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**NABUCCO GAS PIPELINE  
– POSSIBLE SOLUTION OF NATURAL GAS  
TO THE SLOVAK REPUBLIC**

**1. INTRODUCTION**

Need of building Nabucco, Figure 1 became urgent in connection with the gas crisis in January 2009. Russia and Ukraine were not able to make contract about gas delivery until the end of 2008 so Gazprom stopped gas delivery to Ukraine since 1<sup>st</sup> January. Later Kiev was accused of taking raw material illegally from deliveries for other countries and afterwards Gazprom stopped gas flow to Ukraine. It was a problem for Europe which depends for 30% on Russian gas (some countries, including Slovakia, for 100%), whereas 80% of gas overflows Ukrainian infrastructure.

Proceedings did not bring any results and commercial conflict revealed political background – effort of Moscow to increase control over Ukrainian transport system, inner political fights etc. At first European union did not want to tamper with the conflict. But stopping essential part of gas deliveries, forced it to play role of moderator. Mediated agreement of gas transit through Ukraine, which would have been overseen by European observers. Despite of this gas did not start to flow and Moscow with Kiev continued to accuse each other form causing that.

Break occurred on 17<sup>th</sup> January in Moscow. Most of the member countries did not participate and were deputized by commissar Piebalgs and Czech minister of agriculture, but Slovakia sent individual delegacy. Night bilateral proceedings between Timošenko and prime minister Putin were key – they made agreement of restoring transit but also 10-year agreement of gas supplying to Ukraine.

As a result of crisis Europe started to search for energetic alternatives.

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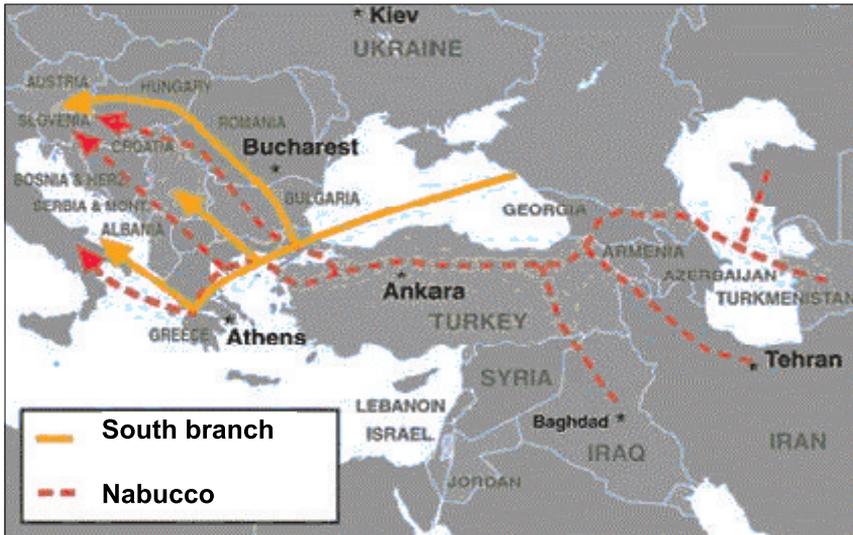


Fig. 1. Nabucco and south branch – planned routes

### History of Nabucco gas pipeline

- February 2002:** proceedings between Austrian energetic firm OMV and Turkish BOTAS
- June 2002:** protocol about future co-operation of 5 companies: OMV (Austria), MOL (Hungary), Bulgargaz (Bulgaria), Transgaz (Romania), BOTAS (Turkey) on the Nabucco project
- October 2002:** 5 companies signed agreement of co-operation, its main goal was to prepare feasibility study
- December 2003:** The committee approved grant for part-financing feasibility study, including market analysis, technical, economic and financial study
- end of year 2004:** feasibility study had been finished and the result was technically and economically possible project
- 28th June 2005:** partners signed agreement of joint venture
- February 2008:** German RWE added to consortium
- 11th June 2008:** first agreement of gas delivery through Nabucco, from Azherbaidzhan to Bulgaria was signed
- January 2009:** Nabucco gas pipeline became one of the priorities of Czech chairmanship, conflict between Russia and Ukraine showed its strategic importance
- 19th January 2009:** Turkish prime minister Recep Tayyip Erdogan threatened in Brussels, that if entering proceedings with his country were not unblocked, then his country could have stopped project support.
- 26th January 2009:** Hungary organized international summit to the Nabucco project in Budapest

