

Russia's South Stream pipeline in deep freeze as EU tightens sanctions noose



The European Union is close to freezing plans to complete the \$50bn (£30bn) South Stream gas pipeline through the Black Sea from Russia, the first serious EU action to punish the Kremlin for the seizure of Crimea.

Key details emerged in a leaked briefing by the European Commission's chief, Jose Manuel Barroso, to Bulgarian politicians, warning the country not to stand in the way of the EU's tough new line on the project, or attempt to undercut a unified EU response over Ukraine. *"We are telling Bulgaria to be very careful,"* he said, according to reports in Bulgaria's press.

Mr Barroso said there are *"people in Bulgaria who are agents of Russia"*, a reference to figures in the ruling Socialist party who have been trying to clinch a bilateral deal with the Kremlin.

The warning came as Ukraine once again rattled investors. Russia's Micex index of stocks fell 2.4pc and the rouble slid 1pc against the dollar after armed pro-Russian protesters seized government buildings in the eastern Ukrainian city of Donetsk and declared the region *"independent"*. They also stormed offices in Kharkiv and Luhansk.

Ukraine's premier, Arseniy Yatsenyuk, accused Russian president Vladimir Putin of preparing the ground for seizure of the Donbass region, home to most of Ukraine's heavy industry. *"The aim of this scenario is to divide Ukraine into parts and turn part of Ukraine into a slave territory under a*

Russian dictatorship," he said.

There are still 40,000 Russian troops massing near Ukraine's border. Mr Yatsenyuk said it was "*crystal clear*" that Mr Putin intended to go beyond Crimea, escalating the crisis to a much more dangerous level.

Brussels has been coy about the status of the South Stream project, which entails huge contracts for oligarchs close to Mr Putin. The official line is that the plans are still alive but Mr Barroso's leaked comments confirm reports that it is politically dead.

The German group Siemens signed a contract with Gazprom as recently as last week to supply control systems for South Stream as if nothing had happened in Crimea. This followed a private meeting between Siemens chief Joe Kaeser and Mr Putin that caused a storm in Germany.

Professor Alan Riley, from City University, said the South Stream project – already well under way and intended to produce gas by 2015 – funnels energy long distances from Siberia to the Caucasus and then on to the Balkans purely to circumvent Ukraine. "*It makes no sense. It provides no new gas and is intended solely in order to undermine Ukraine, yet the Western policy is now to spend huge sums of money to save Ukraine,*" he said.

German Chancellor Angela Merkel has clearly lost patience with Mr Putin, who appears to have misled her twice in telephone calls – first promising that there would be no seizure of Crimea and then assuring her that no troops were at Ukraine's border.

She warned Mr Putin that there would be painful consequences if Russia "*violates*" Ukraine any further. "*Nobody should harbour any illusion. As different as we are in Europe, we will stand united,*" she said. While she did not spell out details, the next tranche of measures is likely to target

companies and banks in a bid to choke off Russia's access to global finance.

The US has already listed Rossiya Bank and SMP Bank indirectly. It is tightening the noose by regulatory muscle, progressively complicating the ability of Russian companies to roll over \$650bn of foreign debt. Diplomats say Washington may broaden targets in response to any concerted effort to destabilise Ukraine, even if it falls short of an invasion by troops.

This could be triggered if Gazprom acts on its threat to cut off supplies to Ukraine as of Tuesday. Gazprom's chief, Alexei Miller, said the company will not deliver any more gas unless Ukraine *"pays off"* an immediate debt of \$2.2bn for past deliveries.

The company has also increased the gas price from \$268 per 1,000 cubic metres to \$485, the highest in Europe. The White House said the move was a *"tool of coercion"*, not market pricing.

Financial markets have taken a nonchalant view of the crisis, betting that Mr Putin will get away with taking Crimea, with business returning to normal quickly.

"Investors are playing down the risks," said Chris Weafer, from Macro Advisory in Moscow. *"They think NATO is talking its own book with its hard-line rhetoric and that the defence companies can now frighten politicians into beefing up military budgets. The really cynical market view is that it's all a godsend for the defence industry and we could even see a little boom."*

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