

South Stream – an end or a new beginning: political dimensions of gas projects on the Balkans

*Dr. Kaloyan METODIEV**

"South Stream" is one of the largest planned energy projects in recent European history. The project was officially presented by Russian President Vladimir Putin in Zagreb on June 24, 2007. Bulgaria is the first country to sign a bilateral agreement on construction of the pipeline (18.01.2008). Due to its geographical location it is considered almost insurmountable factor for the construction of the track and all deliveries of gas from Russia to southern Europe. Northern Bulgarian coast has very good conditions for the inclusion of the pipes from the sea in the land part of the route. North Bulgaria is flat and facilitates the construction of the pipeline in the direction of Serbia. There is no better point for inclusion in Southeast Europe. The intended for construction track in the country is 536 km, making it the longest leg of the entire land line. Only here, there are three compressor stations (Varna, Lozen, Resovo) envisaged to be built. "South Stream" is part of the national security system of Bulgaria. It is supported by a vote of the National Assembly document - "Bulgarian National Security Strategy" adopted in 2011.

The countries that strongly support the project are Hungary, Austria, Croatia, Serbia. Hungarian Prime Minister is one of the largest public defenders of the facility. Austrian President Heinz Fischer also cut its strong position. Support is found also among the largest European businesses (OMV, Eni, EDF, Wintershall). According to Rainer Zeele, Chairman of the Board of Executive Directors of the German energy giant Wintershall: *"The project is an opportunity to ensure the loyalty of Russia to Europe, not towards Asia"*.

II The initial idea of the project "South Stream" is to pass over Ukraine as a transporter (transit country) of Russian gas to Europe and to avoid disruptions of supply in the context of the deteriorating over the past decade relations between Kiev and Moscow. Ukrainian crisis of January 2009 and the winter of 2013/2014 put gas in a more turbulent environment that catalyzes the desires of its implementation - respectively termination. Russian country needs faster construction while the supporters of Ukraine try to thwart it, so that the country would have a resource in its negotiations with Moscow. The conflict makes the positions of all stakeholders more visible and distinct.

Romania has a long history of complex relationships with the Russians, and inappropriate geographical conditions. The country has never thought of itself as a transit country for gas to foreign markets. Bucharest has developed a strategy to meet its domestic consumption (mainly through the development of its deposits and seeking new ones).

Turkey is unpredictable in medium and long-term political plan. In terms of gas policy in the country, however, there is continuity. Turkish state has the ambition to be an energy hub in the

region, which is not only a transporter, but a trader of raw materials. Due to its geographical position it is insurmountable on the way of natural gas from Caspian fields "Shah Deniz" of Azerbaijan to the affluent market of Europe. Problem here is that its stability is not guaranteed due to the severe klividzhi inside in the country and conflicts along its borders. It can be noted that the Kirkuk-Ceyhan pipeline was blasted twice this year as well as the Tabriz-Ankara pipeline, which connects Turkey and Iran. Of course with the proviso that this instability is primarily in the eastern part of the country.

The market and geopolitical reasons made Bulgaria a first country in the "South Stream" until its suspension.

The Bulgarian political context

Bulgaria imports Russian natural gas since 1974, where today the Russian company "Gazprom" is the only foreign supplier of the raw material. The country has a unique transmission infrastructure that covers a significant part of its territory forming a ring shape. The entire highway network is state owned. It enters into the assets of state company "Bulgartransgaz" in the structure of mega-company Bulgarian Energy Holding (BEH).

Bulgaria is currently a major gas hub on the Balkans for the transit of Russian natural gas to Turkey, Greece and Macedonia. (The capacity of the transit system is 18.4 bn. Cu. M per year, of which actually 13-15 bn. cu. m are used .)

A big problem for the project implementation in Bulgaria is that since its inception the pragmatism is not the primary motive. Instead of financial planning and analysis, in the media dominance take the pro-Russian and anti-Russian emotions which are projected onto the pipeline. This division is magnified after the Ukrainian crisis. Experts, the media, politicians become passionate advocates or prosecutors of the project. Emotions hinder taking true political and economically justified decisions.

A serious problem becomes the lack of sufficient information on design parameters. Lack leads to mythology, suspicions, conspiracies, publications for commissions, figureheads and suspicious companies.

