

## BULGARIA – SERBIA GAS INTERCONNECTOR – THE LATEST DEVELOPMENT

February 2017

January cold blast spanning the region was a suitable mizenscène for the signing ceremony of the Memorandum of Understanding for the development of bidirectional gas interconnector between Bulgaria (Sofia) and Serbia (Niš).

The Bulgaria – Serbia interconnection, or IBS, is a large infrastructure project in the energy sector for the development of electricity, gas and oil priority corridors. It is identified and financially supported by the EU ([projects of common interest](#) or PCIs). The value of the Serbian portion of IBS is around EUR 80 million and its length is around 108km.

In 2012, the then Serbian prime minister Dačić signed in Brussels a similar [document](#) for the same project with the Bulgarian prime minister Borisov. At the time, the signing was largely interpreted as an attempt to appease the EU and the Energy Community over Serbia's participation in the South Stream project, which was considered non-compliant with the Third Energy Package. However, notwithstanding subsequent collapse of the South Stream project, there has been [no significant progress](#) with the IBS on the Serbian side. Lack of financing support from the EU for the Serbian side of the IBS was cited as a reason for the impasse. Serbia was not willing to finance the development of its portion of the IBS, notwithstanding favourable infrastructure loans offered by EBRD.

The latest MoU is an effort to re-energize the development of this important piece of gas infrastructure. IBS would open the Serbian gas market to gas supplies from the future LNG terminal in northern Greece, as well as from TAP and TANAP.

The critics of IBS allege that IBS brings no value to Serbia when compared to the failed South Stream project, from which Serbia was supposed to generate significant transit tax income. This argument should not be taken seriously because one cannot compare a regional interconnector with a trans-continental corridor. The IBS' planned annual capacity of 1.8bcm will hardly satisfy current gas [consumption needs](#) in Serbia but with the potential for further increase in capacity, IBS would be an important step towards improving the security of supply. Another critical remark is that the development of IBS without an alternative gas source coming to Bulgaria does not make sense for Serbia. However, this argument does not have teeth either, given that the [development of TAP](#) and [Greece-Bulgaria interconnection](#) is well underway, and that the [LNG terminal in Alexandroupolis is in the pipeline](#). Finally, the opponents are claiming that the price of gas coming to Serbia through IBS would be higher than the price currently paid by the end consumers. Even though this may be true, the argument is based on the shaky assumption that Gazprom will be able to continue to supply Serbia under the same conditions post 2019 when the [current transit contract between Gazprom and Naftogaz Ukrainy](#) is set to expire. Moreover, the long-term agreement between Serbia and Russia for supply of natural gas to Serbia until 2021 is [under fire](#) of the Energy Community because of its destination clause. Scrapping destination clause would likely result in the increase of the gas price for the Serbian market. In any event, the primary goal of IBS is to address the supply risk and not the price risk, although the opening

of currently monopolized market for gas bulk supply may, in the medium term, bring the gas price down.

IBS makes sense only with a truly functional and liberalized gas transportation system. The Energy Community is keen on seeing Srbijagas and Yugorosgaz, the only two gas transportation system operators in Serbia, reformed in line with the requirements of the Third Energy Package. The financing for IBS, which should come from EBRD and IPA funds, will be, most likely, conditional upon completion of this task. IBS is therefore a catalyst in the larger process of reforming Serbian gas market.