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The Battle of the Pipelines: The Need for a Greek Plan B

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Two months after the expiry of the deadline (1 October 2011) set by the Shah Deniz 2 joint venture to evaluate the proposals of the four joint ventures vying for the transit of 10 billion cubic meters of natural gas per annum with which the Southern Gas Corridor of the E.U. will be inaugurated, a series of important developments clearly signify that we have entered the final phase of this over-celebrated "war of the natural gas pipelines". These developments may be summarized by the following points:

(a) The finalisation of intergovernmental agreements between Turkey and Azerbaijan regarding the transport of 10 billion cubic meters/ year (bcm/y) through Turkish territory on 25 October 2011. These agreements guarantee the terms of transit for all three competing pipeline consortia while simultaneously securing an additional 6 bcm/y for the medium-term needs of the Turkish economy thereby allowing Ankara to significantly diminish its imports dependency on Russia's Gazprom by not renewing its 25-years gas supply contract through the soviet-era western Balkan pipeline.

It is not accidental that on 3 October 2011, Turkey's Energy Minister Taner Yildiz announced that Ankara decided to terminate the negotiations for the renewal of its 1986 supply contract with Gazprom for another five years, because the Russian monopoly would not agree to a significant price decrease. Turkey imported 6 bcm/y through the Western Balkan pipeline that crosses into Eastern Thrace via Ukraine, Romania and Bulgaria. Ankara would make up for this loss by increasing its LNG imports, augmenting the flow of Russian gas via Blue Stream until it starts receiving the Shah Deniz Phase 2 gas in 2017.

(b) The announcement on 02 November 2011 by the vice president of SOCAR Mr. Elshad Nassirov and its confirmation by the minister of Energy of Azerbaijan Mr. Natik Aliyev himself on 18 November 2011, of the decision by Turkey and Azerbaijan to proceed with the construction of a new pipeline called TANAP (Trans Anatolian Pipeline) with a minimum export capacity of 16 bcm/y that basically duplicates the planned Nabucco route. (Middle East Economic Survey,28 November 2011). This Nabucco replacement that will link with Shah Deniz's own export infrastructure in Erzurum, the point where the existing SCP (South Caucasus Pipeline) connects with the Turkish NGTS (Natural Gas Transportation System), will be constructed in case Turkey's NGTS will not be able to secure enough spare transportation capacity for servicing the aforementioned 10 bcm/y.

There is of course the option of upgrading the transit capacity of the Turkish NGTS without resorting to the construction of an entirely new pipeline, but on any case this does not augur well for Nabucco, since Nabucco's construction was not dependent on the upgrading of the Turkish NGTS. One of its major advantages vis-à-vis ITGI and TAP was that it was not dependent on the upgrading of the Turkish NGTS to transport the Shah Deniz exports to Europe. Now that Turkey and Azerbaijan guarantee the upgrading of the Turkish NGTS through the addition of new compressors or even the construction of an entirely new pipeline, Nabucco's last advantage vis-à-vis TAP and ITGI has been effectively eviscerated.

(c) The disclosure at an international conference that took place in Istanbul on 18 November 2011 of the intense doubts kept by the Azeri Energy Minister Mr. Aliyev regarding the realization of the Nabucco project. The high-ranking Azeri official and former president of SOCAR made it clear that Nabucco will be built "once all Azerbaijan's gas production projects, including Shah Deniz II and Absheron, are fully launched, as well as gas from third countries such as Turkmenistan comes on stream". Then, Mr. Aliyev emphasised, "Nabucco could be the best option".

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The problem for the Nabucco's planners, as Aliyev underlined is that Nabucco has too big a capacity and is too expensive to be realized without the supply of at least another 10 bcm/y from an additional source beyond Azerbaijan. As Aliyev himself stated "We believe that apart from Nabucco, which has certain elements of uncertainty about the timeline of its development, there are other projects that can be seen as attractive. First of all these are the Trans Adriatic Pipeline and the Interconnector Turkey Greece Italy pipeline and other projects of more local character [e.g. the South East Europe Pipeline (SEEP) of BP]." (MEES, ibid)

(d) The refusal of the Azeri government, in the degree it is expressed by Elshad Nassirov, SOCAR's vice president and head of the Azeri delegation in the negotiations on Shah Deniz, to link the acquisition of the majority stake of DEPA with the prevalence of ITGI at the expense of TAP and BP's SEE Gas Pipeline. In contrast to the direct linking of the two issues, which was promoted by the Greek Minister of Environment, Energy and Climate Change Mr. Papakonstantinou during his two-day visit to Baku on 24-25 October 2011, Nassirov made it clear on 4 November that "The definite decision (for the acquisition of a stake in DEPA) depends on the selection of the "road" of export of Azeri gas to Europe". "Also", he continued "we anticipate the definite decision of the Turkish Government and the solution of the dispute between DEPA and Botas". (MEES, 31 October).

The abovementioned developments do not automatically imply good news for Greece and DEPA. The ITGI project, despite the fact that it has assured all permits necessary from both transit states and although it has an exceptionally high TPA (Third Part Access)-Exemption permit amounting to 8/9 of its initial transit capacity, it is perceived to be confronting significant financial impediments.

The fact that this perception may derive as a result of Greece's financial woes does not diminish the expressed doubts regarding ITGI's financiability, which is reinforced by the creditworthiness of the three energy companies which comprise the TAP project, and most notably Norway's Statoil that also happens to control 25,5% of the Shah Deniz consortium.

Furthermore ITGI's planners have yet to detail the cost of the project's scalability which –according to statements by DEPA's CEO Harry Sachinis since July 2011- aspires to increase the system's combined transportation capacity from 11-12 bcm to 16 bcm/y for the IGI/Poseidon pipeline and from 3-5 bcm/y to 8 bcm/y for the IGB interconnector to Bulgaria.

This lack of specification reinforces the conviction of certain decision-making circles in Baku, that the Greek-Italian project is not based on a financially sound basis, something that at least in the case of the Greek-Bulgarian pipeline is completely unwarranted since 1/3 of the total construction cost (around EUR 45 million) of the pipeline has been secured from the European Energy Programme for Recovery since late 2009.

Given the fact that BP's South East European Pipeline is more of a back-up Plan rather than an actual detailed competitor to ITGI and TAP, Greece, in the midst of its worst financial crisis in generations would need to decide the best strategy so as to guarantee its place in the inauguration of Europe's Southern Gas Corridor Strategy.

That should constitute our basic priority even if it were "forced" to share the control of the transit route to Europe with Albania, in case the Trans Adriatic Pipeline is selected by the Shah Deniz consortium. This strategy cannot but promote a merging of the ITGI and TAP project in ways that would incorporate a strong participation of DEPA and/or M&M Gas Co. (Motor Oil & Mytilineos) in the structure of TAP's shareholders.

A Greek participation in TAP would "guarantee" that at least 1.5-2 bcm/y of the 10 bcm/y capacity pipeline will be secured for Greece's long-term gas consumption. It would also guarantee that if Bulgaria were to buy Azeri gas it would buy it through the IGB (Interconnector Greece Bulgaria) and not through a new pipeline through Turkey, whose construction would signify the materialization of the either the Nabucco project or the S.E.E.P. "alternative", both of which completely bypass Greece.

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