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## **Energy Strategy of Russia and Serbia\*\***

### Abstract

The author analyzes Russia's modern energy strategy with the focus on oil and gas. Russia's energy strategy is viewed in the conditions of geopolitical confrontation with the United States. The energy and economic situation of Serbia is analyzed in conditions of the non-existence of a transit energy network in the Balkans. The first part deals with four sectors of Russia's national energy policy. The issue of the Energy Charter and relations with the EU is analyzed in particular. The second part of the paper looks at the importance of building new Russian oil and gas pipelines and bilateral energy agreements. The third part of the paper is consisted of analytical clarification, from the geopolitical point of view, of what it meant to Serbia the suspension of the construction of the South Stream gas pipeline. The paper also raises a question – does Serbia's interest lay in linking its energy policy with Russia's energy strategy? The Russian resource strategy is aimed at building new economic alliances with the countries of Eurasia and at preventing Russia's geopolitical restraint by the US. On the other hand, Serbia quickly has to begin with economic and geopolitical consideration of the importance of connecting with the energy strategy of Russia. This is the only strategy that can answer to the question of further Serbian economic development.

**Key words:** geopolitics, energy, strategy, oil, gas, Russia, Serbia, Europe, Asia, the Balkans.

### 1. Introduction

Russia, as early as the Soviet Union, was not allowed by the United States to sell its oil and gas on the world market. After long negotiations with Germany, Austria and Italy, gas found its way to Europe but not before 1973.<sup>1</sup> However, the disappearance of the Soviet Union made Russia to cut oil sales by two-thirds.<sup>2</sup> Alongside this, the world globalization proved to be unstoppable. Globalization did not wait for Russia to come out of the general crisis of Yeltsin's era. In most areas, globalization was directed towards the domination of the West. One of the characteristics of globalization in international politics is that not only countries, but also transnational corporations appear as entities. Thus, the process of globalization in the field of energy, information, technology, finance has reached an unprecedented scale.

Under such circumstances Moscow, starting from 2001, has begun feverishly to consider

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1 Srecko Djukic, *Ruski gas u Evropi*, *Sluzbeni glasnik*, Beograd, 2011, pp. 10–13.

2 „Graph of Top Oil Producing Countries 1960-2006, including Russia“, *US Energy Information Administration EIA*, Available at: <http://www.tokenian.com/unleashing-the-oil-weapon-against-russia/> (accessed on 6/2018).

possible options for Russia's development. Vladimir Putin and his associates started reforming government itself, transforming all policies and geopolitical goals. To achieve this, the Kremlin begins also with redefining national energy strategy by building strategy resources policy in relations with consumer states in Europe and with the countries in Central Asia that have their own resource deposits. The most significant parts of Russia's energy strategy are main gas and oil pipelines.

However, within geopolitical confrontation of the US and Russia in the region of Eurasia, precisely Russia is the one facing undeclared war in Ukraine: economic, media, political and military war. Geopolitical confrontation and pressure exerted by the West against Russia have been additionally intensified also by disruption of its energy connection with European, and especially with the Balkan countries through the major transit of gas and oil from Asia to Europe. Every economic and energy arrangement between Russia and the Balkan countries is viewed by the US as "Russian occupation" that has to be stopped.

Serbia lies in the region of the Balkans, which in terms of energy is a completely neglected region. There are no main gas pipelines in the Balkans. It is the only European region in this position. It is a geopolitical absurdity because precisely the Balkans is a travel, communication region between Europe and Asia. Why is that so? Why Balkan countries, including Serbia, cannot be able to use their geographical position? Without a gas pipeline there is no economic development. Gasification of the country "is nothing but electrification of economy and society in the 21st century"<sup>3</sup>. Is it possible under the conditions of non-existence of gas economy in Serbia to secure its development in the 21st century?

Our research question is this - how, in the conditions of energy development in the world, as well as the geopolitical confrontation between the West and Russia in the Balkans, Serbia should behave in terms of energy? Is it in the interest of Serbia to link its energy policy with Russia's energy strategy?

## 2. Russia's energy strategy

In spite of the weakened foreign policy position of Russia at the beginning of the 21st century, global demand for energy has helped Russia to make a major step towards a more successful geopolitical positioning. Economic growth in Russia after 2000 is the result of political changes in the new leadership, but also a huge increase in revenues from energy exports. Between 1999 and 2008 annual growth was on average 6.8%, and between 2010 and 2014 the growth stood between 1.3 and 4.5%. According to GDP growth projections for the period between 2014 and 2019, a trend of moderate growth was underlined<sup>4</sup>. Energy resources have become the basis of Russia's performance on geopolitical stages of Europe and Asia.

