

## New plans to hook the Western Balkans on gas will make the region's energy transition even harder

Plans for €3.5 billion worth of new gas-fired power plants, gas pipelines, and [liquefied natural gas \(LNG\) terminals](#) in the [Western Balkans](#), promoted by European Union (EU) and U.S. institutions, would force countries to import far more gas than they have in the past and delay the region's shift toward clean, domestic energy production. In 2021, the Western Balkans consumed a mere 3.7 billion cubic meters (bcm) of gas, or 4% of what Germany used that same year. Half of these countries do not import any gas from international markets. By building costly new gas systems, in some cases from the ground up, these economies could introduce new economic and energy security risks into an already challenging [energy transition](#).

In recent months, a slew of announcements related to prospective, new, and revived gas projects in the Western Balkans points to a growing push to integrate gas into the region's economies. In total, Western Balkan countries are home to €3.5 billion in plans to build new gas-fired power plants, gas pipelines, and LNG import terminals.

The buildout appears to echo the EU's rush to replace [Russian gas imports](#) through new pipelines and terminals, recently described by **Global Energy Monitor (GEM)** in its 2023 Europe Gas Report. However, most countries in the Western Balkans, unlike those in the EU, do not rely heavily on gas or face the same urgency to replace existing gas supplies.

**After a year in which gas dependency became a major liability, the Western Balkans' counterintuitive pivot toward increasing gas consumption could introduce new economic and energy security risks into the region's energy transition.**

The six countries of the Western Balkans—Albania, Bosnia and Herzegovina (BiH), Kosovo, Montenegro, North Macedonia, and Serbia—produce electricity primarily from coal and hydropower. BiH, North Macedonia, and Serbia use gas mostly for district heating and several industries, and the latter two also use it for power.

Albania, Kosovo, and Montenegro hardly use any gas at all; they have no infrastructure to import gas from international markets (see Figure 1) and no functional distribution networks. In 2021, gas consumption in the Western Balkans was 3.7 bcm, or 4% of what Germany used that same year.

Building new gas projects will complicate the region's already difficult energy transition. At the

November 2020 Sofia Summit, Western Balkan leaders committed to working toward the EU's

2050 target of a carbon-neutral continent.

" New gas pipelines, terminals, and power plants designed to operate for decades would conflict with net-zero scenarios from the **Intergovernmental Panel on Climate Change**

(**IPCC**) and **International Energy Agency (IEA)** calling for gas consumption to peak in the 2020s. Gas projects currently in development in the Western Balkans could therefore represent billions of euros in potential stranded assets. In the near term, new fossil power in the region would further challenge accession efforts to the EU. The Western Balkans have agreed to the Energy Community Treaty that entered force in 2006, which seeks to integrate its energy markets with those of the EU by, among other objectives, “[improving]... the environmental situation related to network energy....” Furthermore, the EU is in the final stages of adopting a carbon border adjustment mechanism that will penalize fossil electricity exporters such as BiH.

The Energy Community Treaty also requires that Western Balkan nations reform their energy markets, which are highly fragmented and have limited market mechanisms and private sector participation. According to the **Western Balkans Investment Framework (WBIF)**, “The energy sector in the Western Balkans faces a unique dual transition, a challenge without any precedent in the industry: transition from centralised state controlled systems to open and competitive markets, and transition towards decarbonisation.”

Despite the EU's plans to slash the continent's emissions to net-zero by 2050, replace gas imports with clean energy, and welcome the Western Balkans into the union, EU institutions have been encouraging the gas buildout in the Western Balkans. This advocacy has been ongoing for years and appears undeterred by the continent's gas crisis. EU, Western Balkan, and Azerbaijan leaders met at a summit in February to promote expanding gas exports from Azerbaijan to the EU and Western Balkans. In January, Kosovo published a gasification study funded by the EU, which contradicts Kosovo's own energy strategy by pushing for large-scale gas infrastructure development.

In addition, the [Energy Community](#) is currently in discussions with the EU about how much support to provide gas infrastructure through its adapted version of the TEN-E regulation, which funds large cross-border energy transmission projects.

U.S. companies and government agencies have also taken part in pushing Western Balkan gas projects, which would expand the market for U.S. LNG exports. In 2021, ExxonMobil and Excelerate Energy signed a memorandum of understanding with the Albanian government to conduct a feasibility study for the development of an LNG import terminal. The **U.S. Agency for International Development (USAID)** published a 2022 study finding that Southeast Europe (including the Western Balkans) requires US\$50 billion in investment in new gas-fired power plants by 2030.

The Millennium Challenge Corporation, another U.S. government agency, offered a

US\$200 million grant to a pipeline project from North Macedonia to Kosovo, although the government of Kosovo ultimately shelved the project in 2021.

As the countries of the Western Balkans grapple with electricity shortages, net-zero ambitions, and aspirations to join the EU, building new gas-fired power plants and gas networks would be a step back-wards. The region has strong potential for renewable energy, including wind and solar power, alongside opportunities to curb an energy intensity three times that of the EU.

An expanded fleet of renewable power from diverse sources paired with energy efficiency measures would hedge against key risks facing the Western Balkans—volatility in international energy markets and failures of domestic energy industries— while facilitating the region's energy transition.

### **Project Spotlights**

The **North Macedonia-Greece Interconnector Gas Pipeline** is a proposed gas pipeline that would supply gas from Greece to North Macedonia, providing direct connection to Greece's existing Revithoussa LNG Terminal, bringing gas from Azerbaijan, and possibly providing transit for gas to Serbia. The project has received grants from the EU's technical assistance fund CONNECTA and the Western Balkan Investment Framework, as well as a €25 million loan from the European Investment Bank.

The European Bank for Reconstruction and Development is also considering financing. As of 2021, the pipeline was scheduled for completion in 2024; however, the project has still not yet reached financial close or begun construction.

The Port of [Vlora](#) FSRU is a proposed LNG import terminal in Albania. In March 2021, Excelerate

Energy, ExxonMobil, and the Republic of Albania signed a memorandum of understanding to conduct a feasibility study for this project, which could include the development of an LNG import terminal, the conversion and/or expansion of the existing Vlora power station, and the establishment of small scale LNG distribution to Albania and the surrounding Balkans region, via connections which do not currently exist.

The terminal's start date was initially targeted for 2023, although there are no indications that the project's sponsors have secured a floating storage and regasification unit (FSRU) vessel yet.