The Prospects for the South Stream Pipeline after the Ukrainian Crisis

ANDREW KORYBKO

Introduction

Following the end of the Cold War and the redistribution of power in the international system, soft power began to take on a significant role in geopolitics. Aside from its ideological and image-crafting manifestations, it is also deeply involved with the energy sector. Specifically, the complex energy interdependence between Russia and the EU has become a major factor in continental (and by degrees, global) politics. As with any interdependency, both sides are simultaneously vulnerable and empowered, setting the stage for unique tango-like moves of “give and take” between both political dancers. After dancing for so long, either partner may tire of the other and try to break free from the tango, eying an available replacement partner across the dance floor to enter into a different type of dance with.

It is against this thematic backdrop that Russia and the EU currently find themselves, especially when it comes to the subject of South Stream. The research will address the project and touch upon the EU’s legal mechanisms for influencing it. Following that, the article will explain the clash between Russia and the EU’s vision for the South Stream pipeline, taking into consideration Brussels’ legal tools. The effect of this Great Power competition on the Balkans will be explored, followed by the most recent developments stemming from the Ukraine Crisis. The latter, as a result of the EU’s reaction to it,
will be considered a watershed event in energy relations with Russia, and two probable scenarios will be forecasted.

**European Energy Geopolitics**

The EU collectively receives about a third of its gas imports from Russia, with some members – Finland, the Baltic States, Slovakia, and Bulgaria – practically fully dependent\(^1\) on Russia for their needs. On the reverse, Russia exports nearly 80 percent\(^2\) of its oil and gas to the EU, and the energy trade contributes to nearly 70 percent of its total exports and 30 percent of its GDP.\(^3\) Due to the Ukrainian Gas Crisis of 2009, when Russia stopped transit because Ukraine was illegally siphoning off gas\(^4\) and hadn’t paid its debt, the EU experienced an acute energy shortage. Ukraine supplied 80 percent of Russian gas to Europe\(^5\) at the time, and the lesson that the EU learned was that it needed to diversify its pipeline routes (and perhaps suppliers, as the failed Nabucco project\(^6\) sought to do) to prevent a repeat of this scenario. The successful completion of Nord Stream in 2012 reduced Ukrainian transit dependence to 50-60 percent,\(^7\) and the fulfillment of South Stream has the potential to lower that amount even further.

**South Stream**

South Stream is a Russian-led project to create a gas pipeline that travels under the Black Sea to the Balkans, and thenceforth into the heart of Europe. It would increase EU supplier dependency on Russia, while at the same time decreasing transit dependency on unstable Ukraine. The backbone of South Stream will pass through Bulgaria, Serbia, Hungary, and Slovenia, with extensions planned for Austria, Croatia, and Greece, all of which have already signed onshore agreements with Gazprom. Even before the Crimean climax of the Ukrainian Crisis, Brussels had taken issue with South Stream as a result of the Russian project not accommodating new EU energy regulations. This has led to the EU pressuring the aforementioned states to renegotiate their agreements with Gazprom or face stiff legal penalties.\(^8\)
The EU’s Legal Mechanisms for Reverse Energy Blackmail

The EU has passed various legal packages in a bid to centralize the energy policy of all of its members. Although supposedly created to increase market competition and support energy efficiency, a dual purpose of the measures is to make the EU a unified energy partner in dealing with Russia, thereby allowing it to enact greater concessions and benefits.

Energy blackmail is usually identified with the supplier enforcing its political will on customers downstream, but in this case, the potential for reverse energy blackmail is apparent. This is defined as downstream states taking (or threatening to take) moves to limit their consumption, thereby endangering capital flow to the upstream state which has grown dependent on its customers. To a country as dependent on its downstream clientele for revenue as Russia is, this is a strategic threat. The subsequent sections describe the EU’s levers of reverse energy blackmail and how they affect Russia.

*The 2020 Climate and Energy Package (CEP)*

The Package is a legally binding goal enacted in 2010 to affect the combined energy policies of the EU’s member states. It seeks the following 20 percent quotas: decrease greenhouse gas emissions; increase the use of renewable energy sources; and increase existing energy efficiency. The importance of this document to the Russian energy relationship is clear – all of the mentioned goals would lower the consumption of Russian resources, thereby negatively affecting the state budget and GDP. As such, the indirect effect would be domestic difficulties for Russia. By weaning off the dependency on Russian resources, the soft power that Russia can project through such a relationship is also lessened, which in turn impacts Russia’s foreign policy towards the EU.

