

SOUTH EAST MED ENERGY & DEFENSE

#3/2018

THE ANALYSIS INSTRUMENT FOR THE STAKEHOLDERS



Increased naval presence transforms the S.E. Mediterranean to a “Powder Keg”

The clash between U.S.A. and Russia over the energy routes have turned the region of South East Mediterranean into a ground of conflicting interests and possibly confrontation.

Several ongoing issues threaten the exploration, production, and transit of energy resources in the region, especially the security status. Recent developments in the Middle East (Syria, Iran, Turkey), the uncertain future of the energy routes, as well as the war for political influence and the formation of alliances, suggest an inflammable environment which awaits to explode, being the pretext for the enlarged naval presence of Russia and U.S.A. in the region.



Russia's Navy establishes permanent presence in the Mediterranean Sea

Russian President Vladimir Putin said a **naval standing force**, including warships with Kalibr long-range land attack cruise missiles, will be permanently deployed in the Mediterranean Sea. The statement was made at a meeting with top military officials and defense industry leaders that took place in Sochi last May. 102 expeditions of ships and submarines are planned in 2018.

The **Russian Black Sea Fleet** has been transformed in comparison to what it was just three years ago. Since 2015, the year the operation in Syria was launched, it received 15 new ships, including two frigates and six conventional submarines

armed with **Kalibr cruise missiles**. Under the umbrella of S-400 and S-300V4 air defense systems, Krasukha-4 electronic warfare systems and shore-based anti-ship Bastion batteries, deployed on the Syrian coast, the Russian ships in Eastern Mediterranean operate in a relatively safe environment. Since last July, a **15-strong Mediterranean Task Force** was established to be based out of Tartus, Syria's leased naval facility. Ever since, this force provides, mainly, support and protection to the Assad regime, as well as monitors the southern flank of NATO and its activities in the region, including the Black Sea.

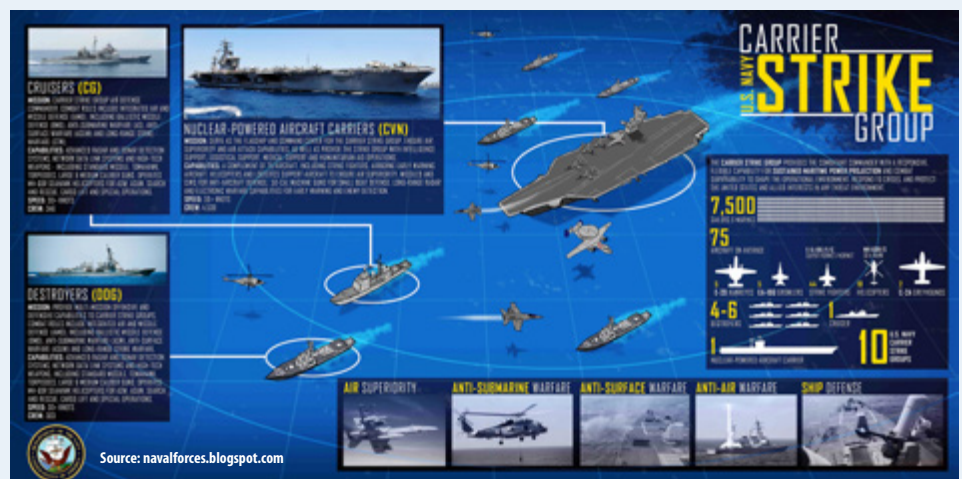
All southern Europe, including such NATO military assets as Allied Joint Force Command in Naples, Italy, Combined Air Operations Centers in Larissa, Greece, and in Poggio Renatico, Italy, Headquarters Allied Land Command and Air Power Command in Izmir, Turkey, NATO Incirlik air base in Turkey, Graf Ignatievo and Bezmer air bases in Bulgaria used by U.S. Air Force, as well as a lot of other key NATO defense infrastructure sites, **happen to be within the range** of Kalibr missiles installed on the platforms patrolling the Eastern Mediterranean Sea.

