

# Caspian Sea Geopolitics: Nabucco will be the most expensive pipeline ever built

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*Inside Beltwayistan, a number of Bushevik oil patch zombies still roam the recession-blasted landscape mindlessly chanting their Caspian mantra, "Happiness is multiple pipelines" - with the caveat that they flow westwards and bypass both Russia and Iran . They've now added a new word to their vocabulary, "Nabucco," and worse, have bitten a number of Obama administration officials and visiting European politicians, who have joined their shuffling ranks.*

*Their thinking remains somewhat clouded by primordial memories of Bush's "fuzzy math," as the statistics about Nabucco are contradictory, to say the least. State Oil Company of the Azerbaijani Republic (SOCAR) vice president Elshad Nasirov is now threatening to start selling Azerbaijan 's natural gas, currently Nabucco's sole projected provider of throughput, to Asian countries if Europe further postpones Nabucco's construction.*

Construction of the 56-inch, 2,050-mile pipeline, first proposed in 2002, is tentatively slated to begin next year and scheduled for completion by 2014. At a cost initially estimated at \$11.4 billion and rising, Nabucco will be the most expensive pipeline ever built, more than three times the cost of the 1,092-mile Baku-Tbilisi-Ceyhan (BTC) oil pipeline. Raising such a significant sum in a time of global recession would be an article of faith at best.

Even assuming that Nabucco's boosters manage to assemble a coterie of deep-pocketed suckers - er, investors, the only promised current volume for Nabucco's proposed 31 billion cubic meters (bcm) annual throughput is Azerbaijan's future offshore Caspian Shah Deniz production, estimated at 8 bcm. Even if Shah Deniz does end up supplying Nabucco, its currently promised throughput leaves a deficit of 23 bcm, leading to the question of exactly whose natural gas will Nabucco carry if SOCAR drops out, a worst case scenario requiring the Nabucco consortium to scrounge not 23 bcm, but all 31 bcm per annum, especially as Washington's geopolitics invalidate the participation of either Russia or Iran?

For those with knowledge of energy history in the post-Soviet space, the 419-mile, \$500 million Odessa-Brody oil pipeline, completed in 2001, provides a cautionary tale to building pipelines without throughput guarantees. The Ukrainian government rashly built the self-

financed line without foreign investment, stretching from its Black Sea port to the Polish border to provide Central Europe with oil despite not having firm commitments from a single oil producing nation for export throughputs. After the pipeline remained unused for three years, a reluctant Kiev was forced in 2004 to agree to transport Russian oil southwards in the opposite direction, for export from Odessa rather than northwards to Central European markets as originally envisaged.

Further complicating the picture are the differing proposed transit and pricing policies of the countries that Nabucco will pass through. The biggest geographical hurdle impacting the bottom line is the fact that, if as some Nabucco boosters aver, Turkmenistan can be persuaded to contribute natural gas, the seabed of the Caspian has yet to definitively be delineated amongst the sea's five riparian states. The question remains unresolved 18 years after the implosion of the USSR dashed the 1920 and 1941 Soviet-Iranian bilateral treaties covering the issue of offshore waters. Building a pipeline across seabed whose ownership is in dispute will enrich maritime lawyers, but few others.

The issue of competing claims over Caspian national waters and seabed is hardly a pedantic exercise. In July 2001 Iran dispatched military aircraft and a warship to intimidate two Azerbaijani survey vessels contracted by BP to leave the Alov-Araz-Sharg field, a site that Azerbaijan claimed was well within its national sector, but disputed by Iran . It seems unlikely Russia and Iran would stand idly by as trans-Caspian sub-sea pipelines, which exclude them, are constructed.

Hopes of Turkmen gas filling Nabucco's gas deficits are yet more wishful thinking. Last month the Central Asia-China gas pipeline connecting Turkmenistan 's Caspian shore natural gas fields to Xinjiang was inaugurated in the presence Chinese President Hu Jintao, Turkmenistan 's Gurbanguly Berdymukhamedov , Kazakhstan 's Nursultan Nazarbayev and Uzbekistan 's Islam Karimov. This year 13 bcm are scheduled to transit the new pipeline, rising to 30 bcm by the end of 2011 and over 40 bcm by 2013, effectively soaking up Turkmenistan 's projected natural gas increases for the foreseeable future. Any further gas from Kazakhstan , an even more distant proposition, would face the same geographical constraints as regards the Caspian, while Gazprom also soaks up its surplus natural gas production.

Which leaves any but the most deluded Eurocrats and Beltwayistan apparatchiks with an uncomfortable "fuzzy math" question - which of the five Caspian riparian states of Azerbaijan , Iran , Kazakhstan , Russia and Turkmenistan are going to provide Nabucco's projected 31 bcm annual throughput?

