
Oil and Gas Pipelines '08

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European countries were forced in 2008 to recognize the risk of a non-diverse supply of oil and gas, as geopolitical strife shut down or otherwise threatened oil and gas pipelines. Further east, tensions such as the India-Pakistan row, exacerbated by the Mumbai terrorist attacks, could derail planned pipeline projects.

Oil through the Baku-Tbilisi-Ceyhan pipeline resumed in September following the conflict in Georgia with Russia. Top U.S. officials, along with the European Commission and 15 other countries, signed a declaration of principles at a November summit in Baku, Azerbaijan, calling for greater energy security in response to the skirmish.

Georgia worried in Baku that Russia was using political leverage to increase its position in the energy sector of its former territories, and BP-Azerbaijan, the regional operator of BTC, said in the wake of the conflict that oil from the Tengiz field in Kazakhstan would reach Turkish routes to Europe by November.

Azerbaijan reported Dec. 19 that Kazakh oil through BTC reached 9.5 million barrels, bringing total transits through the artery up 17.5 percent from 2007. Azerbaijan, with Turkmenistan, moved on the Trans-Caspian project to bring resources across the Caspian Sea. The Trans-Caspian system includes tanker systems and oil terminals. The initial stage will have a 500,000 barrel per day capacity, with later expectations reaching 1.2 million bpd.

With Europe looking to diversify its energy sector, political and economic developments in the region brought greater emphasis on the Nabucco gas pipeline.

Azerbaijan and suppliers in the Caspian region are expected to provide the bulk of natural gas through Nabucco, though Iran and Iraq recently were discussed as potential suppliers.

Output from the Shah Deniz gas field in Azerbaijan is not enough for the 2,050-mile Nabucco, though Reinhard Mitschek, the head of the six-nation Nabucco consortium, said in September the project would see over "100 percent booking from day one."

Mihaly Bayer, the Hungarian envoy for Nabucco, told lawmakers in Budapest that talks were under way with fellow hosts Austria, Turkey, Bulgaria and Romania ahead of a January meeting on the project.

C. Boyden Gray, the U.S. special envoy for Eurasian energy, said the Russian-backed South Stream pipeline to Italy may develop quicker than Nabucco, however, as steel prices as of October had driven the Nabucco price tag to 1.5 times its original \$6.8 billion price tag.

The South Stream pipeline from Russia to Italy is intended to travel through Bulgaria and Serbia to Hungary and Austria. Russia signed an agreement with Bulgaria in January 2008 for South Stream. A separate deal with Serbia concluded in December.

Russia also received support for South Stream from Greek, Bulgarian and French officials. France had supported Nabucco, but was snubbed by Turkey for a Paris decision regarding the Armenian genocide.

High costs, complicated by the current global financial downturn, put South Stream in limbo as Moscow delayed any immediate plans on the project.

Germany, meanwhile, skirted U.S. criticism over the \$9.4 billion Nord Stream project and endorsed the project in September. Germany lodged a formal complaint with the U.S. Embassy in Beirut after U.S. Ambassador to Sweden Michael Wood urged Stockholm to take a "hard look" at the project.

Nord Stream is a planned natural gas pipeline through the Baltic Sea from Russia to Germany. The majority shareholder is Russian energy giant Gazprom, with the German Wintershall owning a 20 percent stake in the pipeline consortium.

The Baltic Sea is clogged with some 100,000 tons of unexploded ordnance and over 2,000 shipwrecks, causing worry over the Nord Stream route. The project is also plagued by cost concerns, and in May, European ministers said in a Petitions Committee report the project was a "serious threat to biodiversity."

The French-based pipeline manufacturer EUPEC signed a \$1 billion deal in August to produce the concrete coating for Nord Stream, while Italian oil and gas contractor Saipem signed in June a \$1.58 billion contract for its construction.

Polish officials, for their part, shunned the project in September, saying geopolitical concerns and conventional land routes through Slovakia, Poland and Ukraine bore consideration.

Ukrainian President Viktor Yushchenko in August, meanwhile, called for the Odessa-Brody pipeline to move in its intended direction. The pipeline for Kazakh oil deliveries to Europe through Georgia and Ukraine had been operating in the reverse direction, Brody-Odessa, since 2005.

Azerbaijan and Ukraine in July agreed to a test run of the 419-mile route using Azeri oil, though analysts cautioned neither Azerbaijan nor Kazakhstan was willing to move forward on plans to extend Odessa-Brody to Poland and elsewhere. Ukraine said in December oil transited through the Druzhba pipeline from Russia, the world's longest, declined 4.6 percent, or 159.5 million barrels in 2008.

Russian Prime Minister Vladimir Putin had signed a decree Dec. 2 for an 800-mile expansion to the Baltic Sea Pipeline System, a Druzhba rival, to transit some 600,000 bpd by 2012, but falling oil prices and production cuts put the \$2 billion project in doubt.

In Asia, the November attacks in Mumbai caused major setbacks for the so-called Peace Pipeline intended to feed energy-hungry India and Pakistan from the Iranian South Pars gas field.

Envisioned in 1989, the Iran-Pakistan-India pipeline has limped along in various stages of negotiation. Increased economic sanctions on Iran, the looming financial crisis and the political fallout from the Mumbai attacks have led many analysts to declare the project all but dead.

Pakistani officials traveled to Iran in December to persuade officials there that Islamabad should acquire the New Delhi share in IPI. New Delhi seemingly has backed away from IPI negotiations somewhat, following a civilian nuclear energy deal with Washington. Pakistani officials, however, said a deal on IPI would be concluded by February.

India, meanwhile, had examined the U.S.-backed \$7.6 billion Trans-Afghanistan pipeline to bring natural gas from Turkmenistan some 1,044 miles to South Asian markets.

Commitments made by Turkmenistan to transport natural gas west to the Caspian region leave the future of a planned pipeline through Afghanistan in doubt. Officials in Turkmenistan said in May they had enough gas to meet market demands.

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