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Serbia's Energy Dilemma: NAVIGATING GEOPOLITICAL TENSIONS, RUSSIAN OWNERSHIP, AND THE PATH TO RENEWABLE TRANSITION

**Author: Vujo Ilić * with contribution by BiEPAG members
Tena Prelec, Dimitar Bechev and Nikolaos Tzifakis**

** About the research project*

The Balkans in Europe Policy Advisory Group is conducting a comprehensive study on the geopolitics of the green energy transition in the Western Balkans. This study builds upon the findings of the background paper "Energy in the Western Balkans" (May 2023), and a Western Balkans regional survey whose fieldwork was conducted in March-April 2023. The main findings of this study are based on data collected through desk research and semi-structured interviews conducted between March and July 2023 with nine people, including current and former government representatives, current opposition politicians, energy and international security experts, and a former energy company executive, as well as a representative from the Energy Community. Vujo Ilić is a Researcher Fellow at the Institute for Philosophy and Social Theory, University of Belgrade.

Policy recommendations

The EU should continue to provide incentives for decarbonisation in Serbia, primarily reducing its use of coal, by direct financial support, the timely establishment of a regional emissions trading scheme and a just transition fund.

The EU and its member states should support investments in environmentally friendly energy projects and public awareness and engagement in the energy transition to help strengthen positive political perceptions of the EU.

The EU should continue to enable Serbia to achieve natural gas security and supplier diversification by increasing the number and capacity of interconnectors, expanding underground gas storage capacities, and through joint gas purchasing schemes, with the goal of using gas during coal phase-out, and transition to renewables.

Abstract

This policy brief delves into the complex web of challenges plaguing Serbia's energy sector, examining the combination of events during the winter of 2021-2022 that triggered the current crisis. A breakdown at the Nikola Tesla Thermal Power Plant, exacerbated by underinvestment and mismanagement, collided with the global energy crisis. The Russian invasion of Ukraine further heightened concerns, revealing the vulnerabilities of Serbia's energy supply, which relies heavily on Russian-owned entities. These events forced Serbia into unprecedented expenditures to secure energy supplies and reopened questions about its strategic orientation and energy transition. This study scrutinises the role of Russian ownership in Serbia's energy landscape, mainly focusing on NIS Oil Company, and extends the analysis to broader energy transition dynamics and geopolitics. It sheds light on the historical context of Russian investments in oil and gas, their impact on Serbia's energy security, and the complex interplay between Russian, Chinese, and Western interests, local politics, and environmental considerations. As Serbia grapples with a multifaceted energy crisis, potential pathways forward are identified, emphasising the need for diversification in gas suppliers, facilitating the transition to renewables, and navigating the geopolitical intricacies that intertwine with environmental concerns. The study underscores the pivotal role of EU and foreign actors in shaping Serbia's energy future and offers recommendations for aligning national strategies with European energy transition objectives.

Country Context: Serbia's Energy Sector in Crisis

During the winter of 2021-2022, the energy sector in Serbia was hit by a perfect storm. While the global energy crisis was peaking in December 2021, a major block of the Nikola Tesla Thermal Power Plant near Belgrade broke down due to the poor quality of lignite coal being used (a primary energy resource for the country) and years of underinvestment and mismanagement of the publicly owned electricity company EPS.¹ Faced with potential electricity shortages during winter, when the demand usually peaks, Serbia had to spend unprecedented amounts of money to buy electricity and coal.²

The Russian invasion of Ukraine in 2022 was another event that fundamentally endangered the whole structure of the energy supply in Serbia. Besides causing a gas crisis in Europe, Serbia's complete dependence on gas from Russia made the operations of Russian-owned companies in the country a pressing issue. In Serbia, gas is received and stored through Russian-owned companies, while the oil company NIS, which is majority-owned by Gazprom Neft, is the only producer of crude oil and natural gas, the only refiner of oil and the owner of the largest network of petrol retail sites. While the EU negotiated new sanctions against companies in majority Russian ownership and called on Serbia to align with them, Serbia opted to formally condemn the attack on Ukraine but maintain its good relations with Russia and avoid joining any sanctions against Russian-owned people or entities.³

Serbia was eventually exempted from the Council Regulation (EU) 2022/428 of March 15, 2022, which would have prohibited engagement with companies with more than 50% of ownership by Gazprom Neft, which at the time was the 56% owner of Serbian NIS.⁴ In May 2022, Russian ownership of NIS was, for the time being, secured when Gazprom, the parent company of Gazprom Neft, which was not included in the sanctions package, bought 6% of shares and henceforth

¹ Igor Todorović, 'New troubles for Serbia's EPS: coal plant TENT B is offline amid breakdown, fire', Balkan Green Energy News, December 28, 2021, <https://balkangreenenergynews.com/new-troubles-for-serbias-eps-coal-plant-tent-b-is-offline-amid-breakdown-fire/>.

² Ivana Sekularac, Aleksandar Vasovic, 'Serbia readies 3 bln euros for energy imports in winter', Reuters, September 15, 2022, <https://www.reuters.com/business/energy/serbia-readies-3-bln-euros-energy-imports-winter-2022-09-15/>.

³ Milica Stojanovic, 'Serbia Backs UN Resolution Condemning Russian Attack on Ukraine', Balkan Insight, March 2, 2022, <https://balkaninsight.com/2022/03/02/serbia-backs-un-resolution-condemning-russian-attack-on-ukraine/>.

⁴ The Council of the European Union, Council Regulation (EU) 2022/428, Official Journal of the European Union L 87 I/13, March 15, 2022, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022R0428>.

reduced the stake of its sanctioned subsidiary Gazprom Neft to 50% to prevent NIS being caught by the extension of sanctions.⁵ Shortly after, presidents Vučić and Putin agreed to a new three-year gas deal after Serbia's ten-year contract and six-month extension expired.⁶

The events of 2021-2022 are indicators of the precarious situation in the Serbian energy sector, which is facing a multifaceted crisis. The energy sector, particularly electricity production, is heavily dependent on fossil fuels, ineffective and saddled with vested interests. In contrast to rising expectations from the EU about its transition to green energy, the pace of Serbia's energy transition is slow, and while the authorities have often announced big plans, they have a mediocre track record of implementing them.⁷

Foreign influence in the energy and mining sectors might be a critical external force that maintains the current status quo of the energy transition. Russia has a dominant presence in the oil and gas sectors in Serbia, and it has an interest in maintaining its position as Serbia's primary gas supplier.⁸ In recent years, China has become a leading investor in Serbia, primarily in the automotive industry and mining, despite increasing environmental concerns among the Serbian public.⁹ However, China is also making inroads into the energy sector. Chinese loans and construction have been crucial for coal and gas power plant completion and there are also plans to build a solar plant.¹⁰

This study aims to explore this nexus between foreign actors and the energy transition in Serbia, focusing on the role of Russian ownership of NIS but extending the analysis to the broader context of geopolitics and the energy transition in Serbia.

