

The making of empires: Russia's gas-exporting pipelines *v* Nabucco

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Russia's most recent energy initiatives, the construction of the Nord Stream pipeline across the Baltic and the South Stream pipeline across the Black Sea, have prompted a great deal of questions as to the economic viability of the two ventures and the real intentions behind them. The European Union's difficulties in bringing to life its Nabucco project, which has been in the works since 2002, shows how difficult building a pipeline several thousands of miles long can be without centralized state support. Even while the international legal regime for overland and underwater pipelines covers much ground, the complexities and spy-novel-like intrigues surrounding the implementation of Europe's rival pipeline systems cannot be adequately accounted for under the existing framework. The objective of this article is to analyse the different political and legal controversies surrounding the construction of gas pipelines in Europe.

1. Nord Stream

Nord Stream is a project to construct a gas pipeline with the capacity of 55 billion cubic metres annually under the Baltic Sea.¹ Gazprom owns a 51 per cent share in the venture, and the two German companies (E.ON Ruhrgas and BASF/Wintershall) each acquired 24.5 per cent. In 2007, Dutch gas company Gasunie bought from the German participants a nine per cent stake in the project. On 2 March 2010, Gazprom and France's GDF Suez signed a memorandum, under which GDF secured additional natural gas from Russia and became a nine per cent interest owner of the Nord Stream project.²

Political aspect and sovereignty

According to a number of Western experts and analysts, Russia's efforts to construct a pipeline across the Baltic Sea were motivated by a desire to remove the need of having to deliver gas to European markets via existing land networks.³ Russia, as it was said, endeavoured to re-establish political influence in Eastern Europe by making supplies to the West reliable and independent, while at the same time retaining the ability to cut off supplies to poor eastern satellite states. Supply cuts to Ukraine and further on to Europe have taken place several times in recent history—in January 2006 and January 2009.

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¹ The Nord Stream Pipeline Project. *Fact Sheet* (February 2010) www.nord-stream.com

² M Boselli, 'GDF Suez, Gazprom Sign Nord Stream Pipeline Deal' (2010) Reuters <<http://uk.reuters.com/article/idUKLDE62016F20100301?sp=true>> accessed March 28, 2010.

³ Current routes go through the territories of Belarus, Czech Republic, Poland, Slovakia and Ukraine.

Indeed, without any restrictive international law obligations, Russia can take advantage of its hydrocarbons resources to promote its geopolitical agenda. Most recently, at the end of 2008, Russia claimed that Ukraine's debt for past gas supplies reached USD 600 million.⁴ When the sides failed to reach an agreement, gas supplies to Ukraine were completely shut down and deliveries did not resume until a comprehensive agreement was drafted 20 days later.⁵ Eighteen European countries were profoundly affected by the gas crisis, including Austria (about 60 per cent of gas for domestic use from Russia), Bosnia (100 per cent of gas for domestic use from Russia), Bulgaria (about 96 per cent of gas for domestic use from Russia), Croatia (about 37 per cent of gas for domestic use from Russia), Czech Republic (about 80 per cent of gas for domestic use from Russia), France (about 24 per cent of gas for domestic use from Russia), Germany (about 42 per cent of gas for domestic use from Russia), Greece (about 82 per cent of gas for domestic use from Russia), Hungary (about 60 per cent of gas for domestic use from Russia), Italy (about 28 per cent of gas for domestic use from Russia), Macedonia (about 100 per cent of gas for domestic use from Russia), Moldova (almost 100 per cent of gas for domestic use from Russia), Poland (about 47 per cent of gas for domestic use from Russia), Romania (about 28 per cent of gas for domestic use from Russia), Serbia (about 87 per cent of gas for domestic use from Russia), Slovakia (about 100 per cent of gas for domestic use from Russia), Slovenia (about 64 per cent of gas for domestic use from Russia), and Turkey (about 67 per cent of gas for domestic use from Russia).⁶

There exists a widely held belief that the distribution of gas can be used as a political tool by Russian government officials to put pressure on near-abroad neighbours to get them to comply with Russia's position in areas beyond the economic sector.⁷ Political analysts believe that the construction of the Nord Stream project may in fact exacerbate the problem, as the new pipeline would allow Russia to remain on friendly terms with the leading European powers, while at the same time cut off 'disloyal' Western-looking neighbours.

