



Energy Union

IN FOCUS

Five reasons why the end of South Stream should mark the beginning of Energy Union in the EU

15 December 2014

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President Putin's decision to cancel work on the South Stream pipeline may have far-reaching consequences regarding the development of a single energy market within the EU. Although Commission President Juncker (and Bulgarian Prime Minister Borissov) have publicly stated that South Stream remains a potentially viable project, its *de facto* mothballing by Russia provides the EU with an opportunity to develop alternative energy scenarios in south east Europe. These are scenarios which would improve both the diversity and security of the EU's energy supply. There are five key reasons why the end of the South Stream pipeline should mark the beginning of moves towards an energy union in the EU:

1. **It's all about the money:** Faced with spiralling development costs, declining energy prices and a robust application of EU legislation, the medium term costs of the pipeline far exceed the potential benefits for the Russian economy. In the longer term, a combination of the EU's existing policies to diversify energy supply, increase efficiency and support the deployment of alternative energy sources makes Russia's future return to this project highly uncertain. In this vacuum, *the EU has an unexpected opportunity* to take the lead in developing a more integrated, connected and inter-dependent energy network in south east Europe.
2. **Once bitten, twice shy:** Key supporters (and planned beneficiaries) of South Stream such as Hungary, Serbia and Bulgaria are now being forced to look for alternative energy sources to meet their medium term energy needs. This includes potential imports from non-Russian gas sources such as Azerbaijan and other sources in the Middle East. The financial losses incurred by these states in the cancellation of South Stream will thus make them more circumspect in any future dealings with Russia on the potential supply of energy. Thus, *an opportunity exists to redefine the energy supply strategy for south east Europe at an EU level*, primarily through a co-ordinated

plan for energy supply diversification along the 'southern gas corridor'. Key alternatives to South Stream such as the Trans-Adriatic and Nabucco pipelines, potential liquefied natural gas (LNG) terminals on the Croatian coastline and even the possibility of shale gas imports from the US all now require re-examination. These options will limit the potential impact of any future Russian-Turkish energy agreements.

3. **Right time, right investment plan:** the recent launch of the Commission President Juncker's *Investment Plan for Europe* provides a readymade framework for delivering projects which will facilitate greater energy interdependence in south east Europe. Recent moves by the Visegrad Four (Poland, Hungary, Czech Republic and Slovakia) to target Juncker's investment fund for projects which will seek to better integrate their energy networks highlights the potential of this framework for south east Europe.¹ The Juncker Plan provides an *ideal mechanism for fast-tracking key cross-border energy infrastructure projects in those member states formerly supporting South Stream*. This is a point recently emphasised by Juncker in his discussions with the Bulgarian government.² Such investment could help unlock the blockages currently hampering implementation of the European Commission's third energy package.
4. **Two generals, one voice:** Both Commission President Juncker and President Tusk of the European Council have advocated the development of an energy union in the EU. The importance of the energy issue to the new Commission has been highlighted by the creation of a Vice President post with specific responsibility for energy union. President Tusk has previously highlighted the lack of gas transmission and storage infrastructure as two of the key impediments to the creation of a single European gas market.³ The cancelling of South Stream, allied to Juncker's focus on energy and investment, will *facilitate the Council's work in building greater policy coherence among member states to remain committed to the development of a real single energy market in the long term*.
5. **After a crisis, greater unity?** Prior to the Russian aggression against Ukraine, EU energy policy was largely restricted to using competition legislation in an attempt to open up national energy markets and create a more competitive marketplace. Although very significant structural obstacles remain to further integration of national energy markets, *the ability of the EU (supported by the US) to stand firm on the South Stream question bodes well for the longer term development of a more open and integrated internal energy market*. In this context, south east Europe could act as a template for the further liberalisation of the well-protected national energy markets in western Europe. It is a process which is just beginning.

¹ *Financial Times*, 9 December 2014, 2.

² Jean Claude Juncker, statement following meeting with Boyko Borissov, Prime Minister of the Republic of Bulgaria, Brussels, 4 December 2014.

³ Donald Tusk, speech to Energy Security Conference, European Commission, Brussels, 21 May 2014.