⁵ Interfax, 'Gazprom Neft reduces stake in Serbia's NIS to 50%, Gazprom obtains 6.15%', May 11, 2022, <https://interfax.com/newsroom/top-stories/79039/>.

⁶ Vladimir Spasić, 'Putin, Vučić agree on new gas supply contract for Serbia', Balkan Green Energy News, May 30, 2022, <https://balkangreenenergynews.com/putin-vucic-agree-on-new-gas-supply-contract-for-serbia/>.

⁷ Energy Community, 'Serbia Annual Implementation Report', Energy Community Secretariat, November 1, 2022, https://www.energy-community.org/dam/jcr:a2ee5af3-ab4d-4573-9e08-7702ffd810c8/IR2022_Serbia.pdf.

⁸ Ben Reade, 'No More Mr. Nis Guy: Investigating Corrosive Capital in the Serbian Energy Industry', Bulletin of the Serbian Geographical Society 103(1): 355-386, 2023, <https://doi.org/10.2478/2616-8113.2023.0350-35932301355B>.

⁹ Stefan Vladislavljev, 'Reaching the New Levels of Sino-Serbian Relations', China Observers in Central and Eastern Europe (CHOICE), January 3, 2023, <https://chinaobservers.eu/reaching-the-new-levels-of-sino-serbian-relations/>.

¹⁰ Stefan Vladislavljev, 'How Did China Become the Largest Investor in Serbia?', China Observers in Central and Eastern Europe (CHOICE), August 8, 2023, <https://chinaobservers.eu/how-did-china-become-the-largest-investor-in-serbia/>.

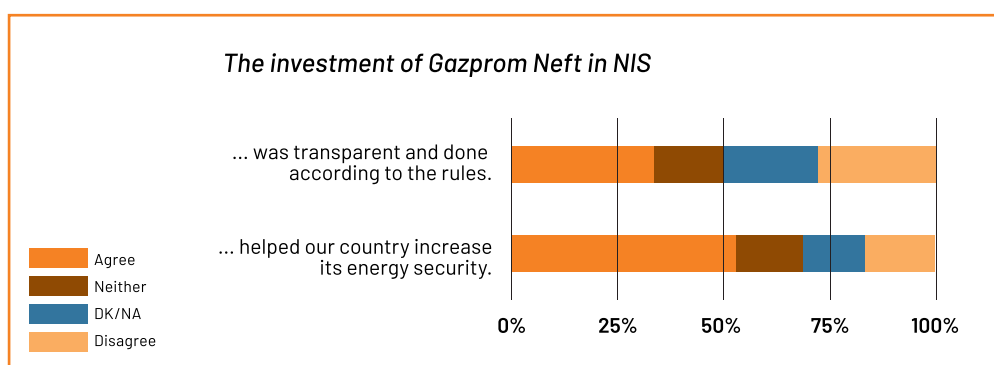
Russian Investments in Oil and Gas

Russian investments in oil and gas in Serbia were tied together from the beginning and cannot be analysed separately. They stem from the international agreement signed in Moscow on January 25, 2008, just weeks before Kosovo's declaration of independence. The main elements of the agreement included building the South Stream gas pipeline and underground gas storage in Banatski Dvor, as well as the purchase of 51% of NIS Oil Company by Gazprom Neft, which included the distribution network, two oil refineries, and oil fields in Serbia and abroad.¹¹

The acquisition of NIS was considered controversial by the Serbian public. In a BiEPAG survey conducted in 2023, only a third of respondents (34%) agreed that the Gazprom Neft investment was transparent and done according to the rules (Figure 1).¹² The majority stake in NIS was sold for around 400 million euros, which many argued was undervalued. This perspective was given further legitimacy in August 2014 when the Serbian Ministry of Internal Affairs announced it had established a special investigative team to examine the privatisation of NIS under the previous government, though the investigation fizzled out after a couple of years with no clear outcome.¹³

Figure 1. Attitudes to the Gazprom Neft investment in NIS.

Source: BiEPAG survey, N = 1,019 [2023]



11 Nikolić Kokanović Otašević Law Office, 'Legal Analysis of the Arrangements between Serbia and Russia in the Oil and Gas Sector', The International and Security Affairs Centre (ISAC), December 21, 2009, <https://www.isac-fund.org/download/Summary%20and%20Conclusions.pdf>.

12 Dimitar Bechev, Tena Prelec, Nikolaos Tzifakis, Florian Bieber, Marko Kmezic, Milica Delevic, Marika Djolai, Donika Emini, Vujo Ilic, Zoran Nechev, Milena Stefanovic, Corina Stratulat, 'The Geopolitics of the Green Energy Transition in the Western Balkans', May 24, 2023, Balkans in Europe Policy Advisory Group (BiEPAG).

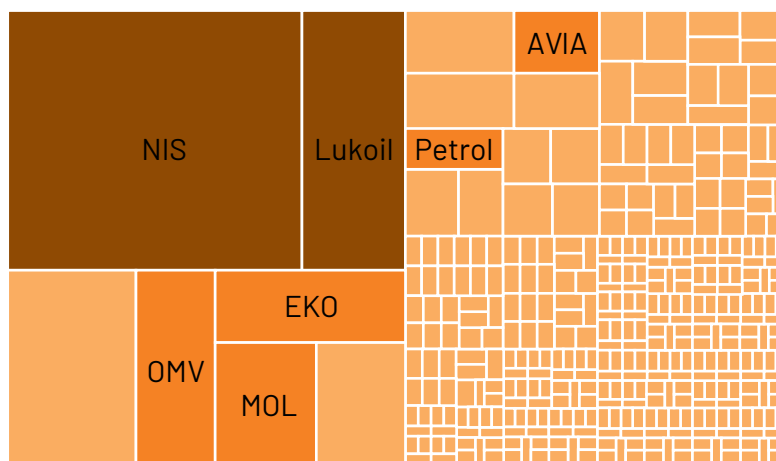
13 Ivana Sekularac, 'Serbian police to probe privatisation of state oil firm NIS', Reuters, August 12, 2014, <https://www.reuters.com/article/uk-serbia-nis-investigation/serbian-police-to-probe-privatisation-of-state-oil-firm-nis-idUKKBN0GCQL420140812>.