The Mediterranean Sea is Russia's **only exit** to the open ocean for the Black Sea Fleet. The permanent presence is one more step to the enhancement of Russia's strategy for political influence in the Middle East and North Africa (MENA). Foreign Ministries are not the only ones to shape external policy. Any port call is a diplomat mission, **providing an opportunity** for official meetings and public diplomacy, with the events covered by media. Naval visits **reflect foreign policy trends**. The Russian Navy conducted, also, six international exercises demonstrating its global presence and **power projection capability**, communicating the message: *«The Mediterranean Sea has ceased to be a "NATO Lake" dominated by the U.S. 6th Fleet. American vessels don't own these waters anymore. As a great power, Russia has its own interests in the region and has a powerful naval force permanently deployed to defend them».*

Forceful U.S. intervention in Eastern Mediterranean

Responding to the above Russian strategy, according to sound information, the **strong presence of the U.S. Task Force** in the Eastern Mediterranean, including CVN-75 U.S.S. «Harry S. Truman» and its Carrier Group together with other significant naval units, sails in the **sensitive area** west of Cyprus' F.I.R. and south of Kastelorizo, where Greek and Cyprus EEZs meet -the same area where Turkey focuses its main assertions. Apart from monitoring the developments in the region and in Syria, due to the increased presence of Russian naval vessels, it is, also, connected straightforwardly to the **U.S. aim to indict** possible provocations from Ankara.

The U.S. having observed the increasing presence of the Russian naval force, as well as the fact that the repeated exhortations to Turkey fell void, decided to start implementing a strong, massive and catalytic move in the broader region of the Eastern Mediterranean, as well as the



Aegean Achipelago, in order to relay its **message of readiness** for any possible development.

Due to the expressed intention of Turkey to begin energy surveys and drillings with «Deep Sea Metro II» in Cyprus' EEZ starting in the summer, as well as the pending increase of survey

activities from the ExxonMobil/Qatar Petroleum consortium in Cyprus' Field 10 scheduled in the coming fall, the U.S. aim to communicate the **proper preventing messages to Ankara**, in order to avoid the possibility of a **«hot incident»** or even worse a prolonged crisis between Turkey, Greece and Cyprus.

When energy and geopolitics collide head-on in S.E. Europe

The clash between Europe and Russia over the energy routes have turned the region of South East Europe into a ground of conflicting interests. Europe claims that it doesn't need Russia and Russian gas and is looking for alternatives to release itself from its "claws", while part of it is trying to rely on the U.S. and the American shale gas.

Indeed, hydrocarbons support the Russian economy to date and, at the same time, the country's **political and geopolitical ambitions**. So, is Europe right when it expresses its concern that the Nord Stream II can hurt it or when it celebrates Gazprom's abandoning the South Stream pipeline? As the Center for Strategic and International Studies (CSIS) states: "When countries clash over gas, they are often clashing over **different conceptions** about how energy and politics are connected." The needs of the European market, however, are well known and EU needs to find ways to cover them; so far, Russia **has no equal in this field**.

At a meeting Russian Foreign Minister Sergey Lavrov and his German counterpart Heiko Maas in Moscow, said that: "Russia is willing to continue consultations with Ukraine on the transit of Russian gas through Ukraine to a destination Europe. However, there is no doubt that the Nord Stream II pipeline is necessary and is a project that is fully documented from an economic point of view for Europe. It is enough to remind that the length of this pipeline is two times smaller than the pipeline that currently ends in Germany via Ukraine, and the value of gas transit will be one and a half times lower than the current value of the transit. In this way the benefit to European consumers is quite obvious."

Is the "Southern Corridor" being expanded or is there a new EU-Russia front?

Turkmenistan and the EU have finally reached a deal after long-lasting negotiations, so that the former **boosts Europe's efforts to secure alternative natural gas sources**, apart from the existing Russian ones and thus reinforce the European energy industry. Turkmenistan's wealth resources will hit "thirsty" Europe's finishing line. Europe is working for its energy security thanks to the **Trans-Caspian pipeline**, which will potentially be part of the so-called "Southern Corridor",



and will form a continuation of the pipeline South Caucasus Pipeline (SCP), Azerbaijan-Georgia-Romania Interconnector (AGRI) and the Trans-Anatolian Pipeline (TANAP) to the Balkans.

This binding agreement was signed by the EU representative Lubomir Frebort and Turkmenistan's officials in Ashgabat, Turkmenistan's capital, after having completed a cycle which was "opened" in 2011. In 2015, the **Ashgabat Declaration on Energy** was signed by the Azeri Energy Ministers, and their counterparts of Turkey, Turkmenistan and the European Commission's Vice-President for Energy, Maros Sefcovic. The project envisages the construction of a **pipeline network**, 300 km long under the Caspian Sea, for the transport of gas from Turkmenistan to Azerbaijan and then to Turkey.

