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“Nabucco – South Stream: competitive or complementary pipelines?”

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A few words for the gas supply in Europe

A dense network of negotiations and projects around gas supply highlights its increasing demand in the European continent. Gas consumption in Europe (including the Balkan states) is estimated to mount to about 500 bcm per year. A gas demand hike of 2% percent takes place on a steady year basis. The future demand, according to the predictions of market studies¹, will reach 800 bcm in the year 2025, translated in an increase of 60% compared to the current one. Today, 42% of gas demand is covered by indigenous production, with the UK, the Netherlands and Norway to play the role of the most important gas providers. Less significant yet important gas holders are Germany, Poland, Italy etc.², whilst the rest 52% is covered by imports from various countries, like Algeria and Russia.

Russia is a very attractive option for gas imports in the European continent not only because of its being the biggest gas producer with 48000 bcm proved gas reserves, but also because of its geographical proximity to Europe and its influence on Central Asian

¹For the market studies prediction, Nabucco (2008), <http://nabucco-pipeline.com/company/markets-sources-for-nabucco/markets-sources-for-nabucco.html> (accessed: 17 March 2008)

²For more details regarding European indigenous gas production, Theoil drum (2008), <http://www.theoil drum.com/story/2006/11/27/61031/618> (accessed 18 March 2008)

countries on an energy level. An uncertainty, though, as far as the Russian gas supply in Europe is concerned, loomed in the horizon, due to the recent Russian-Ukrainian energy dispute. European energy security was threatened by Russia's decision to cut off gas granting to Ukraine and by the following stance of the latter to withhold some Russian gas, which was passing via its territories to the European countries. The necessity of an improved gas pipeline net consisting of more alternative routes was thus marked out, and along with the forthcoming increase in gas demand in Europe, insufficiently covered by the existing net, enforced Russia and certain European countries with the cooperation of the USA to elaborate new projects, such as South Stream and Nabucco pipelines respectively.

South Stream project

Introduction

South Stream proposed pipeline project aims at the transportation of natural gas from Russia to Italy, which would result in the linkage of Russia to the European Union across the Black Sea. Despite the expressed doubts about the feasibility of South Stream, the latter is certainly hailed by many as a political project opposing to Nabucco pipeline, with an intention to establish Russian presence in the region. A network of agreements between the state-owned European companies on the one hand and the Russian energy company, Gazprom, on the other, determines the construction process, based on the established joint ventures stemming from the above agreements. The exact route map of the pipeline, as well as the existing plans and predictions may alter, taken the increased interest for the project, expressed by a number of countries and companies. So far, it is expected that the pipeline would partly replace the planned extension of Blue Stream³ from Turkey through Bulgaria and Romania to Hungary. As for the relation between Nabucco-South Stream pipelines,

³Blue Stream is a major trans-Black Sea gas pipeline that carries natural gas from Russia into Turkey. The pipeline has been constructed by the Blue Stream Pipeline B.V., the Netherlands based joint venture of Russian Gazprom and Italian ENI. The Blue Stream Pipeline B.V. is an owner of the sea section of pipeline, including Beregovaya compressor station, while Gazprom owns and operates the Russian land section of the pipeline and the Turkish land section is owned and operated by the Turkish energy company BOTAŞ. According to Gazprom the pipeline was built with the intention of diversifying Russian gas delivery routes to Turkey and avoiding third countries. See: www.gazprom.ru/eng/articles/article8895.shtml

many scenarios either predict the joining of the Nabucco pipeline with the South Stream, or that South Stream would be a setback for the pipeline supported by USA and EU. In both cases, officials try to reassure that no negative influence would be exercised in the gas supply by both the pipelines.

Counterparts of Gazprom in the South Stream project

1. Italy (Eni): The memorandum of understanding between the CEO of the Italian energy company Eni⁴, Paolo Scaroni, and the Chairman of the board of directors of Russian Gazprom, Alexander Medvedev (23, June 2007) actually inaugurated⁵ the South Stream pipeline project.⁶ This initiative in the gas midstream would enable Eni to add further value to its recent acquisitions of the assets of Arctic Gas and Urengoil⁷.

