

**Special Report:** Nord Stream*‘It is unthinkable that this project will be stopped’*

Few European infrastructure projects have met with greater suspicion and resistance than the Nord Stream pipeline, which is to carry Russian natural gas direct to Germany through the Baltic Sea. But the company’s executives do no doubt for a moment that their project will go ahead. ‘Europe cannot do without Nord Stream.’

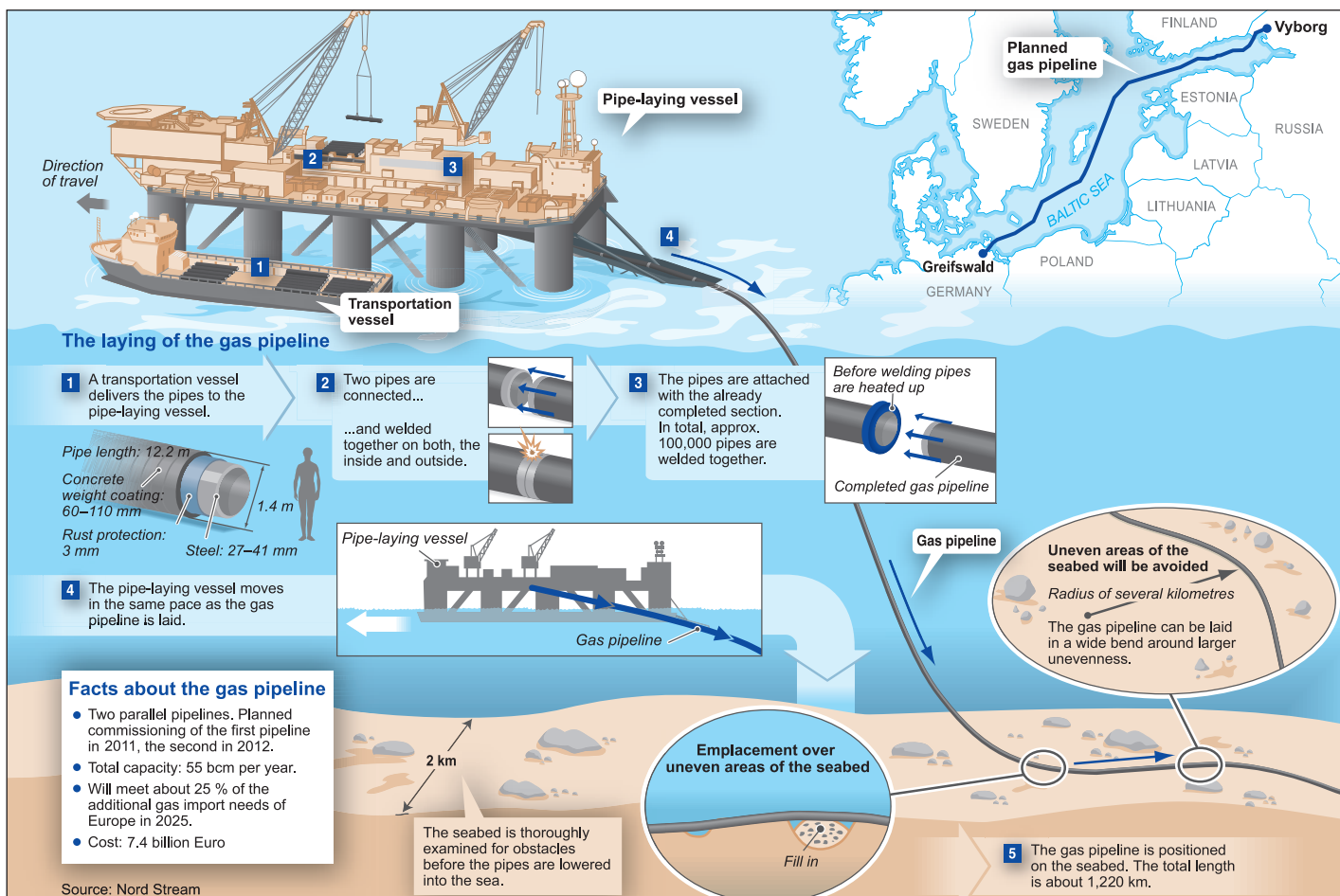
| *by Karel Beckman and Stefan Nicola in Zug*