The idea of this link is based on a **U.S. proposal** in 1996. Turkmenistan has one of the world's richest reserves of natural gas, second behind Iran, Qatar and Russia, and so far, its closer co-operation on energy is with China. The issue is that in order to transport the country's natural gas to Europe, it will have to "cross" the Caspian Sea, whose legal status has not yet been clarified, as its definition is pending, i.e. whether it will be considered a "lake" or "sea". In order to achieve this, **Russia must give its consent** at a time when it seems that the completion of the second, competitive (?) branch of the Turkish Stream pipeline nears completion.

Europe's alternatives

Would the solution be for the EU instead of imposing anti-Russian natural gas measures, to take care of the functioning of its internal energy market so that it becomes **effective and thus resilient to external pressures**?

In our **previous Newsletter**, mr. Harris A. Samaras, Economist and Chairman & CEO of Pytheas, an international investment banking organization, in his interview clearly said that Europe has other alternatives: "Oddly, however, the EU seems to **voluntarily turn a blind eye**

to a tangible solution, which to my point of view could only within a few years par-



tially but significantly relieve EU energy dependency to Russia and Turkey. As it also could in the medium to longer term allow Europe to be completely energy independent.

*[...]Cyprus' hydrocarbon discoveries – Cyprus is an EU member state – provide for the EU an immense energy opportunity. The EU has to realize and act accordingly that the hydrocarbons discovered in Cyprus (the significant discoveries) are not just a Cyprus issue. The hydrocarbons that are scientifically estimated to exist in Greece are not just a Greek issue. They are issues of primary importance for the whole of the European Union. **An East Med Energy Corridor**, that would avoid non-EU countries, would guarantee an uninterrupted energy supply source for the EU, of the EU!"*

The time of the Balkans

Today, in the Balkans seems difficult to carry out energy infrastructure where one project, one pipeline for example, competes or wants to **"neutralize"** the other. Could the Balkans rely on their own power? Not likely. However, the only country that could test remaining on its own is **Romania**, with the further development of the Neptun gas field, jointly operated by the American ExxonMobil and the Romanian OMV Petrom. **Greece** follows, mainly thanks to its LNG infrastructure and TAP following...



Greece and U.S.A. are getting closer due to Turkey's anti-West posture

The recent meetings of Greece's HDGS and Foreign Minister with their U.S. counterparts in Washington, set the basis for the upgrade of its strategic role in the region and the deepening of the two countries cooperation.

Tassos Tsiplakos – Strategy Consultant

During his visit to the United States Admiral Evangelos Apostolakis presented Greece's concerns about Ankara's aspirations and discussed the procurement of military equipment.

Ankara's provocative behaviour in the Aegean Sea and the Eastern Mediterranean, coupled with its over-equipment, where aircraft, anti-missile systems and submarines are concerned, makes it imperative for Athens to seek every possibility of procuring military equipment from the United States at a time when US-Turkish relations are going through one of their worst periods. According to information, the chief of the Hellenic National Defence General Staff, Admiral Evangelos Apostolakis, during his recent visit to Washington D.C. had long and in-depth talks on the deepening of Hellenic-American defence cooperation. Apart from analyzing current developments in the region, the HNDGS Chief discussed three main issues during his US meetings: firstly, the potential transfer of two Arleigh Burke-class destroyers, secondly, the supply of MQ-1 Predator unmanned aerial vehicles (drones) and thirdly, the possibility of Greece's participating in the Freedom Class littoral combat ship construction programme.

Contacts and exchange of views

Indicative, however, of the close relationship that has developed between Athens and Washington in the defense sector

Both in his meeting with Secretary Mattis and with his counterpart, General Joseph Dunford, as well as the Deputy Assistant Secretary of Defense for European and NATO Policy, Thomas Goffus, the Deputy Assistant Secretary for European and Eurasian Affairs, Jonathan Cohen (the two



was Admiral Apostolakis' meeting with the US Secretary of Defence James Mattis. The Pentagon's Chief is considered by many to be the "calm power" in the Trump administration. The meeting of the two men lasted more than an hour, and during this the discussion concerned all the developments from the Balkans to the Eastern Mediterranean. A large part of the discussion was devoted to Turkey, a country that is very much on the mind of the US military establishment, which is **deeply concerned** not only about the Ankara-Moscow approach, but also about the type of Turkish-Iranian relations and Turkey's role in the Middle East.

men were recently in Athens, participating in the talks of the bilateral High Level Advisory Committee), and the Acting Assistant Secretary of State for Political-Military Affairs, Tina Kaidanow (who has been following Greek and Turkish affairs for many years), the Greek HNDGS Chief presented a detailed analysis of Turkish practices in the region, **emphasizing the concern** caused by the possible simultaneous procurement by Ankara of F-35 fifth generation aircraft and the Russian S-400 anti-missile system. Similar talks were held with Admiral James Fogo, commander Allied Joint Force Command Naples, Italy, and US Naval Forces Europe and Africa. In

Congress, however, the debate is heating up over a possible “freeze” of the F-35’s delivery if Ankara goes ahead with procurement of the S-400. According to Turkish sources, the hand-over ceremony of the first F-35 to the Turkish Air Force will take place next June with their delivery scheduled between June and November 2019. So until then much can still happen...

