

Just Transition of Coal Regions

A Cross-Case Analysis of Chile and Romania

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1. Introduction

The European Green Deal marks a turning point for energy and climate policy in Europe. Achieving net-zero greenhouse gas emissions for the EU as a whole will require an overhaul of the way energy is produced and used, across all sectors and regions. In this context, the coal industry is among the first targeted by policymakers: primarily used in power generation and in industrial processes, coal is a highly carbon intensive energy source, accounting for 31% EU ETS emissions in 2019.¹ To achieve the new 55% GHG emission reduction target by 2030, the European Commission assessed that coal will likely become negligible in final energy demand in 2030, down from the current 15%.²

Despite this strong momentum at European level and the seemingly favorable conditions at national level, particularly given its balanced and diversified electricity mix, Romania does not yet have an official coal phase-out plan.³ Eliminating the use of coal is a fundamental step in fighting climate change, being the most carbon intensive fossil fuel⁴, and it would also make an important contribution in reducing air pollution. Besides, this is not only a matter of climate and environmental concern: with plunging costs for renewables, rising carbon prices, and aging infrastructure, the economic fundamentals of coal are increasingly weak.

Nevertheless, the difficulties of a coal phase-out are not to be downplayed. The regions where coal mines and power plants are concentrated are deemed to suffer due to the loss of direct and indirect jobs. Another difficulty present in the European context is the risk of people perceiving the transition as a top-down decision, taken at EU level, without proper consideration of local circumstances.

Given all these complexities, it is important to take stock of similar situations outside the European space. Discussions to phase-out coal are taking place in numerous other countries, which are now recognizing that such a carbon intensive and polluting fuel cannot be part of the future energy systems. Chile, where coal accounts for approximately 40% of power generation,

¹ [Energypost \(2020\)](#). Europe's 55% emissions cut by 2030: proposed target means even faster coal exit.

² [European Commission \(2020\)](#). Impact assessment on stepping up Europe's climate ambitions. Part 1.

³ At the time of publication, [a leaked document](#) submitted by the Romanian Government to the European Commission indicates that Romania plans to phase out coal by 2032. However, an official date has not been confirmed yet by the authorities.

⁴ According to the [2006 IPCC Guidelines](#), the weighted emission factor for hard coal is 94.6 t CO₂/TJ and 101.0 t CO₂/TJ for lignite.

has launched an ambitious coal phase-out initiative, to match its goal of becoming carbon neutral by 2050.

This report seeks to show that the Chilean experience could provide valuable lessons for Romania and other countries in Eastern Europe, where the issue of the energy transition tends to be seen as clashing with other economic goals. Romania and Chile have several comparable indicators, with similar GDP/capita (slightly higher for Chile, who is also an OECD member since 2010), population and even annual CO₂ emissions. Both countries experienced authoritarian regimes until 1989, which left an important footprint on the economic development models and energy infrastructures. While Chile's economy is a lot more dependent on coal than Romania's, the country is now committed to an ambitious energy transition, that includes closing all coal power plants by 2040 and boosting the share of renewables in electricity generation to up to 70% by 2050.

This paper will analyze the Chilean experience regarding coal phase-out, with the aim of extracting some lessons that could be useful in raising Romania's ambitions on this matter. To exhibit how this comparison can reveal important lessons, the analysis will look at five key points in evaluating of the countries' energy transition plan, namely:

- 1) The role of coal in the country's energy sector and economy
- 2) The role of the private sector in the coal phase-out plan
- 3) The impact on jobs and strategies to mitigate the losses
- 4) The coal phase-out plan and the set of policies that support it
- 5) Stakeholder engagement strategies in the coal phase-out plan

2. Chile's energy transition

2.1 The role of coal on Chile's energy sector and economy

Chile's energy mix is historically dependent on imports and highly carbon intensive, with coal combustion having an important contribution to that. The country's coal power plants are responsible for 26% of the country's greenhouse gas emissions and accounting for 40% of the country's electricity production.⁵ Following the closure of 3 units in 2019, Chile now has 25 coal-fired power plants, with a total installed capacity of 5,195 MW.⁶ Chile imports 86% of the coal it uses.⁷ The use of coal has been on the rise since the late 2000s, due to growing electricity demand,

⁵ [Gobierno de Chile \(2019\)](#). Presidente Piñera presentó plan para cerrar todas las centrales energéticas a carbón para que Chile sea carbono neutral.

