# DRUZHBA VIA HUNGARY

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BCSP Belgrade Centre for Security Policy

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# Introduction

The armed conflict in Ukraine has drawn the entire world - and Europe in particular - into a new crisis. Besides other things, the EU sanctions directed against the Russian Federation also caused an upheaval in the energy market. In the 6th package of sanctions from June 2022, the Council of the EU banned the purchase, import and transfer of crude oil from Russia to the member states of the Union, with the provision that the ban does not apply to imports via pipelines. This exemption was allowed because of the specific position of certain members - Hungary, the Czech Republic and Slovakia - which do not have access to the sea and therefore have no available alternatives for getting oil. The package envisaged a transition period of 6 months.

Serbia receives all its oil, including that which is Russian, through the Adriatic pipeline (JANAF). As the oil is delivered to that pipeline through the port of Omišalj in Croatia, Serbia can no longer receive Russian oil via this route. At the beginning of October 2022, the EU adopted the 8th package of sanctions which, among other things, prohibits the maritime transport of crude oil and oil derivatives originating from Russia to third countries.[1] Due to Serbia's non-alignment with the EU, i.e. the fact that it did not introduce sanctions to Russia, the 8th package of sanctions does not envisage any derogation from the measures when it comes to the Western Balkans, although it was originally intended to enable the transit of Russian oil through JANAF (provided that the quality remains within the limits of earlier years).[2]

The Oil Industry of Serbia (NIS) kept purchasing Russian oil precisely because of its low, dumping price. Becoming a major exporter of oil derivatives to Bosnia and Herzegovina, it made large profits by processing cheap oil and exporting it.[3] In fact, according to the data for 2021, Serbia covered 20.7% of its needs from its own production, while the rest was obtained from imports - 23% from Russia, and by far the most from Iraq.[4] Since Hungary obtains oil through the "Druzhba" pipeline (more precisely, the branch called "Druzhba 2", which passes through Ukraine), at the beginning of October 2022 the President of Serbia Aleksandar Vučić announced the construction of an oil pipeline to Hungary which would connect Serbia to the "Druzhba" and thus replace the supply through JANAF.

The relationship between Serbia and Hungary is very specific and is characterised by intensive cooperation, which is primarily the result of very good relations between Serbian President Vučić and Hungarian Prime Minister Orbán. This is largely a consequence of a similar system of government and the fact that Hungary is a vocal supporter of Serbia's membership in the EU.[5] Also, Hungary has on several occasions helped Serbia regarding the Kosovo issue, even though it does recognise it as an independent state. For example, at the beginning of 2023, the Minister of Foreign Affairs of Hungary, Péter Szijjártó, announced that his country would vote against the admission of Kosovo to European organisations.[6] Both countries also maintain close, profitable relations with Russia.[7] The majority of Serbian citizens see Hungary as one of their friendliest neighbours,[8] while Viktor Orbán is the most popular leader from the EU in Serbia.[9]

The two countries already cooperate in the field of energy. Namely, Serbia uses Hungarian gas storage capacities, while Hungary receives its gas via Serbia. For all the above reasons, it is not surprising that some experts characterised the announced project of building the oil pipeline through Hungary as primarily political,[10] considering that Serbia is allowed to import - as confirmed by Croatian Prime Minister Andrej Plenković[11] - any oil through Croatia except that which is Russian. This is why attention was drawn to the fact that Aleksandar Vučić criticised only Croatia for the absence of an exemption for the Western Balkans in the 8th package of sanctions, despite the fact that the decision was made unanimously, meaning that Hungary also agreed to it.[12]

To analyse the potential consequences of the construction of a new oil pipeline to Hungary for the energy security of Serbia, it is necessary to look at the geopolitical circumstances in which this decision was made, and to consider which alternative options are available to Serbia and how adequate and feasible they truly are.

# An oil pipeline through Hungary – A good idea, or bad?

The new energy situation is challenging for the entire Europe, and Serbia is not an exception. Although the issue involves a smaller share of imported oil which Serbia can no longer receive through the Adriatic pipeline, one cannot say that the percentage is negligible, especially since Russian oil is cheaper. In this context, it is important to determine the possibilities that are now available to Serbia. The question that arises is whether the announced construction of the oil pipeline through Hungary is a good and profitable project or if there are better alternatives. What are the advantages and disadvantages of such a project, and what would its impact be on Serbia's energy security?

After the meeting of the Minister of Mining and Energy Dubravka Đedović and the acting director of "Transnaft" Bogdan Kuzmanović in November 2022, a statement was made that the construction of this oil pipeline would be a way to improve the safety of oil supply, that is, to diversify transport routes.[13] The fact is that although Serbia purchases oil from several sources, all of it is delivered via only one route, i.e. the Adriatic pipeline. This can be a problem because it is not difficult to imagine a scenario in which, for example, due to technical reasons and failures on oil pipeline, Serbia is left without the only transport route it has at its disposal. At the same time, as Serbia is completely dependent on that pipeline, there is always the possibility that the other side could blackmail NIS with the price of transit.[14] It seems quite logical that Serbia wishes to secure new supply routes, precisely by using the new route to directly obtain cheap oil, which until now has been Russian. Transportation costs would be reduced as well, because currently Serbia first pays for transportation to the port in Croatia, and then for transportation via the oil pipeline to the border.[15] All in all, it pays almost EUR 50 million per year for transport through Croatia.[16]