Payment facilities for the F-16 upgrade

During the meetings the Greek side clearly stated its desire to acquire surplus US defence equipment, even more so since Greece’s financial capabilities are not unlimited. The signing of the Letter of Offer and Acceptance for the upgrading of 85 Hellenic Air Force F-16s, a few days before the HNDGS Chief’s visit to the US capital, was a sign that Athens means what it says about the deepening of co-operation. The two sides managed to find a way to accommodate the Greek demand for a more favourable mode of payment during the three-year period of 2019-2021, during which rigid commitments to fiscal surpluses of 3.5% of the GDP, as part of the adjustment program, leave no room for flexibility. The solution was found via a regulation that essentially allows Greece to not make large payments in advance, but in a way make payments upon receipt.

Discussions on upgrading the Greek fleet

Admiral Apostolakis made it clear to the US that Athens wishes to **upgrade the Hellenic fleet**, as a large part of current developments are in a maritime environment. Greek staff officers cannot ignore the fact that Ankara is expected to take delivery, between 2020 and 2025, of a total of six type 214 submarines from Germany – a development which **will balance Greece’s current superiority** in this sector. Although Athens has begun talks with France concerning the supply of the well-known Belh@rr@ “digital frigates”, it is investigating all options which could satisfy short and longterm needs. The request for the transfer of two Arleigh Burke-class destroyers is of course not new. It has been expressed in the past, but as these vessels are equipped with the Aegis radar system, it is not easy to obtain Congressional approval for the transfer (even in some form of leasing for a specific time period). Another idea tabled was to move two of the four Arleigh Burke destroyers (USS Carney, USS Donald Cook, USS Porter, USS Ross) stationed at the base at Rota in Spain to Souda Bay. The Souda Bay base has the infrastructure required for their docking, and their presence there would send clear messages to Ankara.

However, within the context of examining the full range of options, one idea would perhaps be for Greece to participate in the “Freedom” class littoral combat ship construction programme. This new model



of vessel develops high speeds, has strong anti-aircraft capabilities, and the program’s development is gaining new momentum, as Saudi Arabia has agreed to purchase six of these vessels. The cost is higher than that of the french “Belh@rr@” class, but at the same time this is a long-term program.

Finally, the Greek request for the



possible supply of MQ-1 Predator unmanned aerial vehicles (UAVs) was also put on the table. Their entering service with the Hellenic Air Force would greatly increase aerial surveillance and control capabilities in the Aegean Sea and the Eastern Mediterranean, in conjunction with the gradual delivery of the upgraded P-3 Orion aircraft. At the same time, this would be a very effective response to Turkey’s emerging transition to the use of drones over the Aegean, while it would **reduce** both the risk of accidents for Greek pilots and the cost for fuel and maintenance of fighter aircraft. The Greek side considers that the MQ-1 could be integrated seamlessly following the two countries’ agreement to station US MAP-9 Reaper UAVs at Larissa AB, as the Greek personnel required could be easily trained.

What Mr. Pompeo means speaking of “strategic dialogue” with Greece

Could Greece be a strategic substitute to Turkey in the region? This question is answered after the recent meeting of Greece’s Foreign Minister, Nikos Kotzias, with his U.S. counterpart Mike Pompeo. It was a successful meeting in a warm climate, judging from the State Department’s official announcement: “the two ministers discussed the **excellent level of bilateral relations** and agreed to consolidate the U.S.-Greece strategic dialogue in key areas of co-operation. Mike Pompeo congratulated Greece on its **leadership role in the region**, including efforts to address the challenges in the Balkans and the Eastern Mediterranean.”



They discussed about the current situation in the Eastern Mediterranean and the Middle East, regions where the U.S. has major interest, and they had a constructive dialogue concerning **Greece’s ability to assist**, together with other regional countries, to sustain the new American “front”. They, also, exchanged thoughts concerning regional energy matters, due to

the fact that the likely possibility of EastMed’s construction and the accoring security issues which will be risen in the Eastern Mediterranean, energy routes will be in the centre of mutual concern between peripheral stakeholders such as Israel, Egypt and Cyprus. Mr. Pompeo’s public statement about **Greece’s “leadership role”**, is very important and contains special meaning.



