

## South Stream Project and the Ukrainian Factor

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**Abstract<sup>2</sup>:** *The paper seeks to develop an analysis of the South Stream project in view of the Ukrainian crisis. We cannot put aside the internal factor as Ukraine is facing serious internal issues such as corruption and instability, therefore Russia's invasion of Ukraine can not be simply ignored in this pipeline project. The article uses mostly facts that happened throughout last years, as well as for and against declarations in the case of the South Stream project and its mother Russia. When we hear about South Stream, we think of Russia and since 2007, this pipeline has encouraged Putin's faith in energy superpower. A good point to start with was to gather all declarations since then and cover all actions that regard the South Stream game. In Russian foreign policy for the South Stream race, Soft Power was used more than enough and it has recently made room for Hard Power, which is the Ukraine never ending episode. Insights of the South Stream story have been lately related both softly and hardly, this is the reason why I have chosen to analyse both sides in order to complete the energy landscape.*

**Keywords:** *Ukraine, European Union, pipeline, South Stream, Gazprom, crisis*

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"No foreign policy - no matter how ingenious - has any chance of success if it is born in the minds of a few and carried in the hearts of none."<sup>3</sup>

(Henry A. Kissinger)

Taking a trip back in time, we can understand better the story of the project. Particularly, in 2007, Russia started a project of maximum amplitude and implication, in order to supply gas mainly for South-East Europe, via The Black Sea. The project consists mainly of a gas pipeline that will pass through the Black Sea, thus establishing a direct and reliable connection between the world's largest natural gas reserves and Europe's energy markets.

The South Stream project aims at the diversification of gas supply infrastructure routes for the safety of reliable and stable Russian natural gas supplies for the European Union.

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<sup>2</sup> This article was submitted to the RJE editors in 2014.

<sup>3</sup> Energy Diplomacy quotes, available at [http://www.brainyquote.com/quotes/authors/h/henry\\_a\\_kissinger.html#4OrKkj82gJPUBmBR.99](http://www.brainyquote.com/quotes/authors/h/henry_a_kissinger.html#4OrKkj82gJPUBmBR.99), accessed on the 1st of June 2014, 13:00

The four shareholders of the South Stream Transport AG international joint-venture are OAO Gazprom, with 50% of shares, followed by Eni S.p.A. (20% of shares), EDF (15%), and Wintershall Holding GmbH (15%) – a BASF subsidiary. These are some of the world’s leading energy companies that are active among the whole energy value chain, in electricity and natural gas.<sup>4</sup>

**Fig. 1 South Stream Route<sup>5</sup>**



The project consists of two types of pipelines, offshore and onshore. The first segment is a 900 km offshore pipeline from the Russian shore in Anapa, passing the Turkish Exclusive Economic Zone of the Black Sea at a depth of 2000 m and exiting on the Bulgarian coast near Varna. From here begins the onshore segment, crossing Serbia, Hungary, Slovenia, until reaching Italy; additional branches for Croatia, Bosnia and Herzegovina are also included.

Initially, the route options included passing through Romania’s territory, but Romania did not want to take part in the project. In fact, there are suspicions that the project is just a masked attempt of Russia to enforce its influence and deepen the economic interdependence of the European states towards Kremlin, which was also a presumed reason for Romania’s decline. Zeyno Baran sums up the situation in his research paper, *Security Aspects of the South Stream Project*: “Russia is clearly not moving in a pro-Western direction; instead, as the recent Georgian crisis has demonstrated, it is reasserting itself as a great power that can

<sup>4</sup> Zeyno Baran, *Security Aspects of the South Stream Project*, Center for Eurasian Policy Hudson Institute, October 2008

<sup>5</sup> “Rusia lanseaza constructia gazoductului South Stream”, Hot News, available at <http://economie.hotnews.ro/stiri-energie-13763564-rusia-lanseaza-constructia-gazoductului-south-stream.htm>, accessed on 13 April 2014, 15:00

challenge the post-Cold War world order. The EU must carefully assess any new strategic energy project that will increase Russian influence (and leverage) over the continent.”<sup>6</sup>

The fact that this project will bypass Ukraine’s economic exclusive zone, is a good marker of Russia-Ukraine disastrous marriage that seems to monopolize and affect the international map. Being re-routed through the Turkish waters, the project enjoys Turkey’s support for accomplishing its road to Europe.

Even though attention can be drawn upon the possibility of the project as expansion of Russian soft power, one must also take into account the numerous advantages that the project entails.

