

A map of Southern Europe and the Balkans, showing countries like Italy, Greece, Turkey, and various Balkan states. The map is in shades of blue and white, with country names in yellow and red text overlaid.

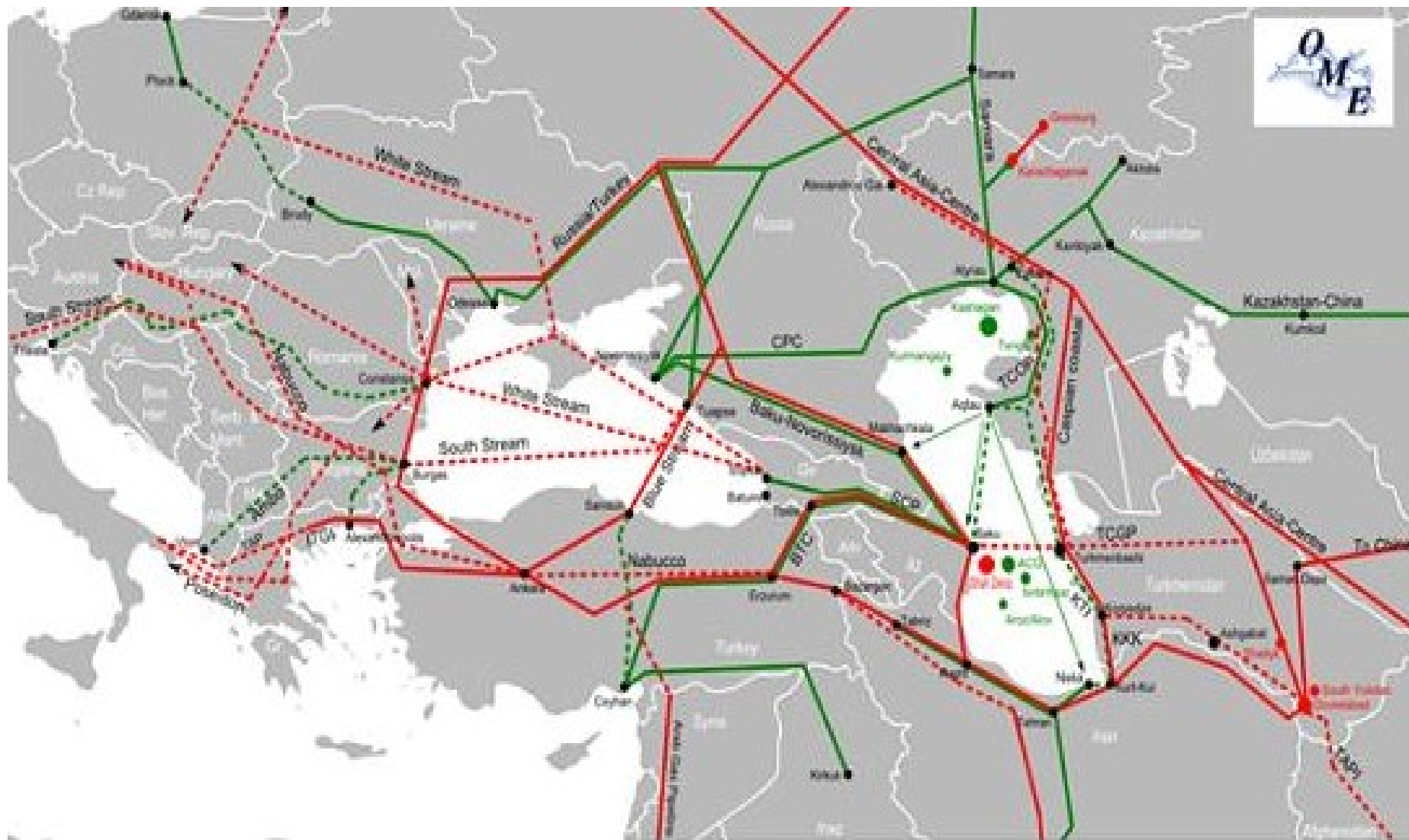
# **7<sup>TH</sup> SEE ENERGY DIALOGUE**

