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Drafting new gas projects in central and south-eastern Europe

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The failure of the South Stream project, and its replacement by a Russian proposal to build the Turkish Stream (TS) gas pipeline, together with uncertainty about supplies of Russian gas through Ukraine to Europe, has spurred a debate about the expansion of the gas infrastructure in central and south-eastern Europe. In recent months, new – as yet unspecified – ideas for gas supply routes have been raised. The countries of the region are now trying to present projects which best suit their interests, and which largely compete against each other. Moreover, not all the potential participants are equally engaged in the process. This debate has been joined by the European Commission, which has launched a new format for cooperation in the region in order to align countries' different views and to speed up infrastructure development. The Commission also offers new opportunities for financing the infrastructure. At the same time, the process of revising the plans for developing the region's gas infrastructure is the subject of manoeuvring by Russia, which wants to extend the Turkish Stream gas pipeline onto European territory.

New ideas for gas lines in the region

Over recent months several proposals have been put forward for new gas supply routes in central and south-eastern Europe. At the end of November – a few days before the withdrawal of Russia's South Stream project – the Slovak transmission operator Eustream introduced a plan to construct a bus, Eastring, which would connect Slovakia with Romania and Bulgaria via Ukraine or Hungary (see map). Initially, the pipeline is to have a capacity of 20 bcm (with a target of 40 bcm). One possible plan for Eastring would be to use the existing transit infrastructure in Romania and Bulgaria, which is not currently available to third parties as the Third Energy Package has not been fully implemented. The pipeline should allow for gas flow in two directions, i.e. from the western gas hubs to the Balkans, but also allow the transport of Caspian and Russian gas (from TS) to Central Europe. The Slovak operator has been intensively promoting this project, seeing it as a remedy for the progressive fall in the transit of Russian gas from Ukraine. The Slovak government is also involved in the lobbying process. The construction of Eastring was one of the subjects discussed during the recent visit by Turkey's president to Bratislava and the prime minister of Slovakia's visit to Bucharest. However, there is no great interest in the project from the other countries.

Another suggestion is the Vertical Gas Corridor, promoted by Bulgaria since February, which would connect Romania, Bulgaria and Greece. This is not a new idea for a pipeline, but rather a combination (under a joint name) of several already-planned but still uncompleted initiatives: a thorough modernisation of the Bulgarian transmission network, a Bulgarian-Greek interconnector (IGB, with a capacity of 3 bcm) and a Bulgarian-Romanian interconnector (with a capacity of 1.5 bcm). Construction of the two connectors has been repeatedly delayed due to technical and financial difficulties, and above all a lack of political determination. However Bulgaria now seems firmly committed to the Vertical Gas Corridor; for example, at the beginning of the year it renewed the tender to construct the interconnector with Romania, and in April it earmarked funds to construct the IGB connector (to be completed by 2018). Sofia's ambition is to create a gas hub on its territory, and sees the Vertical Gas Corridor as a key instrument to achieving this objective.

In parallel, intensive political talks are being held to extend the Turkish Stream gas pipeline onto European territory. The concept is primarily being promoted by Hungary, which already has an extensive cross-border infrastructure and is now seeking to strengthen its role in transit. Greece also seems to be particularly interested in this project, and has been conducting intense negotiations with Gazprom on the matter. A meeting of the foreign ministers of Greece, Macedonia, Serbia, Hungary and Turkey's minister for European affairs was held in Budapest in the first half of April. The statement signed at that time announced their closer cooperation on the construction of a gas line from Turkey to Central Europe. The unofficial statements revealed the name of this hypothetical project – the Tesla gas pipeline, which in fact coincides with the northern route of the earlier South Stream project (the only difference is that Macedonia would replace Bulgaria). It was also emphasised that the pipeline would be fully covered by EU regulations.

Acceleration of infrastructure planning on the EU and regional level

The European Commission has actively participated in the debate on the new gas connections in the region which, due to its high dependence on Russian gas supplies and the lack of developed infrastructure, would be strongly affected by possible disruptions to supplies. The Commission's increased activity is also a response to the failure of the South Stream project, and also an attempt to give new impetus to the process of creating an EU internal gas market. At the Commission's initiative, a Central East South Europe Gas Connectivity High Level Group (CESEC) was set up in February. The new format includes all the EU countries which until recently had been involved in the South Stream project (Austria, Bulgaria, Croatia, Greece, Slovenia, Hungary, Italy), as well as Slovakia and Romania. Its aim is to improve energy security by accelerating the integration of the region's infrastructure and diversifying supply sources. An action plan setting out a list of priority infrastructure projects should be developed by this June. The plan is being developed by the CESEC member countries in working groups, in which the European Commission takes the leading role. The plan is that the projects agreed in the CESEC group will apply for funds from the European Fund for Strategic Investment (EFSA), which is currently being created and should be operational by June; this body is intended to be the main instrument supporting the development of energy infrastructure. The preparations of an action plan for the CESEC countries are running in parallel with work on updating the EU's list of infrastructure Projects of Common Interest (PCI), which is to be presented this autumn. Gaining PCI status would open up access to EU funding as part of the Connecting Europe Facility (CEF).

