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## South Stream to Change Direction. Russia Cannot be Squeezed Out of Energy Market

Dmitry MININ

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During his trip to Turkey Russian President Vladimir Putin announced the decision to give up the [South Stream pipeline project](#) in favor of a new route redirected to Turkey. An important event preceded the statement. Israel proposed that EU countries invest in a multi-billion euro pipeline to carry its natural gas to the continent. At the international conference «Building Euro-Mediterranean Energy Bridge» that ended in Rome in mid-November Israel's Minister for Energy Silvan Shalom described a project for transportation to Europe of gas produced in the Eastern Mediterranean to Vice-President of the [European Commission](#) and Commissioner for Energy Union Maros Sefcovic. Shalom ensured Sefcovic that the gas resources in the huge

offshore deposits Tamar and Leviathan (240 and 480 billion m<sup>3</sup>, respectively) may be directed to Europe through Cyprus and Italy at a «special price». He openly stated that the project may lessen the EU's dependence on Russian gas supplies.

*In a nutshell, the internal consumption demand is not sufficient while Israel hits snags on the way as it tries to export its gas abroad. The Israeli government decided to grab the opportunity and seize the traditional Russian share of the market as [the South Stream](#) ran into difficulties and tensions around Russia were running high.*

The project was a key element of the plan to change the route of gas supplies to Europe redirecting it from the east (latitudinal direction) to the south (meridian direction or Southern Middle East). The Israeli gas supplies were to be followed by deliveries from Qatar and other countries of the Persian Gulf. On December 4-5, Federica Guidi, the Italian Minister of Economic Development, introduced her European colleagues to the project. The recent agreement reached by the Russian leader with Turkish President Erdogan in Ankara is a serious blow against these plans.

At first Israel tried to achieve an [understanding with Turkey](#) on building a pipeline through its territory as the best way to make gas supplies reach Europe at the lowest cost. Western strategists believed that the gas supplies from Qatar could be added after a peaceful settlement (meaning the coming to power of a pro-Western regime) is reached in Syria. The Turkish government was wise enough to reject these dubious proposals in favor of more viable options. Israel has already started to extract its offshore gas and is holding talks on its transportation without having solved a single legal issue with the neighbors. Palestine, Lebanon, Syria and the Turkey-controlled part of Cyprus also make a claim to the offshore gas deposits. The prospects of having all EU members endorse an agreement with Israel are extremely bleak, especially as many EU members recognize the Palestine state rights (Sweden has recognized this right and France is on the way). Approving the Israeli project would be a fragrant violation of international law and entail numerous legal actions. Ankara claims to be the leading supporter of Palestine as it seeks to boost its clout in the region.

The sea route project offered by Silvan Shalom sounds more like a reckless scheme. Turkey treats the Israeli plan with skepticism (especially after the issue was discussed with Moscow). Israeli experts say the Israel-Cyprus-Greece-Italy pipeline project is hardly feasible [and viable](#).

The plans envision laying a 1500 km long and 3000 meters deep sea bed pipeline with the estimated cost of \$15 billion. As practice shows, normally the final cost happens to exceed 2-3 times the initially planned expenditure. If implemented it would be the longest sea-bottom pipeline in the world with the capacity limited by 10 billion cubic meters a year – no match for the 63 billion cubic meters capacity of the South Stream. The project is doomed to be unprofitable. The ecological, economic and technical problems mentioned by Europeans in regard to the South Stream will not disappear. To the contrary, they will become much more complicated. Finally, Turkey has refused to allow the pipeline from Israel to run across its territory and it hardly has any interest in a route going around its seashore. Ankara can stop the project. The Putin-Erdogan agreement on the construction of 63 billion cubic meters capacity pipeline going to the Greek border makes the Israeli project senseless.

The Russia - Turkey agreement has also become feasible because there is no chance for the Qatari gas to reach Europe across the territory of Syria. First, no matter all the attempts to overthrow it, including the support of Turkey of anti-government forces in Syria, the regime of Bashar Assad has proven its ability to survive. Second, if removed, there is a slim chance the forces loyal to Ankara will come to power. To the contrary, there is a great probability Turkey will have to deal with Muslim radicals hostile to Ankara. With prospects for gas deliveries from the Persian Gulf vanished, Turkey will inevitably lose interest in changing power in Syria. This is another implication of the Putin-Erdogan agreement.

*The European Union cut off its nose to spite its face when it was creating obstacles on the way of the South Stream making it possible for Moscow to introduce drastic changes into its gas export policy (adding latitudinal and meridian directions).*

There is no serious alternative to Russian gas looming in the East. The Nabucco project was buried in 2013. The prospects for gas coming to Europe from Iran are nothing but empty talk. Nobody wants to substitute the «dependence» on Moscow with the «dependence» on Iran. The only viable European source of gas, except Russia, is the Trans Adriatic Pipeline or TAP - a pipeline route to transport natural gas from the Caspian Sea (natural gas from the second stage of the Shah Deniz-2 gas field development in the Azeri section of Caspian Sea) starting from Greece via Albania and the Adriatic Sea to Italy and further to Western Europe. With its limited capacity of 10 billion cubic meters and rather small deposits, it is no match for the pipelines coming from Russia. The estimates of Shah Deniz-2 gas field reserves have been lowered a number of times. TAP is most likely a competitor to the Israeli project because the both are to be stretched to the very same point in southern part of Italy. At that Italy will be first to receive the gas coming from Azerbaijan. The Russian and Azeri gas flows may converge at some point to optimize the expenditure.

*The much talked about US supplies of expensive shale gas to Europe have gone in smoke due to high costs. There is no alternative to Russian gas in Europe, at least in the near future.*

Does the agreement reached in Ankara make the South Stream dead? True, the project in its previous form is a thing of the past. Russia may get back to it but only on its own terms. The time is right to concentrate on the new project. Many experts believe that the route should be continued from the point at the Greek border. The EU has done its best to hinder the South Stream so now it will have to shoulder the financial burden. If Brussels wants to optimize the expenditure according to the wishes of interested member-states, then it will have to make gas flows follow the previously planned route across Greece and Macedonia to Serbia, Hungary and Austria. Some efforts have already been applied to start the construction. It may make the route longer but will not require additional expenditure unavoidable in case of sea bed pipeline construction.

*The only country to be left out will be Bulgaria as it failed to make an independent decision and couldn't resist the pressure to reject the South Stream.*

With its economy in doldrums, Bulgaria will suffer many more losses: €3 billion of investments and profits from transit pays (€450 million a year) going to the Bulgarian neighbors to boost their

positions as regional rivals. This is not the first time the leadership of this Russia-friendly country takes such steps.