

Michał Paszkowski

Bulgaria considers returning to construction of Burgas-Alexandroupoli pipeline

Keywords: security, Bulgaria, energy, oil

Bulgaria is considering a return to the construction of the Burgas-Alexandroupoli pipeline, which would allow greater diversification of crude oil supplies to the Burgas refinery. The project was initiated as early as 1993, at which time it was intended to increase exports of Russian crude oil to international markets. The ongoing Russian-Ukrainian war and sanctions imposed on the aggressor are forcing Bulgaria to look for alternative solutions to guarantee the supply of this commodity. The Burgas-Alexandroupoli pipeline project could be crucial in this regard.

History of the investment. The Burgas-Alexandroupoli pipeline project has a long history, as it was initiated in 1993, when a tripartite agreement was reached between Bulgaria, Greece and Russia. The goal of the project at the time was to increase both the availability on international markets of crude oil produced in Russia and the presence of Russian companies in this part of Europe, as well as to bypass the Turkish straits. The original plan was to transport crude oil at a level of 300,000 barrels per day from Burgas in Bulgaria to Alexandroupoli in Greece, with an option to increase the volume of crude oil up to 1 million barrels per day. For many years, there was little scope for work on the realization of this investment. In 2007 another tripartite intergovernmental agreement was concluded, which was subsequently ratified by the parliaments of Bulgaria, Greece and Russia. As part of the agreement, the Burgas-Alexandroupoli Pipeline Consortium (BAPC) was established in 2008, with several companies from Russia (51%), Bulgaria and Greece (24.5% each)¹. Despite the ratification of the 2007 tripartite agreement, there were still several contentious issues raised by Russia that limited progress on the project. Among other things, the Russian side proposed that the BAPC consortium, rather than the national crude oil transport companies, should own the pipeline, which would serve as the operator. Russia's position in the agreement itself was unique. According to Article 5, full control of the pipeline and discretionary authority belonged to the Russian company Transneft. At the same time, there was a highly controversial provision in the agreement, according to which all decisions made by Transneft were subject to the legislation of Russia, not Bulgaria, Greece or European Union regulations. The project was eventually abandoned in 2011.

A new version of the project. The Russian-Ukrainian war and the sanctions imposed on the aggressor have forced Bulgaria to take two-pronged actions. First – to limit the ability of the Russian company Lukoil PJSC, owner of the Burgas refinery with a capacity of 196,000 barrels per day, to not comply with the sanctions imposed on Russia. The legislation, passed in 2022 by the authorities in Sofia, creates the possibility of nationalizing Russian oil assets in the country in case Lukoil PJSC does not agree to give up its crude oil imports from Russia. Formally, the refinery can import crude oil from Russia by sea until the end of 2024 ("IES Comments," No. 707)². Secondly – to ensure that the refinery can be supplied with crude oil from alternative directions to Russia, which would be more secure in the context of the war in Ukraine.

¹ The BAPC consortium was owned by companies from Russia (Transneft, Rosneft and GazpromNieft), Bulgaria (Bulgargaz and Technoexportstroy) and Greece (Helpe SA-Thraki SA, which included Hellenic Petroleum SA, Latsis Group and Prometheus Gas Group, with Prometheus Gas Group owned by Copelouzos Group of Greece and Gazpromexport of Russia).

² Bulgaria received an exception to the sanctions imposed on Russia as part of the sixth sanctions package, which went into effect in December 2022. Under this exception, the Burgas refinery can still import crude oil from Russia by sea until the end of 2024.

Under these circumstances, Bulgaria has proposed Greece to return to the Burgas-Alexandropoulos pipeline project, but in a different version than originally envisioned. This time, the pipeline would enable the supply of crude oil from Greece to Bulgaria, which would mean increased availability of crude oil in the Black Sea. Within the framework of this project, a pipeline of about 280-300 kilometres would be built, connecting the two ports. On February 16, 2023, the project was officially relaunched following the conclusion of a bilateral Bulgarian-Greek agreement, providing for the establishment of a special working group responsible for the implementation of the investment. At the moment, neither side is indicating a potential commissioning date for the pipeline, but it is unlikely that the work will be completed before the end of 2024. In this situation, there will probably be an increase in sea deliveries through the Turkish straits, as currently more than 85% of the crude oil to the Burgas refinery comes from Russia, from Black Sea terminals.

Conclusions

- The creation of the Burgas-Alexandroupoli pipeline in the 2007 version would effectively result in the monopolization of the investment by Russia, which would then have full control over the pipeline both during construction and operation. Transneft, then formally holding more than 51% of the shares in the BAPC consortium, would serve as the operator of the pipeline, which would be subject only to Russian legislation. The implementation of this project would bring unilateral (for Russia) benefits from the existence of the pipeline, and, importantly, would limit legal oversight of the pipeline operating in EU countries.
- The creation of the pipeline in its new version would be another step in the development of energy cooperation in the region, including primarily between Bulgaria and Greece. Such cooperation is already taking place in the context of the gas sector, culminating in the construction and commissioning of the Greece-Bulgaria interconnector (IGB pipeline) in 2022, as well as further cooperation in the energy field through the participation of Bulgarian companies in the operation of LNG terminals in Greece.
- The pipeline is assumed to be a costly project, the size of which was estimated at \$1.1 billion in 2011. Today, taking into account the high level of inflation, the cost of building the pipeline may be even higher, although it will be conditioned by the planned transmission capacity, which in turn may be lower, since the goal will be to supply several refineries located on the Black Sea, rather than to export crude oil via Russia. Under these conditions, Bulgaria and Greece may be raising the project in the EU and seeking financial support for its implementation.
- There are signs in Bulgaria that the Burgas refinery should be nationalized first, and only then should construction of the pipeline begin. Interestingly, the plant's authorities, namely the Russian company Lukoil PJSC, are positive about the implementation of the investment. The key issue, however, is that the pipeline should be implemented by national companies, taking into account the provisions of EU law, so as to limit the possibility of Russian entities interfering in its operation in the future, or even Russian companies taking over part of the shares.
- The Burgas-Alexandroupoli pipeline, in its revised version, could play an important role in ensuring energy security not only for Bulgaria, but also for Romania, where three refineries operate, and other countries in Southeast Europe (the Burgas refinery is the largest of its kind in this part of Europe and the most technologically advanced, and a large part of regional supply comes from this refinery). As part of its implementation, it would be possible to bypass the congested Turkish straits, increase the security of crude oil supplies, as well as physically diversify the direction of crude oil imports and increase the budget revenues of Greece and Bulgaria.