It's All about Oil... stupid!

Saudi Kingdom's role in the abolishment of Iran Nuclear Deal

George Z. Heliopoulos – Market Analyst

While Israel is trying its best to dominate the news coverage by the international media, escalating hostilities against Iran, the world is already preparing for the next steps. Since the beginning of April, the raids of 4/9, 4/30 and 5/9, in conjunction with the recent violent clashes at the borders with Gaza, have caused growing concerns around the world and fears for an upcoming conflict, which **might cause severe complications** on a much larger scale than Syria and the Middle East. Though Israel didn't assume the responsibility for the raids against a Syrian military base on 4/30, which killed at least 11 Iranians and dozens of others and nobody has yet "claimed responsibility" for the attack, US officials told NBC News that it was indeed Israeli F-15 fighter jets that struck the base, and quite ominously, the same officials admitted that **Israel appears to be preparing for open warfare** with Iran and is seeking U.S. help and support. Another senior U.S. official revealed that on the list of the potentials for most likely live hostilities around the world, the battle between Israel and Iran in Syria is at the top of the list right now.

The Picture inside the Picture

Though Israel has managed to become one of the main topics for daily news with its risky behaviour, **it is the Saudis** that represent as much, if not a bigger, agitator for tearing up the Iran Nuclear Deal and promoting indirectly further hostilities in the Middle East, pressing an unstable equilibrium to devolve into a lethal escalation, since it is them that are truly most threatened by Iran's return to the global economy.

Crown Prince Mohammed bin Salman's "Vision 2030" plan will require a complete make-over of Saudi society and **it will likely cost trillions**. Unfortunately, the Saudis still have a big budget deficit, which it is set to shrink to a more manageable 7% of GDP this year while allowing government spending to expand by more than 5%. The only thing keeping this budget deficit moving lower is, of course, **higher oil prices** and last year's breakeven point for Saudi Arabia was just \$70 per barrel. But if that rises this year to \$88, according to IMF

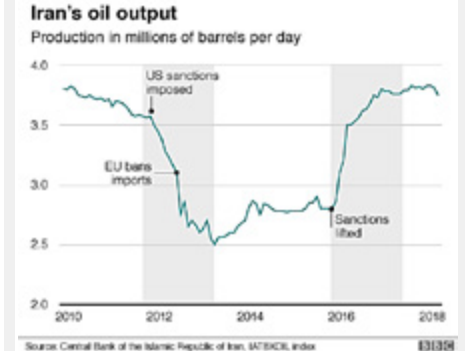
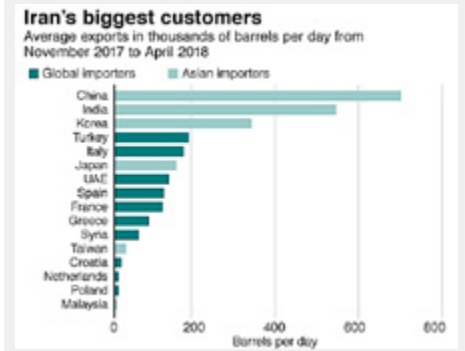
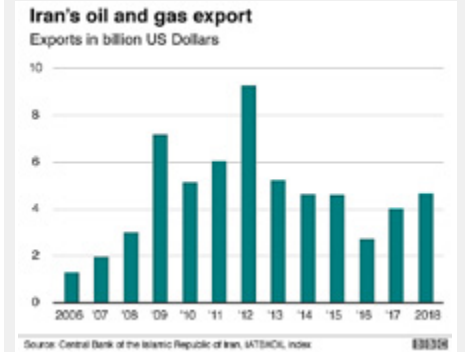
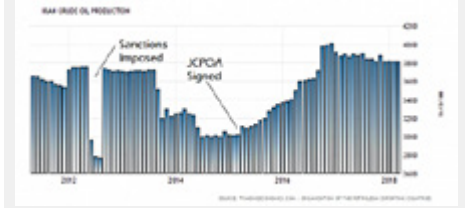
analysts, this rather unexpected increase in price, is undoubtedly related with Bin Salman's spending associated with "Vision 2030". Now, since the implementation of the Iran Nuclear Deal (JCPOA) Iran's oil output **has risen back to its pre-sanctions level** of around 3.8 million barrels per day, with new exploration and production deals signed by European, Chinese and Russian oil majors, Iranian output over the next two or three years could easily push over 4 million barrels if not closer to 5 million per day.

