

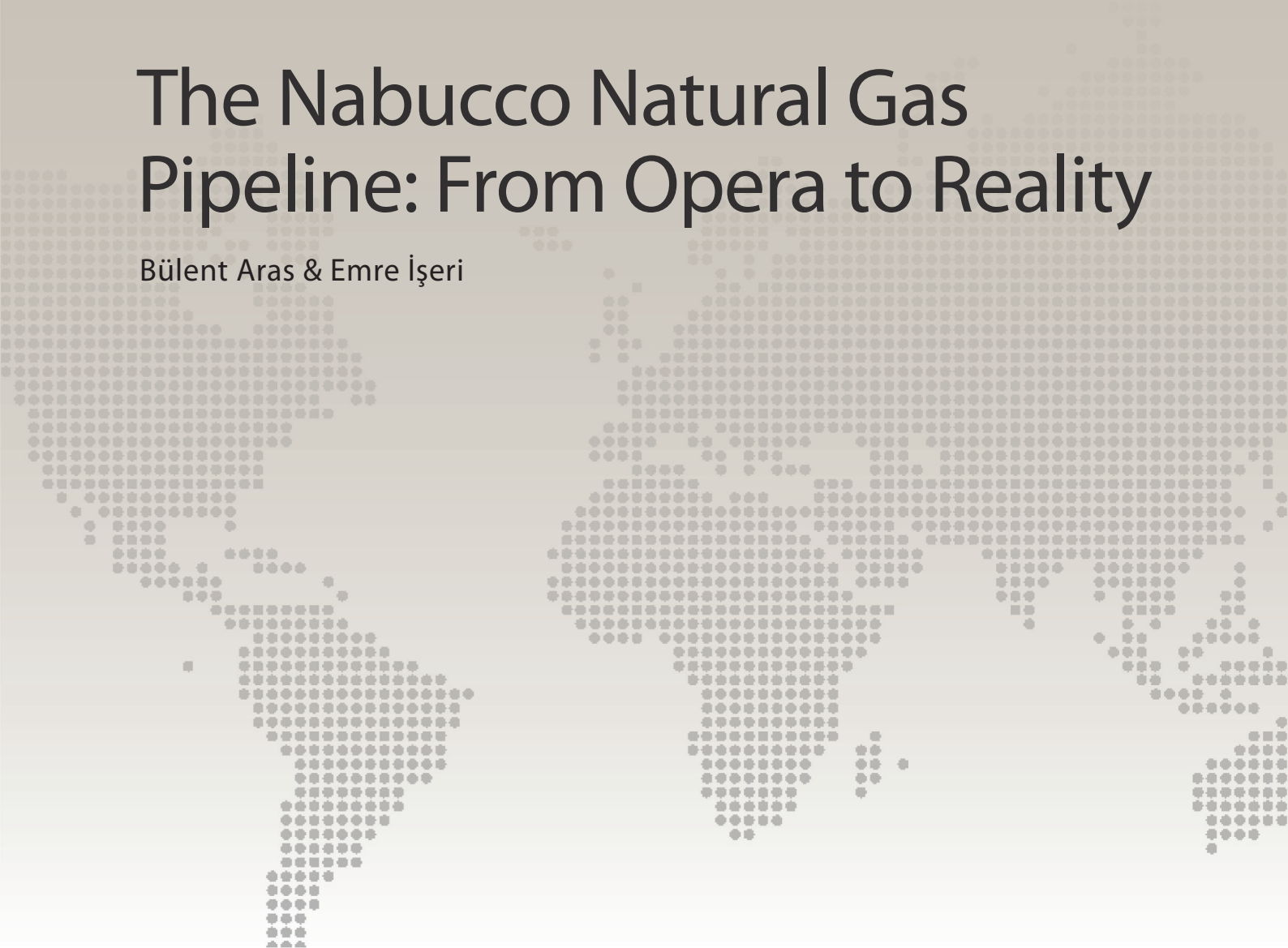
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The Nabucco Natural Gas Pipeline: From Opera to Reality

Bülent Aras & Emre İşeri



ABSTRACT

On July 13, 2009, an intergovernmental accord on the proposed Nabucco gas pipeline was signed. The 3.300 kilometer long pipeline will transport Caspian, Iraqi and likely Iranian gas in the future depending on the changing situation and its relationship with the USA, and to a lesser extent Egyptian natural gas resources, via Turkey to Austria. The Turkish leg of the pipeline will be 2000 kilometers long. Given that the pipeline is designed to export non-Russian Caspian resources – Azeri, Kazakh, and Turkmeni - to European markets, thereby, diversifying energy supplies for western energy markets, several European states and the US have supported this project. The project is planned to become operational in 2014 with an estimated cost of 7.9 billion euros (10.6 billion dollars). In addition to enhancing its energy corridor role, the pipeline will provide significant benefits to Turkey in terms of revenues, employment, etc.