First of all, it meets the EU growing demand for natural gas, consolidating Europe’s energy security: “South Stream Offshore Pipeline will increase the security of supply of natural gas to Central and South-Eastern Europe as it creates a direct supply route and provides additional capacities. The system will contribute to European energy security in a safe, reliable, and environmentally responsible way and will help the EU member states to meet their CO<sub>2</sub> reduction targets.”<sup>7</sup> Therefore, it will cover an important part of the European Union’s natural gas import gap, making for approximately 10% of the total EU 2020 gas consumption, and providing energy for almost 30 million European households.<sup>8</sup>

Second, the alternative of natural gas takes into account the environmental issue, being the most climate-friendly, efficient, and abundant fossil fuel. Also, the project has been engaged in protecting the Black Sea environment and cultural heritage: “South Stream Transport AG will perform environmental, socioeconomic, and cultural heritage surveys to evaluate the baseline conditions of the offshore route. This will also allow us to assess the significance of potential impacts associated with project activities.”<sup>9</sup>

Third, it will be an important economic opportunity not only for Russia, but for all the partners, by the huge number of workplaces it will create as well as opportunities for contractors, and attraction for foreign investors.

Last, but not least, it is offering an alternative route to the existing ones from Russia. This role of diversifying routes is played very well by South Stream and no matter what it takes; the project will survive despite all energy wars.

Planning, licensing and construction of international pipeline investments require generally a multiple year long time frame, depending on the scale, the number and the commitment of the participants and the technology. During the planning phase, the technical, commercial and financial feasibility of the project is to be examined and the parties must agree on the plans and make investment decisions. On the technical side, the length, capacity and the different geological features of the route strongly influence the timeline of the project.

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<sup>6</sup> Zeyno Baran, *Security Aspects of the South Stream Project*, Centre for Eurasian Policy Hudson Institute, October 2008, p. iii

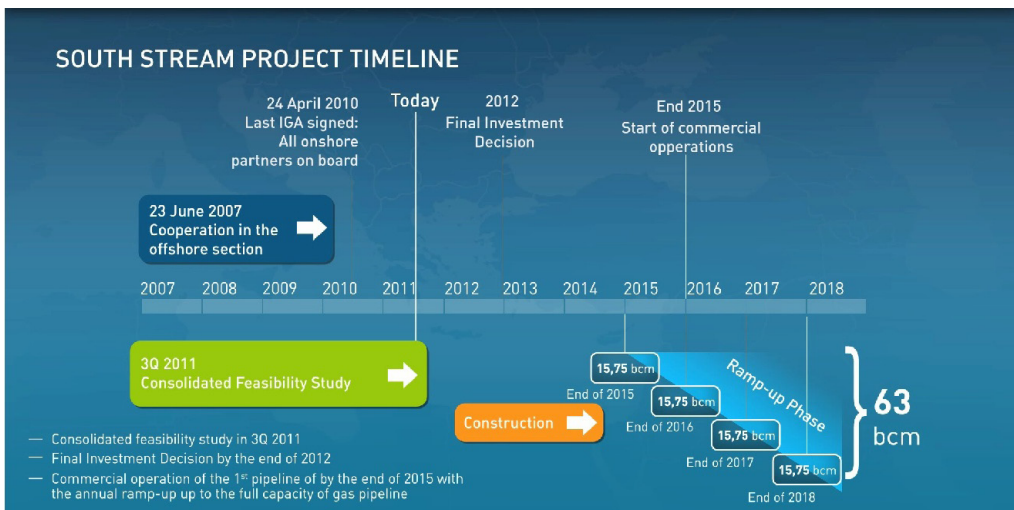
<sup>7</sup> “South Stream project”, available at [http://www.south-stream-offshore.com/media/documents/pdf/en/2012/12/ssstbv-fact-sheet-south-stream-project\\_38\\_en\\_20121206.pdf](http://www.south-stream-offshore.com/media/documents/pdf/en/2012/12/ssstbv-fact-sheet-south-stream-project_38_en_20121206.pdf), accessed on 13 April 2014, 20:00

<sup>8</sup> Idem

<sup>9</sup> Ibidem

The South Stream project was firstly announced on 23 June 2007, when Eni CEO Paolo Scaroni and Gazprom Vice-President Alexander Medvedev signed a memorandum of understanding. The memorandum contained the initial plans for the pipeline, with a planned capacity of 31 billion cubic metres (bcm), beginning in Beregovaya, Russia, and crossing the Black Sea to Varna, Bulgaria. Some 900 kilometres beneath the Black Sea were in discussion, reaching a depth of more than 2000 metres — the deepest sub sea pipeline ever constructed.

