Helsinki bulletin
NO.110 // DECEMBER 2014

HELSINKI COMMITTEE
FOR HUMAN RIGHTS IN SERBIA
address: Kralja Milana 10,
Belgrade, Serbia
tel. +381-11-3032-408; fax. 2639-437;
e-mail: office@helsinki org.rs
http://www.helsinki.org.rs

THE SOUTH STREAM: SERBIA IN A CLEFT STICK

FONET

Russia's canceling of the South Stream project was a blow to the Vučić cabinet that had banked on it for profit. The South Stream had been interpreted as Serbia's great chance for energy leadership in the region. In early 2014 Russian Ambassador to Serbia Alexander Chepurin declared that the "new pipeline is a solution to energy resources problem for the vast region of South Europe."[1]

The project itself had been proclaimed "a business enterprise of the century." However, it has been a matter of controversy from the very beginning: while some claimed Serbia had thus

1 *http://www.geopolitika.rs/index.php/sr/intervju/675-2013-12-29-12-24-04*.

sided with Russia, sold its oil industry /NIS/ for "peanuts" and jeopardized its "energy independence," the others were arguing that South Stream would ensure Serbia's energy demand in the long run by supplying it with "clean and cheap energy."[2]

Russia's decision to cancel the South Stream – now a definite one – put Serbia in a cleft stick: to opt for Russia or the European Union. This hard news was more than a disappointment to Serbia's officials: they could hardly believe their ears. By trying to convince themselves that "nothing is final yet" – that there are still chances for the project's implementation – the political elites only demonstrate their inability for recognizing realistically today's international relations, especially those along Moscow-Brussels-Washington line.

In parallel with growing tension between the West and Russia grew the pressure from both sides on Serbia to make its choice. The collapse of the South Stream project and the Ukrainian crisis further strengthened this pressure: patience for Serbia's "golden mean" is coming to an end. Johanna Deimel, deputy director of the German Association for the Southeast Europe, said that having to choose between Russia and EU Serbia had already "opted for EU" as it "priority." In the new situation related to the gas pipeline, she said, EU promised Serbia it would not close the doors on it.[3]

The red alert following the South Stream project from its very inception has never been taken seriously in Serbia. During his October 2014 visit to Serbia Russian President Putin himself told Serbia's leadership that construction of the pipeline was uncertain.[4]

The Russian President delivered this "very hard news" – as Premier Vučić[5] called it – from the meeting with Turkish President Taip Erdogan in Ankara. That was when the two heads of state announced a new project – a pipeline from Russia to Turkey.

According to some analysts, the South Stream pipeline has been more of a political project than an economic one from the very start. Actually, it was only meant to erase Ukraine from the transport map: all the countries on its course – from Bulgaria through Serbia to Hungary and Austria and Italy – have received their gas supplies from Russia through pipes built in Ukraine.

Moscow accused EU for having to cancel the project. Namely, Brussels had insisted on construction standards adjusted to EU's, something Russian investors would not accept.

CHRONOLOGY OF A DELUSION

"We've waited for long – so, let's go," said President Nikolić with much pathos at the ceremony marking the welding of the first (and only) South Stream pipe in the village of Šajkaš last November.[6] It seemed then that after too much postponement the realization of that major project for Serbia – planned back in 2008 – would begin at long last. In 2008 the Serbian government decided to sell NIS to the Russians at low cost counting on Russian partners' promise that the construction of the pipeline would "compensate" the price.

2 http://www.energoportal.info/.

3 http://www.blic.rs/Vesti/Politika/517446/Rusija-i-Zapad-zahtevaju-da-se-Srbija-opredeli.

4 When reporters asked him about the South Stream construction, Putin replied "It's two for love" alluding to EU energy standards that stand in the way of Moscow's plans; RTS, October 16, 2014.

5 This is what Premier Vučić actually said over telephone conversation with his Russian counterpart Dmitry Medvedev. Danas, December 9, 2014.