*The Energy Community*
Created in 2006, the Community\textsuperscript{10} “extends the EU internal energy policy to South East Europe and Black Sea region on the ground of legally binding framework”, with “the overall objective…to create a stable regulatory and market framework”. This is very significant, as it makes all non-EU members within the Community subservient to the EU energy policy. In the context of South Stream, this means that non-EU member state Serbia, who is envisioned as one of the project’s distribution hubs, must follow the 2020 Climate and Energy Package, as well as the Third Energy Package.

**Third Energy Package (TEP)**

Entering into force in 2009, this initiative\textsuperscript{11} is described by the EU as having the objective of creating a unified energy market within the Union, buffeted by the unbundling of production and supply monopolies.\textsuperscript{12} This is expected to keep prices low for consumers and increase energy security through a reduction of dependence on a single supplier (contextually understood as Russia’s Gazprom). The TEP is the strongest weapon against Russia and South Stream, as it has the potential to completely dismantle Russia’s soft power South Stream objectives by destroying Gazprom’s monopoly. Worse still, it can kill Russia’s hefty investment in the project and theoretically allow the EU to expropriate Russian assets to non-Russian (i.e. EU) companies. This is the crux of the current Russian-EU controversy over South Stream.

**The ‘Full Package’**

Taken as a unified whole, all three measures represent a ‘full package’ of reverse economic blackmail against Russia. The Energy Community drew non-EU member states into Brussels’ policy web, thereby extending the CEP and TEP into Serbia’s domain. As recently as December 2013, the EU said that South Stream’s partners (including Serbia) will have to renegotiate their contracts with Russia in order to be in compliance with the TEP. This places Moscow and Brussels into direct conflict over the project’s future.
The EU and Russia’s Balkan Battle

South Stream’s successful implementation would not only solidify Russia’s role as the EU’s primary energy provider, but it would also harken a Russian soft power surge into the Balkans, with which it has close ethnic, cultural, linguistic, religious, and historical affiliations. For the Russians, it is thus of high importance for South Stream to proceed as originally planned, while for the EU, such a plan needs to be mitigated and neutered in order for Europe to complete the envelopment of the region within its own sphere of influence. This opposition of geopolitical interests lies at the core of the EU’s legal provocations against South Stream.

The Consequences of the EU’s TEP Bullying

By bullying South Stream’s partners into renegotiating their agreements with Russia, the EU is placing its members and affiliate (Serbia) into a tough bind. They can either renegotiate the agreements and risk Russia’s legal wrath or continue as planned and face the same wrath from the EU, which could even impose certain sanctions against them. For the involved states, there is no win-win in this Great Power competition that the EU initiated. In some manner, this choice mimics the one that the EU imposed upon Ukraine over the signing of the Association Agreement in November 2013, albeit to a less dramatic degree. Such ‘either-or’ choices destabilize weaker states and may have unintended domestic aftereffects.

The Heart of the Debate

In December 2013, the European Commission, after lengthily researching the issue, found the South Stream agreements to be in violation of the TEP, thereby necessitating their renegotiation. Russia argues that the findings came too late to affect any mandatory change since construction had already begun and international law, in Moscow’s perspective, trumps European law. A common settlement could be reached, Russia believes, by giving South Stream TEP-exempt status, in line with its OPAL Nord Stream-affiliated coun-
EU Energy Commission representative Marlene Holzner rejected this option in December, saying that, “South Stream is a different matter, because they haven’t formally asked for an exemption. They have made IGAs not respecting EU legislation. It’s a unilateral move.”

Just as the EU did by rejecting Moscow’s three-way talks proposal for Ukraine’s economic relations, it has followed the exact same approach in its lack of compromise over South Stream’s legal status. This demonstrates that the EU has a recalcitrant attitude towards constructive relations with Russia when third parties are involved and is solely interested in unilaterally dictating its demands in these circumstances. Such behavior decreases mutual trust between Brussels and Moscow and occurs at the expense of the third party state(s) that the EU holds hostage. To put it more direct, the EU issues ultimatums while Russia tries to help the affected states escape those ultimatums by presenting an alternative to them.

