The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

With Austria Deal Signed, Gazprom Wears Down EU Opposition

By Alexander Panin

June 24, 2014



OMV CEO Gerhard Roiss (L) and Gazprom CEO Alexei Miller sign the final deal to build a branch of South Stream gas pipeline ending in Austria, in Vienna.

Russian state-run energy giant Gazprom finalized a deal on Tuesday to build the Austrian branch of its massive South Stream gas pipeline to Europe, bypassing troubled Ukraine while gradually building leverage which analysts say could push the project through to completion.

The deal was signed between the executives of Gazprom and Austrian oil and gas group OMV during President Vladimir Putin's visit to Austria on Tuesday.

"This decision is an investment in the security of the gas supply for Europe," OMV CEO Gerhard Roiss said after the signing, Reuters reported.

Also on Tuesday, Gazprom CEO Alexei Miller said that he is holding "constructive" talks with the European Commission about winning European Union approval for the pipeline.

The South Stream project would ensure a steady supply of Russian gas to Europe without crossing Ukraine, whose eastern regions were plunged into violence after street protests ousted former pro-Russian President Viktor Yanukovych in March. But support for the project is not without political obstacles, as Russia's relations with both the EU and Ukraine have deteriorated rapidly following Russia's annexation of Crimea in March.

Moscow cut gas supplies to Kiev last Monday after Ukraine failed to meet a deadline to pay a $1.95 billion gas debt, despite extensive negotiations leading up to the deadline. Meanwhile, the EU has stressed the need to diversify its energy consumption away from Russian gas and urged Bulgaria and Serbia, transit countries for South Stream, to suspend work on the project.

Earlier this month, Bulgaria, where the South Stream is supposed to enter Europe, succumbed to EU pressure and put construction of its section of the pipeline on hold, and Serbia, the next country along the route, has said that they will do the same.

Both countries would clearly benefit economically from the pipeline, but they are forced to comply with the Third Energy Package, a constant thorn in South Stream's side. EU legislation bans a single company from both owning a pipeline and transporting fuel through it, while another EU regulation states that independent gas producers should have unhindered access to the pipeline.

Gazprom does not yet comply with any of these rules, which is one sticking point in negotiations. But further fanning the flames are commission's concerns over the results of the tender to build the Bulgarian part of the pipeline. The tender was won by Bulgarian Gasproekt Jug together with Stroytransgas, a company owned by sanctioned Russian businessman Gennady Timchenko, and the EU raised concerns that they may have received an advantage over other bidders.

But if the EU continues to block the realization of South Stream for any prolonged period of time, Russia's negotiating position will only become stronger, most energy analysts said.

"It is difficult for the EU to ban construction of something that would strengthen gas supplies to its southern side, considering what we are currently observing in Ukraine," said Katja Yafimava, senior research fellow at the Oxford Institute For Energy Studies.

Bulgaria is one country that is fully dependent on its gas supplies from Russia, which are currently delivered through Ukraine. It was initially slated to receive gas via South Stream in 2015. "But if the start of the project is pushed back further, that means another uncertain winter for Bulgaria, in addition to the upcoming one," Yafimava said.

Gazprom's position has only grown stronger as the other main project to provide an alternative gas supply to Europe, Nabucco, has lost its former support, said Igor Yushkov, a lead analyst at Russia's National Energy Security Fund.

"What exists of the project, in the form of a trans-Adriatic pipeline, going from Azerbaijan through Turkey to Greece and Italy, has a capacity of only 10 billion cubic meters [while the South Stream will have 63 billion cubic meters at full capacity]. Furthermore, according to recent news reports, its two major stakeholders, France's Total and Germany's E.On, have

decided to leave the project," Yushkov said.

There are other levers that Gazprom could also employ, other analysts said.

"If the South Stream construction does not start on schedule, there is an obvious move on the part of Russian leadership and Gazprom, which is to threaten European clients to move the delivery point of Russian gas to the eastern border of Ukraine," said Pierre Noel, a senior fellow for economic and energy Security at the International Institute of Strategic Studies.

But so far the EU is not technically banning the construction of South Stream. The rules contained in the Third Energy Package would apply only after it is built, and the main round of negotiations on terms of access and price is likely to begin then, analysts said.

In any case, Gazprom would not be able to immediately comply with the Third Energy Package even if it decided to do so. Russia would have to modify its own energy regulation in this case to allow independent producers, such as Rosneft, Novatek and others, to have access to the gas pipe, Yushkov said.

One possible position for the Commission would be to reserve a share volume for Gazprom in South Stream equal to the amount of gas that now goes to Europe through Ukraine, in case supplies are disrupted, Yafimava said.

"If such an agreement is not concluded, there could be an absurd situation when there is no transit through Ukraine and no gas going through the South Stream," she said.

See also:

Gazprom Holds Firm on $2 Billion Figure for Ukraine Gas Debt

Contact the author at a.panin@imedia.ru

Original url:
https://www.themoscowtimes.com/2014/06/24/with-austria-deal-signed-gazprom-wears-down-eu-opposition-a36718