

New gas supplies for the Western Balkans

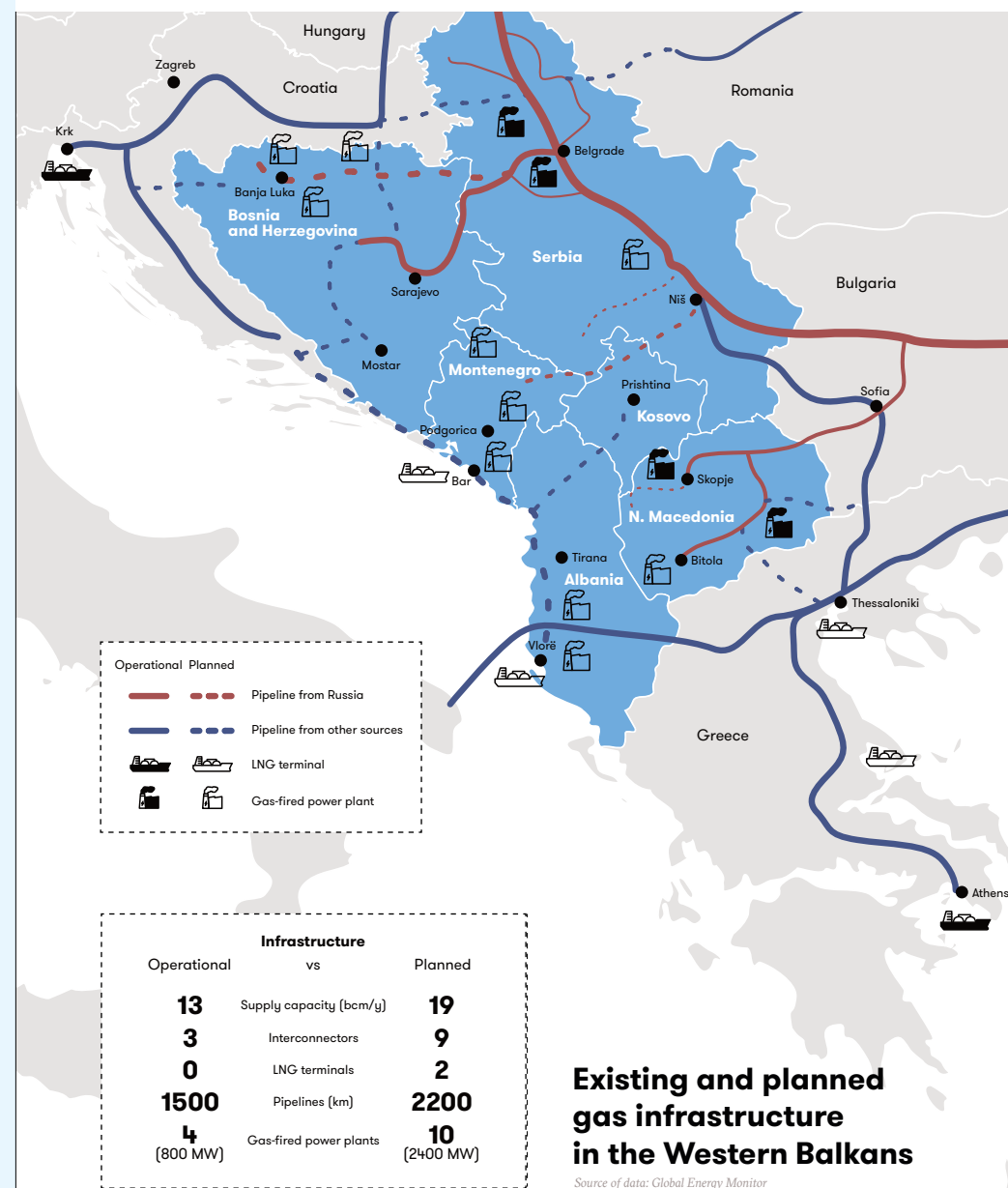
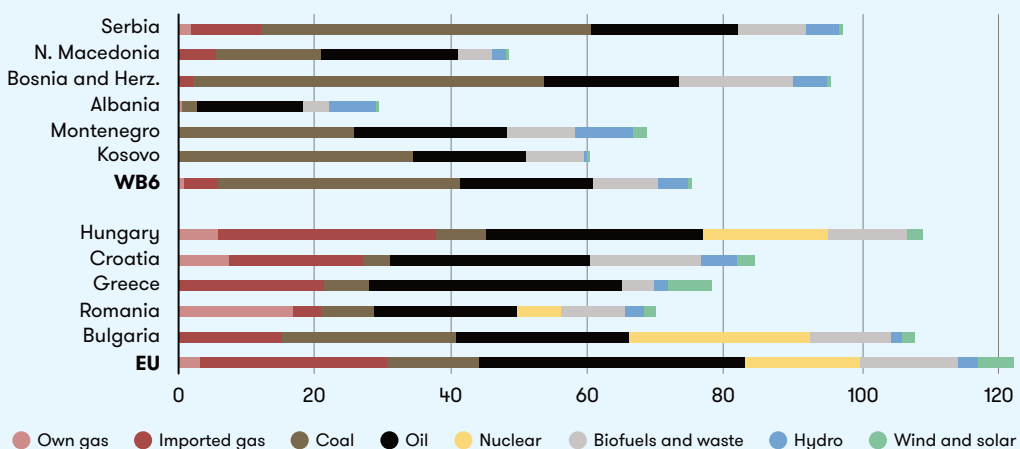
Geopolitical and climate opportunity or risk?

