FRIEDRICH EBERT STIFTUNG

POLITICAL TRENDS & DYNAMICS

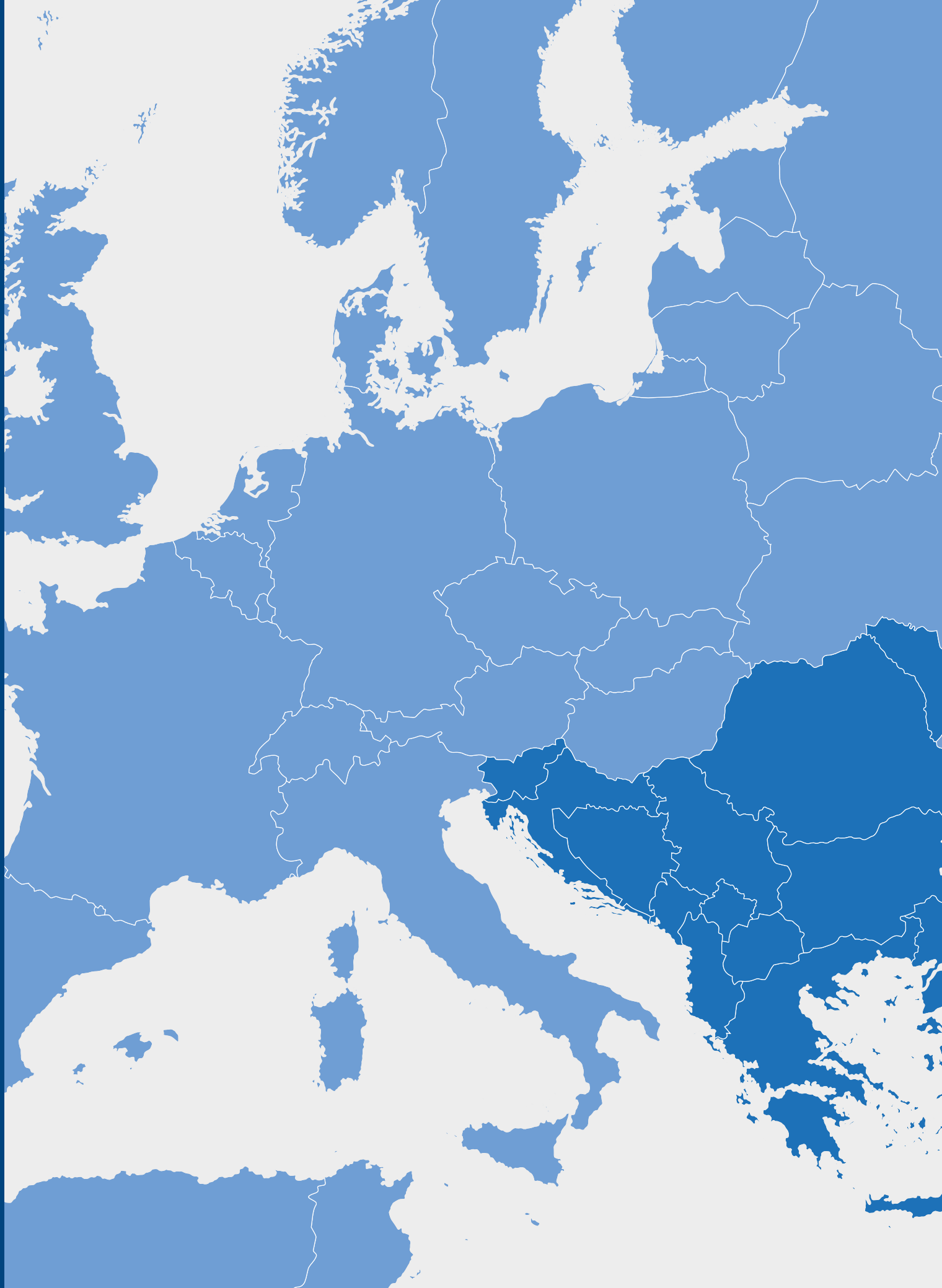
A COLD WINTER AHEAD: ENERGY SUPPLY AND ENERGY POVERTY IN SOUTHEAST EUROPE

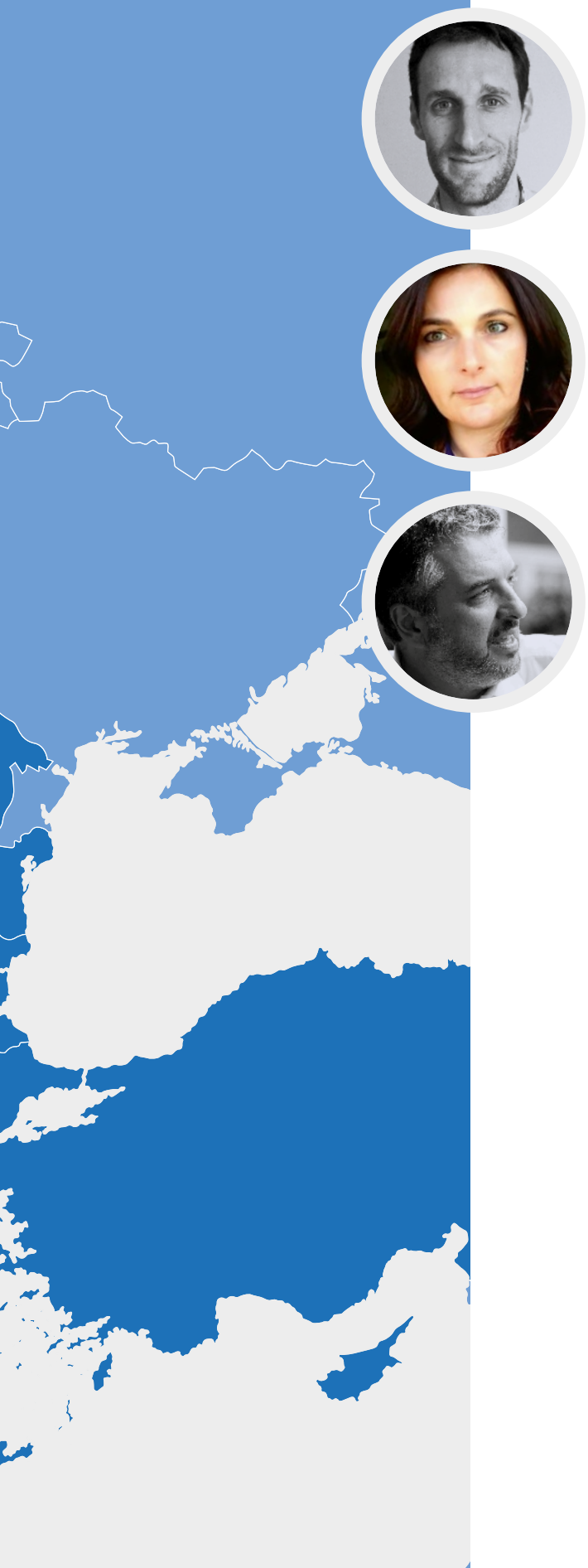
BRIEFING

Volume 3 | 2022

SEE Dialogue South-East Europe

FRIEDRICH-EBERT-STIFTUNG





EDITORIAL

Pray for good weather across Europe this winter. This is how many Europeans think these days. Concerns about energy supplies are overwhelmingly present on the continent. Gas prices have increased tenfold, pushing European economies into recession. The Russian invasion of Ukraine and resulting sanctions on Russian gas have put millions of households at risk of energy poverty. The threat of energy poverty is particularly high in Southeast Europe (SEE). As underlined by Slavica Robić in this issue, a dangerous mix of unfavorable socio-economic situations and a reliance on governments for subsidized energy has left many countries unprepared for this unprecedented shift in energy supply.

While some EU countries rushed to solidify their natural gas storage levels, others looked for market opportunities beyond Europe. Natural gas supply from the US, Qatar and Nigeria, accounted for over 25% of gas imports to the EU in the first half of 2022. Many governments also responded by doubling down on clean energy technology and the rapid expansion of renewables such as solar and wind power, leaving the coal industry in the backseat. A sense of emergency is felt throughout Southeast Europe too, but unlike more developed EU countries with the economic backing for a green transition, Southeast Europe is dreading turning back to the coal industry at a time when the entire region is suffering from high levels of pollution. In this issue, Stefan Bouzarovski and Simon Uzunov explain that things may not be as black and white in the long run and that the crisis may in fact push SEE towards greener energy choices. They argue that even though the countries of the region are still at the beginning of the road, the fading away of an outdated coal infrastructure and the green transition agenda may well be accelerated in the near future and may represent the best response to the current challenges of energy poverty and disrupted energy supply. However, such a transition needs to be carefully planned and developed.

Southeast Europe has excellent renewables potential (biomass energy, hydropower, wind and solar energy), which could put the region on the forefront of the green transition. For that to happen, as explained by Julian Popov, countries must invest in energy research and education and have access to advanced technologies. Until now, very little attention has been paid to

this in the region. Furthermore, the process must be socially just, prioritize the needs of the energy poor, and be embedded in the local context, so that it does not further deepen already evident social disparities, warns Marta Szpala.

This issue of Political Trends and Dynamics comes at a critical moment for Europe and makes for a sobering read. While the EU struggles to address some of the most complex issues and provide for new energy solutions, given its favorable position and abundance of renewable resources, the SEE region may find an opportunity to reinvent its own approach to energy consumption. The pieces in this month's issue offer a range of interesting analyses. Our authors, scholars and practitioners in the field of energy, acknowledge the growing fear among European citizens of the cold winter ahead, but also offer a strategic overview of the opportunities arising from these challenges and provide unique insights into one of the most important debates in Europe of our time.

Vivien Savoye, Alida Vračić and Ioannis Armakolas

CONTENTS OF THIS ISSUE

ENERGY POVERTY IN THE WESTERN BALKANS: CHALLENGES AND OPPORTUNITIES FOLLOWING THE RUSSIAN INVASION OF UKRAINE

Stefan Bouzarovski

Stefan Bouzarovski is a Professor of Human Geography at the University of Manchester, where he leads the People and Energy Collaborative within the Manchester Urban Institute. He is an Associate of the Institute of European Energy and Climate Policy.

