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**Russian Energy Interests
in the Balkans**

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Key Points

- * Russia desires to expand its influence in the Balkans, in order to counterbalance the orientation of Balkan states towards NATO and the EU.
- * Russian energy interests are a key means of enhancing Russian influence in the region and the Balkans and South Eastern Europe are key parts of its energy strategy towards the EU. Its main projects are:
 - South Stream gas pipeline
 - The Burgas-Alexandroupolis oil pipeline
- * The Kosovo dispute means that Serbia will continue to see Russia as a major partner.
- * The possible growth of the Russian Navy in the Mediterranean may also increase South Eastern Europe's strategic importance to Russia.

Russian Energy Interests in the Balkans

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In 1994, the then Russian President, Boris Yel'tsin, noted that "ideological conflicts are being replaced by a struggle for spheres of influence in geopolitics."¹ Notwithstanding the end of the Cold War, this struggle for spheres of influence has been a key feature of Russian foreign policy since the end of the Soviet Union, although Yel'tsin's Russia was in many ways poorly equipped to engage effectively in such a struggle. However, the resurgence of Russian power in the Putin era means that Russia is now better able to compete in this way. Russian policy in the Balkans can be seen as part of this struggle for spheres of influence.

Whilst Russia has always sought to be a player in the Balkans, her interest in the region has increased significantly in 2007 and the beginning of 2008. In addition to her long-standing historical ties to Serbia, the energy factor is the main reason explaining her enhanced interest in South Eastern Europe. In his speech at the Balkans Energy Summit in Zagreb in June 2007, Vladimir Putin stated:

*The strategic objective of our cooperation in this area is to ensure access to reliable energy supplies for all countries of the region. Our policies take into account the Balkan countries' increasing involvement in the European integration process, and we are ready to develop our relations in cooperation with the European Union.*²

Russia is a major supplier of oil and gas to the countries of South Eastern Europe. In 2006 Russia supplied 73 billion cubic metres of gas to this region alone. This comes to almost half the total volume Russia supplies to the EU countries. Russia also supplied 59 million tonnes of oil. The Russian companies Gazprom, Lukoil and Transneft have significant investments in several Balkans states. Lukoil has already invested \$1.5 billion in the region.³

Mirroring earlier deals with former Soviet countries, in 2007 Russia signed agreements with several former Yugoslav states in which Russia's debts to these states were forgiven in exchange for Russian investment in their energy sectors. Russia is to invest \$105 million in the Djerdap (Serbia) hydroelectric plant, and \$183 million will be removed from Serbia's outstanding bill for natural-gas imports.⁴

Russia has promised to pay off its Soviet-era debt to Macedonia by building gas pipelines within Macedonia. An agreement was reached in March 2007 during a visit to Moscow by Deputy Prime Minister Zoran Stavrevski and Economy Minister Vera Rafajlovska. The deal involves four pipeline-construction projects, including pipes encircling the capital Skopje, a pipeline running between Klechovce and Stip, and a pipeline from Skopje to Tetovo.⁵ In addition, the Balkans is playing an increasingly important role as a hub for the supply of Russian gas to Europe. Russian interests in the Balkans are therefore an integral part of her relationship with Europe (particularly the EU), as her position as an energy supplier to Europe

is the key means by which Moscow becomes a significant actor in Europe. Two key projects involving Russia are:

- The South Stream Gas Pipeline
- The Burgas-Alexandroupolis oil pipeline

THE SOUTH STREAM (Yuzhny Potok) GAS PROJECT

A Memorandum of Understanding to develop a pipeline route from Russia to Italy was signed in June 2007 in Moscow by Gazprom and Italian company ENI in the presence of Energy Minister Viktor Khristenko and Italian Minister for Economic Development, Pierluigi Bersani.⁶

In its offshore section, the South Stream will cross the Black Sea from the Russian coast of Beregovaya to the Bulgarian coast at Varna, with a 900-kilometre pipeline reaching a maximum depth of more than 2,000 metres underwater. This will enable Russia to avoid using Ukrainian gas pipelines. A feasibility study is to be completed by the end of 2008.

