



Online Conference:

Environment Policies and Economic Growth Experiences from Japan, the EU and Serbia

February 10-11, 2021
Belgrade



Conference report

The International and Security Affairs Centre (ISAC), in cooperation with the Embassy of Japan in Serbia, organized the conference “**Environment Policies and Economic Growth: Experiences from Japan, the EU and Serbia**”, held on February 10-11, 2021, at the Hotel Metropol Palace in Belgrade. The main theme of the conference was sharing of experiences between the EU, Japan and Serbia, with an aim to draw valuable lessons for Serbia’s current economic expansion. This report includes the content of the keynote speeches, presentations by speakers and discussions held in three panels, whose highlights are divided by topic. ISAC bears sole responsible for the content of this report.

The conference was opened by Dr. Igor Novaković, ISAC Fund’s Research Director, H. E. Mr. Takahiko Katsumata, Ambassador of Japan to Serbia, and Dr. Francine Pickup, Resident Representative, UNDP Serbia.

The keynote speakers underlined that the environmental challenges are growing everywhere in the world, including Serbia. For Serbia and the Western Balkans as a whole, the experience of Japan could be of interest. In the post-WWII period, Japan has achieved a huge economic growth, but the consequences were dire for the environment, as it led to great pollution of air, land and the release of dangerous substances into the ocean. But, after a public outcry, a widespread debate, and a number of reforms, Japan is one of the champions of sustainable growth.

In 2020, the Prime Minister of Japan announced the launch of a green growth strategy, which consists of a decarbonization initiative and promotion of renewable energy sources. With this strategy the Japanese Government will try to ensure that environmental regulation does not hinder economic development, on the contrary that these regulations represent an opportunity for the advanced development. An important element of this strategy is that it foresees an active involvement of the private sector through innovation and investment. The model of state’s cooperation with the private sector has a potential to lead to great results, and this is something that should be applied in Serbia too.

Regarding the global environmental concerns, the year 2021 marks the 30th anniversary of the UNDP Global Development Report.¹ This report is a first sign of growth of awareness that the economy and development should not happen at the expense of the planet. More recently, the Human Development Index for 2020 from the Report included two other important indicators - CO2 emissions of a country and a material footprint.² If the dependence on fossil fuels is taken into account, more than 50 countries fall out of the category of high human development.

Many countries, including Serbia, have announced an increase in their climate activities. The next UN conference on climate change, COP26, will focus on engaging the corporate sector. For Serbia it the EU Green Deal is extremely important. It represents a development plan that promises to decarbonize the European economy through the

1) The concept of human development was introduced 30 years ago, which, in addition to economic growth, became an indicator of development of one country.

2) Material footprint is the amount of extracted raw materials and used to meet the conditions and needs of demand.

separation of growth from the use of resources.

There are noticeable signs of changes focused in the direction of the low-carbon development in Serbia. First, concerns about the climate are more widespread among citizens, especially among young people. Secondly, the state is increasing its climate ambitions. Finally, there is an increasing awareness of importance of engaging the private sector in green solutions, as the transition from a linear to a circular economy requires systemic change, and support to the development of environmental oriented companies and businesses.

Panel I: Environmental Challenges in the 21st century – the impact on Serbia, Japan and the EU

The panelists were Prof. Yukari Takamura, University of Tokyo, Institute for Future Initiatives; Christian Egenhofer, Senior Research Fellow and Head of the Energy and Climate program, CEPS and Jovan Rajić, Chairman of the Board, Renewables and Environmental Regulatory Institute – RERI. The session was moderated by Simon Ilse, Director of the Heinrich Böll Office for Serbia, Montenegro and Kosovo.

Japan's approach

As presented by Prof. Takamura, Japan has a goal of achieving carbon neutrality by 2050, as a contribution to a global long-term goal of lowering global temperature growth well below 2 degrees. The goal of carbon neutrality is related to the development of the green economy and economic recovery. This presumes a creation of a cycle which in the same time stimulates the economic growth, but also to the improvement of the environmental situation, with the application of strong polices. At this moment, around 85% of Japan's greenhouse gas emissions come from the energy sector.

As mentioned above, in 2020 Japan endorsed new green growth strategies, and seeks to transform industry and the economy as a whole through aggressive climate policies and strategies tackling fourteen key areas in which Japan plans to increase green growth. These fourteen areas are classified into three sectors: a) energy sector (focus on wind as primary renewable energy source, as well as green fuels such as hydrogen and nuclear energy); b) transport and production; c) residential and commercial buildings (there is an agreement that by 2030, all newly constructed buildings will not emit any of the harmful gasses).