KEY TAKEAWAYS

Energy poverty in the Western Balkans (and Southeastern Europe more widely) is the result of deep structural processes that are rooted in multiple historical legacies and the existing political economies of the region. The Russian invasion of Ukraine is bringing some of these contingencies into sharp focus, and while there may be a short-term exacerbation of social injustices and environmental degradation, at a more fundamental level, the crisis might help governments and publics in the region confront systemic energy-related challenges.

“Energy poverty has traditionally received limited attention in policy and public circles alike”

The energy sector of Western Balkan states – and Southeast Europe more broadly – is no stranger to intractable problems. Networks for the generation, distribution, and consumption of energy are in dire need of investment and upgrading. The need to move towards a low-carbon future poses major challenges in a region where most countries are heavily dependent on ageing hydrocarbon-based installations. On the policy side, there is a lack of governing capacity to address the demanding political and organizational reforms that are required by international actors, geopolitical realities, and the global predicament of climate change. Decision-makers in the region face entrenched issues of institutional inertia, corruption, and a lack of resources in bringing their regulatory architecture closer to European Union standards.

Given the deep energy problems faced by the region, it is hardly surprising that energy poverty has traditionally received limited attention in policy and public circles alike. A household is said to be in energy poverty if it cannot secure needed levels of domestic energy services - space heating, space cooling, hot water, lighting, appliances and others.[1] Energy poverty is, in essence, a form of material deprivation that extends well beyond questions of energy demand to encompass several adjoining sectors: housing, social welfare, health, and economic development. It is well known that the Western Balkans are characterized by the highest levels of energy poverty in Europe, due to as complex set of circumstances that stem from the region’s socialist past as well as the transformation process that followed it.[2] One of the main drivers is the historically poor thermal efficiency of the housing stock across the region, and the lack of investment in housing maintenance and refurbishment during post-socialism. Adding to this is the inadequate level of provision, or even lack of availability, of affordable, flexible and environmentally sustainable sources of energy at the local level. At a more fundamental level, significant disparities in income, and high levels of income poverty overall, are one of the basic underpinnings of the condition.

Energy poverty in the Western Balkans is, therefore, systemic – it can be described as a path-dependent policy failure.[3] However, within the region as a whole, it is hard to identify a polity where the structural drivers of the condition have historically been perceived in an integrated manner. Where relevant issues and questions have been raised, interest has tended to be ephemeral and incidental – and aside from geographically-limited demonstrator projects and declarative commitments by policymakers, the problem has rarely been mainstreamed at the highest levels of government. And yet: the Russian invasion of Ukraine, and the gas price crisis that preceded it, have recently changed all of this. The systemic character of the condition has been brought into the spotlight across the Western Balkans (and Europe as a whole, one might add) due to the complex choices and decisions that governments have to make. The first alarms were raised in 2021, when the prices of nearly all energy carriers increased rapidly, and countries that were dependent on liberalized global markets for electricity and gas suddenly faced

> **“Most Western Balkan countries have started to travel on the road towards a climate friendly future”**

significant financial pressures. The situation was further exacerbated by gas shortages in 2022, which added the threat of a physical lack of supply and had knock-on effects on practically all other forms of energy.

Countries in the region have instituted various short-term measures to address the crisis. However, in confronting more entrenched problems, they face vested political and economic interests in the energy sector, as well as the deep dependence on coal for employment and revenue. Most Western Balkan countries have built their energy systems around the extraction and recovery of electric power from fossil fuels, which means that the movement towards an inclusive and low-carbon future requires the alignment of multiple purposeful actions: from increased public awareness and strong political will to the planned implementation of just transition programs and designs to substitute generation capacity, jobs and ancillary business activities in affected regions. There is help from international organizations in this regard, however: the ‘Initiative for coal regions in transition in the Western Balkans and Ukraine’ is one of the key platforms for policy action and debate. Launched in December 2020, the Initiative is managed by the European Commission in concert with six international partners, including the Energy Community Secretariat, the World Bank, the European Bank for Reconstruction and Development (EBRD), the College of Europe, and the Polish Government. Having identified least 17 Western Balkan regions that heavily rely on resource extraction and energy production from coal, the initiative encourages the sharing of experience and perspectives among relevant actors in the region and debate. At the same time, non-governmental organizations working in the Western Balkans have promoted the establishment of a dedicated trans-national just transition fund, while highlighting the need for working more closely with affected communities.

Overall, and despite international involvement, there is limited evidence that governments in the region are starting to make the difficult local policy choices that go hand in hand with a more fundamental transformation of the region’s energy system. Yet most Western Balkan countries have started to travel on the road towards a climate friendly future. North Macedonia, for example, has promised to decommission all its coal burning plants by 2028. Even if the target is unlikely to be reached, investment in solar and wind power is being accelerated. Montenegro has also announced a phase-out until 2035; the country is the first in the region to have introduced a form of carbon pricing, although its fossil fuel sector is relatively small. Serbia intends to operate its coal sector until 2050, and Bosnia is making initial steps towards the calculation of carbon costs. Kosovo and Albania are also starting to see significant low-carbon investment. The withdrawal of Chinese funds from coal projects in Serbia and Bosnia has placed further constraints on the development of coal in the region.

The principal energy poverty challenges in the region arguably reside primarily in the domains of institutional capacity, housing transformation and energy efficiency investment. As recognized by relevant research on energy poverty,[4] some of the fundamental difficulties relate to the restructuring of housing and urban planning policies, and this is where capacities for change are amongst the most limited. If anything, the war in Ukraine, despite its multiple deleterious effects, has at least allowed for a more direct confrontation with the problem at multiple scales of governance.

References

1 **Thomson H, Bouzarovski S** and **Snell C** 2017 Rethinking the measurement of energy poverty in Europe: A critical analysis of indicators and data *Indoor and Built Environment* 26 879–901

2 **Bouzarovski S, Thomson H** and **Cornelis M** 2021 Confronting energy poverty in Europe: A research and policy agenda *Energies* Multidisciplinary Digital Publishing Institute 14 858

3 **Sokołowski J** and **Bouzarovski S** 2022 Decarbonisation of the Polish residential sector between the 1990s and 2021: A case study of policy failures *Energy Policy* 163 112848

4 See: **Ban M, Brajković J, Bouzarovski S, Lončarević Š, Maras J, Robić S, et al.** 2021 *Study on Addressing Energy Poverty in the Energy Community Contracting Parties* Vienna, Energy Community Secretariat; **Bouzarovski S** and **Thomson H** 2018 Energy vulnerability in the grain of the city: Toward neighborhood typologies of material deprivation *Annals of the American Association of Geographers* 108 695–717; **Grossmann K, Jiglau G, Dubois U, Sinea A, Martín-Consuegra F, Dereniowska M, et al.** 2021 The critical role of trust in experiencing and coping with energy poverty: Evidence from across Europe *Energy Research & Social Science* 76 102064; **Robić S** 2016 *Energy Poverty in South East Europe: Surviving the Cold* Zagreb, South East Europe Sustainable Energy Policy; **Robić S, Rogulj I** and **Ančić B** 2017 Energy poverty in the Western Balkans: Adjusting policy responses to socio-economic drivers Energy Poverty and Vulnerability Routledge; Stojilovska A 2021 Energy poverty and the role of institutions: exploring procedural energy justice – Ombudsman in focus *Journal of Environmental Policy & Planning* Routledge doi: 10.1080/1523908X.2021.1940895 1–13; **Stojilovska A, Yoon H** and **Robert C** 2021 Out of the margins, into the light: Exploring energy poverty and household coping strategies in Austria, North Macedonia, France, and Spain *Energy Research & Social Science* 82 102279.

YET ANOTHER BURDEN – LIVING IN ENERGY POVERTY IN A TIME OF CRISIS

Marta Szpala

Marta Szpala is political analyst, lecturer, journalist, and commentator specializing in the Western Balkans and EU's neighborhood and enlargement policies. She holds an MA in International Relations and studied Slavic Studies at Warsaw University. Senior Fellow in the Centre for Eastern Studies in Warsaw. She is a PhD candidate at the Graduate School for Social Research of the Polish Academy of Science and works as a journalist for Polish Weekly Tygodnik Powszechny.

KEY TAKEAWAYS

Without tangible strategies for alleviating energy poverty adjusted to local conditions, energy transformation will deepen social disparities and enhance social and material deprivation of energy-poor households. It will deepen the division in the societies into those who have access to clean energy and can afford it and those living in energy poverty using biomass burned in inefficient appliances.

“Rising food and energy prices are especially detrimental for the poorest households”

The countries of the Western Balkans are facing a series of economic shocks, which has an especially detrimental impact on people living in energy poverty, which is a widespread phenomenon in the region. It is estimated that up to 40% of the population in WB6 is unable to secure the socially and materially necessary level of energy services in the home, compared to 10 % in the EU.

Energy poverty in the region is strongly associated with a lack of access to clean and modern energy due to poor infrastructure (i.e., lack of district heating) and low incomes, meaning that many households still rely on wood, coal, and even waste for heating, which negatively impacts not only their health due to high level of indoor pollution but also living conditions of society as a whole due to extreme levels of the air pollution (PM). Energy poverty is also associated with low-quality and inefficient housing (houses with no thermal insulation and single-glazed windows) and low energy efficiency of household appliances. Therefore, the situation of the energy-poor households in the region has determinants (lack of availability of modern energy resources) and consequences (detrimental impacts on health, gender inequality, education, and economic development) that are typical to the developing countries of the Global South.

The situation of energy-poor households in the region was exacerbated during the COVID-19 pandemic as their incomes decreased due to restrictions on economic activity. In 2021, countries in the region have struggled with local energy crises caused such as those caused by the outdated electricity grid and generating units, which highlighted the need for the urgent modernization of the countries' energy sectors. The war in Ukraine has increased food inflation, which has reached as much as 25% in B&H, Montenegro, and North Macedonia. The prices of wood and coal also increased significantly. Rising food and energy prices are especially detrimental for the poorest households that spend most of their budgets on food and housing and lack the coping mechanisms to absorb a higher cost of living. Even before the crisis, these families typically heat only one room during the winter. Now they will have even fewer financial resources for that.

