

Putin Scores Another Historic Victory: Austria Signs South Stream Pipeline Deal in Defiance of Europe

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As the war of words between Europe and Russia has escalated, one of the outcomes that has emerged is that just like in false flag war over Syria, the Ukraine war was about the simplest possible thing, and yet so very complicate: a gas pipeline. Of course, it was never a secret that the prize in controlling Ukraine was possession of the vast pipeline infrastructure that left Russia and entered Europe, but since it was all Gazprom's gas in the first place, it didn't really matter if Kiev had possession of the gas as it transits to Europe, or if, as the case is now, Ukraine is merely a transit hub with all Russian gas delivered to European countries and none of it staying in the civil war torn country. After all as of this moment Ukraine can't afford any Russian gas, and if it siphons off any of the product destined for Germany and beyond it would simply antagonize its new NATO best friends, who also happen to be Gazprom clients.

No, the pipeline that has emerged with a starring role in the Ukraine conflict has nothing to do with Ukraine, but is a pipeline that crosses several hundred kilometers south of Ukraine – the [South Stream project](#), which leaves the Russian black sea coast south of Crimea, crosses the black sea, and traverses Bulgaria, Serbia, Hungary and ends up in the gas hub in [Baumgarten, Austria](#) from where it proceeds to all points in central Europe, mostly Germany.

The project, which was conceived in 2007, was meant explicitly to bypass Ukraine, and to be an alternative to the now mothballed [Nabucco gas](#) pipeline which, with the backing of the US and Europe, would have taken Caspian gas (mainly Azerbaijan and Turkmenistan) and traverse Turkey before emerging in Bulgaria, and then followed the European path of the South Stream into the Austrian hub and beyond.



Not surprisingly, it was the key transit hub of the South Stream, Bulgaria, that started making problems for Putin even as he succeeded in trumping Nabucco (when in June 2013 the CEO of Austrian energy giant OMV, Gerhard Roiss, announced the project as “over” after the Turkish Shah Deniz consortium chose the Trans-Adriatic Pipeline over Nabucco as a gas export route which would supply Italy instead of Austria).

Recall that it was in January, two months before the Ukraine government was overthrown that the prime minister of Bulgaria – a country that has a very distinguished love/hate relationship with Russia (a relationship which the US would love to make more “hate”) – Plamen Oresharski, surprisingly ordered a halt to work on the South Stream, on the recommendation of the EU. The decision was announced after his talks with US senators.

“At this time there is a request from the European Commission, after which we’ve suspended the current works, I ordered it,” Oresharski told journalists after meeting with John McCain, Chris Murphy and Ron Johnson during their visit to Bulgaria on Sunday. “Further proceedings will be decided after additional consultations with Brussels.”

At the time McCain, commenting on the situation, said that “Bulgaria should solve the South Stream problems in collaboration with European colleagues,” adding that in the current situation they would want “less Russian involvement” in the project.

“America has decided that it wants to put itself in a position where it excludes anybody it doesn’t like from countries where it thinks it might have an interest, and there is no economic rationality in this at all. Europeans are very pragmatic, they are looking for cheap energy resources – clean energy resources, and Russia can supply that. But the thing with the South Stream is that it doesn’t fit with the politics of the situation,”

Ben Aris, editor of Business New Europe told RT.

It was also in January when EU authorities ordered Bulgaria to suspend construction on its link of the pipeline, which is planned to transport Russian natural gas through the Black Sea to Bulgaria and onward to western Europe. Brussels wants the project frozen, pending a decision on whether it violates the EU competition regulations on a single energy market. It believes South Stream does not comply with the rules prohibiting energy producers from also controlling pipeline access.

Therein, of course, lies the rub, because as Europe has learned the hard way so many times, its overreliance on Russia for both the production and the transit of gas means that it has absolutely no leverage over the Kremlin – something recent events in Ukraine have only confirmed.

Putin, earlier today, merely cemented the reality that it is not so much about who controls the energy transit pipelines, but whose influence controls Europe: America’s or Russia’s. “The US opposes the Russian South Stream gas pipeline project because it wants to supply gas to Europe itself, President Putin said on Tuesday. He called the situation an “ordinary competitive struggle.”

“They do everything to disrupt this contract. There is nothing unusual here. This is an ordinary competitive struggle. In the course of this competition, political tools are also being used,” the Russian president said after holding talks with his Austrian counterpart, President Heinz Fischer, in Vienna.

“We are in talks with our contract partners, not with third parties. That our US friends are unhappy about South Stream, well, they were unhappy in 1962 too, when the gas-for-pipes project with Germany was beginning. Now they are unhappy too, nothing has changed, except the fact that they want to supply to the European market themselves,”

Putin stated.

Should this happen, American gas “will not be cheaper than Russian gas – pipe gas is always

cheaper than liquefied gas,” Putin stressed.

Which in turn brings us to the culmination of the political struggle over the South Stream, when earlier today, in yet another coup for the Kremlin, one of the most stable and respected European countries, AAA-rated Austria gave its final approval to the “controversial” Russian gas pipeline project early Tuesday, defying EU officials and welcoming Russian President Vladimir Putin to the neutral country that has been a long-standing energy customer for Moscow.

As Reuters reports, “the chief executives of Russia’s Gazprom and Austria’s OMV sealed the deal to build a branch of the South Stream gas pipeline to Austria, a staunch defender of the project in the face of opposition from the European Commission.”

In other words, one short month after Putin concluded the Holy Grail deal with Beijing, he not only managed to formalize his conquest of Europe’s energy needs with yet another pipeline, one which completely bypasses Ukraine (for numerous reasons but mostly one: call it a Plan B), but scored a massive political victory by creating a fissure in the heart of the Eurozone, after Austria openly defied its European peers and sided with Putin.

