

Shareholders agree on the South Stream gas pipeline

Artur Ciechanowicz

On 16 September at the Investment Forum in Sochi, Russia's Gazprom, Italy's ENI, France's EdF and Germany's Wintershall (a daughter company of BASF) concluded an agreement to found a company for South Stream Transport (SST), the future owner of the 900-kilometre underwater stretch of the new South Stream gas pipeline, which is planned to run from Russia via the Black Sea and the Balkans to Central and Southern Europe. The division of the SST's shares (Gazprom 50%, ENI 20%, EdF and Wintershall 15% each) will guarantee Russia's control over the project. The construction of a four-channel pipeline (with a capacity of approximately 15.6 billion m³ per channel) should start in 2013; the first branch is scheduled to start operation in 2015, and the entire route should be functional by 2018. The initial estimated cost of the investment is US\$15.5 billion.

The agreement's conclusion was preceded by negotiations which have been ongoing since 2008, and numerous concessions to Gazprom's partners have been made (including easing the conditions of gas contracts). Until the investment decisions on the project have been made (mid-2012), the shareholders retain the right to withdraw from the company.

Commentary

- The conclusion of the Sochi agreement is the result of several years of efforts by Moscow to obtain the support of influential European companies for the South Stream (SS) project, and confirms Russia's determination to pursue the project, which would strengthen its monopoly presence on the changing EU gas market. This project plays a significant role in Russia's gas strategy; it will serve to sabotage the EU's plans to diversify its sources of gas imports (including via the competing Nabucco pipeline project), and to reduce the dependence of Gazprom's exports on transit via Ukraine.
- Obtaining the support of Western companies for Gazprom's project is a political success for Russia and it could help Moscow in its tense discussions with Ukraine on gas sales (the dispute about the size of contracts, the prices of raw material and the ownership of the transit gas pipelines). The Sochi agreement is also part of Russian attempts to undermine the European Commission's efforts to create a common EU energy policy (a signal of which is the mandate granted for the first time by the Council of the EU to the European Commission to negotiate gas contracts with Azerbaijan and Turkmenistan).

- However, the involvement of these large European companies does not mean that the South Stream project is a done deal. In the light of ongoing changes on the gas market (growing competition, the emergence of alternative sources and the oversupply of gas), the economic point of the project is increasingly unclear. Other key problems remain unresolved: the lack of permission from Turkey for the pipeline's construction within its exclusive economic zone; the lack of a definitive agreement with Bulgaria on the route of the pipeline through its territory; the absence of any feasibility study for the whole project, etc. A major hurdle in deciding to implement South Stream may also be posed by the EU's energy market regulations, which require investors to make the pipeline accessible to other parties, and to put the infrastructure under the supervision of an independent provider. On the other hand, the presence of Western companies in the SS project could possibly make it easier to finance.