## Plans

**First construction phase** should start in 2010, route from Ankara to Baumgarten should be built (about 2 000 km of gas pipeline). After this phase, existing equipments will be temporary utilized next two years before the gas pipeline will be attached to conduit on the Turkish – Georgian and Turkish – Iran borderlines. Nabucco will start to work in 2013, with initial capacity 8 billions m<sup>3</sup> of gas a year.

**Second construction phase** will be in 2013–2014, other parts of gas pipeline between Ankara – Turkish and Georgian –Turkish and Iran borderlines will be built.

**In the third phase** new compressor plants will be built in the key points in order to gas pipeline will have capacity 81 billions m<sup>3</sup> a year.

## Raw material ensuring

Main reason of building the Nabucco project is effort to reduce dependence of EU countries on Russian gas. If the gas pipeline should be economically vital, enough amounts of gas must be ensured by agreements from other sources. It is about various sources:

Main should be second phase of developing gas deposit Deniz in **Azherbaidzhan**, which should start to work in 2013. Agreement was signed for 8 billions m<sup>3</sup> of gas a year with possibility of next increasing.

**Turkmen** can provide for Nabucco 10 billions m<sup>3</sup> a year. The country has considerable reserves of raw material, which can be transported through it. Also Gazprom tries to make contracts for Turkmen gas.

Even Iran offered their gas for transport by this gas pipeline, but this possibility is blocked by political reasons.

From long term perspective it is also Kazakhstan which could deliver gas from north Caspian fields but under one condition which is to building Transcaspian gas pipeline.

In the last few years Egypt discovered considerable reserves of gas in the Nile delta, so it could provide 3–5 billions m<sup>3</sup> of gas a year through Arab gas pipeline.

Also raw material from Iraq, from gas deposit Ekas, can be transported through Arab gas pipeline. There was also suggestion for transporting Russian gas from gas pipeline Blue Stream. Some observers warn that so far enough gas has not been ensured by agreements yet to become economically vital.

So in the future it will depend on new reserves (mostly in Azherbaidzhan) and whether EU will manage to persuade countries of Caspian region in order to not to transport gas through Russian gas pipelines but through Nabucco. Future relationships development will play main role and its ability to develop its reserves in order to it could export more volumes of gas.

## Competitors

EU compete mostly with Russia for part of these gas reserves. Russia tries to diversify transport routes not to depend on countries, such as Ukraine. Gas monopoly Gazprom tries to get control over central Asia (also north Africa) through long term contracts. Although officially none of Russian projects is competition to Nabucco gas pipeline, in some cases they probably will compete for this raw material.

### **North branch**

Russia has started to build gas pipeline which will directly connect it with Germany through Baltic sea in 2007 – year after previous Russian – Ukrainian gas conflict. Gazprom has built it with German companies E.ON and BASF. Gas pipeline caused critics from some other member countries. Sweden and the Baltic states are worried about environment pollution from building it or eventual accident. Poland is not pleased by passing by its territory because it will lose part of transit fees.

### **South branch**

Even more controversial is the project of south branch gas pipeline. It has been started by Italian company ENI and Gazprom in 2007. It should transport 30 billions m<sup>3</sup> of gas a day daily on the sea-floor of the Black sea through Bulgaria, Greece, Serbia, Croatia to Italy.

It is said about its possible connecting through Hungary and Austria to Baumgarten. Before that Austrian state energetic company OMV agreed with Gazprom on changing Baumgarten to a platform for gas commerce in which every company will get 50%.

