



Brussels opens Pandora's Box

The European Commission is taking a unique initiative by setting up an organisation for purchasing gas in the Caspian Sea region. The Commission feels that private European energy groups are not making enough headway in purchasing non-Russian gas.

| by Rik Komduur

The objective of the Caspian Development Corporation, as the Commission's planned gas purchasing organisation is called, is to buy gas collectively with a number of parties at the same price. This is a remarkable step that seems to be in complete contradiction to the principles of free market forces and the EU's own competition regulations. Apparently, the Commission considers the greater goal of supply security to be more important than the principles of its internal market. According to Christof van Agt, senior expert at the Clingendael International Energy Programme, an energy think tank in The Hague, the Commission is introducing 'a division between its internal and external energy policies'.

The CDC, as the Commission sees it, is to provide a (temporary) mechanism for market parties to purchase gas from the Caspian Sea region and the Middle East in a coordinated manner, thus providing the supplier and the provider of transport capacity "security of demand". Both gas production in the Caspian Sea region and construction of pipelines to Europe are to be stimulated by this approach. CDC participants will subsequently sell the gas on the European market. The CDC can be dissolved once things are up and running, but no one knows when that will be. A period of 25 years has been mentioned.

This construction has a precedent in the development of the enormous Troll gas field off the Norwegian coast in the mid 1980s. The project was too vast for individual companies. Suppliers Statoil, Norsk Hydro and Saga Petroleum united in

the Gas Negotiating Committee (GFU). On the demand side, Gasunie, Gaz de France and Ruhr Gas, among others, joined forces. In 2001 the Commission broke up the GFU, but by that time the Norwegian continental shelf had been developed.

There are two possible structures being considered for the CDC: one in which the CDC is formed by companies (consortium model) and one in which the CDC is an autonomous company with shareholders, such as gas suppliers, consumers, governments, and financial institutes. In the first case, the CDC will act as an intermediary, in the second it will be a gas trading company in its own right. The Commission has requested US consultancy company CERA and the World Bank to advise on the matter. CERA did not want to comment at this stage.

Nabucco |

The Caspian Development Corporation (CDC) was conceived by a study group of the Commission focusing on the promotion of the Nabucco gas pipeline. Nabucco belongs to what in Brussels is called the Southern Energy Corridor, comprising a number of infrastructural projects that are to boost the supply of non-Russian gas to Europe. These projects include the Interconnector-Turkey-Greece-Italy pipeline (ITGI), the Trans Adriatic Pipeline (TAP) and White Stream, a link between Georgia and Rumania under the Black Sea. Ultimately, approximately 80-100 billion m³ is to be pumped to Europe via the Southern Energy Corridor each year. This is 20% of the total current European gas consumption.

The Commission considers bringing gas from the Caspian Sea region and the Middle East to Europe to be extremely urgent. Europe is dependent on three countries – Norway, Algeria and Russia – for 90% of its gas imports. Apparently this is a case of "market failure", in the eyes of Brussels. The EU wants to diversify both its gas sources and its gas transport routes, said EU President Barroso at a conference in Prague about the South-East Energy Corridor.

So far, these plans have not been very successful. Whilst countries like Russia, China and Iran have already negotiated gas contracts with countries in the Caspian Sea region, European companies are finding it difficult to access the Caspian gas.

Ferran Tarradellas, spokesman for EU Commissioner for Energy Andris Piebalgs, points out that it is difficult for the European companies to make any headway in these markets. 'Basically, there was a need for an aggregator (the CDC) because of the nature of the market we are entering. It is a brand new market. Producers there and buyers here have not dealt with each other before. As you know there is a lot of competition for the gas: China, Russia, Iran and many others. It therefore seemed a good idea to facilitate these trade deals by means of a single spot demand aggregator. It will also create added value for the producing countries as they can simply sell their gas to one purchasing point. This justifies our taking extraordinary measures to start business with that market.'

The European business community seems wary. Large players on the European gas

market like Eon, Gaz de France and Gastera are waiting to see which way the wind blows. The industry is surprised about the Commission's approach, but all parties believe it is important to be involved in investigating the project. The question, of course, is to what extent the CDC is in competition with private initiatives. RWE and the Austrian OMV, both partners in the Nabucco project, set up the Caspian Energy Company last year. RWE has also recently signed a memorandum of understanding with Turkmenistan for the supply of natural gas. However, RWE Supply & Trading spokesman, Michael Rosen, denies that RWE considers CDC to be a competitor: 'The Caspian Energy Company is a commercial venture; so far, no commercial parties have signed up for CDC'.