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THE NABUCCO NATURAL GAS PIPELINE: FROM OPERA TO REALITY

Bülent Aras* & Emre İşeri**

Introduction

After a long period of preparations and negotiations since February 2002, it was finally announced that an intergovernmental accord on the proposed Nabucco gas pipeline was signed on July 13, 2009 in Ankara. The Nabucco will be the fourth component of the East-West energy corridor. The others are the Baku-Tbilisi-Ceyhan (BTC) oil pipeline, the Baku-Tbilisi-Erzurum (BTE) natural gas pipeline, and the Turkey-Greece gas interconnector line. These pipelines simultaneously diversify the existing lines from Russia – the main source of Europe’s gas - and create a viable energy line through Azerbaijan, Georgia, and Turkey to European energy markets. The 3.300 kilometers long pipeline will transport Caspian, Iraqi, and some other regional natural gas resources via Turkey to Austria. 2000 kilometers of the pipeline will pass through Turkey. Given that the pipeline is designed to export non-Russian Caspian resources to European markets, several European states and the US have supported the project. The project is planned to become operational in 2014 and the estimated cost is 7.9 billion euros (10.6 billion dollars).

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Partners of the project agreed on the name of Nabucco after enjoying Verdi's opera at the Viennastate opera.

Chronology of the Nabucco

- The preparations of the project began when the first talks took place between Austrian OMV and Turkish BOTAŞ in February 2002. The five partners (OMV Edsgas of Austria, MOL of Hungary, Bulgargaz of Bulgaria, Transgaz of Romania and BOTAŞ of Turkey) concluded a protocol of intention to construct the proposed pipeline in June 2002.
- Followed by the conclusion of the Cooperation Agreement in October 10, 2002 in Vienna, the five partners went to the Vienna State Opera and enjoyed the Nabucco opera from Giuseppe Verdi. Thereafter, the five partners went to dinner where there was discussion over potential names for the project; everyone agreed that it should be Nabucco.
- In December 2003, the European Commission awarded a grant to finance the 50% of the estimated costs of the feasibility studies (i.e. market analysis, technical, economic and financial studies).
- In June 2004, the Nabucco International Company (NIC) was established with the participation of the five partners.
- On June 28, 2005, the five partners signed the Joint Venture Agreement (JVA) and they signed the Ministerial statement on the Nabucco pipeline on June 26, 2006 in Vienna.
- In February 2008, German RWE became the 6th shareholder of the NIC with an equal share.
- Following the European Commission's November 2008 initiative to promote the project and to create a Caspian Development Corporation (CDC), in January 2009, the formal negotiations for the Nabucco began in Brussels.
- On January 27, 2009, the Nabucco Summit was held in Budapest to set the goal of signing the Intergovernmental Agreement (IGA) and the Project Support Agreements (PSA's) during the first half of 2009. At the summit, financial issues were also discussed. The heads of the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) declared their commitment to providing financial support for Nabucco at the Budapest summit. On January 28, 2009, as a part of its European Economic Recovery Plan, the European Commission proposed 250 million euros through the EIB to fund the pipeline. Hence, in March 2009, the EU allocated the initial amount of 200 million euros to the Nabucco project with more to be expected after the IGA and PSA's are signed.

- The formal negotiations began in January 2009 in Brussels and continued with rounds at Vienna. Eventually, they were concluded on June 22, 2009 and it was declared that the IGA would be signed on July 13, 2009 in Ankara.
- The critical point regarding this agreement emerges from its formal international character. Therefore, Nabucco participants will not be obliged to deal with domestic legal issues. Given that the Turkish leg of the pipeline is 2000 kilometers long, it is crystal clear that the IGA is a significant step in terms of escaping from potential domestic legal disputes.
- This critical turning point is also the beginning of a long process. After the agreement, like the other participating countries, Turkey will sign the PSA with the NIC. Details of the PSA will be determined and concluded through a negotiation process. It is estimated and expected that the PSA's will be signed by all the participant countries in the following 6 months.