In light of the gravity of the geopolitical problems that the Russian-backed pipeline might engender for European states, it seems quite surprising how easily the countries involved in the dispute decided to give way to the Nord Stream project when Russia offered them lucrative incentives. Finland's decision to give its last environmental approval to the Nord Stream gas pipeline in February 2010 came as Russia signalled a major concession to the government of its Nordic neighbour—a promise to postpone the imposition of prohibitive export tariffs on raw timber.⁸ According to political insiders, Denmark's decision in October of 2009 to give the Nord Stream project a green light

⁴ S Pirani, J Stern and K Yafimava, *The Russo-Ukrainian Gas Dispute of January 2009: A Comprehensive Assessment* (Oxford Institute for Energy Studies, 2009) 5. <<http://www.oxfordenergy.org/pdfs/NG27.pdf>> accessed March 28, 2010.

⁵ Ibid.

⁶ 'Factbox - 18 Countries Affected by Russia-Ukraine Gas Row' (2009) Reuters. <<http://www.reuters.com/article/idUKTRE5062Q520090107>> accessed March 28, 2010.

⁷ BW Solum, *Nord Stream: Not Just a Pipeline* (Fridtjof Nansen Institute 2008) 32. <http://kms1.isn.ethz.ch/serviceengine/Files/ISN/94432/ipublicationdocument_singledocument/382de953-1a0c-4c7c-8371-7e4a39823070/en/2008_Nord+Stream.pdf> accessed March 28, 2010.

⁸ A Arutunyan, 'Nord Stream: Further Agreement in the Gas Pipeline for Finland and Russia' *The Moscow News* (22 February 2010).

appears to have been influenced, at least in part, by forceful lobbying on behalf of Russia and an agreement between DONG Energy and Gazprom to double the volumes of gas that Denmark will import through Nord Stream.⁹ To receive a favourable reception in Sweden, which presented the most vocal opposition, the Nord Stream consortium hired former Finnish Prime Minister Paavo Lipponen as a consultant in August 2008.¹⁰ The pipeline received approval from Sweden in October of 2009. The German approval was handed down only three days following the completion of the environmental impact analysis in December 2009.¹¹

Environmental aspects

By using environmental objections to Nord Stream, the countries, whose consent was sought for the project's implementation, might well have been masking their ultimate design to have the pipeline rerouted on the continent so that they would be able to derive transit fees from the shipment of Russian gas.

The groups voicing objections against Nord Stream stated that the Baltic is the most contaminated marine environment on the planet. Indeed, the semi-enclosed sea has an area of only 415,000 km² and a mean depth of 52 m.¹² As the Baltic is connected to the North Sea and the Atlantic Ocean by the narrow Danish Straits, the rate at which water is circulated in the Baltic Sea is very slow.¹³ The biggest environmental concerns that were addressed by the parties in discussing the ecological impact of the Nord Stream pipeline have centred on the problem of displacing mines left in the Baltic Sea from World War II and disturbing the underwater grave sites, where thousands of tons of chemical weapons, wastes and other toxic substances are located. During the two World Wars, the Baltic, and especially the Gulf of Finland, were heavily mined.¹⁴ It is estimated that over 85,000 mines were placed in the Sea, and only half of them have been found. A study conducted by the Helsinki Commission in 1994, indicated that there were at least 40,000 tons of chemical munitions at the bottom of the Baltic Sea.¹⁵ If these toxic substances emerge from the seabed, the pipeline's opponents claimed, they would be extremely deleterious to the Baltic's ecosystem.¹⁶

⁹ A Arutunyan, 'Denmark O.K.'s Nord Stream Baltic Gas Pipe' *Business Week* (22 October 2009) <http://www.businessweek.com/globalbiz/content/oct2009/gb20091022_011682.htm> accessed March 28, 2010.

¹⁰ A Arutunyan, 'Paavo Lipponen to Advise Nord Stream' *Nord Stream* (August 2008) <http://www.nord-stream.com/en/press0/press-releases/press-release/browse/1/article/paavo-lipponen-to-advise-nord-stream.html?tx_ttnews%5BbackPid%5D=1&cHash=deb6773d62> accessed March 28, 2010.

¹¹ A Arutunyan, 'Nord Stream Project Gets German Approval' *Commodity Online* (2010) <<http://www.commodityonline.com/news/Nord-Stream-project-gets-German-approval-25820-3-1.html>> accessed March 28, 2010.

¹² Baltic Sea Regional Advisory Council, *Facts about the Baltic Sea Regional Advisory Council* (2006) <www.bsrac.org/> accessed March 28, 2010.

