

# Serbia:



## Energy transition between the interests of global powers

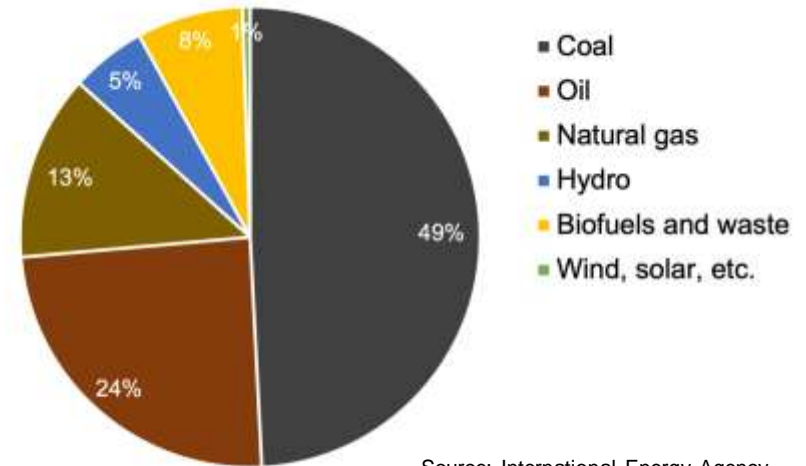
Serbia, a country of 7 million, traditionally balances among different global powers. President Aleksandar Vučić's has aspired to continue to **maintain good relations with both the European Union and Russia**, which, in the face of Russian aggression in Ukraine, is proving to be an untenable position in the long term. However, **China, Turkey and some Arab states also have strategic interests** in the country. These are also manifested in the field of energy.

Serbia's energy sector is still **significantly dependent on fossil fuels**, mainly lignite mined at the Kolubara and Kostolac mines. Around **70% of its electricity is still generated in coal-fired power plants**. Despite the **global and European decarbonisation trend**, the government's priority remains the **'greening' of coal-fired power plants** by means of desulfurisation, and allowing them to continue operating. Serbia, in cooperation with Chinese investors, is interested in completing Unit 3 of the Kostolac power plant, even though construction started without the necessary permits and its operation would exceed European emission limits.

The **share of renewables, with the exception of hydropower, remains marginal**, despite the significant growth of wind power in recent years. As in neighbouring countries, the construction of hydropower plants is encouraged by the government despite negative local environmental impacts. The consequence of years of underfunding of energy infrastructure has been a **massive power blackout in late 2021**. As for **heat supply**, there are **growing efforts to replace coal with gas, biomass, heat pumps, waste heat or geothermal energy**. However, Russia remains the exclusive supplier of natural gas.

**Environmental issues have been gaining ground in the country in recent years**, notably in the form of efforts to improve the local environment and prevent extensive development in Belgrade, efforts to improve water and air quality, and the fight against the giant Rio Tinto lithium mine project. However, the ruling establishment has not shown a willingness to actively address these issues.

## Total energy supply by source, 2019 (%)



Source: International Energy Agency

## Key challenges for the energy transition

- **Shifting away from the mining and combustion of lignite**, which forms the backbone of Serbia's energy sector and has serious environmental consequences.
- **Resolving dependence on natural gas supplies from Russia** and revising energy strategy documents that envisage a high level of gasification.
- **Clarifying the role of China as a key investor** in the "greening" of Serbian coal-fired power plants and renewable energy sources.
- **Introducing an emissions trading system** linked to the EU ETS to evade the impacts of the introduction of CBAM.
- Dealing with the **immediate adverse environmental and health effects of a fossil-fuel dependent economy**, including through the full implementation of relevant strategic documents.

## Position of domestic actors

The state-owned energy company **Elektroprivreda Srbije (EPS)** is the **largest employer in the country and it retains a de facto monopoly as electricity producer and supplier** despite the gradual liberalisation of the market. EPS also operates lignite mines in Kolubara and Kostolac. The national transmission system operator is **Elektromreža Srbije (EMS)**.