For the onshore section two different routes from Bulgaria are being studied: towards northwest and towards southwest. It is envisaged that one arm will run southwestward via Greece to Italy. The northwestern route would run through Romania, Hungary, and Slovenia to northern Italy with a branch to Austria. An alternative route for this northern branch is being contemplated; this would involve Serbia and Croatia. The main line to Bulgaria is projected to carry 30 billion cubic metres of Russian-delivered gas annually. It is intended to come on stream in 2013.

Bulgaria

In January 2008 a Russo-Bulgarian agreement on the South Stream project was signed on the occasion of the visit of Vladimir Putin to Bulgaria. This confirms plans to build the pipeline through Bulgaria. A joint Russo-Bulgarian company (with 50:50 participation) will be set up to construct and operate the pipeline. Putin emphasised the importance of this agreement for the energy security of Europe:

The need to expand the transport infrastructure in delivering energy resources is a completely necessary task. And this is confirmed by our European partners: they are vitally interested in that.

I would like to emphasize in particular that building new infrastructure capabilities does not mean reducing or closing down our cooperation with other transit states. Work to build new routes provides security, increases stability, and creates new transport capacities for new, growing deliveries of energy resources to European consumers.

I will tell you what is, in principle, well known to everyone anyway: a fierce fight is going on between European countries for Russia's building such gas transport capacities. The presence of such infrastructure facilities on the territory of a particular country certainly increases its political and economic significance for Europe.⁷

Putin also commented that the South Stream agreement would enable Bulgaria to become a key link in the European energy chain.⁸

In addition Putin also offered Bulgaria a credit of 3.8 billion euros to build a nuclear power station at Belene. This, plus the South Stream project and the Burgas-Alexandroupolis oil pipeline all enhance the importance of Russia as a partner for Bulgaria, and provide a means of strengthening Russian influence in the Balkans. To a certain extent this counteracts Bulgaria's earlier accession to NATO and the EU.

Serbia

The South Stream agreement also gives Russia the opportunity to enhance its interests in Serbia. Russia is engaged in negotiations with Serbia about extending the South Stream pipeline through Serb territory. Gazprom is pressing the state-owned company, Serbian Gas, to form a joint venture to build the pipeline and to grant Russia a 30-year supply and transit monopoly. Gazprom, which would hold a majority stake in the joint venture, is also demanding that it take over the transmission network of Serbian Gas.

Gazprom is also seeking to acquire acquiring a majority stake in the Serb oil company NIS, and in completing the construction of an underground gas storage facility at Banatski Dvor. The proposed deal is controversial, as Gazprom has only offered \$600 million for a 51 percent stake in NIS, which is a fifth of the estimated value of the company. The Russians have also pledged \$740 million in the modernization of the Serbian energy monopoly.⁹ This has led to rifts in the Serb government over accepting the deal. However the deal was signed in January 2008, when Serbian President Boris Tadic and Prime Minister Vojislav Kostunica visited Moscow. When the agreements were signed, Vladimir Putin stated:

After signing these documents, Serbia becomes one of the key transit points in the system of Russian deliveries of energy resources to southern Europe which is currently being formed. This system is long-term, reliable, highly effective and, what is most important, is considerably strengthening the energy security of both Serbia and the entire European continent.¹⁰

Boris Tadic was re-elected as president of Serbia in February 2008, defeating Tomislav Nikolic who had advocated closer ties with Moscow.¹¹ Tadic is more oriented towards the EU than Nikolic, and may be more conciliatory over the Kosovo issue.¹² However, the economic relationship with Moscow will remain important. If Gazprom's aims in Serbia are realised, then this country would become an important hub in the supply of Russian energy to the EU. Furthermore, the continued dispute between Belgrade and the western powers over Kosovo is likely to mean that Serbia will continue to see Russian moral and political support as important.

South Stream is especially beneficial for Moscow, as it acts as a counterweight to the Nabucco Project, which aims at piping gas from Central Asia and Transcaucasia from Turkey to Austria via Bulgaria, Romania and Hungary.¹³ Nabucco has been envisaged by the USA and EU as a means of reducing energy dependence on Russia.