The proponents of the 2008 “Oil-Gas deal” with Russia defended it because of Gazprom Neft’s expected investments in the modernisation of NIS and the anticipated profits Serbia would make from future transporting of gas through the South Stream pipeline. However, in 2009, the EU adopted a Third Energy Package requiring the transmission and production/supply of gas to be structurally separated.¹⁴ This eventually led to the South Stream pipeline project being dropped by Russia in 2014 in favour of the TurkStream pipeline, which only became operational in 2021.¹⁵

Since its acquisition by Gazprom Neft, NIS has established a dominant position in the oil market. Even though the import of motor fuels has been liberalised in Serbia, NIS has been the only domestic producer of oil derivatives, and in 2022, the company had an 83% wholesale market share in motor fuels, according to its annual report.¹⁶ As shown in Figure 2, NIS Group also owns the largest distribution network in Serbia, with the company owning 22% of petrol stations in the country (322 in total, including NIS Petrol and its premium brand Gazprom).¹⁷ The second largest petrol station network, Lukoil, which is also under Russian ownership, owns 7.5% of stations. The five remaining international or regional distributors with networks in Serbia (OMV, EKO, MOL, AVIA and Petrol) operate 212 or 14% of all petrol stations. However, compared to other, especially smaller retailers, NIS has a well-positioned network of high turnover petrol stations, pushing its share in the retail market to 50%, even though its share of the total number of petrol stations is half that.¹⁸

Figure 2. Treemap of petrol stations in Serbia.

Source: Ministry of Domestic and Foreign Trade [2023]



¹⁴ Official Journal of the European Union, L 211, August 14, 2009, <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=OJ:L:2009:211:TOC>.

Law office Samardžić, ‘Serbia adopts rules preventing South Stream pipeline’, Legal Insight, July 17, 2015, www.specht-partner.com/wp-content/uploads/2015/07/150717-Legal-Insight-Serbia-adopts-3rd-Energy-Package-preventing-South-Stream.pdf.

¹⁵ Darya Korsunskaya, ‘Putin drops South Stream gas pipeline to EU, courts Turkey’, Reuters, December 1, 2014, <https://www.reuters.com/article/us-russia-gas-gazprom-pipeline-idUSKCN0JF30A20141201>.

¹⁶ NIS Group, ‘The Annual Report for 2022’, 2023, https://ir.nis.rs/wp-content/uploads/2023/04/AR_2022_eng.pdf.

¹⁷ Ministry of Domestic and Foreign Trade, ‘Public database of petrol stations in Serbia’, October 2, 2023, <https://must.gov.rs/tekst/sr/384/javna-baza-benziskih-stanica-u-srbiji.php>.

¹⁸ NIS Group, ‘The Annual Report for 2022’.

In addition, NIS has invested in modernising petrol production in the country since the acquisition. In an interview, a former company executive explained that before privatisation, the market was relatively unregulated regarding the quality of derivatives and the grey economy, but that NIS “has influenced, in a positive sense, the state to regulate the market.” Similarly, the refinery that Gazprom Neft acquired did not meet EU standards, but after the investments, “the refinery produces fuel of the same quality as in France or Germany.” This explanation is in line with the findings of the BiEPAG survey, in which 50% of Serbian citizens believed the investment of Gazprom Neft in NIS helped Serbia to increase its energy security.

In contrast to oil and derivate, Russian involvement in gas in Serbia has followed a different path. Despite the national gas company Srbijagas remaining in majority Serbian public ownership, Gazprom has exercised far more significant influence on the sector than in the case of oil. Even though the South Stream pipeline never materialised, Gazprom has remained the only gas supplier, directly controlling Serbian gas reserves and even parts of the pipelines in Southern Serbia through a jointly owned company, Yugorosgaz.¹⁹

Furthermore, unlike with oil, Gazprom has maintained its monopoly in the wholesale market and clear dominance in the retail market. Serbian dependence on Russian gas has effectively been left intact since 2008, in spite of multiple challenges. Gazprom’s influence over Serbia’s domestic gas company has been exercised through political appointments on the governing boards of subsidiary companies. Dušan Bajatović, a high-ranking member of the Socialist Party of Serbia, which is a junior coalition partner of the ruling Serbian Progressive Party, was recognised by multiple interlocutors as the power broker for domestic and foreign actors with an interest in maintaining the status quo.

¹⁹ Energy Community, ‘Annual Implementation Report 2015/2016’, Energy Community Secretariat, September 1, 2016, https://www.energy-community.org/dam/jcr:d486761d-7d19-4ac6-b55f-2cf838f689bd/EnC_IR2016.pdf.