RWE supports the Commission's initiatives 'to open the link to regions with vast energy resources. The Southern Corridor is perfect for meeting this goal', says Rosen. He does add, however, that 'we believe that the market will offer the best solutions'. A spokesperson for the Nabucco Consortium welcomes the CDC. 'This project may find ways to deliver Turkmen gas to Nabucco via the Caspian Sea. We very much appreciate these efforts and we are hopeful that this project will be beneficial to all involved.'

Creative solutions |

The consultants who are to advise on the CDC are faced with complex issues. Large volumes of gas are to be contracted. Financing is a big issue. The CDC will require a high credit

rating, but it not clear what its creditworthiness will be based on. There are some legal obstacles, too. The fact that all market parties purchase gas at the same price and are thus aware of each other's purchase price is in violation of European competition legislation. It is also possible that the CDC could acquire a dominant position if the volumes were to become too large, or if the market were to limit itself specifically to the south-eastern European market. The Commission is trying to prevent the CDC from resembling a purchasing cartel. 'We have to set up the CDC in such a way that it does not resemble a cartel,' says spokesman Tarradellas.

Van Agt wonders whether the Commission is sending out the right signals via the CDC. The western world fears that countries like Russia and Qatar, who have united into a gas export association called the Gas Exporting Countries Forum (GECF), are aiming to form a gas cartel. Those countries can now easily point to the Commission and say 'you're doing it too'. The Netherlands, for instance – a

country that exports gas itself – recently joined the GECF as an observer after the CDC initiative was started up. According to Van Agt, it was hardly possible to be involved in an association like the GECF before then. In May, Norway's Prime Minister Jens Stoltenberg, during an official state visit to Moscow, openly made overtures to Russia about cooperation on the European gas market. 'We are both northern countries with major shared interests; we are both large producers and exporters of natural gas and electric power. This means that we are partners on the European continent. We share an interest in developing and expanding our potential on the European gas market,' he said. One may wonder whether the Commission, with its CDC plans, has opened up Pandora's box.

The CDC, in the meantime, is gaining increasing political support from both the Commission and from other EU bodies. The Czech Republic, for instance, the European Council chair, has pressed for quick action with regard to the development of the Southern Energy Corridor. In a speech prior

to the elections of the European Parliament, French President Sarkozy, too, declared himself in favour of a gas purchasing consortium such as the CDC. The US is also pushing Europe to secure energy imports from Central Asia and to construct pipelines. During an energy conference in Baku in early June, Richard Morningstar, US Special Envoy for Eurasian Energy Issues, called on Europe to come up with creative solutions: 'We need creative solutions to carry Caspian energy via diverse routes to European and Eurasian markets'.

It is rather remarkable that the investigation into the required structure of the CDC has been awarded to two American-dominated institutes – CERA and the World Bank. It seems that Europe does not wish to do this without US support. The US still plays a major geopolitical role in the Caspian region and played a decisive role in the realisation of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline, which also by-passes Russia.

But the biggest question perhaps is why private energy companies would need the EU's assistance in doing business – in countries

moreover that hardly have a spotless human rights record. The Commission seems to find Europe's competitiveness of overriding importance. Brussels has evidently taken notice of the debate that has raged in recent years about the increasing dominance of state oil companies in energy producing countries vis-à-vis the western energy multinationals. It seems that Brussels has decided to support the private companies in their struggle against the power of companies like Gazprom, Chinese CNPC, Iranian NIOC and the Koreans and Japanese, who have also set their eye on oil and gas from Central Asia. ■



Port of Baku.
Photo: Christopher Herwig/Corbis

Turkey wants “a piece of the action”

Turkey's role is crucial in the South Eastern Energy Corridor. Geographically speaking, it is the only country that makes it possible to by-pass Russia when transporting gas from the Caspian region and the Middle East. However, Turkey will not simply make its pipelines available for transport from east to west at a fixed sum per cubic metre transported. 'Turkey wants a piece of the action,' was how Mehmet Kazarci, president of Gazbir (the umbrella organisation of Turkish gas companies), phrased it to EER. 'We do not want to grant free rides through our pipelines.' It is not yet clear what the Turks mean by a "piece of the action". Negotiations between Turkey and the European Union are still underway and Ferran Tarradellas, spokesman for EU Energy Commissioner Andris Piebalgs, expects an agreement to be reached by late June/early July. Tarradellas: 'Negotiations are progressing well. I must say that Turkey is a very good negotiator and the Turks manage to achieve a lot of positive things. They do, however, have to be things we can accept. We have to take the Turkish security of supply into consideration, but it has to be in accordance with international obligations and international market rules.' Meanwhile, there are signs that Turkey may demand EU membership in exchange for loyal cooperation in the South Eastern Energy Corridor. That would complicate matters even more, to put it mildly.