Russia has around 60 billion barrels of proven oil reserves. In 2012, the production was

<sup>3</sup> Srećko Djukić, „Gasovi tako blizu Balkana a tako daleko“, Available at: <http://evrozajinfo.rs/dr-srecko-djukic-gasovodi-tako-blizu-balkanaa-tako-daleko/> (accessed on 5/2018.).

<sup>4</sup> Goran Nikolić, „Pozicija Rusije u globalnoj ekonomiji“, *Nacionalni interes*, 6p. 3/2014, Institut za političke studije, Beograd, 2014, pp. 202–204.

10 million barrels a day, and in 2014 with the production of 10 million 730 thousands of barrels a day it became the world's largest. With 9.5 million Saudi Arabia comes second, and the U.S. with 9 million comes third.<sup>5</sup> Russia has the world's largest land gas resources. Its annual production exceeds 600 billion of cubic meters<sup>6</sup> of gas while the proven reserves amount to 50.000 billion of cubic meters. Annual export (for 2015) was 174 billion of cubic meters.<sup>7</sup> Russian gas company Gazprom is a leading domestic company in exploitation and gas sales with the participation of 94% out of total production. Globally, the company owns 25% of proven gas reserves and 16% of world production. This company, in line with the federal laws, is the only one entitled to export gas. Also, all gas pipelines leading from the Caspian region are in its hands allowing it to have a total monopoly over energy transport to Europe. The importance of this company for Russia lies in the fact that it fills up about 20% of the federal budget revenue.<sup>8</sup>

Russia implements national energy strategy in several sectors.

The first sector of Russian energy strategy was completed during the first and second Putin's presidential term. Namely, the state has taken strict control over domestic resources. *Globalization management* in economic sector has taken place. One of the basic missions to accomplish and the one that became a priority were to form Russian super-corporations: oil-energy, gold-diamond, aero-cosmic and military-industrial. This matches the structure of the USSR branch ministries. All Russian oil and gas corporation should become the core of oil-energy super-corporations which can later on be united with similar companies in the world, above all with the Iranian.<sup>9</sup> Furthermore, the issue of economic policy should be divided between the state and these super-corporations, and the state must participate both in capital and in the super-corporation management bodies.

The state managed to establish control over the oil industry after the case with the company Yukos, which under a suspicious privatization, during Yeltsin's reign, came under control of Russian oligarch Mikhail Khodorkovsky. When Vladimir Putin took office in 2000 energy sector was in the hands of powerful oligarchs and mafia, who were guided by the logic of the market and did not care at all for national, Russian interests.<sup>10</sup> They used to connect with big American and British oil companies and that was against this new orientation of Russian leadership to create national energy strategy.

The second sector of national energy strategy is also completed. Namely, the Kremlin terminated the *Production Sharing Agreement*. This law, adopted in 1995, refers to the fact that, when there are no funds to support research and exploitation of resources, the state gives foreign companies certain parts of the territory for research and exploitation. Howev-

5 „Najveci izvoznici nafte u svetu“, *Nafta Business*, Available at: [http://www.vizijadanas.com/svet\\_nafte.html](http://www.vizijadanas.com/svet_nafte.html) (accessed on 6/2017)

6 Massimo Nikolaci, „Moc nafte“, *Limes plus*, 6p.1/2005, Beograd, pp. 87; Ana Sekulovic, *Regionalna ekonomija Rusije*, Megatrend, Beograd, 2006, pp. 40.

7 „Rusija povecala svoje prognoze za izvoz nafte i gasa“, *Energyobserver*, Available at: <http://www.energyobserver.com/vesti.php?lang=1&ID=46844> (accessed on 7/2018)

8 Mitar Kovac, Milan Popovic, „Evropska energetska bezbednosti i Rusija“, *Vojno delo*, 4/2013, Beograd, pp. 36.

9 Aleksandar Ignatov, „Tri puta za Rusiju“, *Geopolitika*, N.5, Beograd, 2001, pp. 16–17.

10 Zoran Petrovic Pirocanac, *Geopolitika energije*, Institut za političke studije, Beograd, 2010, pp. 204.

er, the law was so flawed that the damage was enormous. In this regard the *Royal Dutch Shell* company, which had operated under such a law at the Sakhalin 2 deposits in the Far East, lost concession because the state suffered damage by the 1997 contract according to which no Russian participation<sup>11</sup> had been foreseen in the first place, and the value of reserves of oil and gas at this site alone was estimated at \$50-100 billion (estimated in 2000).<sup>12</sup>

The third sector is concerned with the conceptual level on the basis of which the realization of energy ambitions and goals is planned and monitored. Thus, the government of Russia has elaborated the energy policy, adopting the document *The Energy Strategy of Russia until 2020*, and in 2009 it drafted a new document *Energy Strategy of Russia to 2030*. The strategy defines Russia's primary goal as the maximum use of natural energy resources and energy sector potentials in order to ensure a stable growth of the economy, increase the quality of life of citizens and to strengthen the foreign economic position. Russia's energy security, according to the strategy, is one of the most important parts of the country's national security.<sup>13</sup>

The strategy divides energy policy in three stages. In the first stage until 2015 the focus is on exiting the crisis and forming the basis of a new economy. The second stage is a transition towards innovative development and formation of the infrastructure of the new economy. The third stage is the development of the innovation economy.

