Not even Nostradamus could foresee that Russia would drop the South Stream gas pipeline

Elkhan Nuriyev, DAAD Senior Policy Fellow German Council on Foreign Relations, BREC Global Energy Associate

- No surprise at all. In reality, it is a well thought-out and calibrated strategy of President Putin. It is about the Kremlin's new geopolitical energy calculus at the high-stakes Eurasian game.
- And yet, the EU and Russia are entering into a period that is likely to bring even greater change than they have seen in the past twenty years. There are urgent demands for new ways of cooperation on a variety of new challenges lurking on the horizon.

Mehmet Ogutcu, Bosphorus Club President, BREC Global Energy Associate

- Putin came together with his 10 ministers for the 4th joint cabinet meeting, a practice that started in 2010. Both 'Sultan' and 'Czar', excluded and kept at bay by the West, have committed to working together.
- Russia is Turkey's critical strategic partner not only for energy but also in construction ($50 bn), tourism (4 million tourists this year from Russia), defence procurement and trade ($33bn now to $100 bn by 2020), and investment. Hence, there is a package deal agreed at highest political level stipulating a 'win-win' partnership. The Rosatom-led nuclear energy plant ($20 bn) in Akkuyu received an environmental impact assessment two days before Putin's visit.
- Gazprom CEO Miller announced the construction of a 63 BCM gas pipeline to Turkey, 14 bcm which is to substitute the gas from Ukraine. A preliminary MOU was signed. 50 bcm of Russian gas will be collected at the Turkish-Greek border for sales to Europe.
- Yet, Turkish leaders have shied away from signing any legally binding agreement on this Russia-proposed gas hub with additional supplies from Russia. Such a new hub may look attractive at first sight but will likely cause serious concern in Azerbaijan, Iran, KRG, Israel/Greek Cyprus and Turkmenistan, as they all plan to send further supplies to high-value European markets. Such a collaboration will also strain Ankara's ties with Brussels and Washington at a time when Moscow is under a heavy dose of sanctions.

Christian Cleutinx, former Director General of the Euratom Supply Agency, BREC Global Energy Associate

- Well no wonder there are strong hesitations about new infrastructure projects, news from EU gas markets is currently not that great.
- Natural gas demand in the EU will have dropped by 20% between 2010 and 2014 (mild winter might have somewhat contributed) and if you look into the impact assessment study of the EU Commission Communication on energy efficiency of July 2014, it 'announces' scenarios where imports should not increase by 2030, and might decrease significantly. According to these scenarios, for every 1% above the energy efficiency objective, a 2.6% decrease in imports of natural gas could be expected.
- On top of that, total EU natural gas import capacity from all origins is currently around 700bcm heading north towards 800 bcm (without South Stream), as compared with EU total gas import scenarios below 300 bcm in 2030. So there is a lot of uncertainty, significant overcapacity and more than doubts about the economic viability of new projects. Let's see what future gas prices might bring.

Cenk Pala, ENERJİSA Regulatory Affairs and Business Development Manager, BREC Global Energy Associate

- Russia has a clear objective in gas: to not allow any new sources to Turkey and the EU before prolonging existing contracts with critical consumers like Turkey around the year 2021.
- It's cheaper and strategically more important to construct Blue Stream 2 with 50 bcma capacity than it is to get shares in each and every alternative gas project surrounding Turkey (Iraq, Iran, Med. gas etc.) and try to force delays in project FIDs as a shareholder.
- Iraqi gas will only be used as a countermovement or game changer in the mid-term if the security situation improves and there is sustained gas flow around 20 bcma from Iraq.
- Experts say that BOTAS was offered a 6% reduction in gas price ($385-390 /1000 m3), valid from January 2015. But, BOTAS is asking more around $360-370 /1000 m3, and this topic is a pending item between the parties which is expected to be solved afterwards.
- The Turks will construct the terminal at the Turkey-Greece border (on the Turkish side) for delivering 50 bcm/a to establish a physical gas 'hub'.
- This hub will be used as a reference point in Russian gas price formulas.
- We [Turkey] can accept this new version of South Stream (385 km subsea passage with 4 parallel lines) as Blue Stream 2, which was offered in 2005 officially by Putin.
- Many birds will be killed by Russia with this one stone from 'Putin Kasparov':

    - Threat to Ukraine: Ukraine will be by passed by, without South Stream, but in cooperation with the Turks (Blue Stream 2).
    - Threat to Bulgaria: You were not supportive of South Stream, so I decided to change Bulgaria with Greece. At the same time, a Romania/Hungary interconnector can still bring gas to Hungary and also to Baumgarten
    - Threat to TANAP: I am here to compete with you with 50 bcma gas.
    - Threat to East Med. Gas and Iran: 50 bcma is more than enough to drop Med. gas and Iranian gas dreams.

  - Threat to EU: I am joining to your Southern Corridor concept and will be coming with other pipelines into your borders, and am wondering how could you stop this new Russian concept?
  - Calming down Europipe: I've already ordered 50% of South Stream pipes from you, and you are faced with embargo from the EU. Don't worry, since the distance is shortened you will supply 100% of this new pipe (which is nearly the original promised amount).
  - Carrot to Turkey: To fix BOTAS price around $374 /1000 m3 (starting point to BOTAS and private sector) and advise Turkey about being a hub: please, like Germany, successfully create a hub without excluding Russian gas. OK, I am selling to Europe at $306 /1000 m3 (2013 average) but they have many hubs, LNG capacities and at the moment and sorry you don't have all these facilitators. But if you do your homework well, for being a hub and sparing most of the hub capacity for Russian gas your prices will go down since I am planning to accept an indexation to your hub and give more price reductions in the future.

- This project will definitely be a 'stress test' between the EU-USA and Turkey-Russia since it has a potential to block all alternative gas sources via Turkey to EU on one hand, and NATO/EU candidacy will be at risk for Turkey on the other hand.

Matthew Bryza, Director of the International Center for Defence studies in Tallinn, Estonia; BREC Global Energy Associate

- The plan now seems to be building a 63 bcm pipeline to Turkey for the same volume as South Stream, but this time with potential control of a Greece-Turkey gas hub, which could theoretically provide Gazprom and the Kremlin a blockage to diversified gas flows from Azerbaijan, Turkmenistan, the Eastern Mediterranean, and Iraq.
- The impact with regard to diversification of supply for Europe could be significantly more severe than if South Stream were to proceed.
- On top of all that, this latest plan would peel Turkey away from Europe a bit more.
- Most likely, however, Turkey will insist on a price reduction above the 6% and increased volumes greater than the 3 bcm offered by Gazprom, Turkey has no desire to become more dependent than it already is on Russia for its gas, with Russia already providing 60% of Turkey's supply.

George Niculescu, European Geopolitical Forum Head of Research

- Geopolitically speaking, the subject decision by Russia isn't a big surprise. It is in fact drawing on yet another string of the Russian-Turkish condominium building up in the Wider Black Sea region, since Erdogan and Putin came to power almost 15 years ago.
- Apparently, the EU increasingly risks turning itself into a powerless watcher of this regional power show, with potential serious implications for some of its member states. From this perspective, in the aftermath of South Stream's announced death, Putin's policy on energy supply to Europe looks pretty obvious. However, how far Mr Erdogan will go along the path set up by Mr Putin is still to be decided/seen.
- My guess is that Mr Erdogan may try to get the most from the luxury of being able to play at two ends, while the EU should yet again move out from its current regional lethargy.