⁶ [Energy Partnership Chile-Alemania \(n.d.\)](#). Coal phase-out in Chile.

⁷ Ibid.

the drop in the availability of hydropower caused by droughts, and difficulties in importing other fuels such as natural gas.⁸

Beyond the impact on CO₂ emissions, the use of coal has also prompted significant environmental damage to the areas where mines and coal plants are located. Coal power plants, generating electricity for the mining industry are located in five heavily industrialized areas, commonly known as “sacrifice zones”. They have been established in the 1950s with the aim of supporting the country’s economic development and are home to around 200,000 people.⁹ People living in these areas are exposed to levels of pollution that exceed accepted standards, with dramatic consequences on their health.¹⁰ The levels of mortality in these areas are also higher than the national average.¹¹ Despite playing an important role in the economic activity of the country, these areas also register high rates of poverty and unemployment.¹² Against this background, decarbonization efforts would have a truly transformative impact for the future of these towns and communities, that have only known life within a contaminated environment.

2.2 The coal phase-out plan and the set of policies that support it

In 2015, Chile adopted an ambitious decarbonization plan, laid out in the *National Energy Policy 2050*, which includes renewable energy targets of at least 60% by 2035 and 70% by 2050.¹³ The adoption of this strategy was preceded by a comprehensive public consultation process, built on three segments of participation: (1) an Advisory Community, with responsibilities at the political and strategic levels; (2) thematic working groups, gathering experts and representatives of the sectors concerned; and (3) a citizen platform, for the participation of the general population through deliberative workshops and public consultation.¹⁴ It was the first time that the Chilean public was extensively consulted on energy policy, a pioneering exercise that received international praise.¹⁵

In 2019, Chile announced the target of becoming carbon neutral by 2050 and, to support that objective, a plan was put forward to close the 8 oldest coal power plants by 2024, followed by a complete coal phase-out by 2040.¹⁶ Three plants were closed that year, and other 11 are currently scheduled to close by 2024.¹⁷ To effectively manage this objective, a National Coal Commission was created the previous year, bringing together representatives of the Ministries of Energy and

⁸ [World Resources Institute \(2020\)](#). Chile: Incorporating a just transition into Chile’s Nationally Determined Contribution.

⁹ [Reuters \(2020\)](#). In Chile's polluted 'sacrifice zones,' residents seek respite in new constitution.

¹⁰ [Heinrich Boll Stiftung \(2019\)](#). Social unrest in Chile and its effects on the climate agenda and COP25.

¹¹ *Ibid.*

¹² [Noria Research \(2020\)](#). Chile, the social crisis is also an environmental one.

¹³ [Carbon Action Tracker \(2018\)](#). Chile: Country summary.

¹⁴ [International Energy Agency \(2018\)](#). Energy Policies beyond IEA countries: Chile 2018.

¹⁵ *Ibid.*

¹⁶ [Gobierno de Chile \(2019\)](#). Presidente Piñera presentó plan para cerrar todas las centrales energéticas a carbón para que Chile sea carbono neutral.

¹⁷ *Ibid.*

Environment, the national grid operator, power plant operators, companies, municipalities, NGOs and academia.¹⁸

As the end goal of the coal phase-out is to build a cleaner energy system, it is accompanied by adjacent policies promoting renewable energies. The high reliance on imported fuels –including coal, that is mostly imported – has also given a push to wind and solar, otherwise highly abundant resources in Chile. The share of wind and solar in the country’s power generation increased from 4.5% in 2015 to 13.7% in 2019.¹⁹ With other renewable energy sources, mainly hydro, the share of renewables in the country’s electricity is around 40%.²⁰ The IEA assessed that the stronger role assumed in the recent years by the Chilean government in regards to energy policy instilled these positive dynamics.²¹ New legislation, such as the 2016 Transmission Law, helped the interconnection of the two main electricity systems, resulting in the creation of the National Electricity System, and enhanced the role of the state in energy planning and expansion of the transmission system.²² Technology-neutral tenders for electricity supply have achieved record-low prices for renewable energy and increased competition, with many new companies having won contracts.²³ This proved that renewable energy has become competitive even without subsidies.²⁴