¹³ K Demel, 'Future of the Baltic Sea' in *Physical Oceanography of the Baltic Sea* (2009) Springer Praxis Books, 2009, 325–336, <<http://www.springerlink.com/content/jph41t0068g740xn/>> accessed March 28, 2010.

¹⁴ HELCOM, *Final Report of the Ad Hoc Working Group on Dumped Chemical Munition to the 16th Meeting of the Helsinki Commission* (March 1995) <<http://www.helcom.fi/stc/files/Publications/OtherPublications/CHEMUFinalReport1995.pdf>>.

¹⁵ *Ibid.*

¹⁶ Charles Hawley, 'Tons of Mercury Found in the Baltic Sea. Europe's Underwater Chemical Dump' (2006) *Spiegel Intl* <<http://www.spiegel.de/international/0,1518,434329,00.html>> accessed March 28, 2010.

While the concerns of environmentalists might seem to have a legitimate basis, Russian officials and scientists described them as politically motivated.¹⁷ Technical specialists working on the pipeline project continue to insist that during the construction phase of Nord Stream, the seabed will actually be cleared of the poisonous substances that now cover it.¹⁸ Nord Stream AG has relied on the reports of the Baltic Marine Environment Protection Commission to take into consideration all officially recognized locations in the Baltic where the munitions were dumped. Some global analysts have now come to conclude that the prevalence of environmental challenges and objections to the Nord Stream project are attributable not to the actual concerns of the parties involved for the well-being of the flora and fauna, but rather to the dissatisfaction of the governments from not being able to receive income from transiting gas through their territory.¹⁹ Nord Stream will pass through the economic zones of at least three European countries, of which only Denmark has an interest in the pipeline. A land-based alternative would have been much more attractive to Sweden and Finland not only from an environmental perspective, but also from an economic one.²⁰ In the pragmatic business world of the 21st century, existing mechanisms for conducting discussions on significant transnational projects appear to be outdated. Asserting legal challenges to a project on the basis of alleged environmental problems is a remedy wholly inadequate if the ultimate goal of the country making such objections is to derive economic benefits or ensure energy security.

Economic aspects

The political double-dealing in the implementation of Nord Stream next comes to light in the economic analysis of the project. Opponents of the pipeline claim that Russia pursues a hidden agenda in implementing the construction of Nord Stream, which, they say, would be commercially unfeasible in today's market environment. Nord Stream AG, as well as Russian and German officials are, on the contrary, convinced that the creation of the new pipeline will ultimately result in huge economic savings, despite high initial investment expenditures.²¹ The reasons for better performance results that are expected are two-fold: the absence of a need to pay transit fees and the elimination of expensive midway compressor stations due to the high pressure inside the pipeline. The approximate figure for the amount of money that would be saved in the process of using an offshore pipeline to supply Russian gas to Germany is USD 1 billion per year.²² However, given the enormity of expenditures involved in maintaining an underwater pipeline, some analysts express concerns as to whether the pipeline will be profitable.

¹⁷ Charles Hawley, 'Russia Backs Green Nord Stream' *Upstream Online* (June 2007) <<http://www.upstreamonline.com/live/article135350.ece>> accessed March 28, 2010.

¹⁸ Nord Stream, *Nord Stream Environmental Impact Assessment (EIA) Documentation for Consultation under the Espoo Convention* (February 2009) <www.nord-stream.com/index.php?id=853> accessed March 28, 2010.

¹⁹ *Ibid.*

²⁰ *Ibid.*

²¹ A Riley, 'Nord stream: An Economic and Market Analysis of the North European Pipeline Project' (2008) <http://www.euro-parl.europa.eu/meetdocs/2004_2009/documents/dv/peti20080129_economicanalysisriley_/PETI20080129_EconomicAnalysisRiley_en.pdf> accessed March 28, 2010.

²² *Ibid.*

The volume of gas imported into the EU in 2007 was 312 billion cubic metres.²³ Economic models indicate that yearly imports are likely to rise to 516 billion cubic metres in the next two decades. The Nord Stream project will meet almost a quarter of the additional demand.²⁴ The trend in Europe for the past two decades has visibly been towards heightened dependency on imports. Domestic production in the European Union started to decline in 2002.²⁵ Imports are projected to reach 75 per cent by 2015.²⁶

While the prospects for the project are bright, economic experts question Russia's need for an expensive pipeline and are also curious about the sources of financing that Nord Stream AG will get for the venture. In 2005, the pipeline was estimated to cost around EUR 4 billion.²⁷ In April 2008, the figure was nearly EUR 12 billion.²⁸ Though Nord Stream estimates that the cost of the second segment of the pipeline would be lower than the cost of the first leg due to post-crisis market phenomena, the cost of the project is still very large.