**Thessaloniki, 19 - 20 June 2013**

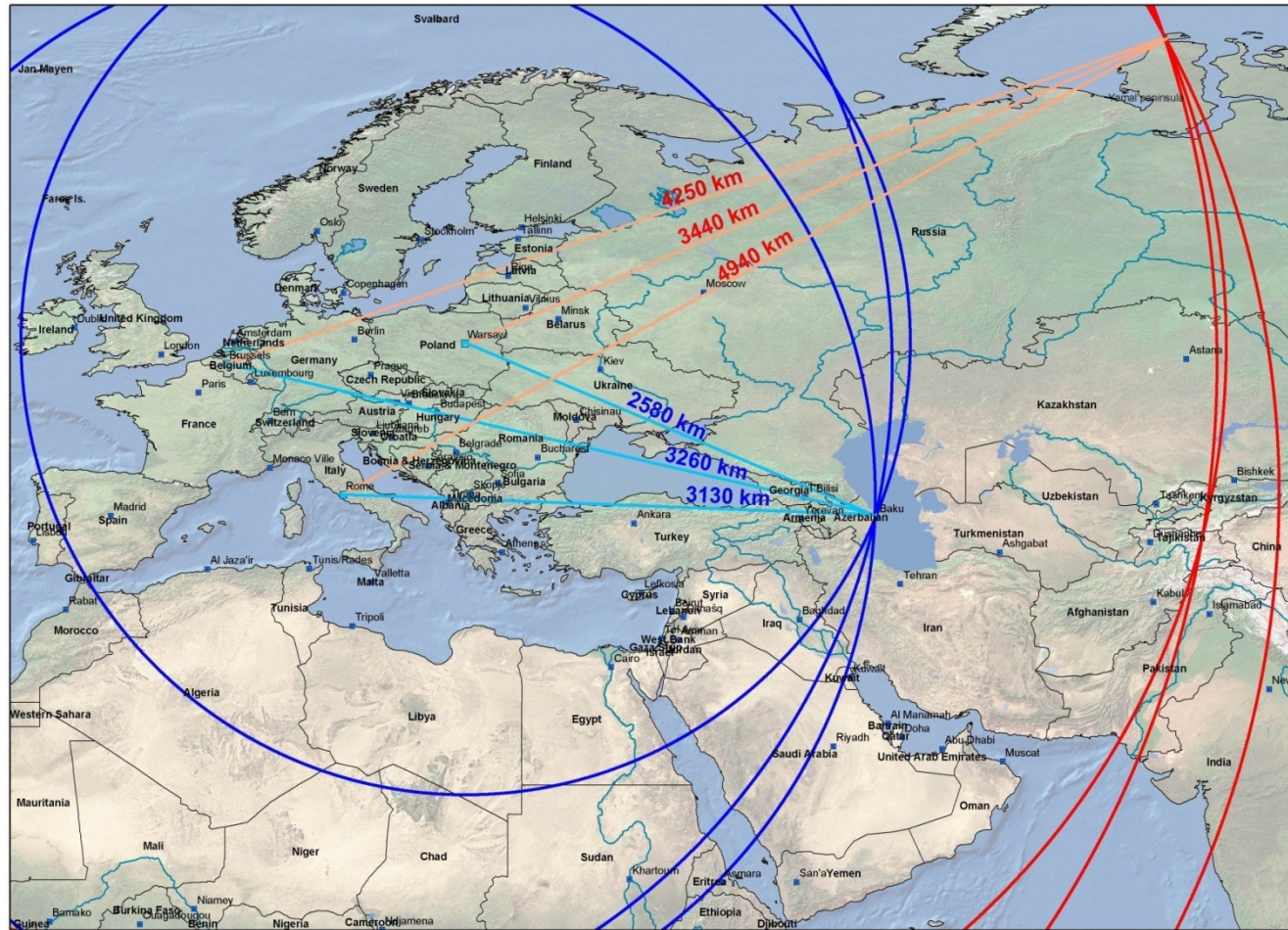
**THE SOUTHERN CORRIDOR OPENS: A WIN-WIN  
STRATEGY FOR NABUCCO WEST AND TAP.  
COULD SOUTH STREAM TURN INTO A PCI?**