Later that year, (22, November 2007), Gazprom and Eni signed an agreement in Moscow about establishing a joint project company, which would be in charge of the marketing and the technical feasibility studies of the project. The achievement of the preliminary studies, which was based on months of work of the two partners including Saipem – a subsidiary of Eni-, decided to commission the feasibility work, the results of which was approved on 14th February 2008⁸. The next step was the joint venture South Stream AG, which is a company equally owned by Eni and Gazprom, registered in Switzerland in January 2008. According to the declarations of the two companies, the project will be carried out following the strictest environmental criteria, while Eni and

⁴Eni is an integrated Italian energy company, committed to developing its activities in research, production, transport, transformation and marketing of oil and natural gas. Details for Eni company, at <http://www.eni.it> (accessed: 20 March 2008)

⁵For the agreements, Scandoil (2007) “Eni and Gazprom sign the agreement for the South Stream Project”, at <http://www.scandoil.com/moxie-bm2/news/eni-and-gazprom-sign-the-agreement-for-the-south-s.shtml>, (accessed: 15 March 2008)

⁶For the agreement of June 2007, Rinzone (2007) “Eni and Gazprom Sign Deal for South Stream Project”, at http://www.rigzone.com/news/article.asp?a_id=46866, (accessed: 15 March 2008)

⁷Urengoil Inc., a private joint-stock company, was established in 1992 by Eurogas Corporation (based in Calgary, Canada) and Urengoyneftegazgeologiya to develop the Yaroyakhinskoye oil-gas-condensate field. Arctic Gas (formerly known as Severneftegaz) was established to develop the oil, gas and condensate resources of the Samburg and Yevoyakha license blocks. These lie just to the east of the Urengoy gas-condensate field.

⁸Eni (2008), “SAIPEM 2007: Consolidated and Statutory Financial Statements Preliminary results are confirmed”, at http://www.saipem.eni.it/comunicati/inglese/pr2008/PR_08-03-13_FY07.htm, (accessed: 16 March 2008)

Gazprom, together with the Italian and Russian governments, will develop top level discussions with the governments of the transit countries of the South Stream pipeline and possible other partners in the coming months.

2. Bulgaria (Bulgargaz): The first month of 2008 a counterpart from the Balkan Peninsula, Bulgaria⁹, was added in the South Stream project. The latter has also accepted an offer from the US and EU to join the rival Nabucco pipeline project. According to the reached agreement that strengthens Moscow's grip over energy supplies in Europe, an equally owned company by the Bulgarian Bulgargaz¹⁰ and Gazprom would be established in order to operate the Bulgarian section of the pipeline. The South Stream gas pipeline would run from Russia's Black Sea coast under the sea to Bulgaria, where it will branch off to northern and southern destinations in the European Union, supplying 30 billion cubic meters of gas annually to Romania, Hungary, the Czech Republic, Italy, Austria and Serbia. The talks over energy programmes resulted in additional agreements between Moscow and the Bulgarian cabinet concerning the construction of the Burgas-Alexandroupolis oil pipeline and the Belene nuclear power plant.

3. Serbia (Srbijagas): Like most European countries, Serbia faced gas shortages due to the spat between Gazprom and Ukraine over transport fees. This incidence led to a number of negotiations between Serbia and Russia for an energy cooperation scheme, the year before the South Stream project was announced. Gazprom and Serbian gas monopoly Naftne Industrije Srbije (NIS)¹¹ agreed to study the feasibility of an \$800 million gas pipeline running from Bulgaria through Serbia and Croatia to Italy by a memorandum¹² signed in

⁹BBC (2007) "Balkan boost for Russian gas plan", at <http://news.bbc.co.uk/2/hi/europe/7195522.stm>, (accessed: 20 March 2008)

¹⁰Bulgargaz EAD is a newly established company acting as a public supplier of natural gas in Bulgaria. Its business object is to supply natural gas and purchase and sale related thereto, natural gas purchase with the purpose of storing it in a gas storage, marketing research and analyses of the natural gas market in Bulgaria. <http://www.bulgargaz.com>

