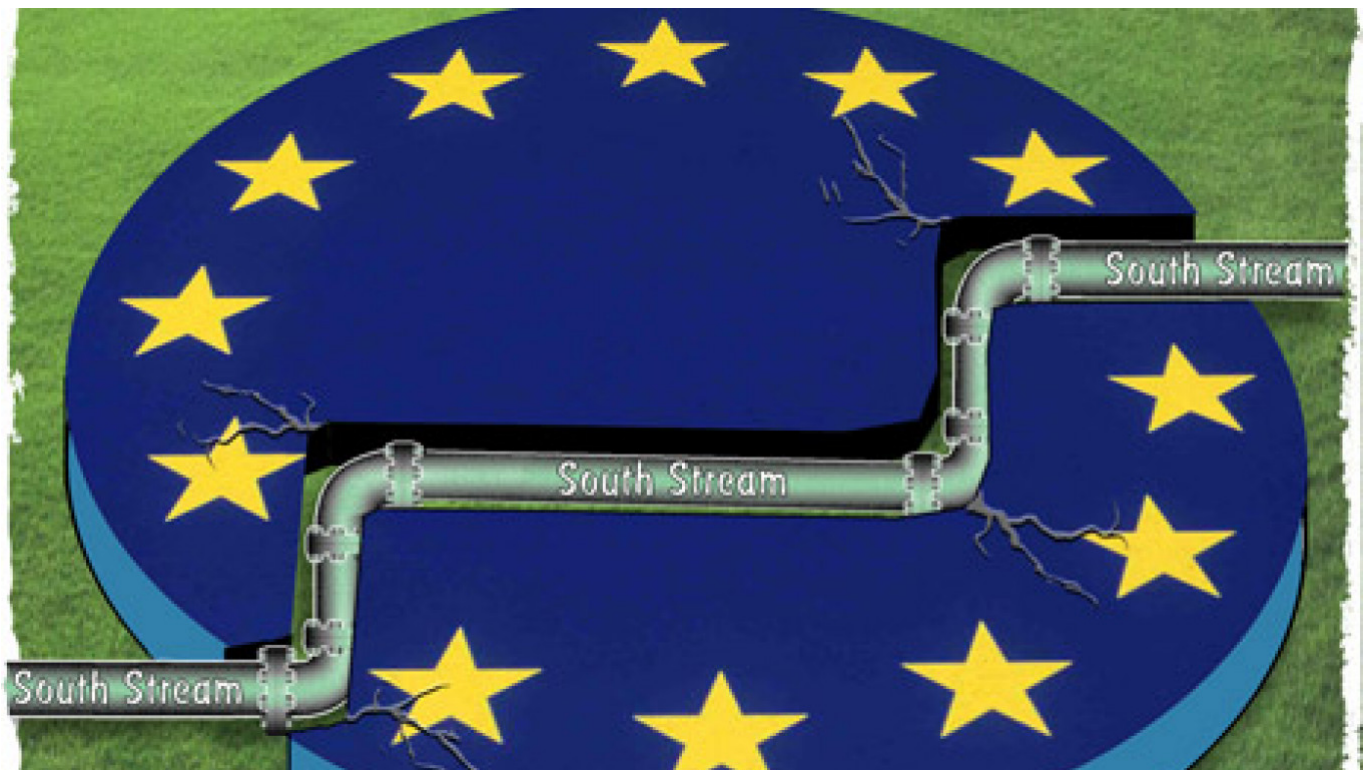


EU Can Unite on South Stream, If Not Sanctions

By [Rem Korteweg](#)

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Strong suspicions of Russian involvement in the tragic shooting down of a Malaysia Airlines aircraft have led EU countries to consider new sanctions against Moscow.

Tough sanctions would involve targeting Russia's natural gas exports. But any new measures will fall short of this. Europe's dependence on Russian gas, and the pipeline projects that accompany it, handicaps the EU's response in the Ukraine crisis.

But if hard sanctions are not possible, the EU should at least make a choice in favor of energy independence from Russia. As a new European Commission forms in Brussels, EU leaders should appoint an energy commissioner with a strong backbone. The new commissioner should also be willing to confront one of the most effective Russian instruments for dividing Europe: the South Stream pipeline.

The EU has long known that it needs to improve its energy security, and events in Ukraine have placed it at the top of the European agenda. Russian gas accounts for nearly 30 percent

of Europe's gas consumption, about half of which is transported through Ukraine.

