



# **Lessons from Nabucco**

## **The limits of EU direct intervention in transit pipe-line development**

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# Introduction

Foreign gas policy: diversification of sources and routes  
(in fact implicitly « Russian » risk : geopolitical & market power risks)

1. « Nabucco was the first attempt at forging a common energy policy to reduce its dependence on Russian gas. The basis of Nabucco is to bring gas to Europe from new suppliers. We are well on track, **but** some delays ...»

Commissioner Pielbags (2007)

2. Ankara Agreement July 13, 2009

**But** a new transit pipe line needs **gas, markets and finance:**

- After four years it has no gas and consequently no finance.
- It is so common to say that Nabucco is over because it has no gas.
- But need of a more general perspective

**It is a political project in the vein of the Hard Power, not the traditional EU's Soft Power**

- Can European Union has the geopolitical/diplomatic means to act in a way which allows to ignore economics contracting with producers ?

# Caspian Gas Chessboard Game

	NABUCCO to reach Caspian gas (Turkmen, Azeri)& M.East 8 B€, 30 bcm/y+ costly TCP	SOUTHREAM as Russian answer with large European companies 2x10 B€, 2x30bcm/y
2005	Launching ( with Aus, H, Ro, Bu, & Turkey and their gas companies OMV, Mol, ...Botas)	Gazprom already in Bulgarian gas company
2006/2007	Decision EU to set it in priority projects (guarantee funds)	<ol style="list-style-type: none"> <li>1. Annoucement by Gazprom , ENI</li> <li>2. Agreement Gazprom-Turkmenistan on 70 bcm/y + pipe</li> <li>3. Agreements with Bu, H, Serbia for location</li> <li>4. Proposal Blue Stream doubling Turkey</li> </ol>
2008	EU Gas directive « unbundling and Gazprom provision »	Gazprom in Baumgarten hub (50%)  Russia –Azeri Agreement
2009	EU action on Turkmen Caspian energy corp (RWE, OMV , turkmen) Iraqi project in June (OMV, MOL, etc.) Political treaty in Ankara (july 2009)	Gazprom 25% Mol Annouce of doubling (30 to 60 bcm:y) Agreement with Turkey ( location ) October 2009 Entry of EDF (10%)
But	April 09: Nabucco outside Priority Projects (German pressures)	Southstream not in Priority Projects and not in South corridor scheme

## 2. Perspective from theory of entent/theory of coalition

### A coalition is solid:

- if there are not too many partners
- If the benefit to be in the coalition is much more superior to benefit not to be in
- Dissuasion from penalty: benefit to get out the cartel to be balanced with penalty

1. The coalition of concerned member-states (AU, H, RO, Bu) and European Commission **needs to be backed to other member-states** via the European Union

2. Addition of a tricky alliance with Turkey

## 2. Perspective from theory of coalition (following)

### Conditions to stability of entent are not respected

- Number of players (4 MS + other MS + Turkey)
- Competing coalitions
  - Southstream with large MS and large European companies (ENI / Italy) // to Nordstream
- No costs for Bulgaria, Hungary, perhaps Austria to not follow up Nabucco or to change to Southstream coalition or else
  - Even with Turkmen gas, Nabucco would need TCP pipe and participation could be more costly than an entry in Southstream
  - No possibility of penalty from the EU
  - Without Nabucco and With Southstream, the loss of diversification benefit is small
- Turkey could play some trump cards with Russia as well as with EU
  - Few costs for Turkey : (Bluestream doubling, Azeri gas with the BTE, ITGI gas etc.)

### 3. Perspective from competition theory

- Who will be the first in construction? Deterrence for the follower

- Two level of competitions

#### Downstream for markets on Central and South Europe markets

- Nabucco 's advantage : firms supporting the project belong to the same countries that want to import.
- But for Southstream , Gazprom has cross- relations with large companies in Italy, Bulgaria, Serbia etc.

#### Upstream for accessing resources

- The Russian project benefits from Gazprom's ability to control multiple sources of supply (rown's resources, elation with Turkmen), Kazkh, Azer.)
- Russia accept a higher purchase price, in order to ensure its exclusive access to Turkmen gas.

#### Linkage between the two competitions: comparison of commitments costs

- For Nabucco , huge cost to be built without contractual gas (Azeri gas: maxi. 5bcm)
- Symmetrically : To buy Turkmen gas, no need to be sure to build Southstream (Turkmen gas through other outlets and other destinations).

## 4. Transaction economics theory perspective

A flaw in the concept of Nabucco  
as merchant line to carry Caspian gas on a strictly commercial basis

- **Nabucco project was conceived** as if Euro Asian Regional gas markets was completely integrated and mature:
  - No need direct relation by new long term contracts between producers and gas suppliers
  - BUT The upstream part of Eurasian gas sector is not mature  
and it is not within the regulatory jurisdiction of the EU-type legislation
- **Ignorance of basic economics of pipe line development in a non mature gas system**
  - The **virtue** of **the old contractual and industrial model** of development of gas infrastructures
    - Long term contract LTC between producers and first tier buyers : sharing volume risk and price risks
    - Combination of LTC with infrastructure development :
      - LNG liquefaction/regasification, or export /transit pipe line
    - Valuable Model in a context of gas system development

## A flaw in the concept of Nabucco as merchant line (follow.)

- So a risky approach to design a project without no prior gas relations with producers: need to have producers involvement
- The so-called opening up of options to access to Middle East gas (Iran, Iraq , Egypt)
  - Pure rhetoric ignoring time and economics
  - For Iran LNG is much cheaper and not politically risky for Iranian gas in the future

Nabucco is not redeployable upstream on a 15-year time –horizon

- Only Former Industrial Model is valuable as for Nordstream
  - Partnership from wellhead to consumers:: so mutual commitment
  - Contractual integration suppressed opportunism risk (ex. Turkmen going to North after Nabucco and TCP installation)
- Southstream is close to this model



## 5. Lessons about political transit projects:

- European Soft Power : EU must not confronte head-on to Hard Power
- Do not forget economics in a Hard Power game:
  - South Stream is also a political project,  
But it has more economic grounds (gas and markets)
  - Behind Russian hard power, there is a regional monopolist & dominant gas market player.
- Comparison with other transit proejcts
  - Case of BTE back on the US and EU support:
    - Behind the gas BTE pipe-line, there is a producing consortium led by BP (Shah Deniz) and there is a market (Turkey)
  - What about Interconector Turkey-Greece-Italy? (smaller)

## 5. Lessons... (following)

- Do not confuse risks : transit risk & the so-called Russian risks

The transit risk was the main risk: There will be diversification of transit routes

- Diversification of sources will not occur by pipe-lines on Eastern sources, but is it so problematic?

- The dependence from Russia will decrease because LNG imports increase
- Issue of interconnectors and solidarity in Central European and Balkanic state

- EU is best to act by staying in Soft Power vein:

- Go on quietly in the post -Energy Charter era
- « Russian Energy Architecture » could bring to recognition access to transit pipeline
- Does It depend on European Union to go on ? (end of ECT?)

- EU is best acting on solidarity and interconnectors