

Bulgaria's decision to suspend work on the South Stream pipeline is likely to increase the EU's leverage in negotiations with Russia over Ukraine

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*Bulgaria has announced that it is to suspend construction of the South Stream gas pipeline, which is aimed at transporting Russian gas exports through the Black Sea to South Eastern Europe and beyond. **Tomas Maltby** writes on the background to this decision at both the EU level and within Bulgaria itself. He notes that as the South Stream pipeline would rival existing routes for Russian gas exports through Ukraine, suspending the construction is likely to increase the EU's leverage in negotiations with Russia.*



The South Stream gas pipeline, set to deliver 63 billion cubic metres (bcm) of Russian gas to the EU via Bulgaria, Hungary, Austria and (potentially) Italy has long been a national priority for Bulgaria.

Yet on 8 June the Bulgarian Prime Minister, Plamen Oresharski, **ordered** all South Stream gas pipeline construction activities to be 'suspended'.

Formal cancellation of the project remains unlikely, but at present Bulgaria's energy policy is indicative of the lack of member state consensus regarding a common EU energy policy and divergent understandings of energy security. Not all member states consider dependence on Russia to be a risk and the EU still needs to convince Bulgaria that it represents an alternative, or supplementary, energy security guarantor, particularly given the demise of the [Nabucco pipeline](#).

The Bulgarian Parliament Speaker **later denied** that the Prime Minister is empowered to take such action, but the announcement remains in stark contrast to Bulgaria's recent rhetoric. In April 2014 the Energy Minister **reiterated Bulgaria's commitment** to the construction of the South Stream gas pipeline, emphasising the importance of the project to Bulgarian and EU energy objectives. Simultaneously, amendments to the Bulgarian Energy Act gave the Bulgarian section of the pipeline the status of 'grid connection' and the offshore section a legal status of '**not crossing European territory**'.

It was argued that this removed Bulgaria's obligation to adhere to EU law, namely the third-party access requirement of the Third Energy Package. Furthermore, **Commission concerns** about the **tender procedure** for building the €3.5bn Bulgarian stretch of South Stream triggered an inquiry into Bulgaria's compliance with EU competition and public procurement legislation. Days later, and immediately following a visit by **concerned US senators**, Bulgaria agreed to halt plans for the imminent start of construction on South Stream – a similar decision by Serbia soon followed.

Given the level of support from the member states involved – Italy, Bulgaria, Austria, Hungary and Serbia – we are still some distance from a formal cancellation of the project. It retains **strong support from Italy**, in particular, (despite doubts about their involvement) and commercial interests may be important, with Italy's *Eni*, Germany's *Wintershall* and France's *EDF* all involved as Gazprom's partners for the offshore section. However, construction will no longer begin in July and it is highly unlikely that the 63bcm pipeline will be completed by 2017 as planned. This has implications for the EU's Southern Gas Corridor project, for EU-Ukraine-Russia relations and for a common EU energy policy.

The Commission highlighted problems with South Stream's intergovernmental agreements in December, and estimated "**delays of at least two years**" and more difficult financing. Now South Stream has been 'suspended', the EU's alternative Southern Gas Corridor project will receive a boost. The Trans Adriatic Pipeline (TAP) will bring

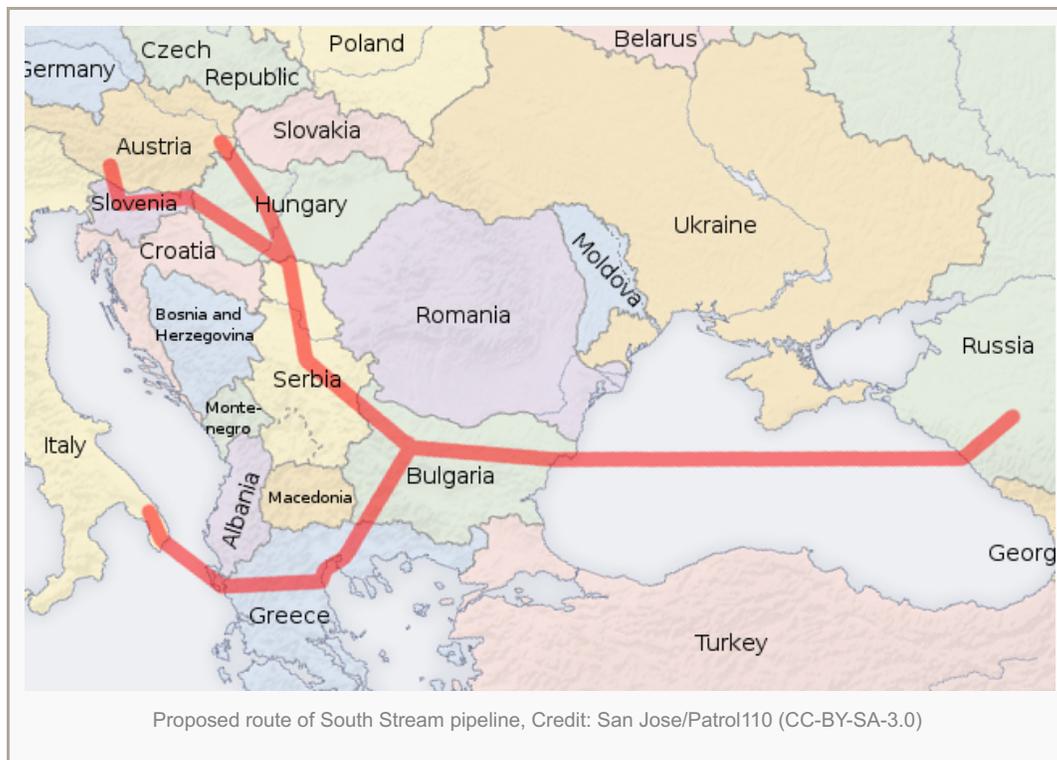
10bcm of gas from Azerbaijan to the EU by 2019 through Italy, Greece, Albania and Turkey – linking with the Trans-Anatolian gas pipeline (TANAP).