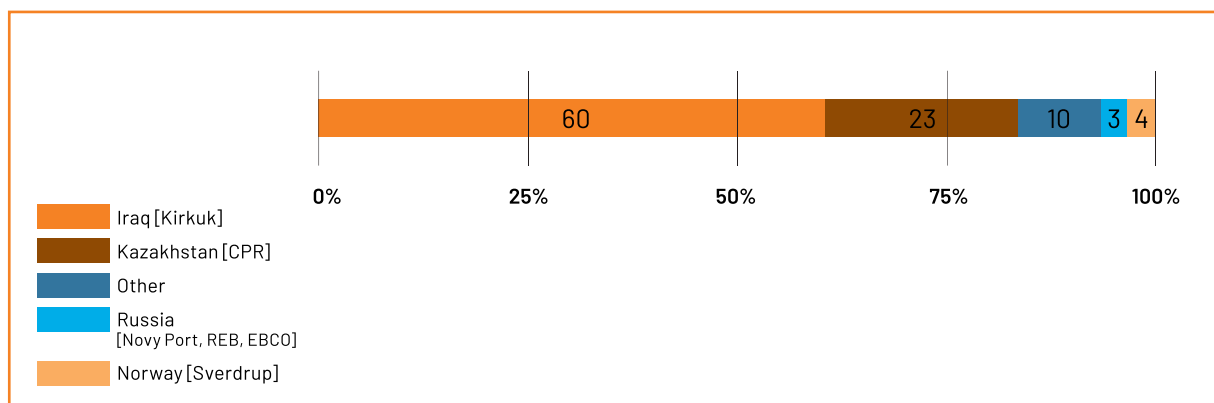
Oil vs. Gas – the Path to Dependency

The above discussion raises the question of why Serbia originally became dependent on Russian gas. Russia's presence in the gas and oil sectors arose from the same interstate agreements, but each case developed differently. Stakeholders we spoke to perceived NIS after the acquisition by Gazprom Neft to be primarily focused on profit and less on geopolitics. It was viewed as a fully corporatised entity that can act as a "partner" to the government. On the other hand, the parent company, Gazprom, directly and through Srbijagas, maintains a "reserved domain" in the gas sector that is politically kept beyond the reach of the authorities. While one former government official described cooperation with NIS as "normal" and "professional", Srbijagas was seen as being notoriously inaccessible: "We could not get a valid document from that company, and when something was sent to us, we checked it five times, and could not be sure if it was correct."

The variation in how foreign-owned and domestic public companies have acted can best be explained in relation to Serbia's relative dependence on oil and gas. Over the last few years, oil has reached Serbia from the global market, mainly from Iraq, through JANAF pipelines, and there has never been dependence on Russian oil (Figure 3).²⁰ Even though Russia owns the company, NIS was steadily reducing imports of Russian oil prior to the 2022 invasion of Ukraine. If political relations with Russia collapsed, oil could continue flowing towards Serbia.

Figure 3. Imported crude oil by country (type).

Source: Energy Agency of the Republic of Serbia [2021]



20 Energy Agency of the Republic of Serbia, '2021 Energy Agency Annual Report', 2022, <https://www.aers.rs/Files/Izvestaji/Godisnji/Izvestaj%20Agencije%202021.pdf>.

The situation with gas could not be any different. Up until 2021, when the Balkan Stream pipeline – an extension of the TurkStream pipeline that brings gas through Bulgaria – was opened in place of the abandoned South Stream pipeline, Serbia was importing all its gas from Russia through a single route via Hungary. Even though this new route is now open, Serbia can still only buy gas from Russia until it completes a new interconnector with Bulgaria.

Several interlocutors we spoke to emphasised that diversification of gas suppliers has never happened despite several shocks, including the 2004 gas crisis, the 2009 price hikes, and the 2014 supply reduction. There are several reasons for this, including political benefits, domestic business deals, and Russian strong-arm tactics. In the 2000s, decision-makers in Serbia viewed the provision of cheap gas for consumers as an opportunity to secure political support and as a way to attract foreign investors to Serbia. Even as late as 2022, the Serbian Energy Agency was still promoting gas to consumers as the cheapest heating fuel.²¹ The internal gasification of Serbian cities also had significant potential for patronage and corruption, given it was beset with a lack of transparency. One renewable energy expert told us that internal gasification often occurred without considering local needs and energy demands.

In the 2010s, Russia obstructed the diversification of suppliers and hindered Serbia from increasing underground gas storage capacity. Despite plans being announced to double Serbia's underground gas storage capacity, these projects never took off and Serbia was forced to rent gas storage from neighbouring Hungary at a much higher price. A former government official told us this was because the Russians "could never fundamentally agree with Serbia" on the issue.

In 2014, Gazprom reduced its gas supply to Serbia, citing unresolved debts from the 1990s, a marginal issue brought to light just weeks after a visit by Vladimir Putin to Belgrade,²² which many saw as a political message that beneficial arrangements with Russia were at risk.²³ In one of our interviews, an international security expert called this "a classic example of weaponisation" and pointed out that before 2022, Serbia was only the second country in Europe, after Ukraine, which had experienced gas being directly used in this way as an instrument for exerting political pressure.

Only the 2022 Russian invasion of Ukraine might have tipped the balance towards diversification. A current government official told us: "We as a country have taken the problem of dependence on one energy source and one supplier seriously." The interconnector with Bulgaria, which would finally allow Serbia to diversify gas suppliers, now seems to be within reach. Although plans have been

21 Energy Agency of the Republic of Serbia, 'Troškovi energije za grejanje stambenog prostora, grejna sezona 2022/2023' [Energy costs for residential space heating, heating season 2022/2023], October 20, 2022, <https://www.aers.rs/Index.asp?l=1&a=541&id=317>.

22 Julian Borger, 'Vladimir Putin moves to strengthen ties with Serbia at military parade', *Guardian*, October 16, 2014, <https://www.theguardian.com/world/2014/oct/16/vladimir-putin-russia-serbia-alliance-military-parade>.

23 The Moscow Times, 'Serbia Struggles to Pay Russian Gas Debt', November 3, 2014, <https://www.themoscowtimes.com/2014/11/03/serbia-struggles-to-pay-russian-gas-debt-a40988>.

in place since 2015, construction of the interconnector only began in February 2023, with an expected completion date of the end of the year.²⁴ This would allow Serbia to access gas from Azerbaijan²⁵ and potentially liquefied natural gas from Greece.²⁶

Russian Investments and the Energy Transition

The share of renewable energy in Serbia's energy mix has been slowly growing in recent years. Most electricity generated from renewable sources comes from hydropower, which accounted for 30% of all electricity produced in 2021, mainly from large plants from the Yugoslav period. Small hydro plants have expanded recently due to preferential feed-in tariffs favouring politically connected companies. Across the Western Balkans, small hydropower plants have received 70% of the feed-in tariffs for renewable energy.²⁷ However, small hydro plants in Serbia produced only 0.85% of all electricity in 2021.²⁸ These plants have created far more controversy due to their negative environmental impact and associated damage to environmentally protected areas, as well as their effect on local communities, tourism, and agriculture.²⁹

The focus has recently shifted to solar and wind projects, which are becoming more cost-effective and environmentally friendly. However, the share of these power sources in electricity production is still minimal. The shift from coal to

24 Government of Serbia, 'Construction of gas interconnector between Serbia, Bulgaria begins', February 1, 2022, <https://www.srbija.gov.rs/vest/en/184444/construction-of-gas-interconnector-between-serbia-bulgaria-begins.php>.

