



**POLICY
ANSWERS**

Kosovo-Albania Cooperation in the Field of Energy: How to Benefit more from Complementarity?

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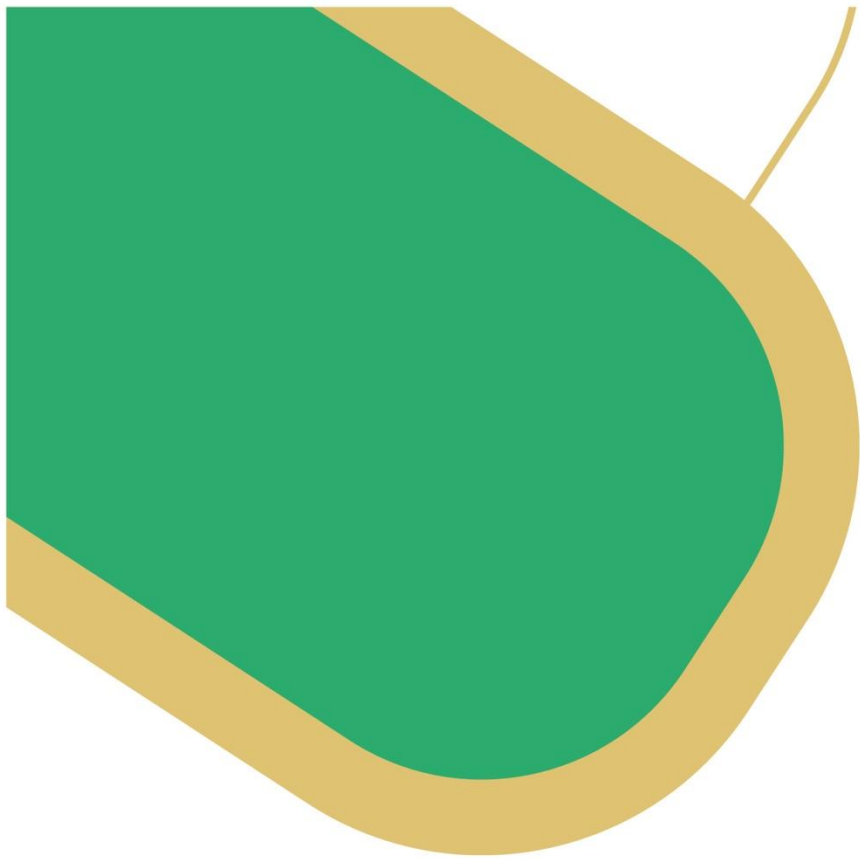
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1 Introduction

The fundamental issue in this policy brief is how to benefit more from the emphasized complementarity in the energy field between Kosovo* and Albania regarding energy resources and meeting energy needs². This should naturally result in more effective cooperation between the two countries, not only to overcome the current crisis that has hit both countries with extremely high prices and supply problems but also for long-term development and optimisation of the two interconnected energy systems, especially with the challenges of integration into the European Union (EU) and obligations towards the Green Agenda. The question raised for discussion is whether complementarity helps increase capacity to meet their needs or this can be achieved without it. These and some other dilemmas are addressed in this brief overview, with reference to the latest developments in the energy market.

Albania and Kosovo were among the first countries to be affected by the increase in energy prices in the late summer of 2021, which was followed by the declaration of emergency by both governments³. In this context, regional cooperation, especially close cooperation between the two countries, becomes essential for achieving national energy security. To promote such cooperation, the two governments, as well as corporations and operating systems and regulatory, have held numerous discussions, meetings, and memorandums of understanding over the past two decades. However, until the beginning of the third decade, there have not been many tangible results, except for the simple exchange of surpluses, especially in situations of supply crises. After the activation of the 400 kV interconnection as the main strategic link of the energy systems of both countries and the access of Kosovo to the European Network of Transmission System Operators for Electricity (ENTSO-E), among many developments in October 2020, Albania and Kosovo established a joint stock company the Albanian Power Exchange (ALPEX), owned by the transmission system operators of Albania (OST) and Kosovo (KOSST), respectively 57.25 % and 42.75 %. ALPEX will operate in day-ahead and intra-day markets in both Albania and Kosovo, adopting the unique European model. Additionally, the two countries have established a common energy market and agreed to cooperate in meeting energy-balancing needs.

