

Bulgaria suspends construction of South Stream pipeline

By our correspondents
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On June 8, 2014, Bulgarian Prime Minister Plamen Oresharski announced that the laying of the South Stream gas pipeline will be discontinued until further notice.

The South Stream project, which is operated by the Russian energy giant Gazprom, is of major geostrategic importance. It links the Russian Black Sea coast with Bulgaria, enabling Russia to bypass Ukraine and deliver 63 billion cubic metres of natural gas annually and directly to Bulgaria, Serbia, Hungary, Slovenia, Austria and Italy.

Until now, a large part of Russian gas exports to Europe have passed through Ukraine, which demands high fees for the transit routes and uses them as a powerful bargaining chip in its dispute with the Kremlin. Supplies to several eastern European countries were interrupted in January 2006, when Russia responded to abortive price negotiations by cutting off gas supplies to Ukraine, which in turn channelled gas intended for Europe for its own consumption.

The Ukrainian transit network is also in urgent need of renovation. The high cost of such an undertaking would hardly be warranted, however, if a part of Russia's European gas supply could bypass Ukraine.

The recent suspension of the South Stream project is a direct result of the confrontational stance taken by the US and the European Union (EU) against Russia in the Ukraine conflict. The stoppage was instigated following massive pressure from Brussels and Washington.

The EU Commission has been trying to abort the project for some time, justifying its efforts by referring to codes of competition. Following Russia's launching of the construction in December 2012, the EU declared that all agreements between Russia and the European

project participants were invalid because the project breached EU law. Although the EU had originally offered to help in the renegotiation of contracts, it insisted on termination of the project after the outbreak of the Ukraine crisis.

In the first week of June, the European Commission initiated criminal proceedings against the Bulgarian government, accusing it of infringing European market laws in its support for the pipeline. It then increased the pressure by freezing EU financial aid to Bulgaria.

The Bulgarian government, which maintains close relations with Moscow, initially opposed the freeze on construction. European governments involved in the project also tried to prevent the wind-down of construction. Italian Prime Minister Matteo Renzi joined seven other governmental heads to draft a letter to the EU in support of the project.

The countries involved have major concerns about their energy supply. In addition to Gazprom, which has a 50 percent stake in South Stream, the Italian ENI energy group has a 20 percent share, while both Germany's Wintershall and France's EDF each have 15 percent.

In early June, three US senators headed by John McCain paid a visit to the Bulgarian head of government. Marcie Ries, the US ambassador in Sofia, threatened Bulgarian companies involved in the project with sanctions. The reason she gave was that the Russian company, Sroytransgaz, was involved in the consortium that was building the 3.5-billion-dollar Bulgarian section. The US has imposed sanctions on oligarch Gennady Timchenko, Sroytransgaz's proprietor and a close associate of Vladimir Putin.

Two days after the visit from the US, Bulgarian Prime Minister Oresharski threw in the towel and announced the cessation of the construction project.

Russian EU ambassador Vladimir Chizhov condemned the move as a “creeping shift to economic sanctions against Russia,” adding, “It is hard to shake off the feeling that the European Commission’s blocking of the start of work on the construction of Bulgaria’s key section of South Stream has been done for purely political purposes.”

There is now also speculation as to whether the plans for the shelved Nabucco project will be resumed. Nabucco had been promoted for many years by the EU and US as a means of transporting gas to Europe from the Caspian region via Georgia and Turkey, and thereby reducing European dependency on Russian gas. After several European countries opted for South Stream, plans for Nabucco were halted in the summer of 2013.

The EU Commission has long sought to curb the influence of the Russian Gazprom gas company in Europe. Currently, the EU gets 36 percent of its gas and about 20 percent of its oil imports from Russia.

In September 2012, the EU opened an antitrust suit against Gazprom for breach of market rules and abuse of its dominant market position in Bulgaria, Estonia, Latvia, Lithuania, Poland, Slovakia and the Czech Republic. The EU claims that the Russian side is engaging in unfair price fixing and business practices that are contrary to a liberalized market.

Basing its policy on the Third EU Energy Package of 2009, which prohibits a company from simultaneously operating as a network provider and energy supplier, the EU is trying to force Russia to privatize Gazprom. It intends to open the way for the entry of Western energy companies into the Russian energy market.

However, the EU member states are far from achieving a unified strategic approach. On June 13, at a meeting in Luxembourg, German Energy Commissioner Günther Oettinger called on European energy ministers to take a firm and consistent stand against Russia and Gazprom.

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