The energy dependence of the Western Balkans on natural gas is very low, unlike that of its EU neighbours. In the regional energy mix, dominated by coal, **gas-fired energy counts only for 8 %** because of the region's poor gas infrastructure and limited supply capacities. Gas is of strategic importance only in the energy sector of **Serbia and North Macedonia**, where it is used in larger volumes for electricity generation and heating. In the remaining countries of the region, gas has only marginal or no use. Even in its relatively small use of gas, the Western Balkans has so far been entirely **dependent on imports from Russia**, which has used this dependence to pursue its **geopolitical interests** in the contested region.

Due to its geostrategic location and the significantly greater gas dependence of its EU neighbourhood, the Western Balkans plays an important role in **transporting gas** to the European market. Both the Balkan Stream **pipeline supplied by Russia** and the Trans Adriatic Pipeline, which transports **gas from Azerbaijan** to southern Europe, pass through the region.

However, the Western Balkan countries are planning to **develop their own new gas infrastructure** and envisage a greater role for gas in their energy sector in the future. With the political and economic support from the EU and the US, gas supplies are set to grow and diversify. Increased volumes of gas should flow into the region from multiple directions through **new pipelines and LNG terminals**. As elsewhere in Europe, gas is intended to serve as a transitional **substitute for coal** in electricity and heat generation as part of coal phase-out and energy transition. However, these ambitious plans contend with **new geopolitical and economic risks and a problematic role of gas in the process of decarbonization**.

Energy mix in the region and its neighbourhood, GJ per capita, 2020 Source of data: IEA



Escaping the dependence on Russian gas

The existing gas infrastructure in the Western Balkans is fully dependent on Russian supplies, which flow into Southeast Europe through the Turk Stream pipeline via Turkey and Bulgaria.

Serbia, the main gas consumer in the region, has long relied on a political partnership with Russia in its energy policy. This has translated into stable gas prices and the joint construction of the Balkan Stream transit pipeline through Serbian territory, which was put into operation shortly before the Russian aggression against Ukraine. However, at the end of 2023, a new interconnector from Bulgaria, financed mostly by the EU, became operational, providing Serbia with access to alternative gas supplies from Azerbaijan and LNG terminals in Greece.

North Macedonia is also fully dependent on Russian gas supplies from the Turk Stream pipeline. However, it is too planning to build with European support interconnectors to Bulgaria and Greece, which would ensure diversification of supplies by providing access to Greek LNG terminals and the pipeline from Azerbaijan.

The small gas sector in **Bosnia and Herzegovina** is currently fully dependent on Russian gas supplies delivered via Serbia. While the Bosniak-Croat part of the internally divided country seeks to replace Russian gas by connecting to the Croatian pipeline network supplied from the LNG terminal on Krk Island, the Serb part relies on its partnership with Russia's Gazprom for the planned construction of a new interconnector from Serbia and domestic gas infrastructure.