In fact, the energy systems of Kosovo and Albania urgently need to increase their stability, flexibility, and above all, supply security. Cooperation between our two countries is considered the key to tackling the electricity price crisis, which adds to the issue of energy independence, by converging towards sustainable development, with high efficiency and low cost for the consumer.

* This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

² Published by the Riinvest Institute. This document is part of the 'Green Talks' debate series within the Green Action Space platform, a joint initiative of the Riinvest Institute and the Kosovo Foundation for Open Society (KFOS). In this debate (15 November 2022), particular attention was paid to the important issue of cooperation between Kosovo and Albania in the field of energy. The focus of the discussion in this panel was how to benefit even more from complementarity. The panellists were distinguished personalities, representing both the public sector (Mr. Sabit Gashi, Head of the Energy Department - Ministry of Economy of Kosovo and Mr. Enea Karakaçi, Executive Director for Energy and Industry at the Ministry of Infrastructure and Energy of Albania) as well as Dr. Ali Hamiti, Professor at the Faculty of Electrical Engineering, former Director of Kosovo Energy Corporation and head of the Energy Regulatory, and Dr. Lorenc Gordani, Professor and Head of Master Studies at the Tirana Business University (TBU) and Legal Advisor for energy issues. The discussion was moderated by Prof. Muhamet Mustafa, Senior Advisor at the Riinvest Institute. The content of this publication is the responsibility of the Riinvest Institute.

³ The Albanian government initially declared a state of emergency for the next 6 months, until 15 April 2022. However, it was extended further until the end of the year, and now until June 2023. The same thing happened in Kosovo, where the emergency situation according to the law, with maximum terms of two months, has been extended seven times so far.

Efforts have been made and there have been positive developments in the last 2-3 years, but all of these are expected to be implemented to have the fullest effect.

2 General overview

As mentioned above, significant steps have been taken in recent years, including establishing a joint public company to create the ALPEX energy exchange for the first time. Earlier, starting a joint balancing block for the regulatory zones of Albania-Kosovo was also finalised, which was achieved through a major commitment with the help of ENTSO-E, overcoming the opposition of Serbia.

The qualification of the Alkogap project on the list of projects of common interest has been followed by the master plan project for the gasification of Kosovo, when Albania's plan was completed many years earlier. Recently, with a memorandum between Albania and Kosovo for cooperation and coordination, a joint group has been created to exchange ideas for cooperation towards the creation of an 'energy federation'. However, Kosovo's strategy for gasification remains unclear.

The question under discussion is whether complementarity comes when we have maximum capacity in production, i.e. one or both countries cover the needs, or does it come even without this? In fact, for some (like L. Gordani), this is a limit of conceptualisation (a mindset problem), as few countries today have energy independence (e.g. Europe depends on about 50 %), and full cooperation can be achieved very well within market mechanisms (since the exchange is hourly and within the same day, buying and selling at different times can lead to a continuously positive balance and meet some of the needs with long-term contracts and protective instruments). What is essential is that through the use of complementarity, in fact, the whole process of energy security and cooperation becomes more accessible and cost-effective.

Of course, everyone agrees that measures should be taken to meet each other's needs, to see how to help each other and in emergency situations that exclude the market, but this should be as temporary as possible. As precisely this should come by activating the potentials of the private sector and for such a thing to be possible, an energy exchange should be created so that any development is based on market signals.

It is essential that public authorities and all other actors understand the need and have no differences on the necessity of cooperation. However, in practice, the problem remains that public authorities and a large part of academia believe that resources are needed to have a common system. On the other hand, the other approach is that by forming a common system, both Kosovo and Albania virtually expand their market by about twofold, and this allows them to take a more significant role by benefiting from better planning, risk mitigation, and taking on the contracting of common energy purchases in advance by showing a greater 'force' in the market, making joint investments supported by loan financing and donor grants, etc.