25 Tatiana Mitrova, 'The Economics of Caspian Gas', Center on Global Energy Policy at Columbia University, September 26, 2023, <https://www.energypolicy.columbia.edu/qa-the-economics-of-caspian-gas/>.

26 Vladimir Spasić, 'Srbijagas, DEPA plan to cooperate in natural gas sector', Balkan Green Energy News, September 8, 2023, <https://balkangreenenergynews.com/srbijagas-depa-plan-to-cooperate-in-natural-gas-sector/>.

27 Pippa Gallop, Igor Vejnović, Davor Pehchevski, 'Western Balkans Hydropower: Who Pays, Who Profits? How Renewables Incentives Have Fed the Small Hydropower Boom and What Needs to Change', CEE Bankwatch Network, September 2019, <https://bankwatch.org/wp-content/uploads/2019/09/who-pays-who-profits.pdf>.

28 Government of Serbia, 'Energetski bilans Republike Srbije za 2022. godinu' [Energy balance of the Republic of Serbia for 2022], "Official Gazette of the RS", no. 4/2022, January 14, 2022, https://www.mre.gov.rs/extfile/sr/1144/energetski_bilans_rs_za_2022__0.pdf.

29 Barbara Pavlaković, Andrea Okanovic, Bojana Vasić, Jelena Jesić, Polona Šprajc, 'Small hydropower plants in Western Balkan countries: status, controversies and a proposed model for decision making', Energy, Sustainability and Society 12 (9): 1-13, 2022, <https://energysustainsoc.biomedcentral.com/articles/10.1186/s13705-022-00335-7>.

renewables raises the question of baseload power – the minimum amount of electricity to be supplied to the grid at any given time. While natural gas is one option for providing this electricity, especially during peak times, reversible hydro plants may offer an alternative.³⁰

While Russian interests have focused on ensuring the status quo in the supply of energy from fossil fuels, particularly gas, Russian companies have not impeded the development of “greener” energy options in Serbia. Instead, fossil fuel companies are also becoming involved in renewable projects, though for now, this is primarily to cover their energy needs and to show they are contributing to efforts to tackle climate change. NIS has invested in solar power plant installations across its petrol station network.³¹ It is also currently working on green and blue hydrogen projects and a wind power plant in Plandište.³²

The biggest obstacles to the green energy transition in Serbia are electricity production and domestic coal interests. The role of coal is hard to overestimate in Serbia, as solid fossil fuels, primarily lignite coal, make up two-thirds of the country’s primary energy production (Figure 4).³³ The coal sector is one of the largest employers in Serbia, with 15,262 direct jobs and an estimated 37,708 indirect jobs.³⁴ The state has subsidised open pit and underground coal mines for years, and the coal sector has had long-term problems with corruption.³⁵ While these factors help to maintain the status quo, reliance on coal in electricity production is nevertheless drawing increasingly more attention, not only due to its inefficiency and mismanagement but also because of its environmental impact, primarily air pollution.³⁶

30 Dimitar Bechev, ‘Energy in the Western Balkans’, *Balkans in Europe Policy Advisory Group (BiEPAG)*, May 24, 2023, <https://biepag.eu/publication/energy-in-the-western-balkans/>.

31 NIS Group, ‘NIS Continues to Invest in Solar Energy’, May 16, 2023, www.nis.rs/en/news/nis-nastavlja-sa-ulaganjima-u-solarnu-energiju/.

32 Igor Todorović, ‘Oil companies in Southeastern Europe accelerate renewable energy investments’, *Balkan Green Energy News*, May 30, 2023, <https://balkangreenenergynews.com/oil-companies-in-southeastern-europe-accelerate-renewable-energy-investments/>.

33 Eurostat, *Energy Database*, Accessed October 5, 2023, Serbia Energy balances, 2020 Annual Primary production, Thousand tonnes of oil equivalent (ktoe), <https://ec.europa.eu/eurostat/web/energy/database>.

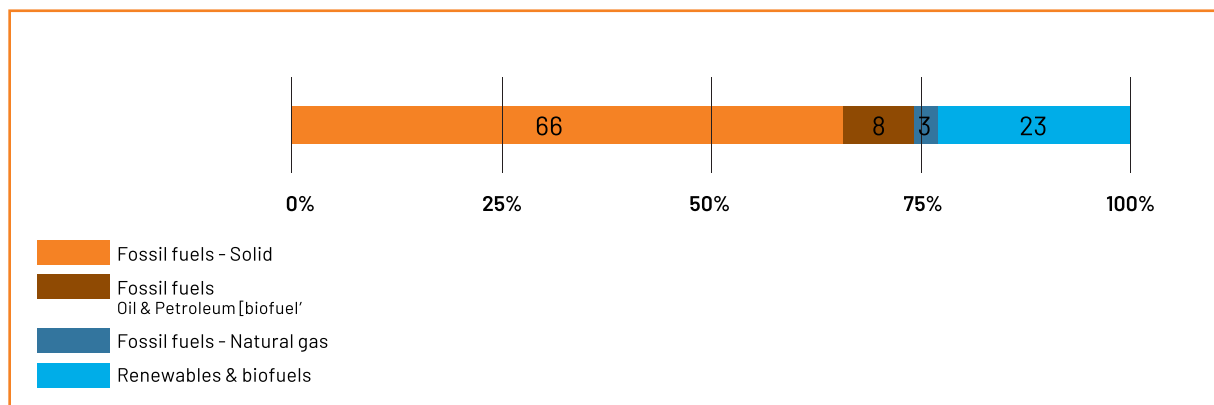
34 Pablo Ruiz Castillo, Hrvoje Medarac, Julian Somers, Giovanni Mandras, ‘Recent trends in coal and peat regions in the Western Balkans and Ukraine’, Publications Office of the European Union EUR 30837 EN, 2021, <https://publications.jrc.ec.europa.eu/repository/handle/JRC126154>.

35 Damir Miljević, ‘Investments into the past: Analysis of Direct Subsidies to Coal and Lignite Electricity Production for the year 2020 in the Energy Community Contracting Parties’, Energy Community Secretariat, May 2022, https://www.energy-community.org/dam/jcr:9548dd16-b9ed-4bcc-a562-4ebd5061b082/Coal_Subsidies_Study_070222.pdf.