**PETER POPTCHEV, AMBASSADOR-AT-LARGE  
NATIONAL COORDINATOR FOR NABUCCO WEST**

# CENTRAL & SOUTH-EAST EUROPE & THE WIDER BLACK SEA AREA: NEW GAS SOURCES - COMPETITION BETWEEN TRANSMISSION PIPELINES



## CASPIAN GAS – PREVILEGED POSITION





# Proposed Southern Corridor Pipelines



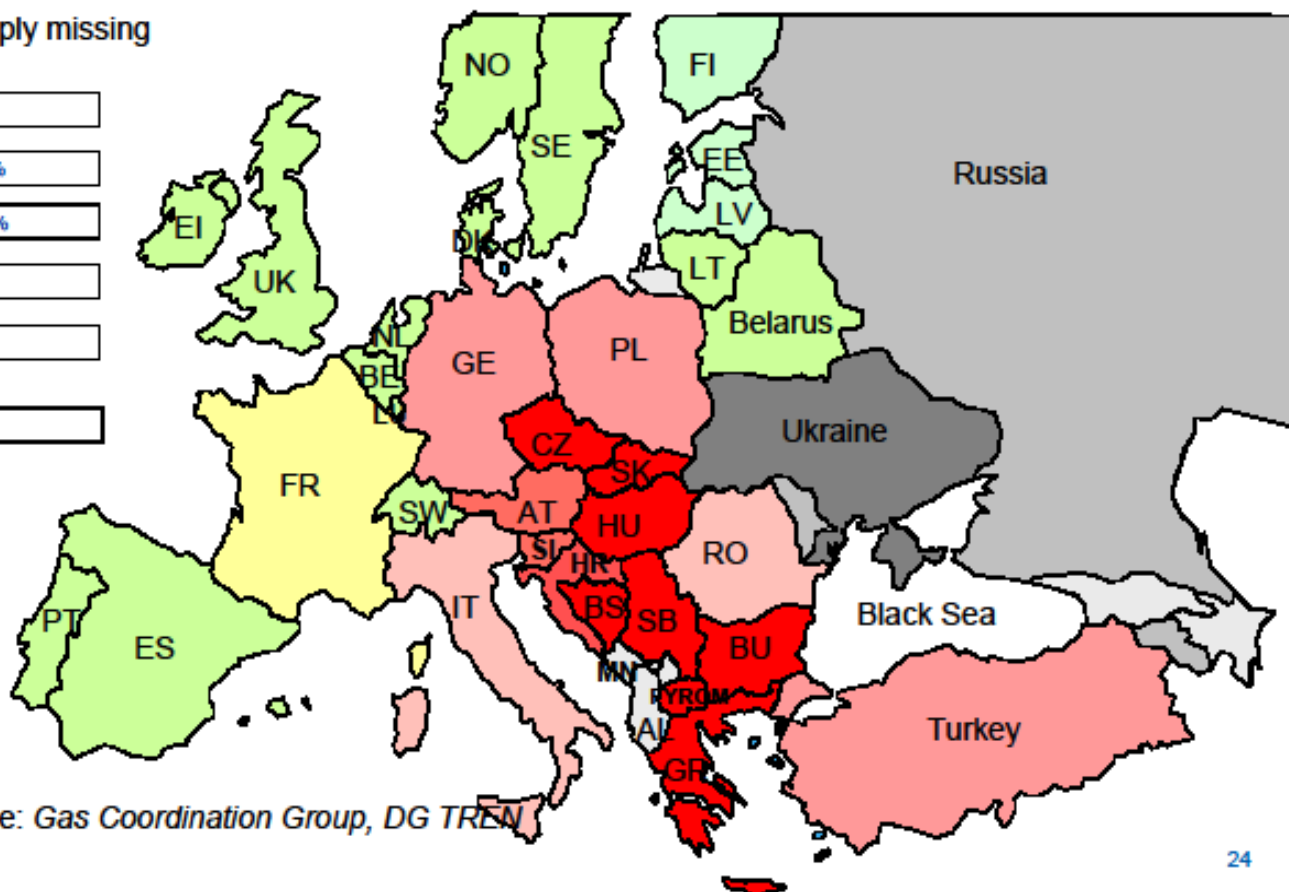
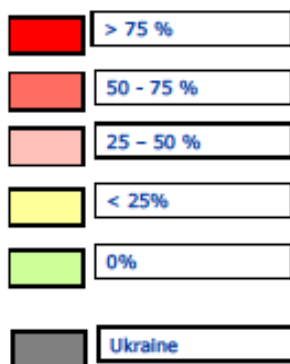
## STRATEGIC INTEREST: REGIONAL GAS INFRASTRUCTURE DEVELOPMENT AND MARKET INTEGRATION