**Fig. 2 South Stream project timeline<sup>10</sup>**



By 24 April 2010, other memorandums were signed with the rest of the partners, EDF and Wintershall Holding GmbH, in the meantime having conducting also feasibility studies. The studies were finished in 2011, accelerating the decision for the final investment for 2012. Thus, although the construction was scheduled to start later, in 2013, it started on 7 December 2012.

December 31, 2015 is the date when Gazprom has scheduled the launch of the pipeline, but the partners hope to complete the project earlier if it is possible. However, the onshore section holds a risk of unexpected circumstances, which may mean a delay of the project. After this date, the extension of pipeline capacity and installation of pump stations will take place in order to continuously increase the pipeline capacity up to 63 bcm until 2018. Although this deadline is considered feasible, it is challenging especially because of the high number of involved parties.

However, there have been some events in Ukraine that shook the project in the past months. In order to better understand the phenomenon, an overview will clear up the whole picture.

<sup>10</sup> "South Stream pipeline", available at <http://www.south-stream-offshore.com>, accessed on 13 April 2014, 11:00

Over the past few years, Ukraine stood out as a very important region for both Europe and Russia, as it links them energetically and also represents a great target for each part's interests. We can say that all these years, Kiev's relationship with Moscow has been growing as a geopolitical and geoeconomic battlefield, in which Russians seek total control of Kiev's decisions. The past events in Ukraine and the ousting of president Yanukovich in February, after the street riots and the Vilnius decision in November 2013 lead to a negative position towards South Stream.

As for the Ukrainian factor in the development and future of South Stream, it is important to mention that Russia and European Union broke some ideological and strategic barriers in order to gain influence and pursue their own interest. Following the Vilnius decision, the triangle Russia-EU-Ukraine was constantly strained, and this had a domino effect on the South Stream pipeline. In this game, EU has constantly been turning some poisonous narrows and it is obvious that neither part wants to draw back in this battle for Ukraine, but it is also obvious that South Stream is as powerful as a fortress and fights back all possible attacks.

Particularly, Ukraine occupies a strategic position in the Wider Black Sea Area and in Central Europe. The strategic value of this position is determined by political, military and economic landmarks. A special relationship can be established between the strategic value of Ukraine in the context of Eastern and Central Europe and the economic and energy security of the continent. Even if they are classical and alternative to the European Union the economic and political value of the energy routes, highlights once again the importance of an independent Ukrainian state on the international arena. Obviously, Ukraine has great potential for development, including a market growth opportunity greater than the average large areas of the Black Sea area. This country behaves as a major consumer of energy and the main transit country for natural gas pipelines from the Russian Federation to EU.

In order to understand the present situation between Russia and Ukraine, concerning South Stream, we first have to look at the past issues. The origin of Russia-Ukraine gas disputes has its kernel in the Soviet period, when Ukraine was part and parcel of USSR and the pipeline system that supplied Europe with Russian gas was on Ukrainian land. Due to the small prices of internal Soviet gas and due to the subsidizing prices employed in the former Soviet Republics after the dissolution of USSR, many Central and East European countries developed inefficient internal industries. While Russia strived to raise the gas price for the former Soviet Republics, Ukraine took advantage of the fact that 80% of the gas exports to Europe move across its territory and used this transit monopoly to keep gas prices low for Kiev<sup>11</sup>.

Gas disputes and several conflicts between Moscow and Kiev appeared in 1990 and 2000, reaching its peak on January 1, 2006, when Gazprom cut supplies to Ukraine because of the failure to reach an agreement for a proper market of Russian gas. At that time, Russia was accused of trying to punish Ukraine for attempting to withdraw from Moscow's sphere

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<sup>11</sup>Andres, Richard B. and Michael Kofman and Micah J. Loudermilk, "Solutions for Russian-Ukrainian Gas Brinksmanship", *Journal of Energy Security*, March 2011, available at [http://www.ensec.org/index.php?option=com\\_content&view=article&id=287:thinking-about-solutions-for-russian-ukrainian-gas-brinksmanship&catid=114:content0211&Itemid=374](http://www.ensec.org/index.php?option=com_content&view=article&id=287:thinking-about-solutions-for-russian-ukrainian-gas-brinksmanship&catid=114:content0211&Itemid=374), accessed on 30 May 2014, 12:00

of influence and to strengthen ties with the European Union and NATO<sup>12</sup>. A short time afterwards, the head of Gazprom tried to maintain its company reputation worldwide by blaming Ukraine for all gas turmoil that might affect European consumers in the future. Since then, Ukraine continued to receive gas at a lower price than European consumers and the gas volumes distributed to these consumers weren't damaged in any way by these disputes until 2009. At that point in time, Kiev found itself at a terrible turning point when Russia decided to cut gas supplies to Ukraine starting with January 1, 2009. The reason was a simple one: Ukraine did not fulfil its payment at the end of 2008 for the gas supplied up to then.