CEE Bankwatch Network, ‘Kolubara B lignite-fired power plant, Serbia’, Accessed October 1, 2023, <https://bankwatch.org/project/kolubara-b-lignite-fired-power-plant-serbia>.

36 Ajit Niranjana, ‘Belgrade: the city where dirty air is seen as a consequence of economic growth’, *Guardian*, September 22, 2023, <https://www.theguardian.com/world/2023/sep/22/belgrade-serbia-air-pollution>.

Figure 4. Serbia energy balances, 2020 Annual primary production (ktoe). Source: Eurostat [2020]



In contrast to the negative backlash against coal that is slowly developing in Serbia, the Serbian public has not perceived Russian fossil fuel providers as significant polluters. Gazprom's focus has been on maintaining the monopoly of supply, which the public knows little about, and the gasification of Serbia, which has brought gas to an increasing number of households and is perceived to be environmentally preferable to the use of coal and wood heating in cities.³⁷

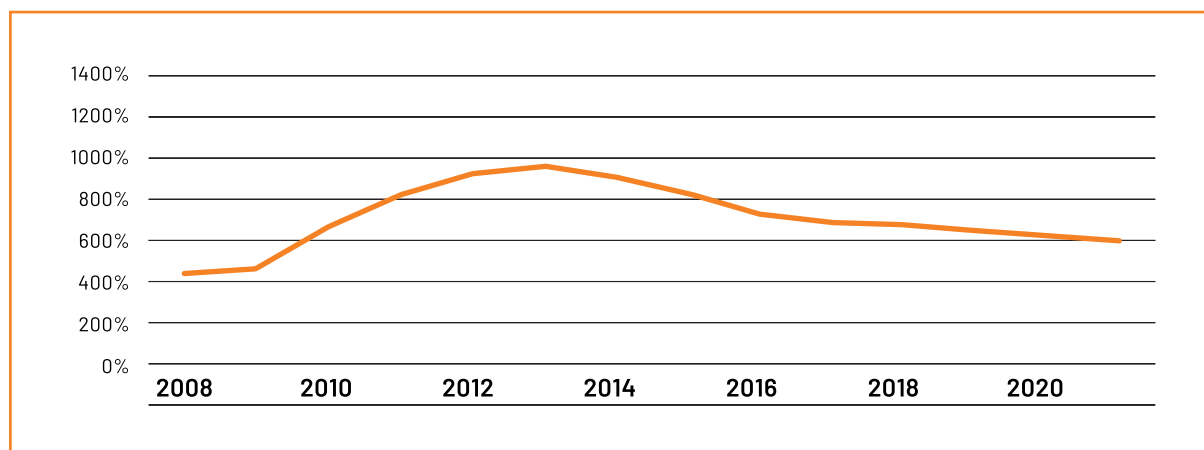
NIS has similarly been associated with improving the quality of petrol produced in Serbia and aligning it with EU standards, thus contributing to a better quality of life in Serbia. On the other hand, NIS was accused of draining domestic oil resources in an unsustainable way in the early 2010s. Motivated by the possibility of selling cheap oil when global prices were high and with a 3% mineral tax, crude production almost doubled between 2008 and 2013 (Figure 5).³⁸ In an interview, a former government official said that "the extraction of crude oil from the wells was done too quickly, in a way that is not allowed anywhere in the world." A series of newspaper articles in 2017 brought these practices to the public's attention, but the issue did not gain much traction and has mostly receded from the public discourse.³⁹

³⁷ Government of Serbia, 'Measures to reduce air pollution presented', January, 15 2020, <https://www.srbija.gov.rs/vest/en/149289/measures-to-reduce-air-pollution-presented.php>.

³⁸ Statistical Office of the Republic of Serbia, 'Database: Annual Energy Statistics, Quantities', Accessed October 5, 2023, data.stat.gov.rs/.

³⁹ Slađana Vukašinić, 'Nis potrošio svu naftu iz Velebita: Najplodnije nalazište u Srbiji na izdisaju' [Nis used up all the oil from Velebit: The most fertile field in Serbia is exhaling], Blic, April 25, 2017, <https://www.blic.rs/biznis/nis-potrosio-svu-naftu-iz-velebita-najplodnije-nalaziste-u-srbiji-na-izdisaju/pnm3es1>.

Figure 5. Annual production of crude oil, thousands of tonnes.
Source: Statistical Office of the Republic of Serbia [27.02.2023]



The Geopolitical-Environmental Nexus

Positive perceptions of Russia and its political leadership have mostly stayed aligned with positive perceptions of Russian investments in the Serbian energy sector. The Serbian authorities and the dominant pro-government media have continuously moulded a positive image of Russia and China as foreign actors, while Western actors have been portrayed more negatively (US) or neutrally (EU).⁴⁰ Unsurprisingly, perhaps, the BiEPAG survey showed respondents perceived there to be a net positive impact from Russian investments on the environment and a net negative impact from Western companies (Figure 6).

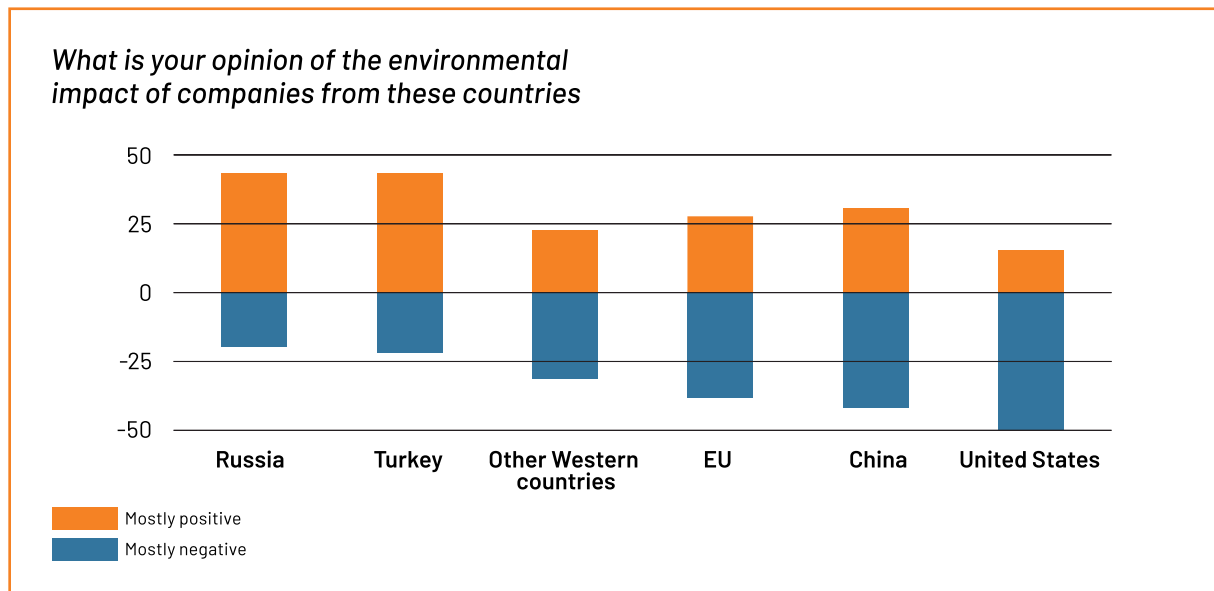
But this is not always the case. Perceptions about foreign actors are not always directly translated into how investments from these countries are seen in Serbia, and a more complex picture can be drawn by comparing Russian investments with those from other actors. The public has perceived recent Chinese investments in copper mining in Bor and steel production in Smederevo as depleting resources and damaging the environment, leading to local and national environmentalist mobilisation against the projects.⁴¹ The BiEPAG