Companies are being asked to set a goal in line with the long-term goals of the Paris Agreement, and nearly 600 companies have already sent such goals. Companies are required to disclose their financial information related to environmental protection and emissions throughout the supply chain. Then, based on that information, investors are able to decide where to invest.

Regarding the waste treatment in Japan, due to the issue of plastic waste and marine pollution Japan has a strong and developed recycling sector. Now, the government is trying to strengthen the circular economy. They are preparing a draft law on plastics, which, in addition to recycling, also looks at strengthening the environmental use of materials.

The EU

The European Green Deal is the European answer to global aims towards the carbon neutrality. The Green Deal is a political strategy that aligns EU policies with the fight against climate change and it was created on the basis of a long-term Strategy from November 2018 ("One planet for all"). It is a successor to the Energy Union and relies on a robust and extensive technical and political preparation. In comparison with the Energy Union it has new elements such as social dimension, higher industrial policies, EU climate diplomacy etc.

Globally, there are more and more countries that have committed to carbon neutrality: Finland by 2030, Austria and Iceland by 2040, Sweden by 2045, the EU, Japan and the United States by 2050, and China by 2060.

The focus in this EU green transition is in calculating the carbon footprint into the prices. And the application of this practice will change standards for production of many products. The competitiveness of an economy in the future will depend on the content of the carbon rate in relation to GDP (for example, Russia and China have a high carbon content in their GDPs).

There is also a role for the financial and insurance sectors. Markets and investors will increasingly pay attention to the

carbon content and provide less financial support to those industries that rely on the high carbon footprint.

There are many similarities between the EU and Japan approaches: both are market-based, international, rule-based, take into account direct emissions, but also resource-based emissions. The difference is that the EU is interested in implementing a carbon pricing policy.

Western Balkans

Through the Berlin process, the EU has formulated the Green Agenda for Western Balkans, and all of the countries in the region have signed it, including Serbia. However, there are discrepancies between what is said and what is actually being done. In other words, it is easy to adhere to a political declaration while there are practical problems like the lack of the right strategy for areas like climate and energy. This is visible in difference in what officials say in domestic discourse, when they communicate with the citizens and what they are saying to foreign partners.

This problem should be observed through three different aspects - legal, political and practical.

Legal aspect: Serbia and the other Western Balkans countries are members of the Energy Community. Serbia has committed itself to meeting the EU legal framework. While transposition of legal provisions has been somewhat in order, there are problems with implementation of these provisions. For example, Serbia adopted the National Emission Reduction Plan and was ready to meet the maximum values stated for the period 2018-2027, but ignored the problem of Coal Power Plants, causing a massive breaching of the set limits. In 2018-2019, the limit values of SO₂ emissions exceeded for six times. This National Plan is less stringent than the Large Combustion Plants (LCP) Directive.³

Political aspect: There is an apparent lack of political will to solve this problem. The National Plan for Air Protection has not been adopted yet, although being Serbia's obligation since 2015. When it comes to the draft Law on Climate Change, it is still in a development phase, with numerous shortcomings and various issues that have not been resolved.

Practical: The problem of air pollution in Belgrade, which is often referred to as "one of the most polluted cities in the world" is related to the lack of an adequate framework, strategy, transparency and information on air quality, as well as the issue of problematic functioning of measuring stations. Problem is caused by the Coal Power Plants, households, traffic, inadequate planning for big cities etc.

Finally, there is a problem related to economy and investments. The major problem in the last 5-6 years are foreign investments that are environmentally suspicious (Smederevo Steel Mill, Bor Copper mining and smelting complex, Zrenjanin Car Tire plant ...). They are characterized by a limited or completely excluded application of domestic laws. Although there are positive examples, there is a need for a comprehensive approach that would enable a more systemic approach in Serbia when it comes to investments.

In Serbia, it seems that no one except experts and competent organizations is interested in this problem and the green agenda, and the state keeps them away through the various means. On the other hand, the attitude of people and citizens in Serbia towards the environmental protection is dubious. Due to the relatively poor state of economy and lack of funding, people support and opt for cheaper solutions. This is certainly a problem of the state, public strategies and ways of informing citizens.

There are also environmentally dangerous investments that come under the pretext of the aim to produce energy from supposedly renewables. In many cases these attempts are less environmentally friendly than the coal itself, such is the case with the small hydro power plants, as their construction is destroying the bio diversity.