Even though Gazprom's revenues in the first half of 2009 were USD 56.99 billion and the company was responsible for nine per cent of Russia's GDP²⁹, the largest state-owned gas producer is one of the most indebted companies in the country, with an outstanding balance of more than USD 40 billion.³⁰ Gazprom's net profit in the 9 months to September 2009 (latest available figures) went down by 36 per cent compared to the same nine-month period in 2008, totalling only EUR 11.3 billion. Actual sales during the nine months were down 7.1 per cent to EUR 56.8 billion.³¹

In view of the controversy over the financial soundness of the Nord Stream consortium, the conspicuous absence of any regulatory devices for ascertaining the ability of a company to complete a giant multinational project that has the potential for impacting the environment and the safety of many nations appears as a major problem.

2. South Stream

The proposal to build the South Stream pipeline was announced during June 2007, when Alexander Medvedev, the vice-president of Gazprom, and Paolo Scaroni, the CEO of Italy's ENI, signed a memorandum that provided for joining efforts in constructing a pipeline to

²³ Solum (n 7).

²⁴ Nord Stream. Gas for Europe (2008) <<http://www.nord-stream.com/en/the-pipeline/gas-for-europe.html>> accessed March 28, 2010.

²⁵ A van Bohemen, *Security of Gas Regulation in the EU* (9 November 2009) Hearing of the European Parliament.

²⁶ Solum (n 7)

²⁷ H Foltyn-Kubicka, 'Do We Really Need Nord Stream?' *Baltic Rim Economies* (2009) <<http://www.tse.fi/FI/yksikot/erillislaitokset/pei/Documents/bre2009/313%202-2009.pdf>> accessed March 28, 2010.

²⁸ Ibid.

²⁹ Gazprom, *Gazprom in Figures 2004–2008* (July 2009) <<http://www.gazprom.com/ff/posts/71/879403/3se.pdf>> accessed March 28, 2010.

³⁰ Vladimir Soldatkin and Dmitry Sergeev, 'Gazprom Cuts Debt By \$4 Bln. in Q4 2009' Reuters (2010) <<http://uk.reuters.com/article/idUKLDE6101UL20100201>> accessed March 28, 2010.

³¹ Vladimir Soldatkin and Dmitry Sergeev, 'Gazprom Nine Months Net Profit Down 36 Percent' *France Presse* (February 2010) <<http://www.france24.com/en/20100201-gazprom-nine-months-net-profit-down-36-percent>> accessed March 28, 2010.

deliver Russian gas to Europe via a Southern route.³² The pipeline's initial capacity of 30 billion cubic metres annually was increased to 63 billion cubic metres in 2009.³³ The gas pipeline will stretch across the Black Sea from Beregovaya, Russia and make landfall either in Bulgaria or Romania.³⁴ The 900-km-long underwater section of the pipeline passing across the Black Sea would reach the depth of two km, making it the deepest submarine pipeline in the world.³⁵ The pipeline has also been called the most expensive pipeline in the world, as the estimated cost of its construction is EUR 19–26 billion.³⁶ The building of the South Stream pipeline is planned to start in November of 2010.³⁷

Political aspect and sovereignty

The political controversies surrounding South Stream abound because the European system is not sufficiently strong to organize a coherent and united response to Russia's projects. Critics of the pipeline across the Black Sea note that Russian officials are keen on exploiting energy dependence to undermine the collective interests of the European Union.³⁸ Economic analysts predict that if Russia succeeds in constructing both Nord Stream and South Stream, it will come to have surplus export capacity. European countries, facing a shortage of available supply routes would be competing with one another for Russian gas. In its turn, Russia would have a firm monopoly on gas pipelines to the European market. Even if the entire capacity of these pipelines would not be used, Russia would still be at a great advantage, as it would solely be in power to grant other producing countries access to the European routes.³⁹ Political strategists fear that Western governments heavily dependent on Russian supplies would be prone to extending to Russia various non-economic concessions at the request of the Kremlin.⁴⁰

Among other significant developments on the international political arena that Russia's implementation of its pipeline agenda would likely prompt is the creation of an OPEC-type organization that would control the price of natural gas.⁴¹

³² Vladimir Soldatkin and Dmitry Sergeyev, 'ENI and Gazprom Sign the Agreement for the South Stream Project' *ENI* (23 June 2007) <http://www.eni.com/en_IT/media/press-releases/2007/06/ENI_and_Gazprom_sign_the_agree_23.06.2007.shtml> accessed March 28, 2010.