¹¹Srbijagas was established on [1 October 2005](#) as a result of restructuring the integrated petroleum company NIS. The company was created on the basis of NIS divisions NIS-Gas, NIS-Energogas and parts NIS-Jugopetrol. www.srbijagas.com

¹²For more details, Filipovic Gordana (2007), "Serbs await Russian decision on South Stream route", at <http://uk.reuters.com/article/oilRpt/idUKL2084775020070720?pageNumber=2&virtualBrandChannel=0> (accessed: 20 March 2008) and Setimes (2007), "Russia offers Serbia inclusion in South Stream gas pipeline", at http://www.setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/features/2007/12/12/feature-01, (accessed: 20 March 2008)

2007. Serbia had hoped the segment through its territory, with a capacity of 20 billion cubic metres a year, would ultimately be linked to the Blue Stream pipeline from Russia to Turkey under the Black Sea.

The next step of the Serbian – Russian energy cooperation took place on 25 January 2008, when Russia and Serbia signed an agreement¹³ to route a northern pipe of South Stream through Serbia, while a month later an agreement to create a joint company responsible for the construction of the Serbian section of the pipeline, was reached. The inclusion of Serbia in the South Stream project highlights once more the support of Moscow to Serbians over the ongoing Kosovo dispute¹⁴. As for the construction process, Gazprom plans to build a 400 km segment of the South Stream gas pipeline through Serbia. When complete, it will carry no less than 10 billion cubic metres of gas annually. The deal also sees the construction of an underground gas-storage facility, while the third element to the deal is the acquisition by Gazprom Neft of a 51 per cent stake in the largest Serbian oil refiner Nafta Industriya¹⁵ for almost \$US 600 million. The direct financial gain for Serbia is that instead of paying gas transit fees to other countries, Serbia will now earn money for the gas it ships to Austria.

The fact that the Serbian government desires to hold a key role in the transit of electricity, natural gas and crude oil in the region, would lead to a number of investments of some 3.0 billion euros (\$4.14 billion) in the energy sector over the next three years.

4. Hungary (Hungarian Development Bank MFB): On February 2008, Hungary¹⁶ also agreed to participate in the South Stream pipeline to transport Russian natural gas across the Black Sea to the Balkans and on to other European countries. The visit of the board chairman at the Russian energy giant Gazprom in Budapest (25, February 2008) turned out as fruitful. According to Dmitry Medvedev: "We have coordinated a draft

¹³For the agreement, Russia Today (2008), "Russia & Serbia sign South Stream deal", at <http://www.russiatoday.ru/business/news/21335>, (accessed: 21 March 2008)

¹⁴En.Rian (2008), "Russia supports Serbia over Kosovo through South Stream project", at <http://en.rian.ru/russia/20080226/100089312.html>, (accessed: 20 March 2008)

¹⁵Gazprom bought stakes of NIS at bargain prices, as their actual value was five times higher. For more details, Kathimerini (2008), "Pipeline of pressure between Russia and Serbia", at http://news.kathimerini.gr/4dcgi/w_articles_world_2_23/01/2008_256515, (accessed: 24 March 2008)

¹⁶En.Rian (2008), "Hungary to join Russia's South Stream gas project", at <http://en.rian.ru/russia/20080226/100031930.html>, (accessed: 21 March 2008)

intergovernmental agreement to build a pipeline for the transit of natural gas through Hungary, paving the way for [Hungary] to join the South Stream route and for an underground gas storage project". The deal also envisaged a major gas storage facility in the Hungary, turning this newly integrated EU member into a major hub for Russian energy supplies.

Some days later, a contract was signed between the two countries. The Hungarian section would, according to that agreement, be built and operated by the equally owned joint venture between Gazprom and the state-owned Hungarian Development Bank MFB¹⁷, which will buy the elaborated feasibility study for the Hungarian section from SEP Co., a joint venture of Gazprom and MOL¹⁸. (MOL is a partner in the U.S.-backed Nabucco project of the EU). The first deliveries of gas are scheduled to start in 2013, while the country is also considering the fact to join the Nabucco project, under the condition that the two gas projects would not affect each other. Hungarian Prime Minister Ferenc Gyurcsany has expressed his satisfaction¹⁹ to the Russian President, Vladimir Putin, as the Russian pipeline was advancing faster than its EU-backed alternative, "You were faster than Nabucco," the Prime Minister has said.