- **Status:** one source, one supplier, one directional gas flow model. A region of basically inflexible “capacity markets”. Gas prices uncompetitive: 9000 MW of gas-fired capacity is idle in SEE. In the Golden Age of Gas share of gas is marginal;
- **Goal:** to *manage* in a *systematic way* (a) new sources (Caspian, Black Sea, Iraq, East Med.), (b) gas market trends (LNG, shale, spot markets, decoupling of oil-indexed prices) and (c) new infrastructure (Southern Corridor, South Stream(?), interconnections, LNG Terminals, storage facilities) in order to achieve a fully liberalized, competitive, liquid, interconnected and inter-operational gas market in Central and South East Europe, including non-EU. Internal Energy Market: secure, sustainable, affordable energy;
- **Gas-to-gas competition remains an issue;**
- **Regulatory framework:** Third Liberalisation Package should serve, *inter alia*, two major goals: (a) underpin and guide local gas companies’ structural reform as well as cross-border infrastructure; (b) streamline conduct of third parties in long-haul gas supply projects to comply with EU energy *acquis*.
- **Economic, industrial and social development at stake!**

## ● Security - Impact of Jan 2009 gas crisis

SEE particularly affected!

% of gas supply missing



Directorate-General  
for Energy

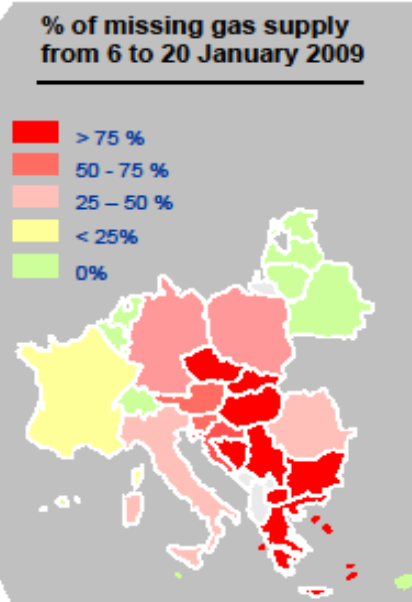


Source: Gas Coordination Group, DG TREN

- The multiples options for the opening of the Southern Corridor should be prioritized using ranked objectives