2.3 The role of the private sector in the coal phase-out plan

The dialogue between the government and the private sector is a critical aspect in this transition. Chile imports most of the coal it uses – local production accounts for only 15% of the total.²⁵ Therefore the main challenge resides not in the mining sector, but with companies operating power plants. Chile’s 25 coal-fired power plants are operated by three international companies (Enel, Aes Corporation and Engie) and one national company (Colbun).²⁶

In 2018, an agreement was signed between the government and the companies who own power plants, stating that no new power plants were going to be built, unless they had carbon capture and storage, and that a multi-stakeholder working group was to be established in order to jointly evaluate the social, economic, and health impacts of the decarbonization plan.²⁷ The presence of international, private companies in the Chilean electricity market facilitates this task, as they are undergoing their own low carbon transition, facing important pressure from shareholders and NGOs in their own countries. Also, they have experience with power generation through several energy sources and base their investment decisions on market signals, so they only hold onto an

¹⁸ [Energy Transition \(2020\)](#). Decarbonization plan in Chile. An unambitious but dynamic process.

¹⁹ [International Energy Agency \(2020\)](#). Electricity generation by source, Chile 1990-2019.

²⁰ Ibid.

²¹ [International Energy Agency \(2018\)](#). Energy Policies beyond IEA countries: Chile 2018.

²² Ibid.

²³ Ibid.

²⁴ Ibid.

²⁵ [Statista \(2020\)](#). Chile: Coal mine production 2010-2019.

²⁶ [Energy Partnership Chile-Alemania \(n.d.\)](#). Coal phase-out in Chile.

²⁷ [Inodú \(2019\)](#). Chile’s decarbonization efforts.

energy source as long as it is commercially viable for that respective company. Enel, the largest power company in the country, announced that it will have shut down their entire Chilean coal fleet by 2023, that amounted to 636MW in 2019.²⁸ Engie also announced the decommissioning of 602MW of installed capacity by 2024, representing 27% of its installed capacity as of March 2020.²⁹ Both companies also presented plans to build new renewable capacities: Enel committed to building 2GW of installed capacity by 2022, with almost half of it currently under construction, while Engie committed to 1GW of installed capacity, with 362MW currently under construction.³⁰

2.4 The impact on jobs and strategies to mitigate the losses

One of the most important areas of focus for any government working on the coal phase-out is the impact on jobs. The main challenges are the difficulties to convert the training and experience gained by working on coal power plants to other jobs, the indirect jobs lost as an effect of the transition and the general impact on the entire communities living in the vicinity of the coal plants.³¹ The Chilean government estimates that the coal sector currently represents around 4,400 direct jobs and 9,500 indirect jobs.³² According to Inter-American Development Bank study on the labor impact of coal phase-out scenarios in Chile, which analyzes four different scenarios – depending on whether coal-power generation will be replaced by renewables, or by gas on biomass generators and when –, finds that the positive net impact of the transition on jobs makes up for the gross negative impacts in the coal power sector, with an estimate between 32,000 and 40,000 direct and indirect jobs to be created.³³

This can be explained by the new jobs that will be created by the renewable energy industry, that will require additional workforce to build, operate and insure the maintenance of the wind and solar farms, and also by the overall positive dynamics of the Chilean job market.³⁴ However, despite the significant potential for job creation in clean energy, the transition of people working directly in coal power plants will likely be challenging, as the skills they acquired in the past are not easily transferable to the new industries. Also, in the Chilean case, with coal plants being concentrated in just a few areas, there is no guarantee that the new jobs will be located in the same communities without policy support to do so. Another limit of this study is that it does not allow to refine the exact numbers of new jobs by distinguishing between those required in the construction process of new power plants and those in the maintenance and operation of these plants, as the growth of the renewable energy industry is a rather recent trend globally and in Chile.³⁵

²⁸ [Power Engineering International \(2021\)](#). Enel accelerates Chilean coal phase-out with early plant closure.

²⁹ [FitchRatings \(2020\)](#). Early Decommissioning of Coal-Fired Generation in Chile Ratifies Renewable Commitment.

³⁰ Ibid.

³¹ [IDB \(2019\)](#). The labour impact coal phase down scenarios in Chile.

³² [Ministry of Energy, Chile \(n.d.\)](#). The early transition of phasing out and/or technology reconversion of coal power generation.

