Instytut Europy Środkowej

IEŚ Commentaries

Editorial Team: Beata Surmacz (Director of ICE), Tomasz Stępniewski (Deputy Director of ICE), Agnieszka Zajdel (Editorial Assistant), Aleksandra Kuczyńska-Zonik, Jakub Olchowski, Konrad Pawłowski, Agata Tatarenko

No. 915 (163/2023) | 28.07.2023

ISSN 2657-6996

dr Michał Paszkowski

Serbia activates natural gas supply efforts

Keywords: security, energy, natural gas, Serbia

Serbia has, for years, been dependent on natural gas supplies from the Russian Federation, and the resulting political influence has had consequences for its energy policy and the presence of Russian capital in key energy companies. In recent months, however, there has been a noticeable modification of the Belgrade government's position on the importance of Russia in ensuring Serbia's energy security. In the new political environment, including the ongoing Russian-Ukrainian war, the increased activity of the Serbian government to change the sources and directions of natural gas imports is noticeable.

Russian Federation in Serbia's energy policy. For many years, the political and economic activity of the various governments in Belgrade was directed toward cooperation with Russia. As a result, it was the Russian Federation that was the guarantor of the country's energy security, since as late as 2022 the vast majority of natural gas supplies (95%) as well as a significant portion of oil (25%) came from Russia. The mutual energy relations that were being built were reflected on the one hand in the level of energy dependence ("Comments of the IEA," No. 855), and, on the other hand, in the presence of Russian capital in Serbia (including control by Russian companies of Naftna Industrija Srbije). Undoubtedly, the Russian Federation's armed attack on Ukraine in 2022 was fundamental for the Belgrade government in assessing political and economic cooperation with the aggressor. While at the declarative level, Serbia continues to try to treat Russia in terms of an important strategic partner, the past few months have seen actions that could ultimately change the geographic structure of natural gas supplies to Serbia, and thus weaken the position of the aggressor in the country's economy. For most Central European countries, especially the landlocked ones, it is crucial to develop the region's transportation infrastructure and to build the appropriate political and business links, which can play an important role in the energy policy being pursued. Thus, in recent times, the government in Serbia has been taking measures to increase energy security that is focused in the northern, eastern, and western directions.

Northern vector. Serbia's key energy partner in recent months has been Hungary, with cooperation in three fields; however, a lack of adequate storage capacity remains an issue for Serbia. The only functioning underground gas storage (USG) facility in Banatski Dvor, with a storage capacity of 450 mcm per year, is not fully controlled by Serbia, as the Russian company Gazprom owns the majority of shares (51%). There have been multiple plans to increase the capacity of this storage facility, and in 2017-2019, there were even cooperation agreements to expand the capacity to 750 mcm per year. Due to the lack of implementation of the expansion of the storage facility so far, Serbia concluded an agreement with Hungary in May 2022, under which it maintains natural gas reserves (about 220 mcm) in that country. As part of diversification efforts and the implementation of further joint energy ventures, an agreement was reached in June 2023 between companies from Serbia (Srbijagas, 49%) and Hungary (MVM, 51%) to create a joint venture company (Serbhungas, based in Novi Sad) responsible for natural gas trading. In addition to the gas sector, the cooperation between the two countries also concerns the oil sector, including the construction of a pipeline connecting the cities of Novi Sad in Serbia and Algyő near Segedin in Hungary ("IEŚ Commentaries," No. 807).

Eastern vector. Undoubtedly, an extremely important direction for cooperation and implementation of future energy projects is Serbia's progressive cooperation with Bulgaria. Its importance stems both from energy projects already underway and those planned for the future. Bulgaria is an attractive partner for Serbia for three reasons. Firstly, it guarantees the supply of natural gas within the framework of the already existing and executed contract for the supply of natural gas from the Russian Federation through the Balkan Stream pipeline (a contract

for the supply of 2.2 bcm per year). Secondly, it enables diversification of supply, as the Serbia-Bulgaria interconnector (Niš-Dimitrovgrad) with a capacity of 1.8 bcm per year is scheduled to be put into operation in 2023. Thus, through this infrastructure, it will be possible to supply natural gas from both Azerbaijan[1] and LNG terminals in Greece (Srbijagas is guaranteed access to a regasification capacity of 300 mcm at the Alexandroupolis terminal, currently being built). Thirdly, it creates the possibility of storing natural gas. At the moment, Bulgaria has only one natural gas storage facility in Chiren with a storage capacity of 550 mcm per year, but according to declarations by Bulgartransgaz representatives, the storage capacity will be increased to 1 bcm per year by the end of 2024. Serbia will also be able to benefit from the expansion of this storage facility.

Western vector. In addition to Hungary and Bulgaria, cooperation with countries bordering the Adriatic Sea is also being promoted in Serbian political circles, as it presents an opportunity to import natural gas in the form of LNG. However, taking into account the difficult political relations with Croatia and the cooperation already taking place in supplying crude oil to the Pančevo refinery for Serbia via the Adria pipeline, Montenegro could be a key partner in the years to come. Serbia sees an opportunity to use the import capacity of the planned FSRU-type regasification terminal in the port of Bar on the Adriatic Sea. According to Montenegro's plans[2], the terminal, with an import capacity of about 3 bcm per year, would start operating from the end of 2025. The Serbian side is interested in purchasing about 2.7 mcm of natural gas per day (about 1 bcm per year). Thus, the terminal would be able to cover about 30-40% of the domestic natural gas demand. The problem in this case, however, is the lack of guarantees for the implementation of the investment as well as the import infrastructure since, so far, the interconnector(s) between the two countries has not been built. As a result, in the event of a desire to participate in the implementation of such projects, the key issue will be the construction of new infrastructure links, although Serbia has expressed a desire to build a naturals gas pipeline to Bijelo Polje in Montenegro, where a metering station would be located.

Conclusions:

- Serbia's actions in recent months are not coincidental, and the country, in the area of energy, is beginning to take more active steps that will ultimately reduce the importance of the Russian Federation in the Balkans. The steps taken, however, continue to be two-pronged in foreign policy; on the one hand, the construction of a pipeline linking Serbia to Hungary is envisaged, which could ultimately increase crude oil imports from Russia to the Pančevo refinery, but on the other hand, active steps are being seen to change the structure of natural gas supplies.

- An element of further cooperation with the Russian Federation is to some extent the implementation of activities concerning the Northern vector. Hungary is a country that bases its energy security on cooperation with Russia, so any projects with this country will partly result in strengthening relations with Moscow.

- The eastern vector will be crucial for energy policy and independence from natural gas supplies from the Russian Federation. In the current realities, cooperation with Bulgaria creates conditions for greater energy independence. For Serbia, access to natural gas from Azerbaijan or infrastructure in Greece (the only alternatives to Russia) naturally forces the implementation of joint energy projects in this section.

- The least certain, and thus most unrealistic – although raised by Belgrade – is the realization of the Western vector. Montenegro lacks an extensive transportation infrastructure as well as the financial resources to build capital-intensive natural gas pipelines. Despite its stated desire to launch an LNG terminal on the Adriatic Sea, this could be a difficult and also a protracted investment for Montenegro.

[1] Providing Serbia with access to natural gas imports from Azerbaijan will be possible due to the planned expansion of the Greece-Bulgaria Interconnector (IGB), from 3 bcm per year to 5 bcm per year, which is expected by 2025.
[2] In May 2023, a cooperation agreement was signed between the Montenegrin government and US energy companies (Enerflex Energy Systems and Wethington Energy Innovation).

For Serbia, therefore, this is a project that will perhaps strengthen the country's energy security, but only in the longer term.