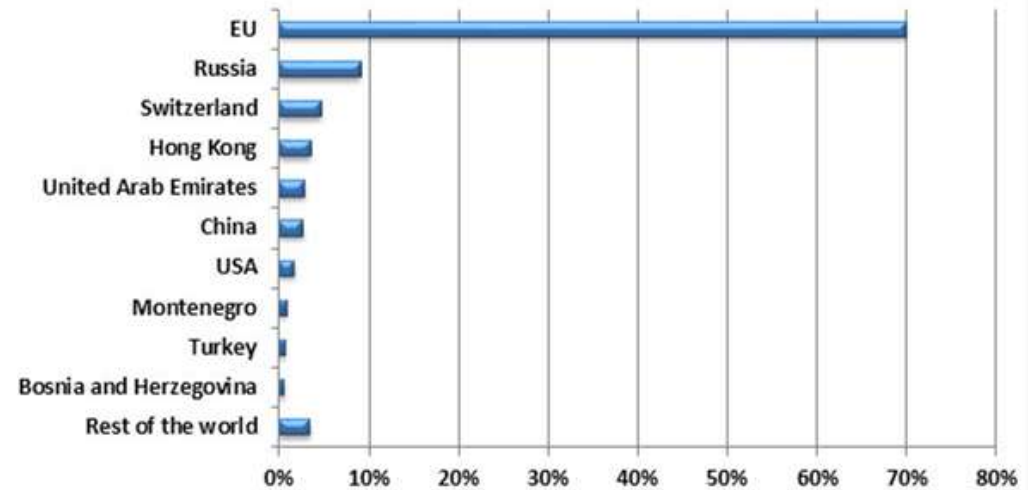
The oil and gas company **Naftna Industrija Srbije (NIS)** is **another key player, the monopoly importer of oil and the third largest exporter in the country. Since 2008, its majority has been in the hands of Russia's Gazprom**, to which it was sold off below market price in the months following Kosovo's declaration of independence. The state distribution company **Srbijagas** is the vehicle for importing natural gas from Russia.

There is some tension at the level of Serbia's government in relation to the energy transition. The long-term Deputy Prime Minister and **Minister of Energy and Mining, Zorana Mihajlović**, has, among other things, pushed through a **law opening the way for the development of solar and wind energy** or the creation of an investment support programme for households similar to the Czech New Green Savings. She has also been at the forefront of efforts to develop a National Climate and Energy Plan and an Energy Sector Development Strategy. Together with Environment Minister **Irena Vujović**, she coordinates the work of the Coal Commission, which was established last year. In addition, in the wake of the Russian invasion of Ukraine, **she is working to quickly replace natural gas supplies from Russia.**

**President Aleksandar Vučić**, on the other hand, **advocates the use of domestic fossil resources** and, after the energy crisis in December, expressed regret that he had listened to the words of environmentalists and foreign institutions and had not advocated the rapid commissioning of the Kostolac 3 lignite power plant and the implementation of the Kolubara B project. Similar voices are also heard from EPS and EMS, which can be considered the main advocates of the status quo in the Serbian energy sector.

The green-left political coalition **Moramo ('We must')**, which has put climate issues at the forefront, entered the national Parliament in the 2022 elections but remains in opposition without strong political influence.

## Cumulative FDI inflows to Serbia for the period 2010-2018



Source: National Bank of Serbia

## International actors

**Russia remains the sole supplier of gas to Serbia**, channeled through the TurkStream pipeline and its Balkan Stream link. Serbian imports of Russian gas have increased substantially in recent years despite rising market prices. President Vučić prefers to retain Russian imports, utilizing traditionally strong ties between the countries, but that becomes increasingly complicated.

**EU sanctions against Russia in recent months have complicated Serbian imports of Russian gas, and in particular oil**, which are provided by Gazprom's majority-owned NIS. The **possibility of Russia's Rosatom building a nuclear power plant in Serbia** remains in play, which would further strengthen Moscow's position in the country's energy sector.

**China is a major investor in Serbia's energy sector**, based on a strategic partnership concluded in 2009. **Unlike Western donors and development banks, Chinese funds come without requirements for reforms.** However, with the ongoing change in Chinese policy, one can foresee a future prioritisation of building renewable energy sources and related infrastructure.