40 Crta, 'Media Outlets – Positive on Russia and China, Negative on the EU and the USA', January 26, 2022, <https://english.istinomer.rs/analyses/media-outlets-positive-on-russia-and-china-negative-on-the-eu-and-the-usa/>.

41 Tena Prelec, 'Eco-monsters & Eco-fighters: China's Investments in Serbia's Heavy Manufacturing Industry as Seen through an Environmental Lens', Prague Security Studies Institute, January 26, 2021, <https://www.pssi.cz/publications/39-eco-monsters-eco-fighters-china-s-investments-in-serbia-s-heavy-manufacturing-industry-as-seen-through-an-environmental-lens>.

survey also showed net negative attitudes concerning the impact of Chinese investments on the environment (Figure 6). While the overall perception of Russia and China remains positive in Serbia, the increased visibility of Chinese activities has exposed them to greater scrutiny.

Figure 6. Attitudes about the environmental impact of investors (without undecided). Source: BiEPAG survey, N = 1,019 [2023]



This focus on the public's perception of resource depletion and negative environmental impacts also provides a helpful lens for understanding Serbia's attitudes towards Western investments in energy and mining. In 2021, the Serbian government suspended an announced investment by the UK-Australian company Rio Tinto in lithium mining after massive environmentalist mobilisation.⁴² While some of this opposition might reflect prevailing anti-Western sentiments, this was far less decisive than the perception the project would have a negative environmental impact.

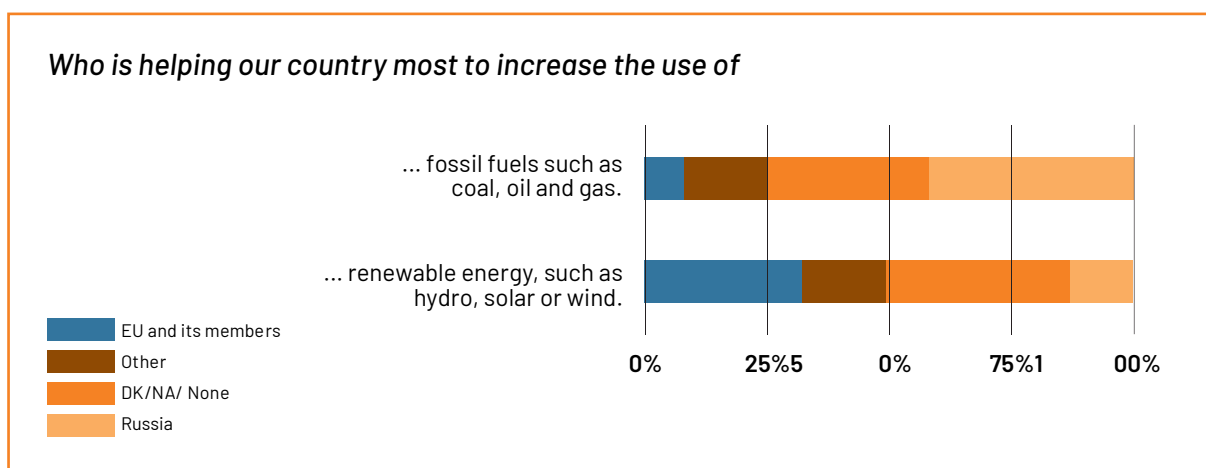
One leader of a green opposition parliamentary group said in an interview about their opposition to Rio Tinto that "the consequences that remain on the ground are so great that we do not care where the investor comes from." Another leader of a green opposition parliamentary group had a more balanced explanation for the scale of the mobilisation against Rio Tinto. He noted that when it comes to Chinese investments, "you cannot pressure them because the government defends them", but that Western companies such as Rio Tinto do not benefit from the same level of protection. As such, when anti-Western sentiments interact with environmental concerns, "it becomes very easy to put pressure on someone from the West, as they become a symbol of all our troubles."

Yet while negative perceptions of the West contributed to the anti-mining mobilisation, there are also perceptions that could help sustain investment in

⁴² Guardian, 'Rio Tinto Plans for Serbia Lithium Mine Suspended after Protests', December 16, 2021, <https://www.theguardian.com/environment/2021/dec/16/serbia-blocks-rio-tintos-plan-to-mine-lithium-after-protests>.

renewables. In the BiEPAG survey, two thirds of citizens said that Serbia should invest in domestic renewable energy sources as response to the energy crisis, as opposed to fossil fuels or nuclear energy. And while Serbian public identified Russia as the primary provider of fossil fuels, they identified Western actors, primarily the EU, as taking a leading role in the development of renewable energy sources in Serbia. These brief comparisons show there is more to the geopolitical-environmental nexus in Serbia than a simple translation of political attitudes towards foreign actors into attitudes about investments.

