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South Stream, Yamal in EU Firing Line

By The Moscow Times

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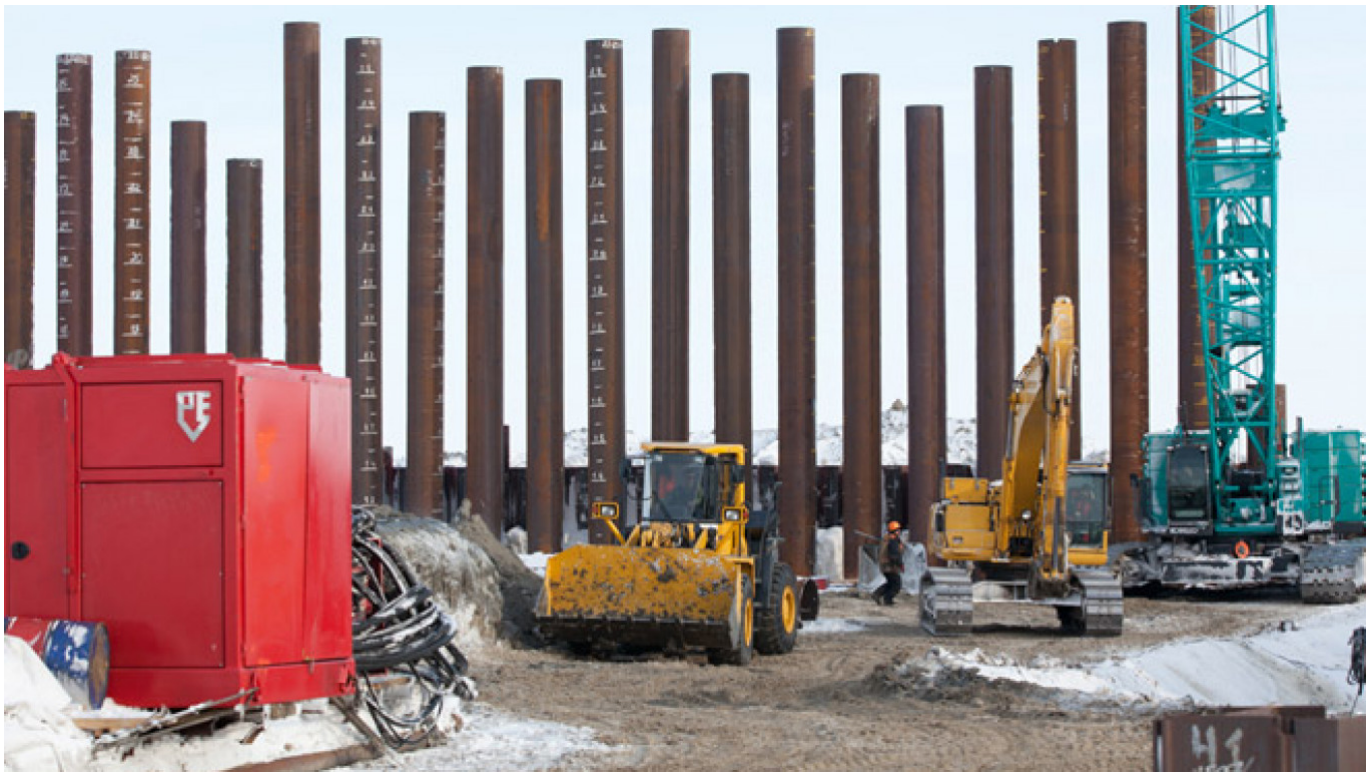

Steel piles jutting out of the permafrost at Yamal LNG in northern Russia.

LONDON/BRUSSELS — The European Union's proposed sanctions against Russia, targeting sensitive technology, take aim at Gazprom's huge South Stream gas pipeline project to Europe and Novatek's Arctic Yamal liquefied natural gas, or LNG, facility.

A draft proposal outlines a package of targeted measures in the areas of access to capital markets, defense, dual use goods and sensitive technologies, EU diplomats said on condition of anonymity.

It makes clear any measures should not affect current energy supplies and that sanctions should be reversible.

But the list, if enforced, would delay major energy projects in the pipeline sector, which Russia dominates, and the fast-growing global LNG market, in which Russia is so far not a big participant.

The diplomats said the EU was considering restricting Russian access to piping used for building oil and natural gas pipelines, drilling pipes to extract oil and gas, floating or submersible drilling platforms, as well as floating cranes and dredging equipment.

That would likely halt or delay development of Gazprom's South Stream pipeline, planned to pump 63 billion cubic meters, or bcm, of natural gas a year, equivalent to 15 percent of European demand, via the Black Sea into the EU later this decade, a project that would cement Russia's position as the region's dominant gas supplier.

"If Europe's engineering partners are prevented from work on any of the big Russian oil or gas projects because of the sanctions, they are almost certainly going to be delayed," said one advisory source that works on Russian energy projects.

Gazprom's main partners in South Stream are Italy's Eni, France's EDF, Austria's OMV and Germany's Wintershall, which is a subsidiary of German chemical giant BASF.

Already, the European Commission, the EU executive, has suspended negotiations on making South Stream conform with EU legislation.

South Stream relies heavily on European know-how to be built, such as through a contract with Italy's Saipem to work on one of four parallel South Stream pipelines due to cross the Black Sea.

Yamal Too

The proposed sanctions would also likely hit Novatek's Yamal LNG export project.

Novatek's main partners in the project are France's Total, a specialist in deep-sea drilling, and China's CNPC.

French oil services company Technip, which won the engineering, procurement and construction contract for Yamal LNG last May, warned earlier on Thursday about the risk that sanctions against Russia could interrupt income flows from the Siberian project, sending its shares down more than 8 percent.

EU diplomats were meeting on Thursday to debate tighter sanctions, but were expected to meet again next week before taking any final decision.

Energy Commissioner Günther Oettinger said on Wednesday that the EU should not give Russia technical help to develop Arctic oil and gas fields if Moscow failed to help to defuse the Ukraine crisis.

Novatek, which has seen one of its shareholders hit by U.S. sanctions, is the main developer of the Arctic Yamal peninsula LNG export project, which plans to export 16.5 million tons of LNG a year.

The project's gas is so far in the Arctic north that it requires the use of specialized technology, often provided by Western partners.

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