Destination of the gas flow

The exact route of the South Stream pipeline is not yet final. Besides the existing counterparts, countries such as Slovenia, Croatia, Bosnia and Herzegovina and Romania are most likely to

¹⁷ The MFB is the shareholder only of development undertakings or those targeting the stimulation of development. The main and common objective of the outsourcing and restructuring of the Group is to establish a one-stop-shop system of funding, which provides orientation for small-and medium-sized enterprises concerning funding facilities, promotes their competitiveness and stimulates convergence. For more details, <https://www.mfb.hu/en/bankinggroup>

¹⁸ MOL is a partner in the U.S.- backed Nabucco project of the EU

¹⁹IHT (2008), "Russia, Hungary sign South Stream pipeline deal", at <http://www.iht.com/articles/ap/2008/02/28/europe/EU-GEN-Russia-Hungary-Pipeline.php>, (accessed: 20 March 2008)

participate in this venture, while companies such as Gaz de France have expressed the intention to join South Stream, a gesture most welcomed from Gazprom. According to the existing facts, the South Stream pipeline is estimated to have an



1 Map - South Stream and Nabucco, source BBC

offshore part of 900 km, which would have the Beregovaya compression station at the Russia’s Black Sea coast as a starting point and would run to Bulgaria’s Varna. This section would be built and operated by South Stream AG. From the onshore section, two different routes from Bulgaria are being studied: a route towards northwest and one towards southwest. The latter route would continue through Greece and the Ionian Sea to southern Italy. Greece has proposed that the southern pipe may also supply the Turkey-Greece-Italy pipeline.²⁰ The northern branch would cross northern Italy with a branch line to Austria.

To form a clearer picture for the significance of the pipeline, its capacity and cost need to be taken into consideration. The offshore branch is planned to carry 31 billion cubic meters (bcm) of gas annually, while the pipeline sections in Serbia and Hungary will have a capacity of at least 10 bcm per annum. Two gas storage facilities are expected to be built in Hungary, with the underground one to have a storage capacity of at least 1 bcm. As for the completion of construction and the estimated expenditures, the deadline for the pipeline’s construction is expected to be reached within a three - year – term, after the approval from the European Union competition and regulatory authorities. Construction of the Serbian stretch is scheduled to start by 2012, while the deliveries through the South

²⁰Greece is open to Russia supplying gas for the Interconnector pipeline (TGI), while Greek Development Minister, Christos Folias, has expressed the willingness of the Greek government to participate in the South Stream project. The relation between TGI and South Stream would be complementary and not competitive and the political will from both sides may pave the way for the implementation of the above plans. For more details, Geropoulos, Kostis (2008), “After Bourgas-Alexandroupolis Greece eyes South Stream”, at www.neurope.eu/articles/83300.php (accessed: 17 March 2008) and Greek Embassy (2008), “Development Minister Folias holds talks with Russian counterpart on South Stream natural gas pipeline”, at <http://www.greekembassy.org/Embassy/content/en/Article.aspx?office=1&folder=19&article=22967> (accessed: 22 March 2008) and IHT (2007), “Greece to join South Stream gas pipeline project linking Russia with European customers”, <http://www.iht.com/articles/ap/2007/06/26/business/EU-FIN-Turkey-Greece-Pipeline.php> (accessed: 20 March 2008)

Stream pipeline are scheduled to start by 2013. The pipeline is expected to cost at least €7-10 billion and the Hungarian section US\$2 billion.