The fourth sector of Russia's national energy strategy is the issue of *Energy Charter*. Namely, by failing to ratify the *Energy Charter*, Russia seeks to prevent foreign companies from accessing its energy sources and energy products transport. Namely, *Energy Charter*, which entered into legal force in 1998, it covers 5 large areas: investment in the energy sectors, free trade in materials, products and equipment in line with the rules of the World Trade Organization, free transport through a distributive network, reduction of the negative impact on the environment, the increase in energy efficiency and the contractual dispute settlement between the countries and investors.<sup>14</sup> However, the essence of the Charter is that the signatories to the Charter have to give away their energy markets, at the stage of production and distribution, to foreign companies. This would reduce the role of energy exporting countries in determining energy prices. Therefore, it does not suit Russia for foreign companies to go through its territory to make a direct purchase of energy from other Central Asian and Caspian producers. This would mean that Russia cannot take advantage of its own geographical position through the energy re-exports.

The biggest disagreements over the non-ratification of the *Energy Charter* are with the European Union, which for the most part meets its energy demands through imports from

11 Ljiljana Nedeljkovic, „Mac ruske energetike“, *Nova srpska politicka misao*, Beograd, 2007, Available at: [http://starisajt.nspm.rs/koment2006/2007\\_nin\\_nedeljkovic1.htm](http://starisajt.nspm.rs/koment2006/2007_nin_nedeljkovic1.htm) (accessed on 7/ 2017.)

12 Rajko Bukvic, „Sudbina ruskih prirodnih nalazista za vreme tranzicije“, *Nova srpska politicka misao*, Beograd, 2006, Available at: [http://starisajt.nspm.rs/ekonomskapolitika/2006\\_bukvic1.htm](http://starisajt.nspm.rs/ekonomskapolitika/2006_bukvic1.htm) (accessed on 8/ 2017.)

13 Энергетическая стратегия России на период до 2030 года, Available at: <https://minenergo.gov.ru/node/1026> (accessed on 7/ 2018.).

14 The Energy Charter Treaty, Available at: <https://energycharter.org/process/energy-charter-treaty-1994/energy-charter-treaty/> (accessed on 6/ 2018.)

Russia.<sup>15</sup> Not all the EU countries have signed the Charter, neither the U.S. nor Canada, so there are major disagreements within the EU with a single energy policy which for these reasons also seeks to force Russia to ratify and to annul bilateral agreements between some EU members and Russia. Namely, certain countries, such as Germany and Italy, the problem of energy supply have solved bilaterally, and it refers above all to gas supply. Based on these agreements, for example, Russian gas is transported from the Baltic Sea to Germany, thus reducing the energy dependence on Ukraine and Poland. By the means of bilateral agreement Italy has provided access to Russian energy market for its companies until 2035. These contracts show that old EU members, like Germany, do not want sensitive energy issues to be transferred to the Union, but they solve their energy demands in contacts with Russia, and they also prevent new members such as Poland from dictating EU energy policies.

Aside that, by accepting the provisions of the *Energy Charter* with the EU, Russia would have to limit its export to the East Asia and the Pacific region, above all China and India. China and India do not mind Russia's state control over the resources and transport, and they already signed long-term contracts that include also joint ventures.<sup>16</sup> President Putin described this EU policy as "energy egoism" that deals with the safety of consumers in terms of secure oil and gas supply, but does not deal with the safety of producers in terms of stable and reliable demand, as well as the fact that "energy egoism" is useful only to a small group of the most developed countries, e.g. Anglo-American corporations which under the Energy Charter are only allowed to take part in the transport of energy. Russia has offered to all countries the conclusion of bilateral agreements that include delivery by Russia, but at the same time, the investment of these countries in the projects. In addition, Russia has entered into agreements with other gas-producing countries to coordinate its market entry strategy, with Kazakhstan, Turkmenistan and Uzbekistan. The agreements deal with the purchase of energy products from these countries by Russia, but also with joint processing and development.

### 3. The strategy of building the pipeline

The Russian energy strategy is best seen through the strategy of building new oil and gas pipelines. The focus of their construction in the last few years has been directed towards the circumvention of those countries that came under political dependence on the U. S. and through which territories the pipelines built during the Soviet Union pass through.