6 The 2013 Annual Report, Helsinki Committee for Human Rights in Serbia.

The agreement – everyone is distancing himself from now, although all relevant officials in power and opposition had their fingers in it – was signed in the spring of 2008 when, on the eve of presidential elections, the then president, Boris Tadić, and the then premier, Vojislav Koštunica, paid a visit to Moscow.[7] Ivica Dačić said on several occasions since that the agreement had been signed as "marketing" for Tadić's victory in the presidential race.[8]

In a parliamentary debate (September 2008) the biggest opposition caucus at the time, that of the Serb Progressive Party, gave a green light to the agreement along with the ruling Democratic Party and the Socialist Party of Serbia.

Actually, only small caucuses – the Liberal Democratic Party /LDP/ and the League of Vojvodina Social Democrats /LSV/ - have been consequently opposing the agreement from the very beginning. Even some officials of the then administration have been strongly criticizing the energy arrangement with Russia from time to time, the more so since this arrangement provided low profit (3 percent) on oil exploitation in Vojvodina.

SERBIA THE BIGGEST LOSER

Serbia is the biggest loser of the failed project. It not only spent some 30 million Euros over eight years of preparations of (constantly postponed) construction works on the pipeline, but also lost the planned profit on oil transport; considerable number of workers to be engaged in the construction remained jobless, and the planned dynamism of domestic economy, including foreign investment, went up in a puff of smoke.

As the Russian side insisted on it, the "package agreement," provides not the so-called protective clause that would have made it possible for Serbia to demand compensation. Last but not least, the concealment of the South Stream strongly affects the country's energy security as Serbia is almost totally dependent on energy supplies from Russia (oil and gas).

The failed project's effects on Serb-Russian relations are hard to predict. The incumbent regime that trusted the Russian side unconditionally cannot hide its disappointment. According to some analysts from the West, Serbia will now opt for Europe more resolutely and give up the policy of "sitting on two chairs." However, Vladimir Gligorov of the Vienna Institute for International Studies, expects not the government to change its Russian policy "relatively soon" considering "the rhetoric used in its favor so far."[9] Nevertheless, news stories about and commentaries on the policy and actions taken by Russian officials have become by far more reasonable.

Predrag Simić, international law professor, says, "When Russia and the West play football we are the ball they play with." "The West cannot compensate Serbia for the South Stream, although EU promised to help. In what way

7 These days the Politika daily reminded its readership of the already forgotten details of the agreement which sound absurd. The paper published the transcript of the parliamentary debate of December 2013. The then minister of urban planning, Velimir Ilić, said on the occasion, "We had presidential elections at the time, the President (Tadić) set himself to Moscow several days before us to prepare the signing, while the Premier (Koštunica) joined us, the ministers. We had not agreed on who would be the one to put his signature under the agreement. I was neutral, between the two blocs, and the government decided as one that I, being neutral, should do it. Then everything turned into a bear garden – no place was designated for Koštunica, they were moving chairs around until Premier Putin asked for an extra chair to be brought in." Politika, December 6, 2014.

8 Helsinki Bulletin No. 105.

9 Danas, 4. decembar 2014.

other than via Ukraine, I cannot tell." He also holds that by canceling the South Stream Russia withdraws from the Balkans to form "an Asian triangle" with Turkey and China.[10]

Canceling of the South Stream hit hard Premier Vučić, who had to announce that Serbia would have to reconsider its energy policy.[11] His cabinet had banked a lot on this project and hence staged a parade in Putin's honor. The latest developments, therefore, question other Russian promises, including that about not recognizing Kosovo's independence.

Over telephone conversations with President Tomislav Nikolić and Hungarian Premier Victor Orban, Vladimir Putin spoke about "the prospects of energy cooperation."[12] Vučić discussed the issue with his counterpart Premier Medvedev. Details of these phone calls have not been revealed.

