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Italy & Greece Change Course in Support of TAP project

by Theodore Tsakiris

Research Fellow, Coordinator of the Geopolitics of Energy Programme, ELIAMEP, Greece

Five months after the initial rejection of the ITGI project from the Shah Deniz consortium and less than six weeks after its decision to drop the SEEP (South East European Pipeline) project in favor of Nabucco West, the Greek and Italian governments appear to have taken the first decisive step in support of the Trans Adriatic Pipeline Project. Following a recent visit by a senior Italian delegation headed by the country's deputy ministers of foreign affairs and energy to Baku and a round of meetings by BP's Al Cook in Athens in July 2012, Athens and Rome understood that their only chance of participating in Europe's Southern Gas Corridor policy is to get behind TAP and remove any politically driven obstacles remaining on the project's road. The European Commission's dedicated endorsement of Nabucco is the principal reason why the continued absence of an IGA (Intergovernmental Agreement) between TAP's "Host Governments" may prove to be detrimental to the project's chances, despite the fact that it is considerably more attractive than Nabucco West from a financial and commercial point of view.

The absence of an IGA agreement between Italy, Albania and Greece is also a major regulatory impediment for TAP's partners to get the necessary environmental and third-party exemption permits in time to meet the Shah Deniz's timetable. Less than ten months before the BP-led consortium takes its decision, TAP, contrary to Nabucco West is lacking any regulatory or permitting approval in Greece and Italy which were staunch supporters of the ITGI project right up until the beginning of June 2012 when Shah Deniz denied even considering a revised proposal on ITGI submitted by Edison and DEPA. On 8 August Claudio De Vincenti, Italy's Deputy Minister for Economic Development who is responsible for Energy and his Greek counterpart, Makis Papageorgiou signed an agreement to "fully promote Europe's Southern Gas Corridor policy".

Greece's new Foreign Minister Demetrios Avramopoulos whom Papageorgiou accompanied to Italy noted after the agreement was signed that the two governments "agreed to promote the necessary political initiatives so that Italy, Greece and Albania cooperate in order to create the necessary political framework through which specific steps can be made". In plain English this means that Rome and Athens have agreed to cooperate with Albania on the signing of an IGA so as to facilitate the overcoming of TAP's permitting problems. A statement released latter that same date, acknowledged that "Greece and Italy are engaged in a process of negotiations with the Albanian government regarding the materialization of a project that will contribute decisively to Europe's energy independence".

In reality the Rome meeting is just the beginning of a long-process leading to the signing of an IGA that is not likely to come in the immediate future despite TAP's wishes and painstaking efforts. The process is unlikely to move faster than the ongoing backstage negotiations between TAP's partners and several companies from Italy and Greece that are potential candidates for joining the 10 bcm/y pipeline. BP's announcement late last June that it had essentially struck an agreement regarding its own participation in TAP acted as a catalyst for the diplomatic progress currently unfolding between Rome, Tirana and Athens. Yet there is still a long way to go before an IGA is completed. The sudden appearance of more than one candidate partners in both the Italian and Greek sides of the project complicates TAP's internal decision making, especially since BP's participation is not yet a legal fait accompli.

Papageorgiou himself confirmed that TAP's partners should not haste into opening up the champagne bottles by noting that "what happened here today is that we agreed to a closer cooperation with Italy in the Southern Corridor... to advance in support of this project [TAP] so as to secure the diversification of supply sources". But DEPA's former boss added that "In the next stages we [Greece and Italy] will discuss the details, because the next step includes negotiations between Greece, Albania and Italy on this project and its transit route". He then stressed, in an indirect reference to Albania, that he wished "that all interested parties will show the proper cooperative attitude as Greece and Italy".

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Michal Hoffman, TAP's External Affairs Director was quick to welcome the development by noting in a statement made to Trend News Agency that the "The Greek-Italian agreement confirms the progress we have been making in discussions with the Italian and Greek authorities". In any case negotiations are expected to move much faster after September 2012 even though their success is far more certain. Apart from the question of which company will join TAP from Greece and Italy, and there can be only one company from each state since the Shah Deniz partners will also buy into TAP if it wins the race, Greece may also raise a bilateral issue with Albania that apparently has no relation with the routing of TAP across the Straits of Otranto.

The issue is Albania decision's not to ratify a 2009 agreement on the delimitation of its EEZ (Exclusive Economic Zone) with Greece following a decision from Albania's Supreme Court. Greece has judged the Supreme Court's decision as politically motivated and may also link its support for TAP with the final ratification of the EEZ agreement. Former Deputy Energy Minister Yannis Maniatis openly alluded to the necessity of making such a link during an interview with To Vima newspaper on 19 August. What is clear though is that there is very limited time for TAP's supporters to persuade the Shah Deniz partners that there is enough political support for the project on behalf of the Italian and Greek governments.

The news of the Italian-Greek agreement appears though to have been welcomed by more than TAP's shareholders. On 9 August TAP's partners and the Shah Deniz consortium signed an agreement "to secure funding for the TAP project" adding that "these funds will contribute towards continued work in several important areas during the period running up to the final routing decision, expected in 2013", a TAP press release noted. The agreement also includes an option for the Shah Deniz shareholders to take up to 50% equity in TAP.

Ketil Tunngland, TAP's CEO, also noted that "The signing of this agreement is a significant vote of confidence in the quality of TAP's technical and commercial solutions from key industry players, and underpins the Cooperation Agreement that was signed between TAP and Shah Deniz in June. "Our cooperation with Shah Deniz is now even closer and more far-reaching than before. This agreement will strengthen our continued working relationship in the run-up to the final routing decision. We remain confident of a positive outcome." This of course does not mean that the race is over. To the contrary, in some ways it is only just begun since both BP and the Shah Deniz consortium are expected to sign a nearly identical MoU with the shareholders of the Nabucco West in September 2012.

Hellenic Foundation for European & Foreign Policy (ELIAMEP)

Vas. Sofias, 10676 Athens, Greece | Tel. +30 210 7257 110 | Fax +30 210 7257 114 | E-mail eliamep@eliamep.gr

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