Nabucco project

Features

The Nabucco project represents a new gas pipeline connecting the Caspian region, Middle East and Egypt via Turkey, Bulgaria, Romania, and Hungary with Austria and further on with the Central and Western European gas markets. The pipeline length is approximately 3,300 km²¹, starting at the Georgian/Turkish and/or Iranian/Turkish borders respectively (taken the settlement of the ongoing disputes), leading to Baumgarten in Austria. It has



1 Map - Nabucco planned pipeline, source: Nabucco site

been designed to transport a maximum amount of 31 bcm²² per year. In 2004 prices, the construction of the pipeline was estimated at approximately 5 billion euro. The shareholders of Nabucco Gas Pipeline

International GmbH are: BOTAS AS, BULGARGAZ HOLDING EAD, MOL Plc, OMV Gas International GmbH, RWE AG, TRANSGAZ S.A. Each shareholder holds an equal share of 16, 67% in Nabucco Gas Pipeline International GmbH.

Nabucco is a project - strongly supported by the EU and US - that has to overcome some significant obstacles related to funding and gas supply. Specifically, the funding of the project is doubted, as the steel prices have been raised, since 2004, and adequate quantities of gas have not been ensured, yet, for the full operation of the pipeline. The

²¹ Carl Mortished (2007), "Austrian deal will extend Gazprom grip on European energy market" at http://business.timesonline.co.uk/tol/business/industry_sectors/natural_resources/article1837771.ece (accessed 14 March 2008)

²²Rudy Dempsey (2008) "EU-sponsored pipeline to open up to Russian gas", at <http://www.iht.com/articles/2008/02/06/business/pipe.php>, (accessed 21 March 2008)

beginning of construction has been delayed for two years, as it was initially planned to start in 2008.

The strategic goals ²³ of Nabucco pipeline

- Contribution to the security of gas supply for the participating countries and for European Union as a whole
- Decrease of energy dependence of Europe on Russian gas
- Opening a new supply corridor for Europe, focusing on gas imports from Central Asia
- Financial and geostrategic benefits for transit countries

Project timeline

The pipeline will be constructed in two major stages: firstly, the construction of the new route from Turkish borders to Baumgarten is going to be completed and secondly, the further creation of compressor stations is expected to increase capacity. At the same time, it was decided that construction *step I* would be technically split into two separate back-to-back construction phases:

The *first construction phase*, starting in 2010, will cover the planned route between Ankara and Baumgarten, corresponding to the construction of approximately 2,000 km of pipeline. After this phase, the existing pipeline facilities between the Turkish / Georgian and Iranian borders will be used for an interim period of 2 years, in order to connect the new pipeline to the Turkish borders. This will render the project ready to start operation and marketing of the pipeline in 2013 with an initial pipeline capacity up to 8 bcm, whilst the construction of the rest of the pipeline will be finished in parallel. The second construction phase will run from 2013 until end 2014 and predicts the completion of the remaining section between the Turkish border to Georgia resp. Iran and



2 Map - Nabucco construction phases, source: Nabucco

²³For more details on the project goals: <http://www.nabucco-pipeline.com/company/mission-statement-strategic-goals/index.html> (accessed 17 March 2008)

Ankara.

The *second construction phase II* predicts the installation of further compression stations at key points of the pipeline in order to continuously increase the pipeline capacity up to 31 bcm/y.

Company structure

The Nabucco Project is structured on a two-tier basis:

1. *Nabucco Gas Pipeline International GmbH*, which is directly owned by the Nabucco Partners and has as a main task the marketing of the pipeline capacity. Nabucco Gas Pipeline International GmbH will be the only company in direct contact with the shippers (one-stop-shop), and will function as an autonomous economic entity on the market, independently from its parent companies, acting vis-à-vis market participants, lenders etc.
2. *Nabucco National companies*, which are totally owned by Nabucco Gas Pipeline International GmbH, will be in charge of the operation and maintenance of the Nabucco Pipeline. Every transit country will have its own Nabucco National Company. The ownership of the pipeline will belong to each Nabucco National Company for its respective country and will have an interest in Nabucco Gas Pipeline International GmbH. Each Nabucco National Company will be responsible for the construction, operation, maintenance of the pipeline section in their respective country and will become the owner of the local pipeline section. In order to finance investment, Nabucco Gas Pipeline International GmbH provides funds to individual Nabucco National Companies so as to assign transportation rights and transportation capacity to Nabucco Gas Pipeline International GmbH or rent transportation capacity to Nabucco Gas Pipeline International GmbH.