After the fall of the Soviet Union, the Turkish government conceptualized the 'East-West corridor' that would export Caspian energy and other trade goods to the West.

The Nabucco as the fourth artery of the East-West Energy Corridor

After the fall of the Soviet Union, the Turkish government conceptualized the 'East-West corridor' that would export Caspian energy and other trade goods to the West. This initiative was aimed at exporting regional resources through non-Russian routes to western markets. As later confirmed by the Silk Road Strategy Act (SRSA) of 1999, the US supported the East-West corridor for a variety of reasons (i.e. energy supply diversification for EU countries in order to weaken Russian control over them, breaking Russian monopoly over regional resources and their transportation routes, bolstering newly independent countries independence from Russia, etc.).

In 1994, a consortium of Western energy companies, led by BP, signed an agreement with the Azerbaijani government called 'the deal of the century' in order to begin developing the Caspian energy resources. This agreement was the first step toward simultaneously bypassing Russia and creating a viable East-West corridor through Azerbaijan, Georgia, and Turkey. It paved the way for the materialization of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline that extends from the Azeri-Chirag-Deepwater Gunashli (ACG) field through Azerbaijan and Georgia to a terminal in Ceyhan on the Mediterranean coast of Turkey. The second component of the East-West energy corridor is the Baku-Tbilisi-Erzurum (BTE) natural gas pipeline, which became functional in 2008, and it is designed to transport gas from the Shah Deniz field (in the Azerbaijan

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sector of the Caspian Sea) through Georgia all the way to the Turkish border. The BTE is considered to be the first leg of the Trans-Caspian Natural Gas Project that will tap into the world's fourth largest natural gas reserves located in Turkmenistan and Kazakhstan. The Nabucco gas pipeline project, acting as the fourth component of the East-West energy corridor, was envisaged to transport Caspian, and Iraqi natural gas resources via Turkey, through to Austria. Officials are also talking about the possibility of linking Iraqi, Iranian, Egyptian, and even Russian natural gas resources to Nabucco.

It is not a surprise to note that Turkey is the US's main partner in the East-West Energy corridor project. As a NATO member and EU candidate with its strategic geopolitical position at the crossroads of several oil and gas pipeline projects that would export the Caspian and the Middle East hydrocarbon resources to European energy markets, Turkey emerges as the potential energy hub in the region. By considering the Nabucco pipeline's prospective contribution to its plea to become the regional energy hub, Ankara gives its utmost support to this project. Moreover, the natural gas pipeline is also important for Turkey in terms of energy diversification away from its 60 percent gas dependency on Russia.

Given the net energy importer EU's ever-increasing dependency on Russian gas, the Union has supported the Nabucco natural gas pipeline project, which is estimated to supply between 5-10 percent of the EU's projected gas consumption in 2020, diversifying its energy supplies. The issue of energy diversification has recently been stressed by Europeans following Russia's numerous price disputes with Ukraine, which prompted Gazprom to reduce Russian gas deliveries to western Europe that are piped through Russia's neighbor. Hence, Europeans are beginning to contemplate alternative options to Russian gas resources. At the IGA ceremony, it was noted that Russia's reputation as a supplier has taken a beating following repeated gas crises with Ukraine and it was stated that finding reliable alternatives is an EU priority. The European Commission President Jose Manuel Barroso called Nabucco "a truly European project" that "will provide energy security to Turkey, to Southeast Europe, and to Central Europe."¹

In this context, the EU and the US acknowledge the significance of the Caspian Basin and Northern Iraqi energy resources for alternatives to Russian sources. These resources will be an important addition to oil and gas supplies and require secure access routes to European markets, thereby, major export pipelines such as the Nabucco from the region will secure delivery of important new sources of world energy supplies.

1. "Strategic Nabucco Deal Inked to Help Curb Dependence on Russian Gas", July 13, 2009, http://www.rferl.org/content/Strategic_Nabucco_Deal_To_Reduce_Dependence_On_Russian_Gas/1775655.html

It should also be mentioned that energy development in oil and gas rich countries will be likely to contribute to economic development and enhancing peace and stability in the Caspian and the Northern Iraq. On one hand, the development of Caspian energy resources and their transportation through non-Russian territories will break Moscow's monopoly over the flow of regional resources to the western markets, buttressing the chances of regional states' endeavors to enhance their independence from Russia; in line with the "geopolitical polarity" concept of the prominent American strategist Z. Brezinski. Further, this impacts Northern Iraqi energy resource development and transportation of these resources to European energy markets through Turkey. On the other hand, this will likely pave the way for energy cooperation between Turkey and the Iraqi government, therefore impacting regional economic development while US troops are withdrawing from Iraq. One should note that this peaceful scenario will be facilitated under the circumstances of a consensus between the central authority in Baghdad and the Iraqi Kurdish authorities on the political control over the gas resources.