Greece

Greece is another important focus of Russian energy policy. Greece imports two-thirds of her gas needs from Russia, and Moscow sees Athens as a partner in the South Stream project.¹⁴ Greece is also part of the Burgas-Alexandroupolis oil pipeline project (see below). When Greek Prime Minister Konstandinos Karamanlis visited Moscow in December 2007, he and Putin discussed new contracts for the supply of Russian gas to Greece. Athens is interested in contracts for the supply of Russian gas after 2016 until 2040, with almost doubled volumes.

Putin stated:

We are ready for this work. But in order to increase flows and to increase the volume of deliveries, additional transport facilities are required. This is a project needed by both Europe as a whole and by Greece. It is now in the initial stages. We note interest on the part of our European partners. We are sure that this project of ours will be implemented.

He also stated:

Both Russia and Greece are playing a very important common European role: supporting the stability of the European energy market. If we implement major infrastructure projects in this area too, then it will be quite clear that we are working not only for the good of our own countries, but for the good of the whole of Europe.¹⁵

Again, the development of the energy relationship with Greece, as with Bulgaria and Serbia, is aiming at strengthening Russia's position as an energy supplier to Europe as a whole, and hence demonstrating that Russia is to be an integral part of the European inter-state system.

The Russo-Greek relationship has developed smoothly. There have been five meetings between Putin and Karamanlis since 2003.¹⁶ Russia is interested in expanding military-technical cooperation with Greece. During the December visit it was agreed that Russia would supply Greece with 420 armoured personnel carriers, and Putin stated that there were no limits (*ogranicheniya*) on military-technical cooperation with Athens.¹⁷ This is a remarkable statement in view of the fact that Greece is a NATO member. Russian policy in the Balkans is not merely aimed at securing markets and improving means of supplying energy to the rest of the EU.

During Karamanlis' visit, Putin also stated that:

The system of international relations is going through an extremely important phase of transformation of the whole architecture of global security and development. In effect, what is on the agenda is the important issue of what world order will be established for many decades to come. Alongside other states, our countries should make their weighty contribution to the development of dialogue between civilizations, making the modern world more just and democratic, and free from reliance on brute force and blackmail.¹⁸

The references to a more just and democratic world, and to "reliance on brute force and blackmail," may well be a coded criticism of US foreign policy. Russia is interested in increasing her influence in the Balkans, and her policy there is aimed at competing with both the USA and the EU. It should also be noted that in August 2007, the then commander of the Russian Navy, Admiral Vladimir Masorin, stated that the navy should have a permanent presence in the Mediterranean.¹⁹ Russia

clearly desires to raise her profile in the eastern Mediterranean and South East Europe. In January 2008, First Deputy Prime Minister Dmitry Medvedev stated that the Russian Navy must be revived.²⁰ This was followed in February 2008 by the new commander of the navy, Admiral Vladimir Vysotsky, saying that the Russian navy “will continue its presence in the Mediterranean. And NATO will have to reckon with this.”²¹ The Russian navy's interest in the use of port facilities in south-eastern Europe and other parts of the eastern Mediterranean is likely to increase.

THE BURGAS-ALEXANDROUPOLIS OIL PIPELINE

Russia's partners in this project are Greece and Bulgaria. In March 2007, when Putin visited Greece, Russia, Bulgaria and Greece signed an agreement to build an oil pipeline from Burgas to Alexandroupolis. Negotiations on the project lasted for 13 years. Construction is to start in 2008 and it is due to be completed in four years.²²

The 176 mile pipeline, worth about \$1.2 billion, will have the carrying capacity of 700,000 barrels a day with the potential to eventually reach over a million barrels a day. Russia owns 51% of the International Project Company which will be operating the pipeline. Greece and Bulgaria each own 24.5% of the company. The Russian participant is a unified company, a pipeline consortium formed by Transneft, Rosneft and Gazpromneft. The draft agreement stipulates that Transneft will act as the sole operator of the entire project, which will reduce tanker traffic going through the Bosphorus. Lukoil will probably expand its refinery at Burgas to refine the increased supply of oil from Novorossiysk.

In December 2007 Russia, Bulgaria and Greece signed an agreement on the creation of a project company, Burgas-Alexandroupolis, for the trans-Balkan pipeline. The company will be registered in the Netherlands.