However, although experts say that the project itself is not too complicated, "Druzhba" may be an unstable source given the attacks on the pipeline itself and the Ukrainian electricity grid that ensures its operation.[17] We were witnesses to a scenario of this sort in mid-November 2022, when Hungary, the Czech Republic and Slovakia were left without Russian oil deliveries for several days under suspicious circumstances.[18] Therefore, there is the issue of a risky route, that is, an unsafe source, as the oil pipeline can stop functioning due to damage, potentially calling into question the justification of the investment. Also, no one knows how long the conflict in Ukraine will last and what other consequences it will have on the energy supply. In the current circumstances, new sanctions against Russia can be expected as well, which would create new problems for Serbia regarding the procurement of Russian oil. Also, President Vučić announced that it will take between 18 months and two years for Serbia to be connected to the "oil network of our Hungarian friends".[19] Considering all the uncertainty brought about by the war in Ukraine, the question arises as to whether it is in fact too risky to plan so far in advance. In particular, there is a need to take into account the fact that

Russia is abusing Europe's dependence on its energy resources, using it to put pressure on European countries. In such a situation, it seems more reasonable to reduce one's dependence on Russian energy sources as much as possible and turn to safer and more stable sources and supply routes.

There is another important factor should be considered. The "Druzhba" oil pipeline is an old Soviet pipeline, and as such requires certain investments in order to be able to function smoothly. Since the system and relations that were established during the Cold War period are now being torn apart by the current situation, there could be significant difficulties with further investments and the maintenance of oil pipelines in the context of the instability of the commercial environment.[20] It is justified to ask whether it makes sense to invest in building an oil pipeline through Hungary when the future of the "Druzhba" is extremely uncertain, i.e. why is Serbia planning to invest in something that all other interested actors could potentially abandon?

The position of Hungary, a country that is known for its adamant opposition to the introduction of sanctions on the import of Russian oil, should be considered as well. Its role and position in the European Union is uncertain; we could expect the EU to start exerting more pressure on Hungary and to additionally condition it, among other things also by cancelling its above mentioned exemption from sanctions. As a final result, this could potentially make it impossible for Serbia to obtain Russian oil through its northern neighbour, which automatically calls the announced investment into question. Likewise, it is not impossible that the Hungarian Government will change in the foreseeable future, which could have a negative impact on the relations and cooperation between Belgrade and Budapest.[21] The entire announced project and investment looks like a (geo)political issue, with very little or no economic calculation and logic.[22] Given the already mentioned good relations between the two countries and leaders, as well as their close ties with Moscow, this is not surprising. There is no doubt that it would suit Russia to have Serbia continue to buy its oil, as that way it would be able to preserve a certain degree of Serbia's energy dependence on oil, instead of just gas.

# Alternative options for diversification

If the above-mentioned risks related to the oil pipeline through Hungary exceed the potential benefits of this project, what other diversification options are available to Serbia? Its potential partner could be Romania, which has a highly balanced energy situation and the potential to be a regional energy supplier in the future.[23] However, it is questionable whether it has enough capacity to meet Serbia's need for oil, especially since oil production in Romania is declining.[24] Also, Romania draws part of its oil from the Black Sea. The current geopolitical circumstances and the importance of the Black Sea give raise to the question of the security of that source of supply.[25] A much better alternative could be the announced construction of an oil pipeline that would lead to Durrës through Niš and Skopje, which would enable the use of the oil pipeline that leads from Durrës to Thessaloniki by land, potentially providing Serbia with supplies from the Middle East, Africa, North America and other locations.[26] It seems that, with this project, Serbia would not only further diversify its sources of supply, but also the transport routes to be used to deliver that oil to the refinery in Pančevo. Thus, oil from different sources could be delivered not only to the port of Omišalj in Croatia, but also to Durrës and Thessaloniki. This could also provide Serbia with a better position in negotiations regarding the price of oil transportation via JANAF. This would certainly be a more expensive project compared to the construction of the oil pipeline through Hungary, given that the pipeline is almost 6 times longer, i.e. approximately 700 km. It would also imply a longer period of construction. However, with the construction of the oil pipeline to Durrës Serbia would gain a safe transport route, significantly increasing its energy security. With such a project, it would also become a transit country for oil that would be delivered from Thessaloniki and Durrës, thus increasing the energy security of the entire region. Countries in the surrounding area could also purchase oil through Serbia. This could have very positive political and economic consequences for the country, as well as for its position in the region.

The argument in favour of the construction of the oil pipeline through Hungary to diversify the oil supply routes is very convincing, but it also involves an entire range of potential risks - some less and some more realistic - that should definitely be taken into account. However, if the project to build the oil pipeline through Hungary is realised, certain (or all) potential risks could leave Serbia without Russian oil, which would mean that the country has wasted money that could have been invested in safer sources and directions of supply, endangering its energy security to boot. On the other hand, if the situation were to go in Serbia's favour, access to cheap Russian oil without having to pay for expensive maritime transport would mean an increase in energy security in at least one segment - secure oil supply. Since the risks are high and the current geopolitical situation is uncertain, the alternative oil pipeline to Durrës seems like a better solution, with a number of advantages compared to the oil pipeline through Hungary, especially as in this way Serbia would further reduce its dependence on

Russian energy sources and, at least when it comes to oil supply, be less exposed to the future development of the situation on the Ukrainian front and sanctions against Russia. Also, through the pipeline running through Hungary Serbia would only be able to import Russian oil, while the pipeline to Durrës would open up the possibility of obtaining it from several sources around the world.

Energy and energy security issues are very complex and always intertwined with politics and economy. Both the general and professional public in Serbia generally know very little about the announced project to build the oil pipeline through Hungary. However, the fact that it has been announced does not mean that it will actually be realised. It is enough to recall the South Stream, or the announcements about investing in nuclear energy.[27] It is difficult to predict what steps Serbia will take, but whatever it decides to do, it must take into account an entire series of factors that are the result of the changed geopolitical circumstances and the consequently present great uncertainty.

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