

# Putin halts South Stream pipeline

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At a press conference in Ankara, Turkey on Monday evening, Russian president Vladimir Putin announced that the South Stream gas pipeline would not be built. The head of Russian energy giant Gazprom, Alexei Miller, confirmed the news, “That’s it. The project is over.”

The €40 billion (\$50 billion) pipeline was to have transported Russian gas from the Black Sea coast through Bulgaria, Serbia and Hungary to Austria, bypassing Ukraine en route. Another pipeline would have supplied Italy via Greece. It was to have had an annual capacity of 63 billion cubic metres, one-tenth of Europe’s total gas demand. Gazprom has already invested €8 billion (\$9.4 billion) in the project.

Putin blamed the European Union (EU) for the project’s abandonment. “If Europe doesn’t want this project, then it won’t be realised,” he said. “Instead we will supply our energy sources to other regions in the world.”

The European Commission has been working to torpedo the construction of South Stream for some time. They viewed the project as an attempt to increase Europe’s dependence on Russian energy supplies, and to bring Eastern European countries, particularly Bulgaria and Serbia, under Russian control.

To block South Stream, Brussels pursued the rival Nabucco project in close cooperation with Washington. This would have given Europe access to the large gas fields in Central Asia via Georgia and Turkey, while avoiding Russia as a transit country. Former German foreign minister Joschka Fischer worked for a time as a lobbyist for the project, but in 2013 Nabucco was abandoned due to the costs involved.

In 2009, the EU passed a regulation that banned the combination of gas extraction, transport and sale within one firm. This was directed principally at Gazprom and was repeatedly used to put obstacles in the way of South Stream’s construction.

The European Commission moved energetically against South Stream following the outbreak of the Ukraine crisis. It put considerable pressure on Serbia and Bulgaria to halt construction of the pipeline. In June, Bulgarian interim Prime Minister Plamen Oresharski called a halt to construction, and the current Prime Minister, Boyko Borisov, has maintained this stance following parliamentary elections. As a result, Putin accused Bulgaria, in Ankara, of being “incapable of behaving like a sovereign state.”

Along with the EU’s political pressure, economic factors led to the project’s abandonment which are, in part, connected with the Ukraine crisis. Due to the sanctions imposed on Russia, it is increasingly difficult for Gazprom to provide the funds for the level of investment required for the project.

The price for gas, which is linked to that of oil, has dropped sharply over recent months, calling into question the viability of the project. The demand for gas in Europe is also much less than previously assumed due to the sustained recession. The London-based Oxford Institute of Energy Studies predicted that demand would decline from 594 billion cubic metres in 2010 to 564 billion in 2020, and that by 2030, it would increase only slightly to 618 billion cubic metres.

Most of the Western media welcomed the end of South Stream. The *New York Times* described it as a “diplomatic defeat” for Putin, the *Frankfurter Allgemeine Zeitung (FAZ)* headlined a piece, “Putin’s defeat,” and *Bloomberg* remarked, “By successfully blocking South Stream, the EU has signaled political support for Ukraine and boosted its economic prospects.”

There were concerned comments, however, not only from countries that would have profited from transit fees and supply security like Serbia, Hungary, Bulgaria and Austria, or the firms involved in the project such as Italy’s Eni, France’s EDF, Austria’s OMV and

Germany's Wintershall. The possibility that Russia would combine the halting of South Stream with a new foreign policy orientation, striving for closer ties with NATO member Turkey, also caused alarm. In this respect German weekly *Die Zeit* wrote of a "geopolitical earthquake."

Putin and Miller signed a declaration of intent with Turkey in Ankara for the expansion of the underwater Blue Stream gas pipeline, which links Russia directly with Turkey, as well as the building of an additional pipeline with the same capacity as the failed South Stream project. Just a quarter of the gas supplied will remain in Turkey, while the rest will flow through Greece and onwards to Europe.

Turkish newspapers celebrated this as a Turkish-Russian energy alliance. NATO member Turkey would thus become a centre for the export of Russian gas. This would in turn affect plans for the trans-Anatolian and trans-Adriatic pipelines (TANAP and TAP), which were built as replacements for the Nabucco project. Instead of reducing Europe's dependence on Russian gas, they could now be used to transport Russian gas to Europe. "The partnership with [Turkish president Recep Tayyip] Erdogan is an opportunity for Putin to maintain his influence on supplying Europe with energy," commented *Die Zeit*.

The energy agreement with Turkey is part of a broader strategic reorientation. Last summer, Russia signed a major deal to supply gas to China. Along with the supply of gas, Russia has also agreed to the building of Turkey's first nuclear power plant and a vast expansion of trade in both directions. Turkey will thus benefit directly due to the sanctions imposed by the EU and United States.

Nonetheless, major tensions continue to persist between Russia and Turkey. In Syria, Russia has backed President Bashar al-Assad, while Turkey has sought his violent overthrow. In addition, the Turkish-speaking Tartars in Crimea have a strong lobby in Turkey that opposed Crimea's annexation by Russia. It is to be expected that Brussels and Washington will deliberately stir up these tensions to prevent closer cooperation between Russia and Turkey.

Another consequence of the ending of South Stream is causing concern for European governments. They backed the coup in Ukraine and the signing of an association agreement with Kiev so as to bring Ukraine

into NATO's sphere of influence and isolate Russia. But they never intended to financially assist Ukraine. Now they will continue to be dependent on gas flowing through Ukraine's decrepit pipelines. "The EU will have to put more effort, money and political capital into this country than they had ever planned prior to the Maidan uprising," complained the FAZ.



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