The first Russian gas pipeline that avoided a country under the US control was the *Blue River* linking Russia and Turkey. It is built in 2002 at the bottom of the Black Sea and it bypasses Georgia in which the influence and control of the United States at the time had grown rapidly. Gas transport through this pipeline doubled in 2013 comparing to 2006.<sup>17</sup>

<sup>15</sup> Jelena Radoman „Sekuratizacija energije kao uvod u energetsku bezbednosnu dilemu“, *Bezbednost Zapadnog Balkana*, No.4, Beogradska skola za studije bezbednosti, Beograd, 2007, pp. 36–44.

<sup>16</sup> Ljiljana Nedeljkovic, „Moc ruske energetike“, op.cit.

<sup>17</sup> Gazprom, Available at: <http://www.gazprom.com/projects/blue-stream/> (accessed on 7/2018.).

With Germany a gas pipeline was built the *Nord Stream* beneath the Baltic Sea 1,200 kilometers in length, from Vyborg near Saint Petersburg (Russia) to Greifswald (Germany). A joint consortium was formed, with Russian Gazprom's share of 51%, and two German companies 24, 5% each. The cost was EUR 5.7 billion. The capacity 55 billion of cubic meters a year. The gas pipeline was put into operation in 2010.<sup>18</sup> The market that this gas pipeline covers is in Western Europe (Germany, Denmark, France, and Great Britain). The *Nord Stream* bypasses Poland and the Baltic countries as the exponents of the American policy in Europe.

The *Nord Stream gas pipeline* was planned to be enhanced with a new pipeline named *Nord Stream 2*, of the capacity of 55 cubic meters of gas. The building of this gas pipeline begun in 2016 and the completion is planned for 2020. The biggest opponents of this gas pipeline are the U.S. along with Poland, Estonia, Lithuania, Latvia and Ukraine.

Russia began construction of the *South Stream* gas pipeline in 2013, designed not only to bypass the unstable Ukraine, but also to help those countries with no gas infrastructure in the region of Southeastern Europe and the Balkans, in their economic development. In practice, this meant a causal relationship between Russia and the Balkan countries: economic rise of Russia through its gas strategy affects also economic development of the Balkan countries, therefore of Serbia, and of course the other way around.

The northern leg of the *South Stream* was envisaged to pass through Serbia, Hungary and Austria, and the southwestern part of this gas pipeline through Greece and further to Italy.<sup>19</sup> The Gazprom made agreements with all the countries on the route of the gas pipeline in a similar way as in case of the *Nord Stream* that was constructed before with Germany. With the pipeline, these countries would achieve stable energy supply and economic boost (tax revenue).<sup>20</sup>

The *South Stream* had its rival in the U.S. project *Nabucco*. But that was an illusory project because there was no gas for *Nabucco*. The gas from Turkmenistan that was to supply the planned *Nabucco* pipeline, under the agreement between Moscow and Ashgabat, was rerouted through Russia. In addition, the Azerbaijan gas supplier, *Shah Deniz*, who was also planned to be a gas supplier to *Nabucco* from the Caspian region through Azerbaijan to Turkey, gave up *Nabucco* in 2013 - because there was not enough gas. Simply, the US plans and promises, with which they put pressure on the Balkan countries, have no guarantees, because they are unprofitable and uneconomic. The gas pipelines several thousand kilometers long with a capacity below 30 billion cubic meters of gas per year cannot be profitable.<sup>21</sup> So, the fictional *Nabucco* project tells us that it is only about the form of US

18 Viljem Endgal, „Energestki rat“, *Geopolitika*, No.20, Beograd, 2006, pp. 18.

19 Dusan prorokovic, Milorad perovic; „Strateski koridori i cevovodi i njihov uticaj na geoekonomski položaj balkanskih zemalja“, *Nacionalni interes*, No.3/2013, Institut za političke studije, Beograd, 2013, pp. 119–120.

20 Blocked gas pipeline *South Stream*: Capacity - 63 billion m<sup>3</sup> per year. Length - 2380 km. Number of compressor stations - 8 (2 in Serbia). Project budget - 16 billion euros. Seafarers: 50% Russia (Gasprom), 20% Germany (Wintershall), 15% Italy (ENI), 15% France (EDF). Shareholders in Serbia: 51% Russia (Gasprom), 49% Serbia (Srbijagas). Following the cancellation of further construction of the pipeline operations of Germany, Italy and France, in the seaside of *South Stream*, Gazprom bought it at the end of 2014 and became the 100% owner of the sea section.

21 Srecko Djukic, „Gasovi tako blizu Balkana a tako daleko“, Available at: <http://evroazijainfo.rs/dr-srecko-djukic-gasovodi-ta->

pressure and about disabling Russia to implement exclusively economic projects, together with the Balkan countries.

