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Northern Macedonia expands natural gas supply infrastructure

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North Macedonia is one of a handful of countries in Europe that remain dependent on natural gas supplies from the Russian Federation. In the long term, the Skopje government's goal is to diversify the supply of this commodity. Part of such efforts is the expansion of import infrastructure (interconnectors) with Greece, Serbia and Albania. On the other hand, in the short term, the key aspect is to ensure stable supplies of natural gas based on existing technical solutions.

Bulgaria's key importance in natural gas supply. In North Macedonia, natural gas is used mainly in industry, power plants and thermal power plants. For a long time, it was supplied only from the Russian Federation, based on a long-term contract valid until 2030, providing for supplies from this direction of about 0.4 bcm per year. The import of this commodity to North Macedonia is possible only through an interconnector with Bulgaria (Zidilovo/Kyustendil point). The transport capacity of the pipeline is 1 bcm per year. This capacity is not fully utilized, given the level of demand for natural gas in North Macedonia (265 mcm in 2022 versus 411 mcm in 2021). Importantly, all of the transport capacity at the Zidilovo/Kyustendil point has been reserved until 2030 by Gazprom (part of a tripartite agreement between Gazprom and operators in Bulgaria: Bulgartransgaz and North Macedonia: GA-MA). The war in Ukraine did not initially cause difficulties in the supply of natural gas. However, the situation changed with Bulgaria's introduction of legal arrangements for the TurkStream gas pipeline. On October 13, 2023, the Sofia government established a special additional transit tax ("energy premium") for the transportation and transit of natural gas from the Russian Federation through Bulgarian territory. The amount of the tax is €10 per MWh. For North Macedonia, which has hitherto imported this commodity from Russia, this is a significant cost that negatively affects the energy situation in the country. The Macedonian side pointed out that the new fee is contrary to EU regulations, and at the same time will lead to a 20% increase in natural gas fees for individual consumers. Such a situation has led to the fact that since October 2023 natural gas supplies have been based on monthly tenders, with Graystone Bulgaria LTD (about 1000 cm per month) being the supplier of the natural gas from outside Russia. While initially the government in Bulgaria, despite pressure mainly from Serbia and Hungary, did not want to withdraw from the transit fee, it eventually yielded and abandoned it in December 2023 (Hungary had indicated that it would veto Bulgaria's entry into the Schengen zone). Importantly, under the existing cooperation, North Macedonia has been able to use the underground natural gas storage facility in Chiren, Bulgaria, to hold its own stocks.

Greece: a potential partner in supply diversification. For many years, a major challenge for North Macedonia has been the potential problems posed by the existence of a single natural gas import route – exclusively from Bulgaria. Among the elements to ensure the possibility of building a more diversified natural gas import structure is cooperation with Greece. The history of the construction of the relevant interconnector (IGNM) dates back to 2016, when a cooperation agreement was concluded between NER Skopje and DESFA S.A. ("IEŚ Commentaries", no 599). On the other hand, in 2021, an agreement was signed on the construction of a natural gas pipeline, which is to total 123 km (68 km on the territory of North Macedonia, and 55 km on the territory of Greece). It is to connect the two countries' natural gas pipeline system, which will be operated by Nomagas Skopje in North Macedonia and DESFA in Greece. The natural gas pipeline's capacity between Nea Mesimvria and Negotino (the checkpoint is Evzoni/Gavgellija) is to be 1.5 bcm per year, with the possibility of increasing the capacity to 3 bcm. The pipeline is expected to be built by the end of 2024. Importantly, through the construction of this connection, there will be the possibility of importing natural gas from the FSRU-type LNG terminal in Alexandroupolis in Greece which is under construction. ESM of North Macedonia holds a 10% stake in this project under an agreement with Gastrade SA. The terminal is scheduled to begin operation in early 2024.

Serbia and Albania: natural gas system expansion. In addition to the project involving the connection of North Macedonia's natural gas pipeline system with Greece, other infrastructure projects are also being considered. One such initiative is cooperation with Serbia on the construction of a natural gas connection. The project involves the construction of an interconnector with a total length of 65 km, connecting North Macedonia (Klečevce village near Kumanovo) with Serbia (near Gyuesheva). The investment is planned by the companies NER JSC Skopje and Srbijagas. The transmission capacity has been set at 3-4 bcm per year in the direction to Serbia and 0.5 bcm per year (with an option to increase to 1 bcm per year) in the direction to North Macedonia. The project will make it possible to increase the availability of natural gas to customers in North Macedonia (efforts to change the structure of electricity generation by replacing coal used at the Bitola and Oslomej power plants and heavy fuel oil used at the Negotino power plant) and in Serbia via Greece. Sources of natural gas could include both Azerbaijan (TANAP/TAP pipelines) and LNG terminals in Greece and Turkey.

The second direction that is being considered as an alternative source of natural gas supply is Albania. In 2017, a cooperation agreement was signed between NER Skopje and Albgaz to build a corresponding interconnector. It is envisaged that the natural gas pipeline connecting the two countries (Lin in Albania and Struga in North Macedonia) would have a capacity of 0.5 bcm per year with an option to increase to 1 bcm per year. Ultimately, the project would allow a change in the natural gas supply structure to North Macedonia, either through imports via the planned IAP (Ionian Adriatic Pipeline) or through the planned LNG terminal in Albania, at the port of Vlora. The relevant cooperation agreement between Albania and North Macedonia was signed in November 2022.

Conclusions

- North Macedonia faces a number of challenges in securing natural gas supplies. For many years, the Russian Federation has been an important trading partner in this regard. The introduction of transit fees by Bulgaria was negatively perceived in North Macedonia and forced the government in Skopje to seek alternative solutions. Therefore, now the efforts of the government in Skopje have been directed at "circumventing" the need to pay an additional transit fee for natural gas transported from the Russian Federation. In this regard, deliveries are being made in cooperation with Graystone Bulgaria LTD. Bulgaria's abandonment of additional fees should not halt efforts to expand energy infrastructure.
- In the long term, the importance of natural gas in the economy of North Macedonia can be expected to increase due to the need to abandon coal and heavy fuel oil as commodities currently used for electricity generation. Taking into account the climate policy of the European Union countries and the status of North Macedonia as an EU candidate country, it can be expected that the climate policy will take into account the solutions proposed by the EU. The government in Skopje therefore attributes an important role in the energy transition to natural gas imports.
- North Macedonia, through the planned expansion of energy infrastructure, will be able to ensure diversification of sources and directions of natural gas supply. The North Macedonia-Greece interconnector under construction will allow access to alternative sources of supply to Russia (including the TANAP/TAP pipelines and LNG terminals in Greece and Turkey) and may significantly affect the cost of imported natural gas (no need to supply only via Bulgaria).