### **Gas pipeline Burgas-Alexandroupolis**

Vladimír Putin signed with Bulgarian prime minister Sergej Stanišev and Greek prime minister Kostas Karamanlis international agreement of building gas pipeline Burgas-Alexandroupolic. It should transport Russian and Caspian gas from Bulgarian Black sea port Burgas to Greek port in Aegean sea Alexandroupolis.

### **AMBO**

Similar gas pipeline should connect Burgas with Albanian Vlore next to Adriatic Sea. Even this one is designed for Russian and Caspian raw material, but in this case it is built by American company and the project has support from the American government. Its disadvantage is bigger length and by this bigger costs. On the other hand Vlore is deeper port than Alexandroupolis so there can be anchored bigger tankers.

### **Ukrainian White Stream**

Building north and south branch will strategically reduce importance of Ukraine for transport of Russian gas. Kiev also is worried about reducing the interest from the west part of Europe. Prime minister Julia Timošenko, therefore, along her visit in Brussels 28<sup>th</sup> to 29<sup>th</sup> January 2008 suggested mutual European and Ukrainian project, which would transport through Ukraine gas from Caspian sea areas to EU.

So called „White Stream“ would start in Turkmen, then it would continue under Caspian sea, across South Caucasus, over Black sea to Ukraine and from there to EU. Suggestion has not found big support from member states of EU yet.

### **Economic or politic project?**

Gas pipeline Nabucco has had lack of finances problem since its start. One of alternatives is financing 10 billions euros by EU countries, even if the gas transport matter has not been solved yet. Eventually it is mostly private project so participated European companies will want it to be economically keepable.

Study of Zeyno Baran, director of Washington Hudson Centre for Eurasial Policy, says that Gazprom is willing to use piping of low capacity what means loss in short-term view point. If Russia manage to stop competitors, whole pipeline network will be under its control. In Baran's opinion then Russia will be able to push on European countries through gas.

Commissar of energetics Andris Pieblags said in interview for Handelsbatt that Nabucco was sill important project for reaching the sources diversity. Construction of it should start in 2010, the first phase will be finished in 2013. But some problems stay opened. First of them is the need to agree on the transport price through Turkey and continual guarantee of access to gas from Turkmen. So far it export its gas through Russian gas pipeline network and Moscow push on Ashgabat to give it exclusive rights for research and gas output.

Group of experts warn that build Nabucco gas pipeline only because of Russian ambitions is wrong. In declaration ex- executive director of the international energetic agency Claude Mandil said that Nabucco had not been built as competition to Gazprom projects but in co-operation with Gazprom. It means that it will transport also Russian gas.

Study "energetic safety in European Union" suggests renewal of European and Russian relationships in energetics on the basis "basic autocritics". Mandil thinks about EU making enemy of Russia by putting on double standards – Union insists on opening energetic market for European companies by Russia but in Union in practice it is prohibition on entering companies from no- member counties.

Even experts who were invited by European government in January expressed scepticism. It was said that the most important was "from where gas will be imported". Because of the lack of investments import form Iran is problematic. Even this country has third biggest reserves of gas in the world, it is still pure importer of the raw material. Expect that present sanctions against Teheran move away project feasibility to the future. In professor's Turkmen is not very willing to sell gas to Europe because it prefers Russia, eventually also China. Nor is transit without problems.

Key country is Turkey which has huge inner gas inquire itself. Expect that Russia can lock the project because of the unsolved law status of Caspian sea. Financing is also big challenge.

Even Dr. Andrew Monaghan from NATO Defence College in Rome is sceptic. "If we want diversification, it is not clear which sources and routes will be the most suitable and the most reliable." Warned that if EU wants to empower the routes that are not controlled by Moscow, it exposes itself risks of competition on markets which it does not know very well and on which it does not have strong position. He noticed that many of the plans of diversification are around Turkey. Therefore "it is a question: how real is the diversification?"

## **2. CONCLUSION**

The goal of this article was to point at fact that building new transeuropean gas pipelines has political, economical, legislative and financial context. It brings many risks but it offers new opportunities. Last few months proved that Russian Gazprom has effective export politics for which it can get particularly even these European countries which voted for mutual proceeding of whole EU in energetic matters in Brussels.

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