In addition to this pipeline, there are two other projects which rival the Burgas-Alexandroupolis project, and are an attempt to undercut Russian influence in Balkans energy politics. The US government has an interest in both projects.

The Pan European Oil Pipeline (PEOP)²³ would link the Romanian Black Sea port of Constanta with the Italian port of Trieste, with involvement by Serbia, Croatia and Slovenia. From Trieste it would join with the TAL (Trans-Alpine Line) and the Italian pipeline network, with any excess oil to be shipped from Genoa in Italy. The PEOP is expected to be 1295 kilometres long, and to cost \$2.4 billion. It would carry around 60 million tonnes of oil per year, mainly to Italy and central Europe, with around nine per cent of the oil to be supplied to Serbia and Croatia. The feasibility study for the project has estimated that the pipeline will commence operations in 2011.²⁴ A key lobbyist for the PEOP is Henry Owen, a close friend to the Bush family. Owen wrote a letter to the minister of finance of Slovenia, Andrej Bajuk in the first half of 2006 on the subject.

The AMBO²⁵ oil pipeline project will link Bulgaria, Macedonia and Albania. This project is backed by the US government which financed a feasibility study for the project. An accord was signed in January 2007 in Skopje. This pipeline aims to carry oil from the Caspian region to the Black Sea port of Burgas in Bulgaria, and then through Macedonia to the Mediterranean port of Vlore in Albania. Construction is due to commence in late 2008. The 850 kilometre pipeline, with a capacity of 35 million metric tonnes per year and a cost of around \$1.3 billion, may be ready by the end of this decade.

RUSSIAN INVESTMENTS IN MONTENEGRO

In addition to Russian involvement in the energy sector in the Balkans, there has been significant investment by Russian companies in Montenegro since it separated from Serbia in 2006. In August 2006 Vladimir Putin estimated Russian investment in Montenegro at about \$2 billion.²⁶ Both Lukoil and Gazprom are interested in investing in Montenegro. In addition to the energy sector, there is Russian interest in the tourism industry and in road construction. In 2005, the Russian aluminium company Rusal became the majority shareholder in Kombinat Aluminum Podgorica, an aluminium smelter, along with a thermoelectric power station, bauxite mine and coal mine.²⁷ The Montenegrin leadership has however sought a close geopolitical orientation with NATO, in spite of the significant economic relationship with Moscow.

CONCLUSIONS

Russia's presence in South Eastern Europe is likely to grow, irrespective of the outcome of the Kosovo issue and whether or not Serbia is led by a pro-Moscow or pro-EU leadership. South Eastern Europe's increasing importance as a hub for the supply of Russian energy to the EU means that Russia's presence in the region will be long-term in nature, and that she will be a significant factor in the international relations of the Balkans. The development of the South Stream gas pipeline should be seen in parallel with the development of the North European Gas Pipeline, as both of these projects will significantly enhance Russia's importance to the rest of Europe as a supplier of energy. The desire of the various Balkan states to develop closer ties with the EU and NATO means that Russia sees itself as engaged in a struggle for influence with these two organisations in the region. Whilst it is unlikely that Moscow would be able to prevent Balkan states from developing their relationships with and within the EU and NATO, her importance as an energy supplier to Europe as a whole certainly goes some way towards counterbalancing any possible shift towards Atlanticism.

Endnotes

¹ James Sherr, 'Cultures of spying.' The National Interest, 22 December 1994, fn.6.
<http://www.encyclopedia.com/doc/1G1-16350687.html>

² In June 2007, Vladimir Putin met leaders of the Balkans states at an energy summit in Zagreb to discuss energy security. For his speech see
http://www.kremlin.ru/eng/speeches/2007/06/24/1214_type82912type82914_135740.shtml

³ For an overview of Gazprom's interests in Eastern Europe, see: FACTBOX-Gazprom expansion in central/south Europe, Reuters, 17 January 2008
<http://sg.news.yahoo.com/rtrs/20080116/tbs-gazprom-expansion-europe-7318940.html>

⁴ <http://www.rferl.org/newsline/2007/05/4-See/see-020507.asp>

⁵ <http://www.rferl.org/newsline/2007/03/190307.asp#archive>

⁶ See http://www.eni.it/en_IT/media/press-releases/2007/06/Eni_and_Gazprom_sign_the_agree_23.06.2007.shtml

⁷ Vesti TV news channel, Moscow, in Russian 1116 gmt 18 January 2008. From BBC Monitoring (BBCM).