**The Military-Energy Nexus Looks to Win Big**

Already intent on sabotaging South Stream, the EU opportunistically exploited the Ukrainian Crisis to justify its suspension of political talks on the project. The EU, likely driven in part by NATO and the US’ hegemonic long-term geopolitical calculus for the continent, also took the dramatic step of stating that it will immediately look for alternative suppliers of gas. Proposals include buying US and Qatari liquefied natural gas (LNG) and developing energy infrastructure projects in North Africa, both of which would be remarkably more expensive than receiving resources from Russia. Considering this, the EU’s economically counterproductive proposals become blatantly exposed as being politically guided. The main beneficiaries of such reverse-logic policies would be American, Qatari, and European energy companies and investors, as well as the NATO political-military establishment.
How T-TIP Tips the Argument in America’s Favor

There are larger economic influences at play behind the EU’s decision than meets the eye. The US wants to conclude the Transatlantic Trade and Investment Partnership (T-TIP) with the EU, which would be the largest free trade agreement in history. President Obama visited Brussels at the end of March, where he attempted to sell T-TIP as an avenue for facilitating US-EU LNG cooperation. The US is serious about reaching a deal with the EU over T-TIP, and it is pulling out no stops in marketing this partnership on the heels of the new securitization of energy. In their artificially induced anti-Russian panic, EU legislators may now be more prone towards agreeing to T-TIP than ever before. With perfect timing, the T-TIP superhero appears to swoop in to save the victimized EU from the villainous Putin.

One Hand Washes the Other

Stepping back from any emotional anti-Russian sentiment for a moment, one may be able to discern a pattern of the US and EU manufacturing and abetting a crisis to advance their long-term strategies. For example, it was earlier mentioned that the Ukrainian Crisis was enflamed by the EU presenting a false choice to Kiev between Brussels and Moscow. This heightened the emotions of the protesters to uncontrollable levels and prevented a peaceful resolution of the issue, culminating as it would in the eventual overthrow of the legitimate Ukrainian government.

The coup in Ukraine crossed a red line for Russia, which eventually was compelled to protect its compatriots in Crimea and express strong support for those in Southern and Eastern Ukraine. Russia’s actions led to hysteria in the West and the knee-jerk implementation of sanctions. The political talks about South Stream were suspended and symbolic gestures and statements were undertaken to signify the EU’s retreat from constructive energy cooperation with Russia.
Conveniently, the EU now has the American T-TIP to fall back on to assist it with its diversification activities. The political will has been found in the EU via this crisis to move full speed ahead with Russian energy de-integration plans, although such measures will of course take a long time to completely enter into being. The opportunity has perfectly fallen into the US and EU’s lap to radically divert energy interests from Russia and take the initiative in spearheading alternative energy source projects. These actions fulfill important geo-economic and geopolitical goals of US, NATO, and some EU member states, making it appear as though Ukraine’s November destabilization and the EU’s anti-Russian energy pronouncements in March are linked. Should this be the case, then it would indicate that larger political manipulations are at play on the European continent, and that a strong degree of policy coordination between the US, NATO, and the EU exists against Russian interests in Europe.

**Scenario Planning**

Taking into consideration all of the previously mentioned information, two probable scenarios can be forecasted. They are contingent on the degree of the EU’s true commitment (not rhetoric) towards diversifying away from Russia as an energy supplier. The first scenario details what would occur if sections of South Stream are built, but all of the involved parties go to court with one another over various legal transgressions that they are accused of. The second scenario is less pleasant, and in it, South Stream goes the way of Nabucco and the EU and Russia turn their back on one another.

*Scenario 1: The South Stream Struggle*

The EU and Russia bicker over the TEP’s application over South Stream, yet construction continues unabated in Bulgaria and Serbia. Both of these poor countries have jockeyed to receive the best possible deal from Russia, which offered more benefits to them than the EU could. The other members further downstream, more connected to the EU and fearful of its response, break their agreement with Russia. The EU takes Bulgaria to the European Court of Justice and
halts Serbia’s Euro-integration because both states have violated the TEP, and Russia takes Hungary, Croatia, and Slovenia to the UN’s International Court of Justice for breach of contract. Greece’s commitment to either side remains an unknown variable that could sway either way.