³³ Vladimir Soldatkin and Dmitry Sergeyev, 'Gazprom Agrees to Boost Pipeline Capacity' *Downstream Today* (May 2009) <http://downstreamtoday.com/news/article.aspx?a_id=16386> accessed March 28, 2010.

³⁴ V Socor, 'Gazprom Discusses Romanian Participation in South Stream' *Moldova* (21 February 2010) <<http://economie.moldova.org/news/gazprom-discusses-romanian-participation-in-south-stream-206394-eng.html>> accessed March 28, 2010.

³⁵ R Lajtai, *Nabucco vs. South Stream: The Effects and Feasibility in the Central and Eastern European Region* (2009) 24th World Gas Conference Buenos Aires, Argentina 5–9 October 2009. Energy and Utilities Advisory Services, KPMG in Central and Eastern Europe, Budapest, Hungary.

³⁶ R Lajtai, 'Russia to Build Most Expensive Gas Project in History' *Pravda* (February 2009) <http://english.pravda.ru/russia/economics/09-02-2009/107079-russia_gas_project-0> accessed March 28, 2010.

³⁷ 'Строительство "Южного потока" может начаться в ноябре 2010 года' [South Stream Construction May Begin in November 2010] *Oil and Gas Eurasia* (7 August 2009) <<http://www.oilandgaseurasia.ru/news/p/0/news/5407>> accessed March 28, 2010.

³⁸ Z Baran, *Security Aspects of the South Stream Project* (Hudson Institute 2008) 3 <<http://www.hudson.org/files/publications/Baran-South%20Stream%20for%20EP.pdf>> accessed March 28, 2010.

³⁹ *Ibid.*

⁴⁰ *Ibid.*

⁴¹ Z Baran, 'Russia, Iran, Qatar Talk OPEC-Style Gas Cartel' *MSNBC* (21 October 2008) <<http://www.msnbc.msn.com/id/27307523/>> accessed March 28, 2010.

Security issues

Many of the security concerns over the South Stream pipeline arise out of the inability of the international community to deal promptly and decisively with regional aggression. Many military analysts in Western countries view Russia's efforts to rise to the status it had previously occupied in world affairs with suspicion. The case of the South Stream pipeline is illustrative, as a number of leading European experts attacked its legitimacy on the grounds of possible security repercussions that it may engender.

In August of 2008, the aggression in Georgia, South Ossetia and Abkhazia surprised the world with the scale of military operations that took place on the territory of a relatively modern European state. On 8 August 2008, in response to Georgia's unannounced military operation to take control of a breakaway province of South Ossetia, Russian forces entered the region.⁴² The Georgian army was pushed back from South Ossetia and Abkhazia, and the Russian army began an advance on Georgia's territory. The confrontation stopped on 12 August 2008.⁴³ The total number of casualties on all sides in the conflict was over 770 people. As a result of the war, Georgia sustained substantial infrastructural losses.⁴⁴

The more important issue regarding the Georgian war and its implications for the international system is that it occurred in the first place. The international regime, including the United Nations, OSCE and other peace-keeping organizations, has proved to be ineffective at foreseeing the rise of aggression and implementing prophylactic measures to prevent humanitarian catastrophes. The two breakaway republics that Georgia wanted to subdue in orchestrating the August 2008 invasion had been troubled areas for more than a decade.⁴⁵

The inability of the world community to implement an effective mechanism for peacefully adjudicating local territorial disputes in the long run has the potential for undermining international security on a large scale. In the specific case of Russia's pipeline projects, the discussion of the security threat that South Stream might present is based entirely on the Georgian situation. Had the security regime been more rational and transparent, the controversy surrounding Russia's energy projects would not be as intense.

3. Nabucco

Nabucco is planned as a 3,300-km-long pipeline going from Erzurum, Turkey, through Bulgaria, Romania and Hungary to Baumgarten, Austria.⁴⁶ The EU and the United States

⁴² Interfax Information Services, *Russia Urges U.N. SC to Demand End of Violence in S. Ossetia from Tbilisi* (8 August 2008) 8/8/08 INTERFAX 05:51:31.

