European Pipeline Race Deepens

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The announcement on December 12, 2011 by Azerbaijan's State Oil Company SOCAR to postpone the final decision on which of the competing pipelines wins the bid for gas produced as part of the second stage of the Shah Deniz gas field was not a surprise. The decision to award a 10 billion cubic metres (bcm) of gas per annum contract has been subject to a continuous tussle between several European pipeline consortia and has dragged on for several years already. A final decision is now set for March 2012.

South-East Europe Pipeline (SEEP) proposal. Source: Energia.gr

The competition for Azeri gas has been fierce from the outset, where the EU's flagship initiative from its Southern Gas Corridor, called Nabucco – a proposed 31 bcm natural gas pipeline from Erzurum in Turkey to Baumgarten in Austria diversifying natural gas supplies and delivery routes for Europe[1] – quickly found itself competing for Azeri gas supplies with smaller rival Southern Corridor projects such as the Italy-Greece-Turkey Interconnector (ITGI) and the Trans Adriatic Pipeline (TAP).[2] Recently, a new contender entered the race in the form of the South East Europe Pipeline (SEEP) launched by BP, who holds a 25,5 percent share in the Shah Deniz consortium. The new initiative represents a 1,300 km pipeline stretching from western Turkey across Bulgaria and Romania to Hungary's western frontier with a capacity of around 10 bcm per year. For the most part making use of existing infrastructure, the SEEP comes at a fraction of the cost needed for the 3,863 km long – largely newly-constructed – Nabucco project.

Nabucco's cost of construction estimated at €10 billion is compared to its closest competitors one of the project's major weak points. In November 2011, European Commissioner for Energy Günther Oettinger remarked that at a time of major austerity measures across the European Union, the Nabucco project is expensive and needs to convince wary investors that they should free up the necessary cash for it. Although he remained positive about Nabucco's chances for success, he admitted that "the debt crisis, which could develop into a financial market crisis or an economic crisis, is certainly not a good sign."[3] Nabucco's excess capacity compared to the quantity of gas immediately available is another point of concern for investors. Following on Oettinger's statement, the U.S. envoy for Eurasian energy, Richard Morningstar, added to Nabucco's woes by stating "it is important that Shah Deniz producers and SOCAR choose a smaller pipeline as the first pipeline."[4]

If the current debt-crisis and the competition from lower cost pipelines ITGI and TAP were not enough, the SEEP launch might just turn out to be the nail in Nabucco's coffin. Compared to Nabucco, SEEP's biggest advantage is that it is backed by BP – a gas holding major. The Nabucco consortium could only dream of having access to the size of the gas reserves BP can command. SEEP's heaviest competition is likely to come from the TAP consortium which is backed by another group of strong companies, including Shah Deniz shareholder Statoil.[5]With the possibility to expand the pipeline to 20 bcm should more resources come available and operating at a fraction of the cost of Nabucco, the TAP consortium holds strong papers to wield in the Azeri contract.

The final stand-off thus seems to be between SEEP and TAP with Nabucco likely losing out due to its high cost and ITGI because of its backing by less strong companies. Whether TAP or SEEP ultimately wins the contract remains to be seen. TAP has the great advantage that it has already sorted out the transit arrangements with Greece and

Albania and is thus the furthest advanced in terms of overall project planning, whereas SEEP has only just been announced.[6] The ultimate decision proves to be an interesting one as SOCAR is forced to choose between several bids, including two from the two major shareholders of its own gas field.
Whatever the outcome, what seems all but certain is that Nabucco is a mere inch away from being put to sleep indefinitely.

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This article is an update on *Nabucco and Europe's Drive towards Diversification* by Sijbren de Jong, April 17, 2011. See also, *South Stream: From Russia with Gas* by Primoz Cirman, May 28, 2011.

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[1] The Nabucco consortium consists of Austrian OMV, Hungarian MOL, Romanian Transgaz, Bulgarian Bulgargaz, Turkish BOTAS, and RWE from Germany.
[2] The ITGI pipeline has a planned capacity of 12bcm and is led by Greek Public Gas Corporation DEPA and Italian Edison – Italy's fifth largest energy company. TAP's initial capacity stands at 10bcm per year. TAP can however be expanded to an annual capacity of 20bcm, should more gas sources become available over time. The TAP consortium consists of Norwegian Statoil, German E.ON. Ruhrgas and Swiss EGL.
[3] Reuters, 'Nabucco not cheap, needs to convince-EU's Oettinger'. November 4, 2011. Available at: http://af.reuters.com/article/energyOilNews/idAFL6E7M41SN20111104?pageNumber=2&virtualBrandChannel=0&sp=true. Accessed on 4 January 2012.
[4] Euractiv, 'US urges Azerbaijan to choose 'smaller pipeline', November 17, 2011. Available at:http://www.euractiv.com/energy/us-urges-azerbaijan-choose-smaller-pipeline-news-508997. Accessed on January 4, 2012.
[5] Statoil equally holds a 25,5% share in Shah Deniz.
[6] A. Pedersen, (2011), 'Nabucco is Dead'. EUObserver Blogs, November 17, 2011. Available at:http://blogs.euobserver.com/petersen/2011/11/17/nabucco-is-dead/. Accessed on January 4, 2012.