

Investments are coming

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There are numerous indications that next year could be the year of reforms and investment in the energy sector: NIS, the Pan-European pipeline, gas lines, the underground gas storage facility 'Banatski Dvor,' new thermal power plants. There are some indications, but no tangible evidence, that the energy sector in Serbia is inert and inflexible, that it more often fails than it succeeds in attracting investors; only with serious reforms and the opening up of the market will the dollars really arrive.



After the banks, energy is next on queue. There are many indications that 2007 will be a year of significant change, structural interventions and, most importantly, investments in the energy sector.

First of all, there is the Oil Industry of Serbia (NIS): The privatisation strategy for NIS has been approved by all interested parties and is now awaiting official approval from the Serbian Government.

Somewhat further down the line, there is also the Pan-European pipeline (Konstanza- Pančevo-Omišalj-Trieste). A most interesting and promising idea in the energy sector was brought up recently again at the Second Energy Summit in Belgrade, related to the construction of two new thermal power plants, one based on coal from the Kolubara mine and the other, located in the south of Serbia,

based on Kosovo's coal reserves.

Finally, in the natural gas sector, an important issue is the completion of the underground gas storage facility in Banatski Dvor, and prior to that, diversifying gas supply routes by adding pipelines from Bulgaria (Dimitrovgrad - Niš) and Romania (Arad - Mokrin) to the one that is already pumping natural gas from Hungary. There are also preparations for another, less publicised project; the construction of a natural gas pipeline connecting Serbia and Croatia.

New developments in the Balkans

Serbia in the Balkans

- Serbia uses 22 percent of Balkan oil reserves, 32 percent of oil production, 40 percent of oil consumption, and 43 percent of oil imports to the region
- Serbia uses 60 percent of the Balkan natural gas reserves, 22 percent in production, 44 percent in consumption, 62 percent in net import
- 95 percent in coal reserves, 72 percent in production, 70 percent in consumption, 17 percent net import
- 55 percent installed electrical energy capacity, 50 percent in production and consumption

The first part of the Feasibility Study, planned for the end of September this year, should justify the development of both Serbia and Croatia's main natural gas lines.

The study is being conducted by the Zagreb-based Hrvoje Požar Institute (involved in Croatia's Energy Development Strategy) and has also engaged experts from Croatia's state-owned natural gas company PlinaCro, Serbia's Srbijagas and Swiss-based Copechim.

This document shows that the numerous meetings between Serbian and Croatian political leaders have had a concrete basis. Last week, Serbian President Boris Tadić visited Zagreb and Croatian Prime Minister Sanader's visit to Belgrade is expected in the next ten days, but both these events are actually part of a wider economic, and more specifically, energy-based alignment in the region.

A Memorandum on Cooperation was forged between the Romanian Ministry of Economy and the Serbian Ministry of Energy on May 22 in Belgrade has blueprinted a strategy for connecting the natural gas infrastructure of these two countries. It was agreed on the same occasion that the connection be established between Mokrin (in Banat), Arad (in Romania), while Romanian Transgas experts, along those of Srbijagas, have been instructed to draw a draft plan for this project's implementation. Add to this the already adopted regional natural gas pipeline project Niš - Dimitrovgrad - Bulgarian border, and it becomes clear that, after all, new winds are blowing in the Balkans.

Perhaps it is not off the mark to point to the fact that the idea of connecting the natural gas networks of Serbia and Croatia is in fact twenty years old, in other words, dates back to the former Yugoslavia, and was "revitalised" last year, on an initiative of the Serbian Ministry of Energy. This fact represents a tribute to the initiative which the Serbian energy sector

has in the process of regional association. Another piece of information leads to the same conclusion.

Namely, during a recent meeting between Serbian Minister of Energy with the European Commissioner for Energy and Transportation Andris Piebalgs in Brussels, Radomir Naumov presented his European colleague with the initial text of the Convention on Balkan Sustainable Energy Development. It is perhaps less well-known that the EU has decided on energy as the cornerstone of the Balkan process of integration into the community of European nations. Through Serbia's initiative to form the Balkan energy convention, the whole process gains another, very strong and significant impulse, while at the same time, opens new possibilities of economic progress and social stability for the region.



This last sentence should by no means be understood as a mere, and desirable, political phrase. On the contrary, stormy processes have taken over the world energy sector, and are noticed by the public only when drastic natural gas or oil price-hikes takes place. However, it is clear to those in the know that none of it takes place by accident, while serious countries prepare for such occurrences years, and even decades, ahead of time.

The World Conference on Gas, recently held in Amsterdam, which takes place once every three years, confirms this. The conference saw the greatest debate centre around the development of natural gas distribution networks. Bearing in mind that two countries, Russia and Iran, own more than half of the world's natural gas reserves, and that Europe itself is for the most part connected to Russia via gas pipelines, it becomes clear that defining Serbia's position in the region and beyond becomes paramount.