Furthermore, Ukraine started to withdraw gas "reportedly needed to fuel the compressor stations on the transit pipelines moving the gas across Ukraine to European consumers with amounts reaching an average of 22 million cubic meters per day".<sup>13</sup> As prosecution, Russia also minimized transit volumes and supplied additional volumes to the European market, using other pipelines, but these extra volumes weren't enough to counterbalance the losses scored up to then.

Immediately after cutting the gas supplies in Ukraine, Vladimir Putin, in a meeting with the head of Gazprom Aleksei Miller, taking place on 6 January 2009, blames Kiev for stealing the gas of European consumers, who conscientiously bought and paid for the supplies.<sup>14</sup> According to Putin, the gas sent from the Russian gas company to the territory of Ukraine for the Western partners, "certainly cannot be considered contraband".<sup>15</sup>

In turn, speaking about the situation in the Balkan area, Miller said that Ukraine has covered the supply of Russian gas in this direction. Also, Miller added that Gazprom supplies the gas transportation system of Ukraine with the necessary volume of gas to the West, which is optimised to the maximum taking into consideration the fact that gas flows in the Yamal-Europe direction: "As for the gas supply to the border of Russia and Ukraine, we serve gas based on requests from customers, minus the volume of gas that Ukraine had stolen from Russia".<sup>16</sup>

As a consequence, many European natural gas importers had their business halted, even the main importer countries - such as Germany, France and Italy, and perceived as threatening the decrease of gas supply.

Below there is a map that shows the major damage produced by the gas crisis as more than 15 countries across Central Europe have been hit by the shutdown of Russian supplies. (See Fig. 3)

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<sup>12</sup> Paskhaver, Peter, "The Ukrainian Political and Economic Readiness for Integration into the European Union", May 2006, available at [http://www.stern.nyu.edu/cons/groups/content/documents/webasset/con\\_043281.pdf](http://www.stern.nyu.edu/cons/groups/content/documents/webasset/con_043281.pdf), accessed on 30 May 2014, 12:00

<sup>13</sup> Ebel, E. Robert, "The Geopolitics of Russian Energy, Looking Back, Looking Forward", *Center for Strategic & International Studies*, (July 2009, Washington, DC), available at [http://csis.org/files/publication/090708\\_Ebel\\_RussianEnergy\\_Web.pdf](http://csis.org/files/publication/090708_Ebel_RussianEnergy_Web.pdf), accessed on 30 May 2014, 12:00, p. 10

<sup>14</sup> "Putin: Ukraina ukrala gaz u evropejskih potrebiteli, kotorie za nivo zaplatili.", *Korrespondent*, January 6, 2009, available at <http://korrespondent.net/world/russia/702079-putin-ukraina-ukrala-gaz-u-evropejskih-potrebitelej-kotorye-za-nego-zaplatili>, accessed on 30 May 2014, 13:00

<sup>15</sup> Idem

<sup>16</sup> Ibidem



Fig. 3 Countries affected by crisis<sup>17</sup>

After 13 January 2009, the gas flow started again but only for European consumers, bypassing Ukraine. However, as Russia accused Ukraine of blocking the gas transit, later on the Ukrainian President explained that a multiple pipeline system does not allow transportation in a specific direction.<sup>18</sup> More than that, the Ukrainian President Viktor Yushchenko said that Kiev is ready to ensure the transit of Russian gas to West if Moscow fully resumes fuel supplies to the Russian-Ukrainian border: “It demeans national pride, it demeans the honour of the state, where dozens of voices repeat that Ukraine committed a theft, without doing a single step to prove it in the context of arbitration, and to establish the truth through the courts. And that’s why we insist on the purpose of a European

<sup>17</sup> “Russia gas ‘flows back to Europe’”, *BBC News*, 13 January 2009, available at <http://news.bbc.co.uk/2/hi/europe/7825476.stm>, accessed on 30 May 2014, 13:00

<sup>18</sup> “Виктор Ющенко: Украина не может качать то, чего нет”, *BBC Russian*, 15 January 2009, available at [http://news.bbc.co.uk/1/hi/russian/international/newsid\\_7832000/7832291.stm](http://news.bbc.co.uk/1/hi/russian/international/newsid_7832000/7832291.stm), accessed on 30 May 2014, 13:00

Commission, whose aim should be to achieve an assessment of why it happened and who is to blame. Allocate a separate question - in terms of unpleasant comments as a citizen, as President: Ukraine behaved especially in accordance to the unauthorized selection of the Russian gas"<sup>19</sup>.