At the same time Saudi Arabia wants to both cut back on production and its exports to raise the price per barrel to the level it needs. So, it shouldn't take a genius to see the incentive here to **try and bribe U.S.** with hundreds of billions in arms sales and promises of fighting Iran in Syria, in order to get President Trump to de-certify the JCPOA and have the deal fall apart.

It is more than obvious that the unilateral annulment of the JCPOA, the Israeli hostile actions in Syria, or even the new American embassy in Jerusalem **have to do with oil**. Saudi Arabia wants Iran back to less than 3 million barrels a day to support higher prices, while Israel and the U.S. want to starve the Iranian government of money, so pulling out of the deal will allow the U.S. to re-impose sanctions on Iran, cutting it out of the global banking system again. But Iran being back to pre-2012 production levels and removing the U.S. dollar from its oil trade, officially means that China has a different partner to buy its oil from and that supports the fledgling *petroyuan* system developing in Shanghai financial markets.

The China Syndrome

Unfortunately the planners of this grandiose scheme will have to face extensive loopholes as the **variables could multiply**. The giant Chinese petrochemical conglomerate SINOPEC is set to curb imports of Saudi Oil another 40% this month, citing inexplicable high prices from the Saudis during a time when a significant portion of SINOPEC's refineries are down for annual maintenance and other producers are happy to offer more for less to grab market share. Last



month, a UNIEPEC official in Hong-Kong told Reuters, "Our refineries think these are unreasonable prices as the Saudis do not follow the pricing methodology." Besides SINOPEC and UNIEPEC, a source from two big refineries in northern Asia said they will be cutting their imports from Saudi Arabia by 10%, as oil buyers have a **hard time**

grasping how the Kingdom is calculating the price for its most popular grade.

ARAMCO is pressing China at a time when it is clear it has other options in the oil market and no longer wants to pay for oil in dollars. Brazil's exports to China have risen sharply and Iran's exports to India, tangentially related, are set to double this year to nearly 400,000 barrels per day. The Saudis hope that the new American sanctions against Iran and the looming trade war between U.S. and China **will support their exports**, even at higher prices.

However, in addressing the underlying futility of the U.S. sanctions, the head of MENA research at MUFG Bank, Ehsan Khoman, said that China, India, Russia and Turkey will likely oppose U.S. sanctions and keep current levels of Iranian crude purchases, even if the occasional U.S. allies - including Japan and South Korea - may comply with U.S. sanctions because of concerns they could lose U.S. security umbrella against North Korea.

Meanwhile, the EU could also escape Trump's retribution and protect its entities operating in Iran by **offering non-USD denominated currencies**, through institutions including European Investment Bank, or even imposing blocking regulations, which were accepted by the European Parliament but never imposed until now. *"It is unclear whether the potential use of non-USD denominated finance lines will offer much protection to European entities, and thus such a move could be largely symbolic in nature"*. Finally, Khoman notes that in a sign of de-escalation, the EU may not reinstate sanctions on shipping insurance, which were *"critical in disrupting Iranian crude exports between 2012 and 2016"*.

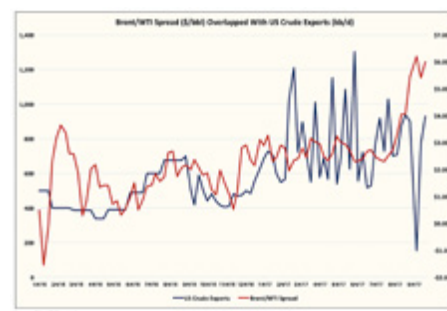
The Benchmark Puzzle

There are many benchmarks used in pricing oil, though the most common are BRENT, DUBAI, OPEC Reference Basket of Crudes (ORB) and West Texas Intermediate Crude Oil price (WTI). The **OPEC Reference Basket of Crudes (ORB)** is made up of Saharan Blend (Algeria), Girassol (Angola), Oriente (Ecuador), Zafiro (Equatorial Guinea), Rabi Light (Gabon), Iran Heavy (Islamic Republic of Iran), Basra Light (Iraq), Kuwait Export (Kuwait), Es Sider (Libya), Bonny Light (Nigeria), Qatar Marine (Qatar), Arab Light (Saudi Arabia), Murban (UAE) and Merey (Venezuela).