⁴³ Interfax Information Services, *Medvedev-Sarkozy Statement Accepts Status Quo in S. Ossetia, Abkhazia can't go on - Lavrov* (12 August 2008) 8/12/08 INTERFAX 17:46:05.

⁴⁴ Conclusion of the Investigating Committee of the Russian Prosecutor's Office (3 July 2009); Ossetia-war.com. *Deceased victims list* (28 May 2009) <<http://www.webcitation.org/5h7J6Cs5a>>; 'Russia Scales Down Georgia Toll' *BBC News* (20 August 2008).

⁴⁵ W Bartuzi, K Pełczyńska-Nałęcz and KA Strachota, *South Ossetia, Nagorno-Karabakh: Unfrozen Conflicts between Russia and the West* (Centre For Eastern Studies 2008) <www.social-sciences-and-humanities.com/PDF/special-report.pdf> accessed March 28, 2010.

⁴⁶ P Pogany, 'Nabu, Nabucco, Nabukov' *Energy Bulletin* (Post Carbon Institute 7 September 2009) <<http://www.energybulletin.net/50054>> accessed March 28, 2010.

are the chief promoters of the Nabucco pipeline project. The largest section of Nabucco, a segment close to 2,000 km in length, will stretch across Turkey. The capacity of the pipeline is planned at 31 billion cubic metres annually, although it is expected that at the beginning only 4.5 to 13 billion cubic metres of gas a year will be actually delivered through Nabucco.⁴⁷

On 13 July 2009, the prime ministers of Austria, Bulgaria, Hungary, Romania and Turkey signed an intergovernmental agreement giving a green light to the construction of Nabucco.⁴⁸ The managing director of Nabucco, Mr Reinhard Mitschek, said on 18 March 2010 that the construction of the pipeline will tentatively start at the end of 2011.⁴⁹ If the construction begins in 2011, the project will be completed by 2014. Nabucco's cost is calculated at EUR 7.9 billion.⁵⁰

Supply

The absence of any sound verification mechanism or a supranational regulatory agency overseeing global energy projects results in supply uncertainty. The most powerful objection against Nabucco is that the project does not have guaranteed supplies. While Bulgaria made an agreement with Azerbaijan for supplying over one billion cubic metres of gas to the country through Nabucco, that volume represents only 12 per cent of Nabucco's first-stage capacity.⁵¹ Representatives of the pipeline company have said that Nabucco may finalize the contract with Turkmenistan in April 2010, but the agreement has not materialized. Production in the two key Central Asian states must rise in order for additional supplies to be available for Nabucco. Turkmenistan presently produces 80 billion cubic metres. Azerbaijan's State Oil Company produced only five billion cubic metres of gas in 2008.⁵² These are not very large volumes. Another important area of concern is how and when Central Asian gas would be shipped to the point of origin of Nabucco.

Efforts to involve Iran in supplying gas for the Nabucco pipeline cannot be fully realized because of the country's difficult situation on the world stage and the applicability of US sanctions.⁵³ The equivocal position of the Nabucco partner-countries on Iran seems to be contradictory to the obligations of the parties under their agreement.

⁴⁷ TN Marketos, 'Eastern Caspian Sea Energy Geopolitics: A Litmus Test for the U.S. – Russia – China Struggle for the Geostrategic Control of Eurasia' (2009) 3 *Caucasian Rev Intl Aff*, 10.

⁴⁸ S Kardas, 'Nabucco intergovernmental agreement signed in ankara' (2009) 6 *Eurasia Daily Monitor* <http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=35262> accessed March 28, 2010.

⁴⁹ S Kardas, 'Nabucco Announces Its Readiness to Start Pipeline Construction in 2011' *Trend Capital* (25 March 2010) <<http://www.topix.com/az/baku/2010/03/nabucco-announces-its-readiness-to-start-pipeline-construction-in-2011>>.

⁵⁰ WPS Media Monitoring Agency, 'Bulgaria: E.U. And U.S. Offering Only Verbal Support for Nabucco' (2010) 2010 *WLNR* 4644778.

⁵¹ J Dempsey, 'E.U. Natural Gas Pipeline Project Gets First Order' *International Herald Tribune* (2008) <<http://www.iht.com/articles/2008/06/11/business/pipe.php>> accessed March 28, 2010.

⁵² MK Bhadrakumar, 'Pipeline Deal Is Sweet Music for Iran' *Asia Times Online* (15 July 2009) <http://www.atimes.com/atimes/Middle_East/KG15Ak01.html>; 'SOCAR Hands Over 18 Million Cubic Meters of Gas per Day' *SOCAR* (2 April 2008) <<http://www.socar.az/943-news-view-en.html>> accessed March 28, 2010.

