

December 05, 2013

South Stream gas pipeline 'will bring economic and environmental benefits'

Top energy bosses have joined forces with senior government ministers in arguing the case for Gazprom's South Stream gas pipeline, stressing its value and potential economic benefit for Europe.

by **Martin Banks**

Critics say the pipeline will tighten Russia's grip on the European energy market while the European Union says that it currently fails to comply with EU energy and environmental laws.

But a high-level conference in Brussels on 4 December was told the project will play a "vital role" in meeting Europe's additional demand for natural gas.

The event was attended by policymakers, experts and representatives of the government in Serbia where work began on 24 November on the Serbian leg of the pipeline.

The main route for Russian gas to Europe runs through Ukraine but this has been dogged by political and pricing disputes that have affected supplies and raised concerns over Europe's energy security.

South Stream, the event was told, is designed to provide an alternative to the troublesome Ukraine route with the first gas expected to be pumped through the pipeline in 2015-2016.

The planned pipeline will transport some 63 billion cubic metres of gas per year through the Black Sea, Bulgaria, Serbia, Hungary and Slovenia into Italy.

The 2,380-km pipeline, funded by Gazprom as well as Italy's Eni, France's EDF and Germany's BASF was first suggested in 2007 and is expected to cost €17 billion.

Construction of the Bulgarian stretch also began last month and the project gives Russia a clear run into the lucrative energy markets of Europe.

The event heard that by 2030 Europe's natural gas needs are anticipated to grow by 25%, of which 80% will be imported. Faced with the prospects of diminishing domestic production and uncertainty about regulatory and environmental aspects of commercial unconventional development, Europe requires security of supply.

Russia is the EU's largest trade partner for energy goods and current projections indicate that the annual supply of Russian gas to Europe will increase from 312 billion cubic metres to 537 billion cubic metres over the next 15 years.

After successfully completing the Nord Stream pipeline which opened in 2011, pumping Russian gas under the Baltic Sea direct to Germany, Gazprom is now focused on the south and east of the continent.

The project involves seven European countries across the Black Sea through Turkish territorial waters and is one of the most ambitious infrastructure projects undertaken, with huge engineering and environmental implications.

The Brussels debate was organised by Natural Gas Europe, an independent media organisation, as part of its 'Gas Dialogues', a series of conferences which began in Sofia in June examining the social, environmental and economic impacts of the project.

The aim is to promote increased dialogue around South Stream and highlight the current state of planning and development.

The debate in the European Parliament brings the series of conferences to a close and keynote speakers included Gazprom representatives and energy experts.

The two-hour debate, "South Stream: The Evolution of a Pipeline" discussed the importance of the pipeline in economic stimulation, security of supply, diversification of energy sources and its role in the development of a strong partnership between the energy enterprises of Europe.

A senior representative from the European Commission said that while the EU welcomes what he called "this interesting" project, he said it also has concerns about it meeting EU energy and environmental laws.

Klaus-Dieter Borchardt, director of the commission's internal energy market, said, "For fear of pouring cold water on this I have to say that before it can operate on EU territory it must comply with EU energy law. This applies to everyone, not just Gazprom and Russia and I hope that with sufficient goodwill on both sides we can find a good result."

He asked, "Is this possible? I do not know yet but we in the EU want to work constructively with Russia to see how we can diversify our energy supplies. This will require mutual trust and understanding and I remain optimistic."

In reply, Alexander Syromyatin, deputy head of Gazprom's project management department, said he believes the project will help safeguard EU energy supplies in the future, help reduce greenhouse gas emissions from the use of fossil fuels like oil and "connect producers and consumers."

He said, "South Stream's contribution into providing Europe with energy security is very significant. It allows us to create alternative and secure natural gas supply routes to our consumers."

He added, "This will also have a positive impact on economic conditions in Europe and help member states emerge from the crisis."

In response to a question from the packed audience, Syromyatin also said he believes it remains feasible that gas supplies will start on schedule by the end of 2015, adding, "This should be sufficient time for the politicians to sort out their differences."

His comments were endorsed by Anatoly Yanovsky, Russia's deputy energy minister, who cautioned that construction of the pipeline would continue irrespective of questions over its compliance with EU energy law.

He said, "The EU is a key trading partner for Russia and 20 per cent of our oil exports go to Europe. But the two sides have been moving in different directions when it comes to energy policy and the only way we can resolve this is through common efforts."

"I would just say that if all laws have to comply with an individual country or bloc, there can be no room for international rules."

Moderating, Bulgarian MEP Slavcho Binev said, "The major objective of the project is meeting Europe's additional demand for natural gas, which is the most environmentally-friendly and secure fossil fuel."

Binev, deputy leader of the Europe of Freedom and Democracy group, added, "Natural gas will long remain a reliable foundation for Europe's energy sector and diversification of routes and implementation of joint projects to construct new offshore gas pipeline systems are vital."

Further contribution came from Viki Cooke, director of "World Thinks", who presented the results of an online survey of 2,500 people and experts in the five transit countries (Hungary, Bulgaria, Italy, Slovenia and Serbia) impacted by the project.

She said these show that the overwhelming majority of those surveyed are in favour, with the number of supporters of South Stream outnumbering opponents by 12 to one and 59 per cent of the public backing the project.

She said, "There is clearly strong support for this and also for natural gas. People see it as preferable to coal, oil and nuclear. The majority think that the advantages, such as the economic gains in transit countries, outweigh the disadvantages."

The survey also showed, though, that trust in Gazprom and the Russian government remains an issue for the public.

Alan Riley, of the City Law School in London, pointed out that the EU now imports as much gas from Norway as it does from Russia and also castigated "crazy" European policies which focused on the production, rather than consumption, of CO2.

The 450-km Serbian leg of the pipeline is worth almost €2 billion and at least 2,000 jobs. Serbia consumes about 2.5 billion cubic metres of gas, mostly imported from Russia through Hungary. The Western Balkan nations as a whole consume about 6 bcm per year, a figure expected to rise in coming years.

Zorana Mihajlovic, Serbia's minister of energy, development and environmental protection, told conference, "South Stream is of great economic and geo-strategic importance for Serbia.

We expect to benefit a lot from gas transit tax that could potentially bring in €100m annually."

"The project demonstrates that Serbia still has an important role to play today as a key bridge between Europe and Russia."

She said it was up to Russia and the EU to resolve regulatory issues, adding, "Whatever is decided, it will be respected by us."

The minister also highlighted the economic benefits, saying that work on the Serbian leg of the pipeline could create up to 100,000 jobs.

Natural gas, she said, had an important role to play in the energy mix both of Serbia but the EU too, adding that at a time of austerity in Europe, the economic investment required to develop South Stream offers "significant benefits" to a part of the continent that seeks economic stimulus.

The conference heard that fellow ex-Yugoslav republic Macedonia, on Serbia's southern border, is also interested in South Stream gas and there is the possibility of supplies to Kosovo too.

ENDS

Media Enquiries

Oktavia Dangel ODangel@bell-pottinger.com

Tel: +44 (0) 20 7861 3273