

Energy market outlook for the Balkans in an era of rapid change and energy transition

Davor ŠTERN: "If European producers could find the Balkans acceptable for being a part of their industrial production, under the condition that there is enough energy supply for that, the role of the Balkans could change in a positive way. I am convinced that such strategy would bring stability to the region."

Résumé of Minister Štern's conference «Energy market outlook for the Balkans in an era of rapid change and energy transition» at the Brussels Energy Club (BREC) (picture) by Nadežda KOKOTOVI, Brussels Energy Club Director.

The Brussels Energy Club (BREC) held the first session dedicated to the energy sector in the Balkans. Energy debates in Brussels often tend to overlook the Balkans within its considerations of energy security, sustainability and the energy transition. However, the Balkans are strongly linked with the European Union (EU) in regulatory terms and in sharing energy security risks. EU has nurtured the development of the energy legislation and wider policy objectives in the Balkans through instruments such as the Energy Community Treaty and the EU accession processes that all countries of the region are undergoing.

The main speaker was Davor Štern from Croatia. Mr. Štern has almost 50 years of experience in the oil and gas sector in former Yugoslavia and USSR: he served as a Croatian minister of energy and CEO of INA, the Croatian oil and gas company. Currently, he advises the Croatian Academy of Sciences and Arts (HAZU) and is considered to be the best connoisseur of this sector in the region. The debate was supported by Goran Radosavljević from the National Petroleum Committee of Serbia of the World Petroleum Council.

Today, in most definitions, the so-called Western Balkans are comprised of EU candidate or almost candidate countries: Serbia, Bosnia and Herzegovina, Montenegro, Macedonia, Albania. Croatia has joined the EU in 2014, but due to common Yugoslav past, war heritage, and commonly spoken language (Serbo-Croatian), these countries constitute one region in terms of infrastructure and energy characteristics, which are not closed within its borders, and economic problems.

The Balkans are important for the EU energy security due to the proximity of large scale energy transportation routes traversing the region. Diversification of the energy supply routes and sources remains a pillar of the EU's Energy Union Strategy, with Brussels tending to



support nascent LNG project in Croatia vs. competing gas pipelines from Russia and Turkey. However, there is a huge imbalance between the rest of Europe and this region, which Mr. Štern called the "black hole" of Europe. If you look at the map of electricity transmission lines by night or maps of natural gas and oil pipelines in Europe, you will see that the Balkans are the least interconnected and connected with other regions, which results in clear shortage of energy supply.

Mr. Štern pointed out to general economic situation in the region: the Balkan countries have never finished their plan-to-market transition reforms and now they are where new Eastern European EU Member States were in 1996. After the relatively fast growth, convergence with the EU in living standards has been slow since 2008. The region has the highest unemployment rates in Europe and among the highest in the world, ranging between 12 and 20% depending on the country. In Bosnia and Herzegovina, the unemployment rate is between 18.4% and 25%, depending on a source⁽¹⁾⁽²⁾, where decrease of it is reported as being „only partly due to rising employment, but also to the decrease in the working-age population and rising inactivity. Long-term unemployment remained high at 82% of total unemployment“⁽³⁾.

The highest average net monthly salary is in Montenegro in 2019: 510€⁽⁴⁾. According to the World Bank Global Competitiveness Report 2019, the Western Balkan states are ranked between the 65th (Serbia) and the 90th place (Bosnia and Herzegovina): Montenegro, Serbia and Albania had better scores than in previous editions and Bosnia's and Croatia's scores went down. In comparison, Slovenia, which also used to be part of former Yugoslavia, is now on the 35th position and neighboring Romania is 52nd⁽⁵⁾. The GDP per capita in Serbia is 5900€⁽⁶⁾. The

main problems of the region are inefficient government bureaucracy, political and policy instability, inadequate supply of infrastructure, and corruption. Business sophistication and innovation are on low level compared to other European countries. In terms of enabling trade, the Western Balkans countries have low availability of transport services, availability and use of ICTs and efficiency and transparency of border administrations. Those are the reasons why the population leaves these states in massive numbers: 40 to 70 thousand people each year leave Serbia, Bosnia, Croatia. The main characteristics of this exodus is that all professions and age groups are leaving.

In Štern's opinion, industrial energy releases human energy. This can be done by correcting incentives in the labor market regulations, taxes, and social protection, as the current system discourages employment and fuels emigration. But the key solution would be to bring in large energy and infrastructure projects to the region that would stimulate employment. Regional and global integration, including participation in European value chains, would be a stepping stone for productivity growth.