The war in Ukraine exposed vulnerabilities arising from the region's heavy reliance on fossil fuels, which have increased in price. Currently, most Western Balkans countries focus on keeping electricity prices at an artificially low level, which are usually lower than the real cost of production, as the prices for households are often regulated. This policy mainly supports high or middle-income households, which use electricity for heating and other purposes. Moreover, low prices of electricity discourage people who are better off from investing in the energy efficiency of households, such as efficient appliances for heating, or introducing energy-saving measures. Meanwhile, targeted support for energy-poor households is very limited, and there are no subsidies for wood or fossil fuels, which the energy-poor tend to use for heating,

> **“High inflation discourages people from investing to decrease energy consumption”**

cooking, and domestic hot water. In many households, electricity consumption is reduced to the basic minimum (illuminating the house with a single bulb) and families apply extreme coping mechanisms, which leads to health problems. Due to subsidies for electricity prices, governments have limited financial resources for targeted help for those in need, for the modernization of energy production and distribution systems, and for investments in energy transformation.

The current energy crisis will only lead to further deterioration of the situation of low- and middle-income households in terms of energy affordability. The continuous increase in energy and fuel prices and high inflation results in more and more households in the region facing problems covering their basic energy needs. Their living conditions are deteriorating, which poses a serious threat to their health and well-being and can lead to food insecurity as they need to cut spending on other essential goods, such as clothing appropriate to the season, hygienic products, or medicine. People are also switching back to wood from more efficient fuels such as coal or pellet. Wood is the cheapest option for heating and there are many options to obtain wood without additional cost (by cutting down trees on their own property) or a relatively small amount of money (from illegal cuttings) but at great detriment to the natural environment.

An increase in electric energy tariffs in the whole region is expected. This will lead to even more people turning to wood as fuel. High inflation discourages people from investing to decrease energy consumption and households have fewer financial resources to exchange their house appliances for more energy-efficient units. The dramatic rise in the prices of construction materials also discourages them from retrofitting, which now appears to be even less cost-effective. If people were reluctant to invest in energy efficiency measures even before the price increases, now only people with huge savings can afford to do so. The process of improving the energy efficiency of buildings and appliances, which was already slow, will most probably be halted completely, as will the change of heating models to more energy-efficient equipment.

WB6 government policies to address energy poverty are based on the recommendation of the Energy Community. Given that their approach is mainly shaped by the experience of the EU and its member states, which focus on the issue of energy affordability, it does not always correspond to the needs and challenges of the WB6 countries. Moreover, Energy Community -related projects and programs aimed at improving the energy efficiency of the households are financed by foreign donors and offer solutions that are effective in Western Europe. They usually target middle- and high-income households, and not those living in energy poverty as such because only they can finance their own contribution, which usually such programs require. They also consume much more electric energy, what makes such investments financially profitable.

Addressing energy poverty in the Western Balkans is a serious challenge, mainly because the phenomenon is so widespread and the problems with access to clean energy are structural ones. As of now, the institutional and regulatory framework concerning energy poverty in the countries of the region is very limited, and there is no systematic approach. Currently, the main priorities of WB6 governments are to modernize and decarbonize the energy sector, and to increase the use of renewable resources.

> But without any tangible strategies for alleviating energy poverty adjusted to local conditions, the energy transition will not be socially just. It will increase social disparities, enhance social and material deprivation of energy-poor households, and deepen the social divisions into those who have access to clean energy and can afford it and those living in energy poverty using biomass burned in inefficient appliances. This would also result in persistently high levels of pollution and the continuation of the deforestation process.

The article is based on research on energy poverty in Kosovo presented in the study "The Cold is Coming. Living in Energy Poverty in a time of crisis: Reflection from Kosovo." The study was conducted in the framework of the Kosovo Research and Analysis Fellowship (KRAF).

ENERGY SECURITY IN WESTERN BALKANS

Simon Uzunov

In August 2022 Simon Uzunov left the Energy Community Secretariat in Vienna and currently works as a freelance consultant for energy policy, energy security and cybersecurity in the energy sector. During his 15 years of engagement in the Secretariat as Head and Deputy Head of his unit, and later as later a senior energy expert, he worked on the alignment of the legal and regulatory environment in the Energy Community countries with the EU acquis, providing monitoring and support in development and integration of competitive energy markets and energy security policies. Before 2007, he spent seven years in the Ministry of Economy of North Macedonia working on the restructuring and liberalization of the energy sector and representing the country in the process of the establishment of the Energy Community.

KEY TAKEAWAYS

Energy is both a scarce and polluting commodity in the Western Balkans, while the old coal fired power generation fleet is set on its way out. Recent shifts in import conditions however, incurred insecurity, higher costs, large state aid expenses and volatile gas and power prices. But these may not be the worst of consequences. The impact may eventually put in jeopardy the pace of green energy transition and give the lignite saga new sequels. Energy security in the region is not to be questioned – both renewable potentials and interested investors are abundant in the region. What is required are smart systems and sustainable policies.

SECURITY OF POWER SUPPLY

The power system in the region of Western Balkans encompasses the interconnected systems of Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia. Roughly half of the 18,000 MW installed generation capacity belong to coal fired plants, which produced 63 % of electricity in 2020. The energy mix differs across the map – from Kosovo with 90 % coal-based capacity, Serbia with two-thirds, North Macedonia and Bosnia and Herzegovina with almost half, to Albania with no coal fired plants and nearly 100 % hydropower production. A large power plant operates in Montenegro as well. A single oil-fired power plant operates in North Macedonia.

The use of coal raises controversy in the security context. On the one hand, the infrastructure is obsolete – all plants but one are outdated (more than 30 years old) and most are fully depreciated approaching their age of decommissioning. Their performance is deteriorating, interrupted by breakdowns and refurbishment. Some coal mines are largely depleted, and the quality of lignite has decreased to the level that heavy fuel oil is added to raise its calorific value. Desulphurisation and emission reduction facilities are not always effective, at the detriment of public health in local communities.

On the other hand, thermal power generation cannot be easily substituted. It is a crucial component in system adequacy and provides cost-effective coverage of the "base load", cogeneration of heat and power and stability to the systems with large intermittent or seasonal generation capacity. It is local and dependable, hence important for system security as a reserve capacity or contingency in supply or market crisis.

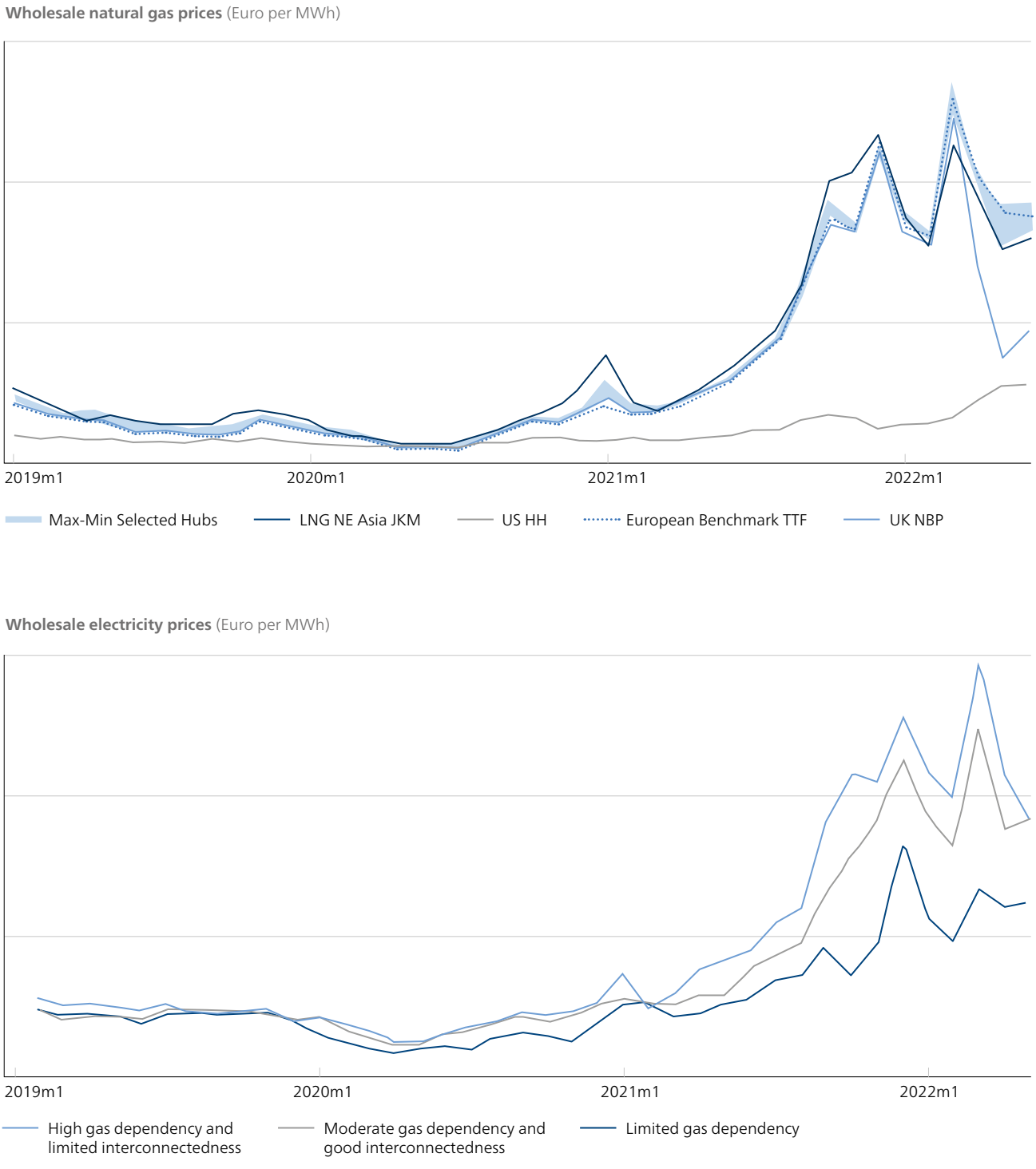
Coal is relatively abundant in the region. Some policy makers and incumbent power industries still consider extending local coal combustion on the grounds of energy independence and reduction of imports, employment opportunities, or leverage over the costs of electricity. Coal investment projects in various stages of implementation are under way in Bosnia and Herzegovina, Serbia, and Montenegro. Kosovo has a history of initiatives for the construction of new coal-fired capacity, while North Macedonia struggles to sustain the coal supply.