In order to solve gas disputes, on January 17, 2009, Russia and Ukraine held a summit where a number of agreements were reached. In particular, it was decided for the first time that Gazprom will sell fuel to Naftogaz Ukraine without any intermediary - for 10 years. In addition, the Ukrainian side has agreed to buy Russian gas at a price that takes into account a 20% discount from the European side<sup>20</sup>. According to Prime Minister Yulia Tymoshenko, who was holding talks with her Russian counterpart, the respective contract would avoid future difficulties with the transit and gas supply as the process of establishing the price of gas would be predictable: "This is definitely an item and Ukraine's energy independence and I pledge for our normal relations".<sup>21</sup> In addition, Tymoshenko said that Ukraine will resume gas transportation to Europe immediately after the Gazprom begins to pump it into the gas transportation system of the country, assuring that Ukraine will respect its payment deadlines. At the same time, Vladimir Putin said that signing a contract with Ukraine does not require additional control over the transit of Russian gas.<sup>22</sup>

Strategically speaking, Russia has used its natural gas exports to put pressure on Ukraine. Some of the objectives were preventing Ukraine to join NATO and the EU, and fighting to get international support for the South Stream pipeline, considered to be another purpose to gain possession over the Ukrainian transit pipelines. The Russian Federation conducts a complex political relationship with Ukraine. For Moscow, Ukraine's accession to Euro-Atlantic structures would, among other things, signify the loss of any possibility to take full control over the strategic energy route in EU. In order to prevent this nightmare scenario, Russian policymakers employ various methods of action like blackmail combined with economic benefits; direct and indirect political interference in internal affairs; discouraging Ukraine's partners, such as Georgia, Azerbaijan, Turkmenistan, Kazakhstan and also European countries; encouraging energy cooperation between the Russian Federation, Turkey, Bulgaria, Romania, Serbia, Hungary, Austria; growing special energy relations with Germany, France and Italy, countries with important role in Europe.

Another intention of Moscow was to diminish public support for pro-Western leaders of the Orange Revolution in Ukraine in order to help restore a pro-Russian leadership in Kiev. From the perspective of its customers, the dispute has reduced Europe's confidence, both in Russia as a supplier, after the dispute in 2006, and in Ukraine as a reliable transit country, prompting a renewed interest in pipeline projects that will bypass Ukraine. And here is where South Stream project was revealed.

Following the disputes between Russia and Ukraine, the European Union renewed energy security discussions and declared its objectives to seek stable sources of energy, thus focusing on North Africa and Central Asia. Russia took advantage of this panic of energy

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<sup>19</sup> Idem

<sup>20</sup> Gazprom i Naftogaz zaklucili kontrakt na postavki gaza", Lenta ru, January 19, 2009, available at <http://lenta.ru/news/2009/01/19/contract/>, accessed on 30 May 2014, 14:00

<sup>21</sup> Idem

<sup>22</sup> Ibidem



consumption to push on more political and economic support for South Stream, which will pass under the Black Sea, in competition with Nabucco (a pipeline linking directly Europe with Central Asia, bypassing Russia). The purpose of this project is obviously to bypass Ukraine.

Considering the South Stream project as a way of disciplining Ukraine and other transit countries, Vladimir Putin was convinced in 2009 that “diversification of our hydrocarbons will increase their stability and reliability. It will discipline, including our partners in transit [...] I very much hope that our main transit partner - Ukraine - will perform its contractual obligations in accordance with the contract signed in January 2009. If transit countries will fulfil their obligations, there will not be any problems from our side.”<sup>23</sup>

Some declarations make clear the fact that Ukraine feels left behind after the 2006 and 2009 consequences, and strives to overpass the crisis and reset its relation with Russia. In 2010, Yanukovich predicted a decrease of gas transit through Ukraine as the South Stream pipeline will be launched. He pointed out the difference in gas supplies registered since 2007 when Ukraine pumped 125 billion cubic meters of gas to its gas transportation system, while in 2009 this amount decreased by 20%<sup>24</sup>. The winner of the first round of elections in Ukraine said that Ukraine should thus compensate the loss from minimizing gas transit through its pipeline: “Within five years, if these two pipeline are build (North Stream and South Stream), we will lose another 50-60 billion cubic meters and we will stay like a dog in the manger for this pipeline”<sup>25</sup>. He further on stated that Ukraine should take part in the construction of the South Stream pipeline: “I will raise the issue of Ukraine’s participation in the consortium for the construction of the North Stream and South Stream”.<sup>26</sup> Yanukovich also convinced the press that Ukraine should thus defend its national interests in the energy sector. In particular, he believes that Ukraine should receive guarantees from Russia and the European Union for pumping annually a certain volume of gas through its gas transportation system.<sup>27</sup>