Nevertheless, the U.S. in 2014 managed, through Brussels (the EU) and Bulgaria to prevent further construction of the *South Stream* with Brussels and Sofia putting conditions before Gazprom and Russia to retroactively accept the *EU Third Energy Package*. According to that document, that EU adopted in 2009 and went into force in 2011, it is compulsory to separate operators of the gas transport from the gas producer/supplier. That would mean that Gazprom cannot be at the same time gas supplier and one of the gas pipeline owners. Before the adoption of the *EU Third Energy Package* Russia reached agreements with the countries on the route of the gas pipeline on the *South Stream*. Nevertheless, in May 2014 the EU Commission requested from all EU members taking part in the *South Stream* gas pipeline, first of all from Bulgaria, to stop the construction of the pipeline until the *South Stream* is adjusted to the rules of the EU. Bulgaria was threatened openly with sanctions unless it stops the construction of the gas pipeline, and at the time European energy commissioner Günther Oettinger emphasized that the Gazprom business adjustment to the rules of the EU must last at least three years.<sup>22</sup>

After years of pressure exerted by the United States on Bulgaria and blackmail and obstruction of the European Commission, Vladimir Putin publicly announced on December 1, 2014 that he would give up the construction of the gas pipeline. So, the reason was the obstruction by the EU. Washington and the EU with their anti-Russian politics foster even stronger bond between Russia, China, Iran, and Turkey.<sup>23</sup>

As a Russian reply, Moscow made agreement with Ankara to reroute construction of the gas pipeline towards the Turkish part of the territory in Europe. Namely, in Turkey near the border with Greece, i.e. the EU, as agreed there is a plan to build underground warehouse to which the gas pipeline (*Turkish Stream*), from the European side, should be financed by the EU itself if it wants gas.

Turkey, which did not introduce sanctions against Russia in 2014, by building *Turkish Stream*, has become additional partner to Russia, which most certainly has implications to the interests of the U.S. Making agreement with Turkey Russia bypasses Ukraine which the West persistently tries to detach from Russian world, thus losing its significance in the energy blackmail of Russia. This raises the question of whether the EU has the means to build a new gas pipeline to the Greek-Turkish border.

Regarding the Russian energy strategy in the Far East, Russia began negotiations with China in 2004 on an energy agreement in gas supplies, the construction of a new gas pipeline. Negotiations lasted 10 years and an agreement was reached in May 2014, by signing an energy agreement for 30 years. This agreement also has its geopolitical dimension like the *North* and the *South Stream*. Namely, in the heyday of the confrontation with the US and

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22 „EK trazi zamrzavanje Jznog toka“, Available at: <http://www.energetika-net.com/vijesti/plin/ek-trazi-zamrzavanje-juznog-to-ka-18944> (accessed on 7/ 2017.).

23 Viljem Endgal, „Poseta Srbiji me duboko dirnula“, *Geopolitika*, No.82, Beograd, 2015, pp.14.

the EU during the Ukrainian crisis, Russia finds it very important to reduce the dependence of gas sales to customers in Europe. It is necessary to diversify energy supplies and free itself from being blackmailed. Secondly, the energy agreement with China consolidates the ties and the alliance of these two powers in the Eurasian territory, thus exacerbating or decreasing the influence of the United States. For years now, Moscow and Beijing have been making economic and military agreements, and the energy deal is the largest model of rapprochement of this country.

Decrease the influence of the US in Central Asia is seen also in relations between Russia and China in the Shanghai Cooperation Organization (SCO).<sup>24</sup> In the field of energy, that geopolitical cooperation means that gas and oil export from Uzbekistan, Kazakhstan and Turkmenistan (which is not SCO member) toward China, goes with the mediation of Russia.<sup>25</sup>

Otherwise, the energy agreement with China is worth US \$ 400 billion with a price of \$ 360 - \$ 390 per 1,000 cubic meters of gas. The pipeline is to have two legs: the *Siberia Power (Eastern Stream)*, which runs from Irkutsk to Siberia to Vladivostok with its legs to China, and the *Altai (Western Stream)* gas pipeline, that runs from the Western Siberia to the Chinese province of Sindhing. The construction deadline for both pipelines is 2019. The annual flow capacity of the *East Stream* is 38 billion cubic meters of gas, with a possibility for an increase after 2018 to 100 billion. The capacity of the *Western Stream* is 30 billion cubic meters of gas per year.

This agreement with China is also important in that the first payments will be made in Chinese yuan. However, the first and most significant effect of an energy agreement with China is that Russia gets a secure market in the next 30 years, which can grow to hundreds of billions of cubic meters of gas. Secondly, looking at the map of future gas pipelines to China (*Altai and the Power of Siberia*), Russia will merge the entire gas infrastructure in Siberia with gas fields in Sakhalin (Far East), which can lead Russia to the countries of East Asia and the countries of Europe, regardless of where the gas comes from, what region. Thanks to that, gas exploitation does not only get cheaper but allows Moscow to negotiate with Europe in entirely different conditions – without being blackmailed by Brussels. Thirdly, Russia with the construction of energy infrastructure in Siberia boosts economically the Russian Far East which has been neglected for 20 years.