Russia's game with the Turkish Stream project

Moscow is also trying to influence the revision of the plans for developing the gas infrastructure. The Russian government and Gazprom have consistently promoted the TS project, and are calling for the preparation of an adequate infrastructure to receive gas at the Turkish-Greek border. This message is being reinforced by Gazprom's announcement that it will halt the transit of Russian gas through Ukraine after the transit contract expires at the end of 2018. These messages have fallen on fertile ground, and all the countries in the region (with the exception of Romania) have expressed interest in receiving gas supplies from Turkish Stream.

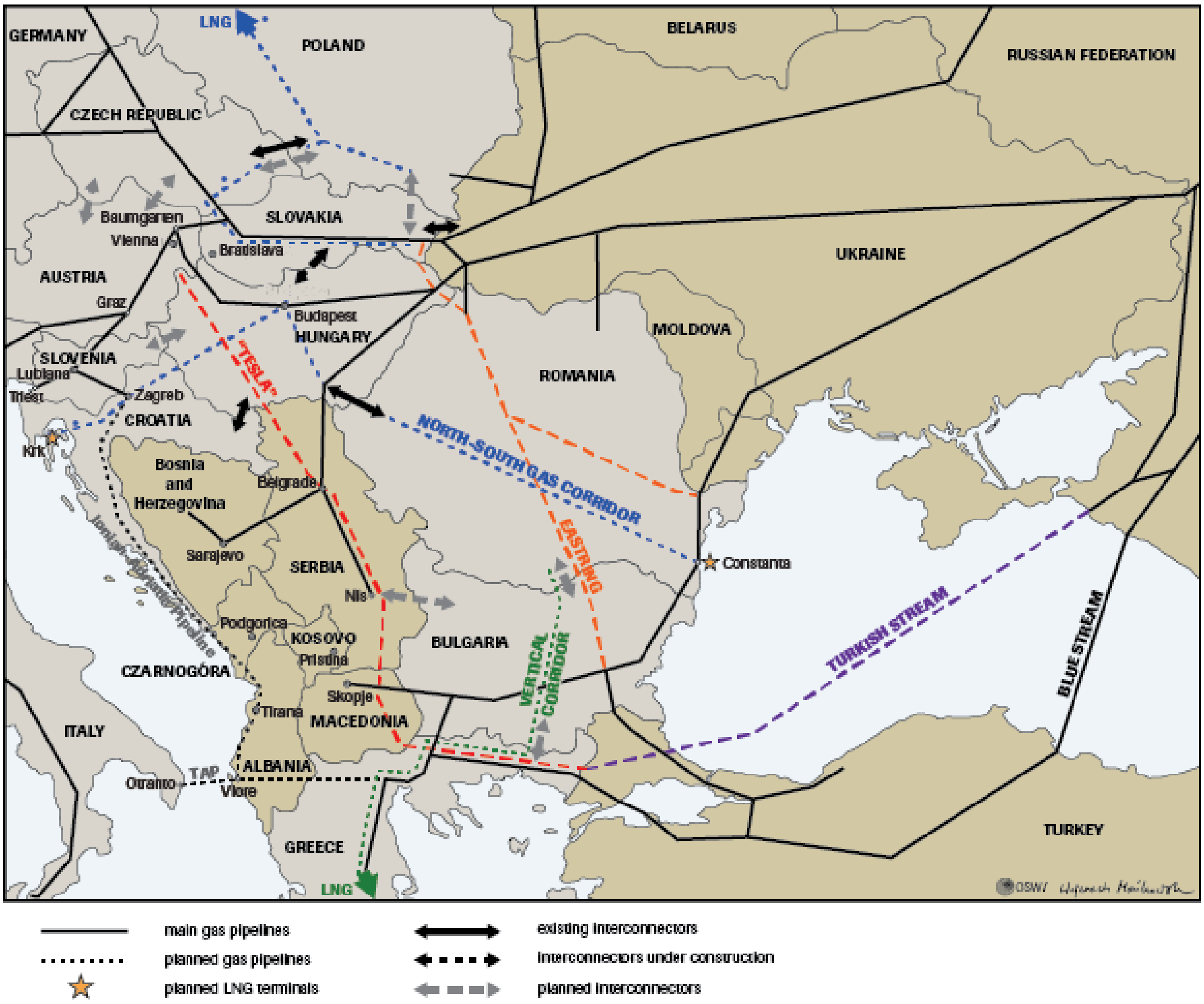
However, completing this project by 2019 and redirecting the Ukrainian transit to it will be very difficult. The preparations for the construction of Turkish Stream have still not moved beyond the initial memorandum; for example, no route has been set for the underwater segment of the pipeline. Gazprom is also bound to its existing contractual obligations; for example, its transit contract with Slovakia is binding until 2028, and a number of its contracts with European customers specify the Slovak-Austrian border as a delivery point. Hence redirecting Ukrainian transit along Turkish Stream will require not only the construction of the pipeline itself, but also the tedious process of renegotiations with Gazprom's European customers.

Outlook

The question of which of these infrastructure projects will finally be implemented in the region remains open. At this stage, the individual countries are focusing on promoting their projects and seeking support for them in the region. The key factor which will decide the final supply routes is financial considerations. The region's countries do not yet have sufficient funds to develop the infrastructure, and the projects' finances will primarily be based on EU funding. This gives the Commission a strong tool to influence the final shape of the region's emerging gas system, and to promote gas projects which will diversify and integrate the gas markets to the greatest extent. Nevertheless, the countries of Central and South Eastern Europe will lose the determination to carry out diversification projects if Turkish Stream is quickly carried out.

Map

Proposals of new gas supply routes in central and south-eastern Europe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