The Nabucco International Company's principal task is managing the Nabucco pipeline.

Russia is skeptical of the East-West energy corridor and for a long time has been working on an alternative pipeline project to supply Central Asian natural gas to southern Europe, such as the South Stream project, which is envisaged to have a similar capacity and transit the Balkans like the Nabucco. It is proposed that the project will be jointly financed, owned, and operated by Gazprom and Italy's ENI energy firms. Arguably, the materialization of the South Stream would lessen the geopolitical significance of the Nabucco pipeline, though it also has problem of securing enough gas flow and tougher burden of construction.

Enough gas for the Nabucco?

Once the Russian South Stream pipeline initiative materializes, one could wonder whether there are enough volumes of natural gas to render the Nabucco project feasible, citing Russia's gas deal with Azerbaijan in June 2009. However, it should be noted that the principal objective of the Nabucco project is downstream, rather than upstream. In other words, the Nabucco International Company's principal task is managing the Nabucco pipeline.

The gas in the initial period is considered to be Azerbaijani, at 7-8 billion cubic meters (bcm) volumes of natural gas per annum. When fully operational, it could carry 31 bcm of gas annually. While Azerbaijan will export a minimum additional 10-12 bcm volumes of natural gas per annum when offshore Caspian Shah Deniz gas field enters

The partners of the project have made their own risk analyses and they would not sign and take part in 50 years long agreement and project if they assume any foreseen security and the stability problem.

its second development phase² in 2014. The parties promoting the Nabucco project will seek out the possibility of supplying the remaining required amount, probably first from Turkmen (recently Caspian Development Cooperation made a contract with Turkmenistan) natural gas, which would flow via a proposed undersea Trans-Caspian Gas Pipeline. Moreover, there is some expectation that Egypt, Syria, and Qatar would connect their natural gas to the Nabucco. Other potential contributors are Iran and Iraq. It is known that both have significant potential reserves. However, political problems stand in the way as the main obstacle. In the case of Iran, Washington imposed embargo on Iran, and Tehran's insistence on nuclear research will likely to delay the process. Iraq, on the other hand, remains as one of the main potential suppliers.

Fragile Security Environment?

Despite some analysts who are skeptical of the security of Turkish energy route, one should note that even the sides in hot conflict abstain from taking actions to put pipeline security in jeopardy. For instance, even during the Russian invasion of Georgia, in August of 2009, Moscow did not choose the option of damaging the latter's energy infrastructure. Those who suggest that Turkish routes are insecure and pose a risk of terrorist aggression, argue that the BTC pipeline explosion was due to terrorist aggression resulting from neglected intelligence reports indicating the reason as technical malfunction. Given that pipelines passing through Turkey are secured by high-tech equipment, those arguments are not based on solid grounds. There are also new security measures related to the hardware and the personnel. One may also argue that such a pipeline project will itself increase the security of Turkey. The partners of the project have made their own risk analyses and they would not sign and take part in 50 years long agreement and project if they assume any foreseen security and the stability problem.

Nabucco's benefits to Turkey

On the 13th of July, 2009, the intergovernmental agreement on the Nabucco pipeline was referred to as a significant step for Europe and Turkey's energy supply diversification, and it will contribute to Ankara's plea to become a regional energy

2. This project will include an offshore gas platform and a gas plant at Sangachal Terminal and has an estimated cost of at least \$10 billion.

hub, along with the other components of the East-West energy corridor initiative.

