European Rim Policy and Investment Council

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ENERGY BRIEF

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NABUCCO OPEN TO NEW 'VALUE ADDED' PARTNERS

The Nabucco Gas Pipeline project is giving consideration to expanding is six-member consortium to include new partners that can provide added value, the group said in a presentation made in Kayseri, Turkey, on June 8. According to a report filed by *Reuters* on June 16, a Nabucco source said the consortium is presently in talks with a number of companies including BP, Shell, Socar, Statoil, GDF Suez and Total. The source told the agency that gas producing companies would be preferred partners.

A perceived growing cost for the construction of Nabucco, which officially remains at €7.9 billion, is thought to be the primary reason behind the idea to enlarge the consortium. Recently, the cost of the pipeline has been estimated at some €14 billion by independent analysts, while Nabucco says the cost is under review. The length of the project has been extended to 3,900 kilometers, including two feeder pipelines: one leading from Iraq, the other from Georgia, which would carry Azerbaijani gas. Nabucco officials are also giving consideration to extending the pipeline as far as the Sangachal processing facility near Baku and to lengthen it slightly in Europe to make the gas transported through it more accessible to European markets. The Central European Gas Hub in Baumgarten, Austria, has been the planned gas terminal.

BP, Statoil, Total and Socar are members of a consortium developing Azerbaijan's offshore Shah Deniz gas field, the second stage of which is scheduled to come on-stream in 2017 with an additional production target of 16 billion cubic meters/year (bcm/y). Turkey is to receive 6 bcm/y of this, leaving 10 bcm/y available for sale to other customers. Nabucco, the Interconnector-Turkey-Greece-Italy (ITGI) pipeline project, and the Trans Adriatic Pipeline (TAP) project are all competing for contracts to transport that 10 bcm/y to Europe. The Shah Deniz consortium has set a deadline on October 1 for contract proposals from the three projects.

Earlier this month, Socar's Vice President for Marketing and Investments, Elshad Nassirov, said that Azerbaijan's state-owned company my purchase shares in whatever company is awarded the Shah Deniz Stage 2 gas contracts. Mr. Nassirov was quoted in the media as saying Socar would look to join the consortium in order to provide financing and assist in operating the project as well as to have a say in the decision-making process for transit tariffs. He added that Socar did not, however, want to subsidize the tariff price by acquiring more capacity than it needs for shipments of its gas.

In Kayseri on June 8, Nabucco Gas Pipeline International signed Project Support Agreements (PSAs) with the responsible ministries of the five transit countries – Turkey, Bulgaria, Romania, Hungary and Austria. A statement released by the consortium said the main elements of the PSAs "are the affirmation of an advantageous regulatory transit regime under EU and Turkish energy law; the protection of the Nabucco Pipeline from potential discriminatory changes in the law; and support for legislative and administrative actions for the further implementation of the project. The PSAs also mark a commitment by each government to support the project. Together with the Intergovernmental Agreement, the PSAs are a necessary prerequisite for the successful financing of the project. They create the stable, long-term regulatory regime, which is required by the group of international lenders to secure the financing of one of the largest single gas transmission projects worldwide."