The Nord Stream company occupies surprisingly modest offices in the small Swiss town of Zug, near Zürich. In fact, the Nord Stream team – about 100 employees, half of whom are on secondment from the shareholder companies Gazprom, Eon, Basf and Gasunie – come across as a surprisingly open and easygoing lot. Their relaxed attitude may have something to do with the fact that – in spite of all the controversy and negative publicity surrounding Nord Stream – they have no doubt that their pipeline will get built. ‘It is unthinkable that this project should be stopped’, says Financial Director Paul Corcoran. ‘The project is simply necessary’, Deputy Technical Director Werner Rott concurs. ‘Europe needs it.’

This is not to say that progress has been easy, or that all hurdles have been taken. Probably no one is more aware of this than Dirk von Ameln, Permitting Director of Nord Stream, who is responsible for what is perhaps the most daunting challenge of the entire project – the permitting process. ‘Resistance has been greater than we had expected’, concedes the ex-Eon man, who was building pipelines in Romania when he was called upon for his current job. ‘It’s because of the politics. If it had been Norwegian gas, no one would have bothered.’ He jokingly adds that, ‘if I had known what I was in for, I would still be in Romania.’

One of the complexities of the Nord Stream

is that it falls under the Espoo convention that governs activities in the Baltic Sea that may impact the environment. Under the Espoo rules, the countries directly affected (the so-called “parties of origin”, which in this case include Russia, Finland, Sweden, Germany and Denmark) must be presented with a transboundary environmental impact assessment (EIA). The parties of origin must then consult the other signatories to the convention – Poland, Latvia, Lithuania and Estonia. A comprehensive final draft of the EIA for Nord Stream is expected to be ready in October, says Von Ameln. It will be published in ten languages. Most likely some changes will then have to be made, after which the final EIA will be made ready early next year.



But acceptance of the transboundary EIA does not automatically lead to a building permit. 'Subsequently, we still have to go through the permitting processes in each country. There is no United Europe.' He notes that the 'knowledge level' in the affected countries differs enormously. 'Denmark has a lot of experience with this type of project. Sweden very little, Finland none. The Baltic countries have never dealt with offshore pipeline projects before. So the legislation is not up to date everywhere. The requirements are different in each country. Some countries found our draft EIA too elaborate, others found it not detailed enough. The lack of knowledge that we encounter is a concern to us. But this is the reality and we are taking it seriously.' Von Ameln expects that all permits will have been granted by the end of 2009. 'We cannot start building before that time.'

So what if one of the countries rejects the application? 'Then we have a problem', says Von Ameln. 'But', he adds, 'they cannot reject an application on spurious grounds or for political reasons. If that happened, we would have to go to court. But I don't think that will be necessary.' Von Ameln points