The plans for the development of new gas infrastructure in **Albania, Montenegro, and Kosovo** rely exclusively on non-Russian gas supplies. Its sources should be the planned LNG terminals in the ports of Vlora in Albania and Bar in Montenegro, and the connection to the already operating TAP transit pipeline passing through Albania.

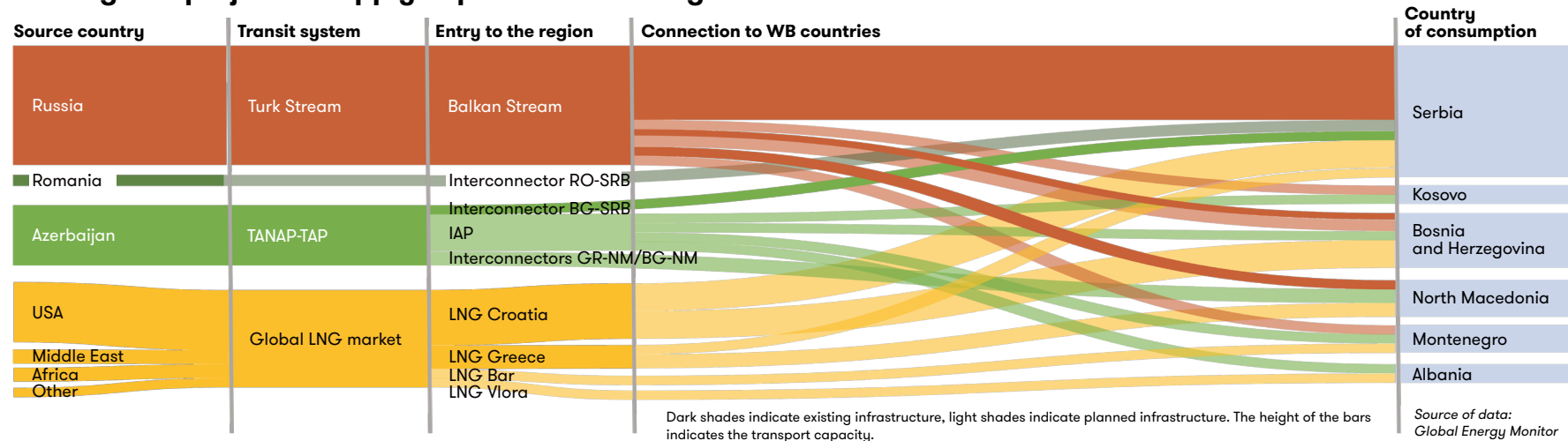
EU and US interests in the diversification of supplies

Plans for the development of gas infrastructure have been motivated primarily by the **diversification of supplies** and **avoiding dependence** on Russia, thanks to which they have strong political and economic support from the West. These motives gained relevance after the Russian aggression against Ukraine, which prompted even Serbia, traditionally loyal to Russia, to connect its gas infrastructure to alternative sources. The only regional actor still planning to deepen its dependence on Russian gas in the future is the pro-Russian leadership in the Serb part of Bosnia and Herzegovina.

As the main guarantor of the fragile stability in the Western Balkans, the **EU** has a strong **geopolitical interest** in weakening the region's energy dependence on Russia with the aim of European integration of the region and **elimination of Russian influence**. Thus, as part of its enlargement policy, the EU offers political and economic assistance to the Western Balkan states in diversifying their energy sources and integrating them into the European market. The **EU supports the regional governments in the construction of new gas interconnectors** or participation in joint gas purchases. At the same time, however, the EU strongly emphasizes the urgent need for **decarbonization** of the region, which would be in turn significantly slowed down by increasing gas supplies.

The **US**, as the second major Western player in the Western Balkans, is also geopolitically motivated to contain Russia's influence in the region. However, they are also following the **economic interests** of the strong **US LNG sector**, which sees its own profitable export opportunities in the increased use of gas in the region. The US is thus politically and economically supporting mainly gas infrastructure projects linked to existing LNG terminals in Greece and Croatia and the **construction of new terminals** in the region.