The Nabucco's national gas supply

The main problem Nabucco has to deal with is the provision with adequate quantities of gas so as the project to be feasible. The countries scheduled to be the suppliers of pipeline are: Iran, Iraq, Kazakhstan, Turkmenistan, Azerbaijan and Egypt. As far as Iran is concerned, the world's second-largest holder of natural gas, its participation on the project is problematic; the dispute over its nuclear ambitions and the effort of the United States to

sabotage its trade contacts with the European governments prove it. Although oil minister of Iran Gholamhossein Nozari²⁴ believes that unless Iran supplies the pipeline, it would be impossible for this to fully operate, OMV gas Chief Werner Auli²⁵ considers that Iran's gas supply is not prerequisite for the implementation of the project. In the second phase Nabucco would be supplied from North and West Iraq²⁶ and Egypt. This would necessitate a pipeline from Egypt to Turkey, either across the Mediterranean seabed or overland across Syria. However, these routes look prohibitive in terms of costs and risks. Public discussions of the Iraqi and Egyptian options by Brussels and Washington do more harm than good to the Nabucco project. Unwittingly, they do not only make Nabucco look problematic to both investors and consumers, but also make Russian gas deliveries seem more reliable by comparison. Consequently, the more realistic and effective solution to the supply-problem would be the participation of countries surrounding Caspian Sea i.e. Kazakhstan, Turkmenistan, Azerbaijan. Nabucco's future seem connected to that of a proposed trans-Caspian pipeline (TCP), which will facilitate the gas delivery from these Central Asian states to Nabucco pipeline. The United States try to persuade Central Asian countries and especially Turkmenistan, owner of great gas volumes, to construct TCP-under the Caspian Sea- which will bypass Russia and Iran. Nevertheless, TCP has been held up by a dispute over the status of the Caspian Sea among the countries that border it, including Turkmenistan, Azerbaijan, Kazakhstan, Iran and Russia.

Azerbaijan has declared its readiness to invest in Nabucco, and is considered very likely to be the main supplier of the pipeline. Azerbaijan would be able to supply Nabucco, given that the reserves contained in the Shah Deniz²⁷ field were recently revised upward by 20 percent. Its national gas volumes are estimated over 1, 2 trillion cubic meters, along with 240 roughly millions of gas condensate. Production at Shah Deniz began in late 2006 and is expected to 8 bcm in 2008.

The answer to whether Nabucco becomes reality may ultimately be found in the capital of Turkmenistan, Ashgabat as it is believed that Nabucco's feasibility relies on the

²⁴Tehran Times (2007), "Nabucco pipeline project impossible without Iran: minister", at <http://www.tehrantimes.com/index.asp?code=158185>, (accessed 18 March 2008)

²⁵Tehran Times (2007), "Final decision on Nabucco pipeline project early next year: OMV", at <http://www.tehrantimes.com/index.asp?code=160103>, (accessed 19 March 2008)

²⁶Turkish Daily News (2008), " US throws weight behind EU's Nabucco pipeline", at <http://www.turkishdailynews.com.tr/article.php?newsid=97166>, (accessed 18 March 2008)

²⁷Khadija Ismayilova (2007), "The future of Nabucco pipeline in the air", at <http://www.eurasianet.org/departments/insight/articles/eav120507.shtml> (accessed 18 March 2008)

ability of Turkmenistan to supply the pipeline. Turkmen leader Gurbangulu Berdymukhamedov has repeatedly expressed his willingness to provide- except for Russia- and West with Turkmen gas.