A significant pressure on Russia’s South Stream project was felt also in 2011, when President Viktor Yanukovich, speaking at the 8th Yalta Annual Meeting, proposed to implement South Stream on Ukraine’s territory: “South Stream must go on land to the south of Ukraine: this project is much cheaper than 25 billion euros as South Stream is evaluated today. Ours will be 5 times cheaper. We offer our partners in Europe and Russia flexible approach to cooperation”.<sup>28</sup> An answer to this offer came immediately, as Gazprom apparently did not have to think long. Gazprom’s Deputy chairman Valery Golubev said that the construction of South Stream, which is supposed to be laid from

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<sup>23</sup> “Putin hocet distiplinirovati Ukrainu i grozit opiate ostavit Evropu bez gaza, Polit, November 11 2009, available at <http://polit.ru/news/2009/11/11/discipline/>, accessed on 30 May 2014, 14:00

<sup>24</sup> Idem

<sup>25</sup> Ibidem

<sup>26</sup> “Ianukovici: Ukraina daljna stroiti i Iujnii i Severnii potoki”, Korrespondent, 20 January 2010, available at <http://korrespondent.net/business/1038197-yanukovich-ukraina-dolzha-stroit-i-yuzhnyj-i-severnij-potoki>, accessed on 30 May 2014, 14:00

<sup>27</sup> Ibidem

<sup>28</sup> “Iujnii Potok “: suhoputnii variant Ianukovicia”, INTERFAX, September 16th 2014, available at <http://www.interfax.ru/business/208151>, accessed on 30 May 2014, 14:00

Russia to Europe under the Black Sea, is not economically feasible through the territory of Ukraine: "It would be possible to navigate through Crimea, to go further in Yalta - the Black Sea, but what's the point when you can just go directly".<sup>29</sup>

Another historical crossroad in Russia-Ukraine-EU triangle was the **Vilnius point** in November 2013, when Ukraine, under Russian pressure, refused to sign the Association Agreement with EU and closed the EU door after several months of negotiations between Brussels and Kiev to try solving the case of the imprisoned opposition leader Yulia Tymoshenko. This refusal sparked the anger of pro-European opposition, leading to massive protests in Kiev reminding of the Orange Revolution in 2004. The post-Vilnius tensions in Ukraine reached a boiling point and degenerated into street confrontations, abuse of authority and violence, amid organizing massive protests in urban environments, especially in the capital and in the west. Clashes have already resulted in deaths and hundreds of people injured.

This is, in a nutshell, the strained political landscape of the past several months, captured in a picture which can evolve in any direction, including escalating violence and splitting the society between pro-European (Western and Central regions) and Russian-speaking people (major industrialised centres in the East).

Located in a significant geopolitical corner of the continent, measuring a game of power among different blocks of interest, Ukraine is now a high stake for both Russia and the West. After scoring high on the international scene in 2013, Putin has been facing a situation of losing control over Ukraine. The President of the Russian Federation had a successful 2013 year in foreign policy as he blocked the last minute military intervention of U.S. in Syria. More than that, Putin has brought Iran to the negotiating table and shocked the party leaders at the European Summit Vilnius as four of six Eastern Partnership member states have turned towards Russia, giving up the Association Agreement. To understand the foreign policy of Ukraine under President Viktor Yanukovich, we must take into account that since his accession to power in 2010, he leads the government and the majority in Parliament. Therefore, Kiev's decision at Vilnius can be seen as the *survival strategy* of Yanukovich regime and Russia will continue its attempts to draw Ukraine into the Customs Union.

Shortly after Vilnius Summit in November 2013, Ukraine had a decisive influence over South Stream, as every step of the way Russia had to face many attacks pointed by EU and US. The first obstacle was at the beginning of December 2013 when the European Commission accused the South Stream project of not complying with EU law and Third Energy Package standards, accusations that will be withdrawn at the end of January 2014. More details on this issue will be presented in the next chapter. Further on, in mid-December, after a meeting in Moscow with Viktor Yanukovich, Putin promised to lend Ukraine \$ 15 billion in purchases of bonds issued by the Finance Ministry in Kiev in 2013 and 2014, and to reduce the price of gas by one-third to keep the former Soviet Republic on