West Texas Intermediate Crude Oil price (WTI) has been a famous benchmark in the world. It's largest trade volume in the paper trade market help it to be the leading benchmark in the world oil market and many commercial traders use WTI to hedge the oil price risk. However, WTI lost its world leading pricing role beginning in 2012 due to the apparent price deviation from the other two main benchmarks, i.e. BRENT and DUBAI. Although BRENT replaced WTI as the new leading benchmark since then, many market players still prefer

to hedge by trading the WTI futures, though this kind of trade may incur some risk. First of all, the hedgers may not avoid their risk if the gap between BRENT and WTI becomes more volatile and secondly, hedgers may even lose more money in some severe cases of unexpected fluctuations.

On the other hand, this gap **might boost American exports** if it widens steadily and president Trump seems to understand its significance in reducing the huge U.S. deficit. His staunch support of the Saudis, combined with his new sanctions against Iran, is undoubtedly having a **significant impact** in keeping the oil price moving up and at the same time widening the spreads between the main benchmarks, especially the BRENT/WTI spread. Since



this particular spread continues to widen, now over \$6.40, with options rising to \$7.25 for December 20th 2018, it is obvious that there is a good opportunity to combat the U.S. trade deficit with China, by offering American oil at a significantly lower price.

U.S. production keeps surging and will continue for likely the rest of 2018 and beyond, as new fracking techniques lengthen the production time of new wells, albeit at lower daily output. So, even if rig counts fall, which they show no signs of doing, U.S. shale oil output **will keep rising** and at a time when Brent crude output is falling. So, the BRENT/WTI spread will continue to widen if new markets aren't opened up for U.S. shale producers.

WTI and BRENT remain **two important benchmark prices** for both the oil spot market, futures market and the derivative market, since in order to reduce the holding risk, many people use different kinds of financial tools to hedge. In recent years, the option of BRENT/WTI Spread is also very popular especially in the period from 2011 to 2013 due to the shale production boom in US. It is reasonable to estimate that the shale production boom **is very likely to continue** because of the claim of the new U.S. president Trump. This again, brings us back to the Iran Nuclear Deal being all about oil and not about bombs.

DEFENSE OBSERVATORY

Serbia plans to show new weapons systems in 2018

As a sideshow to the great military parade in Moscow, Aleksadar Vucic Serbia's President who was guest of Vladimir Putin, said that Serbia will acquire new Russian weapons systems in 2018.

On October 20th 2017, Belgrade presented to the public the «new» MIG-29s of the Serbian Air Force, as well as new products of the Serbian defence industry, together with a special force of 1,500 men. Serbs hope that this year will augment their Air Force by a total of 14 MIG-29s and Mi-35s attack helicopters.

During recent years, Serbia acquires most of its second-hand weapons systems from Russia, as well as licenses for the domestic production of various subsystems. Belgrade aims to buy a «modern» A/A system (possibly the Pantsir), as well as a land missile system such as SS-21.

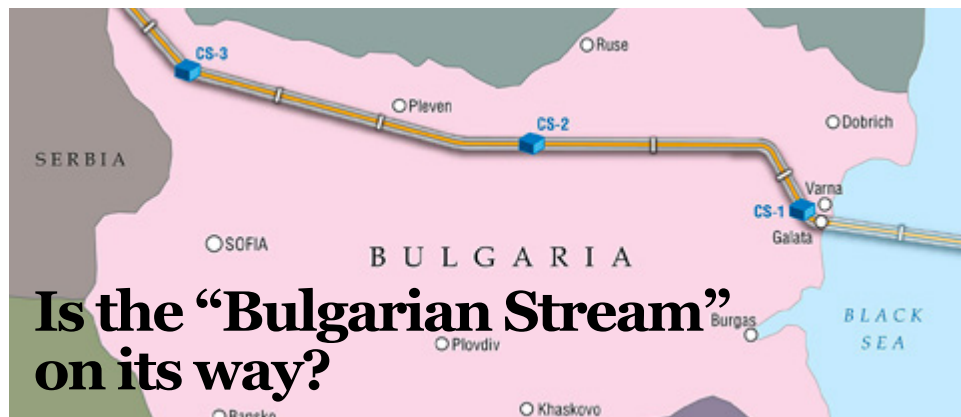
FYROM's tank crews training in Bulgaria

Between April 2nd and May 10th FYROM's tank crews participated in a training programme in Bulgaria. The programme was agreed between the two governments and was about theoretical study and field drills with the T-72 tank, which is a common type to the two armies. Bulgaria and FYROM acquired T-72As during the 90ies from Russia and Ukraine respectively.

Bulgaria desires to buy a new surveillance radar

The Bulgarian Air Force want to acquire new surveillance radars to improve its land air-defence network together with NMA, said the Defence Minister Krassimir Karakachanov on May. According to an article of "Aeropress-bg", he estimates that the buying of 7 new radars, that will probably cost \$110 millions approx. is feasible.