Existing and projected supply capacities to the region



Does diversification bring geopolitical guarantees or new risks?

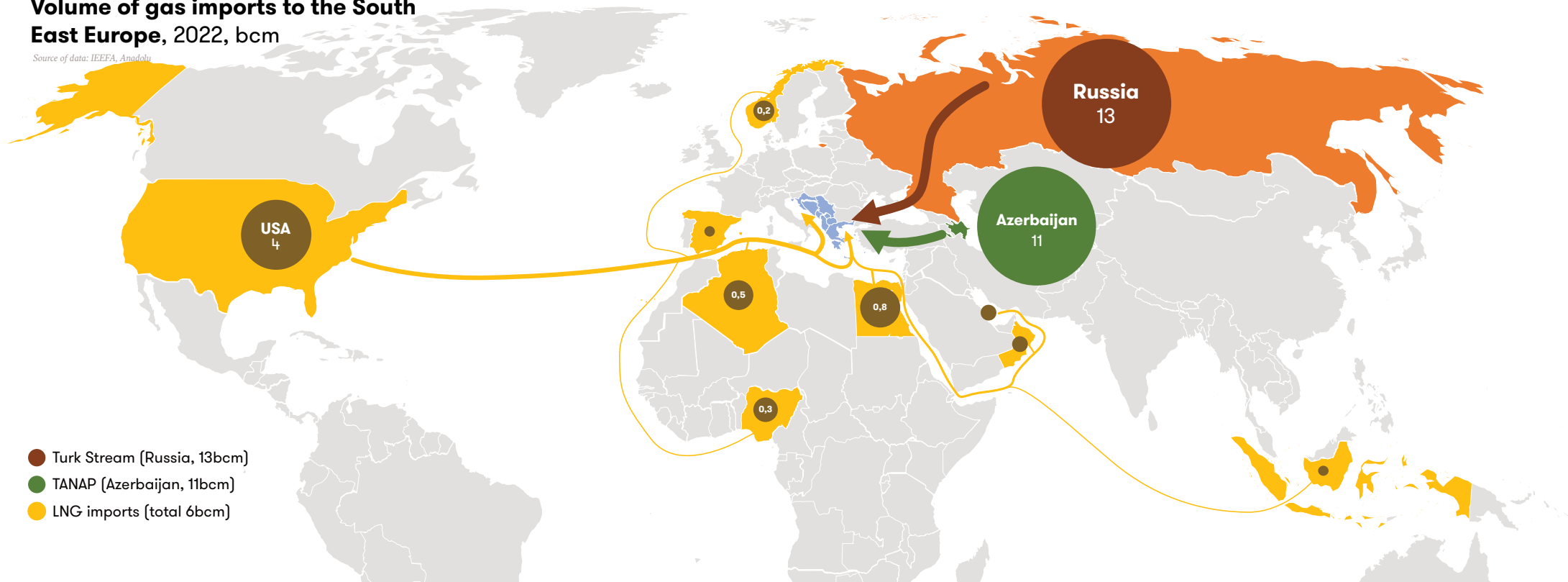
The planned construction of new gas infrastructure would lead to the **diversification of supplies** and reduce the geopolitical vulnerability of the Western Balkans resulting from dependence on Russian gas. However, the planned new sources of gas also carry notable **geopolitical and economic risks**.

- The stability of Azerbaijan as the major alternative supplier of non-liquefied gas is threatened by its **authoritarian regime** and **recent rapprochement with Russia**.
- Azerbaijan's supplies to Europe are entirely dependent on the TANAP pipeline, which passes through the volatile **South Caucasus** and (like Russia's Turk Stream) through **Turkey**, which has close ties with Azerbaijan and follows its own power politics towards Europe and the Western Balkans.

- **Liquefied natural gas**, the second main source of diversification, carries **economic risks** arising from the turbulent free global market, significant **price fluctuations**, and the high financial costs of new infrastructure.
- The main potential supplier of LNG to the Western Balkans is the **USA**, which has long supported the stability of the region politically, but at the same time also follows its economic interests on the energy market.
- Other potential suppliers of LNG are countries in **Africa and the Middle East** endangered by political instability and undemocratic regimes.
- LNG transport routes to the region pass through **vulnerable maritime bottlenecks** and thus depend on their security and global stability.