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<sup>29</sup> "Ianukovici predlozil prolajiti lujnii Potok cerez Ukrainu", 16th September 2011, available at <http://www.newsru.com/finance/16sep2011/yanuk.html>, accessed on 30 May 2014, 14:00

the Russian orbit.<sup>30</sup> As protests went on and sanctions on Russia intensified, Putin changed his mind after annexing Crimea to Russia and announced through his spokesman, Dmitri Peskov that “the prospective of reducing the price of gas to Ukraine in exchange for using the Black Sea Fleet base no longer exists”<sup>31</sup>. This decision was explained by the fact that the Ukrainian side did not comply with the agreement signed in December, which provided not only the price cut, but also the debt repayment of Naftogaz. Accordingly, March 7 was the deadline set for the payment of gas supplies in February and Ukraine did not pay for Russian gas supplies in February, consequently the debt rose to 1.89 billion dollars: “It means that Ukraine has ceased to pay gas. We cannot deliver gas for free. If Ukraine will not adjust arrears, there is a risk to go back to 2009 crisis”<sup>32</sup>. Therefore, on 4 March 2014, the Chairman of Gazprom - Alexey Miller in a meeting with Russian Prime Minister Dmitry Medvedev announced that starting with April 2014, Gazprom will cancel discount on gas supplies to Ukraine.

Also, later in April 2014, there were EU attempts to freeze the construction of South Stream pipeline. This decision could be the first serious sanction against Russia. The European Commission President Jose Manuel Barroso in a meeting with Bulgarian politicians warned Bulgaria to be very careful as there are people in Bulgaria who are Russian agents, who tried to lobby for a bilateral agreement with Kremlin.<sup>33</sup> At that moment, Brussels considered South Stream project, which is built on huge contracts with oligarchs close to Putin, as a dead project, although its plans for construction are still alive.<sup>34</sup>

Further attempts on freezing the pipeline continue in May, when the European Commission requested the suspension of the South Stream pipeline project. As a response to this pressure, Vladimir Putin declared that South Stream could consider bypassing EU: “If we continue to have any problems regarding South Stream and Brussels constantly puts a spoke in South Stream’s wheel - we will consider other options - through countries that do not belong to the EU. Just give the EU another transit country. Why Brussels is doing this, I do not understand. But we are confident, to realize these projects - the South Stream and North Stream”.<sup>35</sup>

Since April 1, Russia cancelled all Ukrainian gas discounts, bringing a raising price of \$485 per thousand cubic meters. In addition, Ukrainian authorities have repeatedly underlined that new prices are too high and stated that they are ready to extinguish the debt, but under the condition that the price will return to the level of 268.5 dollars<sup>36</sup>. In

<sup>30</sup> “Ukraina i Rossia: bratzkie obiatyia opasno krepchaiut”, UNIAN, 17 December 2013, available at <http://www.unian.net/politics/864706-ukraina-i-rossiya-bratzkie-obyatyia-opasno-krepchayut.html>, accessed on 30 May 2014, 14:00

<sup>31</sup> “Peskov ni vidit osnovanii dlia skidok na gaz dlia Ukraini”, RIA Novosti, 25 March 2014, available at <http://ria.ru/economy/20140325/1000973996.html>, accessed on 30 May 2014, 15:00

<sup>32</sup> “Gazprom prigrozil ustanovit postavki gaza na Ukrainu”, NEWS Ru, March 7 2014, available at <http://www.newsru.co.il/finance/07mar2014/gaz8020.html>, accessed on 30 May 2014, 15:00

<sup>33</sup> “ES mojet zamorazit stroitelstvo Lujново Potoka”, *Ekonomichnaia Pravda*, 8 April 2014, available at <http://www.epravda.com.ua/rus/news/2014/04/8/436418/>, accessed on 30 May 2014, 15:00

<sup>34</sup> Idem

<sup>35</sup> “Putin: RF mojet rasmotrivati marshruti Lujново Potoka v obhod Evrosoiuzia”, RIA Novosti, 24 May 2014, available at <http://ria.ru/economy/20140524/1009176187.html>, accessed on 30 May 2014, 16:00

<sup>36</sup> “Putin ne ponimayet, pochemu RF dolzhna snizit’ tsenu na gaz dlya Ukrainy”, RIA Novosti, 24 May 2014, available at <http://ria.ru/economy/20140524/1009167281.html>, accessed on 30 May 2014, 17:00

this respect, Putin reported that “our Ukrainian partners stopped regular payments since July last year. Now we hear that we need to reduce the gas price. And why should we? Contract is not provided.” Pointing out some facts, Putin revealed the following: “I present real facts: in good times we gave discounts of \$100 per thousand cubic meters as payment for our fleet base in Crimea. I suppose that someone does not recognize the fact that Crimea democratically joined the Russian Federation and for some reason it refuses to recognize people living in the country to self-determination. Let’s not go into that part of the problem.”<sup>37</sup>