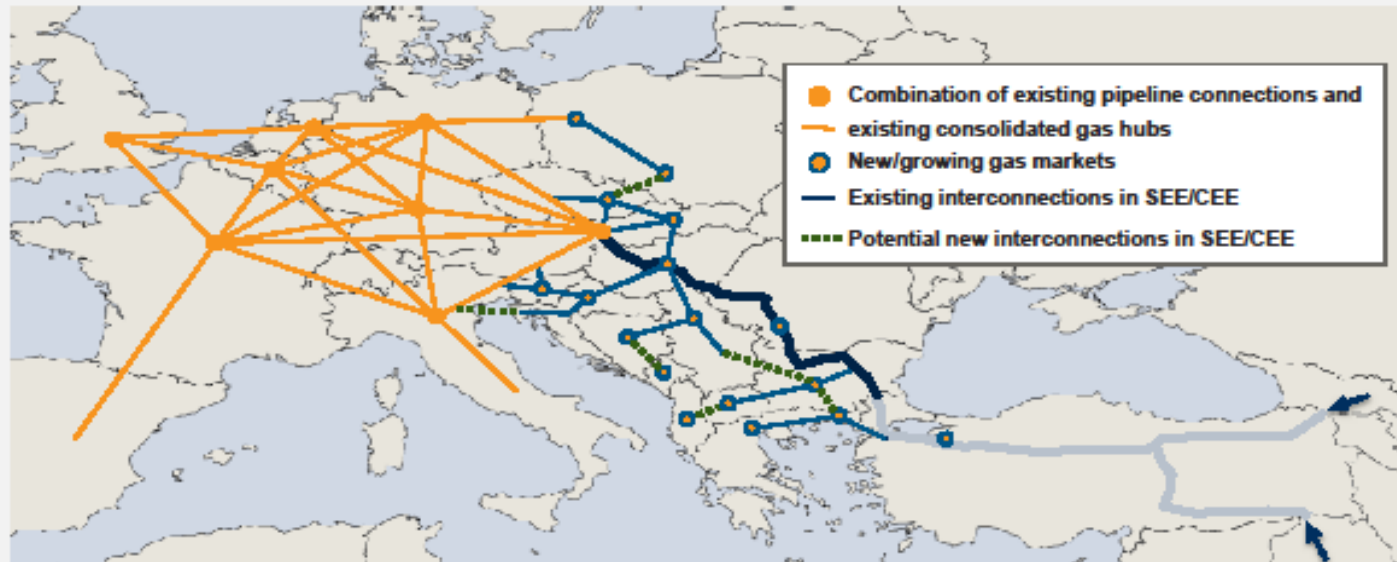
### Objectives (ranked by importance)

- **Open a reliable and significant route for gas from the Caspian Region**  
⇒ Bringing Azeri, Turkmen and/or Iraqi gas direct to the EU
- **Improve Security of Supply in countries most hit by the crisis**  
⇒ Diversifying the countries put most at risk in the 2006 and 2009 supply cut-offs
- **Greater reduction of transit risk**  
⇒ Creating new dedicated physical infrastructure to import gas to the EU
- **Increase wholesale competition**  
⇒ Bringing new gas volumes to (new) gas hubs, fostering liquidity and competition in the wholesale markets





## Nabucco West: Diversification, Security of Supply and Freedom of Choice for 500 million consumers



- Nabucco connects national grids in transit countries
- Nabucco provides alternative gas supply to all countries in SEE
- Nabucco offers bi-directional transports

- Nabucco connects all important gas hubs in Europe via the Central European Gas Hub
- Nabucco combines physical transports and gas swap opportunities
- Nabucco provides gas for 500 mn consumers



## Importance of the harmonization of the overall gas chain from the well head to the market



- The chain from well head to markets consists of the following elements:
  - Upstream developments (incl connecting pipelines)
  - South Caucasus Pipeline
  - Trans Anatolian Pipeline (TANAP)
  - Nabucco West
- Harmonization is key to successfully open the new gas corridor and needs
  - Constructive dialogue, cooperation and alignment between involved states and companies
  - Transparent access to capacity and cross-ownership

## SELECTION OF A PIPELINE PROJECT TO EUROPE IS MADE BY THE SHAH DENIZ CONSORTIUM ON THE BASIS OF 8 CRITERIA: HOW DOES NABUCCO W. FARE?