From a strategic point of view, a carbon-friendly approach entails a paradigm shift. Coal is on its way out according to energy strategies and the National Energy and Climate Plans of the Western Balkan countries, to be gradually substituted by renewable or more sustainable technologies. Such a broad carbon sunset paradigm is induced not only by the environmental and climate concerns but also by the commitments enforced through the Energy Community – to implement the EU Clean Energy Package and the Network Codes and Guidelines and the European Green Deal policy, as preconditions in the roadmap for integration into the EU energy markets.

This coal transition momentum was recently challenged. After the spikes in the energy market prices for gas and electricity in the EU in late 2021 and 2022, countries that depend on imports of electricity or gas suffered from extreme costs and scarcity of the energy supply and introduced emergency measures. State aid for imports was issued along with cross-border exchanges of electricity, price caps, consumption-sensitive electricity tariffs, reduction of public consumption, and energy saving policies. Public service obligation was imposed on the incumbent power producers to offer energy on significantly lower than market prices to universal suppliers and industries serving the public interest such as water supply, food production, health, education, social services, etc. Further, more sustainable security measures look at reduction of administrative procedures for new renewable generation, promotion of energy efficiency, and supporting broader application of photovoltaic technology by individual self-consumers.

During this period, fossil fuel power generation regained appreciation. Coal supply for domestic capacities became a commercially driven priority aimed to maximize their output rather than importing more expensive electricity. Based on the example of some EU Member States, postponing the scheduled decommissioning of coal-fired capacities now looks like a viable and legitimate security policy in the Western Balkans. This may turn unsustainable on the long run, with extended costs of mining or imports of coal, transport and stock keeping, refurbishment and maintenance of outdated facilities, subsidies to the coal industry, environmental costs, and the impact of the cross-border price adjustment mechanism (CBAM)[1] – to be applied on future electricity exports in the EU.

Figure 1: Natural gas and electricity wholesale prices 2021–2022



Notes: European Gas Hubs include NLD, DEU, AUT, FRA, POL, ESP, ITA. Gas dependency: Country grouping, based on ACER (2021), reflects the degree of gas dependency in electricity generation (high/moderate/limited) and grid interconnectedness (limited/well)

Sources: Bloomberg Finance L.P., European Association for The Cooperation of Transmission System Operators for Electricity (ENTSOE), and IMF staff calculations. https://www.imf.org/-/media/Files/Publications/WP/2022/English/wpiea2022152-print-pdf.ashx

> **Sustainability requires rules and mechanisms for sufficient level of transparency and cooperation.**

Further to that, eventual carbon renaissance – postponing coal decommissioning, delaying the introduction of sustainable technologies and slowing the pace of clean energy transition on the grounds of self-sufficiency - and other short-sighted long-term security criteria may appear difficult to overturn or mitigate over time, even if the current crisis is long gone. It is instead more reasonable to advance the pace of green development and establish a consolidated regional energy security mechanism based on sustainable and renewable power generation, highly efficient gas-fired infrastructure for the transitional period, and a highly integrated liquid electricity market.

SUSTAINABILITY

New renewable energy facilities are constructed and commissioned at a moderate pace, partially due to administrative reasons – complex permitting procedures often involving several ministries or public authorities and inconsistent rules or legislation. There are genuine concerns, such as the required balance responsibility and system security considerations caused by the intermittency and seasonality of the renewable technologies. These concerns address the need for active engagement of system operators in project preparation and approval, and for implementation of the required system security and flexibility (storage or network capacity, "smart" operation technologies, demand management and other contingencies, etc.) along each significant project implementation.

Environmental and social concerns regarding some renewable energy projects have led to resistance from NGOs and local communities. The reasons span from land use and expropriation, water resource management, interference with the transport infrastructure, protection of natural monuments or cultural heritage, to endangered biodiversity. Small hydro power plants are controversial given their small energy contribution versus relatively large impact on the local water resources. These often sound requirements protect the public interest and call for reliable impact assessments supported by adequate legal and environmental scrutiny. Further to that, sustainability requires rules and mechanisms for sufficient level of transparency and cooperation with all stakeholders throughout the life of the project.

Large hydro technology is seasonal, but inherently a sustainable and dependable power resource. It is a highly flexible source precious for system security, balancing and compensation of peak loads and intermittencies. Pumped storage hydro capacities can also bring energy efficiency into the system thus facilitating coal transition. This makes the technology attractive despite relatively significant construction costs.

Hydro power is the largest renewable resource in the Western Balkans. The incumbent fleet is rather old, and its refurbishment and upgrade is a straightforward policy in the clean transition. Construction of new capacities however is more complicated. The "available" water

resources in the Western Balkans are on average more abundant (per capita) than in the EU and at the same time less developed, and the interest among investors and international financial institutions (IFIs) is not a problem. Nevertheless, such projects often suffer delays and retendering or eventual cancelation, caused primarily by inconsistent policy and the public resistance.

Large hydro storage capacity is strategically important for system flexibility and energy security in the future power production environment dominated by disbursed, diverse, and volatile (renewable) energy units, which should be clearly reflected in the development policies and provided. However, energy security considerations usually ramp up during events of crisis management such as the recent price spikes, only to wane out once "normal" conditions are re-established – without bringing sustained scrutiny or consistency in the development policies. One step towards improved security planning could be the implementation of the EU Risk Preparedness Regulation[2] (as adopted in the Energy Community in 2021), with associated risk preparedness and contingency mechanisms on national and regional level.

NATURAL GAS

Natural gas is the fossil fuel of choice both for heating and electricity production. EU has developed a huge transport infrastructure and historic dependency on its utilization. The Western Balkans region is far less supplied through the interconnections of Serbia and North Macedonia with Hungary and Bulgaria. Natural gas infrastructure has not been introduced in Albania, Montenegro, and Kosovo, and what exists in the other countries is underdeveloped. Apart from moderate use of gas by the industry and for residential and district heating, there are two active gas-fired systems for co-generation of heat and electricity with overall electric power capacity of 517 MW.

Figure 2: Gas and oil transport infrastructure in Southeast Europe

Source: https://www.oxfordenergy.org/wpcms/wp-content/uploads/2017/02/Towards-a-Balkan-gas-hub-NG-115.pdf

Gas-fired technologies provide a relatively high level of efficiency and flexibility on substantially lower greenhouse gas emissions than other fossil fuels, which renders this technology strategically compatible to hydropower generation. Gas supply does not depend on the season, hour, or the weather but only on the access to transport capacity (including storage capacity and LNG technologies) and, alas, market liquidity.

Gas is arguably the strategic fuel of choice for supporting the transition from coal and oil to renewable power production in Western Balkans. In most of the policies there are projects for (sooner or later) conversion of the (old) coal power plants to natural gas. This requires fast-tracking development of the required gas transport infrastructure and interconnections. Such projects or initiatives have already been launched between Greece and North Macedonia, Serbia and Bulgaria, Serbia and North Macedonia, Albania and Montenegro, North Macedonia and Kosovo, Croatia and Bosnia and Herzegovina, etc.

The recent price spikes in the EU gas market and scarcity of gas supplied to Western Balkans raised concerns in the region for the future availability and affordability of this strategic resource. The recent crisis in Europe

Figure 3: ENTSO-E transmission system map – grid Continental Europe

Source: https://www.entsoe.eu/data/map/

> **Western Balkan systems are in a way more strongly interconnected than most of the EU member States**

will eventually fade out, leaving a heritage of increased security awareness and doubling efforts for green energy transition (the REPowerEU initiative [3]). The question is how well Western Balkan countries will manage to keep up their green agenda and gasification policies with security concerns and diversified sources, routes, and technologies in an environment of growing political and financial challenges.

POWER TRANSMISSION

The electric transmission grid in the Western Balkans was gradually built up in the past 50 years – first in former Yugoslavia and Albania and later through bilateral or regional projects. It consists of the mutually interconnected, independently operated networks of the six Western Balkan countries, interconnected with EU neighboring countries including Croatia, Hungary, Romania, Bulgaria and Greece. Montenegro is connected with Italy.

According to the technical standards applied in the EU, the Western Balkan systems are in a way more strongly interconnected than most of the EU member States, easily fulfilling the 2020 security criterio[4] which requires cross-border capacity given to market participants for commercial use on all borders to be at least 10% of the total installed generation capacity in the country. This result may also indicate a comparatively modest generation portfolio.

The applied security criteria, however, are extremely conservative. The interconnection capacity domain offered to market participants by each country is on the average below 30% of the overall transmission capacity – far below the 70% benchmark required by the EU Electricity Regulation[5] (pending adoption in the Energy Community in 2022). This indicates excessive curtailments applied by the system operators. Such a practice restricts market activities, causes higher electricity prices and congestion costs, limits cross-border competition and allows local producers to exert market power and sustain the operation of uncompetitive generation capacities.

Nevertheless, there are still ongoing or planned interconnection projects on several borders relevant for the interconnectivity across the region. Another challenge is required reinforcements of the internal transmission grids which may be a source of bottlenecks and induced congestions. Both activities are especially important for future energy security with large renewable generation capacity and potentially significant transits of energy, and for the liquidity of the future highly integrated electricity markets.

References

1 https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_3661

2 https://www.energy-community.org/dam/jcr:fafd34a1-3e1f-48a7-a8fb-074c8c1fd81a/REGULATION_EU_2019-941.pdf

3 https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/repowereu-affordable-secure-and-sustainable-energy-europe_en

4 https://www.energy-community.org/dam/jcr:97afc332-0495-479b-a1d6-848a2c6877a2/ECS_Interconnection_Targets_022021.pdf

5 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32019R0943

IS THERE A WAY OUT FOR THE ENERGY POOR IN SEE? TAKING AN ACTIVE ROLE IN THE ENERGY TRANSITION

Dr. Slavica Robić

Dr. Slavica Robić is Assistant Managing Director at North-West Croatia Regional Energy Agency (REGEA). She is the author of numerous studies, including the Study on addressing energy poverty in the Energy Community Contracting Parties[1], analyses and policy briefs and proposals on (just) energy transition and energy poverty. She was a member of various working groups, ministerial bodies, local and regional expert and policy groups and Vice Chair of the largest international network on energy poverty, ENGAGER[2]. Dr Robić has a background in environmental change and management, an MSc from University of Oxford and electrical engineering, and a MEng from University of Zagreb Faculty of Electrical Engineering and Computing where she also defended her PhD on energy poverty.