Gazprom's recent decision to cut gas shipments to its neighbor and switch to a system of advance payments clearly put European gas supplies at risk, a danger President Vladimir Putin warned of in his April letter to European leaders. His message came after the EU decided to impose sanctions on a number of Russian individuals and companies, raising the possibility that Putin's warning was, in fact, an implicit threat that he can hurt Europe's economy as well.

The European Commission and some EU governments have therefore rightly concluded that European dependence on Russian gas leaves it exposed to political pressure from Moscow. So, on May 28, the European Commission published an energy security strategy. The strategy contains a set of measures to reduce Europe's overreliance on Russian gas and increase European "energy resilience" by liberalizing its gas market and diversifying its imports. But it is struggling to put this plan into practice.

The June 24 agreement between Austria's OMV and Gazprom to build part of the South Stream pipeline sent the wrong signal to Russia. Alongside a similar commitment from the Hungarian government in early July, it demonstrated that several EU countries valued their economic agendas over a united front on the Ukraine crisis. The ill-timed deal does not bode well for a coherent European approach to energy issues and foreign policy.

South Stream's main selling point for Europe is that it avoids gas transit worries by bypassing Ukraine. Instead the pipeline reaches the EU directly by crossing the Black Sea and coming ashore in Romania. Russia's envoy to the EU, Vladimir Chizhov, has said that South Stream will make the Ukrainian transit network useless, thus freeing Moscow — and European consumers — from Kiev's influence. Equally important to Moscow is that South Stream will sustain Gazprom's near-monopoly market share in some parts of Europe, and preserve the substantial financial and geopolitical rewards that come with it.

But for the EU, South Stream is the wrong answer to Ukrainian transit worries, since the pipeline will strengthen Russia's energy influence over southeastern Europe. Gazprom's website declares that South Stream increases Europe's energy security. It does not.

On the contrary, it is Gazprom's sway over the EU gas market that has inspired the European Commission to seek to reduce Europe's over-reliance on individual suppliers. Many EU countries receive some Russian gas, 12 EU countries receive more than half of their gas from Russia and six countries are almost entirely dependent on imports from Gazprom.

The problem is that the commission's plans clash with national economic interests. Gazprom's partners in the massive South Stream project are Italy's ENI, France's EDF and Germany's Wintershall. Five EU countries — Bulgaria, Hungary, Austria, Slovenia and Italy — stand to benefit handsomely, either from transit fees, access to natural gas, or both.

The deal with Austria's OMV is a symptom of this. But there are costs: South Stream drives a wedge into the EU's ability to respond to Russia's actions. For instance, while some EU governments have been suggesting sanctions against Russia's energy sector, Italy, Austria and others have been staunchly opposed. Individual countries may get security of supply or

lucrative business deals, but at the expense of a common European foreign and energy policy.

In response, the European Commission is scrutinizing Gazprom's contracts with the five transit countries, investigating them for noncompliance with EU legislation. Just as Moscow says that South Stream is not a geopolitical project, the European Commission maintains that its scrutiny of South Stream is purely a legal matter. But the European Commission's power, derived from its authority to regulate the single market, is real. Pressure from the EU contributed to Bulgaria's decision last month to suspend work on the pipeline, pending a resolution of the contractual issues.

The commission wants to liberalize, or "unbundle," gas transport and production — two activities that Gazprom merges — and it wants the pipeline to be made available to third parties. Gazprom, of course, objects. If the commission succeeds, it will have removed the geopolitical stinger from South Stream.

Sanctions against Russia's natural gas sector are not likely and momentum in support of South Stream is strong, so the project could be completed. In the meantime, the European Commission should double its efforts to minimize the geopolitical damage the pipeline can do. In the next few months, the vacancy for a new EU energy commissioner will need to be filled. The EU would do well to appoint a commissioner that is able to speak hard truths both in European capitals and in Moscow.

Aside from investigating South Stream's contracts, he, or she, should prioritize initiatives that enable the EU to withstand possible supply cuts by deepening the internal gas market. The commission should invest in inter-connectors and reverse flow pipelines, as well as storage sites, so that natural gas can move more freely throughout the Union, compensating for any cuts that may arise.

To meet Europe's growing demand, the EU should also increase its alternative supplies, including liquid natural gas and imports through Turkey's "southern gas corridor." And the EU should intensify domestic production, such as from shale deposits or sources in the Eastern Mediterranean. Only in such a deeper and more connected European gas market should there be a place for South Stream.

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