Currently, apart from infrastructure (interconnection) and legal infrastructure (agreements highlighted above), there are no joint projects for the generation of electricity with public and private investments. In any case, cooperation from everyone's perspective remains a priority for security, better operation or management (regarding energy imbalances), real-time exchange, etc. And of course, cooperation should be in the form of suitable energy production, for example PV, then hydro in Albania, and in Kosovo from lignite with over 12 billion easily exploitable reserves.

In particular, focusing on Albania's advantages, the country offers one of the lowest production costs (LCOE) in the region for hydro and PV power plants at EUR 30/MWh. However, from the perspective of cooperation so far, cases of involvement of investors from Kosovo have been very limited. Similarly, the situation is also for Albanian investments in Kosovo, which have the potential to develop manifold in the energy sector. These issues must receive maximum attention,

starting from their economic value. The development of the energy sector, which encompasses many other sectors, remains the main engine of the economy. For example, in Albania, only concerning energy, once with an annual turnover of around EUR 600 million, today, it has reached a value of EUR 1.5-3 billion per year depending on the energy price on the exchange market.

3 Potential benefits and some of the priority joint projects

The comparative advantages of Albanian hydropower plants (HPPs) in terms of balancing the needs of both countries as well as the regional market are undeniable. However, to this day, around 44 % of resources remain unused, which would be an excellent basis for the development of any other fluctuating resource. In this context, the inclusion of Kosovo in the Skavica HPP Project was of maximum interest to all speakers and guests in the aforementioned debate.

Given recent developments related to the increase in energy prices and the emergency situation related to the conflict in Ukraine, the development of other alternative energy sources such as wind and solar have become a priority for the Albanian government. The latest data show that there are now dozens of solar energy projects in the sector, ranging from 10 MW to 275 MW, with the largest ones involving or seeking partnerships with foreign investors for development. Similarly, the draft of Kosovo's Energy Development Strategy until 2031 predicts an increase in the contribution of renewable energy sources from 6 % to 32 %. This could be a direction where both governments could explore the possibility of creating joint companies that would receive support under regional cooperation policies (e.g. qualification as PECEI).

On the other hand, Kosovo has dominance in power production from lignite and is also in a more crucial position than Albania regarding the international network transmission, which is not fully utilised in terms of electricity or even gas pipelines (but has potential in this direction). Kosovo and Albania can cooperate on utilising the potential of lignite in Kosovo for gas production and coal chemistry in accordance with technological developments and the requirements of the Green Agenda. A joint investment project could also be the revitalisation of existing blocks of the 'Kosovo A' power plants for a 15-20-year period of the energy transition.

In any case, it is expected that soon the Albanian Power Exchange ALPEX will be liquid and public companies will be part of regional exchanges, including options for integration with the region and EU Member States such as Italy and Greece. This will make electric energy follow the signal of prices in a wider and more reliable reference market, and the interest will be to send energy where it is more valuable. Moreover, the only thing that is certain nowadays is that market fluctuations will set the rules.

In this context, special consideration needs to be given on how we can adapt and take advantage of this new context. Such changes come through a gradual process, and mostly regulated by directives that EU-27 require to achieve the defined goal by following the most suitable paths.

The draft of Kosovo's Strategy for the period 2022-2031 emphasises the importance of cooperation regarding market integration (in 2023), full operationalisation of the APEX stock exchange, and increased joint energy planning. In terms of joint investments, (joint) investment in natural gas power plants is emphasised, linked to the option of using the gas infrastructure planned in Albania (connection to TAP or access to the LNG terminal in Vlora). By the end of the decade, new interconnection lines between Kosovo and Albania will also be built to enable greater trade in the region.

It is worth noting that such a solid complementarity raises the need for strategic development documents in this important sector in both countries to be harmonized and include common policy and project components. This should be supported by the institutional infrastructure and

everything else already in place, as well as the establishment of a coordinating body between Kosovo and Albania to promote and monitor the fulfilment of common development goals.

