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## Russia sanctions: Balkan countries react

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*Montenegro and Serbia's strong economic ties with Russia are today sitting at odds with their respective bids to join Western institutions – as the war in Ukraine has left these countries with no other option than to take sides. How are they reacting to the proposed sanctions? How is the South Stream pipeline fitting in the picture? **Dimitar Bechev** gives an overview.*



"Buffet Putin" will open next week in Serbia's second-largest city Novi Sad – see [moscowtimes.com](http://moscowtimes.com)

Russia has often played the spoiler but rarely a full-fledged competitor when it comes to the EU's endeavour to integrate the Balkans. The contrast between its hostile reaction to the Eastern Partnership and benign neglect of the Union's embrace of the likes of Montenegro and Serbia is quite telling. The underlying reasons are easy to grasp. The Kremlin could only welcome the inclusion of more friends into the Union, and the opportunity to reap fresh benefits via privileged bilateral ties of the sort cultivated with Italy, Austria, Cyprus or Bulgaria. It would not be far fetched to say that Russia has been free-riding on the West's massive to stabilize the region. In a similar vein, a number of Balkan governments see no contradiction between the bid to join Western institutions and doing business with Russia, e.g. in the energy sector. After all, they have the example of their EU counterparts.

### Montenegro: act of defiance

But the war in Ukraine is changing all that. EU and NATO hopefuls are left with no other option but to take sides in the growing spat between Russia and the West. Following Crimea's annexation March, Montenegro sided with the visa bans and the freezing of assets targeted at individuals close to the Kremlin. For the small Adriatic republic, where up to 40 per cent of the real estate is thought to be in Russian ownership and the tourist sector reigns supreme, this is hardly a trivial matter. The move was in no small part motivated by Montenegro's bid to obtain a membership invitation at NATO's forthcoming summit in Wales. But Podgorica authorities seem to take a softer line domestically, trying to [play down](#) the significance of the decision while addressing an overall skeptical public.

### Serbia: business as usual?

By contrast, Serbia sought to avoid the question and proceed with business as usual. Yet, with the latest escalation of tensions in the wake of the downing of Air Malaysia's flight MH17, it can no longer sit on the fence. Belgrade media report that Prime Minister Aleksandar Vučić faces [pressure](#) by the EU and the US to join the sanctions by early September. It has stirred public opinion. *Politika's* editor in chief Ljiljana Smajlović wrote recently that Serbia should not turn into "blood-soaked petty change" as great powers are wrangling. Now that we are entering into the so-called Phase 3 (measures targeting entire economic sectors rather than individuals), the stakes are getting higher. However, the costs are not as prohibitive as it seems at first glance. The latest round of sanctions imposed by the EU, for instance, exclude the [subsidiaries of Russian banks](#) operating in member states. In other words, the branches of Sberbank and Vneshtorgbank (VTB) operating in Serbia will not sustain direct damage if Vučić ultimately strikes a political deal with Western leaders. The prospect of Russian investors [acquiring the](#)

[Balkan network](#) of Austrian lender Hypo Alpe Adria remains real. It is also worth noting that Vučić visited Moscow earlier this month, with the Srbijagas debt of more than USD 180 million as the main agenda item. Belgrade expects Putin in November.

### The South Stream saga

One thing to watch is how the multi-billion South Stream gas pipeline develops. In early July, state-owned Srbijagas signed a [deal](#) with Gazprom's subsidiary Centrgas for the section passing through its territory. But that is not the end of the story for sure. First, the work on South Stream in next-door Bulgaria is practically [suspended](#) following European Commission's intervention over a botched public tender. The project, which has caused a huge domestic controversy over the misuse of public funds and the role played by local oligarchs, could be restarted only after the early parliamentary elections on 5 October usher in a new cabinet. Second, the intergovernmental agreement (IGA) signed by Russia and Serbia back in 2008 is now being [renegotiated by Brussels](#). Same for the IGAs with EU members Slovenia, Croatia, Hungary, Austria and Bulgaria. The issue at stake is Gazprom's insistence it is eligible for an exception from EU rules on third-party access to gas grids – key part of the famed [Third Energy Package](#). The rising tensions over Ukraine makes it unlikely that the European Commission, or weighty member states like Germany for that matter, seek to accommodate Russia on South Stream. If Gazprom is to complete pipeline running from Bulgaria to Austria via Serbia, Hungary and Slovenia (with offshoots to Croatia and Republika Srpska and possibly Macedonia) it has to allow competitor suppliers use part of the volume (63bn m3 per annum). Inevitably, that will push up costs for the Russian behemoth and jeopardise the whole project. That in turn will hit a number of Balkan governments who have repeatedly promised to the public that the pipeline would restart sluggish growth, while assuring friends in business billions are coming onstream in lucrative contracts.

In summary, the Western sanctions on Russia have thus far caused limited collateral damage in the Balkans. But as security and economic stakes go higher the agony in the region's capital will grow too.

*Note: This article gives the views of the author, and not the position of LSEE Research on SEE, nor of the London School of Economics.*

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**Dimitar Bechev** (D.Phil, Oxford) teaches international politics at Sofia University and is affiliated with the Centre for Liberal Strategies in Sofia. His former posts include the directorship of the European Council on Foreign Relations' office in Bulgaria and lectureships at Oxford and Hitotsubashi University (Tokyo). Dr Bechev has published extensively on EU foreign policy, the Balkans, Central Eastern Europe and Turkey.

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