Gazprom Set to Pounce on Serbia as Putin Moves into the Balkans

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Russian President Vladimir Putin intends to visit Bulgaria on January 18 for the signing of a Russian-Greek-Bulgarian agreement to build the South Stream gas pipeline. A joint project of Gazprom and Italy's ENI, the line would run from Russia across the seabed of the Black Sea to Bulgaria, there to bifurcate: one arm westward via Greece to Italy and another arm northward to Serbia with possible continuation into Central Europe. The main line to Bulgaria is projected to carry 30 billion cubic meters of Russian-delivered gas annually.

If signed and executed, the project would set back the energy security objectives of the European Union and the United States on two major counts: First, it would preempt markets targeted by the Western-backed Nabucco project, cementing a Russian monopoly on some countries and breaking into new ones, and increasing the overall level of European dependence on Russian-delivered gas. And, second, it would use this pipeline to carry gas >From Central Asia via Russia, thus preempting Turkmen and other gas volumes and strengthening Russia's monopoly on Central Asian gas, despite Western hopes to demonopolize that situation also.

In this context, Russia is trying to capture Serbia's entire energy sector at one stroke. The Russian government and Gazprom propose to set up three Russian-controlled joint companies -- one for oil and two for gas -- on Serbia's territory, with some ramifications into the Republika Srpska within Bosnia-Herzegovina.

In the oil sector, Gazprom proposes to acquire a 51% stake in the state-owned Petroleum Industry of Serbia (NIS). This company, a monopoly in its essence, includes two oil refineries, a crude supply pipeline coming into Serbia from Croatia, and an overwhelming share of Serbia's distribution networks for oil products and fuels. Gazprom proposes to take over NIS through Gazpromneft -- Gazprom's oil subsidiary -- on the following terms: a) a single-bidder process, ruling out a competitive tender; b) a ban on imports of oil products into Serbia for at least five years, thus guaranteeing a monopoly; c) paying a mere $400 million in cash and pledging $500 million in investments over the ensuing five years.

The Serbian government had planned to tender out NIS for privatization in 25% share packages through a competitive bidding process. Russia's Gazprom and Lukoil, Austria's OMV, Poland's PKN Orlen, Hungary's MOL, and Romania's Rompetrol had indicated their intentions to bid. The estimated market value of NIS is nearly $2 billion. The Serbian government is disappointed with Moscow's price offer and seeks to raise it. However, Belgrade inclines to accept the other Russian terms for NIS, because the proposal is packaged with the South Stream gas project. Belgrade is leaping (as did others recently) at that bait.

Within the South Stream project, Gazprom and the state company Serbian Gas would form a 51%-49% joint company to build an arm of that pipeline through Serbia. Construction would be financed on the same 51%-49% basis. Moscow proposes a capacity of 10 billion cubic meters annually for this line, while Belgrade hopes for 20 billion cubic meters annually. The deal would guarantee a Russian supply and transit monopoly for 30 years (with five-year extensions afterward)- It implies discounted prices in relation to Gazprom-dictated `market' prices elsewhere, along with a monopoly everywhere in the region. Gazprom would also take over the Serbian Gas transmission network, including that in the Serb republic of Bosnia-Herzegovina.

Also as part of South Stream, Gazprom and Serbian Gas would form a 51%-49% joint company to develop the underground storage site at Banatski Dvor to a capacity of 10 billion cubic meters annually. This volume would give minimal satisfaction to Serbia's ambition to function as a `hub' for Russian gas transmission (a prospect that Moscow has dangled in front of several countries). From Serbia, the arm of South Stream could continue either northward into central Europe or westward toward Italy, as part of Gazprom's expansion plans. Those plans are being pursued at the expense of European consumers and Central Asian suppliers at the same time.

While Gazprom proposes agreements of intent on the two gas projects, it wants an immediate takeover of the oil sector. Thus, a Serbian give-away of the oil sector does not guarantee that Serbia would ultimately benefit >From Gazprom' s gas projects. On the contrary, selling NIS now while waiting for South Stream to materialize later would deprive Belgrade of negotiating leverage with Moscow.

Russia's ambassador in Belgrade, Alexander Alexeyev, had on December 11 officially presented Gazprom's draft agreements to the Serbian government -- a procedure not bothering to disguise Gazprom's identification with the Russian government. The agreement leaked to Serbian media in early January.

The Serbian government is pleased with the gas proposal, but it is divided over the oil proposal. A critical mass within the government seems inclined to accept the whole package, if only Moscow offers more than just chicken feed for NIS; some in Belgrade deem it `humiliating.' The Moscow-oriented Prime Minister Vojislav Kostunica chairs the government's working group on the proposed deal. The Western-oriented President Boris Tadic and his Democratic Party ostensibly favor the deal because Tadic is up for reelection, but such endorsement may only be a delaying tactic by Tadic. The European Union and the United States have yet to weigh in on this issue in Belgrade, Sofia, and Athens.

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