Russia and China achieved strategic agreement dealing on gas export from Uzbekistan in the period 2003 - 2015. Namely, China agreed that the gas export from Uzbekistan should be under control of Gazprom neft. So, Russia and China do not clash with energy strategies in Central Asia, but have cooperation. That is in accordance with their geopolitical cooperation.<sup>26</sup>

24 About the Shanghai Cooperation Organization (SCO) read the texts: Dragana Mitrovic, „Sangajska organizacija za saradnju – nastanak, ciljevi i dometi nove bezbednosno-ekonomske strukture (Centralne) Azije“, *Srpska politicka misao*, br. 1-2, Beograd, Institut za politicke studije, Beograd, 200, str. 219-242. Srdjan Perisic, *Nova geopolitika Rusije*, Odrbrana, Beograd, 2015, pp. 258.

25 Dragana Mitrovic, Dragan Trailovic, „Geopoliticke posledice kineske energetske strategije u Centralnoj Aziji“, u zborniku *Srbija i evroazijski geopoliticki prostor*, (priredio Milomir Stepic), Institut za politicke studije, Beograd, 2013, pp. 177-194.

26 Dragana Mitrovic, Dragan Trailovic, „Geopolitika kineske energetske strategije u Centralnoj Aziji“, *Srpska politicka misao*, 2/2014, Institut za politicke studije, Beograd, pp.145.

In 2009, Russia put into operation the first part of the Siberian oil pipeline *East Siberia - the Pacific Ocean (VSTO-1)*, from Tayshet to Skovorodino on the Chinese border. The second part of the oil pipeline (VSTO-2) was put into operation in 2012, from Skovorodino to Kozmin, in the Nakhodka Bay of the Sea of Japan, in Russian Far East. The total length is 4,780 km. Annual flow is 30 million tons, with a possibility of an increase to 80 million tons. The capacity of the leg from Skovorodino towards Chinese Dacin is 15 million tons. The total cost of construction of the oil pipeline and oil terminal in the port of Kozmino was US 24 billion, which was repaid for one year of operation of the pipeline.

The significance of this pipeline is that it gives Russia the ability to choose to whom it will sell the oil, to European consumers or consumers in the Pacific. In any case, the possibility of blackmailing Russia in the purchase of oil has been blocked. On the other hand, the Asia-Pacific region has been a growing economic and energy market for the last two decades and gives Russia the opportunity to join in. Also, the pipeline allows for the development of the Russian Far East, which was completely neglected since 1990.

This pipeline does not go through any country. It depends neither on transit countries nor the customers. Thus, in 2012 the oil ESPO (*Eastern Siberia Pacific Ocean*) which runs through this oil pipeline was sold by the following percentage: The US — 27%; Japan— 19%; China — 18%, South Korea — 13%; Philippines — 9%; Thailand — 7%; Singapore — 4%; Peru, India, Indonesia — 1% each.<sup>27</sup>

In Europe, Russia soon after the entry of Baltic states into NATO built a new harbor on the Baltic Sea coast (in 2006 in Primorsk in the Gulf of Finland) and almost entire oil supply, which until then went through these countries towards central Europe, directed to Primorsk, by constructing a new oil pipeline to it (*The Baltic Pipeline System BTS*). Further, oil is shipped on tankers to Germany. The value of Primorsk is US 2.2 billion with the capacity of 1.3 million barrels of oil per day. Likewise, in 2012 new port in the Gulf of Finland was put into operation Ust-Luga, as well as the oil pipeline to it (*The Baltic Pipeline System 2, BTS-2*). The oil pipeline capacity to the Primorsk port is 75 million tons, and of the oil pipeline to the port in Ust-Luga 50 million tons a year.

With the construction of these oil pipelines Russia has excluded from its oil pipeline system the ports in the Baltic countries (Latvia and Lithuania), as well as the port Gdansk in Poland, through which Russian oil went. Poland's Gdansk in effect was left without oil in 2012. By bypassing Poland with the gas pipeline *Nord Stream*, as well as with the exclusion of the Gdansk port from Russian oil transport, Russia has stopped Polish blackmail policy that is directly related to the U.S. geopolitical interests. It is similar with the Baltic countries. Being an exponent of the U.S. geopolitics in Eastern Europe Poland has suffered a huge economic damage. Polish economists and experts know that. Nevertheless, Polish Government does not seem to grasp that fact, which is illustrated by its interference in Ukraine, that Russia is not an enemy but possible partner through which Poland might achieve significant economic and political gains.