Figure 7. Attitudes about the external help in energy use increases.
Source: BiEPAG survey, N = 1,019 [2023]



The Way Forward

Serbia's transition to renewables is interlinked with its foreign relations, arguably to a greater extent than for other countries in the Western Balkans. However, the biggest issue with the green transition in Serbia is domestic coal dependence and vested interests in coal-based electricity production. Russian-owned companies in Serbia are interested in making profits from oil and maintaining their gas supply monopoly, which has prevented gas from expanding its share in the country's energy mix and displacing coal. Russian companies have not been active impediments to the green transition. The financial support for transition and the pressure to transform the energy sector and move away from coal comes not from below, but mainly from outside, primarily from the EU.

The EU should continue to provide incentives for decarbonization and deter the Government of Serbia from further investments in coal. This transition will be costly and EU' direct financial assistance could be a critical factor for the process. The EU could also support the timely establishment of an emissions trading scheme in the Western Balkans or a special just transition fund analogous to the EU's Just Transition Mechanism. The period of adaptation and compliance with the EU's Carbon Border Adjustment Mechanism (CBAM), which is expected to take effect in 2026, leaves very little time for these transformative processes.

Serbia's foreign policy balancing act has, especially since Russia's 2022 invasion of Ukraine, blurred the energy transition question, entangling it with powerful narratives concerning the country's relations with the East and the West. However, this study has shown that an investor's tangible environmental footprint can trump even a country's highly positive perceptions, and the difference in how Russian and Chinese investments are perceived helps explain this geopolitical-environmental nexus. Actors from the West should expect an antagonistic environment in Serbia in the years to come. For instance, CBAM tariffs could strengthen the narrative that the EU asks too much from Serbia and turn the public against it in such a context. However, opposition to environmentally degrading energy and mining projects does not mean that projects with a less visible environmental footprint will necessarily face the same challenges.

The EU and its member states should support investments in environmentally friendly energy projects and public awareness and engagement in the energy transition that could help strengthen positive political perceptions. In the transition from coal, gas could be a transition fuel, but to decarbonise, Serbia will need investments

in renewables, especially solar, wind, and hydropower, and potentially hydrogen and biomass. Instead of coal and gas, reversible hydro plants could provide baseload power and back up intermittent output from renewables. Supporting such investments could help Serbia's energy transition and avoid an environmental backlash. Enhancing public awareness of the country's need to pursue the energy transition could help build support for it and the EU, who Serbian citizens already see as a partner in the transition to renewable energy and away from coal.

Like the other states in the Western Balkans region, Serbia faces two possible paths when it comes to the energy transition. One option is the "gas bridge" approach, which would see coal replaced with natural gas as an intermediary step in the transition to renewables. The second option is to go straight to renewables. This study argues that Russian investments in the fossil fuels sector have followed different trajectories and that dependence on Russia as a natural gas supplier has been an important factor in Serbia's current carbon lock-in. Supplier diversification could enable Serbia to use gas with more flexibility and kick-start the transition to renewables.

The EU should continue to enable Serbia to achieve natural gas security and supplier diversification, with the ultimate goal of using gas in the process of coal phase-out. This could be achieved through increasing the number and capacity of interconnectors that link Serbia to different suppliers, an expansion of underground gas storage capacity that would make Serbia more resilient to external shocks, and through joint gas purchasing schemes with the EU that allow Serbia to pay lower prices than if buying alone. Gas could be used as transition fuel in Serbia, and could act as a bridge for Serbia to reduce its reliance on low-quality coal for electricity production, but the ultimate goal should be to increase the manoeuvring space for Serbia to use gas as a replacement for coal during the transition to renewables. The window of opportunity for this approach will be open until the next Serbian gas deal with Russia in 2025.

About us

The Balkans in Europe Policy Advisory Group (BiEPAG) is a joint initiative of the European Fund for the Balkans (EFB) and Centre for the Southeast European Studies of the University of Graz (CSEES) promoting the European integration of the Western Balkans and the consolidation of democratic, open countries in the region. BiEPAG is grounded in the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. It adheres to values that are common to a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail. It is composed of prominent policy researchers from the region and wider Europe with demonstrable comprehension of the Western Balkans and the processes shaping the region. Members are Florian Bieber (Coordinator), Bojan Baća, Matteo Bonomi, Dimitar Bechev, Srđan Cvijić, Marika Djolai, Milica Delević, Nikola Dimitrov, Vedran Džihčić, Richard Grieveson, Donika Emini, Dejan Jović, Marko Kmezić (Assistant Coordinator), Srđan Majstorović, Jovana Marović, Zoran Nechev, Damir Kapidžić, Tena Prelec, Corina Stratulat, Nikolaos Tzifakis, Alida Vračić, Gjergji Vurmo, Natasha Wunsch.

<https://biepag.eu>

Contact: MILENA STEFANOVIĆ Programme Manager

milena.stefanovic@balkanfund.org

The European Fund for the Balkans is a joint initiative of the Erste Foundation, Robert Bosch Foundation and King Baudouin Foundation that envisions and facilitates initiatives strengthening democracy, fostering European integration and affirming the role of the Western Balkans in addressing Europe's challenges. Its strategy is focused on three overarching areas – fostering democratisation, enhancing regional cooperation and boosting EU Integration. The EFB supports the process of affirming the efficacy of EU enlargement policy across the Western Balkans, improving regional cooperation amongst civil society organisations based on solidarity and demand-driven dialogue. It provides means and platforms for informed and empowered citizens to take action demanding accountable institutions and democracy. The focus is on continuous reforms of the policies and practices of the Western Balkans countries on their way to EU accession.

www.balkanfund.org

Contact: ALEKSANDRA TOMANIĆ Executive Director

aleksandra.tomanic@balkanfund.org

The Centre for Southeast European Studies was set up in November 2008 following the establishment of Southeast Europe as a strategic priority at the University of Graz in 2000. The Centre is an interdisciplinary and cross-faculty institution for research and education, with the goal to provide space for the rich teaching and research activities at the university on and with Southeast Europe and to promote interdisciplinary collaboration. The Centre also aims to provide information and documentation and to be a point of contact for media and public interested in Southeast Europe, in terms of political, legal, economic and cultural developments. An interdisciplinary team of lawyers, historians, and political scientists has contributed to research on Southeast Europe, through articles, monographs and other publications. The centre regularly organizes international conferences and workshops to promote cutting edge research on Southeast Europe.

<http://csees.uni-graz.at/>

Contact: UNIV.PROF. DR. FLORIAN BIEBER

Professor of Southeast European History and Politics,

florian.bieber@uni-graz.at

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