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Bulgaria withdraws from the Trans-Balkan oil pipeline construction project

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On 7 December the Bulgarian government approved the decision to withdraw from the intergovernmental agreement concluded with Russia and Greece in March 2007 on the construction of the Burgas–Alexandroupolis oil pipeline (Bulgaria – Greece). It was planned that the pipeline would carry Russian and Caspian oil between the shores of the Black Sea and the Aegean Sea, circumventing the Turkish straits. Sofia issued a letter to the signatories of the agreement with the offer to withdraw from the investment by mutual consent. The Bulgarian government has announced that, should their offer be refused, they will unilaterally back out of the agreement after 12 months. Until then Bulgaria will respect its financial commitments with regard to the Trans-Balkan Pipeline, a company established for the construction of the oil pipeline. The majority package of 51% of shares in the company is held by a consortium of Russian firms (Transneft, Gazpromneft and Rosneft). A package of 24.5% shares is held by the Bulgarian state-owned company Project Company Oil Pipeline Burgas-Alexandroupolis BG, and the remaining shares belong to a Greek consortium Helpe Thraki (23.5%) and the Greek treasury (1%).

Commentary

- The Bulgarian government's decision means an ultimate fiasco of the oil pipeline's project as defined by the current Bulgarian-Greek-Russian agreement. In order to finalise the construction, a new shareholder in the Trans-Balkan Pipeline would be required and, above all, a new intergovernmental agreement. In the face of the Bulgarian government's aversion to the project and the low level of interest expressed so far by oil companies, the chances for the finalisation of the projects are currently infinitesimal.

- The main reason for Bulgaria's withdrawal is the low financial benefits (low revenues from the transit and high costs) and serious fears of the investment's negative impact on the environment and tourism. It cannot be ruled out that the announcement of the decision was additionally meant as a manifestation that the blocking of energy projects promoted by Russia was possible where Bulgarian interests were not sufficiently taken into account. Sofia is holding talks with Moscow about the implementation of two other energy projects – the South Stream gas pipeline and the nuclear power plant in Belene – as well as on the extension of contracts for Russian gas supplies, which expire at the end of 2012.

- Russia and Greece which are promoting the project and certainly will not consent to the withdrawal and will be seeking to win damages in court due to breach of the agreement. However, at this stage it is difficult to assess the probability of them being granted such damages. Bulgaria is underlining that it has only committed itself to relatively low contributions for the project company to operate (EUR 6.5 million in 2011).

- The fact that Bulgaria has blocked the construction of the oil pipeline means that the Russian concepts for diversifying the Southern routes of exporting oil and creating possibilities to circumvent the Turkish straits has proven unsuccessful. In recent years Russia has been focusing its efforts on extending Northern routes by constructing the Baltic Pipeline System BTS-2. If it wants to develop oil exports through Southern routes, Russia will have to strengthen its co-operation with Turkey and for example get involved in the construction of the Samsun–Ceyhan oil pipeline. The fiasco of the Burgas–Alexandroupolis project means that the chances of establishing alternative projects are growing: the extension of the Ukrainian Odessa-Brody oil pipeline and the Pan-European oil pipeline (Romania-Serbia-Croatia-Slovenia-Italy). It will also hit Greece, whose port was set to become an important network node for oil supplies in South-Eastern Europe.