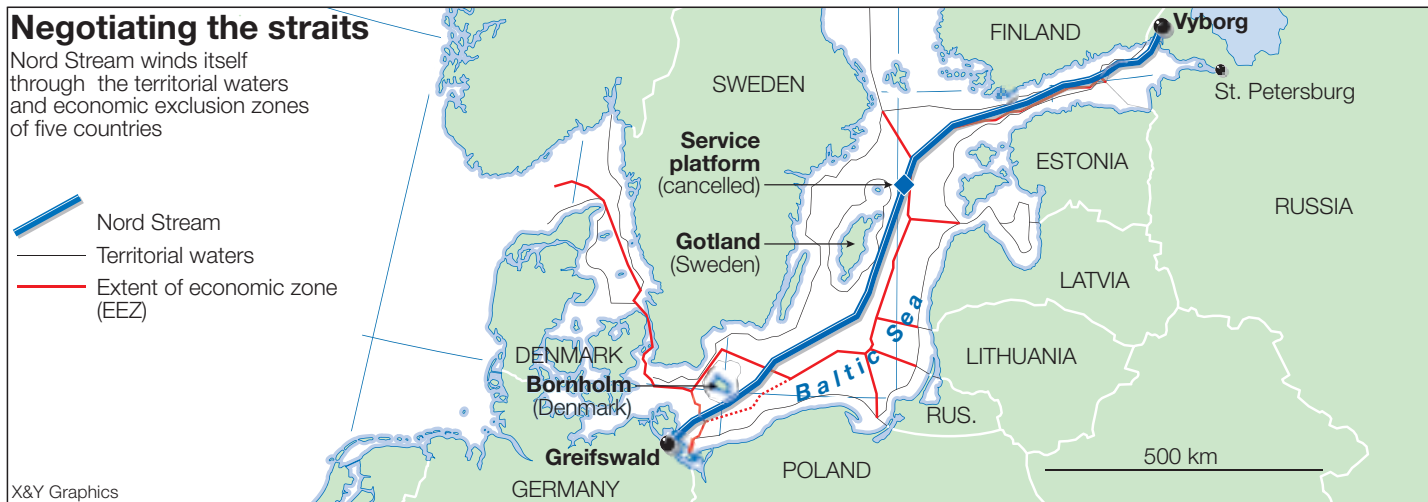
out that Nord Stream has been officially recognised by the European Commission as a "project of European interest", giving it the highest status under the "Trans-European Energy Networks" (TEN-E)-guidelines. TEN-E is designed to stimulate the development of gas and electricity network that are deemed essential to the EU's energy policy objectives: enhancing security of supply, competitiveness and environmental protection. 'This is important support for us.'

Among the parties of origin, the most critical so far has been Sweden. Nord Stream had planned to build a service platform to the north of Gotland. The company has now abandoned this plan. 'The Swedes are very suspicious of the Russians', says Von Ameln. 'There is an enormous fear of Russia. Some people argued that the platform could be used for a Russian invasion! We have also heard accusations that the pipeline would be used for spying. As if anyone would build a gas pipeline for spying purposes. I can laugh about it now, but it shows a real concern.' After some study, Nord Stream decided they could do without the service platform. 'The question was, can you send

a PIG (a pipeline inspection gauge, ed.) through a 1200-km pipeline. We think we can.' With the service platform scrapped, Von Ameln believes that 'an important obstacle is out of the way'.

There is still resistance from within the European Parliament (EP) as well. In May, the Petitions Committee of the EP adopted with a 26-3 vote a report that describes the pipeline as a threat to the environment. The Chairman of the Petitions Committee, which serves as a sounding board for the Parliament, was the Polish Deputy Marcin Libicki. It is well known that the Poles are vehemently opposed to the pipeline, which bypasses their country. Von Ameln dismisses the action by the Petitions Committee as a 'political farce'. 'The whole proceeding was so blatantly biased that few took it seriously. The report contained much nonsense. The effect of the pipeline was even likened to the Hiroshima bomb!'

After a personal intervention from Andris Piebalgs and Stavros Dimas, the European Commissioners for Energy and the Environment, the full Parliament adopted a much amended report in July. This was still critical, but much less so. The EP



notes that whereas third countries benefit from Europe's open market, 'European investors in Russia are not accorded similar advantages'. At the same time, the Parliament affirms that Nord Stream is a project 'of European interest'.

The only thing that really matters now, says Von Ameln, is that the EIA demonstrates there is no threat to the environment. 'I don't think that should be a problem.' Technical man Werner Rott explains that Nord Stream went to great lengths to assess any possible environmental risks of the pipeline. 'We surveyed the seabed with the most advanced equipment. At first, we only surveyed the 1200 kilometres of our planned route. But as there have been requests for us to study alternative routes, we have by now surveyed 6900 kilometres in a 50 metre-wide stretch. I can show you the videos of the seabed if you like. It's about as exciting as watching Germany play in the European Championships', adds Rott, who is a German national. (This was when Germany had barely managed to squeeze through to the quarter final.) The surveys are intended to help determine a route in which the pipes can be laid on the seabed as much as possible, minimising the amount of "free span".

