

With the effective takeover of the Serbian oil and gas industry, and a deal with Bulgaria to join the South Stream pipeline, Gazprom has further tightened its stranglehold on European energy supplies. 'These are not just energy deals, they are political deals.'

# Gazprom advances into Serbia

| by Anke Truijen

Some in Serbia say it is the deal of the century, others call the energy-pact shameful. On the 25th of January a delegation of the Serb government travelled to Moscow to sign an agreement with President Putin that gives Gazprom control of the Serb state-owned oil and gas company NIS (Naftna Industrija Srbije) and of a new pipeline project that will be part of the South Stream pipeline, bringing gas from Russia to South Eastern Europe. A week earlier, on 18 January, Bulgaria had already signed a deal with Gazprom to join South Stream.

Serbian President Boris Tadic pointed out that the energy pact will have a huge strategic importance for Serbia: 'It will strengthen Serbia's strategic positions in southeastern Europe, since it will serve as a transit point for gas supplies to the EU's southern flank.'

Serbia is grateful for Russia's support in opposing Kosovo's independence and according to some people this energy deal is Russia's reward.

The agreement with Russia gives Serbia some confidence now that the country is facing some big challenges in uncertain times. The question is whether Serbia will go for closer ties with Europe or,

as some political analysts describe it, isolate itself by drawing further towards Russia.

Gazprom's chief executive Alexei Miller told journalists in Moscow that the agreement will 'open prospects for Serbia to become an European energy centre instead of only a Balkan one.'

And he added: 'Serbia is getting guaranteed fuel supplies for decades as well as the financial, resource and technological foundation for the development of its own industrial and energy potential in the Balkans.'

Not everyone shares Miller's enthusiasm. Vuk Djokovic of the Foundation for the Advancement of Economics (FREN) in Belgrade is angry. Although details of the agreement have not been made public, he thinks economically it is not a good deal. 'Kostunica (*the Serbian prime minister, ed.*) is talking about securing energy supply but that is nonsense. Russia will have political control of our supply and in the future the market will decide what the energy prices will be. The promised cheap prices for gas will be beneficial for big industries who are the main consumers, like US Steel, not the Serb consumer.'

Djokovic thinks that the Serbs agreed under strong political pressure from the Russians. 'It does not look beneficial for Serbia to agree with a proposal where they sell a local monopoly in the oil field and get a gas project in return. It is not good to mix those sectors in one deal. Especially for that low price.'

Djokovic is referring to Gazprom's acquisition of 51% of NIS, which holds monopoly rights on oil imports and other privileges. It seems that Gazprom pays €400 million for the shares, and has offered to invest another €500 million by 2012 to modernize the company. According to independent analysts, the value of NIS is €2 billion – the price that the Serbian government asked in December. The Serbs were at that time trying to organize a competitive tender to sell off NIS in parts of 25 percent, but political disagreements and local elections interrupted that process. When Gazprom made an €400 million offer last December, the planned tender for NIS was cancelled, although it was said that other European energy groups like Austrian OMV and Hungarian MOL came with bigger offers than Gazprom.

According to the Serb government,

the agreement with the Russians will also become the basis for further talks between Gazprom and Srbijagas (the Serbian state-run gas company) for the construction of a 400 kilometer pipeline, in which Gazprom will get a 51% share, as well as a gas storage facility. This new pipeline will become part of the South Stream pipeline which goes under the Black Sea from Russia to Bulgaria and on to Italy. The underground gas reservoir which will be built in Banatski Dvor, in the north of Serbia, will have a capacity of at least 800 million cubic meters of gas, and a daily flowing capacity of at least 1.6 million cubic meters of gas. Serbia's gas consumption is only 2.55

billion cubic meters and the country has to import 74,5% of it, most of it coming from Russia.

Many analysts and observers think that Moscow's stance against independence for Kosovo did help Gazprom get the 'cheap' deal and that it was politically motivated. The Serbian ministry of Energy and Mining ministry denies this. It says the deal was based 'purely on a need for a secure supply of gas'.

But looking at the timing, the signing of the energy pact came at a crucial political

moment, right before the presidential elections. Especially for the conservative prime minister Vojislav Kostunica it was an ideal moment to poke the EU in the eye.

By choosing Russian political and economical support just days before the signing of the Stabilization and Association Agreement (SAA) with the EU, he put the relationship with the EU under pressure. Kostunica said he would not sign the SAA agreement if the EU accepted Kosovo independence. With this standpoint he put president Tadic, who is

*'We did not hear what this deal means for the consumers'*

*Serbian Prime Minister Vojislav Kostunica (L) and Serbian President Boris Tadic (R) meet Russian President Vladimir Putin in Moscow. Russia and Serbia signed an agreement on cooperation in the oil and gas industry. Photo: Sergei Chirikov/AFP/Getty Images*





NIS owned petroleum refinery in the industrial town of Pancevo, just outside Belgrade. Photo: Stringer/AFP/Getty images

running for a second term, in a difficult position. The pro-European Tadic needed Kostunica's support to win the final round of the elections from the radical and euro-sceptic candidate Nikolic.

Vladimir Pekic, writer for Platts Energy, is convinced that the deal with Gazprom is not just an energy deal. 'I never saw a consensus build so fast for a privatization. Although the Serbian government was divided over the price it looked like the Russians just got it. We did not hear any arguments about how well this deal will be for consumers or the environment. But it certainly will be a good deal for some politicians.'

Pekic believes that the Serbian law does not even allow the bilateral selling of NIS that has taken place. 'The company should have been sold through a public tender.' Others argue that there is an exception to the law, that if the privatization of a state company is in the interest of the state, a tender is not required.

Because there was no tender, many are critical about the price of €400 million that the Russians apparently will pay. To

make a rough comparison: Hungary's Oil and Gas group MOL in 2003 bought 25% of Croatia oil company INA for €350 million.

Economy minister Mladan Dinkic has said it is a 'shameful' deal and has demanded further negotiations on the price. 'It is quite clear that the €400 million for NIS is an unrealistically low price and I will fight to change this part of the agreement, considering that it will only come into force after it has been ratified.'

But other analysts argue that Serbia has made a good deal. The local energy sector will benefit, says Dragan Nedeljkovic, chief editor of [www.energoportal.info](http://www.energoportal.info). 'We are lucky with this deal. We needed investments in that sector and that is what the Russians are going to do. Next to that we will receive money from the transit fees (around €200 million) from the pipeline and the construction of it will create jobs. Once we have the gas storages we can trade gas with Croatia which has gas shortages.'

Vladimir Pekic also thinks Serbia will become a stronger player in the region.

'Serbia has lost a lot of credits and strong cards to its neighbouring countries. A gas pipeline will give Serbia some leverage in the region.'

Certainly for Russia and Gazprom the deal is very good. The Russians will strengthen their position to control the European gas supplies. The deals with Serbia and Bulgaria present tough competition for the planned Nabucco pipeline sponsored by the EU. The Nabucco pipeline aims to transport gas from Central Asia through Turkey to Europe, bypassing Russia. In this context it should be noted that Gazprom last year also made a deal with Austrian company OMV to buy a 50% stake in the Baumgarten gas storage centre near Vienna. Baumgarten was the planned termination point for Nabucco.

The long-term consequences of the Russian-Serbian deal for both Serbia and the EU are uncertain. 'I am afraid that this deal will have consequences for our membership with the EU', says Pekic. 'The government looked for cash instead of thinking about long term solutions for the country and who would be the best buyer or owner.' ■