Needless to say, the European Commission is furious, and is digging in its heels saying South Stream does not comply with EU competition law because it offers no access to third parties. South Stream also, as noted above, counters the EU’s policy of diversifying supply sources to reduce dependence on Russia.

But OMV CEO Gerhard Roiss, in a stunning moment of realpolitik clarity and admission that when it comes to the energy future of Europe, Putin is more important than Mario Draghi, told a news conference after the signing: “Europe needs Russian gas. Europe will need more Russian gas in future because European gas production is falling ... I think the European Union understands this, too.”

Of course, they do. The only issue is they don’t want to admit it because doing so seals Europe’s fate as a vassal energy state of Russia. As for Europe’s pipedream, pardon the pun, alternative of receiving LNG from the US, it was none other than Cheniere CEO Charif Souki who said in April, when asked if Cheniere’s terminal could rescue eastern European countries from their dependence on Russia, that “It’s flattering to be talked about like this, but it’s all nonsense. It’s so much nonsense that I can’t believe anybody really believes it.”

They don’t, but it’s all politics. And in politics it is all about wielding power, or submitting to it. Austria did the latter today, and by defecting on its European peers, it may have started a process that leads to the splintering of the Eurozone itself, with none other than Vladimir Putin once again pulling the strings.

The project has pitted European industry against politicians in Brussels, and divided South Stream supporters – which stretch from Germany through the heavily Russia-dependent central and southeastern Europe – from other EU member states.

On a one-day working visit to Vienna that drew some criticism in the EU, Putin spoke of close business ties to Austria, the first western European country to sign, in 1968, long-term gas supply deals with Moscow.

He called Austria an “important and reliable” partner for Russia, which is Austria’s third-biggest non-EU trading partner after the United States and Switzerland.

Austrian President Heinz Fischer also defended the South Stream project, saying: “No one can explain to me – and I can’t explain to the Austrian people – why a pipeline that crosses EU and NATO countries can’t go 50 km into Austria.”

Oh and for the record, the Austrian president said “He said he opposed sanctions against Moscow”... just in case the next time Europe dares to pass off any Russian sanctions over Ukraine decision as unanimous.

And speaking of Ukraine, things got downright bizarre in Vienna when the head of Austria’s chamber of commerce reminded Putin that part of Ukraine had belonged to Austria in 1914. “What is that supposed to mean? What are you proposing?” Putin quipped, eliciting laughter from the business elite. Next thing you know Putin will be joking about annexing Hungary...

And there you have it, just in case it was still unclear: what is happening in Ukraine is all a big joke to the power brokers in Europe, the “business elite” – the decision has long since been made that Putin will see no objection by said elite to whatever his intentions with regard to the irrelevant and civil war-torn country are. Aside, of course, from the token CIA and US theater fit simply for lower common denominator consumption.

The joint South Stream Austria project will be 50 percent owned by Gazprom – Russia’s largest gas producer – and 50 percent owned by Austria’s OMV Group, the country’s largest oil and gas company.

Austria’s president Fischer stated that if anyone criticizes Austria, they should also criticize other member countries and their companies.

“I suppose that there will be no such moment when such a country as Austria will not be holding talks with a partner, which has intense relations with us, and will not be ready to negotiate with it,” the Austrian leader said.

“We know such a dialogue does not contradict any EU decision,” he added. What he meant is that nobody in Europe can tell Putin what to do.

As for the logistical issues of the pipeline, now that the agreement has been signed, they will all be resolved in due course: Gazprom chief Alexei Miller said earlier he was in weekly if not daily contact with European Energy Commissioner Guenther Oettinger about winning approval for the South Stream project.

“We solve problems as they come up, and now the problem of construction of the pipeline is to be solved,” Miller said.

The pipeline deal does not address the question of third-party access, which is required by EU law to prevent the owner of an energy source from monopolising its distribution channels. OMV’s Roiss said the issue must be negotiated with Brussels. Roiss said the Austrian part of the pipeline, which is planned to be built in 2016 and deliver its first gas supplies around the start of 2017, would comply fully with European law.

Gazprom and OMV said they would split the 200 million euro (\$272 million) costs of building the 50-km (31-mile) Austrian stretch of South Stream, which in total will be 2,446 km long. The total cost of the South Stream pipeline is \$40 billion.

At the end of the day it’s only capex: money that is more than returned to the investor in

the long-run. America may remember capex – it's what companies did before they pushed financial engineering beyond the edge, all in the pursuit of short-term capital appreciation gains. And if Gazprom can't fund it, we are confident China would be delighted to invest in the project by buying a few billion Renminbi-denominated bonds.

So congratulations to Putin: today he merely further cemented his status as Europe's default energy provider. But not only that. As Reuters noted some politicians have warned that Putin may try to exploit divisions between friendly EU states, such as neutral Austria with its traditionally good ties to Moscow, and those like Britain that want to take a harder line.

"Obviously ... Putin wants to split the European Union. That's nothing new. That's what the Russians always try to do when they are in a corner," Swedish Foreign Minister Carl Bildt told Austrian broadcaster ORF on Monday.

Well, Mr. Bildt, Russia certainly succeeded in sowing the seeds of even more discord in the European Union, whose most stable country just sided with Putin and told all of its European "partners", Merkel and Cameron included, a big fuck you. As for your completely wrong remark about just who is "in the corner" we will let it slip: after all, as that other European career politician Jean-Claude Juncker taught us, when it gets serious, you have to lie.

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