However, the pipeline can be expanded to at least 20bcm. The EU's support for South Stream has long been tempered by [frequent statements](#) that the project was not a top EU priority, and the EU's Consumer Protection Commissioner [this week](#) echoed the opinion of many newer (and some older) member states when questioning what security of supply or price advantages were offered by South Stream.

As a [Project of Common Interest](#), TAP qualifies for EU funding which could accelerate the expansion of a project which offers diversification of source as well as supply route. The EU now has the opportunity to accelerate and expand TAP. Further EU funding and support could be provided to develop links between the TAP pipeline and a proposed link between the Greek and Bulgarian natural gas pipelines (Gas Interconnector Greece-Bulgaria) to position the EU as a supplementary energy security guarantor for Bulgaria.

The Commission's [growing role as an EU energy actor](#) has been highlighted by the December 2013 decision by European states involved in South Stream to grant the Commission a [mandate to negotiate](#) with Russia on the project – the institution is also currently involved in [brokering gas contract negotiations](#) between Ukraine and Russia. South Stream mostly removes Ukraine from the EU's gas supply equation and while negotiation breakdowns between Ukraine and Russia led to the gas 'crises' of [2006](#) and [2009](#), the completion of South Stream would lead to the loss of Ukraine's [€3.2bn transit](#) revenues from Russia.

The Commission has [warned](#) of 'all the implications that this would have on its [Ukraine's] economic stability and status as a Union partner'. Prolonging this substantial source of income for Ukraine by postponing the diversion of Russian gas destined for the EU via South Stream, or implying such a threat, may fit with the foreign policy objectives of the EU and increase the Commission's leverage as mediator in the Ukraine-Russia gas negotiations, demonstrating the Union's worth to Ukraine.



Bulgarian support for Russian energy projects: political context

Despite the 2006 gas 'crisis', in January 2008, President Putin visited Bulgaria and agreements were signed with the [Bulgarian Socialist Party](#) (BSP)-led government for a 'grand slam' of [three major energy projects](#): the Belene

nuclear power plant, the Burgas-Alexandroupolis (BA) oil pipeline and the South Stream gas pipeline. Long term gas contracts with Russia were considered '[critically important](#)' by the government.

Following the three week long 2009 gas 'crisis', parliamentary elections unseated the BSP, which was replaced by a GERB-led coalition which suspended and then [cancelled the first two projects](#). The South Stream project survived and has been a government priority for the GERB and then BSP led governments. Diversification away from Russian energy sources has been slow and limited to delayed gas interconnection projects.

All of Bulgaria's gas imports are from Russia, representing over [80 per cent](#) of Bulgarian gas demand. Despite high dependence on Russian energy sources (70 per cent overall), political, economic, energy infrastructure and cultural links with Russia have contributed towards a perception within the elites of the BSP and the energy sector that dependency on Russian energy imports guarantees rather than threatens security of supplies.

This is in stark contrast to the perceptions of other newer member states, such as Lithuania and Poland, and excessive influence by Gazprom has been recently criticised by the [Bulgarian Reformist Block](#) and [Democrats for Strong Bulgaria](#). It has been widely argued that a number of energy experts have [developed](#) and [maintained](#) disproportionate influence on state energy policy-making, and that there is insufficient state capacity to tackle corruption and mismanagement in the energy sector, as evidenced by the case of the [aborted](#) Belene nuclear power plant project.

These vested interests contribute towards the continued conception of Bulgarian energy elites that Russia is as a guarantor rather than threat to Bulgarian energy and national security, an idea further justified by the absence of Bulgarian leverage. The terms of Bulgarian involvement in South Stream are far from desirable. Bulgarian involvement was secured with a short term 20 per cent Russian gas price discount, with the threat of a \$70m fine for withdrawing.

The country is [set to pay a high premium](#) for diversifying its gas import supply route, but maintaining its monopoly supplier, Gazprom. Promised higher transit fees will only be received by Bulgaria from 2035 and servicing a related Gazprom loan will substantially decrease them until then. Given the [rising prices](#) and [energy poverty](#) levels facing Bulgaria, cancellation of the project could be considered a potential blessing in disguise.

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Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics. Feature image: gas pipes prior to construction of pipeline, credit: Harald Hoyer (CC-BY-SA-3.0)

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