³³ [IDB \(2019\)](#). The labour impact coal phase down scenarios in Chile.

³⁴ Ibid.

³⁵ Ibid.

The attention on the social dimension of the energy transition is also reflected in the proposal submitted in 2020 by the Chilean government for its revised Nationally Determined Contribution (NDC), which represents the commitment of parties to the Paris Agreement to reduce their emissions, revised every five years. The NDC includes the social pillar and the just transition not as separate issues to climate policy, but as something to be considered as an integrated part of the NDC implementation.³⁶ The caveat is that the objective on paper might clash with the reality on the ground, as the government is still struggling to rebuild trust with social partners following the recent protests.³⁷

2.5 Stakeholder engagement strategies in the coal phase-out plan

One of the most interesting aspects of the Chilean experience is that the energy transition is managed as a multi-stakeholder process. The preferred approach appears to be that of an open dialogue between government, companies, NGOs, academia, all engaged in the design and adoption of key strategies and policies. The adoption of the National Energy Policy 2050 in 2015 was preceded by an inclusive public consultation, unique in the country's history and that received notable international applause. The creation of a multidisciplinary National Coal Commission in 2018, comprising 23 members from government, companies, NGOs, local authorities, preceded the announcement of the official phase-out date and served to gather and take into account the different perspectives before taking a decision with major impact.

3. Romania and the coal transition: current situation and what can we take from Chile's experience

3.1 The role of coal in Romania's energy sector and economy

Compared to other countries in the region, and even to the EU average, Romania has a very balanced electricity mix, with coal, hydropower, natural gas and nuclear having similar shares of both capacity and generation. Coal represented a significant 22.88% of the country's electricity production in 2019³⁸, and the installed coal capacity, comprising both lignite and hard coal plants, stands at 4.5GW. The share of coal in electricity production has been declining for the past 30 years, while renewables, particularly wind power, have been growing steadily, accounting for 12.39% of the electricity produced in 2020.³⁹ Despite these positive dynamics, the National Energy and Climate Plan (NECP) for 2021-2030, submitted to the European Commission in April 2020, does not provide an ambitious agenda for the renewable sector: the NECP sets a target of

³⁶ [World Resources Institutel \(n.d.\)](#). Chile: Incorporating a Just Transition into Chile Nationally Determined Contribution.

³⁷ Ibid.

³⁸ [Our World in Data \(2020\)](#). Share of electricity production by source, Romania.

³⁹ Ibid.

30.7% share of renewable energy in gross final consumption, below the European Commission's recommendation of at least 34%.⁴⁰

Coal mining and power generation are concentrated in two regions in the southwest of the country, Gorj and Hunedoara. Most of the country's coal production and electricity generation are in Gorj, with almost ten times the mining and generation capacity of Hunedoara.⁴¹ The country's historical coal mining area, Jiu Valley in Hunedoara, producing and using hard coal, has been in rapid decline after the fall of communism. Most of the coal mines were closed in the 1990s, with only four mines remaining active. Two of them are scheduled to close from 2024.⁴² Employment in the sector has also decreased dramatically in the past 30 years, from 50,000 miners in the 1990s to around 4,000 today.⁴³ This has been a brutal change for the region, that was not accompanied by a proper reconversion plan, having left the region as an open-air industrial decline museum, with its many abandoned coal mining buildings.

3.2 The role of companies active in the coal sector in the coal phase-out plan

There are two Romanian coal companies, in which the state is the majority shareholder: Complexul Energetic Hunedoara, producing and using hard coal for power generation, and Complexul Energetic Oltenia, producing and using lignite. Both are heavily indebted and have been kept afloat by state aid, an even less sustainable practice due to EU competition rules limiting state aid. The limits of this approach have been exposed recently as miners employed by CE Hunedoara went on strike to reclaim the salaries that have not been paid in about 10 months.