In Bulgaria there seems to be a pattern: large investment projects fail because of cost overruns to unrealistic dimensions, making them uneconomic and therefore they become unfeasible. Since 2007, the construction cost of the pipeline increased steadily and this is particularly true for the section in Bulgaria. Before stopping the construction of the Bulgarian section to about 4 billion euros when the initially stated price is 1.670 billion dollars. The real benefits of the project are questionable because the revenues from transit fees will accordingly have to pay off the bloated investment as well. The question that did not get a definite answer from the government is: when will this project pay off? What would be the financial benefit from it for Bulgaria?

The construction bid is announced in 2014 by the "South Stream Bulgaria", and there are publications in the media that it is already predetermined and it will be awarded to a specific company which was mentioned - "Stroitransgaz consortium" and offshore companies associated with parliament members.

Bulgarian politicians have so far failed to explain simply and clearly the advantages of the project for the country. Thus they did not provide wide public support and engagement for the initiative. The PR is a key element of modern politics, and it was bad from the beginning to the end of the project.

To some extent, in Bulgaria there are some outdated notions about Russian policy. Putin and the Russian country are no longer subject to the sentiments from the past but to the political and economic pragmatism. All those having negotiations with them, are taking this into consideration.

Political instability also affected the implementation of the pipeline. In the period 2013-2014 5 different governments are changed in Bulgaria. Two of the presidents are at the absolutely opposite positions in relation to the project. Georgi Parvanov (2002-2012) strongly supports it, while Rosen Plevneliev is against.

The pressure on Bulgarian politicians for termination, reformulation or implementation of the project changes during the entire project, proportionally to the weakening of the Bulgarian governments. It is the strongest precisely here due the fact that Bulgaria is the first stop along the route.

Position of the EC and the United States

Bulgaria, Finland and Slovakia are the only EU countries that are almost 100% dependent on Russian gas supplies. In comparison, the EU imports from Russia about 1/3 of the needed amounts of gas, and about half of them pass along through Ukraine.

The European Commission sees this as a threat and often the European commissioners in the statements talk about seeking ways to diversify sources and supply routes. In Bulgarian and European media the topic that Russia wants to destroy the EU and its security through the instrument of energy dependency is widely spread (Snyder, Temerenko).

"Every country in the EU, especially in Southeast Europe, must be supplied with gas by at least three pipes," said the European Commissioner for Energy Union Маргољ Љефчовић (February 9, 2015, Sofia).

Since 2013 "South Stream" the European Commission began to look with suspicion at the project and threatens Bulgaria with sanctions if it does not stop its construction. The condition is that it should come in line with the Third Energy Package. According to its rules one that provides the

raw material can not hold the track for its delivery. This point blocks the ability "Gazprom" to be both a producer and a transporter of natural gas at the same time.

On June 3 2014 the European Commission launched an infringement procedure against Bulgaria for the project "South Stream". Three days later three prominent US senators suddenly arrived in Sofia, led by the political veteran John McCain. There is no public information on what they said or showed to the then Bulgarian Prime Minister Plamen Oresharski, but at a joint press conference immediately after their meeting, he stated that he ordered *"all the work of the" South Stream "to be suspended"*. *"We will decide on the further steps after consultations with Brussels,"* concluded the Prime Minister. A month later, the government resigned and the country enters a period of early elections.

The United States has a clear and consistent policy towards the "South Stream". For them, the project is part of Russian influence and a tool for domination over the region. The Hungarian Prime Minister Viktor Orban announced that he is under tremendous pressure from the United States for its suspension. In the recently published book of memoirs of Hillary Clinton as Secretary of State (Hard Choices, 2014) in the chapter on Russia a special attention is paid to the energy security and the search for alternatives to Russian gas for Europe. She repeatedly stresses the need to reduce Russian dependence. Her predecessor Condoleezza Rice believes that *"the Russians will run out of money faster than the Europeans their energy resources"*. For her, this vacuum will be filled by US oil and gas because of shale revolution. Naturally, the topic appears in the work of the US Embassy in Sofia. Ambassador Marcie B. Rice advises Bulgarian construction companies not to work with Russian companies on the project, especially with those who are in the "black list" of the White House (Stroitransgaz - since 04.28.2014). She connects the future of the project with the situation in Ukraine and Russian violation of territorial integrity of the country. US Vice President Joe Biden chooses Turkey to warn Russia not to use its energy resources as a weapon.