The Bulgarian Air Force operates radar systems of Russian origin, which have had critiques from the international defense press, especially to their ability to recognize air traces in low heights. The buying of new radars is one of the most important priorities, which is part of Bulgaria's Armed Forces reequipment plan "Vision 2014-2020".



Is the “Bulgarian Stream” on its way?

Turbulence is triggered by the statement of the President of Bulgaria, **Rumen Radev**, as recorded by *Kommersant* newspaper. According to him, both Bulgaria and Russia will only benefit from the “**resurrection**” of the rejected South Stream pipeline, which was intended to be the counterweight to the Nord Stream pipeline and to feed the Balkans and S.E. Europe more widely with Russian natural gas. If its revival is not feasible, it could very well, he argued, build a submarine pipeline under the Black Sea that will directly connect Russia with Bulgaria,

irrespective of the Turkish Stream pipeline, which already links Russia with Turkey.

Bulgaria’s dilemma when it was due to leave the South Stream pipeline support group in 2014 was great, but the **pressure** by the EU and the U.S. did not leave much room. Anyway, the country lost the geostrategic advantage of being itself the gateway to South Eastern Europe’s natural gas. If today, however, Moscow offers a vote of confidence (to Bulgaria) now that Bulgaria holds the presidency of the EU, even by the end of

June, and which is trying to bring it into line with what Europe has in the field of energy, perhaps the problems it will have be rather bigger...

In any case, “Bulgaria - as Rumen Radev has said - **needs direct gas supplies from Russia** through the Black Sea. Let’s call the pipeline the “**Bulgarian Stream**” pipeline. This approach is dictated by common sense and the demands for energy security that are being sought, not only in Bulgaria but also in EU in its entirety. Such ambitions do not differ from Germany’s intentions to complete the Nord Stream II pipeline. “Undoubtedly, the safest, most reliable and cheaper way is the direct way - as Radev added - especially when it comes to gas supplies from Russia and it concerns countries like Bulgaria, Serbia, Hungary, Austria and Italy.”

Recently, the President of Bulgaria paid an official visit to Russia, the first one after ten years. “Such a long absence of dialogue at the highest level does not correspond to the interests of our peoples, who have for centuries maintained spiritual and cultural ties”, he said in an interview with the *Kommersant* newspaper.

What will happen if Turkey closes the Straits?

One time the accident, another the fog... since the beginning of the year, at least twice the Bosphorus Straits crossing had to be interrupted. More specifically, on April 27, the Turkish authorities had to order the closure of the Straits due to dense fog and then to allow only the passage of the ships going north, that is from the Marmara Sea to the Black Sea. In that particular there were only 75 ships that had to cross...

On May 3, there were similar weather conditions; the overall number of vessels, following a direction both to the north and to the south, waiting to cross were 103... It took authorities **four days to restore the normal operation** of the crossing. But traffic is usually much higher...

In the meantime, the possibility of an accident complicates things even more, as it happened in early April when a ship was drifted to the shore, hit the land on the Asian coast of Istanbul, and due to the impact, a restaurant was destroyed. The passage of tankers from the Bosphorus Straits and the Dardanelles due to these events becomes



dodgy, bringing to surface an older demand by environmental organizations - and not them only - for the **revision of the Montreux Convention** and the need to look for alternative routes.

When the above mentioned incident occurred, the President of the Bosphorus Energy Club, Mehmet Ögütçü, spoke to Anadolu News Agency, expressing the need to find a satisfactory solution. He had noted: “[...] since the signing of the Montreux Convention of 1936, the volume and number of ships crossing has **increased spectacularly**, something that raises serious security issues”. He added that “**the matter is urgent now**”.

For example, according to figures of Turkish sources, the number of ships in transit in 1934 was 4,500, while in 1998

it was 49,304 and in 2017 was 87,593, of which 13,732 were LNG and LPG carriers. The truth is that the **LNG industry has radically changed** the Energy Charter. At the same time, oil and petroleum products have also increased sharply.

Central Asian oil producers, such as Kazakhstan, have the opportunity to export oil through this route and the Straits; About 3 million barrels of crude and 20 million tones of petroleum products cross the Bosphorus every year. The figure is **expected to increase even more** in the coming years, as it is estimated that oil production in the Caspian and Central Asian countries will be boosted, especially in Azerbaijan and Kazakhstan. Experts foresee that, as long as this trend is stabilised there will be an increase in LNG loads.