Another reason is the Nabucco pipeline. At the end of June representatives of Bulgarian Erdgas, Romanian Transgas, Turkish Botas, Ukrainian Nemereg and Hungarian Mol gathered in Vienna, in order to define preparations needed for the implementation of the Nabucco project. The project in question envisages the construction of a 3300 km long gas pipeline that will bring 30 billion cubic metres of natural gas to Europe each year. It is still not clear whether this gas will arrive from Azerbaijan or Iran (mostly due to the political status of the latter country, that is, its failure to clearly define its ambitions pertaining to the use of nuclear technology). However, the main idea behind the project is to undermine the Russian natural gas supply monopoly in Europe.

More important is the fact that Nabucco, among other issues and according to the map presented at said conference in Amsterdam, by-passes Serbia. This is precisely the strategic significance of the implementation of Srbijagas and Energy Ministry projects; the more numerous new links towards future central pipelines, Nobuko included, the more attractive and competitive, therefore more stable, the domestic energy market.

In this context Serbian relations with Russia, more specifically, Gazprom, take a greater, and once again, strategic importance. Perhaps it is too strong, or too biased, but in Amsterdam, Gazprom assumed the role its global position dictates: that of a leader. Bearing in mind that Serbia has one of the most favourable, if not the most favourable contract on natural gas supply, it is logical that Gazprom in that context assumes a corresponding place.

Perhaps this is what Prime Minister Koštunica had in mind during his recent visit to St. Petersburg, when an initiative was started to form a new Russian-Serbian inter-state energy sector commission (along the lines of those related to agro-industry and infrastructure). In any case, the government should dedicate itself to its 'energy' relations with Russia. That of course does not mean Russia (i.e., Gazprom, or Lukoil) should in any way be subjected to favouritism, but that those relations should be made transparent and clear, in mutual best interests.

...but some things remain the same



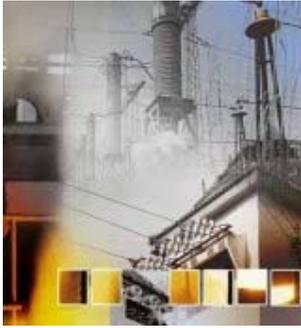
This article could, however, have started a little less optimistically. For instance, with a reminder that it has been almost two years since the Law on Energy was adopted (August 1, 2004), and more than a year since the founding of the Energy Agency (June 16, 2005). And yet, many documents crucial to enabling faster development of the energy sector have not been adopted.

The Serbian Government should have adopted the document on conditions for gaining status of a favoured electrical power producer. The Agency, on the other hand, should have come up with a tariffs system for the usage of energy distribution, transport and transfer networks, as well as facilities for storing natural gas. Hiding behind these bombastic titles are key documents that should enable the opening of the market and competition in this area.

One example is the enormous potential in mini hydroelectric power plants (EPS already has in mind 800 locations that could house such structures). There is huge interest both from domestic and international investors, but the whole idea is obscured by bureaucracy.

Another example is the Law on Energy which gives a two-year deadline (expiring August 1, 2006), by which the EPS must sign contracts with all its customers and take over measuring devices, at the same time taking responsibility for their

maintenance. That means 3,300,000 contracts. Perhaps it is superfluous to emphasise that this huge amount of work has not yet even begun.



These are only a few indicators that Serbia is running late. This is confirmed by the goings-on in and around NIS. The deadline for adopting the privatisation strategy expired at the end of May, while in July, strategic partnership tenders should have taken place.

Currently, the government is announcing the strategy for the beginning of July, and tenders after the summer holiday season, in other words, no sooner than September.

Taking into account the deadlines for submitting bids, the ensuing process that can then take months, and after that consideration, and permanently looming elections this autumn or in the spring of next year, then the decision on privatising the Oil Industry of Serbia (NIS) will be made at the end of next year, perhaps even later.

Finally, another everyday example. In these hot summer days, many have probably forgotten the alert raised by the decreased delivery of natural gas from Russia last winter.

Back then the government made a solemn promise that the natural gas storage facility in Banastki Dvor will be completed by autumn, resolving all winter gas supply issues.

Back in February, the Srbijagas Managing Board decided to exclude Banatski Dvor from the system, thus making it possible to form a separate company. A Tender should have taken place subsequently, in order to come up with a strategic partner willing to invest 50 million dollars, necessary for the natural gas purchase from Russia in order to form the so-called gas cushion in the storage facility, a purchase for which Srbijagas, that is its owner, the state, cannot make due to lack of finances.



The government, however, has not approved this decision to date (rumour has it that the main stumbling block is the Ministry of Economy) so that none of the plans have been implemented.

