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Tanker Plan Casts Shadow Over South Stream

By Anatoly Medetsky

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Prime Minister Vladimir Putin floated the idea Wednesday of using tankers for natural gas deliveries from Russia to Europe across the Black Sea, sparking questions about the plan to lay the South Stream pipeline.

Putin ordered Energy Minister Sergei Shmatko to consider building a plant that would chill natural gas into a liquid for transport by tankers, in an unexpected move that could impact the outlook of the European gas market.

He said the facility on the Black Sea could come in addition to South Stream and gave the minister one week to report the ministry's findings on whether Russia, the world's biggest gas exporter, should change its plans.

Gazprom and Italy's Eni are gearing up to invest upward of 10 billion euros ($14 billion) — according to the latest estimate by South Stream executive director Marcel Kramer in October

— to lay the pipeline under the Black Sea to Bulgaria and extend it overland to Austria and Italy by the end of 2015.

Shmatko had prompted Putin's order by telling him that the European Commission — in the latest meeting with Russian energy officials — had pointed out several alternatives to the South Stream pipeline, including opportunities for shipping liquefied natural gas, or LNG.

In a twist that cast doubt on the motivation for the LNG proposal, a European Commission energy spokeswoman denied on Wednesday that European officials were any part of the idea.

"The European Commission has not proposed an LNG terminal on the Black Sea," spokeswoman Marlene Holzner told The Moscow Times. "This was not discussed during the meeting between the Russian government and the European Commission in Brussels at the end of February."

As a European gas supply alternative, Shmatko may have referred to the Azerbaijan-Georgia-Romania Interconnector, or AGRI, project that would use Azeri gas to produce LNG on Georgia's stretch of the Black Sea coast for transportation to a proposed terminal in Romania, Holzner said.

A Gazprom spokesman declined comment, and a spokesman for Eni didn't respond to e-mailed questions. An Energy Ministry spokesman said only that the ministry would meet the one-week deadline for its verdict on the Russian LNG plant on the Black Sea.

Russia could approve the LNG idea as a way to back out of the pipeline project, U.S.-based gas industry analyst Mikhail Korchemkin said.

"It doesn't make sense" to pursue both projects, he said, noting that an LNG plant would likely have much less capacity than the pipeline.

South Stream would carry 63 billion cubic meters of gas a year, if built, while the standard train — or phase — of an LNG plant produces 11 bcm of gas annually, said Korchemkin, executive director of the East European Gas Analysis consultancy.

Russia might also want to build its own LNG plant in the area to hamper the AGRI progress, he said.

A pipeline is a better way to carry gas over short distances, such as the one between the Black Sea coasts, said Vadim Mitroshin, an industry analyst at Otkritie.

Regasification plants — used to convert LNG back to its natural state — that are being built in Italy and Spain would be difficult to target because of congestion in the Bosporus, he said.

Putin, in his meeting with Shmatko, also said a portion of the gas from the Yamal LNG plant, which Novatek wants to build in conjunction with France's Total, could go to the European market as well. That would require Russia to push for more regasification terminals in Europe, he said.

Shmatko replied that Europe already committed to seeking more LNG supplies.

"Construction of regasification terminals in Europe and southern Europe is a very promising thing," he said.

Ironically, the European Union has made construction of LNG reception points a priority of its energy strategy through 2020 as a way to reduce dependence on imports from Russia.

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