- **Commerciality** (2011: average gas price in SEE 15% higher than the spot market in Baumgarten; average gas price in Italy 5% higher);
- **Project deliverability;**
- **Financial deliverability (= +) [FULLY READY TO FINALISE FUNDING];**
- **Engineering design (++) [complete and cheaper to realize];**
- **Alignment and transparency (= +);**
- **Operability (= +);**
- **Scalability (+)**

**September 2012 - April 2013: Nabucco West Governments and NIC have completed all legal, regulatory, environmental, financial, tax, land acquisition and equity restructuring acts and procedures [RESOLVING INCONSISTENCIES];**

- Public policy considerations: **meeting of Azerbaijan strategic considerations, EU's stated objective of enhancing supply diversity of European natural gas markets, and ensuring sustained support from all stakeholders (+++).**

**Nabucco-West is by far the more compliant with criterion No. 8: Nabucco Committee – unique composition and powers, useful for addressing Azeri strategic issues and EU energy policy; stated interest of Azerbaijan in the markets of BG, ROM, H; access to more European markets (15), including traded markets; substantive infrastructure development and market integration effect in Central and South East Europe.**

# A PROGNOSIS A WEEK BEFORE THE SHAH DENIZ FINAL SELECTION DECISION

**OPTION 1.** Judged on stated criteria of commercial and strategic merits, Nabucco West **wins the imminent decision** on Shah Deniz 2 resources:

- Everything falls in its place: FIDs on TANAP and Nabucco West are coordinated and taken by the end of 2013; a new 10 Companies-strong Consortium becomes operational; construction on schedule;
- Infrastructure development and market integration in SEE takes place as planned supported by Connecting Europe Facility;
- Nabucco West offers a win-win strategy to GR and I.; Diversification and gas-to-gas competition in SEE from both S-East and S-West;
- An EU acquis-based concept of interconnection between Nabucco West and TANAP “under the specifications and as an integral part of both projects” is developed by BG and TK, and NIC, and backed by all stakeholders, including COM.;
- Possibility for early start of construction of this EU-Turkey interconnection under both OPTION 1 and OPTION 2

## A PROGNOSIS A WEEK BEFORE THE SHAH DENIZ FINAL SELECTION DECISION (2)

### OPTION 2. TAP wins on commerciality and “convenience”. Consequences:

- The good news: the Southern Corridor opens regardless of option (!);
- SD and TAP begin an unenviable mission to convince the Nabucco Parties that the market effect from implementation of TAP is same as from Nabucco;
- TAP, including its Adriatic-Ionian extension, face higher levels of risk – business-climate wise, investment and financial aggravation, etc.;
- Nabucco Parties & NIC deliberate on the best approach to safeguard Project (see SLIDE 12). Failing that, collapse and restructuring of NIC and the Project as we know it cannot be excluded;
- European energy policy suffers a blow which leads to loss of credibility;
- Without a Plan B, division and regrouping among countries in the wider region and among former shareholders take place;
- On-shore and off-shore E&P of conventional and unconventional (shale) gas get an additional boost in Poland, Romania, Ukraine, Bulgaria, Turkey;
- Same applies to LNG Terminals;
- White Stream and AGRI become much more feasible;
- South Stream reconfigures. .



## **A WIN-WIN STRATEGY FOR BOTH NABUCCO WEST AND TAP: WHAT IT TAKES**

- New multilateral initiatives should be developed, combining strategic and market-based solutions along the whole value chain of the Southern Corridor;
- The European Institutions take a more resolute stance;
- Nabucco West or TAP, depending on which one fails the selection decision, adopts a policy of early construction of an interconnection with TANAP and storage facilities with a view to catching up on the transmission function;
- Nabucco and TAP agree with Shah Deniz and Azerbaijan a policy aiming for a tolerance of max. 2 years between the launching of the two pipeline Projects;
- Two surveys are to be undertaken expressly: on demand for gas from TAP and the feasibility of an additional 10 bcma by 2020 (mature fields in the Caspian);
- The Absheron field (owned by SOCAR, Total and EDF) is a typical “candidate”: in 2011 SOCAR indicated it could “win 5-6 years” (extraction scheduled for 2021-22) if the shareholders would install additional production platforms;
- Azerbaijan has other gas structures under exploration: Umid (200 bcm), Babak (400), Asiman-Shafag (300) and Nakichevan (300) (outside gas condensate);
- **Only Nabucco West and TAP together, treated commercially and politically in a package, can produce the optimal infrastructure development and market integration effect in CSEE based on the Southern Corridor.**

