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NABUCCO FACES CONTINUING HURDLES

Perhaps the partners of Nabucco Gas Pipeline International are beginning to think they should have named the project Sisyphus rather than Nabucco. For all their efforts over the years of planning and negotiations, the objective of constructing and operating a pipeline capable of transporting 31 billion cubic meters per year (bcm/y) of Caspian and Middle East natural gas across Turkey and into Central Europe continues to shift and move, forcing the consortium to re-set its timetable again and again, and to adjust its strategy accordingly.

Following reports in the media that the cost of the project had doubled and that Turkey was seeking to increase the volume of gas that it plans to obtain from Azerbaijan's Shah Deniz Stage 2 (SD2) gas project from 6 bcm/y to 10 bcm/y – a development that could have jeopardized the entire Southern Gas Corridor concept – Nabucco issued a statement from its Vienna headquarters on May 6 saying that its schedule had changed because gas supplies would not be available to meet its previous plan to ship first gas in 2015.

“The timeline has changed as a direct result of the changes in the timing for gas supplies in the Caspian and Middle East regions, as announced by potential suppliers,” Nabucco said. “Construction is envisaged to commence in 2013 to align the Nabucco timeline with gas suppliers,” it added.

Azerbaijan's SD2 gas will not come on-stream until 2017, when supplies from northern Iraq are also expected to become available for export.

“Nabucco's progress has been positive so far, with the progress of the Environmental & Social Impact Assessment and concrete steps for procurement and other important work-stream,” the consortium's Managing Director, Reinhard Mitschek, said in the statement. “The Open Season process will start as soon as there are firm indications that gas supply commitments are in place. The Final Investment Decision will be taken consequently. We now expect first gas to flow through the pipeline in 2017,” Mr. Mitschek said.

Recent reports say the initial estimated project cost of €7.9 billion – based on a 2005 feasibility study – is no longer realistic and that it would probably cost €12-15 billion to construct the pipeline – including the feeder line to the northern Iraqi border. However, Nabucco officials claim that new cost estimates are only speculation.

First proposed in the early part of the last decade, the Nabucco consortium envisions a pipeline that is now likely to be more than 4,000 kilometers in total length. It is designed to carry 31 billion cubic meters per year (bcm/y) through Turkey to Europe for the purpose of supplying southeastern and central Europe with natural gas originating in the Caspian Sea region and the Middle East.

The big problem for Nabucco has been its inability to secure agreements from long-term supplies from Azerbaijan, Iraq – and preferably in the long run – Turkmenistan. Azerbaijan's state-owned Socar is to decide by the end of this year which companies it will give supply contracts to for the 10 bcm/y that will become available from the SD2 project – a total of 16 bcm/y will come on-stream, 6 bcm/y of which is allocated to Turkey.

In its May 6 statement, Nabucco confirmed that the negotiations with gas supplies are encouraging. "All gas supply negotiations are being led by the shareholders and by third party gas buyers from Turkey and from Europe and are undertaken completely separate from Nabucco Gas Pipeline International, which acts as an infrastructure company," the statement said.

Azerbaijan is reported to be favoring Nabucco partners for the sake of good politics with the European Union, which backs Nabucco, and for the sake of long-term sales. Socar's partners in Shah Deniz, BP and Statoil are said to be leaning to Nabucco's competitors, the Interconnector-Turkey-Greece-Italy (ITGI) project and the Trans Adriatic Pipeline (TAP) because sales to those smaller projects would bring faster return on investment.

Nabucco, ITGI and TAP comprised the Southern Corridor concept, which envisages pipeline systems moving gas through Turkey to Europe and thus reducing the EU's dependence on Russian natural gas or supplies through its territory. For its part, Russia is keen to maintain its importance to the EU gas market and has launched the South Stream project, which involves that construction of a gas pipeline across the Black Sea in an attempt to sideline the entire Southern Corridor idea.

It has been suggested previously that Nabucco and the ITGI pair-up and work together to bring gas through the Southern Corridor, but until now, Nabucco has dismissed the idea. Speaking to reporters on May 6, Mr. Mitschek said Nabucco is open to new partners if there is added value. "If that can deliver added value, then we'll take all shippers on board," he said, adding: "We see Nabucco as a backbone and frontrunner. We are open to links with branch lines."

Nabucco partners OMV of Austria and MOL of Hungary are active in northern Iraq, which is administrated by the Kurdistan Regional Government (KRG). The KRG has stated previously that it is looking to export gas to Nabucco, but political issues at a federal level in Baghdad must first be worked out. Also, it will be a couple years before the gas in northern Iraq will be available for export.

Turkey, which is also a Nabucco partner through its pipeline company Botas, is in disagreement with other partners, including Germany's RWE, Romania's Transgas and Bulgaria's BHE, because it prefers that the Nabucco starting point be at Sivas in central Anatolia near Ankara, rather than the proposed extension of the pipeline's starting point to the Sangachal oil and gas processing terminal on the shore of the Caspian Sea in Azerbaijan.

Earlier this year, RWE unveiled a proposal that would put the mouth of Nabucco almost at the wellhead of SD2 gas. That proposal is seen not only as a means to make Nabucco more attractive to Azerbaijan, but to also put the pipeline in place to connect with a trans-Caspian gas pipeline, if one should ever materialize.

The long-proposed Trans Caspian Gas Pipeline (TCGP) would carry gas across the Caspian Sea from Turkmenistan and on to Europe. Turkmenistan, where gas reserves are estimated by the state at more than 24 trillion cubic meters, has stated frequently that it is open to the prospect of selling natural gas to Europe, but when that day will come is every much a riddle wrapped in a mystery inside an enigma as the Nabucco project and the entire Southern Corridor is coming to be.