9] **http://www.sapi.sk/europska-komisia-zacala-presetrovat-energeticke-kauzy-na-slovensku/**

[10] Eurostat 2014 figures

[11] Ibid.

government under pressure to justify the considerable planned investments in nuclear energy. One of the possible explanations for the reluctance to increase the renewables share is that investments in nuclear power plants would not pay off if they face increased competition from renewables.

In terms of non-hydro renewables, Slovakia is betting heavily on biomass.[12] Over half of renewable energy used in Slovakia comes from biomass and there are grave concerns about its sustainability.[13] It has already led to an increase in salvage logging, which, together with the growing biomass market, will likely pose a future threat to Slovakia's forests. Development pathways of biomass show that both small and negative GHG savings are possible.[14] The government is also looking to further expand hydropower, including in Natura 2000-areas.[15]

While the government is not actively promoting renewables except for small installations (up to 10kWp) and biomass, municipalities and regions are starting to look into energy efficiency and renewables to decrease energy consumption and increase local value-added as well as energy independence. In the context of the regional low-carbon strategies that will be developed local actors could become drivers of renewable energy and energy efficiency investment going forward.

The social impact of phasing out coal constitutes another important barrier to a low-carbon transition. Slovakian Prime Minister Robert Fico has repeatedly assured that he will maintain the approximately 4,200 jobs related to lignite mining in the Prievidza region, for instance. These jobs are under threat because Slovak coal production is not sustainable at current levels, given the low quality of the coal and inefficient electricity production. Moreover, mining company HBP has difficulties finding enough qualified specialists in Slovakia and has even imported workers from neighbouring states.

The Slovak state spends around €95.4m per year[16] [17] on the coal sector which cannot maintain profit without subsidies and feed-in tariffs. The Institute of Financial Policy under the Ministry of Finance has raised doubts that the amount of these subsidies is fair while the mining company has been subject to allegations for corruption. There is also an ongoing investigation for breaching the EU air quality standards at a time when air pollution is recognised as one of the two biggest environmental problems in Slovakia.[18]

[12] Eurostat (2016). **Energy from renewable sources**. Statistics Explained.

[13] Ministry of the Environment (2016). **Criteria for sustainable use of biomass in the regions of Slovakia for programmes in SR for 2014-2020 co-financed from ESIF**. KPMG, 2016.

[14] European Commission (2014). **State of play on the sustainability of solid and gaseous biomass used for electricity, heating and cooling in the EU**. Staff Working Document SWD(2014) 259.

[15] WWF Global (2017) **Hydropower threats in Slovakia, Romania, Bulgaria and Ukraine**

[16] Regulatory office for network industries, **Decisions in the field of electricity industry**, 2016

[17] Dennik N, **Za výrobu v Novákoch dostanú elektrárne 95,4 milióna eur**, 2017.

[18] European Commission (2014) **Attitudes of European Citizens towards the environment**, Special Eurobarometer 416

Political Recommendations

- **Capacity building for local stakeholders**: Municipalities have to understand the concept of smart energy in order to be able to implement it effectively. National EU-funded projects of the Slovak Innovation and Energy Agency have a great potential to provide consulting services for municipalities, regions and households. Universities should strengthen cooperation with NGOs and local actors. Promoting exchange between experts ("twinning" experts) from Germany and Slovakia, such as governmental or municipal representatives, might enhance the process of energy transformation.
- **Transfer of know-how**: It is important to share organisational models and legal forms of local energy cooperatives and similar initiatives, mostly from Austria, Germany (*Stadtwerke*, *Genossenschaften*), the Czech Republic, Hungary and between Slovak regions. The models should be tested in pilot projects. The action plans for development of the least developed regions could be utilised as a tool to promote the idea of localised energy generation and cooperatives.
- **Empower low-carbon stakeholders:** It is crucial to empower key stakeholders, which can contribute to an energy transition. Renewable Energy Sources and Energy Efficiency industry associations also lack coordination and media presence and have only weak influence on the public debate. In this context, further support is needed to improve the capacities of NGOs working on climate and energy at the national level.
- **Environmental policy strategy to 2030 and the Low-Carbon Strategy 2050:** Civil society and key stakeholders should be involved in the development of the strategies in a transparent and participatory way, and the process should be backed by credible data. The strategies should clearly show how Slovakia will reach ambitious 2030 and 2050 targets set up by the EU and what measures need to be implemented.[19]
- **Energy planning at the regional level:** The Slovak Innovation and Energy Agency should develop a common methodology for regional low-carbon development strategies. Simple online tools supporting energy planning of municipalities and regions would be very useful also for analytical and sharing purposes.
- **Energy efficiency potential:** The Slovak government should support measures to make the most of the 70% energy savings potential[20] in Slovak industry based on best practices in industrial sectors within the EU. The estimated energy savings potential in buildings is 30–50%. More detailed assessments in some regions show potentials of more than 70%.[21] The law on energy

[19] Filcak: Landscape of climate change policies: Drivers, barriers and stakeholdres´analysis (2016)

[20] Danish Energy Agency (2011). **Analysis of Energy Saving Potentials in Selected EU Countries Based on a Sectoral Best-practice Approach**.

[21] CEE Bankwatch Network (2016). **Climate's enfants terribles**

efficiency sets a good framework, as required by the Energy Efficiency Directive and the Energy Performance of Buildings Directive, but greater political will to invest and improve conditions is required.

- **Strong and sustainable framework for renewable energy:** It is important to evaluate progress in renewables and provide a strong and stable policy framework for the development of economically feasible and environmentally and socially sustainable energy production. There is space to provide support to communities and cooperatives interested in investing in renewable energy installations.

- **Financing and cohesion policy:** The Partnership Agreement 2014-2020 provides a major opportunity for decreasing CO_2 emissions through new or reallocated funding. Experience from the previous programming period indicates a high impact especially in the area of energy savings. The mid-term evaluation of the programming period should focus on measures to increase the impact of cohesion policy spending and open low-carbon projects to the maximum number of beneficiaries. Besides EU-funded projects, the government should take a more active role in funding the transition towards a low-carbon economy and promote and support private investments towards that end. For example the Slovak investment holding could be utilised in this way.

- **Promote a just transition:** Since the current course of the Slovak coal sector is increasingly being recognised as unsustainable and concerns over air pollution are mounting, circumstances are very favourable for promoting the concept of just transition, especially since alternatives like sustainable tourism or the automotive industry can help address unemployment in the Prievidza region. The government's decision to keep subsidising electricity from domestic coal until 2030 is unlikely to be reversed easily. However, pressure should be exerted towards a gradual coal phase-out and mine closures after 2030. There is great potential in creating a framework for a just transition in order to prevent negative socio-economic impacts. Civil society organisations, especially those directly working with local people and municipalities might have a crucial role in the process.

About CEE Bankwatch

CEE Bankwatch was founded in 1995. It is one of the largest networks of civil society organisations in Central and Eastern Europe. Bankwatch is currently active in 12 countries in the CEE and beyond. Bankwatch analyses and observes international development finance and the activities of international financial institutions. The organisation advises decision makers on sustainable development, environmental policy, transparency and social justice. Bankwatch is one of the leading organisations working on climate policy in CEE, and has excellent networks among decision makers, as well as industry, academia and civil society stakeholders.

More information is available at **http://bankwatch.org/**

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