On 20 December 2007, Russia came to an agreement with Turkmenistan and Kazakhstan in order to build the Caspian gas pipeline across Russia. This agreement, that is a further hurdle for the implementation of the Nabucco project, defines the modernization of the old Central Asia Center pipeline, running from Begdash in Turkmenistan to Beineu in Kazakhstan, with an annual projected capacity of 10 billion cubic meters of gas in 2009-2010. During the stage in 2010-2017, the partners will prolong the pipeline to Aleksandrov Gai on the Russian- Kazach border, with a capacity of 20 billion cubic meters, which will increase the total capacity of the pipeline to 30 billion. This deal has as a consequence the provision of significant quantities of natural gas to the Russian gas pipeline grids, without which the feasibility of Nabucco is in doubt. As Andrey Denisov²⁸, First Deputy Foreign Minister of Russia stated: “from the economic viewpoint, the Caspian gas pipeline project is more viable than other projects. Under this project, it will be possible to expand the capacity of the existing pipeline system that is unable to cope with required gas volumes”. However, the lack of reference to provided guarantees of obligatory gas supplies to the pipeline is likely to indicate the position of Turkmenistan to diversify its gas transportation routes, like the participation in TCP in order to be benefited economically and politically.

Conclusions

All this time, the main query that is raised is whether the construction of the one pipeline will have as a consequence the cancellation of the other project. A persuasive answer is given by Reinhard Mitschek²⁹, the managing director of the Nabucco pipeline project and director of gas logistics for OMV, who stated that there is no contradiction for Gazprom involment. “Diversification has two angles: diversification of gas sources and diversification of gas transportation routes. I can imagine Russian gas being fed into our

²⁸Dr. Igor Tomberg (2008), “Caspian pipeline seems to have defeated Nabucco”, at <http://www.en.ria.ru/russia/20080313/101240006.html>, (accessed 20 March 2008)

²⁹Judy Dempsey (2008) “ EU - sponsored pipeline to open up to Russian gas”, at <http://www.iht.com/articles/2008/02/06/business/pipe.php>, (accessed 21 March 2008)

pipeline. So, it is obvious that that both projects could be implemented”. Because of rising demand, we need more than two pipelines”, Mitschek continued. The same stance is also followed by Russia: Russian First Deputy Prime Minister Dmitry Medvedev has confirmed that there is no contradiction between South Stream and the Nabucco pipeline project, designated to bring Caspian (Azerbaijani) gas to South and Central Europe via Turkey. "South Stream will have no negative impact on Nabucco, just as Nabucco will have no negative effect on South Stream," Dmitry Medvedev. At the same time, political leaders – Hungary, Bulgaria- tempted by South Stream usually claim to be also interested in Nabucco.

However, the two projects compete against each other in the Caspian upstream and in the Central European downstream. The “energy maps” formed by the countries controlling the pipeline projects, equally form “maps of political and strategic influence”. The political role of the countries included in these pipeline projects is strengthened, as they turn into energy hubs. Under these circumstances, Russia has avoided the traditional transit countries for Russian gas export - mainly Ukraine, Belarus and Poland - in order to reduce their potential. Thus, Gazprom could apply pressure on them in the sphere of price increases and the acquisition of ownership in their pipeline networks. To gain energy “allies”, Russia is offering supply agreements and extensions of Gazprom’s South Stream to countries along Nabucco’s planned route and their immediate neighbours.

These offers seem rather misleading. It is not sure that Gazprom can provide the declared gas volumes for all of its existing and planned pipelines to Europe: Nord Stream, Yamal, the Ukrainian system, Blue Stream, and now South Stream with its variously offered extensions. In the short-to-medium term, Russia is likely to fall short of meeting its rising internal gas requirements and multiple gas export commitments at the same time. Thus, Russia’s recent supply proposals to a considerable number of countries, including those in Nabucco, probably entail elements of commercial bluff and political hype to impress governments and publics. The same is for Nabucco, as Azerbaijan will be able to provide gas in its full capacity after 2013. According to the above, questions of feasibility are raised for both projects.

The gas demand and needs of the European continent call for serious initiatives and projects, which will eliminate the energy uncertainty experienced in the past along with the uncontrollable price hikes of oil and gas that generate inflationary spirals. In the question: “Nabucco - South Stream: competitive or complementary pipelines?”, we tend to believe that they will be viable and complementary.