3) The LCP Directive – See <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32001L0080>

Panel II - Sustainable and Environmentally Friendly Economic Growth – Global Perspective and Experiences of Japan and the EU

The panelists were Prof. Ryo Fujikura from Hosei University in Japan; Antoine Avignon, Project Manager in the Delegation of the European Union to Serbia and Žarko Petrović, Programme Analyst, Resilient Development in the UNDP Serbia. The session was moderated by Dr. Vladimir Međak, Vice-President of the European Movement in Serbia.

Historical experience of Japan in fighting air-pollution

As presented by Prof. Fujikura, Japan serves as one of the best examples of how to implement air pollution control. Japan today promotes lessons learned from its own struggle against the environmental degradation. One of the best examples is the Green Pack, a multimedia material on environmental education which is produced by REC (Regional Environmental Center) and provides outstanding amount of information. It emphasizes the importance of the local level for combating air pollution and how this local action has managed to generate a will at the central level for a change.

The city of Kitakyushu was one of the most polluted cities in Japan, as it is the home to one of the largest steel mills. In 2018, OCED chose this city to be a model city for the promotion of sustainable development goals, as it recorded a reduction in SO₂ emissions of 98 percent per unit of steel production. This was achieved with a combination of switching to usage low-sulfur materials, flue gas desulfurization and energy saving and recycling.

The 1960s in Japan were years of great economic progress due to the use of heavy industry, with factories established along the entire coastline. But there was no adequate control of SO₂ pollution. Paradoxically, during that period, most citizens considered pollution to be a symbol of economic development that made them rich. They were even proud of smoke caused by SO₂ pollution, calling it “rainbow smoke”.

Already in 1955, Japan's Ministry of Health recognized that public health in industrial cities suffer from pollution. The worst SO₂ pollution in Japan was recorded in Jokaichi, where 1,000 people developed asthma. But then existing laws contained a provision on the harmonization of environmental protection with reasonable economic development. In other words, the economic development had priority over environmental protection. The Ministry of Health was reluctant to adopt a pollution control strategy, and gave priority to industrial expansion over environmental protection.

From the mid-1960s, citizens began to protest against the increased pollution. The victims of the pollution filed private lawsuits against the companies of the polluters, and the court ruled that the polluters were responsible. This was the main driver. There are 47 prefectures in Japan, and they are quite autonomous vis-à-vis the central government. In the 1960s activism at the local level started developing and these local initiatives pushed for a change of policy at the central level. Pressure is what made things change.

In September 1970, in a historic parliamentary session fourteen important laws on environmental protection were adopted. The changes were based on a comprehensive approach, with four indispensable actors: citizens, local governments, national government and mass media. The pressure coming from the citizens was huge, and it has resulted in a change of minds of principal institutions. In addition to the local governments, the role of the media was very important, as well as the cooperation between government agencies and ministries. They started giving financial incentives to contribute to the protection of the environment. The incentives included: loans, reduced taxes and reduced depreciation period and they encouraged factories to invest in pollution control.

There were also economic reasons that facilitated the control of pollution control investments. Due to the rapid growth of the Japanese economy, companies had enough capital to invest. After the first oil crisis in 1970s, all companies tried to save energy, what was also an element for successful change of the approach.

On the EU Green Deal and consequences for the Western Balkans

The focus of the EU is on the Green Deal, and the European Commission is tasked with implementing it. The Commission has introduced means and tools for its implementation: biodiversity strategy, circular economy, concept “from farm to fork,” green bonds, climate law, etc. And their aim is to directly improve the lives of the citizens. The main goal is to make the transition of economy from industrial to postindustrial.

At the recent Berlin Summit meeting in Sofia, Bulgaria, all of the Western Balkans countries obliged themselves to harmonize with the EU Green Deal. In other words, they obliged to approximate their national legislation with the EU

Climate Goal - set energy and climate goals until 2030, to continue harmonization with the European program for reducing ETS emissions, de-carbonization and its principles.

The EU is ready to support the implementation of the Green Deal in the Western Balkans. The guidelines are based on five pillars: 1. climate action including decarbonization and mobility; 2. circular economy; 3. biodiversity; 4. fight against water/air/soil pollution and 5. sustainable food systems in rural areas. The goals of these pillars should be realized through concrete actions.

