

RUSSIA HALTS SOUTH STREAM GAS PIPELINE AFTER EU PRESSURE.

ANKARA, THE NEW ALLY

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Amid growing tensions with the West over the sanctions it imposed to Russia for its illegal annexation of Crimea and for the support it offered the rebel separatists in Eastern Ukraine, Vladimir Putin announced that Moscow will scrap the multibillion dollar gas pipeline project for Southern Europe, focusing instead on enhancing its energy cooperation with Turkey. The South Stream was a grandiose energy project intended to consolidate Russia's status as the main energy supplier in South-Eastern Europe. The South Stream Pipelines project envisioned the construction of a pipeline route under the Black Sea that offered Gazprom a more direct way of fulfilling the European continent's natural gas demands, bypassing Ukraine to Bulgaria and further on to Southern Europe. The project has been met with strong objections from the EU because if such a plan would have indeed been accomplished, then Ukraine's leverage against its revisionist neighbour would have been strongly reduced. EU asked its member states to stop the construction of parts of the South Stream pipeline that connects Russia with Bulgaria.

Cancelling this project represents the latest sign that the strong division between the Western Community and Russia over the Ukrainian crisis is more than never amplified, important economic ties being thus broke down. The decision comes as Putin struggles to prevent Russia from entering a recession amid plunging oil prices and hard economic and financial sanctions from the EU following the illegal annexation of Crimea. This move can also underline Kremlin's efforts to forge new alliances as Russia-West relations have reached their lowest point since the end of the Cold War with the Ukrainian crisis. The room for manoeuvre for Moscow is now being limited, determining thus the Russian leaders to enhance energy cooperation with Turkey a country with which previously has competed for the role of key energy hub for the European markets. The effects that the Western sanctions had on the Russian economy are now also reflected in Kremlin's reorientation to China and to other non-European major energy markets, making thus once again the project South Stream more expandable.

Europe is still depending on the natural gas resources it receives from the Russian Federation and the memories of Kremlin's use of gas as a political weapon of its foreign policy in 2006, 2009 have determined the European leaders to focus on elaborating an energy strategy focused on diversifying energy supplies and transit routes. In this context it is also important to mention that the European countries dependence on Russian gas varies widely from 100% in the Baltic States to 16% in France. In the last years it can be stated that we have been witnesses to a sort of proxy Great Game for the control of the energy supply in Europe, but in this changing context, with the opening of new sources of gas especially from North America to the European markets, even the Nord Stream Pipeline to Germany loses its relevance. Moscow's summer halt of gas supplies to Ukraine amid strong tensions regarding the illegal annexation of Crimea raised even more fears among the gas dependent European countries, because Ukraine with its Soviet-era pipeline network carries about half of Russia's gas exports to Europe. South Stream has exposed tensions regarding the coherence and unity of the EU energy strategy because a lot of countries like

Hungary, Austria, Serbia and Bulgaria saw it as an opportunity to the risk of repeated energy supply disruptions via Ukraine, while Brussels and Washington have long perceived South Stream not as a sound business move as did Putin, but as a veiled attempt by the Kremlin to increase its position as a dominant energy supplier in Europe, while sidestepping Ukraine. A months long disruption in Russian gas supply would severely hurt some South-East European countries and the recent decision of the Kremlin to abandon South Stream represents a hard blow to countries like Bulgaria and Serbia, both in terms of the lost construction jobs and for the energy transport fees they sought to obtain in the end (economic impact). The summer gas disruption also determined some European countries like Italy to think about creating an emergency store of gas, but it is extremely hard to achieve a unitary vision regarding the way of creating an integrated and comprehensive energy strategy mainly because of the different positions of the European states elaborated through the vision of their dependence on the Russian gas.

''The project is over'', Gazprom Chief Executive Officer Alexey Miller told reporters during his visit in Ankara. Although Vladimir Putin perceives the halt of construction work for South Stream as an important loss for South Eastern European countries and for the EU in general, this recent decision of Moscow has been widely perceived as a defeat of Vladimir Putin`s approach of foreign policy due to his lack of respect for the international law principles. The sanctions imposed on the Russian economy along with the sharp fall in oil prices have put an important pressure on Kremlin`s finances and continuing with the billion-dollar investments in South Stream, a project that may never pay off as the current context shows, may not be the best choice for the Russian leadership. Russian Ministry of Economic Development forecast a recession in 2015 that caused the ruble to fall further against the euro and dollar. Vladimir Putin stated that it would be *''ridiculous''* to invest important amounts of money in a pipeline project to bring gas to Europe through Bulgaria only to have to abandon it because of strong opposed political views: *''we believe that it does not coincide with Europe`s economic interests and harms our cooperation; such decision is the decision of our European friends; they are in the end, customers; it is their choice''* (New York Times).

The decision to block the construction of South Stream Pipeline may have been made also because Gazprom is aware of the importance of prioritising its cash resources rather than opening too many projects, and this is best reflected by the Chinese energy cooperation, a case in which the Chinese state unlike the EU is extremely eager to receive Russian gas. The Kremlin believes that it has been clear enough that in the last years Russia was not perceived by Europe as an important source of energy security but as a risk and thus in the context of the imposed economic and financial sanctions, Moscow realised that building South Stream or any other pipeline to Europe is impossible. Even the Russian President, Vladimir Putin acknowledged that *''If Europe doesn`t want to realize South Stream, then it means it won`t be realized''* (Bloomberg), emphasizing the new direction of the Russian natural gas resources to other regions of the world. Gazprom spent an important amount of financial resources on upgrading Russian pipelines of what should have been South Stream, 9.4\$ billion only in the last three years and halting this process may help the giant Russian energy supplier save valuable financial assets.