President Nikolić holds that "Russian owes nothing to Serbia for having canceled the South Stream" and that Serbia should not raise the question of compensation.[13]

Aleksandar Vučić was somewhat more critical about Putin. Domestic analysts say this also indicates that the two are at odds. When he learned that the project had been canceled Vučić said he expected to talk to Putin as soon as possible and "get an answer why was it that we have not been informed about the cancellation of the South Stream." "I knew nothing about it although I've met with Putin three times this year."[14]

Despite all, delusions about some large Russian investment in Serbia are still fueled. For instance, the *Naše Novine* daily published a front line banner announcing a two-billion-Euro investment.[15] One can even expect more stories about Russian financial potential and interest in investing in Serbia (in agriculture, buying off the Azoth Plant in Pancevo, etc.), and especially about the growing exports of Fiat 110L cars – something Vladimir Putin agreed on during his 40-minute meeting with Tomislav Nikolić.

This year the Kragujevac-based Fiat Factory cut down its production. Serbian politicians hope that Putin's "consent in principle" would turn into a real agreement. Compared with other papers and broadcasters, the *Politika* daily is much more reserved about everything. "So, there is no longer the South Stream worth billions of Euros that would engage our complete construction industry. Instead we got Putin's consent in principle for another 'large venture' – a compensation for a really big business enterprise that would have ensured our energy stability."[16]

RUSSIAN ARGUMENTS

The latest developments laid bare a new, important geo-political fact. The announced pipeline connecting Russia and Turkey – the Russian and the Turkish heads of state singed a memorandum on this December in Ankara – indicates something more than the two countries' economic interest.[17]

10 http://www.blic.rs/Vesti/Politika/517446/Rusija-i-Zapad-zahtevaju-da-se-Srbija-opredeli.

11 *http://www.blic.rs/Vesti/Ekonomija/518054/Gasprom-Nek-sad-Evropa-gradi-gasovod*.

12 *http://www.blic.rs/Vesti/Politika/517454/Vucic-preneo-Medvedevu-Odluka-Rusije-teska-vest-za-Srbiju*.

13 Danas, December 9, 2014.

14 NIN, December 11, 2014.

15 Naše Novine, December 10, 2014.

16 Politika, December 10, 2014.

17 After Germany Turkey is the second biggest market for 'Gasprom.' In 2013 the company supplied it with 26.7 billion of cubic meters of natural gas via "Blue Stream" and trans-Balkan pipelines. "Blue Stream," a major trans-Black Sea pipeline, has carried some 16 billion of cubic meters of natural gas from Russia into Turkey since 2003.

"In the probably most sensitive geopolitical region of today two major players have been promoting their strategic cooperation that cannot but affect a much larger area…Russia has openly stepped in the American corral," writes the *Politika* daily.[18] As NATO member-state Turkey has been among America's most reliable allies in the region. According to Dušan Spasojević, former ambassador to Turkey, the "new chapter" opened in Russia-Turkey relationship "could largely affect the constellation of powers we've known so far at the international arena."[19]

Aleksey Miller, director of "Gasprom," said that the cancellation of the South Stream project was a step towards a new model of his company's operation at the European market, emphasizing that Ukraine would be playing a zero role in the transit to Russian oil once the underwater pipeline from Russia to Turkey was constructed. "'Gasprom' will be working with final consumers no longer, and EU member-states will have to buy gas at the border," he said.[20]

EU's resoluteness certainly made a good excuse to Putin to take "vengeance" against the West. What is more probable, however, is that this costly project had to be cancelled because of Russia's economic and financial crisis. Western sanctions imposed on it have affected the Russian economy, which also suffered from dramatically falling oil prices in 2014.[21] The ruble slid by 40 percent – and in one day only, December 1, by 9 percent.[22] The Russian Central Bank sold $80 billion at domestic market in 2014 but failed to save the ruble.

Russian high-ranking officials tried to pour balm at Serbia's loss by announcing other forms of cooperation. Although the energy agreement provides not compensation in the case of the project's cancellation, Russian Ambassador Alexander Chepurin argues that "some losses can be compensated" as Russia will be trying to protect Serbia's interests.[23]

REACTIONS FROM EU

"EU has nothing against the South Stream but the project must be adjusted to European standards. This applies to every country planning to operate in the territory of EU," concluded the Brussels meeting of ministers of energy of 28 member-states. Ministers decided as one that the South Stream should be adjusted to rules set down in the third energy package prohibiting gas-distribution cross ownership. The meeting also decided that EU should immediately seek new sources of energy supply, including the construction of the Southern Gas Corridor and trans-Adriatic pipeline from Azerbaijan to Italy, via Turkey.