The most acute issue in Serbia, Bosnia and Hercegovina and North Macedonia is the air pollution. For the EU to support Serbia on tackling this issue through helping Serbian Environmental Protection Agency install monitoring systems, the Union needs Serbia's cooperation and compliance with the European Air Quality Index. This would ensure translation of measurements' results to a comprehensive level. The Serbian Government has already taken some measures, a call for bids for afforestation, improvement of air quality and energy efficiency worth RSD 400 million.

The green transition is possible, it is not easy but it is not that difficult either. The green transition will significantly contribute to the development of the economy in Serbia in the medium term. Accountability will enable a real partnership between the private and public sectors. The private sector needs to be supported, but also to be held accountable in the event of violations of increasingly stringent pollution control regulations.

Investments should help to achieve the goals of the Green Agenda that all of the Western Balkans countries have signed. Thus, it is important to invest where it is most important, to control the development of those investments, etc. There is a backlog in implementation and there is an obvious need to focus on municipalities, as the acceleration is needed at the local level. At the same time the energy policy should provide tools for socially just transition, enable retraining of employees.

What is the first thing that needs to be resolved in Serbia in order to bring about changes? Technical and financial capacities (for local self-governments) are definitely something that is extremely important. Emphasis needs to be placed on energy efficiency. We need to see the transition to a circular economy at the local level. Serbia has a roadmap for circular economy, which the ministry has compiled with the help of international partners, and there is the concept of circular economy in several strategies (Industrial Development Strategy, and Urban Development Strategy). For example, it is necessary to create a market for secondary raw materials, not to import secondary raw materials. Then GDP will grow between 0.5 and 1% per year, because raw materials will be cheaper, and the products Serbia exports will be much more competitive.

Environment related reforms and challenges in Serbia

For the overall change related to environment to happen, it is crucial to achieve fundamental changes at the local level, because that is where implementation itself lies. The results of the UNDP's research show that between 70 and 80 percent of local governments in Serbia need help from the national level (technical and financial) to launch local initiatives. As mentioned before, the air pollution is currently a burning issue in Serbia, but soil and water pollution should not be neglected either. Soil pollution - Serbia produced its first mercury inventory about 10 years ago, which identified areas containing large amounts of mercury that need to be removed. Water pollution is measured on an annual basis and it causes great damage. Several documents practically show the same picture: revised national contributions in Serbia, low-carbon strategies drafted with the help of the EU, a second biennial report for the UN Convention on Climate Change that is in preparation.

In practice, there are relevant data and information, as well as the necessary policy framework, but the implementation is lagging. In other words, for the Serbian economy to remain competitive, companies need to prepare as soon as possible to all of the above mentioned changes. Companies in Serbia will have to show at some point how much waste they recycle and how much energy they have received from RES, because otherwise it will be a problem to cope with the tax for adjusting carbon emissions and harmful gases. Furthermore, the EU concept of a fair transition that involves considering and providing concrete care in areas and social classes of people who are dependent on fossil fuels, requires retraining, focus and investment in green jobs that give these people the opportunity to easily move to another cleaner industry (there are about 35,000 employees in the fossil fuel business in Serbia).

There is also an important role of the private sector. Private companies have to make a joint effort to move away from industries that emit harmful gases. This should happen in cooperation with the state through public-private partnerships of various types, subsidies, grants and support. The problem of public and private debt is something where the government should seek a partnership with the private sector. The capital market in Serbia needs to be improved because the private sector needs more than the banks that provide loans. One of the solutions is issuing of cheap bonds in order to realize green business models.

Panel III - Serbia's Economic Development and Accession to the EU – How Can the Experience of Japan Help?

The panelists in the third panel were Dr. Marina Savković, Professor at the Singidunum University, Serbia; Mirjana Jovanović, Project Manager at the Belgrade Open School and Mitsuaki Harada, Managing Director of Beo Čista Energija d.o.o (ITOCHU). Aleksandra Tomanić, Executive Director of the European Fund for the Balkans commented the exposes. The session was moderated by Tatjana Veselinović, Producer/Anchor at N1 TV.

On the Serbia's development approach and challenges for the environment

The first problem Serbia faces is the institutional framework for attracting foreign investments. The Law on the Planning System of the Republic of Serbia stipulates that Serbia should adopt a 10-year development plan, but that did not happen to the date. The last strategy for attracting foreign investments expired in 2015, and since then there are no clear guidelines on what our priority investments are and how we will treat the new investors.

Investments in environmental protection in Serbia (according to the Statistical Office of Serbia, were 0.8 percent of GDP in 2019) are much less than in EU member states, as they are investing 1.9% of GDP. Also, these investments are much lower than current costs, and most of the funds is invested in waste management.