From the Turkish perspective, other benefits of the Nabucco are:

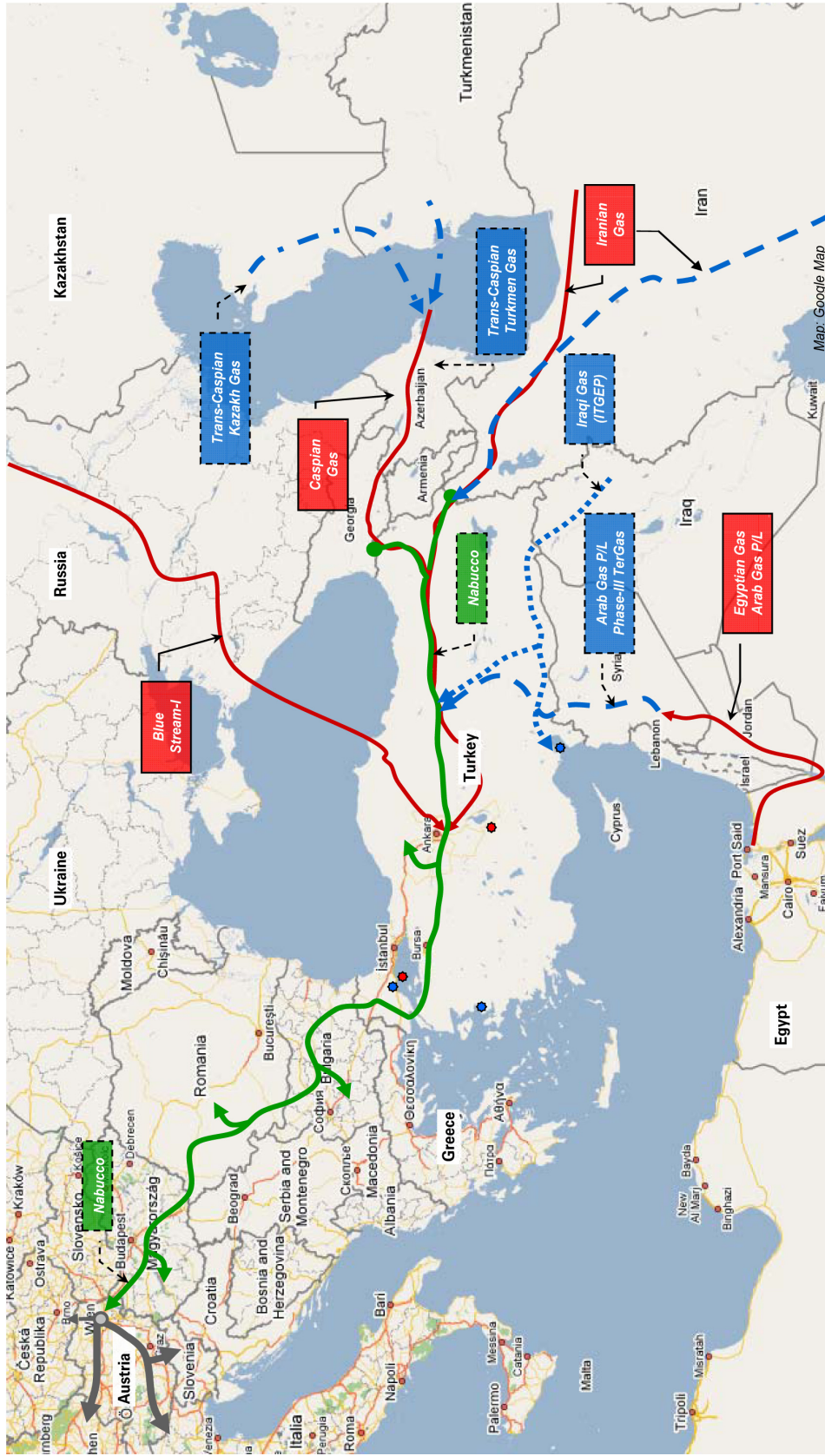
- While fifteen thousand people will be employed during the intensive work period of four years of the construction phase, approximately five hundred people will be employed in the operation phase.
- Even though none of the participating countries will receive transit revenues, they will get revenues in terms of tax. Given that the agreement whose “tax revenue allocation will be distance based” and two-third of the pipeline runs through Turkey, Ankara will receive the lion share of tax revenues, around 450 million euro per annum.
- Turkish BOTAŞ will gain revenues from its management operations for 50 years (duration of the IGA) with a possible 10-20 years extension.
- Given that the Nabucco will be designed to operate not only from east to west, but also, from west to east in the emergency cases

Nabucco Gas Pipeline Project New gas transport corridor – Pioneer Project





Existing/Possible Supply Routes to Nabucco Gas Pipeline



www.nabucco-pipeline.com

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