KEY TAKEAWAYS

Energy poverty is one of key issues in SEE countries, exacerbated more than ever by the recent energy crisis. Current policies do not adequately address the issue or empower the energy poor to become active participants in the energy transition. Swift change of public policy discourse is needed to move away from direct financial support and invest public spending into improving energy efficiency and boosting the use of renewable energy sources, which simultaneously addresses energy poverty and climate change.

> **Energy price rises have been one of the biggest changes that have taken place in our society over the last decade. It is a change that will continue and accelerate in the foreseeable future. Yet if the change is not met with sensitive social policies, it could become a major cause of human misery**[3]

Almost forty years ago, Bradshaw and Hutton predicted the severity of potential impacts of energy price increases on humanity. The lack of strong correlation between energy and social policy results in *ad hoc* and poorly targeted initiatives to alleviate energy poverty was already recognized. Yet today, four decades since Bradshaw and Hutton's research, the same policy discourse persists, which a new energy crisis at hand.

Southeast Europe (SEE) has long been recognized as particularly vulnerable and affected by severe energy poverty. The reasons are multiple. Low incomes, high rates of unemployment, low energy efficiency of the dwellings and appliances, with energy traditionally cheap and heavily subsidized by the government, have left these societies unprepared and unable to catch up with requirements of market liberalization. The shift, which was not accompanied with adequate policies, protection mechanisms, and education, has left many households in situation where they are unable to make ends meet.

The recently commissioned "Study on Addressing Energy Poverty in the Energy Community Contracting Parties"[4] demonstrated the extent of energy poverty in the SEE region. For example, 54 % of low-income households in Albania struggled to keep their house adequately warm, which rose to over 70 % for single female households. The total estimation is that 37 % of the Albanian population is affected by energy poverty. Similarly, it is estimated that 24.6 % of the population in Georgia is energy poor, 33 % in North Macedonia, while for Kosovo that number may be up to 40 %. Figures in Montenegro and Serbia are somewhat more positive, though still alarming, with energy poverty rates estimated at between 8 % and 15 % of all households in Montenegro, and between 7 % and 22 % in Serbia.

The situation has been further heightened by the COVID-19 crisis and the war in Ukraine, which combined, have led to inflation, further increased energy prices, and caused disruption in gas supply chains. Energy security and the need for swift decarbonization of supply ha1ve never been more important to SEE. Energy prices are reaching an all-time peak and climate change requires prompt investments, which seem to be out of reach as money is being poured into, once again, subsidizing energy costs. So, the question arises – is there a way to break this cycle? Is there a way out for the energy poor in SEE?

First, we need to take a step back to fully grasp the phenomenon of energy poverty. In a broad sense, energy poverty can be defined as the inability of a household to provide healthy and socially adequate living conditions. Those minimum adequate conditions encompass energy efficiency of the dwelling, household appliances, appropriate indoor temperature and humidity, sufficient quality of indoor lighting, and the necessary electricity and other necessary fuels to meet a basic living standard. There are still debates about whether this definition is precise enough, measurable enough, or accurate enough for a specific locality, region, or country.

While academics, experts, and decision-makers dwell on determining the perfect definition, energy costs remain a major cause of human misery. This is not to say that more research is not needed and welcome, but rather to note that action should not await the perfect solution, as it may never come. Rather, we need bold decisions and policies which make the best of knowledge and tools that are available now. These policies need to acknowledge the complexity and severity of both energy poverty and the climate problem and be aimed at addressing the root causes rather than mildly alleviating consequences. Policy responses should be immediate and adjusted based on assessment of their impact. It is a continuous cycle of improvement: *Try it. Test it. Improve it. Try it again.*

Living in conditions of energy poverty results in impaired physical and mental health with reduced opportunities to

> **“To solve energy poverty, its main causes must be addressed”**

participate in community activities. Science has proven a wide range of determinantal health impacts of living in energy poverty, and it has also proven that those impacts not only cause harm to those experiencing them, but also to wider society through increased health costs, and reduced participation in the labor market, among others.

The latest package of the EU's energy directives, as well as the European Green Deal, have taken the first important steps towards mitigating energy poverty. Yet in practice, on a national level in SEE, most efforts to date are far from providing a comprehensive solution that is urgently needed. Within the SEE, the most recent *EU acquis* has been transposed into Green Agenda for Western Balkans, which aims to support the region in meeting EU's ambitious targets. One of those targets is mitigating energy poverty.

Energy poverty related policies in the SEE are still primarily focused on providing direct financial support. These financial support mechanisms vary from direct subsidies for energy bills to providing reduced energy tariffs. Yet there is little evidence that direct financial support helps in any way to eliminate the main causes of energy poverty or that it improves overall living conditions. This common policy response merely provides a crutch to the energy poor, without addressing the reason for its need.

To solve energy poverty, its main causes must be addressed: the poor energy efficiency of dwellings and appliances, high costs of energy, and low incomes. Addressing energy efficiency of dwellings and appliances and providing access to renewable energy sources to the energy poor also helps reduce CO2 emissions. Energy efficient dwellings provide better quality of indoor living conditions, which improves health. Efficient buildings also require less energy to maintain adequate indoor temperature. Efficient energy appliances and heating systems require less electricity or fuel and reduce energy bills. Access to renewable energy empowers energy poor by enabling them to become important players in energy transition. For example, they may produce renewable electricity through photovoltaic panels on their rooftops, which also provides them with additional source of income.

Some of the possible policy responses which could contribute to improving energy efficiency of energy poor's dwellings, appliances and heating systems and boosting renewable energy sources use are:

- Subsidizing energy efficiency improvements and renewables' investments for energy poor. The subsidies can be financed via polluter pays mechanism and schemes can be both national and international through joining the EU Emission Trading System. This type of approach contributes to motivating polluters to invest in improving their own efficiency, processes etc., and enables investments for the energy poor.
- Removal of VAT on energy efficiency and renewable energies related services and products.

- Introduction of the "old for new" scheme for household appliances - this measure enables the provision of free (or ESCO model financed or similar scheme such as Papillion project example from Belgium[5]) new household appliances when the old ones are given away and adequately disposed of. This precondition is set in place to avoid household's misuse of the scheme to keep both old and new appliances, thus actually increasing their overall energy use rather than decreasing it.

- Energy advice and energy audits for energy poor: establishment of one-stop-shops that conduct field visits to the homes of energy poor, providing them with reliable information on how to improve their energy efficiency, reduce energy bills, and empower them to become active energy transition participants through use of renewable energy sources (subject to availability of renewables' support schemes for the energy poor). Energy advisors for the energy poor are also a good way to overcome energy literacy obstacles and to support vulnerable households in accessing available programs.

The only straightforward solution to alleviating energy poverty while ensuring timely energy transition is to redirect direct financial support into programs that increase energy efficiency and provide access to renewables to the energy poor. A crucial part of this is using a "polluter pays" principle, joining the EU ETS (pre-accession), and earmarking substantial funding to deliver necessary measures. Direct financial support should be a measure of last resort, made available to those households that, upon receiving all the necessary support to become energy efficient and empowered energy transition participants, still face financial hurdles in meeting their energy needs. This is the way to break the cycle. This is the only win-win.

References

1 https://www.energy-community.org/documents/studies.html

2 https://www.engager-energy.net/

3 J. Bradshaw and S. Hutton, "Social policy options and fuel poverty," Journal of Economic Psychology, vol. 3, no. 3–4, pp. 249–266, 1983, doi: 10.1016/0167-4870(83)90005-3

4 Study on Addressing Energy Poverty in the Energy Community Contracting Parties, contracted by Energy Community Secretariat, November 2021

5 https://www.circularx.eu/en/cases/61/bosch-papillon-project-appliance-leasing

INTERVIEW

Julian Popov

Julian Popov is Fellow of the European Climate Foundation, Chairman of the Building Performance Institute Europe and Former Minister of Environment of Bulgaria. He was the goodwill Bulgarian Ambassador for energy and climate policy and energy security adviser to the President of Bulgaria. Julian is member of the European Council of Foreign Relations, the Advisory Board of Climate KIC and the boards of several other energy and climate related organisations. He is the founding Vice Chancellor and current Board Member of the New Bulgarian University and cofounder of the Tunisian School of Politics. Julian was voted as one of the 40 most influential voices on European energy policies (N24) and European energy efficiency policies (N25) by EurActiv. His articles on European and energy policy have been published by the *Financial Times, Project Syndicate, NS Energy Monitor, The Independent, Al Jazeera, Huffington Post, EurActive* and others. He is an author of two books and co-author of *The European Supergrid* and *Energy and Climate Diplomacy*.

The United Nations Climate Change Conference (COP27) took place this November in Egypt. Much like in previous years, the discussion centers on key issues concerning climate change, its effects and impact on all of us. How is the climate agenda affecting the energy security agenda?

In two main ways. First, by supporting the emergence and massive expansion of new energy technologies. Second, by shifting the security concerns away from access and cost of fossil fuels. The Paris Climate Agreement of 2015 stated that all countries should work to limit the global temperature rising to as close to 1.5C as much as possible. This is a very specific target that translates into national, regional, city and company targets. They require monumental technological change. This change is well underway. We see the rapid expansion of solar and wind power and the rise in electric cars but there are many other technologies, including hydrogen, heat pumps, dozens of energy-saving solutions, revolution in lighting, advanced biofuels, massive digitalization and much more. This process changes the energy security risks. Issues concerning intermittent generation, patent ownership, location of production, computer chips shortages are becoming increasingly important concerns for the energy sector. Cyber vulnerability is a huge threat, and the physical security of subsea cables is also becoming a concern.

Another area that is entering the energy security debate is the availability, access and concentration of critical materials, which are key components of solar panels, batteries and other parts of the transition. Some of these changes are part of the natural technological evolution but that evolution turns into a revolution with global climate policies. We are also witnessing the fierce competition carbon neutral options, and this is one of the reasons why, if we want to understand the energy security landscape, we must closely follow climate negotiations and agreements. Moreover, energy security is significantly affected by weather patterns, including heat waves that pull a lot of energy for cooling, droughts that disrupt the hydro energy, floods, fires, and hurricanes that destroy energy infrastructure.

