Analyses OSW

CENTRE FOR EASTERN STUDIES 27.11.2013 www.osw.waw.pl

Serbia has no choice but to build South Stream

Marta Szpala

The official inauguration of the launch of the South Stream gas pipeline construction took place in Serbia on 24 November. This was one of the recent moves made by Gazprom aimed at promoting this project (a similar event was held at the beginning of November in Bulgaria). An agreement on investment financing and a transit agreement were also signed. The Serbian government granted a permit for the construction of the pipeline on 14 November.

Commentary

- The construction of South Stream is the only opportunity available to Serbia to diversify the routes of its gas supplies, since Serbian companies have no funds to implement infrastructural projects, and Serbia is not taken into account in any EU projects aimed at diversification. Furthermore, South Stream, if implemented as planned, will allow Serbia to become an important hub from which gas will be sent to Bosnia and Herzegovina, Croatia, Montenegro and Macedonia. Moreover, South Stream is one of the few foreign direct investments made in Serbia recently, which gives the Serbian government hope that new jobs will be created and for accelerating economic development (the value of investments in Serbia is expected to reach around 1.7 billion euros).
- Russia, capitalising on Serbia's dependence in the energy sector, forced Belgrade to accept rules for the implementation of the investment that will be unfavourable for Serbia (total dependence on Russian gas supplies; Russian companies own the only gas storage facility and the petrochemical company NIS). Another element of Moscow's pressure on Belgrade is the debt owed by the state-controlled corporation Srbijagas to Gazprom (approximately US$80 million) and to NIS (approximately 225 million euros). Furthermore, Serbia also signed an unfavourable long-term gas supply contract (in effect until 2021), under which gas supplies will be at a level double that of Serbian demand (Russia could enforce payment for undelivered gas). As a consequence, Serbia is the only country along the South Stream route to have agreed to offer the Russian side a majority stake in the company in charge of implementing the investment (51% Gazprom and 49% Srbijagas). It should also be noted that this company was registered in Switzerland. The investment is to be financed by the Russian partner, and the Serbian contribution is to be paid using income from transit. The lack of effective supervision over the company in charge of the investment may cause that company to generate only debts for Serbia. All Serbian attempts to introduce rules of co-operation based more on partnership

(eliminating agents in gas trade, increasing the royalties and reaching an agreement on the development of NIS fuel corporation, 56% of the shares in which are held by Gazpromneft) have been rejected by the Russian side.

- In the longer run, implementing the investment on the present terms could turn out to be detrimental for Serbia. Firstly, its dependence on Russian oil and gas material supplies will become more entrenched (what will change is the route, and not the source) and Russia's dominance in the Serbian energy sector will gain strength. Secondly, it is difficult at present to estimate the costs Serbia will incur in connection with the construction of South Stream. Furthermore, Belgrade has not been given any guarantees that the interconnectors with the neighbouring countries will be built, which is the necessary condition for Serbia to play the role it aspires to on the regional energy market. The investment is also problematic from the point of view of EU regulations (non-compliance with the third-party access rule).