⁵³ J Rosenthal, 'Nabucco Follies: State Department Shills for E.U. Pipeline to Carry Iranian Gas' (2008) *World Politics Rev* <<http://www.worldpoliticsreview.com/article.aspx?id=1815>> accessed March 28, 2010.

Security issues

Geopolitical problems gone out of control also add tension to the debate surrounding the construction of the Nabucco pipeline. In a coherent world of robust international institutions, the situation would have been much simpler. The problems between Azerbaijan and Turkmenistan have come to light after a September 2009 session of Turkmenistan's National Security Council, during which President Gurbanguly Berdimuhamedow discussed the need to augment the country's naval forces operating in the Caspian.⁵⁴ According to Turkmenistan's strategists, it is important to protect the territorial integrity of the country against foreign encroachment, terrorists and smugglers.⁵⁵ The plans of Turkmenistan include constructing a fleet base, as well as setting up an array of radars and monitoring equipment to patrol the country's sea possessions.⁵⁶ Turkmenistan additionally plans to acquire fast-moving gun boats and at least two larger vessels capable of carrying missiles.⁵⁷

The most important sources of tension between the Turkmen and the Azerbaijani sides are disagreements over territorial demarcations in the Caspian Sea, an area with plentiful hydrocarbons reserves.⁵⁸ Even though the two powers have tried to resolve their differences through diplomatic routes many times, no clear answers have yet been found. The fervour of the two sides in the standoff is attributable to the great role that oil and gas play in the economies of each state. Much controversy surrounds the status of the Sedar oilfield, which is estimated to contain 50 million tons of reserves.⁵⁹

Economic aspects

The absence of workable intra-EU business models for obtaining complete financing for a cross-boundary project limits the opportunities of Nabucco. Theoretically, under the agreements made with the Nabucco countries, party-states should consider financing the project. The cost of building the land pipeline has been estimated at EUR 7.9 billion. Companies in the Nabucco consortium are not likely to possess sufficient resources to underwrite the project. Analysts believe that the project will not get off the ground in the absence of state support. The European Bank for Reconstruction and Development has agreed to contribute to the project's financing; however, it is not certain that an EBRD loan will ultimately be issued because the countries and companies involved have not made financial commitments to the project.⁶⁰

⁵⁴ J Nichol, Turkmenistan: Recent Developments and U.S. Interests (10 September 2009) Congressional Research Service. <www.fas.org/sgp/crs/row/97-1055.pdf> accessed March 28, 2010.

⁵⁵ K Konyrova, *Turkmen Plans to Build Naval Base Revive Caspian Debate* (13 September 2009) <<http://www.neurope.eu/articles/Turkmen-plans-to-build-naval-base-revive-Caspian-debate/96105.php>> accessed March 28, 2010.

⁵⁶ Ibid.

⁵⁷ Ibid.

⁵⁸ K Konyrova, 'Turkmenistan-Azerbaijan Caspian Dispute' *Azerbaijan Today* (6 September 2009) <<http://www.azerbajiantoday.com/index.php?mod=article&cat=News&article=341>> accessed March 28, 2010.

⁵⁹ C Locatelli, *Europe's Gas Supplies: Diversification with Caspian Gas and the "Russian Risk"* (February 2010) Laboratoire d'Economie de la Production et de l'Integration Internationale. <halshs.archives-ouvertes.fr/docs/00/45/92/02/PDF/CL_CR29_2010.pdf> accessed March 28, 2010.

⁶⁰ C Locatelli, 'EBRD Ready to Shell Out for Nabucco' *Upstream Online* (19 June 2009) <<http://www.upstreamonline.com/live/article181028.ece>> accessed March 28, 2010.

In general, from a financing perspective, Nabucco has come to be considered the most complicated pipeline project ever proposed because of the multiplicity of transit countries, the lack of defined production sources to supply gas for the pipeline, the limited capabilities of the consortium's partners and the complexity of geopolitical interests involved.

4. Competition

The inadequacy of national, regional and international legal regimes and governance mechanisms pervades the controversies around the pipeline projects designed to deliver gas to Europe. The lack of coherent regimes to handle environmental, territorial, economic, political and ethical aspects of international projects makes it much harder for well-intentioned ventures to see their designs come to life. At the same time, the existing system would not prevent the realization of a project that would be detrimental to the collective security of the European continent. If the physical safety and security of millions of people in Europe is at stake, it makes no sense that the countries resisting to what seems to them an 'abominable' project have as their only recourse the option of asserting ungrounded objections on the basis of the pipeline's harmful effect on the phytoplankton layer in the Baltic Sea or the Black Sea's jellyfish.

