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Jumping off the Ship? What does MOL's Withdrawal Signify for Nabucco's Future?

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On 23 April, Viktor Orban, Hungary's Prime Minister who is negotiating a new austerity/financial support package with the European Commission told the state news agency *MTI* that MOL, the state-controlled oil & gas company, had decided to withdraw its participation, via its subsidiary TSO (Transmission System Operator) FGSZ, from the Nabucco International Company (NIC). "Nabucco is in trouble", Orban was quoted as saying noting that "I am not an expert on this issue but as far as I can see, MOL is withdrawing from the entire project". Given the European Commission's staunch support for the 31 bcm/y capacity project, Orban's declaration is indicative not only of Hungary's dire economic situation but also of the country's determination to support a project that MOL had championed several years before its last-minute appearance –in the form of BP's SEEP¹ in the Southern Gas Corridor competition on 27 September 2011.

Less than 24 hours after Orban's declaration, MOL circulated an email statement where it noted that it had repeatedly raised several "doubts" over the project's financiability. "Given that these concerns still exist" the statement read, MOL has indicated towards the NIC shareholders, and to the Hungarian government, that it does not consider the further financing of NIC sustainable and therefore it did not approve the 2012 annual budget". Nabucco's Board of Directors claimed not to have received any official notification of MOL's purported decision while the European Commission through Marlene Holzner, a spokeswoman for European Energy Commissioner Guenther Oettinger, said that "it has no indication about MOL dropping out of Nabucco".²

Unfortunately for Nabucco, on 26 April MOL's own Chief Executive Officer left no room for interpretation while revealing in the process the true reasons behind MOL's decision and the relative power position of Nabucco vis-à-vis SEEP as the Shah Deniz partners are getting closer to reaching their decision on who would face off with the Trans Adriatic Pipeline/TAP for the transportation of the consortium's 10 bcm/y to Europe. On 26 April Zsolt Hernadi, MOL's CEO reconfirmed the company decision to withdraw from the project by noting that "There's nobody who knows what the Nabucco project is, or what it costs. As long as this is the case there's nothing to talk about," Hernadi said, adding that Nabucco "has yet to secure a source of natural gas while its cost estimates kept on rising". Hernadi also stressed that Nabucco never presented a realistic adaptation of its costs to "present-day conditions" and that it was ready to sell the 16.67% it owns in the current JVC.³

MOL is the first of the six partners to abandon Nabucco's ship but it is not likely to be the last. Its decision does not only indicate that the Nabucco partners are beginning to loose significant ground vis-à-vis BP's SEEP project. It also illustrates the internal battle between Nabucco's shareholders as they attempt to conform with Shah Deniz/SOCAR demands on a shorter, European version that would link up with the Turkish NGTS (Natural Gas Transportation System) system at the western end of the TANAP (Trans Anatolian Gas Pipeline) project.

MOL, which is developing with OMV the Khorr Mor and Chemchemal fields in Northern Iraq, was considered to be among the champions of the older Euro-Asian version of a multi-source import pipeline that would utilize its future Iraqi resources. A Nabucco West option that would be tailor-made to SOCAR/Shah Deniz needs does not leave open a medium-term option for the monetization of MOL's Iraqi investments. *What is important to note though is that MOL's decision suggests that even a shorter European Nabucco would still be too expensive for MOL's ability to finance*

¹ SEEP: South East Europe Gas Pipeline.

² "Hungary's MOL Won't Fund Nabucco In 2012", *DowJones*, 24/04/2012.

³ "MOL Ready To Sell Shares In Nabucco Company –CEO", *DowJones*, 26/04/2012

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compared to its potential participation in SEEP. In extension, if this is true for MOL, then it is also true for the other S.E. European states which constitute the backbone of Nabucco's Balkan route and are also "flirting" with SEEP.

