

Obligations stemming from the Contract on Energy Community aim at establishing a free market of energy and energy resources, securing supply and achieving long-term sustainability in the entire Europe. The representatives of the European Union assess that the separation of energy activities is one of the key reform practices able to establish free competition on the market of electricity and gas in Serbia.

These measures should contribute to the restructuring and modernization of energy companies, such as Serbian gas importer and distributor company “Srbijagas” and power utility company “EPS”, ensure equipment maintenance and secure investments. The price of energy and energy resources should cover all the expenses, collection of payments should be improved and the stimulus from the government gradually cut. Regarding natural gas, diversification in the sources of supplies is a key precondition for establishing a free market. Already a year and a half ago the Ministry of Energy initiated the discussion on restructuring “Srbijagas”. The message was communicated that “Srbijagas”, representing one of the pillars of the energy sector, would not be privatized, but rather converted into a public limited company, which is in compliance with the Energy Community requirements pertaining to the separation of ownership on the market of natural gas. Failing to meet the obligations to separate the gas transport from its trade, Serbia could run the risk of litigation being initiated by the Energy Community, and Serbia has been officially warned about that. The restructuring of “Srbijagas” is also a precondition for the implementation of the Nis-Dimitrovgrad gas pipeline project. The EBRD procured resources necessary for the construction of the gas pipeline, with one part of the resources coming from the IPA funds, and made them available already several years ago, but due to delays in the restructuring the project has not been making much headway.

During 2013 the Ministry of Energy presented basic principles for the restructuring of “Srbijagas”, suggesting its conversion to a public limited company in which gas transport and its distribution would be separated. On the other hand, the management of Srbijagas advocated the creation of a holding company with legal separation of activities, rather than ownership based one. Dusan Bajatovic, a managing director of “Srbijagas”, declared that the measures suggested by the Ministry could financially weaken the company. He is of an opinion that the implementation of these measures could threaten the stability of domestic gas supply and create problems in implementing the project “Juzni tok” (“South Stream”). The current minister of energy, Zorana Mihajlovic, has suggested that the first phase of the company restructuring should encompass financial consolidation, that is, rescheduling of debts and claims.

The second phase would include the separation of the activities of gas transmission and trade from its transport and storage. According to this plan, “Srbijagas” would be engaged in transmission and trade, while the newly founded company “Transgas” would take over the activities of gas transport and storage. They would be public limited companies with full

government ownership.

The third phase envisages the formation of Serbian Energy Holding that would be comprised of “Transgas”, “Transnafta” and “Elektromreza Srbije”. Later, the “Gasna skladista”(gas storage company) would be joined as well.

On the other hand, the first entry in the proposal delivered by “Srbijagas” is related to the financial restructuring. The Program of the company shows losses endured due to uneconomical gas price that amount to 433 million euros. All borrowed credits of Srbijagas, which amount to 850 million euros and which equal to the company’s debt, have been listed, together with accounts receivable totaling 900 million euros.

The medium-term program envisages the separation of transport, transmission, storage and trade, which is in line with the Third Energy Package. Bajatovic explains that the key difference between this program and the proposal of the Ministry lies in the insistent request of “Srbijagas” for creating a holding company with a legal separation of activities. Costs would be borne jointly, and a holding company would ensure favorable overall business policy. This program considers also additional registration for electrical energy production.

Bajatovic further explains that all European countries of the same size as Serbia have adopted this model, and that the ownership-based separation of activities has been only partially implemented in certain larger countries. The Program for “Srbijagas” restructuring has been produced by the consulting company “The Boston Consulting Group” and funded by the European Union.

According to Bajatovic, the proposal of the Ministry leads “Srbijagas” to bankruptcy. If this concept were to be adopted, the company would be responsible only for gas transmission, while transport and storage would be separated. The Ministry demanded ownership based separation followed by financial restructuring, which would be monitored by EBRD, but the management of “Srbijagas” was against it.

At the end of February this year the Secretariat of the Energy Community assessed that Serbia did not meet its obligations on the free market of natural gas, that is, “Srbijagas” and “Jugorogas” did not separate gas production activities from gas transport. This separation, incorporated in the EU regulations which Serbia is required to harmonize its national laws with, should have been implemented already on 1 July 2007.

The Secretariat assessed that only two companies that have a license for gas transportation, that is, state-owned “Srbijagas” and “Jugorogas” which 50% of the ownership belongs to “Gasprom”, did not carry out their obligations to separate the production and supply from gas transport, which is dictated by the EU regulations. In September 2013 “Jugorogas” founded its daughter company engaged in gas transport, but it has been assessed that this is not enough for ensuring independent decision making within the company. “Srbijagas”, on the other hand, failed to separate activities even from the legal aspect.

Failing to separate the two companies for gas transport is a major obstacle towards developing a competitive gas market in Serbia, and it also negatively affects the development of a regional gas market, as well as urgently needed investments in the gas sector.

“South Stream” is the most important project “Srbijagas”, which has 49% ownership in the company “South Stream Serbia”, is involved in. The stance of the European officials on the inconsistency and incompatibilities between the EU regulations and the agreement for the “South Stream” gas pipeline construction has been reiterated many times so far. The separation of transport and supply has not been accomplished either in the case of the “South Stream” gas pipeline construction. The possibility of the incorporation of a third party has not been considered as an option. The exemption from the third party rule is possible, but neither “Gasprom” nor “Srbijagas” initiated a procedure for it.

Long-delayed “Srbijagas” restructuring according to the Third Energy Package has been awaiting the consensus of interested parties on the depth of needed reforms for more than 18 months. However, progress could be made soon. The minister of Energy, Aleksandar Antic, announced that the draft on the new energy law and the “Srbijagas” restructuring plan are currently being assessed in terms of their harmonization and compliance with the Energy Community and European Commission. The government has submitted the “Srbijagas” restructuring plan and is expecting a positive assessment from the Energy Community.