The absence of any safeguards and collective action mechanism has bred one of the most publicized uncertainties about the European and the Russian pipeline projects. Are the two competing, or simply complementary? The competition between the states is for the same consumer market. Nabucco and South Stream call for using very similar routes. Both Russia and the Nabucco are jockeying to capture as much of Central Asian production as possible. The promoters of both pipelines claim that the goal of their project is to enhance the security of European supplies. There are strong business and political backers on the side of each project. Curiously, projects have same participants, as is the case with OMV, which now has a leading role in South Stream, as well as Nabucco. Three of the five countries, through which Nabucco would pass (or four, if Turkish economic zone is counted) are also included in the South Stream project—Austria, Hungary and Bulgaria. In light of these similarities, the two pipelines truly 'compete' for the same financing resources in the target states.

Still, the competition for pipelines is by no means a sequel to the 'space race', and the fact that one pipeline project is implemented does not mean that the other one will be totally scrapped. Rather than wrestle over the question of which pipeline gets done quicker, it would be more sensible to ask what economic effects each scenario would produce. According to KPMG research⁶¹, even if Nabucco's construction goes forward, Russia would still be supplying the lion's share of natural gas to Europe.⁶²

⁶¹ R Lajtai, *Nabucco vs. South Stream: The Effects and Feasibility in the Central and Eastern European Region* (2009) 24th World Gas Conference Buenos Aires, Argentina 5–9 October 2009. Energy and Utilities Advisory Services, KPMG in Central and Eastern Europe Budapest, Hungary.

⁶² According to the Economic Intelligence Unit of KPMG, which did a forecast on the various market indicators on the basis of different 'pipeline scenarios' (KPMG research apparently does not take into full account the Nord Stream project), if no pipeline is constructed in the South, Russia would account for 87% of supplies in Central and Eastern Europe by 2014.

It would seem hardly surprising, though not entirely evident, that Russia's pipeline projects represent a preliminary phase of infrastructure-building necessary for the country's ultimate design to become the world's leading exporter of hydrocarbons. In light of Russia's intensified efforts to construct *en masse* new production platforms, tankers and other expensive drilling equipment capable of withstanding severe climate conditions, one does not have to be an expert in the field of global geopolitics to conclude that the second part of the oil and gas match between Russia and the West will be a race for arctic resources, a competition that Russia—with its grand delivery infrastructure already in place—will be poised to win with flying colours.

Having found for itself a new place on the world stage after the disintegration of the Soviet Union, Russia now wishes—and rightfully so, in its opinion—to become the petroleum superpower of the 21st century. European countries that do not recognize the importance of collaborating with Russia on energy issues could face difficulties. Unlike Russia, the European Union does not have the benefit of the same central apparatus with extensive mobilizing power and unilateral authority. Indeed, international law scholars say that the lack of a cohesive energy policy towards Russia is an argument for the Lisbon treaty which, it is hoped, will create an EU president and foreign minister, who could craft a more coherent way of dealing with oil and gas projects.⁶³

The way for the future, however, should be cooperation, not competition. Handling disagreements over cross-boundary energy projects in a transparent way and adopting a workable international regime for oil and gas are essential to ensuring that differences over access to hydrocarbons resources do not lead to a new Cold War in our time.

The remaining share would be taken by Norway (3%) and domestic production (10%). If Nabucco is implemented, then, by the year 2016, supply distribution in the CEE would look somewhat differently: Russia would account for 79%, Iraq and Azerbaijan each for 4% and Norway for 3%. The domestic production component would stay the same. If the South Stream project is realized, then, in the year 2019, Russian supplies would account for 91% of natural gas used in Central and Eastern Europe. Norway's share would be at 2%, while domestic production would go down to only 2%. If both pipelines are built, then, in 2026, Russia would account for 77% of the gas supplied to the region, Iraq and Azerbaijan for 5%, Norway for 2%, and domestic production for 5%.

⁶³ R Lajtai, 'E.U.: Energy Security is in the Pipeline' *Telegraph* (25 September 2009) <<http://www.telegraph.co.uk/news/world-news/europe/6227454/E.U.-energy-security-is-in-the-pipeline.html>>.