Considering its endeavor towards Serbia "making its mind" at long last, EU is now ready to include it into the project of interconnector pipeline with Bulgaria as a new source of gas supply. Michael Davenport, head of EU Delegation to Serbia, said EU would support all energy projects meeting international obligations undertaken by the countries involved. In the past ten years, he said, EU assisted Serbia's

18 Politika, December 9, 2014.

19 Politika, December 8, 2014.

20 *http://www.blic.rs/Vesti/Ekonomija/517671/Zemlje-regiona-bez-Juznog-toka-bice-slepo-crevo-u-Evropi*.

21 „Putin meets the end of the year meant to evidence his foreign policy triumph (from the glamorous Olympic Games in Sochi to the establishment of the Euro-Asian Economic Community) trying frenzidly to inasmuch as possible compensate the economic and political damage he had suffered in the case of Ukraine by underestimating the effects of Maidan and wrongly assessing its consequences." Politika, December 9, 2014.

22 TV Prva, December 4, 2014

23 Ibid.

energy sector with more than 500 million Euros meant to help the country modernize its electric power production and transmission.[24]

German Chancellor Angela Merkel accused Moscow of trying to make the Western Balkans dependent on it politically and economically, and interfering in domestic affairs of the countries building close relations with EU.[25]

REACTIONS AT THE SOUTH STREAM'S COLLAPSE

Serbia's officials were taken aback at the news from Ankara. At first they tried to sound optimistic saying that nothing was final yet. Ex-president Boris Tadić was as optimistic as Foreign Minister Ivica Dačić and Dušan Bajatović, vice-president of SPS, co-chairman of the South Stream Company and director of "Srbijagas." In his speech in Brussels Dačić pleaded to Russia and EU to "reconsider their decisions on the South Stream, because the project benefits both sides."[26]

Goran Knežević, vice-president of the Serb Progressive Party and member of the NIS Management Board, said the chances for continuation of the South Stream project were fifty-fifty.[27] Ex-president Boris Tadić – the incumbent regime hold most responsible for signing such a detrimental agreement with Russia – also said he believed "this was not the end of the South Stream."[28]

Those more skeptical sought a crumb of comfort in the possibility for obtaining compensation from Russia. So Igor Mirović argued that Serbia could demand compensation from the Russian Federation.[29] The opposition LDP thinks along the same lines.

To all appearances, all this is just a waste of breath: the Russian would acknowledge no compensation. "All damaged parties should turn to the European Union for compensation," said Ambassador Chepurin cynically. Who is to blame for the "package arrangement" with Russia is the hot topic of Serbia's political arena.

According to experts, countries of the Southeast Europe will now be just an "appendix" at Europe energy map; and, in the case of the construction of the pipeline from Russia to Turkey, the countries in the region would have to build pipelines of their own to connect with the new gas corridor. Instead of the South Stream, argue expert circles, these countries will have to pay more for gas supplied all the way from Turkey.[30]

RUSSIA-TURKEY STRATEGIC PARTNERSHIP

Many were taken by surprise when the big game about and around the South Stream took another course. Putin-Erdogan agreement on the Russia-Turkey pipeline almost reaching the border with Greece (to be a backbone of the south energy corridor going through Greece to Italy) can only be considered in the context of new power constellation and Russia-Turkey relations in the sensitive Euro-Asian-African

24 *http://www.blic.rs/Vesti/Ekonomija/518054/Gasprom-Nek-sad-Evropa-gradi-gasovod*.
25 http://www.blic.rs/Vesti/Politika/517446/Rusija-i-Zapad-zahtevaju-da-se-Srbija-opredeli.
26 Danas, 3. decembar 2014.
27 Danas, 5 decembar 2014.
28 Danas, 3. decembar 2014.
29 „Rusi moraju da razumeju da je Srbija u projekat 'Južni tok' ušli na jedan složeniji način, kroz gasno-naftni aranžman koji traži neku vrstu kompenzacije", izjavio je Mirović, Danas, 4. decembar 2014.
30 *http://www.blic.rs/Vesti/Ekonomija/517671/Zemlje-regiona-bez-Juznog-toka-bice-slepo-crevo-u-Evropi*.

triangle the two countries are traditionally interested in.

