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Northern Route outpaces Southern Route

The Nord Stream 2 pipeline project is approaching a final deal as Gazprom and its EU partners have been dealing with loose ends. On the 5th of September in the Eastern Economic Forum of Vladivostok, the Russian gas company and its partners, namely: E.ON, BASF/Wintershall, OMV, Royal Dutch Shell, Engie agreed on percentages for each one for this route. Thus, Gazprom will lead the project with a 51% share, whilst the rest of the participants will get 10%, barring French Engie receives 9%.

This project is of outmost importance in circumventing Ukraine's highly unstable territory and be able to deliver around 55 bcm per annum directly into EU markets. Together with Nord Stream 1 and an additional 55 bcm yearly capacity, Northern EU states and primarily Germany are clearly leading the way in the pan-European natural gas market and strive to reap considerable profits in the coming decades as the primal redistribution hub for gas across the Continent.

Amongst things to consider is that this route is being supported by the major energy companies of the states of Germany, France, the UK, Austria and Russia in a clear sign of defiance of Cold War geopolitical logic that has gripped most EU countries due to the Ukrainian crisis since early 2014. Moreover, it leverages the Russian diplomatic position vis-a-vis Kiev which stands to lose at least 2 billion euros per year from transit fees, and most importantly, its strongest leverage both against Moscow and the rest of the European countries. Concurrently a summit including the heads of states of Russia, Ukraine, France and Germany, will take place in early October 2015 in Paris to discuss an end to the crisis. The Nord Stream 2 project plays a crucial role in ending the brinkmanship by establishing a new "energy security order" in the Continent.

Furthermore this new agreement neutralizes the Turk Stream project which in essence was the Southern-leg of the Ukrainian by-pass. Since large consumers for the Russian gas are to be found in Central-North and West Europe and the quantities to be transferred are rather fixed for the foreseeable future, a project that will deliver an envisaged 63 bcm such **as Turk Stream was planned, seems unreasonable and could be even be considered non-realistic.**

Bulgaria, having already lost the Nabucco route, and also been excluded from the South Stream project and now faces further hurdles since it is also excluded from Turk Stream, whilst the Eastring will undoubtedly face immense difficulties, if it is even constructed. Further Sofia is out of the TAP project and its only chance of having a diversified route is of the rather non-important Interconnector Greece-Bulgaria (IGB).

Greece also loses base with the conceived Greek Stream route, whilst the strive for a Tesla pipeline by FYROM and Serbia seems only a distant concept. On the other hand, **Austria and Hungary, which were vital routes of both the South Stream and the Turk Stream, will continue to be the hubs and routes, this time for**

North to South gas transfers. Turkey in its turn loses considerable investments from the impending cancelation of Turk Stream and faces another issue, which is the non-reliance of Moscow to Ankara which, judging by the wide differences between those two in Middle East politics, can have negative effects in their bilateral relations.

In the future, Turkey might be obliged to source Russian gas from its Western partners such as Greece instead of securing it directly from Russia. In effect, that may lead Turkey to enlarge the annual capacity of Blue Stream, which was originally set at 16 bcm and subsequently increased to 19 bcm per year. Turkey will need more than 33 bcm from Russia in the coming years.

For several years the United States strived to exclude Russia gas from the Balkans, an aim which seems to be achieved. Nevertheless, since no new quantities are emerging to secure those markets, **the likely scenario is for Russian gas to fill Southeast European markets coming from the North to the delight of the major industrial complexes in Germany and the so-called EU core.** Inevitably, that doesn’t alter the role of Russia in the EU energy context but greatly enlarges that of Germany and France. It would also gradually deteriorate the standing of US diplomacy to significantly influence large energy projects in Europe.