According to *Bloomberg*, Igor Bunin, the director for Moscow-based Centre for Political Technologies, the decision to scrap the South Stream project *''represents a defeat that Russia is trying to mask as a victory; the South Stream project was dying despite many attempts Russia*

made, despite the money it spent to keep the project alive; Sanctions and the general mood in Europe made this project impossible". A spokeswoman for EU's executive arm, the European Commission stated that *"to comment on whether South Stream is dead is not for us to do"* underlining that the Commission will continue its normal dialogue with the Russian and also all other parties concerned.

❖ **Moscow-Ankara energy cooperation**

It is important to mention in this very context Vladimir Putin's visit to Ankara and his meeting with his Turkish counterpart, Recep Tayyip Erdogan. The two leaders emphasized during their meeting that enhancing their economic and energy cooperation is essential for their bilateral ties. Russia will lower with six percents the prices for the natural gas it sends to Turkey and through the Blue Stream Pipeline, will enhance its deliveries by 3 billion cubic meters a year and instead of South Stream, Gazprom and BOTAS underlined their will to build a pipeline capable of shipping 63 billion cubic meters a year from Russia to Turkey, and the infrastructure built until now for the South Stream will be used in this new project. According to Bloomberg, of this entire capacity of the pipeline, almost 20%, 14 billion cubic meters will be transported to Turkey and the rest will be sent through Turkey's pipeline network to the Balkans. Miller, the leader of Gazprom also said that while the joint projects develop, the level of gas price for Turkey could reach the one in Germany today. Moscow has thus thought a PLAN B, of building an additional gas hub for the South European consumers, but on Turkish territory near the Greek border, allowing Gazprom to fulfil the high energetic demands in Turkey and in the Balkans, while bypassing Ukraine as a transit country. This scenario is extremely difficult to accomplish because at this moment, even though this project seems less risky than South Stream, it is extremely expensive in the context in which Gazprom and Russian finances and economy are under a lot of pressure.

Recep Tayyip Erdogan appreciated Putin's interest in enhancing energy cooperation with the Turkish state, but it did not appear to be fully confident in the prospects of building an energy hub, underlining that important and tough bargaining lie ahead. For Putin who wants to continue its gas exports to the EU markets bypassing Ukraine and who believes that Western sanctions are not able to isolate Russia, the recent meeting with his Turkish counterpart represents an important evolution. Also, in Erdogan's opinion such a cooperation may prove helpful to raise Turkey's global leverage and also help its economy. Turkey is an energy-hungry developing nation that now enjoys important benefits that result from Russia-West tensions, benefits like long-term supplies at bargained prices. Putin is aware that in the context of the Western sanctions imposed on the Russian economy, a close cooperation with Ankara will in a way compensate the difficult trade relations with the EU. If Ankara accepts the Russian offer of forging an energy cooperation alliance than that would amount to an important change for Turkey's energy policy who until now has been focused on being a major transit route for the energetic resources extracted from the Caspian and Central Asian region to the Western markets, bypassing Russia. Turkey wants to be an oil and gas hub and that's why Erdogan welcomed Putin's proposal, aware that along the Russian gas, the Azeri and Iranian gas that will enter Turkey and that will then be re-exported to Europe can transform Turkey into an important physical energy hub. The EU and the US have expressed their strong support for the alternatives of gas supplies that bypass Russia and Turkey was considered for the future an important actor that could contribute to reducing the continent's high dependence on Russian energy resources. How will the EU react

to such a position of the Ankara government? Turkey has not yet joined the international community's efforts of sanctioning Russia's illegal approach towards the Ukrainian crisis, maintaining still important economic relations. Despite Jens Stoltenberg's demands that Turkey should align with the Western community in blaming and sanctioning Russia for its illegitimate and illegal annexation of Crimea and support of the instability in Eastern Ukraine, Ankara still enjoys close economic and political relations with Russia and the prospect of them joining in an energy alliance should alarm the European Leaders. There still exists an expectation in the West that Turkish political leaders will finally join the international community in making efficient the imposed sanctions on Russia, thus showing Turkey's true commitment to the European values and its determinacy to continue its European path.

Some analysts questioned if Putin is just bluffing in his attempt to determine the EU and the US to give up on their sanction regime and their opposition to South Stream, but the cancelling of this energy project or at least its delay is an inevitable step in the larger context of the high political and economic tensions between the West and Moscow. On the other hand, cancelling South Stream may represent a positive evolution because that means that Russia is accepting to continue to use the pipeline network built in Ukraine, no-longer looking to bypass it and cut its transit fees. Time will tell if Moscow will use again energy as a political weapon against Europe. If South Stream is not built, and if TANAP (Trans-Anatolian Pipeline) and TAP (Trans-Adriatic Pipeline), the projects that are going to deliver Azeri gas through Turkey to Europe do not fulfill the energy needs of the European markets, the continent will still remain dependent on the Russian gas passing through Ukraine. Even if Europe will enhance its energy cooperation with Norway, on the medium and long term, in a black swan scenario in which Russia stops all gas flows to Europe, many European states will face serious problems and tensions will arise. Russia cancelling South Stream appears thus like a game of high-stakes poker, Kremlin emphasizing that if the European community still continues to impose sanctions and target its economy, serious consequences will follow.