Volume of gas imports to the South East Europe, 2022, bcm

Source of data: IEEFA, Amadoll



The problematic role of gas in decarbonisation

In the process of meeting climate targets, gas is tolerated as a **transitional technology** and many European countries are counting on its increased use in the next decades as an affordable and **fast replacement for coal** in electricity and heat production. Compared to coal, gas has a higher energy efficiency in combustion, has half the direct CO₂ emissions, and does not produce pollutants such as dust, mercury, or sulphur oxides.

However, it is still a **fossil fuel** with a high emission footprint, which, when methane leakages during extraction and transport are taken into account, is close to that of coal. Thus, unlike coal, the **environmental burden** of gas-fired energy is not concentrated at the location of its production but spread throughout the global processing chain. However, the overall negative impact on climate is comparable to coal-based energy.

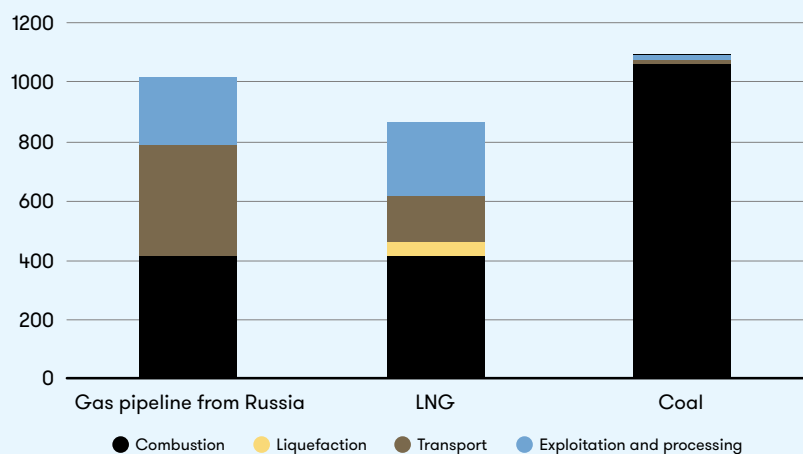
Gas therefore **does not offer a climate-sustainable way out** of coal dependency, which the **carbon-intensive energy sector** in the Western Balkans will have to urgently deal with due to growing economic and political pressures for decarbonisation.

From a decarbonization perspective, strengthening the role of gas in a region that is one of the few in Europe not dependent on it **potentially creates an energy and economic trap**. The countries relying on new gas supplies might find it difficult to return to a path toward truly green energy in the decades ahead.

Life cycle emission footprint of coal and gas

kg CO₂/MWh of produced energy

Source of data: Roman-White (2019)



Conclusions and Recommendations

Main risks of increased gas supplies to the Western Balkans according to Bankwatch:

- ⚡ Creating a new **energy dependence** on fossil fuel instead of moving to renewables and green energy
- 🌐 **Geopolitical vulnerability** coming along with dependence on gas imports from unstable regions and authoritarian states
- 💰 **Economic uncertainty** arising from the high costs of new gas infrastructure and volatility of gas prices on world markets
- 🔒 **Slowdown of decarbonisation of regional energy** burdened by heavy pollution over the coming decades

Recommendations for Western Balkan governments and the European institutions

- Western Balkan governments should base their strategic decisions on investments in the energy sector on expert analysis and **not be subject to political pressures** from foreign powers or the short-sighted **economic interests** of domestic actors. All decisions should **consider available alternatives** that are sustainable in the long run in terms of energy transition and climate goals.
- The **EU institutions** should make full use of their political and economic power as a major foreign player in the Western Balkan energy sector to put more pressure on the transition to green energy. **Incentives** for regional governments and foreign investors should be the main instrument, while sanctions should be the last resort in the EU approach.
- European support for some gas projects may be rational for short-term geopolitical, energy, and environmental reasons. However, any decision to support gas-fired energy should be backed by a **rigorous analysis of the long-term political and climate risks** and the available non-fossil alternatives.

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