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Putin Kicks Off South Stream Construction

By Anatoly Medetsky

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President Vladimir Putin speaking at a ceremony marking the construction start of the South Stream pipeline in the Black Sea resort of Anapa on Friday. **Sergei Karpukhin**

VARVAROVKA, Krasnodar Region — President Vladimir Putin on Friday kicked off construction for the route to deliver Russian gas to Europe.

A ceremony in which two pipes were welded together marked the South Stream pipeline's graduation from the phase of talks between governments and corporations — and drew the attendance of Maria van der Hoeven, executive director of the International Energy Agency and chiefs of the three European companies involved in the project.

"Today, we start construction of Europe's largest infrastructure project," Gazprom chief Alexei Miller said in a speech.

The construction that began Friday was for the segment of the line that is not

the responsibility of the Gazprom-led South Stream Transport consortium per se, but solely Gazprom's. On the site of where the ceremony took place, the company will build a compressor station that will pump Russian gas through the South Stream pipeline.

Gazprom and its partners, Italy's Eni, France's GdF and Germany's BASF, expect to start laying the pipeline under the Black Sea in 2014, once they receive final permits from Russia, Bulgaria and Turkey.

Putin opened the ceremony with a short speech and stepped off the podium to shake hands with the chiefs of Eni, GdF and BASF: Paolo Scaroni, Henri Proglio and Kurt Bock, respectively, and the other eminent attendees. But there was one person sitting in the front row who merited more than a handshake: Putin gave a warm hug to Henning Voscherau, a former mayor of Hamburg who serves as South Stream Transport's board chairman.

Putin had paid numerous visits to Hamburg when he was St. Petersburg's deputy mayor in the early 1990s, when Voscherau ran the German city. St. Petersburg and Hamburg are sister cities.

Voscherau appeared moved by the hug.

The future Russkaya Compressor Station will be the world's most powerful, and consume up to 448 megawatts, Gazprom said. It will likely jolt the surrounding grapevine hillsides and valleys, bare and rain-soaked at this time of year, from their bucolic serenity.

Russkaya will break the standing world record for power consumption, which also belongs to Gazprom and is now held by its Portovaya Compressor Station that sits at the start of the Nord Stream line under the Baltic Sea, Gazprom said.

At 924 kilometers, the underwater stretch of the South Stream is shorter than the Nord Stream, which spans the distance of 1,224 kilometers on the sea bottom. But the southern line will be able to carry 15 percent more gas, or 63 billion cubic meters, so it requires more powerful equipment.

The Black Sea route will also, according to the plan, eventually have four parallel pipelines, which is double Nord Stream's quantity.

Van der Hoeven didn't get to speak Friday. A day before, she told reporters that making multi-billion investment into the pipeline "could be seen as a brave choice," given Europe's sliding gas consumption.

European gas demand declined 11 percent last year, and the indications are that there may be a further slide this year. Electricity utilities have been burning more coal, cutting down on higher-priced gas consumption.

But the demand for gas, she said, is sure to rebound, especially if the price is right.

"At the IEA, we see a brighter future for gas in Europe," she said. "South Stream represents many things to many people, but it would also be a vote of confidence in the future of European gas."

Under the agency's latest outlook, the demand will return to its highest ever levels of 2010 by the end of this decade and will rise thereafter.

The South Stream's first phase is scheduled to start operation in December 2015.

Van der Hoeven issued a not-so-subtle warning on price.

"We have to recognize that Russia faces a more competitive gas environment for export," she said, referring to the surge in U.S. shale gas production, which allowed America to drastically curtail imports.

"It will mean pressure to price gas in a way that makes it competitive with the terms offered by other suppliers."

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