The war in Ukraine continues to rage on since February 2022. It is a major blow to the global economy. We have seen a sharp rise in the prices of commodities, including basic living costs. What is the global energy impact of the war in Ukraine?

The war in Ukraine has had a wide and complex global effect on energy. The impact was triggered before the war when Russia, using the sudden post-COVID economic recovery and the disrupted global supply chains, began manipulating the energy markets of Europe by reducing its gas export to the contractual minimum. This led to a further increase of gas prices, and through the liquified gas (LNG) supply, high prices affected most of the world's energy markets. After the war started the Russian energy war was announced openly. This led to the EU stopping its import of Russian coal and vastly reducing Russian gas imports and even less so, oil. The energy gamble of Putin did not have the effect he might have expected. Energy prices in Europe are still very high but it is clear that Europe can manage without Russian gas. I expect that supplies of energy and markets will recover fully in two years' time. Europe will have to pay some premium for not importing gas from Russia but that will be offset by expansion of renewables and energy efficiency gains. In that sense Putin, along everything else, also badly damaged the Russian energy export position. Russian export to Europe cannot be replaced by export to China, it might take a decade to build the necessary infrastructure and China hints that it might not need this gas anyway. Small part will be exported as LNG, maybe some will be turned to fertilizers, the rest will be lost.

There are other effects. India and other countries are buying discounted Russian oil, Russia ships coal to very far away distances, while Europe is also importing coal from remote destinations like Australia. The high gas prices in Europe led to closure of some fertilizers plants and we might see partial move of fertilizers production outside of Europe, closer to gas production. The war pushes up energy prices across the world, though to much lesser degree than in Europe. It is also leading to accel-

eration of the LNG technology, though liquefaction terminals are slow to build, so we will not see some significant increase in LNG supplies in the next year or two.

The war will change the perception of gas. I expect that the concept of gas as a transitional fuel will be completely undermined, it doesn't have a factual ground anyway, and gas will be seen as a risky fuel that should be used in energy more for balancing intermittent renewables than as a source of baseload electricity generation.

We might also see slowing down of building and further increase of cost of nuclear. After attacks and risks of attack with high impact missiles of Zaporozhie NPP, it is likely that requirements for security of plants will be increased, and public perception will worsen. These are key factors for cost of nuclear.

Current political trends will affect not only the energy market, trade and supply chains, but also the geopolitics of the entire region. What are the short and long-term impacts on energy security in Southeast Europe and what can we expect for the future?

The short-term effect that is widely discussed, and grossly exaggerated, is the revival of coal. We do see increase of coal generation due to the high prices of electricity. In the long term this increase is negligible. Much more interesting is the rethinking of the role of gas and the growth of renewables. Gas is not anymore seen as a secure bet, and it will be pushed only by industrial and political lobbies with interests in gas. Renewables, and especially solar PV, which is much faster and easier to build then wind, are growing rapidly. The transmission system operator of Bulgaria has received applications for 26GW of solar, against current capacity a bit more that 1 GW. While not all applications are ready to turn into real developments, their scale is indicative for the huge investors' appetite. The picture in other countries in the region is similar. Wind developments are also underway. Southeast Europe has excellent renewables potential which, combined with the dispatchable hydro generation and storage, places the region in a very good position for delayed but rapid energy transition. It is important for this momentum to be captured and managed well.

The region is relatively secure in terms of energy import dependency which in most countries is lower than the European average. If Southeast Europe uses the renewables push, triggered by the war and the high energy prices and focus more on its low energy efficiency, it could become one of the most energy secure and resilient regions in Europe. Poor governance standards, suppressed competition, high investment risk and cost of capital are serious obstacles, and it is important for governments and the international community to increase their efforts in removing them.

The energy crisis put a spotlight on the rise of renewable energy. How realistic is it that the investment into wind and solar will replace reliance on gas? And is that just replacing one form of dependency with another? What does it mean?

Gas has limited role in SEE, compared to other regions in Europe. Greece and Romania have higher dependency on gas. In the case of Romania, the country benefits from its own production. Gas should be reduced not least for energy, but also national security reasons. Governments should urgently rethink the role of gas and be very careful in expanding its use. We have much better technologies for heating, such as heat pumps and efficiency mainly, so there is no need to promote gas and push countries in the energy dependency trap. More complicated is the replacement of coal, or rather low-quality lignite, which dominates most of the electricity systems in the region. The lignite capacity is under massive pressure from aging plants, industrial emissions (air pollution) and climate policies. This combination makes lignite unsustainable once we get out of the current energy crisis. The good news is that lignite region have highly valuable assets for the transition - large areas of consolidated land with single ownership or concession rights, strong power grids, highly and

adequately skilled workforce, industrial legacy. If lignite regions step on these assets and stop thinking of themselves as lignite centers but rather see themselves as energy and industrial centers, which they are, then they can become drivers rather than victims of the energy transition.

The question about the dependency is a very good one. Yes, with the energy transition the energy sector dependencies are changing. We need to manage the new dependencies in a more complex and intelligent way. It is important for SEE countries to identify their strategic advantages in technologies, supply chains and materials. Development of lithium and copper mines could be such strategy. Building large plants for production of batteries, manufacturing of electric vehicles, of different types, could be another area. It is important to evaluate the regional potential for hydrostorage, for bringing in investments in production of other key carbon reduction components. SEE should position itself deeper into the low carbon supply chains. A very weak point of the region is the miserable funding of research and development and specialized education. Adult education is almost completely neglected. You can't be a meaningful participant, let alone driver, in a technological revolution without rapid upgrade and shift in knowledge and skills. Neglecting the knowledge sector at such time could harm not only the energy, but also the national security of the countries.

Europe's sustainable energy policy has been dramatically impacted by the war. Citizens around Europe are worried about whether their homes will be heated without Russian gas. At the same time, some countries are turning towards nuclear energy. Will the current desperate need for energy independence and security push nuclear power to the forefront?

The case of nuclear is linked partly to energy and partly to the defense and security agenda. The US is very active in persuading East European countries that they should use US nuclear technology. This is justified in the global security paradigm where nuclear is a battlefield between the West and the East, East being Russia and China. Currently half of the nuclear reactors that are being built are Russian and a quarter are Chinese. This is a legitimate security concern since the nuclear technology is an essential defense capability which must be kept under strict control and in balance. US is betting on new generation small modular reactors. If that bet wins, the US, and ultimately the West, or NATO, will be better positioned in its nuclear competence and capacity. Now US has persuaded the Polish government to develop significant nuclear energy capacity, which, according to the U.S. Energy Secretary Jennifer Granholm "would create or sustain more than 100,000 jobs for American workers." During COP27 in Egypt the US and Romania signed an agreement for US financial support (loans) for the expansion of the Cherna Voda nuclear power plant. This is a move that follows the pushing of China out of discussions with Romania on their nuclear energy project.

When it comes strictly to energy, nuclear is a more complicated case. Existing nuclear is cheap and clean, as far as CO2 emissions are concerned. New nuclear is very expensive, completely uncompetitive against renewables, politically controversial and very, very slow. In the last couple of decades nuclear generation has been declining despite huge efforts, and funding, to keep it growing. A nuclear power plant that is being planned today doesn't have a chance to come online in less than a decade, especially in Europe. With the rapid development of other energy technologies, the risk for new nuclear to land in a market environment saturated by cheaper and more flexible energy sources is high. That doesn't mean that nuclear is out of the picture, but I don't believe that SEE is a place for nuclear energy experiments. The region is very fragmented, politically volatile and rich of a wide variety of renewable resources. And the new small modular reactors are still on the drawing board. Once they prove themselves commercially, then we can discuss their relevance for SEE again.

European Western Balkans

POLITICAL TRENDS & DYNAMICS

OVERVIEW

This section aims to provide a comprehensive analysis and understanding of human security, which includes structural sources of conflict such as social tensions brought about by unfinished democratization, social or economic inequalities or ecological challenges, for instance. The briefings cover fourteen countries in Southeast Europe: the seven post-Yugoslav countries, Albania, Greece, Turkey, Cyprus, Bulgaria, Romania, and Moldova.

While political turbulence is almost never absent from Southeast Europe, during the late summer and early fall of 2022, it was mostly produced by the internal politics rather than foreign policy challenges. This was a contrast to the first half of the year, during which the countries responded the war in Ukraine – they mostly stuck to their chosen paths in the months to follow.

In the meantime, internal political battles intensified – Montenegro and Bulgaria remained effectively paralyzed by the political deadlock, the Greek Prime Minister was forced to fend off allegations of surveillance, while in Bosnia and Herzegovina, the Office of the High Representative imposed a highly controversial set of institutional reforms, which many believe would take the country into the wrong direction.

The relationship between Kosovo and Serbia has been on a seesaw since the summer – on the one hand, the license plate issue remains highly sensitive and has led to the withdrawal of the Kosovo Serbs from state institutions; on the other, the two sides reached an agreement on ID cards and allegedly started discussing a Franco-German proposal for a comprehensive agreement on the normalisation of relations. As predicted, the energy crisis started to bite as the heating season approaches, though not all countries have been hit equally – Moldova, as it seems, is currently having the most trouble, depending on both Russia and Ukraine for resources.

SECURITY ISSUES: KOSOVO AND SERBIA ONCE AGAIN IN REGIONAL FOCUS

Following a significant rise of tensions over the issue of license plates at the end of July, the relationship between Kosovo and Serbia has been continuously unstable. The Government's decision that all vehicles registered with Serbian license plates with the denomination of Kosovo cities should be replaced with the ones issued by the Republic of Kosovo has been met with resistance of Serb citizens in the north of the country, who are supported by Belgrade. A meeting between President Aleksandar Vučić and Prime Minister Albin Kurti in Brussels in August failed to resolve the problem. Urged by the representatives of the United States and the European Union, the Government of Kosovo postponed the implementation of the decision twice, with the latest version envisaging the conclusion of the re-registration of the vehicles by April 2023.

