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Serbia's Gas Supply Dilemma (and Others) in Its Relations with Russia

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The declaration made in December by Russian President Vladimir Putin cancelled the plans to build the South Stream gas pipeline, controversial among most of the EU countries. For Serbia, it means both the necessity to look for new ways to change the gas supply routes and a chance to consider the diversification of sources. For the EU, it opens the prospect of closer cooperation with Belgrade as Serbia, a country that will probably become a member of the Union within a decade, develops its new energy strategy.

Energy Above All? In recent years, the focal point of relations between Belgrade and Moscow has been the planning of the South Stream pipeline. With the exception of Russia, Serbia was to be the only non-EU country on its route. Moscow's decision to abandon this investment is in reality a confirmation of the facts resulting from the suspension of work on the pipeline in June by Bulgaria, after the European Commission found the project was not compliant with the European Community law. However, the way the decision was announced by the Russian side to its Serbian partners challenges the value of the relationship between the two countries. The decision to abandon this energy project, which was called a priority by Serbia, was taken in Moscow not only without consultation with Belgrade, but the media announcement was also made without prior notification of partners.

The government in Belgrade placed its highest hopes in the diversification of a gas transmission route from Russia, which is the only supplier of this raw material to Serbia. Currently, the gas is transported through Ukraine, among other countries. In view of its modest own resources, covering at best a little over a dozen per cent of the annual demand of approx. 2.83 billion m^3, Serbia is looking for an alternative transport route for Russian gas. The country signed an agreement with Moscow in 2008 (on the same day that Hungary joined the project) to participate in the South Stream pipeline, which was launched in 2007 by Gazprom and the Italian company Eni. The government in Belgrade confirmed the validity of this decision after having observed the effects of the gas conflict between Russia and Ukraine in early 2009, when Serbia (like Bulgaria and other countries in the region) was deprived of supplies and had to rely on the provision of reserves from Hungary. The remedy for this situation was to be a pipeline that would ensure not only the security of gas supply, but also jobs for qualified engineers. That is why, despite the negative reviews of the EC, the Serbian authorities reaffirmed their commitment to the construction of South Stream in June (Austria and Hungary presented a similar position). However, the decision of the government in Belgrade was more important for its relations with Moscow than for the project itself, which in practice had already been halted.

Russia in Serbian Politics. The agreement between Belgrade and Moscow to build a pipeline was in line with the strategic relationship between the two countries. Russia is one of the four pillars (along with the EU, the U.S. and China), on which Serbia has based its international relations. In addition to energy issues, recent relations between the two countries have been developing largely as a result of Russia's non-recognition of Kosovo's independence. The veto from the permanent member of the UN Security Council prevented this disputed territory from becoming a member of international organisations. The government in Belgrade perceives such an attitude in Moscow as a guarantee of Serbia's participation in negotiations with the government in Pristina. Nonetheless, Russia was able to exploit this support in the Kosovo issue to buy a majority stake in Naftna Industrija Srbije, the company responsible for the import, processing and distribution of petroleum products.

The perception of Russia in Serbian society plays an important role in the relations between the two states. It is seen as a fraternal country mainly due to the close cultural and religious ties, and Moscow's activities, such as, for instance, continued support for Belgrade in responses to natural disasters (such as the forest fires, floods of 2014, among others), including in the framework of the Serbian–Russian humanitarian centre. The perception of Russia in the context of financial support also says something about the sympathies of Serbia's inhabitants, of whom 47% are convinced that Moscow is the largest foreign donor, with only 28% attributing this role to the EU. In fact, approximately 74% of foreign aid comes from the EU and its Member States, while Russia is not among the major donors.

Good relations and the perception of Russia in Serbian society meant that Serbia was not interested in joining in with EU sanctions against the Kremlin as a reaction to developments in Ukraine. An important factor in this decision was the fact that the Russian Federation is the fourth most important recipient of Serbian imports, and the third largest exporter to Serbia.

More Synergy with the EU in Further Actions. Russia's final withdrawal from the implementation of South Stream means that Serbia needs to develop a new strategy that will ensure its energy security. It is essential that the EU works closely with countries such as Serbia in the development of their new energy concepts, and indicates the benefits that can derive from observing the principles that assure the sustainability and efficiency of planned investments at the stage of supporting these countries on their road to joining the EU.

Serbia, as a prospective member of the EU, should already be ensuring that its planned investments comply with EU legislation, regardless of the fact that some Member States (such as Austria, Bulgaria and Hungary) do not always follow this rule. Experience shows that attempts to omit the law results in an ineffective investment. In the context of energy projects, third party access to transmission infrastructure must be guaranteed, with respect for the principle of full ownership unbundling, that is, the separation of operations on the pipeline (transmission activities) from gas production and marketing. Also, the companies involved in the development of gas infrastructure in the EU should be aware of the possibility of asking the European Commission for an exemption from the EU regulations for an agreed period of time. New projects can be granted such status, in particular, when market interest does not guarantee benefits from investment, which can be determined by so-called open season procedure—a study of the potential interest of third parties of using the infrastructure. This solution was used when the Nord Stream gas pipeline was constructed.

The changes on the European energy market are significant for planning the diversification of both gas transmission sources and routes. National markets, including those in Central Europe, are becoming more integrated, and the European market is becoming further liberalised. This means not only an increase in supply capacity on domestic markets, but often also affects the price of the raw material, provided that a country such as Serbia, which can play an important role as a transmission country because of its location in the centre of the Balkans, takes care of investments related to the construction of interconnectors with neighbouring countries. In this context, a key switch may be not only the one with Bulgaria (on 17 December, both sides declared that they would accelerate work on such an investment as a result of the cancelled plans to build South Stream), but also, for example, with Croatia, which has access to sources of gas other than from Russia. Such solutions should also be reflected in the activities of the EU, as this would increase the energy security not only of a given country, but of the region as a whole.

Serbia's relations with Russia cannot be analysed in isolation from the changes that have occurred in recent years in the international environment of the EU. Relations between Moscow and the majority of EU capitals have deteriorated, mainly due to Russia's military activities in Georgia in 2008, the annexation of Crimea, and involvement in destructive activities in eastern Ukraine in 2014. This means that Russia has become a less predictable partner for European countries, and Moscow's long-term determination to build an alternative pipeline (that would bypass Ukraine) for sending the gas to southern Europe gives grounds for concern in some EU countries as to the sincerity of Moscow's intentions. Such developments in the EU's neighbourhood have, among other things, caused Poland (a country in close proximity to Russia) to launch an energy union initiative, aimed at increasing the energy security of countries dependent on Russian gas. When designing new energy investments, this initiative should also be taken into account, as in the coming years it will be developing in the context of deepening European integration.

The changes in the foreign policy of Serbia itself are also important for defining its relations with Moscow. For a year now this country has been negotiating EU membership, and fulfilment of the accession conditions will include Serbia's adjustment of its external actions to bring them into line with common foreign and security policy while negotiating Chapter 31. So far, this part of the accession talks has been of a technical nature. However, given the dynamic development of events in the EU surroundings, and the new challenges related to this, the EU itself is looking for new tools in its external policy, and could also perhaps expect a constructive contribution to such solutions from the countries aspiring to membership.