

While the debate rages over the Nord Stream 2 pipeline, a separate pipeline system carrying Russian gas to Southeast Europe has been quietly opened over the last few years, and is now enabling the countries along its route to avoid the worst of the energy crisis. Like Nord Stream and Nord Stream 2, Balkan Stream, an extension of Gazprom's Turkish Stream pipeline that runs via Southeast Europe to Hungary, bypasses Ukraine. Yet in comparison to its northern counterpart that has sparked an international debate and criticisms of Russian gas diplomacy, Balkan Stream has generated relatively little comment. Balkan Stream is an extension of Turkish Stream (or TurkStream) that runs from Russia under the Black Sea to Turkey. It has a capacity of 31.5bn cubic metres (bcm) of gas per year, part of which is earmarked for several Southeast European countries. The route links in many of the countries that would have been served by the aborted South Stream project that would have delivered Russian gas to Bulgaria then on to other countries in the region, but was scrapped when it was found not to comply with EU legislation. As pointed out by Russia hawks, the two pipelines are suspiciously similar and questions have been raised about the financing for various legs of Balkan Stream. With international gas prices rising, government officials from states along the pipeline network — which most recently linked in Croatia and Hungary — have sought to reassure their populations that they will face neither gas shortages nor exorbitant price hikes. As *bne IntelliNews* has reported the crisis in Europe was caused by a “V” shaped market; a combination of factors including the reopening of industrial capacity as the coronacrisis eases, a hard winter and a hot summer, accidents to supply infrastructure and higher demand for liquefied natural gas (LNG) from Asia. While Russia has been blamed in some quarters for the crisis, as *bne IntelliNews* columnist Mark Galeotti argues, Moscow has been fulfilling its contract commitments and is supplying close to record levels of gas.

### **Diversified supply**

In addition to Turk Stream, Turkey has several other import options, as outlined by Energy and Natural Resources Minister Fatih Donmez on October 8, when he forecast that the country would not face energy shortages this winter. This is despite an expected rise in consumption this year as the economy revives and the recent drought cut production of hydropower.

“We have pipelines coming from the Black Sea, the Blue Stream, another one from Azerbaijan and a pipeline from Iran. We have added two floating LNG [liquefied natural gas] terminals, called FSRUs [floating storage and regasification units],” Donmez told private broadcaster NTV. He also noted that the country has increased its underground storage capacity.

From Turkey, Balkan Stream runs to Bulgaria where, despite the Energy and Water Regulatory Commission (KEVR) approving increases in the price of natural gas recently, the country still expects users to pay a relatively low price, thanks to Bulgaria's sourcing of gas

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from both Gazprom and Azerbaijan's Socar. In particular, Bulgaria has the scope to increase the gas it is importing from Azerbaijan, Bulgargaz CEO Nikolay Pavlov said according to Reuters.

Meanwhile, the Russian Ambassador to Bulgaria Elena Mitrofanova proposed that Bulgaria sign a new long-term gas supply contract with Gazprom in the context of rising spot prices, Mitrofanova said as reported by RIA Novosti.

### **Cheap gas in Serbia**

Gas started to flow to both Serbia and Bosnia & Herzegovina's Republika Srpska at the beginning of this year - the same time as Turkish Stream went on line that have seen Russian deliveries of gas to Turkey rise 200% y/y. Serbia's President Aleksanda Vucic has taken a bullish tone recently, promising citizens the "cheapest gas in Europe" and homes warm enough to walk around in t-shirts this winter.

Vucic told local media on October 8 that Serbian citizens don't have to worry about gas or electricity supplies, and that prices will not rise. "Serbian citizens will have warm rooms so that they can walk around in T-shirts. There are no problems, we don't even intend to increase the price of gas and electricity, we can endure everything if we raise the capacities of the electrical system," he said, TV N1 reported.

Saying that he will personally ask his Russian counterpart Vladimir Putin to help Serbia through the energy crisis, Vucic blamed the energy crisis in Europe on European countries not having signed long-term agreements with Russia, reported TASS.

He called Serbia's decision to build the Balkan Stream gas pipeline "very smart", saying it supplies the country with natural gas at an affordable price.

### **Hungary's Gazprom deal angers Ukraine**

From Serbia, the pipeline continues to Hungary, and the interconnector between the two countries was officially opened on September 30. The first commercial deliveries of gas to Hungary through the line began the following day, the first day of the new gas year and the day Hungary's new, long-term gas delivery contract with Russia came into effect.