The region is in energy deficit and depends on energy imports. The Balkans are using mostly their hydroelectric potential and substantial reserves of coal or lignite. Coal has a 2,3 times higher share than in EU-27, while the consumption of natural gas is 50 percent lower than in the EU-27, because natural gas networks are developed only in some countries and regions. However, natural gas might have a significant role in electricity production. This is a transit corridor of natural gas supply from Russia and the Caspian region toward EU countries. There are possibilities for LNG terminals

development, storages and interconnection pipelines. Security of energy supply is still a big topic in the Balkans. The region firmly depends on future electricity production capacities construction, transmission networks connection and oil and gas supply projects in the region. There is only one source of gas in Serbia, from Russia. If the transit through Ukraine stops, at one point, the whole region will be left without gas. And even when everything is in order, gasification of the region is very poor.

In terms of renewable energy, the region is uneven. Serbia still hasn't implemented the EU directives on biofuels, and now it has been extended to 2020. There are few investments in wind energy. The main concern of general public when it comes to environment is pollution. Belgrade and Sarajevo are among the most polluted European cities. Energy efficiency is very low level, and energy intensity is high, even the industry is underdeveloped. On the other side, the EU vice-president, commissioner for the Energy Union, Maroš Šefčovič called Croatia's story "a testimony to the Energy Union's impact on the ground", referring to fulfilled EU energy targets.

"The Balkans were making headlines in the previous 30 years, and the whole region is still very fragile. Not that we don't like each other, but we have over a million and a half of unemployed people, in a relatively small area. Unless we bring the energy to the Balkans and allow the region to get included in the value production chain in Europe, we will have a problem. In the best-case scenario, there will be no one left there at the end of the day or we risk having a very explosive area in the heart of Europe. Without energy and industry, there are no jobs, and the rest we can conclude" – said Davor Štern.

Štern thinks that the Balkans could be seen as a close-to-market production ground for Europe. "If European producers could find the Balkans acceptable for being a part of their industrial production, under the condition that there is enough energy supply for that, the role of the Balkans could change in a positive way. I am convinced that such strategy would bring stability to the region."

He also proposes that "for example, EastMed gas pipelines from Israeli fields could go from Cyprus, Greece and Albania to the Balkans, instead of Italy. Gas consumption doesn't exist in Albania, Macedonia, Montenegro, parts of Serbia and Croatia. There is new market waiting for the gas to come, for industrial production". Another challenge for the region is transport connections. "For example, a new Croatian highway from north to south of the country can be connected to Greece

bringing goods to Europe". Radosavljević adds: "We have projects on the table for 30-40 years: the South Stream a few years ago, now Turkish Stream, or the Pan-European Oil Pipeline (PEOP) - the oil pipeline from Constanza to Trieste etc. But zero projects are ongoing. There are oil and gas pipelines in the region that could be much more efficient if there were interconnected".

Regarding the EU-supported LNG terminal in the Croatian island of Krk, Mr. Štern is one of the opponents of this location for the LNG terminal. LNG technology is going to make the sea colder 30 kilometers around a highly touristic area. Besides, no LNG terminal in surrounding countries is working full capacity and there are cheaper and more efficient solutions for gas storage in this area, such as depleted fields in the North Adriatic. The viability of this project is another question and is in contradiction with the political part. On one side we have prices, which are higher than natural gas, and on the political side we have the EU strategy of diversification of routes and sources for the sake of energy security.

The Balkans are and should be part of Europe, one day they will become member states and the higher their GDP, the easier this transition for them will be, both agree. The EU *acquis communautaire* transposition is under way in the region, not only as part of the EU accession process, but also in the frame of the Energy Community Treaty and the Transport Community Treaty (between the EU and the Western Balkans states). However, from the perspective of business, these processes are very slow and the national capacities for implementation are insufficient, Radosavljević pointed out.

Although the session was dedicated to the energy sector of the Balkans, the discussion diverted to broader economic and political issues which are interlinked with energy supply and demand. Will peace come to stay in the Balkans with highest industry production and energy supply or this region is lagging behind so much at this stage that it has no enough work force and R&D potential to sustain large infrastructure projects – dilemma remained until the end of the session.

1) *Western Balkans Market Labor Trends 2019*
<https://www.eurostat.ec.europa.eu/tgm/files/Western%20Balkans%20Labor%20Market%20Trends%202019.pdf>
 2) *Montenegro's Statistics Agency, March 2019*
<http://www.monstat.org/cg/horosti.php?id=2991>
 3) *Global Competitiveness Report 2018*
<http://www3.weforum.org/docs/CCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf>
 4) Same as above