Coal power infrastructure in Romania is old, with the average age of power plants being 42 years.⁴⁴ Considering that the life span of coal-fired power plants is about 40 years, the Romanian fleet will be obsolete by 2030.⁴⁵ The economic situation of the companies in the coal sector in Romania is another sign of the lack of competitiveness of the sector. At the end of 2019, Complexul Energetic Hunedoara went into insolvency, with approximately 1,4 billion euro in debt, which includes unpaid ETS allowances. In addition, in 2018, the European Commission has deemed illegal the 60-million-euro state aid provided to CEH, as it was incompatible with EU competition norms.⁴⁶

Concerning Complexul Energetic Oltenia, the country's main coal power producer, the European Commission is currently evaluating the Romanian government's 1,3-billion-euro plan to finance the restructuring of the company, which has been experiencing economic difficulties for years. The company has also been relying on state aid to pay for the ETS CO₂ emission allowances, and

⁴⁰ [Bankwatch \(2020\)](#). Romania's coal phase-out by 2030: an unreachable goal?

⁴¹ [Energy Policy Group \(2020\)](#). Accelerated lignite exit in Bulgaria, Romania and Greece.

⁴² [Euronews \(2020\)](#). Romania's coal-black heartland embraces Europe's Green New Deal.

⁴³ *Ibid.*

⁴⁴ [Bankwatch \(2020\)](#). Romania's coal phase-out by 2030: an unreachable goal?.

⁴⁵ *Ibid.*

⁴⁶ [Reprezentanța Comisiei Europene în România \(2018\)](#). Ajutoare de stat: România trebuie să recupereze aproximativ 60 milioane € de la CE Hunedoara.

the government is motivating its support by the critical role that the company plays for the country's security of supply, particularly during winter and in periods of drought. The restructuring plan is contested at European level by NGOs, who argue that the plan contradicts the stated objective of helping CE Oltenia become an economically viable company, playing its part in the low carbon energy future of the country.⁴⁷

3.3 The impact on jobs and strategies to mitigate the losses

It is estimated that in the two key coal regions, the number of the people working in the sector is 13,917, with 10,017 working in mines and 3,900 in power plants.⁴⁸ Accounting for indirect jobs as well, the number of employees to be affected by the coal phase-out is around 36,750.⁴⁹ If, in Chile's case, the discussion was centered on the conversion of coal workers to the renewable energy sector, it is more difficult to frame it this way in Romania's case, as renewable energy projects have so far been developed outside the two coal regions. Conversion to other economic sectors, already developed in the regions or with growth potential, will need to be accompanied by additional investments and tailored programs. The EU's Just Transition Mechanism was designed with this goal, and it will provide significant help, but the task of efficiently allocating the funds ultimately lies with the national government.

3.4 Coal phase-out date and policies to support it

The most striking element present in Chile's experience and missing in Romania's is the clear timeline for the coal phase-out. Romania has not advanced yet any official coal phase-out date, despite a clearly stated objective by the European Commission of carbon neutrality by 2050. With such clear direction at European level, including coal in the country's energy future is simply not an option; thus, announcing a coal phase-out timeline would give the long-term visibility that private companies need to make investment decisions, and would enable the government to prepare and start implementing a plan to transform affected regions and communities. Compared to other EU countries, only Poland, Romania and Bulgaria have no official phase-out date planned, while Czech Republic and Slovenia are still in the process of determining the precise date.⁵⁰

Romania has never had a truly comprehensive climate strategy, all the related strategies being sectorial and limited to transposing European legislation.⁵¹ Similarly, in the absence of a national coal phase-out strategy, it is mainly EU legislation and policies that influence the fate of the sector. Beyond the wider CO₂ reduction and renewable energy targets, more specific EU legislation concerning pollution standards and the EU Emissions Trading System, that effectively puts a price on the CO₂ emitted, have all contributed to the decline of the coal sector. The Romanian government has tried to counter the devastating effects of the CO₂ price hike by allocating state-

⁴⁷ [Client Earth \(2021\)](#). Lawyers act as billions promised to Romania's biggest coal operator breach state aid rules

⁴⁸ [Energy Policy Group \(2020\)](#). Accelerated lignite exit in Bulgaria, Romania and Greece.

⁴⁹ Ibid.

⁵⁰ [Euractiv \(2021\)](#). Europe halfway towards closing all coal power plants by 2030.

⁵¹ [Energy Policy Group \(2019\)](#). The Decarbonisation Challenge of Southeast Europe: A Case Study of Romania.

aid to the two coal companies, which keeps them afloat, but not financially viable. Coal is becoming untenable due to increasingly stringent EU regulations.⁵² Despite this, the Romanian government has not moved further than simply following the EU legislation, instead of creating its self-standing strategy for the coal sector.