Regarding the construction of the Bulgarian section of South Stream, with a length of 541 kilometres, due to begin this summer, an assertive move took over the press at the end of May 2014 when Jose Manuel Barroso warned the Bulgarian Prime Minister Plamen Oresharski that Bulgaria will be sanctioned if it does not conform with European rules: “I told the Council of Europe that some agreements that have been discussed and continue to be discussed in relation to South Stream, are not complying to EU rules. We will, of course, act in this regard. And today I informed about the Prime Minister’s intentions over this aspect. It is a must that our domestic market rules are respected.”<sup>38</sup> This measure is seen as one of Russia’s punishment for abuses in relation to Kiev, after the annexation of Crimea and maintaining a tension of possible civil war in eastern Ukraine. Alexei Miller answered roughly to Barroso’s move: “The European Commission cannot stop the construction; nobody can forbid us to build something. And our answer is very simple. Already in December next year, the first marine gas pipe will go through the Black Sea to Bulgaria and to the European Union.”<sup>39</sup>

In addition, the Russian Energy Minister Alexander Novak said in May that the aggravation of the situation around Ukraine emphasizes the importance of the project South Stream. However, in mid-May the company South Stream Transport BV, operator of the offshore section of South Stream, entered into all contracts necessary to begin construction in the fall of 2014. The winner of the tender for the construction of the South Stream gas pipeline in Bulgaria declared *Sroytransgaz consortium* consisting of the Russian company *Sroytransgaz*<sup>40</sup>, controlled by Russian billionaire Gennady Timchenko<sup>41</sup>.

Going back to Ukraine-EU-Russia triangle, we can say that regardless of gas prices, Kiev has no money to pay the duty, which is now extending up to 3 June. In fact, Gazprom may suspend gas supplies to Ukraine, if Kiev does not pay its debts. Solutions came out as Europe expressed its interest to help the Ukrainian debt as on 30 May, the EU Commissioner Oettinger testified that EU needs the Ukrainian pipeline as neither North Stream nor South Stream can solve the present problems of 2014: “It is our job to pay Gazprom directly. But

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<sup>37</sup> Idem

<sup>38</sup> Barrozu predupredil o reaktsii EK pri narushenii norm ES “Yuzhnym potokom”, *RIA Novosti*, 28 May 2014, available at <http://ria.ru/world/20140528/1009639069.html>, accessed on 30 May 2014, 17:00

<sup>39</sup> Miller: Nam nikto ne mozhet zapretit’ stroit’ «Yuzhnyy potok», *Vzgliad*, 31 May 2014, available at <http://www.vz.ru/news/2014/5/31/689386.html>, accessed on 31 May 2014, 11:00

<sup>40</sup> “Sroytransgaz” - one of the companies that came under sanctions in connection with the situation in Ukraine.

<sup>41</sup> “ Miller: Nam nikto ne mozhet zapretit’ stroit’ «Yuzhnyy potok»”, *Vzgliad*, 31 May 2014, available at <http://www.vz.ru/news/2014/5/31/689386.html>, accessed on 31 May 2014, 11:00

we need to help Kiev pay the debt.”<sup>42</sup> EU announced that it will allocate 2 billion dollars financial assistance to Ukraine, but “it is Kiev’s own decision how specifically it will pay the money for the gas.”<sup>43</sup>

In conclusion, South Stream will not be disturbed by any Ukrainian crisis and the problems between Moscow and Kiev will not affect the implementation of the project. More than that, gas disputes between the two countries will not come to an end as both parties need one another for different high purposes. It is possible that 3 June will be prolonged and Russia’s interest is to keep close ties with the former Soviet Republic and counterattack Brussels. Additionally, European Union has also an important mission to support Ukraine even if that requires paying Kiev debts. Now, after signing an Association Agreement with EU, Ukraine has a big price on its head and Europe is confident that by helping Ukraine in a moment of despair, it can sign an Association Agreement and make Brussels the second mother care of Kiev.

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<sup>42</sup> “Yevrokomissar: Ukraina gotova 29 maya zaplatit’ “Gazpromu” \$2 mlrd.”, *War and Peace*, 27 May 2014, available at <http://www.warandpeace.ru/ru/news/view/90820/>, accessed on 31 May 2014, 11:00

<sup>43</sup> Idem

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