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<sup>27</sup> David Jonathan, Andrew Held, "China's Energetic Obsession", Available at: <https://tesi.luiss.it/11308/1/salerno-tesi-2013.pdf> (accessed on 2012/2013.).

In the area of Southeast Europe, Russia had in the first decade of the 21st century plans to build an oil pipeline from the harbor of Burgas (Bulgaria) to the port of Alexandroupolis (Greece), bypassing thus the Bosphorus (*Trans-Balkan oil pipeline*). It was envisaged that Russia had 51.7% of shares in the consortium, while Bulgaria and Greece 24.15% each. Under the agreement of the three governments in 2007 the oil pipeline was to be built by 2010. However, in accordance with its strategy to geopolitically disable Russia, Washington put a lot of pressure on the Bulgarian government led at the time by Boris Stoykov. Thus in 2012 Bulgaria cancelled the agreement and paid EUR 4.7 million to exit the project under the pretext that the pipeline does not meet environmental standards and it is not economically justified.<sup>28</sup>

#### 4. Serbia's energy position

Following the fragmentation of Yugoslavia in the early nineties, small and weak states were formed in its territory instead. Wars, globalization processes, economic crises in the world and domination of the West caused Balkan countries to lag even more behind the rest of Europe on economy. The economic collapse also affected the EU member countries: Bulgaria, Greece, and Romania. Balkan countries tried to implement gasification with the help of Russia, the same thing as Germany, France, the Benelux countries, Italy did. However, this attempt failed. As we can see, the U.S., with the help of Brussels (EU), has blocked the construction of the gas pipeline in the Balkans. The blockade fits fully into the old US geopolitical strategy. It is "sanitary cordon" strategy, that is, the process of forming a *New Europe* covering area from the Baltics to the Balkans that must have no strategic ties with Russia. Meaning, neither political, nor security and economic ties. By exerting control over these countries, Russia is not allowed to implement its economic projects, regardless of the fact that it would be economic impetus for the impoverished Balkan countries.<sup>29</sup>

Washington, in return for Russian gas pipelines, offered the alternative *Nabucco* project to the Balkan countries. We have seen that the capacity of this gas pipeline is unprofitable because it predicted only half of the capacity of the *South Stream's*. Also, *Nabucco* would completely bypass Serbia. After that, on the table was American liquid gas with terminals in Croatia, which was, judging by the prices, a complete utopia. So, in return for quite logical transits of Russian gas from the East, and what Germany and France already did, the U.S. offered impossible and unsuccessful projects. Serbia is not in a position to buy liquefied gas, nor is it able to participate in funding such gas installations.

Unfortunately, Serbia and other Balkan countries have not resisted American pressures. Having in mind that they did not resist Washington and Brussels the Balkan countries found themselves in a position of enormous energy and economic instability. *The South Stream*

28 ИТАР – ТАСС и Ведомости, „България виплатила Транснефти 4,7 млн евро в свъзис с выходом из проекта Бургас-Александруполис“, 8.2.2012. године, Available at: [http://www.vedomosti.ru/companies/news/1497760/bolgariya\\_vyplatila\\_trans-nefti\\_dolg\\_v\\_47 mln\\_evro\\_v\\_svyazi\\_s](http://www.vedomosti.ru/companies/news/1497760/bolgariya_vyplatila_trans-nefti_dolg_v_47 mln_evro_v_svyazi_s) (accessed on 8/2018.).

29 Srdjan perisic, „Savremeno geopoliticko suceljavanje Rusije i Zapada – da li je na pomolu (novi) raskol izmedju Evrope i Rusije?“, *Vojno delo*, 4/2005, Beograd, 2005, pp. 54–74; Donald Rumsfeld, *Secretary Rumsfeld Briefs at the Foreign Press Center*, January 22, 2003. Available at: <http://archive.defense.gov/Transcripts/Transcript.aspx?TranscriptID=1330> (accessed on 1/2018)

is the first energy project to bring Balkan into the modern economic world through transit routes. The project was blocked by the U.S. *The South Stream* would connect the Balkan countries to the energy development of other European countries. Why European countries are entitled to Russian gas, and Balkan countries are not? Why should Serbia and Balkan countries have to pay that price? Do they in turn have an alternative way to develop its economy? No, they don't. Gasification is what electrification was at the beginning of the 20th century. A condition for economic development.

*The South Stream*, if had taken place would have realized bioenergy and economic projects of regional significance, that would have a strong impact on the strengthening of economies in the Balkans. It would direct Balkan countries to mutual cooperation, not only in the energy sector. It would act as an investment in transport, a lever to boost road infrastructure, technology, and other areas as well. *The South Stream* would give a strong impulse to the development of the Balkan countries because their economies would be interconnected. In such a way, the Balkan economies of the region would economically connect the EU with the Eurasian Economic Union (EEU). Instead of adjoining all Balkan states to this project, instead of strong performance and demands of Serbia towards the EU and towards Bulgaria, in favor of the *South Stream*, Serbia and the Balkan countries are becoming dependent on the West, both economically and politically.

