

Formidable obstacles threaten Europe's plan for strategic gas pipeline

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Nabucco faces high costs and growing competition for the supplies to fill it

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The development of the Nabucco natural gas pipeline, intended to reduce the European Union's dependence on Russian energy supplies, faces major challenges that threaten its future, according to analysts and members of the consortium backing the ambitious project.

The estimated cost of the 3,300-kilometer-long, or 2,050-mile-long, pipeline has ballooned, and the consortium is still struggling to line up suppliers for Nabucco, which is designed to carry 31 billion cubic meters, or 1.1 trillion cubic feet, of natural gas a year from the Middle East and the Caspian region to markets in Europe.

E.U. officials say 2011 is the make-or-break year for the project. "Either it is this year or it is not feasible," said Marlene Holzner, a spokeswoman for the E.U. energy commissioner.

Nabucco was originally budgeted at €7.9 billion, or \$11.1 billion. But according to an internal study by the British oil company BP, it may cost €14 billion to finish the pipeline. That threatens to make the venture unprofitable.

Nabucco would carry gas from the Caspian region and the Middle East through Bulgaria, Romania and Hungary to a hub just outside Vienna. From there, the gas would be distributed throughout the European Union.

The consortium of energy companies

behind the project has two options, according to E.U. officials and analysts.

One option is to abandon Nabucco after nearly a decade of planning and development. Were that to happen, it would mean not only a missed opportunity to diversify's E.U. energy supplies, but a major loss of influence and prestige for the European Union in the increasingly important Caspian region.

The other choice is for Nabucco to be merged with another pipeline to make it more attractive to investors, gas suppliers and consumers.

"The attention is now on the economics of Nabucco, not the political aspects of using Nabucco to weaken Europe's dependence on Russian gas," said Borut Grgic, a senior fellow at the Atlantic Council.

Europe relies on four major suppliers for its natural gas: Russia, which provides 41 percent; Norway, which provides 27 percent; Algeria, 17 percent; and Nigeria, 5 percent. Russia is the European Union's single most important energy supplier over all, accounting for more than 25 percent of the bloc's consumption of oil and gas, according to the European Commission, the Union's executive arm.

That dependence was underscored when price disputes led Russia to briefly cut natural gas supplies to Ukraine in 2006 and to Belarus in 2009. That led to serious shortages in parts of Eastern Europe, and spurred the European Union to step up its efforts to secure alternative supplies.

The consortium behind Nabucco comprises many of Europe's largest energy companies: RWE, of Germany; OMV, of Austria; MOL, of Hungary; Botas, of Turkey; Bulgaria Energy Holding, of

Bulgaria; and Transgaz, of Romania.

With Bulgaria and Romania still grappling with the effects of the global economic crisis, it is far from certain if their state-run energy companies could afford a bigger investment in Nabucco.

"I do not know how the Nabucco consortium arrived at the €7.9 billion figure in the first place. I could never see it costing less than €12 billion," said Jonathan Stern, director of gas research at the Oxford Institute for Energy Studies. "And consider the price of iron ore, which is used for steel pipelines. It has risen by 50 percent over the past year."

In Vienna, where Nabucco is based, a spokesman for the project, Christian Dolezal, played down BP's €14 billion cost estimate. He also discounted the possibility that the start of construction would be delayed. "The current figure of €7.9 billion is based on the Nabucco feasibility study which was completed in 2005," Mr. Dolezal said. "These figures are currently under review. Any other figures released in the meantime are specula-

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tions and not accurate. We do not have an investment issue, therefore no delay."

Johannes Vetter, a spokesman for MOL, said there were "no final numbers on the table," adding, "We will know in a few weeks if there will be delays."

Even if the pipeline is completed, there is the issue of finding natural gas to fill it. The consortium has been banking on Azerbaijan, which has huge reserves of gas. But those fields have not yet been developed. BP is the project operator of the Shah Deniz II field in Azerbaijan, and





holds a 25 percent stake in it. For months, Nabucco has been negotiating to obtain gas from the Shah Deniz II field. But the Azeri government has yet to decide whether it will sell gas to Nabucco or to some other pipeline operator.

Elshad Nasirov, vice president of Socar, Azerbaijan's state-owned oil and natural gas company, said recently that Shah Deniz II could only guarantee 10 billion cubic meters of gas for export, less than one-third of Nabucco's capacity.

"We do not promise additional gas," he said. "Everything depends on the price."

RWE has been looking elsewhere for supplies. Last year it signed a cooperation agreement with Iraqi Kurdistan, which has large reserves of gas. The long-term goal of the semiautonomous region is to supply Nabucco with 20 billion cubic meters of gas a year, according to Kurdistan's natural resources minister, Ashti Hawrami.

To accomplish that, however, Nabucco would have to build another pipeline, 550 kilometers long, to bring the gas across Turkey to the main pipeline. That would drive up costs.

"The fact is that there will not be 30 billion cubic meters of gas for Nabucco until well into the next decade," said Mr. Stern, of the Oxford Institute.

Moreover, as Socar has made clear, Nabucco is not alone in trying to obtain gas from the Shah Deniz II fields. Two other European energy projects are also in talks with the Azeri government: the Trans Adriatic Pipeline, or TAP, and the Interconnector Turkey-Greece-Italy, or I.T.G.I.

TAP is backed by Statoil, of Norway; E.ON, of Germany; and EGL, of Switzerland. The 520-kilometer pipeline is to run from Greece to Italy via Albania and cost €1.6 billion.

"There is as yet no agreement with

Azerbaijan," said Kjetil Tunland, TAP's managing director. "Everybody is waiting for Azerbaijan's decision."

The I.T.G.I pipeline is to run from Turkey across Greece to Italy, have an annual capacity of 12 billion cubic meters and cost €2.5 billion. The shareholders are Edison, of Italy; Depa, of Greece; and Botas, the Turkish company that is also a partner in Nabucco.

With all three pipelines chasing after Azeri gas, and with rising costs for Nabucco, the European Union is now lobbying for Nabucco to merge with one of the other projects.

Joschka Fischer, the former German foreign minister and now consultant for RWE, proposed during a meeting of energy experts in Vienna in January that the Southern European pipeline projects should be integrated.

"It would make sense," Mr. Fischer said. "Business interests would be brought together, but above all it would allow Europe to diversify." Together, the three pipelines would be able to supply Europe with about 53 billion cubic meters of gas a year.

Nabucco confirmed that talks were taking place. "We understand that there is a discussion on a political level," said Mr. Dolezal, the Nabucco spokesman. But, he added, "Nabucco can be realized and stand alone."

The European Union has made clear it is not counting on that.

"Our main goal is to have access to the Southern Basin," said Ms. Holzner, the E.U. energy spokeswoman. "That is why we do not back one project but also TAP and I.T.G.I." If Nabucco falters but I.T.G.I. succeeds, she added, "then we will have achieved the same goal: access to the Caspian."