One potential problem are the munitions and chemical dump sites in the Baltic Sea that could be disturbed by the laying of a new pipeline. To prevent this from happening, Nord Stream has developed a highly advanced device, together with

a Swedish company, that is able to detect very small pieces of iron and steel. It is so advanced, in fact, that the US Department of Defence has shown an interest in buying it. 'We developed a new standard of technology', Von Ameln says. 'Whenever we demonstrated it, everyone has been very impressed. We did a very thorough search for ammunition. In fact, ours was the biggest surveying project ever carried out in the Baltic. We even hired military officers to identify the ammo.'

The search yielded only about 15 pieces of ammunition, says Rott. 'We also found lots of other things: a ship, a submarine, shopping trolleys, a car, a washing machine, an airplane.'

Another potential hazard are the two dump sites where the Soviets unloaded a total of 40,000 tons of chemicals at the end of World War II. 'Most of these chemicals don't pose a threat today', says Von Ameln. 'But our route avoids these two sites anyway.' Rott further adds that 'the pipeline has been built to the highest standards ever used.'

So, Von Ameln and Rott do not see how the pipeline could be a risk to the environment. With the pipes for the first of the double pipeline already having been produced and shipped to the Baltic Sea port of Mukran, the only challenge now, says Rott, is to lay the pipes. 'But that's not a new business. Once the permits are in, we can start building right away.' Isn't it a risk to have the pipelines ready as long as the permits are not in? Rott smiles. 'It's a much bigger risk to wait with the pipelines until after

the permits are granted. We are confident that this project will go ahead.'

All the company executives stress that Nord Stream is, above all, a European project. The buyers of the gas, they say, are companies in Denmark, France, the UK and Germany. The suppliers too come from all over Europe. In addition to the German and Russian pipeline producers, Italian company Saipem will do the pipelaying, the French company EUPEC the logistics. In their view, Europe simply cannot do with Nord Stream. 'There is a gas shortage coming up in 5 to 10 years', says Financial Director Paul Corcoran. 'This project alone provides 25% of the shortfall. All projects that can help make up for this shortfall are important, but this one is the most advanced.' ■



Dirk von Ameln. Photo: Kai Senf

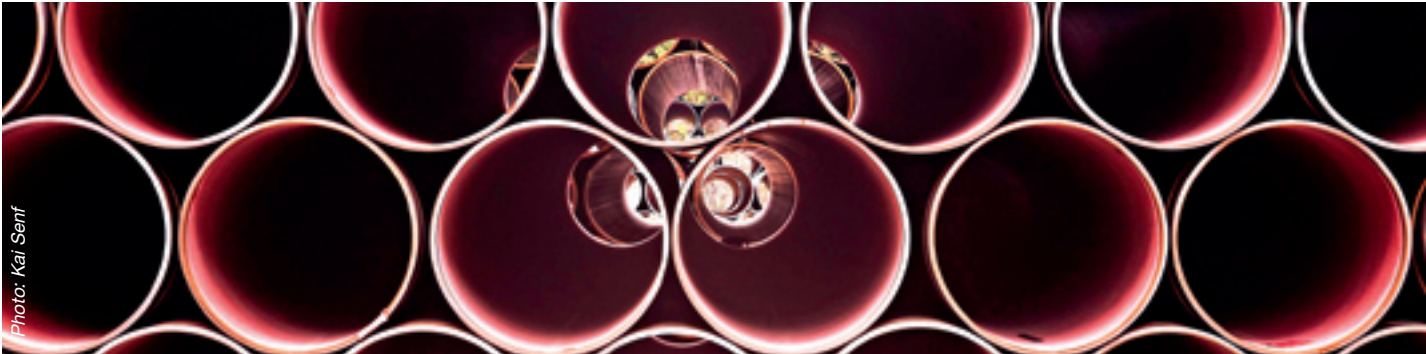
# 'Spiralling costs? Nonsense!'