After the Russian Federation, Serbia is the country that attracts the largest number of foreign direct investments (FDIs come mostly from EU countries). In 2019, most of investments went to infrastructure - construction, transport and trade. There is also an emergence of major investments that are largely export-oriented (ICT, production of rubber and plastic products). However, many of these investments are at the same time causing huge air pollution. According to the WHO, Serbia is losing 33% of GDP due to costs related only to cases of premature death due to air pollution.

If a foreign/domestic investors who pollute would pay the social cost of pollution, it would probably reflect on reducing of their economic activity, and perhaps closing of their ventures. Obviously, there is a need for an institution in Serbia that will deal with social costs of pollution. Two dilemmas that the Serbian economy is facing with are: 1. Desirability of investors who bring big investments that create jobs, but in the same time cause great pollution; 2. Ability to estimate and collect the data about the additional social cost that these investments create.

In order to answer these questions, Serbia should determine which economic activities are a priority. Then, with such priorities in place, it would be easy to connect them with all other sectoral strategies. Following this, the policy of subsidizing foreign investors should also be differentiated; in other words, Serbia should support those investments that will not result with huge costs for the environment. If large polluters are acceptable and desirable in Serbia, then Serbia should adopt a clear system of tax treatment of such investors, in line with the assessment of the additional social cost.

Serbia's negotiations with the EU – Chapter 27: Environment

Chapter 27 is probably the one that asks for the most reforms in the whole negotiation process. The chapter has not been opened yet, while Serbia's negotiating position is kept out of the public eye. The cost of reforms related to this chapter are estimated between 10 and 15 billion euros. Currently Serbia has committed only 4 billion. "The polluter pays principle" is integrated into Serbian environmental laws and it applies. The question is how these funds are used. One of the recommendations that is repeated in the annual EU Commission's progress report on Serbia is that the Government should establish a green fund tasked with the management of the funds from the green tax. Also, Serbia should produce appropriate regulations for its functioning. However, the fund has not been established to date, it remains one budget line in the budget of the Ministry of Finance, and that budget line was transferred to the ministry.

The framework of European integration of Serbia gives the greatest impetus to investments and development in this area. The European Green Deal provided a new green framework, and represents the umbrella development strategy of the EU and it reflects on the Western Balkans and Serbia.

Development is not always associated with high pollution, the EU is an example of that. The Green Agenda for Western Balkans is accompanied by an economic instrument called the Economic Investment Plan, which contains several priority areas that are harmonized with the Green Agenda (energy, transport, climate change, circular economy, reduction of water/air/land pollution, creation of sustainable production systems food and rural areas, protection and promotion of biodiversity). There is however a Catch 22 - the rule of law will be put in focus and these investments will be conditioned by the extent to which Serbia applies the rule of law and regulations.

On Japanese investment in Vinča Landfill

An example of environmentally responsible Japanese investment in Serbia is the Vinča Landfill. All municipal waste in Belgrade ends up in an open landfill in Vinča. This site is overwhelmingly polluted, as the pollution penetrates the water systems and ends up in streams and rivers, while often fires at the landfill cause releasing of the huge amounts of methane.

Vinča Landfill is one of the priorities for the Government of Serbia and the city of Belgrade, but due to limited budgets the problem has not been solved for years. In order to solve this problem, the Serbian government has linked up with the private sector. The French company Suez signed a 25-year contract with the city of Belgrade, and was given the opportunity to build the plant (EUR 280 millions worth) in combination international partners, ITOCHU Corporation from Japan and the European fund MARGUERITE.

The main challenges for the city of Belgrade regarding Vinča Landfill are to close the open landfill in Vinča, and to remove the biodegradable waste from the Landfill in accordance with the EU regulation. Biodegradable waste produces methane production is one of the reasons for the pollution at the landfill itself.

Therefore, investments in infrastructure are necessary, while at the same time the burden on the city budget should be minimized. All these components should be in one package, in order to use the experience of the private sector and thus raise energy efficiency. The plan of company Beo Čista Energija d.o.o is to close the landfill and build a new energy-efficient plant, which will be able to process about 60% of the waste, whose incineration will provide electricity that will be used again (for household needs, for heating in heating plants). Annual CO2 production will be reduced by 250,000 tons per year - an investment of 370 million euros, should be completed in 2022.

The waste cannot be incinerated without emissions, but all international environmental standards will be respected, as well as design and technology standards. The incinerator has the latest technology that is fully compliant with EU regulations.