At mid-year, only one thing is certain: the Banatski Dvor storage will not be completed on time, and local distributors are already making natural gas storage contracts in Hungary. That will prevent shortages, but will at the same time significantly raise the prices, a consequence to be paid for by local consumers.

It is evident that the Serbian government lacks a clear and consistent strategy in the energy sector in the events surrounding the already mentioned Balkan countries' Energy Summit. Deputy prime minister at the time, Miroslav Labus, sponsored the summit held in May.

Gatherings of this kind represent an opportunity to, on one hand, analyse the current status of the whole energy sector in the region, and to, on the other, present investment ideas, needs and plans, along with the fact that sponsorship of the Serbian government's deputy PM signalled Serbia's interest in the subject. It was planned for the Labus to sponsor the second summit as well. However, after Labus' resignation, the summit lost not only its sponsor, but also saw Serbia less represented than many neighbouring countries.

This, especially with a summit title "Balkan Energy future-investments where and how," could not pass unnoticed by the participants. All the more so, since it is common for development strategies to be hastily changed and amended all over the world, with all growth projections pointing to energy demand growing, and environmental crises deepening.

What could be of importance for Serbia in this context is calculations that say investment in this sector will by 2050 reach at least 50 billion dollars and that half of this sum will end up in developing countries, such as Serbia, which takes up from 25 to 90 percent of regional production, consumption, and import of oil, natural gas and coal.

According to this, Serbia should play a significant role in making any decision concerning future development of regional energy resources. This is however a necessity, but not reason enough for Serbia to justifiably be a part of the Balkan and European energy sector. Actions taken thus far have been insufficient.

True, the Law on Energy is in place, as well as the Energy Development Strategy up to 2015, the Energy Agency has been founded, the Energy Efficiency Agency formed again, agreement on Southeastern European countries Energy Community has been signed. But, few of the above mentioned can be applied, lacking documents defining Law on Energy realisation. There is no operational program related to the implementation of the Energy Development Strategy, regulatory Energy Agency is yet to achieve many of the goals set before it, and the same goes for Energy Efficiency Agency.



At the heart of matter is the fact that the Serbian energy sector has been centralised for more than 50 years, organised like a monopoly, inert, inflexible and inefficient, obsolete even compared to changes taking place in the region.

Serbia is on the one hand ambitious about becoming the centre of energy transit in the Balkans, and more than that, of becoming an energy leader in the region. It could be said that these are Serbia's dues, according to the country's geo-strategic position. On the other hand, however, according to the performance of its energy and social and political system as a whole, Serbia is not deserving of such a role. Serbia should be devoted to the common goals of the region as a whole: secure offers (which are lacking), development sustainability (not achieved and not foreseeable), competitiveness (much discussed, but

not worked on).

Therefore, as indicated at the beginning of this article, there are investment possibilities, but, as the second part shows, there are no fewer obstacles. There are indications, but no proof. The common denominator for critical development issues concerning Serbia's energy sector are: slowness in completing legal regulations, in dismantling monopolies, conducting reforms, establishing the domestic energy market, and finally, its slowness in realising potential investments. Capital is not a global problem nowadays, but manners of attracting it in steep competition certainly is.

Any further dragging of feet increases Serbia's chances of missing out on investments altogether. In this context, 2006 could represent a watershed for Serbia's energy sector, provided that serious reforms begin at last, as well as the restructuring and opening up of the market, and enabling competition. In that case alone, the dollars really are arriving.

First licenses



Licenses were issued to the following companies: 1. Engineering and Trading Society 'HSE Balkan Energy', Belgrade, for electrical energy trade in the electrical energy market; 2. Petrobart, for oil and oil derivatives; 3. JP 'Elektromreža Srbije', Belgrade, for organising the electrical energy market; 4. 'Elektrovojvodina,' Novi Sad, for retail trading in electrical energy at tariff consumer level; 5. 'Elektroprivreda Srbije', Beograd, for trading in the electrical energy market, as well as trading in electrical energy at tariff consumer level, and 6. 'Elektrosrbija' Kraljevo, for retail trading in electrical energy at the tariff consumer level.

According to the Law on Energy, the deadline for obtaining the licenses for energy companies already in business within the Serbian market is July 1, 2006. The license is issued for a period of ten years but can be revoked before that time has expired.

Holding Slovenske elektrane (HSE) is one of the leading producers of electrical energy in Slovenia, covering more than 50 percent of the market. The group is comprised of five electrical energy producers and one coal mine, two investment companies and three international companies (HSE Italia, HSE Hungary and HSE Balkan Energy).

Petrobart is a London-based company with offices in Moscow and Belgrade, the main activities of which include processing and trading in oil and its derivatives. Petrobart is also the general representative of the Swiss gas station chain AVIA for the Southeast European market.