The political situation, however, once again escalated over the issue at the beginning of November, when the Serb representatives decided to withdraw from the state institutions of Kosovo, including the parliament, judiciary, and police. The mayors of Serb-majority municipalities in Northern Kosovo also resigned, effectively reversing the 2013 Brussels Agreement which led to the integration of Serb population into the institutions of Kosovo. Newly elected members of parliament, almost all of them from the Belgrade-backed Serb List, have taken their oaths, while the President of Kosovo has called for snap local elections in December, with the Serb List announcing boycott. On November 21st, EU hosted another round of negotiations between Vučić and Kurti, which also concluded without an agreement. Two days later, the two leaders eventually agreed to address the escalation of tensions: Kosovo would cease their actions related to the re-registration of cars and Serbia would stop issuing car plates with the names of Kosovo cities.

Meeting of President of Serbia Aleksandar Vučić and Prime Minister of Kosovo Albin Kurti in Brussels, November 2022;
Source: Screenshot from audiovisual.ec.europa.eu

Nevertheless, the mediating efforts of the EU were not completely fruitless during this period. In August, Serbia and Kosovo reached an agreement on ID cards, allowing the citizens of Kosovo to cross the border to Serbia using this identification document, which was previously impossible. Serbia issued a disclaimer, emphasizing that this does not imply the recognition of Kosovo.

Speculations that even the final agreement between Belgrade and Pristina might not be that far-fetched were triggered by a European proposal backed by France and Germany, which was apparently presented to both sides. A leaked version of the document published by Serbian portal envisages full normalization of relations without explicit recognition of Kosovo by Serbia, with multiple analysts describing it as a "two Germanies" model. In October, Vučić described this proposal as unacceptable, but the discussions about it are still ongoing.

The situation in Cyprus, meanwhile, has also been at the risk of becoming tense. In September, the United States removed an embargo on arms sales to the country, which had been enforced since 1987. While the President of Cyprus Nicos Anastasiades hailed the decision, Turkey strongly condemned it, assessing that it would lead to an arms race on the island. The situation has been interpreted as yet another step of drifting apart between Ankara and Washington.

Meanwhile, the authorities of self-declared Northern Cyprus announced that they should be asked for consent for the extension of mandate of the United Nations Peacekeeping Force in Cyprus, which is expected in January. This might signal their intent to limit the access of the peacekeepers only to the buffer zone between North and South, without being able to cross to the North, further undermining the prospects of a peaceful reunification of the island, the goal of the Greek part of Cyprus.

Another security issue, free movement of people, came to focus in November, when the European Commission called for Bulgaria, Croatia, and Romania to be admitted to the Schengen area, which allows travel between its members without border controls. Bulgaria and Romania, EU member states since 2007, have seen the decision on their entry into the zone pushed back several times over the course of the last decade, while Croatia had fulfilled all the criteria for entry last year, according to the Council of the EU. Governments of the Union are expected to vote on the participation of the three candidates at a meeting of national ministers on December 8th. The Czech Presidency of the Council also wanted to secure a deal on the visa-free regime for Kosovo by December 2023. While negotiations are still ongoing, EU Member States are heading towards an agreement to grant visa-free travel to Kosovars at the latest by January 2024. Kosovo is the only country from the Western Balkans whose citizens still need visas to enter the EU

(IN)CONCLUSIVE ELECTION RESULTS

Sunday, October 2nd was marked by simultaneous elections in both Bulgaria and Bosnia and Herzegovina. The former saw its fourth parliamentary election in two years, which seems to have done nothing to break the political deadlock, while the latter headed into a regular general election after months of uncertainty on electoral rules – which ended up rewritten on the night of the elections.

The Bulgarian elections were triggered in July after the populist "There Is Such a People" party withdrew its support for the reformist four-party government of Prime Minister Kiril Petkov, who took office only six months prior. Citizens returned another fragmented parliament, with former Prime Minister Boyko Borissov's GERB ending up the largest party, winning 25% of the vote. Petkov's "We Continue the Change" took 19%, while ultranationalist Revival finished fourth with almost 10%. "There Is Such a People", which finished first in the July 2021 election, failed to enter the parliament.

Inaugural session of the new Parliament of Bulgaria, October 2022
Source: Parliament of Bulgaria

With a coalition with the pro-Russian Revival apparently off the table, Borissov has tried to negotiate a pro-Western government with "We Continue the Change" and

"Democratic Bulgaria". This has proven to be a challenge, given the fact that both parties were founded in opposition to the corruption and poor governance that marked Borissov's 12-year rule as Prime Minister. The leader of GERB gave up on ambitions of becoming the PM for the fourth time on November 10th in order to ease coalition talks, but the political fragmentation might well lead to a fifth successive election.

Željko Komšić, Željka Cvijanović and Denis Bećirović on their inauguration as the new Members of Presidency of Bosnia and Herzegovina
Source: Presidency of Bosnia and Herzegovina

In Bosnia and Herzegovina, a general election for the members of the country's complex set of institutions resulted in mixed outcomes. For the first time in the country's post-war history, two out of three members elected to the country's three-member Presidency are regarded as moderate rather than nationalist – Željko Komšić, who was re-elected as the representative of Croat people, and Denis Bećirović, who defeated the longstanding Bosniak nationalist leader Bakir Izetbegović. The clear winner of the election for Serb representative was nationalist Željka Cvijanović, President of the entity of Republika Srpska from 2018 to 2022 and ally of the Serb strongman Milorad Dodik.

Dodik himself faced a much narrower race for the position of President of Republika Srpska, to which he chose to return after spending four years as a member of Presidency of BiH. Both Dodik and opposition candidate Jelena Trivić declared victory and opposition parties subsequently staged protests against electoral fraud. Following a recount, the Central Electoral Commission ultimately certified Dodik's victory by 4% difference. His SNSD party will also retain control over the government of Republika Srpska.

The biggest controversy of the election night, however, was not related to the results. As the polls closed on October 2nd, High Representative of the international community Christian Schmidt announced the imposition of "Measures to improve Federation Functionality." Using the competences vested in the institution following the 1995 peace accords, Schmidt introduced new rules for the functioning of federal institutions.

The most controversial change concerned the distribution of seats to the indirectly elected House of Peoples of the Federation of Bosnia and Herzegovina, country's second entity, mainly populated by Bosniaks and Croats. The critics pointed out that the new distribution seems to favor the Croat nationalist HDZ BiH party, providing it with more political leverage going forward, thus reinforcing the ethnonationalist politics that have shaped the country since the war. They questioned the legitimacy of both the timing and the content of the decision.

A more straightforward election took place in Slovenia, where citizens elected Nataša Pirc Musar as the country's first female president on November 13th. Pirc Musar, the former Information Commissioner whose candidacy was endorsed by the greens and the Pirate Party, defeated Anže Logar, former Foreign Minister in the government of the right-wing populist leader Janez Janša. Her win was seen as another victory for liberals in the country, following the official legalization of the same-sex marriage and adoption rights in Slovenia several weeks earlier.

POLITICAL BATTLES CONTINUE TO RAGE

Even in the countries that did not hold elections, political battles intensified. This was especially true for Montenegro, where the government of Dritan Abazović lost the vote of confidence on August 19th, less than four months after it was elected. The Democratic Party of Socialists, which is led by country's President Milo Đukanović,

withdrew support for Abazović's minority government after he had signed an agreement regulating relations between Montenegro and Serbian Orthodox Church, an institution which, according to some citizens, is undermining Montenegrin statehood.

As of November, however, Abazović has remained a caretaker Prime Minister due to inability of the parliament to elect a new government. The "old" ruling coalition of pro-Serbian Democratic Front, centre-right Democrats, and Abazović's URA movement, which supported the Government of Zdravko Krivokapić from 2020 to 2022, appeared to had reached an agreement on a renewed cooperation and support for a former diplomat Miodrag Lekić as Prime Minister. President Đukanović, however, refused to nominate Lekić since not all parties wanted to participate in the consultation process. The parliament proceeded to adopt a Law requiring Đukanović to nominate a Prime Minister, which the President vetoed, but will be forced to sign if it once again receives majority support. In the meantime, supporters of Đukanović organized several protests in Montenegro against the proposed Lekić government, demanding snap elections.

Identity issues continued to pose a challenge in the relationship between Bulgaria and North Macedonia, showing that, despite the fact that Sofia lifted the veto for the start of EU accession negations with Skopje in July, mutual differences are far from resolved. In October, several hundred people gathered in Ohrid in North Macedonia, to protest the opening of a cultural club named after King Boris III of Bulgaria, who reigned during part of the second world war. An opposite situation happened at the opening of a Macedonian cultural club in the Bulgarian town of Blagoevgrad several weeks later. The club is named after Nikola Vapsarov, seen as one of the major 20th-century poets in Bulgaria but also celebrated in North Macedonia. The municipality in Blagoevgrad criticized the opening of the club as a "provocation."

The leaders of the parliamentary political parties in North Macedonia did not agree on November 7th on the constitutional changes that would fulfill the condition for the continuation of negotiations with the EU. After four hours of talks in the parliament, the meeting ended without a consensus on amendments that would allow Bulgarians and other nationalities to be included in the Constitution.

Meanwhile, in Greece, Prime Minister Kyriakos Mitsotakis has been entangled in the surveillance affair dubbed "Greek Watergate" by the press. In the past several years, multiple politicians, businesspeople and journalists in Greece, including the leader of the opposition PASOK party, were apparently spied on by Israeli-made Predator intrusive software, their data collected by a shady private company Intellexa. The Government has been accused of potentially obtaining the illegal data via its agency, the National Intelligence Service.

In September, the Greek Parliament set up a committee to investigate the affair, and opposition has attacked the government for its alleged responsibility. Mitsotakis has vehemently denied the involvement of himself or state institutions in the scandal. He accused the opposition and media close to it of trying to polarize the electorate ahead of 2023 parliamentary election. In November, the Government announced legislation that would ban the selling of spyware.

In Albania, former coalition partners and current opposition leaders, Sali Berisha of the Democratic Party and Ilir Meta of the Freedom Party, renewed their alliance by signing a cooperation agreement for the upcoming local elections in 2023. Two weeks later, their parties held an anti-government rally, accusing Prime Minister Edi Rama of, among other things, being responsible for the continued migration of Albanians from the country. Rama, on the other hand, attacked the Democrats for allegedly receiving funding from Russia ahead of 2017 election, which was reported in September 2022 by BBC. The party strongly denied the allegations.