But never mind - driving Nabucco is a complex skein of greed, European foreign policy agendas and the ongoing belief, a delusional legacy of the Bush administration, that

somehow Caspian energy “belongs” to the West, and furthermore, that both Russia and Iran will complacently stand back while Western capitalism pulls off another energy initiative dwarfing BTC.

European interest in Nabucco is underpinned by the unpleasant realization that since 1991 it has become more and more dependent upon Russia for natural gas imports, with Russia’s state monopoly Gazprom now supplying 40% of Europe’s imports. As Moscow still largely relies on its Eastern European Soviet-era pipeline network, the annual winter spats between Moscow and Kiev over payment rates and transit have deeply traumatized Brussels to conduct a frantic search for alternatives in a desperate attempt to achieve energy security. Nabucco is designed to carry Caspian and Central Asian natural gas via Turkey and the Balkan states to Austria while bypassing both Russia and Ukraine .

A situation that can only worsen with time, as the EU’s European Commission projects that the EU’s gas consumption will increase by as much as 61 percent from its current level of 502 bcm to 815 bcm by 2030.

The hard sell has now begun over Nabucco thus represents the answer to Eurocrats’ prayers. Nabucco’s consortium shareholders are Austria’s OMV, Hungary’s MOL, Bulgaria’s Bulgargaz , Romania’s Transgaz , Turkey’s Botas and Germany’s RWE with 16.7 percent apiece. Notably, none of the countries involved has any significant natural gas production of their own.

If Nabucco is to succeed, there is one potential supplier that could step into the supply void, but for Washington , it is a country too far – Iran . Iran contains 16 percent of the world’s natural gas reserves, second only to Russia . Washington has clearly and repeatedly stated its opposition to including Iran in Nabucco, as last month U.S. Special Envoy for Eurasian Energy Richard Morningstar stated, “We have been constantly saying that, in our opinion, Iran is not in a position to become a part of any new projects in the Southern Corridor.”

In response, speaking after a Dec. 8 Iran-UAE joint economic commission meeting in Tehran , Iran’s Foreign Minister Manouchehr Mottaki bitinglly observed, “We have never heard that Europeans have entrusted the Americans with their authority to decide on the pipeline.” Motakki then added a blunt dose of reality, stating, “Speaking about the Nabucco pipeline without Iran’s participation would amount to nothing but a pipeline void of gas.” Mottaki’s comments echoed those of Russian Prime Minister Vladimir Putin, who said in March that Nabucco was not feasible without Iranian participation.

Nabucco also has its local critics. Azeri political scientist Ilgar Velizade has noted that Nabucco’s high cost, now estimated at \$11.8-13.1 billion, is simply untenable in the context

of the current global financial crisis. Velizade consequently believes that the less expensive Poseidon pipeline option, which would deliver natural gas to Italy from Shah Deniz, could be as important for Europe, Azerbaijan and Turkey as Nabucco.

Are the Azeris serious, or are they just bluffing, hoping to stampede a tidal wave of investment cash into Nabucco? Hedging its bets, Baku is already exploring alternative markets for its gas. On Dec. 26 SOCAR President Rovnag Abdullayev said that while under the terms of an Oct. 14 contract under whose terms Azerbaijan was to supply 500 million cubic meters (mcm) of gas to Russia beginning Jan. 1, his company would now double the amount to 1 bcm. While this represents a fraction of that promised to Nabucco, Gazprom has already indicated that it will happily purchase any increases in Azeri natural gas production at world prices.

Nabucco remains stoked by the increasingly passé ideological concerns of a Bush-era administrative legacy promoting pipelines bypassing both Russia and Iran further fuelled by Brussels' fears of ongoing Ukrainian-Russian pricing spats disrupting deliveries as in years past. In the meantime, Moscow undoubtedly will press forward with its Nord Stream and South Stream gas pipelines alternatives in an attempt to reassure Europe that Russian pipelines bypassing Ukraine will alleviate future concerns about energy security.

The zombies have gotten their wish - Caspian energy now indeed does flow through new multiple pipelines. The only problem for the wizards of Wall Street and the City is that they now flow mostly eastwards, to China . As for Nabucco, what is Azeri for "expensive white elephant, son of Odessa-Brody?"

**Dr. John C.K. Daly** wrote this article for OilPrice.com who focus on Fossil Fuels, Alternative Energy, Metals, Oil Prices and [Geopolitics](http://www.oilprice.com/articles-geopolitics.php). To find out more visit their website at: <http://www.oilprice.com>

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