

Bulgaria: cheaper gas from Russia in exchange for the approval of South Stream

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On November 15, the Bulgarian state-owned gas distributor Bulgargaz signed a ten-year contract with Russian Gazprom regarding the annual purchase of 2.9 billion m³ of gas. The contract will come into force at the beginning of 2013. Details of the deal are subject to commercial confidentiality but Bulgaria's Prime Minister Boyko Borisov announced that they include a 20% decrease in gas prices and the withdrawal from existing services provided by the two intermediaries: Russian-Bulgarian Overgas (ownership: 50% Gazprom, 50% Overgas Holding) and Russian-German WIEE (ownership: 50% Gazprom, 50% Wintershall). According to Bulgaria, the contract also includes more flexible terms and conditions regarding supplies: the ability to renegotiate the contract after six years following its establishment and a more favourable 'take or pay' clause (the level of compulsory payment has been set at 80% of the contracted volume of gas - currently standing at 90%).

At the same time, on the day the contract was signed, the Russian-Bulgarian company South Stream Bulgaria (ownership: 50% Gazprom, 50% Bulgarian Energy Holding) issued a final investment decision regarding the construction of the Bulgarian section of the South Stream gas pipeline which will carry Russian gas to Europe. Similar decisions were issued last month by the companies responsible for the construction of particular sections: the submarine section and the section through the territories of Serbia, Hungary and Slovenia.

Commentary

- The information on the terms and conditions of the contract revealed in the press indicate that it has been a success for Bulgaria in terms of negotiations. It succeeded in securing one of its main demands: bypassing companies which act as supply intermediaries and at the same time Bulgaria likely obtained one of the highest price discounts among European customers of Gazprom. According to unofficial information, the price has been reduced from US\$ 524 to US\$ 420 for 1000 m³. This success was due to the very strong negotiating position of Bulgaria, which used its geographical position in order to demand preferential conditions in the gas contract in exchange for approval of the South Stream pipeline's construction.
- The results of the talks are at the same time a success for Russia, which has succeeded in finalising an important stage of preparation for the implementation of a strategic

energy project – the South Stream pipeline. Nevertheless, several legal issues related to the project's implementation remain unresolved, including the need to prepare an environmental impact assessment as required by EU law in addition to the decision regarding the compliance of the work undertaken with the requirements of the EU third energy package.

- The fact that the gas contract has been signed means that the present formula of close co-operation between Bulgaria and Russia in the area of gas will be maintained. This will perpetuate, at least in the medium term, Russia's dominant role as the supplier of gas to Bulgaria. At the same time, the government in Sofia has declared its support for implementation of diversification projects, such as the Nabucco West gas pipeline and the construction of gas interconnectors with Romania, Greece, Serbia and Turkey. The construction of these interconnectors will be continued but they will mainly serve to secure supplies in emergency situations. On the other hand, it is likely that Sofia's determination to commit to the Nabucco West project will wane as this pipeline will be treated as a source of revenues from the transit and not a route for regular supplies.

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