Americans repeatedly expressed their position that they want to stop Bulgaria's dependence on Russian gas supplies. But to want such a thing should be offered a realistic and fast alternative - shale, liquefied, interconnectors, new routes and suppliers. That did not happen.

The British position is close to that of the US. David Cameron sent a congratulatory address on the occasion of the election of Bulgarian Prime Minister (a month after his election) in which he wrote ambiguously: *"I also hope that ypu will carefully consider the project "South Stream"*.

The announced end of the project: the meeting Putin – Erdogan

For the de facto end of the project it can be considered the one-day meeting of the Russian President Vladimir Putin with his Turkish counterpart Recep Tayyip Erdogan in Ankara (December 1, 2014). There, the Russian head of state said that his country suspends the project "South Stream" and begins the construction of an alternative route under the Black Sea to Turkey, which subsequently went to Greece. The name of the new pipeline is "Turkish stream."

The compressor station in the Russian city of Krasnodar is reserved for the new route, the agreed supply volume remains 63 bln.cubic meters of gas per year (as provided for "South Stream") and underwater route is halved because the pipe has to get in the Turkish port Samsun. In this sense, we can talk about an attempt to implement a project with changed route, rather than a new project with new parameters.

Reaction in Bulgaria

The news of the suspension finds the Bulgarian political elite absolutely unprepared, especially the government. Speaking from the parliamentary rostrum the Bulgarian Prime Minister announced that he had learned from the media about the termination of the project and that he does not even have access, nor had he seen the contract for the construction of the pipeline. Neglected are serious signals like the statement of the Russian Minister of Economic Development a week earlier that the project may be terminated. However, in the following weeks it became clear that preliminary information probably was available in Ankara, Athens, Rome.

It is noteworthy that even the serious critic of Russian politics and the project as the political scientist Ivan Krastev admits that Bulgaria loses from its termination (would benefit from transit fees and construction work), but adds that unlike Serbia and Hungary, it won the trust of the EU. In his words, no country on the track is ready to implement the project at the expense of its relations with Brussels. Perhaps here the clear and categorical positions of Hungary and Slovakia are underestimated, which positions unequivocally backed the project, regardless of the conditions of the European Commission.

International reactions

On the occasion of the change of the route, with positive comments and ratings are the public officials and media in the United States, Britain, Greece, Croatia, Bulgaria. For the United States and Britain this is a consistent position, which aims to reduce Russian energy influence in Bulgaria and throughout the whole pipeline supply chain.

For Croatia, this is an option to build a port terminal for liquefied gas on the island of Krk, where tankers would supply the raw material through distributing pipelines to countries in the region. For many analysts and media Croatian LPG terminal in Krk is the alternative to the "South Stream" and a chance for Croatia. Nina Domazet, editor of Energetika-net.com: „*We need to be smart and to use this unique chance to become an insurmountable factor for the energy stability within the region*”

For Kiev "South Stream" is directly aiming against its interests. It is a kind of bypass gas transmission system of Ukraine, which will undermine its role as a key transit country and EU will reduce its situation to that of an unwanted consumer. The suspension was met with negative reactions in the capitals on the line Belgrade - Budapest - Ljubljana - Bratislava - Vienna. Serbian Prime Minister Aleksandar Vucic said from Israel, where he is on an official visit, that's bad news

for his country. Hungarian Foreign Minister defined the decision as a problem for the country's energy security, but Gerhard Roiss, CEO of one of the largest Austrian companies (OMV), warns that it is "very dangerous to turn the gas in a geopolitical weapon." Hungarian Prime Minister Viktor Orban has the unequivocal position: "The EU is working without pause to sabotage the project" Putin's statement was met with approval and even with a certain euphoria in Athens. The agreements from Ankara alter significantly the dynamics of Turkish-Greek relations. The visit of Turkish Prime Minister Ahmed Davutoglu in Greece noted qualitatively new stage in the relations between the two countries. During his official visit, he said: "Turkey is the gateway of Greece to Asia, and Greece - of Turkey to Europe" Among the main topics of the meeting are trade, illegal immigration and energy projects. Signed were more agreements (50) than all previous ones altogether.

