

Constructing the South Stream is the Priority for Serbia, says Srbijagas CEO Bajatovic

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Srbijagas is the gas leader in Serbia. The public enterprise was established on October 1, 2005 following a government decision. However, despite the company's being successful, it shares the destiny of the entire Serbian market and industry. Today's Srbijagas is the result of a restructuring process carried out at Petroleum Industry of Serbia (NIS), when the company split into three segments - NIS Gas, NIS Energogas and NIS Jugopetrol (Plinara and RJ Gas, Pančevo). These companies have been developing the country's gas sector for over 50 years. Judging by the Ministry of Energy, Development and Environment, an initiative has been launched about restructuring Srbijagas to become a closed-end shareholding company. We spoke with Managing Director of Srbijagas Dušan Bajatović about the possible restructuring, construction of the South Stream gas pipeline, the gas system installation in Serbia and other relevant topics.

■ According to certain Serbian media, Srbijagas has found a strategic partner for Pančevo-based Azotara (Nitrogen Plant). Could you verify this and tell us something about the future plans for the plant?

- Srbijagas has had several meetings with interested investors which were initiated by them. These companies have expressed willingness to make investments and provide sufficient quantities of natural gas at affordable prices. The plan for the plant's reorganization is about to be approved. According to the plan, Srbijagas would become the majority co-owner of the plant which is one of the prerequisites for bringing in the strategic partner.

■ Speaking about Azotara, last year was record breaking in terms of fertilizer production. What can you tell us about the plant's operations in 2012?

- In addition to 2012 being a record breaking year in fertilizer production, it was also a very special year particularly in one segment - business results. After many years, Azotara recorded profit, giving us a reason to be optimistic. The company's management is absolutely dedicated to accomplishing the best results possible under the current circumstances. Of course, if we manage to select a strategic partner, the company will go regional.

■ Two agreements on delivery of Russian gas to Serbia until 2021 were signed in March. What do they bring to our country, and how is the country going to benefit from them?

- They provide us with several very important elements. Mainly, there is the safety of supply and delivery of adequate quantities of gas. Bear in mind that these quantities will facilitate the implementation of the gas power plant projects. On the other hand, it is important

to mention that those two agreements stipulate additional price discounts for Serbia.

■ At the Kopaonik Business Forum, you were very critical of the National Energy Strategy, calling it “obsolete.” What kind of energy strategy does Serbia need?

- The national strategy, which focuses only on the energy sector, does not take into consideration the current situation in the gas sector, bearing in mind the construction of the South Stream gas pipeline which, once finished, will definitely change Serbia and the entire region's energy map. This project will create many opportunities for construction of new energy facilities like gas-fired thermal power plants or industrial parks. The strategic plans of Srbijagas call for installing gas systems on the entire territory of the Republic of Serbia by the time the South Stream is constructed. In cooperation with the line ministry and other energy actors, we need to urgently draft a new national strategy that will provide a framework for development of the Serbian energy sector.

■ You will have a lot to do on the implementation of the South Stream project. Have you put together a list of priorities and what does it look like?

- The South Stream project is being simultaneously implemented in several different segments. The first segment concerns difficulties with temporary land expropriation. We have experts from Srbijagas working on this problem, and they are regularly patrolling the gas pipeline route. The second segment is drafting projects in order to obtain a construction permit. Lastly, there is a third segment which is about project funding. For now, all segments are progressing nicely and we expect the construction of the Serbian arm of the gas pipeline to begin by late 2013. Our only priority in 2013 is to begin with the construction. All other activities serve this purpose.

■ What other activities on the South Stream project are you planning to carry out in 2013?

- This year, the project and technical documentation will be drafted and the construction permit will be obtained. The preliminary project has been completed and submitted to the ordering party, while the main project will be finished in late June. We are currently putting together documents for a tender for the acquisition of equipment (pipes and compressors) with long delivery terms. The contractor, which will take part in the construction of the linear segments of this gas pipeline, will have been selected by October. Construction is planned to begin in late 2013.

■ Apart from the South Stream, Srbijagas is engaged in 200 other projects. Which of these are the most important and have the biggest strategic importance for Serbia?