Hernadi's comments are particularly detrimental to the Nabucco partners given the fact that MOL was fully cognizant of (a) the economic details of a Nabucco-West option which has been presented to the Shah Deniz partners since April 10th, according to Rashid Javanshir, the President of BP Azerbaijan,⁴ and (b) the new deadline of May 16th Shah Deniz has given to SEEP and Nabucco in order for the two competing projects to submit their final proposals for the selection of the Central European route "finalist". *The fact that MOL abandons the new and improved Nabucco model less than three weeks before the finalization of its tender proposal to the Shah Deniz partners constitutes a severe blow for the project,⁵ a blow that is further aggravated by the fact that the SD2 has entered, as of 17 April, in its FEED (Front End Engineering and Design) Phase.*

The beginning of the FEED "represents the start of a key phase in the project during which engineering studies will be refined, further wells will be drilled, commercial agreements will be finalised and key construction contracts will commence" a Shah Deniz press release noted. In reality this means that we have entered the "homestretch" of the Southern Gas Corridor marathon. Henceforth the tiniest alteration in the balance of power between the competing pipelines may prove to be crucial for their fate. Unless Nabucco can replace MOL in a matter of weeks this balance would have likely tipped in SEEP's favour.

OMV, MOL's Iraqi partner, and the leader of the consortium along with Germany's RWE, tried to downgrade the importance of Hernadi's statement. On 26 April OMV's Group CEO Gerhard Roiss told Handelsblatt⁶ that the withdrawal of MOL will not affect the project's implementation. Roiss said that the loss of MOL will not influence Nabucco "since the legal preconditions for building the length of the pipeline have been secured". Moreover, he noted "there are other companies that want to join the consortium." Roiss did not name the possible candidates for replacing MOL even though Germany's Bayerngas is the only company which has so far expressed its interest in joining Nabucco since September 2011. Nothing tangible has so far resulted from these talks and it is unlikely that Bayerngas would join Nabucco before 16 May.

MOL's departure would not have constituted such a significant blow for Nabucco if the remaining partners were solid in their support for the Commission's favourite, but this is hardly the case. As it has already been noted Bulgaria's BEH and its TSO subsidiary Bulgartransgaz, as well as Romania's Transgaz are also negotiating their participation in the SEEP project, while even RWE has publicly questioned Nabucco's viability and signed a Gas Supply MoU with Gazprom. As early as January 2012 the CEO of RWE's Group Juergen Grossmann told the German edition of the *Wall Street Journal* on 17 January that the leader of the Nabucco project may be considering to scrap its participation in the pipeline in order to save billions of Euros that could be reinvested in securing gas from alternatives sources and improve the company's finances after Germany decided to phase out its dependence on nuclear power following the Fukushima accident.

RWE, who on 14 July 2011 signed a MoU for its cooperation with Gazprom, is drawing closer to Russia in an attempt to secure increased gas supplies via either the Nord or South Stream pipelines in order to fill the vacuum from the scheduled decommissioning of its nuclear generation units. "The important thing is that Caspian gas flows to Europe and that it arrives in the quantities, and where, we need it," said Grossmann, adding that "whether the pipeline is called Nabucco or Turandot [another famous Verdi Opera] doesn't really matter to us...we are pleased about all solutions [to ship Caspian gas to Europe] that keep our own financial exposure limited," Grossmann noted. The

⁴ "Shah Deniz Partners To Proceed With FEED Phase For Stage 2 Development", *Middle East Economic Survey*, 23/04/2012, p.15.

⁵ On 25 April Al Cook, BP's Vice President for Shah Deniz Development, told in an interview posted in TAP's website that "we are currently considering two options - SEEP and Nabucco West, a new proposal recently provided by Nabucco. We are pleased to see the continued progress of these options and are waiting for formal submissions from them by 16th May", Kjetil Tungland & Al Cook (joint interview), *Caspian gas for Europe: Trans Adriatic Pipeline and Shah Deniz on delivering different parts of the Southern Gas Corridor*, <http://www.trans-adriatic-pipeline.com/news/news/detail-view/article/320/>

⁶ "OMV Chef: Nabucco-Pipeline wird gebaut", <http://www.handelsblatt.com/unternehmen/industrie/omv-chef-nabucco-pipeline-wird-gebaut/6561634.html>,

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German CEO, who appeared to be questioning the project's official budget of 7.9 billion euros, did underline that RWE has already profited significantly from its participation in the project by "securing upstream licenses in Azerbaijan and Turkmenistan which have certainly increased in value".⁷

Under these conditions MOL may have been the first Nabucco partner to jump off a potentially sinking ship. It is unlikely that it will be the last, even though no one can say for sure that SEEP, which remains a rather nebulous alternative, will carry the day and face of TAP in the Southern Corridor's final selection round.

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⁷ "RWE CEO Says Company Could Exit Nabucco", *Middle East Economic Survey*, 23/01/2012, p.16.