Serbia’s endowment of renewable energy resources is substantial - realization of these potentials require Government action

<table>
<thead>
<tr>
<th>Potentials (Mtoe)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Biomass</td>
<td>2.40</td>
</tr>
<tr>
<td>SHPP</td>
<td>0.40</td>
</tr>
<tr>
<td>Solar</td>
<td>0.64</td>
</tr>
<tr>
<td>Geothermal</td>
<td>0.20</td>
</tr>
<tr>
<td>Wind</td>
<td>0.19</td>
</tr>
<tr>
<td>TOTAL</td>
<td>3.83</td>
</tr>
</tbody>
</table>

Clear technical potential of renewable energy - insufficient information about the economic potential
Most promising utilization options for biomass:

- Space heating in households and buildings using biomass pellets or briquettes
- Co-firing or total replacement in district heating plants firing heavy oil or coal in south Serbia, where natural gas is not available yet
- Production of electricity utilizing agricultural and wood wastes
Small Hydro Power Plants

Small hydro

SHPP Cadastre (1987)
856 locations
500 MW

>5 MW: 9 locations
2-5MW: 30 locations (average 3 MW)
<1 MW: largest number of locations

1,500 GWh/year

Number of SHPP in Serbia – 60
(50% out of operation)

Revitalization

Construction
Average yearly insolation in Serbia about 1,400 kWh/m²

Average daily value about 3.8 kWh/m²

If each housing unit (2.65 million units) would install average 4 m² of collectors

Equivalent to some saving potential of 7,420 GWh
Use of geothermal potential is mainly for balneological purposes, sports and recreation.

Total installed energy use - 74 MWt

Prospects for expanding geothermal energy for agricultural heat and water heating are reasonably good.

Potential for larger scale geothermal electricity is limited - requires water temperatures above 100°C.
Wind data based on 10 metre heights extrapolated to 50 metre heights

2,300 GWh

1,300 MW of capacity

at sites with minimal average wind speeds of 5 m/s

Best locations in Serbia (extrapolated)

<table>
<thead>
<tr>
<th>Location</th>
<th>Average Wind Speed (m/s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Midzor</td>
<td>7.66</td>
</tr>
<tr>
<td>Suva Mt.</td>
<td>6.46</td>
</tr>
<tr>
<td>Vrsacki breg</td>
<td>6.27</td>
</tr>
<tr>
<td>Tupiznica</td>
<td>6.25</td>
</tr>
<tr>
<td>Krepoljin</td>
<td>6.18</td>
</tr>
<tr>
<td>Deli Jovan</td>
<td>6.13</td>
</tr>
</tbody>
</table>
Barriers for wider use of RES

Institutional barriers

• Lack of experience
  Need for the experience of how a private sector renewable energy project can work in Serbia
  Absence of “first set” of projects

• Transition Issues
  Many industrial companies are in transition – both with regard to structure and ownership, and managements are not yet ready to consider measures to rationalize energy activities

Financial barriers

• Absence of a price support mechanism
  Renewable energy projects are not bankable without a price support mechanism
  RES cannot compete with fossil electricity generation based on lignite (whose price does not reflect their environmental damage costs)

• Debt Financing support
  Difficulty to secure long term loans appropriate for small renewable energy projects

• Electricity tariff
  Low electricity tariff does not stipulate domestic, commercial and industrial consumers to use renewable energy - current average price is 5 €cents/kWh
Barriers for wider use of RES

Technical barriers

• Absence of technical standards
  *Despite the existence of manufacturers of heating equipment and biomass fuel (briquettes and pellets), production standards are not regulated*

  *Equipment for biomass energy utilization need clear information about technical specification and performance characteristics*

• Barriers to biomass utilization
  *Low electricity price, which decrease motivation to install biomass firing boilers*

  *No developed market for biomass fuel and biomass utilisation facilities*

• Absence of a renewable energy resources inventory
  *Update and development of Small Hydro Registry*

  *Wind monitoring programme with wind speed measurements at 50 metres needed*
Legal regulation under preparation

Purpose: to promote investments in renewable energy projects

Amendments to the Energy Law
drafted, waiting for adoption by the Parliament

• Production, transporting, storing and trading of biofuels is recognized as energy activity
• Definition of renewable energy sources is amplified and contains biofuels, biogas, landfill gas, sewage gas
• Definition of biomass refer to biodegradable material developed in agriculture, forestry and accompanying industry for energy purposes
• Definition of privileged power producers includes all RES producers except hydro-power plants and biomass power plants larger than 10 MW
• Guaranteed grid access to a privileged power producers - through obligation of local distribution company to purchase all the electricity produced from RES

Regulation on privileged power producers will be the definition of what types of renewable energy producers qualify for privileged status

Deadline for completion: December 2008
Deadline for adoption: 1 July 2009.

Feed-in tariffs as the price support mechanism

Deadline for completion: December 2008
Deadline for adoption: 1 July 2009.
INVESTMENT INCENTIVES
In case of investments in production facility, Government approve grant between 2000 and 5000 euros per new job creation, minimal investment value is within the range of 1 and 3 million euros, whereas the minimal number of new jobs is 50.

An investor that invests in fixed assets, i.e. in whose fixed assets other entity invests over 600 million RSD (6.8 million EUR), and uses these assets for conducting business in Serbia and during the investment period additionally recruit at least 100 people - shall be exempted from corporate profit tax payments for the period of 10 years proportionally with the investment made.

TAX CREDITS
A tax payer that made profit in newly established business unit in an underdeveloped area will receive a corporate profit tax reduction in the duration of two years, proportional to the share of such made profit in total profit of the company.

ACCELERATED DEPRECIATION OF FIXED ASSETS
This incentive is provided for fixed assets that are used for the prevention of air pollution, water and soil pollution, noise reduction, energy savings, forestation, and collection and utilization of waste for industrial raw materials and fuels.

FOREIGN INVESTMENTS INCENTIVES
The law on foreign investments stipulates free import of goods that are the foreign investor’s nominal capital (founding capital) – providing it fulfills acts regulating environment protection. Import of equipment as the founding capital of a foreign investor, except for passenger motor vehicles and game & gambling machines, is free from customs and other duties. Besides, a foreign investor and a company with foreign founding capital are entitled to tax and customs related deductions in line with the law.
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