Scenario 1 Impact

Russia and the EU respectively lose influence in the states that they take to court, while the other gains influence with those parties. South Stream becomes only partially completed and emerges as a taboo-like entity in European energy policy. Although not wanting to feed what it perceives to be Russia’s energy ego by purchasing resources from the pipeline, economic necessity and the lack of viable immediate alternatives dictate the opposite. EU member states reluctantly buy gas from the Serbian segment of South Stream because, as the saying goes, “if you build it they will come”. Russia has the opportunity to expand its full spectrum relations with Serbia and Bulgaria (now on unfavorable terms with the EU). It is not certain if Greece will build its planned pipeline with Russia or not, but if it does, then Russia can use the triangle of Serbian, Bulgarian, and Greek partnerships to cast an anchor of influence into the Southern Balkans and Northern Mediterranean.

Scenario 2: The Divorce of the Century

The EU takes the extreme move to officially call it quits on its energy marriage with Russia. It places such unbearable economic and diplomatic pressure on South Stream’s partners that the project never gets off the ground, turning it into Russia’s version of Nabucco. The TTIP is signed between the US and EU and expensive LNG imports from America and the Middle East arrive on Europe’s shores. Poland (and possibly pro-EU Ukraine) fracks away at shale gas deposits, eventually turning into a significant domestic producer for the EU. As a crowning achievement of the EU’s energy pivot away from Russia, solar projects\textsuperscript{25} are developed in the Sahara and the Trans-Saharan Gas Pipeline\textsuperscript{26} from Nigeria is completed.
Russia clumsily reorients itself to China, which takes advantage of Moscow’s desperation to compensate for lost European profits by bargaining for prices below those previously offered to Europe. China’s pipeline network in Central Asia makes it so that it does not ever have to purchase as much volume from Russia as Europe did, thereby motivating Russia to resolve the Kuril Islands dispute with Japan (on favorable terms to Tokyo) in order to open up the profitable Japanese market. Advances into the South Korean market follow, and East Asia collectively replaces the EU in Russia’s energy policy after some time.

Scenario 2 Impact

The “Divorce of the Century” is aptly named, seeing as how it affects global politics for the entirety of the 21st century. Europe and Russia completely diverge from one another on the political and energy levels (business links are unaffected) and move to West Africa and East Asia, respectively. There is a rapid breakdown in trust and complex interdependence between both actors, and the security dilemma between both of them is heightened as a result. A large NATO presence in Eastern Europe (due to the Crimea Crisis and America’s renewed commitment to Europe because of the T-TIP) complicates matters and encourages Russian countermeasures. With only trade now holding these two behemoths together anymore, they begin to fiercely compete with one another as there are scant incentives pressuring them not to. This competition takes place in the lands of the EU’s Eastern Partnership (Eastern Europe and the Caucasus) and the Balkans.

Concluding Thoughts

The EU has seized the prerogative to sabotage Russia’s peaceful energy integration with the continent through its bullying of the Balkans. Under the guise of punishing Russia for its reunification of the Crimea, Brussels has undertaken an historic turn away from Moscow in order to pursue pre-planned geoeconomic (remove Russian dependency at all [unreasonably high] costs) and geostrategic objectives.
The “South Stream Struggle” and “Divorce of the Century” scenarios appear the most probable under the circumstances, but regardless of which one eventually transpires, mutual trust between the EU and Russia is forever lost and the re-securitization of energy has begun. It is not a question of whether or not the EU and Russia will diversify way from one another for their own seemingly defensive purposes, but rather the extent of these movements.

All of this began with the EU’s TEP legal objections to South Stream after construction had already begun and agreements were signed, proving that it was Brussels, not Moscow, that had taken the initiative to commence economic hostilities. The bold rhetoric and ambitious visions presented by the EU in March 2014 show that its decision makers are sure of their energy realignment plans but unsure about the timeframe of completion. Thus, the Ukrainian Crisis’ greatest legacy may not be that Crimea and Russia were reunited after half a century, but that post-Cold War Europe and Russia were divided in even less.

References


"Third package for Electricity and Gas markets." European Commission. 

"Questions and Answers on the third legislative package for an inter
ternal EU gas and electricity market." EUROPA. 


Evans-Pritchard, Ambrose. "Europe scrambles to break gas de
pendence on Russia, offers Ukraine military tie." The Telegraph. 