Another country in which opposition is uniting ahead of highly consequential elections in 2023 is Turkey. In August, six opposition parties, including the largest Republican People's Party, but not the pro-Kurdish People's Democratic Party, announced they would nominate a joint presidential candidate against Recep Tayyip Erdoğan in an attempt to end his 20-year rule of the country. Republican leader Kemal Kilicdaroglu, Istanbul mayor Ekrem Imamoglu, and Ankara mayor Mansur Yavas are seen as potential candidates.

In October, however, the ruling Justice and Development Party moved to lift the immunity from prosecution of 34 MPs, including Kilicdaroglu. Several weeks later,

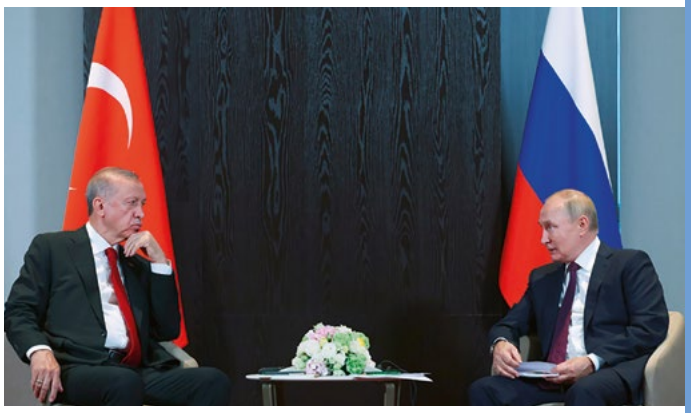
his party reported that Kilicdaroglu had become the first person to be charged under the country's controversial new disinformation law, which was criticized by journalists and NGOs as an attempt by the government to censor freedom of expression and restrict independent media. Kilicdaroglu could face up to three years in prison for "spreading disinformation."

WAR IN UKRAINE: COUNTRIES MOSTLY STICK TO THEIR POSITIONS

There have been few foreign policy shifts towards the war in Ukraine in Southeast European countries during the second half of the year. One of the notable changes took place in Bulgaria at the beginning of November, when the newly elected parliament voted to send heavy military aid to Ukraine. Before the war, the majority of citizens of Bulgaria held positive views on Russia, but this has changed since the invasion in February, although Moscow still has its supporters in the country. Out of 240 MPs, 175 voted for the sending of military aid, while the pro-Russian Bulgarian Socialist Party and the ultranationalist Revival voted against.

In Romania, the topic of the war in Ukraine triggered the resignation of Defense Minister Vasile Dîncu on October 24th. Writing on Facebook, he justified his gesture "from the perspective of the impossibility of collaboration with the President of Romania." Dîncu previously declared that "the only chance for peace may be negotiation with Russia," which was met with discontent by President Klaus Iohannis and PM Nicolae Ciucă. Reacting to the statement of the Minister of Defense, President Iohannis stressed that Romania's official position is that only Ukraine decides when, how, and what it negotiates. Dîncu was succeeded by Angel Tilvar, member of the Social Democratic Party.

Over the summer and fall, Turkey has maintained its balancing act between Russia and Ukraine. In August, following the successful brokering of a grain export agreement, President Erdoğan met with both Russian and Ukrainian counterparts, Vladimir Putin and Volodymyr Zelenskyy, emphasizing Turkey's willingness to continue to act as a mediator. In September, Erdoğan



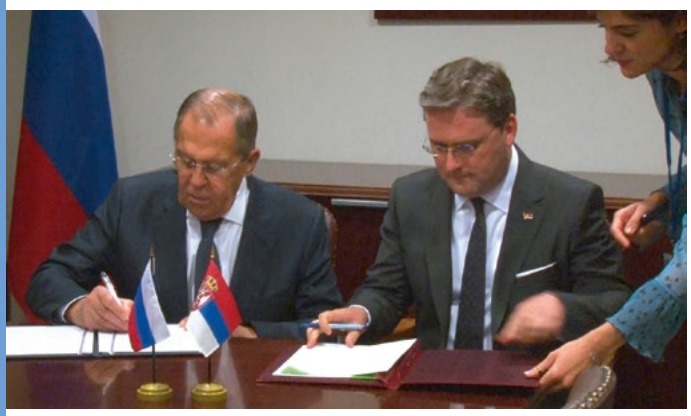
President of Turkey Recep Tayyip Erdoğan meets with Russian President Vladimir Putin at the summit of the Shanghai Cooperation Organization, where he called for the end of the war in Ukraine
Source: Presidency of the Republic of Turkey

called for an end to the war in Ukraine "as soon as possible through diplomatic channels" during the summit of the Shanghai Cooperation Organization.

Two months later, it was announced that the Turkey-brokered grain export deal will be extended unchanged for another 120 days, despite Russian complaints about what it regards as unfair treatment of its own exports.

The position of the neutral party, which has not imposed sanctions on Russia, has benefited Turkey economically, significantly increasing its volume of trade with the country over the past year. Some observers have criticized Ankara for "war profiteering" and accused Erdoğan of attempting to prop up his country's wobbling economy ahead of next year's elections. Nevertheless, Western leverage over Turkey's behavior remains limited, especially in the context of the current process of accession of Sweden and Finland to NATO, for which Turkey still has not given its final consent.

Serbia has also continued its balancing act and has not joined any sanctions against Russia since the start of the war. The country came under harsh Western criticism after the Ministers of Foreign Affairs of Serbia and Russia, Nikola Selaković and Sergey Lavrov, signed a technical document on the cooperation between the two ministries in a highly public fashion, on the sidelines of the UN General Assembly meeting in New York. This was interpreted as a sign of Serbia's support to Russia, and several EU politicians called for the formal freezing of the country's accession process.



Foreign Ministers of Serbia and Russia, Nikola Selaković and Sergey Lavrov, sign a technical agreement of cooperation between two ministries on the sidelines of the UN General Assembly, September 2022
Source: Ministry of Foreign Affairs of Serbia

Pro-government tabloids and television channels in Serbia retaliated harshly against the West after this criticism, accusing it of "blackmail" and "worst pressures since 1999" (the year of the NATO bombing). The attacks followed a tone set several weeks previously, when President Vučić announced the cancellation of the annual EuroPride manifestation scheduled for September in Belgrade, apparently for security reasons. The announcement caused significant diplomatic protests from the West, and the manifestation was ultimately held, although the route of the traditional parade was shortened. Leading up to the manifestation, far-right and pro-Russian groups staged several protests, but the event itself passed without significant security incidents.

ENERGY CRISIS: MOLDOVA PAYING THE HIGHEST PRICE

While all countries in Southeastern Europe continued to struggle with the energy crisis, the Government of Moldova seems to be paying the highest political price so far. The country saw its utility bills soar tenfold in a year and, in October, Russia's Gazprom slashed deliveries by 30 percent and threatened a total cutoff "at any time" citing a payment dispute. Furthermore, Ukraine stopped exporting electricity the same month due to the war, while Transnistria also cut its exports.

Already in September, people were on the streets calling for resignation of the pro-Western President of Moldova Maia Sandu. Protesters accused the President of failing to negotiate a reasonable gas price with Russia. Numerous protestors set up a tent camp outside government headquarters, stressing that they will remain in place until she resigns. The group was mostly made up of members and sympathizers of the opposition Șor Party, whose leadership was accused of illegal financing and taking funds from a criminal group. Igor Dodon, the former pro-Russian President charged with corruption, was also released from house arrest in November and is not expected to make the life of the new government any easier. The European Union and United States have pledged further financial assistance to Moldova.

Meanwhile, in Bulgaria, citizens staged protests in August fearing that the caretaker government will revert to buying its energy supplies from Gazprom, which cut supplies to the country in April following its rejection to pay for it in Russian rubles. As of September, negotiations with Gazprom "were continuing", but without particular progress. In the meantime, Bulgaria decided to purchase new batches of liquified natural gas (LNG).

Bulgaria was also among the five EU members from Southeast Europe – alongside Greece, Romania, Croatia, and Slovenia – that joined nine other members in a September letter to the European Commission, proposing a cap on imported natural gas prices in order to manage the soaring energy crisis. As of November, the Commission has yet to present a legislative proposal on this issue, with views in the EU capitals split. Austria, Germany, and the Netherlands have been among the members most cautious about this approach, while Greece has pushed particularly hard in its favor, according to diplomats.

FRIEDRICH-EBERT-STIFTUNG

The Friedrich-Ebert-Stiftung in Southeast Europe

After more than two decades of engagement in southeastern Europe, the FES appreciates that the challenges and problems still facing this region can best be resolved through a shared regional framework. Our commitment to advancing our core interests in democratic consolidation, social and economic justice and peace through regional cooperation, has since 2015 been strengthened by establishing an infrastructure to coordinate the FES' regional work out of Sarajevo, Bosnia and Herzegovina: the Regional Dialogue Southeast Europe (Dialogue SOE).

Dialogue SOE provides analysis of shared challenges in the region and develops suitable regional programs and activities in close cooperation with the twelve FES country offices across Southeast Europe. Furthermore, we integrate our regional work into joint initiatives with our colleagues in Berlin and Brussels. We aim to inform and be informed by the efforts of both local and international organizations in order to further our work in southeastern Europe as effectively as possible.

Our regional initiatives are advanced through three broad working lines:

- Social Democratic Politics and Values
- Social and Economic Justice
- Progressive Peace Policy

Our website provides information about individual projects within each of these working lines, past events, and future initiatives:
http://www.fes-southeasteurope.org

Friedrich-Ebert-Stiftung
Publisher: Friedrich-Ebert-Stiftung Dialogue Southeast Europe
Kupreška 20, 71 000 Sarajevo, Bosnia and Herzegovina
www.fes-southeasteurope.org
Orders / Contact: info@fes-soe.org

Responsible: Dr Ralf Melzer, Director, Dialogue Southeast Europe
Project Coordinator: Harun Cero

Editors: Vivien Savoye, Alida Vračić, Ioannis Armakolas
Managing Editors: Dr Ralf Melzer, Harun Cero
Editorial Assistants: Tea Hadžiristić, Azra Muftić
Communications: Ema Smolo
Design / Realization: pertext, Berlin

This publication has been produced in cooperation with:

European Western Balkans

FRIEDRICH EBERT STIFTUNG

ISSN 2490-4082