For this reason, it is important that every step we take is well prepared but also keep moving forward without stopping. In this regard, we can say that we are in a time that marks a leap into a new historical stage, which opens endless possibilities to be realised. The future, security, and stability of this sector are crucial for the economy of both countries. For this reason, there is a real need to cultivate cross-sectoral cooperation not only at the public investment level, entrepreneurship, etc., but also related to the private sector in terms of products, services, as well as finding new and innovative solutions.

4 Recommendations

1. It is recommended that Albania and Kosovo continue and deepen their cooperation to address the problems posed by the current energy crisis, the needs for long-term strategic development, and the energy transition in line with the spirit of the Green Agenda.
2. Cooperation should be enriched and advanced by implementing cooperation agreements related to the common energy market, the functionalization of the ALPEX Energy Exchange, and the planning of balancing needs and fulfilling them. Thus, both should prioritise expanding cooperation on trade aspects, such as establishing companies with joint capital for energy sales in order to increase the share of involvement in regional markets and expand the reference market.
3. Collaboration needs to be elevated to a higher level, especially by building partnerships with joint investments related to strategically important projects such as:
 - a) Albania's water reserves should find a coordinated market-based use to balance the system. The Skavica HPP project should necessarily aim to include Kosovo, as a significant part of the water basin is situated in the Republic of Kosovo (on the other hand, the development of these projects upstream can come in a way that does not bring concerns downstream).
 - b) Both governments should come up with a joint list of projects where there is a possibility of cooperation. Recently, the Albanian government has expressed willingness to include the liquefied natural gas (LNG) terminal at the port of Vlora. For this reason, Kosovo and Albania have signed a memorandum to receive electricity or natural gas, an inclusion that would reduce costs and make this regional project even more feasible.
 - c) A joint investment project could also be the revitalisation of existing blocks of Kosovo A power plants for a 15-20 year period of energy transition.
 - d) Encouraging joint investments and partnerships for renewable energy sources (PV, wind energy, and so on).
4. Developments should be made public in order to further support their inclusion in a list for the development of their technical feasibility. Studies should be prepared at a level that favours the inclusion of capital from both areas, both public and private sector.
5. Both, Kosovo and Albania, should prioritise the possibility of offering maximum facilitation for achieving the objective of energy independence and wider measures in order to absorb in these projects local, public and private companies from both areas.
6. In addition, the Kosovo and Albania should create a unique technical advisory body to concretize the development of a common strategy and monitor its implementation in practice. The body we propose to qualify as the National Energy Council (similar to experiences in other important fields), as a consultative forum/body, can promote dialogue at a pan-national level.

In conclusion, we express our belief that addressing the growing opportunities in the energy sector makes it necessary to promote networking and relationships with local, regional, and global partners, starting first between our two countries to present ourselves to appear more attractive and valuable and weigh in this global trend. Therefore, this transformation is neither formal nor tied to a public authority but constitutes a continuous process where the private sector plays a special role. Thus, challenges can be overcome only when state institutions, state-owned companies, education, senior experts, and other stakeholders cooperate in the best public interest.



ABOUT POLICY ANSWERS

POLICY ANSWERS (R&I POLICY making, implementation ANd Support in the WEsteRn BalkanS) supports policy coordination in the Western Balkans and with the EC and the EU. 14 partner organisations, representing network nodes in the region and EU expert organisations, support policy dialogue through formal meetings (such as ministerial and steering platform and ad-hoc policy meetings), monitoring and agenda setting, capacity building and implementation of the EU's Western Balkan Agenda, as well as the alignment of thematic priorities. The project implements regional pilot activities and offers an information hub based on the westernbalkans-infohub.eu online information platform. The partners provide analytical evidence via monitoring and mapping activities of the stakeholder ecosystem, of the implementation of the Western Balkans Agenda and of the Western Balkans' integration into the European Research Area as well as via strategic foresight. POLICY ANSWERS also allows for tailored and targeted capacity building activities in the Western Balkans as well as regional alignment of priorities in relation to the digital transformation, the green agenda and towards healthy societies. Pilot activities provide learning opportunities on policy and programme level and reach out to final beneficiaries related to improved academia-industry cooperation, researcher mobility, inclusion of youth in policy processes, promotion of research infrastructures and increased innovation skills in all areas.