- That must be the Banatski Dvor project. We are all very proud of it, particularly because we have managed to build a 450-million cubic metre storage for just under €60 million, much less than what other European companies spend on similar projects. On the other hand, working on preventing layoffs was our day-to-day project. We have managed to save SFS Paraćin (Serbian Glass Factory Paraćin), and I hope that we will be able to find a business

partner for Agroživ, MSK and Azotara soon. With the construction of the gas pipeline, Srbijagas gave its contribution to the process of attracting foreign investors to the Republic of Serbia. In addition to the aforementioned projects, the most important investments that will mark the following period are the construction of gas-fired thermal power plants and the construction of a gas storage facility in Banatski Itebej, which, coupled with the storage in Banatski Dvor, will be able to store over 2 billion cubic metres of gas - an important fact in the implementation of the South Stream project. Also, there are plans to build a pipeline that would connect the two storage facilities with the biggest industrial gas consumers in Pančevo and Belgrade, which has the biggest number of gas users. Additionally, we plan to build a high pressure gas pipeline along the Aleksandrovac-Novi Pazar- Tutin route which will supply gas to Raška County.

■ What do you think of the cooperation with local authorities on gas system installation in municipalities?

- Regardless of who has been in power in the previous period, the projects on construction of gas distribution networks were always considered a priority by local authorities, and the result of that is that we now have gas systems installed in over twenty municipalities in Serbia. As a socially responsible company, and regardless of struggles with settling our financial claims, Srbijagas has continued investing in the projects. If coal, electricity and oil marked the 19th and 20th centuries, natural gas will mark the future and, as the energy of the future, should be available to all people.

■ How far along are you in talks about Srbijagas' activities in Montenegro and the Republic of Srpska?

- Srbijagas has been constantly in touch with the governments of Montenegro and the Republic of Srpska. Our experience has helped the gas sectors of the two countries to constantly develop. Montenegro is embarking on the EU accession process and will have to implement the European directives and recommendations for gas, so the cooperation in this area would significantly contribute to the implementation of those directives and the development of the country's energy sector on the whole. Considering the special ties and obligations that Serbia has under the Dayton Agreement, cooperation with the Republic of Srpska picked up pace after a decision was made to build a South Stream arm in the direction of the Srpska. Srbijagas has shown its willingness to participate in this project on the territory of the Republic of Srpska through technical and professional assistance in order to contribute to the faster implementation of this project and all other projects in the gas sector. To this end, joint task forces have been set up which are developing project assignments and the required parameters for drafting the preliminary feasibility study.

■ How are you dealing with the problem of gas consumers not paying their gas bills considering that Srbijagas has to pay for gas even before you sell it to the consumers?

- Srbijagas has two basic problems. The first problem stems from an inadequate retail price of the gas, which is still lower than the purchase price. The second problem is the overall

illiquidity in our economy, and especially in companies that provide long distance heating. Up until recently, we had to take out loans to deal with these problems. But that is no longer possible, which means that Srbijagas will have to insist on gas consumers paying their bills even if that means using very unpopular methods to settle our claims. This is the only way to have an uninterrupted supply of gas.

■ The Ministry of Energy, Development and Environment has launched an initiative about restructuring Srbijagas into a closed-end shareholding company. What do you think of this initiative and what do your Russian partners think of it, bearing in mind that you have recently signed long-term gas supply contracts with them?

- Srbijagas was not consulted when this document was drafted. We agree with the ministry on certain things, but there are also irreconcilable differences between our opinions. On our part, we are going to suggest our own restructuring programme on which we have been working with one of the biggest energy consultancy companies in the world - BCG. If the current ministry's initiative does not change, then we would be categorically against it. In case the restructuring is carried out according to the ministry's scenario, the Russian partner would probably look for another partner in Serbia which would entail changing the contract, for which both contractual parties must consent. The Russians are waiting for our government to make a final decision.

■ Is it realistic to expect that Srbijagas will be restructured before the South Stream project is properly defined?

- Srbijagas needs to be financially restructured first, and then split into several companies. Due to the rather chaotic accounting records dating back to the time of JP NIS, this process will take a long time to complete. This is the reason why we shouldn't rush into anything. Our contractual obligations toward the Russian partner, in respect to jointly investing in the South Stream arm in Serbia, would be most definitely jeopardized if Srbijagas were to be restructured, and the very implementation of the project itself would be in question.

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