Accusations

The end of the project marks a new peak in the made months earlier wave of negative comments and opinions expressed in Russian media by leading politicians, experts and intellectuals. These are found in Serbian and Hungarian media. Clear disappointment from Bulgaria, there are reproaches. It reaches even to accusations of betrayal, loss of sovereignty, dependencies, unreliable partner. Russian Prime Minister Medvedev said in Slovenia that "South Stream" was suspended by the bureaucracy of Brussels, Bulgaria could not decide and the project died. Chairman of the Committee on Foreign Affairs of the Russian Parliament also confirmed it: *"South Stream" was formally blocked by Bulgaria, and indeed from Brussels and the United States with the intention to limit the international relations of Russia and its geo-economic projects.*

If the Bulgarian politicians had made clear three groups of issues: the benefits, legal parameters and suspicions of corruption, they could resist and to the direct pressure from Brussels and Washington to suspend it. The arguments could be: "Yes, "South Stream" is not diversification but we need it". Despite the presence of two pipes (through Ukraine and through the Black Sea) is a partial diversification.

"Turkish Stream" or gas hub in Bulgaria

To the present date, there is no work on the project "South Stream", but legally it is not stopped. There is a game of cat and mouse on this issue, because the first to announce the suspension of the project will bear legal responsibility, i.e will have to pay penalties.

The reformulation of the "South Stream" in "Turkish Stream" could put Turkey in a new situation of increased opportunities. It will become an energy hub, which will depend on gas supplies to the whole Southeast Europe. Year after terminating the project "South Stream", and announcing a new project "Turkish Stream" negotiations between Moscow and Ankara for its construction are not going smoothly. The parameters of the agreement are constantly being changed - route and volume of the pipeline. Relations between the two countries are so dynamic that in a matter of

weeks the joint declarations on cooperation turn into protest notes and vice versa. Syrian crisis and the Kurdish question inevitably will affect the project. The Turkish side put ultimatums at the center of its policy in 2015 - the EU was threatened with the release of refugees and Russia with finding an alternative for the construction of NPP and gas supplies.

Russian military operation in Syria can provide stability corridor for the construction of the pipeline along the line Iran-Iraq-Syria to the Mediterranean. The old project "Pipeline of friendship." The question is where it will enter the European territory. Greece can not be the door of Russian gas to Europe. Tsipras has proved to be adroit political player who often makes sudden movements and is unpredictable in his political moves.

During the traditional annual press conference for media Vladimir Putin spoke about building gas hub at the Greek-Turkish border. According to him, its future depends on the EU.

All this reopens the question of the construction of a gas hub for Russian gas, but in Bulgaria, near the Bulgarian port of Varna.

Parameters can be agreed. The first step is presence of political will at least one tube out of the planned four parallel lines from the sea section of the "South Stream" to reach Varna. According to the project, each tube has a transmission capacity of nearly 16 billion. cu. m of gas per year. In order the option of "South Stream on a mini scale" to happen, however, there has to agreement reached between at least three sides - Russia, Bulgaria and the European Commission.

Further on, the way of the Russian gas through Bulgaria will have to adapt to the conditions of the Third Energy Liberalisation Package of the EU. This primarily means "Gazprom" in no way to be involved in the ownership of the transit pipelines on the territory of Bulgaria. For this reason, "Bulgartransgaz" launched the project to build a new pipeline for the future gas hub, 100% state-owned, from Varna to Oryahovo. The pipeline can serve any eventual supplies from Russia under the Black Sea as well as the yield from the new gas reserves discovered by OMV on Romanian Black Sea shelf. In addition to the future hub near Varna new gas storage facilities can be built. As the most suitable reserve for this purpose specialists suggest the almost exhausted one "Galata". For the needs of the increased transit of gas the existing storage facility "Chiren" can run. The plans of "Bulgartransgaz" is its capacity to be doubled to 1 billion. cu. m by the end of 2019.

Obviously it is time for negotiations. We have a changing geopolitical situation in the Middle East, the EU, in the region. The pipelines need physical security. The only stable position despite the cyclical political controls remains Bulgaria and the original route of the project. Mistakes are evident, experience is gained. Everyone will have to make some concessions in order to realize the project. Balkans are also the door and the bridge to South Europe.

One of the previous weaknesses can be overcome by building informal union within the EU and the region between Bulgaria, Visegrad, Serbia, Croatia, Slovenia and Austria to work for the

realization of new mutually beneficial projects in line with the Bulgarian, European and Russian interests. It should not forget that the economy has its own logic, but religion, culture and tradition always matter.

* *South-West University „Neofit Rilski“, Blagoevgrad*