

Progress in Russian-Bulgarian gas negotiations

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On 17 July, the energy ministers of Russia and Bulgaria signed a road map in Varna, setting the schedule for preparations for the implementation of the Bulgarian section of the South Stream gas pipeline. The same day, the heads of Gazpromexport and Bulgargaz signed a protocol which envisaged a revision of the conditions of Russian gas supplies to Bulgaria from mid 2011. The details revealed about both documents show that there has been a development in gas negotiations after more than a year of deadlock. They seem to promise a qualitative change in the conditions of co-operation, including the elimination of middlemen from the supply of gas and the possibility of reaching a compromise on the construction of the Bulgarian section of South Stream. However, these documents are primarily an introduction to further negotiations and a demonstration of the political will for compromise by both countries, and they do not mark any significant progress in the implementation of Russian energy projects in Bulgaria.

A game for the conditions of energy co-operation

The unproductive negotiations which Russia and Bulgaria have been engaged in for one and a half years concern new contracts for the supply of Russian gas to Bulgaria and the conditions of the implementation of joint energy projects, the South Stream gas pipeline, the Belene nuclear power plant and the Burgas–Alexandroupolis oil pipeline. The deal with Sofia on the construction of the South Stream pipeline (running directly from Russia along the bottom of the Black Sea and through Bulgaria to Central and Southern Europe) is a priority issue for Moscow. If this project is implemented, Gazprom's role as the dominating gas supplier for Europe would be maintained. In turn, Bulgaria's main goal is to conclude a new, more favourable gas contract directly with Gazprom so as to reduce the price and eliminate the companies linked to the Russian monopoly which act as middlemen in gas trade (the Russian-Bulgarian Overgas Inc. and the Russian-German WIEE). Russia has rejected such appeals so far, arguing that the currently binding contracts provide for the presence of these agents until the end of 2010 and 2012, respectively.

Negotiations regarding the new gas contract were set on track after the gas crisis in January 2009 and are still ongoing. Delays in the implementation of joint energy projects are an effect, among other factors, of Bulgaria's energy policy revision following the takeover of power by Boyko Borisov's cabinet in July 2009. The Borisov-led government challenged the previous energy agreements with Russia and suggested a possible withdrawal from energy projects due to their high costs (the Belene power plant) and the risk posed to the natural environment (the Burgas–Alexandroupolis oil pipeline). Bulgaria did not withdraw from the

South Stream project but was delaying the moment of taking binding decisions (for example on the establishment of the company to be entrusted with the implementation of the Bulgarian section of the pipeline).

The Varna deals

The road map and the protocol signed in Varna are the first documents regarding gas supplies to have been signed as a result of negotiations with Russia by the Borisov administration. The road map is an approximate list of actions to be taken by the parties in order to commence collaboration in the implementation of South Stream. It envisages the establishment of a joint venture by February 2011, which will prepare the feasibility study for the project (the estimated cost of the Bulgarian section is US\$835 million), and completing the construction of the Bulgarian section by the end of 2015. The document includes a compromise future solution for transporting part of the gas from South Stream (17 billion m³ from an expected 63 billion m³) via the existing Bulgarian gas pipeline network. This is a concession from Bulgaria, which had initially ruled that out. At the same time, Russia has not succeeded in introducing a provision regarding the possibilities of using the entire Bulgarian infrastructure as an element of the South Stream gas pipeline. The second of the documents envisages the signing of a new 10-year gas contract by the end of July 2011. In this document Gazprom has committed itself to considering the possibility of reducing gas prices and has promised to exclude agents from the supply scheme. A deal on a similar road map for the implementation of the Belene power plant was promised during the ceremony which accompanied the signing of the two documents.

Conclusions

Both documents and the schedule for further agreements are declarative by nature and are merely a promise to negotiate the specific conditions of gas co-operation. Although no binding decisions have been taken, the signing of the agreements still indicates the political will for the continuation of energy co-operation and the resolution of many disputes in bilateral relations. This is also proof of the significance Moscow attaches to each agreement which brings the South Stream gas pipeline project closer to being a reality. To achieve this goal, Russia has announced its readiness to make substantial concessions in relations with Bulgaria. This is also an indication that Bulgaria has high negotiating potential since the country knows how to use its key role in the South Stream project to get precisely the concessions it wants in bilateral relations. At the same time, the signing of the documents will serve image-building purposes. Russia will use them to prove the attractiveness of South Stream and its skills of overcoming barriers on the way to its implementation. In turn, the Bulgarian government is already presenting the results of the negotiations as a success of its hard-line policy towards Russia and is using it to win more public support for itself.