For the time being, the energy sector has remained the only geopolitical area through which Serbia could balance the influence of big powers and open up its space not only for economic and investment strengthening, but also to strengthen its foreign policy and negotiating position in many issues, such as Kosovo. Without Russian influence in the area of energy, Serbia cannot provide for itself an investment inflow, nor set its economy in motion. The feature of its economy is the constant reduction of industrial production in GDP, resulting in continuous borrowing and foreign trade deficit. Connecting Serbian energy to future Russian energy plans is the only chance for the negative trend in the Serbian economy to decrease and ultimately to stop. In this regard, the moves of Serbia around the *South Stream* were weak and incomprehensible. Also, Serbia would be an indirect source of gas to other Balkan countries, which are not on the route of the Russian gas pipeline (BiH, Croatia, Montenegro), what would boost its importance in the region, economically and politically.

Likewise, the pipeline would certainly influence political tension reduction among the Balkan countries, which are still of a fragile political order. Failure to connect Serbian energy policy with the Russian energy strategy brings Serbia, but other Balkan countries as well, into the political and security crisis in the long run, which has been implied slowly by the events in Macedonia and BiH. Otherwise, this connection would give Serbia a safe-country status, even without membership in military-political alliances. Namely, in order to ensure the smooth operation of the gas pipeline, Russia would act politically and militarily as a guarantor of peace and security. Those countries in Europe that are the end gas consumers (Hungary, Austria, Italy) would put an effort to secure constant and safe inflow of energy through Serbia, since their economies depend on it. In this regard, they would not get along either with instability in Serbia and the Balkans - they would see it as a threat to their national interests.

## 5. Conclusion

Oil, gas and other energy sources are deeply rooted in Russia's geopolitics. It is aimed at fostering new economic alliances with the Eurasian countries and preventing geopolitical limitation of Russia by the U.S. and the EU. Energy strategy participates in geopolitical positioning of Russia, but it is also a direct geopolitical prevention of the U.S. to put under geopolitical control Eurasian continent through energy corporations and the politics of destabilization of different countries (the Balkans, Central Asia).

Russia's energy strategy is entirely in line with the interests of Serbia and other Balkan countries. The Balkans is energy-neglected part of Europe. Many causes contributed to it, but today the U.S. and the EU have the biggest role in the obstruction of the Balkan energy development. Serbia has to use its geographical position, which in a natural way connects, via transit energy corridor, Russia as a producer and Europe as energy consumer. With its natural geographical position Serbia may also become one of the hubs for the expansion and distribution of gas, but also the oil to other Balkan countries (BiH, Montenegro, Croatia) and Central Europe countries (Hungary, Austria, Slovenia). Therefore, the position of Serbia seems to act as a structure and it has to form the basis for its energy efforts. The blockage of the *South Stream* warns Serbia inexorably. Unless Serbia and Balkan countries resist U.S. politics pressure, their energy and economic development will be shaken for a long time. So, it is quite clear that Serbia's interest is to connect its energy policy with the energy strategy of Russia. Serbia would thus become a stable country from the aspect of economy, investments, politics and security with a prosperous economic development ahead.

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## Енергетска стратегија Русије и Србије

### Апстракт

Аутор анализира енергетску стратегију Русије са фокусом на нафту и гас. Руска енергетска стратегија се посматра у условима геополитичке конфронтације са Сједињеним Државама. Енергетска и економска ситуација Србије анализирана је у условима непостојања транзитне енергетске мреже на Балкану. Први део се бави секторима руске националне енергетске политике. Питање Енергетске повеље и односа са ЕУ анализирано је посебно. Други део рада разматра важност изградње нових руских нафтовода и гасовода и билатералних енергетских споразума. Трећи дио рада састоји се од аналитичког појашњења, са геополитичке тачке гледишта, о томе шта је значило Србији суспензија изградње гасовода Јужни ток. У чланку се поставља и питање - да ли је интерес Србије у повезивању своје енергетске политике са енергетском стратегијом Русије? Стратегија руских ресурса има за циљ изградњу нових економских савеза са земљама Евроазије и спречавање геополитичког ограничавања Русије од стране САД. Са друге стране, Србија мора почети са економским и геополитичким разматрањем важности повезивања са енергетском стратегијом Русије. Ово је једина стратегија која може одговорити на питање даљег економског развоја Србије.

**Кључне речи:** геополитика, енергија, стратегија, нафта, гас, Русија, Србија, Европа, Азија, Балкан.