3.5 Stakeholder engagement strategies in the coal phase-out plan

The issue of stakeholder participation emerges as one of the main issues in Romania's experience. The central government has done little to consult with relevant stakeholders, beyond the existing legal constraints of submitting new legislation to public consultation. However, some initiatives begin to take shape. The project "Strategy for the transition from coal of the Jiu Valley" analyzes the social and economic implications of eliminating coal for the Jiu Valley region, maps key stakeholders and aims to implement the results of the initial study throughout 2021-2030.⁵³

Romania can also benefit from the Just Transition Platform, an initiative part of the EU Just Transition Mechanism, that offers technical and advisory support to stakeholders of the transition from coal. This platform is built on the experience of The Initiative for coal transitions in transition, whose secretariat is jointly managed by the European Commission and non-governmental organizations, that connects relevant stakeholders and provides technical assistance and supportive resources. However, while these initiatives provide valuable input and resources, they can still appear remote from the real challenges of the people living in the affected regions. A similar initiative, created at national or even local level, would contribute to filling this gap.

4. Conclusions

The key takeaway from Chile's experience is that the prerequisites for a successful energy transition are leadership and transparency regarding the final goal. By providing a clear date for the coal phase-out, the government commits to this goal and allows private players to project themselves in the future and prepare the necessary steps. Romania has some clear advantages that would support a coal phase-out plan: a very balanced electricity mix, with the share of coal in decreasing trend, a dynamic renewable energy sector and the availability of funds and resources through the European Just Transition Mechanism and the Modernisation Fund.

In contrast, Chile has a higher reliance on coal for its electricity production than Romania, and it cannot rely on external funds or the same type of technical support for the transition as Romania can through its EU membership. In Romania's case, despite benefiting from significant support and resources from the European Union, it does not look like the decarbonization process is fully assumed by the government. Moving from a passive, rules-following approach to a nationally

⁵² Ibid.

⁵³ [PwC \(2020\)](#). Strategia pentru tranzitia de la carbune a Vaii Jiului.

initiated and designed coal phase-out strategy would be the next critical step in Romania's energy transition.

Another important lesson from Chile's experience, that would be easily applicable in Romania's case and in other countries, is to frame the energy transition as a participative process, engaging multiple stakeholders. The Chilean government understood that the particular challenges that come with phasing out coal need to be addressed through public participation and set up multi-stakeholder participation bodies when important strategies concerning energy policy were being considered. It is an approach that requires little funds, but more vision, transparency, and commitment to engaging all relevant parties in the transition process.

Important difficulties remain on this path for both countries. Mitigating the social impacts on regions where coal dominates is probably the most difficult challenge. Even if the growth of the renewable energy sector will create new employment opportunities, it is difficult at the moment to evaluate with precision the type and the number of jobs that will be created, making it challenging to prepare the transition of current coal workers. Comparing employment figures in the coal sector from the two countries show that Chile would be less affected than Romania in terms of jobs lost. Even if the estimates for job creation in renewables in Chile point to a net positive impact, some people will still be hurt by the transition, and a *laissez-faire* approach would not ensure that the affected workers will be compensated. Therefore, a clearer plan of action for job reconversion is needed in order to ensure that no one is left behind. For the people living in Romania's coal regions, the mismanaged mine closures in the 1990s left them resentful and most likely skeptical of another "restructuring" plan. It is a lesson that current and future administrations must keep in mind and better address the social implications of future plans for the transition away from coal.

All things considered, the Chilean experience provides some good practices for creating a future for the energy system that does not include coal. The fundamentals are vision, a clear timeline, and an open dialogue with relevant stakeholders, that need to be offered the opportunity to participate in the construction of the new economy. Some important challenges remain on Chile's path, such as fixing intermediate phase-out timelines for all the coal power plants, ensuring that it will be the cleanest energy sources that will replace coal, and implementing a plan that will compensate local communities for the jobs that will be lost. While Romania does not display the same level of ambition regarding the transition away from coal, it has enabling conditions, notably its balanced electricity mix and the financing and technical support from the European Union. By adopting a sense of ownership of the energy transition, fostering the positive dynamics in its renewable energy sector and integrating good practices from countries with similar circumstances, Romania has the potential of turning the page on a rather deficient track record on climate policy.