The deal incensed Kyiv as this is exactly what Ukraine was afraid of: previously gas delivered to Hungary from Russia went via Ukraine, but now it was entirely cut out of the loop.

Ukraine's national gas company Naftogaz and the pipeline operator Gas Transmission System Operator of Ukraine (GTSOU) claimed on October 1 that the deal by Russia's Gazprom to supply Hungary and reduce gas supplies to Ukraine was the "use of gas as a weapon", and demanded the US and EU impose sanctions as promised.

"Whether Germany acknowledges it or not, Russia has aimed its energy weapon at all of the EU. The threats to punish Russia at some future date no longer suffice. The very credibility of the Western deterrents is on the line and the time to respond is now," Ukraine's national gas transport company said in tweet from its corporate account the same day.

Under the agreement, Gazprom will deliver 3.5bcm of the 4.5bcm of gas it gets from Russia annually under the contract through the Hungarian-Serbian interconnector. The total annual delivery capacity of the pipeline is 8.5bcm. 32% of the first year's supply has been already booked.

Ukraine complained to the European Commission about Hungary's new Russian gas contract; previously Hungary's Russian gas was delivered through the Friendship pipeline passing through Ukraine. However, this got short shrift from Hungarian Minister of Foreign Affairs Peter Szijjarto who said Hungary considers the move an "attack on its sovereignty". "Neither Ukraine nor any other country has any business concerning with whom, on what and in which manner Hungary reaches agreements," he added.

Croatia started receiving gas supplies via the pipeline the same day, after four years earlier, in September 2017, it signed a 10-year gas delivery contract with Gazprom, under which the Russian company will deliver 1bcm a year to Croatia's Prvo Plinarsko Društvo.

### **Left off-stream**

Other countries in the region, especially those without long-term supply agreements, are struggling.

Moldova, for example, has yet to agree to a new long-term contract with Russia after the previous long-term contract expired on September 30. The country's natural gas transport system and the power generation sector came under extreme pressure after Gazprom agreed to temporarily deliver only two-thirds of the gas needed by the country that is negotiating a new multi-annual contract.

Moldova's Commission for Exceptional Situations (CSE) declared a state of alert related to the natural gas market on October 13 and the government mandated the country's centralised electricity supply company Energocom to negotiate natural gas imports from Ukraine and Romania, Deputy PM Andrei Spinu announced.

Romania came to the rescue a week later, started limited exports of gas to Moldovad, Moldovan prime minister Natalia Gavrilita announced in a press conference on the state of alert triggered by the crisis on the natural gas market.

Negotiating the new contract with Gazprom has been the first major test for the new western-leaning government headed by Moldovan president Maia Sandu, who was elected early this year on a pro-west, anti-corruption platform.

Under the bridge arrangement with Gazprom, while talks on a new long-term contract continue, valid for only October, Moldova receives 54mn cubic metres of gas, which is only 67% of the 80mn cubic metres the country, not including separatist Transnistria, needs, announced Moldova's incumbent natural gas transport and distribution company Moldovagaz, controlled by Gazprom, with the state as a major shareholder.

Supplies falling below consumption resulted in lower pressure in the gas transport system, the company said.

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Furthermore, the price paid by Moldova in October will be \$790 per 1,000 cubic metres — six times more than in Q1 this year.

Moldovagaz invited its consumers to take measures to cut their consumption, specifically by switching to alternative resources (such as heating oil) or deferring industrial operations such as refining sugar beet.

Moldova's main power generation unit, controlled by the separatists in Transnistria and typically burning natural gas (which it does not pay for), is partly burning coal these days. The smaller units, on the Moldova proper territory (Termoelectrica and CET Nord) are considering switching to heating oil but such a move takes time.

Officials from Chisinau are understood to have appealed to both Moscow and Brussels for support to help Europe's poorest country through the energy crisis.

Meanwhile, states in the region are diversifying their gas supply routes, thereby reducing their dependence on Russia as a supplier. On the same day as Serbia opened its section of Balkan Stream, Bulgaria started receiving gas from Azerbaijan via the Trans-Adriatic Pipeline that also runs through Greece and Albania before crossing the Adriatic to Italy.

Also around the turn of the year, Croatia put its floating liquefied gas (LNG) terminal near the island of Krk into operation. As well as diversifying its own sources, Croatia also aims to become a hub to distribute LNG to the region. Romania is also seeking to establish itself as a supplier to the region, once new capacity in the offshore Black Sea comes online.

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