## **EUROPE'S IMMENSE HUNGER FOR NATURAL GAS: DOES SOUTH STREAM HAVE A PART IN SATISFYING IT?**

- **The Commission, based on an estimate by Total S.A. of 2012, recons that Europe will need additional 39 bcma by 2020 and yet additional 100 bcma by 2035 to satisfy an aggregate demand of 650 bcma;**
- **Europe will be helping new gas pipeline projects;**
- **Europe will increase its dependency on LNG (presently more than 55% of gas trade) and will have to compete with other regions (for US shale gas-based LNG exports and LNG from North, West and East Africa, Qatar);**
- **Commission and many in Europe have reservations on the concept of South Stream and do not regard it a priority project. Under what circumstances could this change:**

# SOUTH STREAM'S NEW MARITIME ROUTE





# SOUTH STREAM: LATEST ONLAND ROUTE



Transport capacity: 63 bcm/y  
Offshore part RU-BG – 900 km  
8.6 \$ bln  
Singed MoU Eni – Gazprom, 23 Nov 2007  
Annex to MoU, 22 Nov 2007  
Signed bilateral intergovernmental agreements:  
✓ Bulgaria-Russia 18 Jan 2008  
✓ Serbia-Russia 25 Jan 2008  
✓ Hungary-Russia 28 Feb 2008  
✓ Greece – Russia 29 Apr 2008  
✓ Slovenia  
Bilateral Corporate Agreement  
Hungary and on 15<sup>th</sup> May 2009  
Bulgaria, Greece and Serbia  
FID for the Bulgarian section – 2012



## **SOUTH STREAM: GEOPOLITICAL, TECHNICAL AND COMMERCIAL CHARACTERISTICS**

- Diversifies supply routes from Russia to European markets and overcomes potential transit handicaps, *at high financial cost*;
- Targets traditional partners in Central, Southern and SE Europe, offering *industrial and commercial gains outside Third Package*;
- South Stream is part of *an overall Russian gas strategy for Europe*. It involves Nord Stream and Blue Stream and is multi-purpose;
- *No “new gas” envisaged, at least for first stage (2 pipelines)*;
- **SS Project is *a moving target*. “Unknowns”: number of maritime pipes, route, cost, alignment of schedules, Ukrainian transit system, no consortium for the on-shore sections, ECIA;**
- **South Stream’s implementation strategy has stalled: IGAs need revision; joint companies are hampered by lack of a regulatory framework (in particular TPA, price regulation, unbundling).**

## **MOVING THE ENERGY MARKET FORWARD BY MAKING SOUTH STREAM A PROJECT OF COMMON INTEREST (PCI), RATHER THAN A RIVAL**

- **Commission has been asked to negotiate with Russia on behalf of South Stream-involved countries. Presently no common ground;**
- **Commission willing to consider South Stream either in a general EU-Russia energy agreement or a South Stream-specific accord. In either case Russia should introduce a new draft;**
- **One or more EU Member States with infrastructure on their soil could assist Russia but their representatives should be involved in the direct negotiations, including on strategic issues;**
- **The views and positions of EU MS whose markets are expected to take the bulk of South Stream-transported gas should be heard;**
- **Depending on Russia's measure of willingness to comply with the Third Package she could be invited to work with the EU and the Energy Community on a regional gas target model in CSEE and to finally win a PCI status;**
- **Russian compromise is worthwhile: South Stream provides for Russian participation in downstream gas business in EU CSEE: *unique feature – a big<sup>17</sup> advantage for Russia.***

**- Thank you -**