'You ask whether Nord Stream might cost €12 billion to build? That is out of the question. Nonsense.' Paul Corcoran, Financial Director of the Nord Stream company, shakes his head in disbelief. Yes, he too has heard speculations about the possible "spiralling" costs of Nord Stream. For example, Dr. Alan Riley of the City Law School of London (see interview on page 20) has written a paper

Technical Director. 'The pipes are 40% of the total cost.' The only big item that has not been accounted for yet is the steel for the second pipeline, which will be tendered next year. But Henning Kothe, Commercial Director of Nord Stream, says he is quite optimistic about the price that will come out of the second tender. 'There is even more interest for it in the market than for the first one.'

does not need to tender the second pipeline yet. 'The price risk will be ours if we do it now', says Kothe. And what if tenders for other big projects, such as Nabucco or South Stream, will come onto the market? Kothe: 'We have been promised by the pipeline producers that they will inform us if tenders come up that would fill their capacity. In that case we could take timely action.' It is a kind of first-mover

more expensive. 'The capital expenditure for an offshore pipe is higher, yes', says Corcoran, 'but operating costs are lower. We only need one compressor station, whereas onshore you need one every 200 kilometres, because you are not allowed to transport gas at such high pressures on land. Land purchases and permitting costs drive up the cost of an onshore pipeline, too. We have calculated



claiming that project costs 'are likely to escalate toward €12 billion'. Corcoran dismisses this figure out of hand. At the end of March, Nord Stream published €7.4 billion as the official cost estimate of the project and this, Corcoran says, 'is pretty much what it will be. We have a very good handle on this.'

Over 60% of the costs have already been accounted for, he says. 'The main contracts are tied in. The steel for the first of the two pipelines, the construction, logistics and concrete coating for both pipelines have all been contracted out. That is over 60% of the costs.'

The first pipeline will be delivered by the German company Europipe, who won the tender together with Russian producer OMK. Europipe, who will deliver 75% of the first pipe, will be paid about €1 billion for its share, says Werner Rott, Deputy

Kothe emphasizes that Nord Stream uses a 'totally transparent' tendering process. 'The fact that the first tender was won by a German and a Russian company was pure coincidence', he says. 'They were not favoured in any way. There were no quotations.'

There was a lot of interest in the market for the first tender, but the unusually big diameter of the pipes – 48 inch – was a limiting factor, Kothe says. 'Some big producers did not want to make the investments that were necessary.' Some Japanese companies did participate, but were not selected. 'I have been to Japan and explained to them why they were not chosen. They really appreciated that. And they are eager to participate again in the second tender.'

In fact, it is precisely because the market looks so good, that Nord Stream has decided it

advantage, Kothe says. Of all the big gas pipeline projects in Europe currently being talked about, Nord Stream is furthest ahead in its planning.

So what about the original cost estimate published by Nord Stream, which was 'over €5 billion'. 'We deliberately did not specify this any further', says Kothe. 'If we had mentioned a higher figure, no doubt prices would have gone up for us! It was part of our purchasing strategy.'

One often-heard criticism of Nord Stream is that an offshore pipeline is unnecessarily expensive compared to an onshore pipeline. According to this argument, the offshore route was chosen for political reasons, to bypass Poland and the Ukraine. Corcoran and Kothe emphatically deny that the offshore route will be

that an offshore pipeline is 15% cheaper over a period of 25 years.' 'If anyone disagrees, let them come out and show their calculations', Kothe adds. 'I have not seen them.'

Corcoran is now preparing the documents for the project financing. Thirty per cent of the equity will come from the shareholders. 'This is a really strong security package', he says. He expects to be able to go into the market at the end of the year, after the Environmental Impact Assessment has been published. 'But I am already getting calls from banks.' He does not fear the credit crisis. 'There is a flight of capital into quality projects, such as ours.' He notes that of the 55 billion cubic metres (bcm) of gas that the two pipelines are ultimately going to carry annually, 21 bcm have already been sold. ■