Though Putin's release on the end of the South Stream project and "a turn" towards Turkey may seem to have come out of the blue, it has been actually prepared for long and not just as a tactical challenge to Europe and US.[31] "Russia has been positioning itself anew vis-à-vis EU so as to have their relationship rearranged," holds analyst Dušan Proroković.[32]

No need explaining at length Russia's motives for seizing Turkey or for drawing it away inasmuch as possible from its alliance with US and EU, says Dušan Spasojević, ex-ambassador to Turkey. As for Turkey, he continues, it is not only motivated by energy security. As NATO member-state and "eternal candidate" for the membership of EU, in almost all Middle East crises (from Syria and Egypt to the question of Palestine) Western allies have left Turkey in the lurch.[33]

The agreement increases Turkey's dependence on Russia and is not in Turkey's best interest as we have no guarantees that EU would agree to buy Russian gas from Turkey, said Necdet Pamir, director of the Committee for Energy of Turkey's biggest opposition party (Republican People's Party – CHP).[34]

However, most media in the West see the failed South Stream project as Putin's defeat. Đorđe Vukadinović, Serbia's outstanding Euro-skeptic, shares this view. He reminds that "the Western Empire struck back" strongly with economic sanctions and falling oil prices when Putin took action in Crimea and Ukraine. On the other hand, he calls Putin-Erdogan agreement "a real small masterpiece of Putin's political tactics and a brilliant example of tables turned."[35]

31 „It's hard to believe that all it took for Putin and Erdogan was a three-hour meeting to fall into each other's arms about a new gas policy and corridor; they must have been planning it for long, calculating and measuring everything while leaving us in the dark." Vreme, December 11, 2014.

32 Danas, December 3, 2014.

33 Politika, December 8, 2014.

34 *http://www.todayszaman.com/business_turkeys-gas-deals-with-russia-raise-concerns-of-dependency_365960.html*

35 Politika, December 8, 2014.

CONCLUSION

Serbia's political elites know little or not enough about Russia's policies. Yugoslavia's disintegration has largely to be ascribed to Milošević's assumption that Russia would step in. Not even Milošević understood that all Russia was concerned with were its own interests. Serbia's equipoise between the East and the West undermines its interests considering its NATO neighborhood.

Russia's policy mirrors the country's declining power. Its "one-dimensional" economy solely banks on energy sources. Putin is an unpredictable leader and his unpredictability is a threat to peace and stability in Europe. On the other hand, EU entered the conflict with Russian unprepared. But EU is "the side" offering Serbia and, generally, all the Balkan countries, more security and prospects for economic recovery than Russia.

It is dangerous for Serbia to expose its undecidedness in the EU-Russia conflict. Serbia will be under strong pressure while presiding OSCE – yet another arena of rivalry between the two sides. Putin's threats especially jeopardize security of the Baltic countries and Poland, and will be on OCSE agenda as such. Besides, Russia has considerably intensified its "soft power" in the countries undergoing identity crises (such as Serbia). Its "soft power" banks on criticism of neoliberalism and "precarity."

Serbia must make strategic decisions on its future to avoid Hobson's choice. Serbia can no longer withstand pressures, considering its failed transition and the legacy of the 1990s wars.

Since it has opted for the membership of EU, Serbia must adjust its policy to EU's foreign policy. This is the most rational solution when one takes into account that the country is in dire straits.

This far from excludes development of good relations with other players such as Russia, China, US, etc.

Serbia's cabinet should define its energy policy and the strategy for smooth energy supplies. This strategy should be adjusted to the entire region where all the countries are vulnerable when it comes to energy and, therefore, benefit from regional planning and arrangements.

The entire region should seek alternative sources of energy and thus lessen its dependence from Russia on the one hand, and prevent being used by Russia as "a puppet on the string" in its rivalry with the West.