Renewable energy projects in Serbia are also financed by the United Arab Emirates, and Turkish companies are also considering further investments.

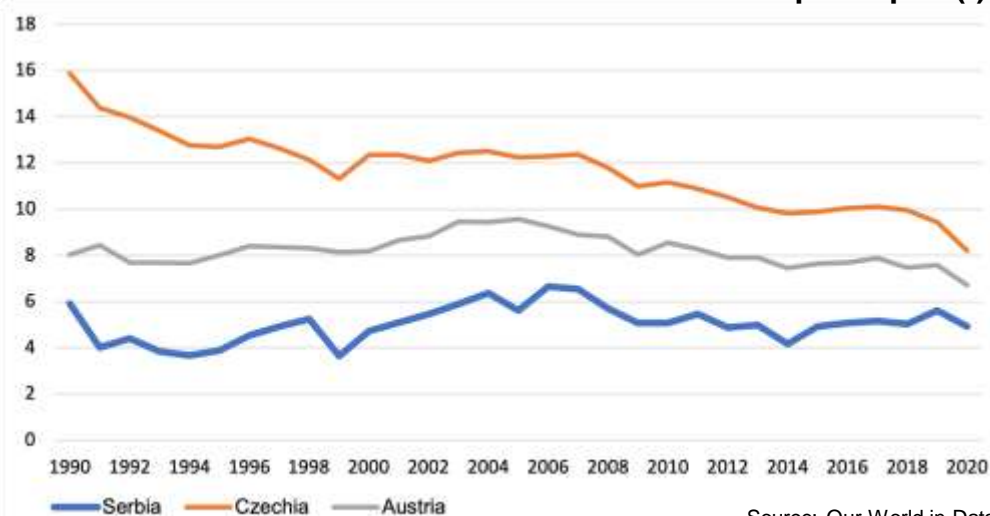
## Role of the EU

Despite the strategic interests of China, Russia and the United Arab Emirates, the **vast majority of all foreign investment in Serbia comes from the European Union**. The European Bank for Reconstruction and Development (EBRD), for example, is leading the efforts to decarbonise its central heating supply.

Energy issues are also inevitably reflected in the ongoing accession talks for EU membership. Energy Community, the international organisation of the EU and SEE countries to which Serbia is a party, together with the EBRD and the World Bank, are demanding a continuation of the reforms that have become the target of growing criticism by the EPS and the EMS. A possible **change of course could pose a significant obstacle for Serbia in terms of meeting the objectives of the recently opened set of EU accession chapters** covering energy and climate.

The European Commission and the Energy Community are both pushing for the full integration of Serbia and other countries in the region in EU energy markets and the setting of national targets for RES, energy efficiency and GHG emissions.

CO2 emissions per capita (t)



Source: Our World in Data

## Relevance for Czechia

**The Czech Republic has a long history of cooperation with Serbia**, including through bilateral development assistance. Presently, Serbia remains an interesting destination for Czech investors, including in the energy sector.

At the same time, it is possible to find a number of parallels between the energy transition in Serbia and the Czech Republic, ranging from the high dependence on Russian supplies to the substantial domestic lignite reserves to the slow uptake of renewables.

It can be assumed that **more information on the Czech experience and the lessons that may be learned from it would be highly relevant for Serbian government officials** and it would therefore be appropriate to seek channels through which to voice it. These could include support for the increasingly active civil society working on energy and environmental issues in Serbia, but which is faced with a relatively closed state administration and poor standards of participation in relevant processes, or even an openly hostile environment when it comes to highlighting corruption risks in the Serbian energy sector.

The Czech Presidency of the EU Council will also address Serbia's progress in implementing energy reforms, setting its climate targets or preparing for the introduction of a greenhouse gas emissions trading system.

**A key question for the coming months is how will Serbia's leaders eventually deal with their country's long-term dependence on fossil fuel supplies from Russia**, and how the role of China and other players will be established in terms of investment in fossil or renewable energy and downstream infrastructure.

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