

As South Eastern Europe (SEE) regains centrality in the geopolitics of energy, new risks emerge. The Western Balkans (WB), and namely Serbia, as well as EU member Bulgaria have acquired a big stake in the game. How will their government leverage this new position?

On December 29, Serbian president Aleksandar Vucic announced that, Russian natural gas would start flowing via the Balkan Stream pipeline. The new pipeline will allow Russia to supply gas to central Europe through by extending the more controversial Turkish Stream. Meanwhile, the EU and the Western Balkans will be able to diversify gas routes bypassing still-unstable Ukraine (Figure 1). By circumventing turbulent areas of the Former Soviet Union (FSU), the BS hands Moscow more leverage on Kiev and Minsk. In fact, both countries are heavily dependent on the transit fees Russia pays to use Ukrainian and Belarussian pipelines. Being able to shift a sizeable portion of these supplies further south would deal a devastating blow to those economies. Meanwhile, it grants the EU a few aces in the hole to in its relations with Turkey and the Eastern Neighbourhood.

The ambitious Turk Stream pipeline project started back in 2014. On December 1, a Memorandum of Understanding on a pipeline running across the Black Sea towards Turkey was signed. The long-term nature of the project was evident: construction began in 2017 and the pipeline started operating in 2020. The Bulgarian government seized a historic opportunity when Italian courts stalled the construction of another pipeline departing from Turkey. The Trans-Adriatic Pipeline (TAP), was supposed to bring central Asian gas into Europe reducing the EU's dependence on Russian gas. As this project's construction stopped, Sofia offered to build extension pipes prolonging the Turk Stream into the Old Continent. Thence started the for what is now the BS pipeline. According to Bulgarian authorities, the project has had a positive effect on the local economy. As a matter of fact, building sites employed 2,500 people directly. Meanwhile, the Bulgarian treasury will earn about €180 million every year in transit fees from 2021 onwards. Moreover, the BS required a systemic modernisation of the Bulgarian gas network and, thus, further investments. In Sofia's plan, the BS is only the first stepping stone in a much wider and more ambitious project.

The so-called Balkan Hub should help the EU achieve energy security through diversification by diminishing Russia's blackmail power. Besides Russia's gas, the BS should accommodate liquefied natural gas (LNG) though Thrace, Azerbaijani gas and, hopefully, some local extraction in the Black Sea.

### **Serbia's set to benefit**

Announcing that the BS's connection to the Serbian gas-transportation network, Aleksandar Vucic emphasised: "This is a great day for Serbia, the economy, the citizens and the industry." In another statement reported by the Russian News Agency TASS, Vucic connected the BS to the development of Serbia's economy. In the President's own words:

We will start gas pumping by the end of the year; our economy will develop and take the first place in Europe by the growth level in this year and in the next three years. In effect, during a press conference, Vucic noted that Serbia will need massive investments in the coming years. To grant the perfect operability of the BS "a lot of money would be invested in the construction of roads in the eastern part of Serbia". If Serbia keeps these promises, it could bounce back to its usual high-single-digit level of growth in 2021. After all, gas is pivotal in the Energy Strategy elaborated by the Serbian Government for the coming years. The "planned development of distribution networks," should determine an "increase in natural gas demand" for household consumption and industrial usage. Furthermore, the BS is a chance of Serbia to score some purely political points in the regional arena. For a starter, it is becoming a way to exert pressure on neighbouring Bosnia and Herzegovina (B&H). Serbia is pulling one of the constituent entities of B&H, the autonomous Republika Srpska (RS), even deeper in its orbit. The RS already controls the entirety of the gas coming to the country, all of which originates at the border with Serbia. Nevertheless, the RS announced its intention to adjoin its network to the BS by constructing a pipeline to the populous city of Banja Luka in 2020. Looking at the bigger picture, Serbia is using the BS to make Russia refrain from open hostilities. In effect, relations between Belgrade and Moscow have been neither friendly nor stable in the last few years. Yet, Bulgaria is even more unpredictable of a partner to Russia, as recent events have proved once again. Thus, Russian President Vladimir Putin needs Vucic's acquiescence if he wants to reiterate his threats of "alternative options to supply gas to the south of Europe" if Borisov is not compliant enough.

### **Forecast**

Gas pipelines in the WB and the Black sea offer Bulgaria and Serbia the chance to gain the centre stage. Both governments have endeavoured to gain as much as possible from this conjuncture. Yet, one should not be blinded by the successes listed above. First and foremost, the Russians still hold the perception that "when it comes to Sofia, anything goes". Moreover, the country is now living through a several-month-long period of unrest and contestation. The government is facing general elections in the spring, and a victory of the less business-friendly BSP is not unlikely. Thus, Bulgarians' are losing their chance to dismantle the belief that they lack "the capacity to act as regional partners". At the same time, Belgrade's attempts to increase the consumption of natural gas are not at all convincing. The government's Energy Strategy forecasts a 31% contraction in gas production in 2023 on the levels of 2018. Meanwhile, coal usage is expected to decrease by less than 3% by 2030. Moreover, attempts to fool Moscow may backfire as soon as Sofia ensures forbearance. After all, the BS grants Russia the possibility to access the EU's market bypassing the FSU, and Serbia is not a piece of puzzle.

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