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Serbia: the forced abandonment of Russian oil

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Last week, Serbian government declared that they would take measures to limit the negative effects of the ban on Russian oil imports via Croatian oil pipelines and the Omišalj terminal. On 1 November, the sixth package of EU sanctions against Russia, agreed in June, comes into force. Among other things, this imposes an embargo on import of crude oil from Russia. For contracts concluded before June, the ban is to take effect on 5 December. As of that date, Serbia will not be able to import oil from the Russian Federation via Croatia, although the contract for its shipment (amounting to 3.2 million tonnes per year) does not expire until the end of the year. Hungary, Slovakia and the Czech Republic will still import crude via oil pipelines due to the derogations they have obtained.

At the European Political Community summit in Prague on 6 October, President Aleksandar Vučić said that Zagreb wished to harm Serbia by opposing its exemption from the new restrictions. He added that Croatia and Bulgaria were not banned from importing Russian oil by sea until the end of 2023 and the end of 2024, respectively. In response to these allegations, Croatian Prime Minister Andrej Plenković said that the decision to impose the restrictions was made by all EU countries, and that the embargo would not lead to a fuel crisis in Serbia, as it has the option of importing oil through the Croatian terminal from other sources.

Two days later, Vučić announced that the Serbian state will invest at least €12 billion in various infrastructure projects over the next six years. He also announced that he had reached an agreement with Prime Minister Viktor Orbán on the construction of a €100 million oil pipeline stretching 128 km to Algyő near Szeged, which will facilitate the import of Russian oil from the Druzhba pipeline. There are also plans to build a pipeline running through Northern Macedonia to the Albanian port of Durrës, and to invest in new facilities to process Venezuelan oil.

Commentary

- The EU sanctions hit Serbia's only refinery, located in Pančevo, which is owned by the Russian-controlled NIS corporation (50% of shares are held by Gazprom Neft and 6.15% by Gazprom). The company is the sole importer of oil into the country, and imports it mainly through Croatia's Omišalj oil terminal and the JANAF pipeline system (which facilitates deliveries from this terminal to Slovenia, Bosnia and Herzegovina, Serbia and Hungary, among others). Belgrade has gradually reduced its dependence on Russian oil imports in recent years, but when the price of oil dropped after Russia's invasion of Ukraine, NIS significantly increased purchases. In 2021, crude oil from the Russian Federation accounted for only 17% of all imported crude oil (51% came from Iraq, with

small amounts from Norway and Iran), but in recent months this percentage has risen to 60% (at the expense of imports from Iraq). A barrel of Russian oil has recently been about $30 cheaper than that from other sources, which has helped limit fuel price increases in the country.

- Vučić's statements should be read as an attempt to blame Croatia for the expected increase in the price of petroleum products in Serbia, resulting from its over-reliance on crude oil imports from Russia. Although the government in Belgrade has been aware of the need to seek alternative sources of oil since June, when the EU agreed on the sixth package of sanctions, they did not taken any steps towards this. By accusing Zagreb, they are avoiding direct criticism of the EU, while being able to explain to the public why close relations with Moscow are not slowing the rise in fuel costs.
- Serbia's investment plans are most likely aimed at demonstrating to citizens that the governing elite is seeking to limit the negative impact of restrictions on the fuel market. The construction of new oil pipelines announced by Belgrade, if implemented, will allow the country to increase its import capacity no sooner than two years from now. The need to connect Serbia to the Druzhba pipeline transporting Russian crude oil has been raised in the country for more than a decade. At the beginning of the year, the Ministry of Energy once again signalled its intention to build an oil pipeline with a capacity of 1-2.5 million tonnes per year to link the Pančevo refinery to the Druzhba system, but the energy companies capable of implementing the project have not expressed any interest in it. Neither then nor now have the authorities cited the sources of financing for the project, and with Serbia's low demand for oil and gas, there are serious doubts regarding its viability.
- Budapest, through declarations of assistance to Belgrade in diversifying supply routes, wants to show that it is a reliable partner of the Western Balkans which supports them in the energy crisis and neutralises the negative consequences of EU sanctions against Russia. The project to build a new oil pipeline is another element in the strengthening of Serbian-Hungarian political and energy relations. The leaders of the two countries – which take an isolated, Moscow-friendly position in the region – have met almost monthly over the past six months. In May, it was agreed that Hungary would make some of its gas storage capacity available to Serbia (0.5 bcm of the available 6.3 bcm), while the latter declared its interest in buying a stake in the new units of the Paks nuclear power plant (their construction by Russia's Rosatom is scheduled to begin in 2023). Budapest is showing its solidarity with Belgrade to highlight the EU's attitude of not supporting the region in dealing with the energy crisis.

Map. Oil Pipelines in selected Central European and Balkan Countries


Vyhburg
Neustadt
Burghausen
Vienna
Schwechat
Brno
Bratislava
Kolice
Tiszaújváros
Budapest
Százhalombatta
Graz
Szeged
Ljubljana
Zagreb
Venice
Trieste
Rijeka
Omišalj
Sisak
Novi Sad
Pančevo
Belgrade
Brod
Sarajevo
Ploiești
Sofia
main oil pipelines
planned oil pipelines
oil terminals
oil refineries