⁸ Vesti TV news channel, Moscow, in Russian 1126 gmt 18 January 2008. From BBCM.

⁹ http://www.kcbs.com/topic/ap_news.php?story=AP/APTV/National/a/i/Serbia-Russia-GasDeal In addition, in September, 2003, Russia's LUKoil acquired 79.5 percent of Serbia's oil company, Beopetrol.

¹⁰ Vesti TV news channel, Moscow, in Russian 1108 gmt 25 January 2008 from BBCM.

¹¹ In December 2007, Nikolic said he would welcome the possibility of a Russian military presence in Serbia. See <http://globalresearch.ca/index.php?context=va&aid=7635>; in January 2008 he reportedly said that "Serbia should become a Russian province rather than a EU colony".

<http://www.cnn.com/2008/WORLD/europe/01/18/Serbia.elections.ap/index.html>

¹² Tadic cannot however afford to be too conciliatory. Too great a flexibility over Kosovo could bring his government down.

¹³ <http://www.nabucco-pipeline.com/>

¹⁴ <http://www.eia.doe.gov/emeu/cabs/Greece/NaturalGas.html>

¹⁵ Vesti TV news channel, Moscow, in Russian 1157 gmt 18 December 2007 from BBCM.

¹⁶ http://www.kremlin.ru/eng/speeches/2007/12/18/1657_type82914_155192.shtml

¹⁷ Vesti TV, in Russian, 12:15 GMT, 18 December 2007. From BBCM.

¹⁸

http://www.kremlin.ru/eng/speeches/2007/12/18/1642_type82914type82915_154927.shtml

¹⁹ Interfax-AVN military news agency website, Moscow, in Russian 0804 gmt 3 August 2007 from BBCM. Masorin stated: "The operational area of the fleet, which covers the Black Sea and the Mediterranean Sea zones up to the Atlantic Ocean, is at the crossroads of Europe, Asia and Africa... For the Black Sea Fleet, the Mediterranean Sea, first of all, is this kind of operationally important region. I expect that with the assistance of the forces of the Northern Fleet and the Baltic Fleet the permanent presence of the Russian navy must be established here."

²⁰ NTV, Moscow, in Russian 1000 gmt 11 January 2008 from BBCM.

²¹ ITAR-TASS news agency, Moscow, in Russian 1621 gmt 3 February 2008 from BBCM.

²²

<http://balkanforum.org/print.php?threadid=129&page=1&sid=2d2bf75fcfa1b7c5e30c534e8621bb03>

²³ http://en.wikipedia.org/wiki/Pan-European_Pipeline

²⁴ <http://www.bankwatch.org/project.shtml?w=147580&s=2044450> See also

http://www.vlada.hr/en/naslovnica/novosti_i_najave/2007/travanj/potpisana_ministarska_deklaracija_o_peop_u

²⁵ http://en.wikipedia.org/wiki/AMBO_pipeline

²⁶ RTR Planeta TV, Moscow, in Russian 1300 gmt 28 August 2006 from BBCM.

²⁷ Nicholas Wood, 'Tiny Montenegro Booms, and Eyes the Russian Hand That's Feeding It', New York Times, 24 December 2006.

http://www.nytimes.com/2006/12/24/world/europe/24montenegro.html?_r=1&oref=slogin

MAPS OF PIPELINE ROUTES

Click on each link.

[South Stream](#)

[Burgas-Alexandroupolis Oil Pipeline](#)

[Nabucco Pipeline](#)

Want to Know More ...?

See:

John Roberts, Energy Cooperation among the BSEC Member States. Towards an Energy Strategy for the BSEC, Xenophon Paper No. 3 – October 2007

http://icbss.org/index.php?option=com_content&task=view&id=31&Itemid=45

Mark A. Smith, Kosovo's Status: Russian Policy on Unrecognised States, Conflict Studies Research Centre, UK Defence Academy, Russian Series 06/01 January 2006.

<http://www.da.mod.uk/colleges/csrc/document-listings/russian/>

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