INTERVIEW WITH MICHAEL HOFFMANN: TAP'S ROLE IN EUROPEAN ENERGY SECURITY*

The EU's long term goal regarding energy security is to become independent from one single gas supplier, increasing competition by having diverse energy suppliers. For these reasons, the EU promotes the Southern Gas Corridor, a strategically important gas value-chain passing through Azerbaijan, Georgia, Turkey, Greece, and Albania, linking Caspian gas to Europe. The selection of the Trans Adriatic Pipeline (TAP) by the Shah Deniz Consortium last year was an important step in completing this chain by adding a reliable and expandable gas transportation link from the Greek-Turkish border into Europe. In addition to transporting gas to Europe, TAP will facilitate the gas infrastructure development of the Southeastern European countries, so that they can gain access to alternative sources of gas.

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Why do you think that the Trans Adriatic Pipeline (TAP) was the preferred choice of the Shah Deniz Consortium to deliver Azerbaijani natural gas from the Turkish border into Europe?

The Shah Deniz Consortium was very sensible in establishing eight selection criteria for competing pipeline projects, such as commerciality, project deliverability, engineering solutions, operability, scalability, financial deliverability, and so on. This set of criteria made the selection process among the four competing pipeline projects fair and transparent. Besides TAP, there were also Nabucco West, South-East Europe Pipeline (SEEP), and the Interconnector Greece-Italy (ITGI) in competition for Caspian gas. The final decision was made on the 20 June 2013, when TAP was selected as the preferred pipeline.

[Regarding] the rationale of selecting TAP, I can explain the following. It was very important for Shah Deniz to choose a commercially attractive transportation solution. I think the fact that TAP was considerably shorter made a big difference. Also, TAP was quite mature in many ways. We had concluded our front-end engineering design stage – FEED as we call it – back in March 2013. That meant that we had a good idea about what our construction and transportation costs would be. We were able to put forth a fairly firm offer based on strong engineering fundamentals.

There were also considerations of political support. Indeed, the Nabucco West project had a considerable amount of political support. However, TAP worked extremely hard to show that we too had governments supporting us. An IGA [Intergovernmental Agreement] was signed in February 2013. We worked intensively with all other key stakeholders to promote TAP, including the European Commission, the US government, and major European states. Additionally, we were able to ensure the support of many Western Balkan countries which are energy-hungry and saw the benefits of the opportunity to get access to the Caspian gas in the long term. Croatians, Montenegrins, Bosnia-Herzegovinians, and the Albanians put a lot of effort in terms of lobbying for TAP.

There were also strategic implications, which are less about commercial and technical principles, but rather relate to providing investment to EU countries like Greece and Italy. There was also the added value of supporting the strategic interests of the Albanian government in terms of its accession talks with the European Union. All these factors combined made a very compelling case.

At the end of the day, we were able not only to give convincing answers to questions about the pipeline itself such as: "Can you build it? Is it cost effective?

Do you have relevant agreements? Do the governments support you?" Beyond that, we could demonstrate that there were attractive energy markets along our proposed pipeline route. Shah Deniz needed to see that the gas buyers along TAP were prepared to pay a good price for Caspian gas and that they are able to buy significant volumes. In that sense, TAP was in a good situation; we can transport gas to buyers from Greece, from Bulgaria, and from Italy. There were no problems in terms of Shah Deniz being able to sell its volumes if it chose TAP.

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Critics have argued that TAP was less controversial from Russia's perspective, in other words less aggravating for Moscow than for example Nabucco West. Would you say this was the case?

I do not believe that, no. Gazprom is a seller of gas throughout all of Europe, similar to Norwegian Statoil or Algeria's Sonatrach.

On a similar topic, following the crisis in Ukraine, European energy security once again rose high on the agenda. EU institutions have already taken steps to decrease dependency on Moscow. However, some member states argue in favor of South Stream. How do you think related arguments play into the prospects of TAP?

The conflict in Ukraine highlights the need for Europe to have multiple and secure supply routes bringing gas to the market. TAP is part of the strategic Southern Gas Corridor, which will add to Europe's security of supply. It is important that this whole value chain is built on schedule with Caspian gas potentially reaching the borders of the European Union as early as 2019.

How has the project been progressing? What is the current stage of its implementation?

The project is currently in the development phase and is preparing for the construction of the pipeline. In 2015, we plan to start with building and renovating roads and bridges in Albania to access future pipeline construction sites. The actual laying of the pipeline is planned to start in 2016.

TAP is working to secure access to land along its proposed route so that the pipeline and its associated infrastructure can be built and operated. At the same time, TAP is preparing for the tendering of steel pipes, compressor units, offshore and onshore construction, and other associated services and items.

In parallel, we have just launched a new corporate identity to signify the new phase of the pipeline project. All of our information materials have been revamped according to the new look – the website, brochures, leaflets etc. It will be very important to provide accurate and timely information to everyone affected by the pipeline in Greece, Albania, and Italy.

Do you have plans in the future to also expand into those markets of southeast Europe that are more vulnerable to energy dependency on Moscow?

The developers of TAP do not have plans to build pipelines in southeastern Europe themselves. We will build a direct pipeline link from Kipoi at the Greek-Turkish border to San Foca in Italy.

What TAP has consistently said, however, is that it will cooperate and support the development of integrated gas infrastructure in southeastern Europe, so that these countries are able to receive alternative supplies of gas in the future. We have already signed various agreements proposed by the Ionian Adriatic Pipeline developers, the IAP, which is planned to stretch from Albania up to Montenegro, through Bosnia-Herzegovina and onwards to Croatia. We have also secured Slovenia into that agreement. This is one of the opportunities to enhance gasification in the region in the future.

We also explored other opportunities, such as enabling supplies to Bulgaria from Greece. That is important, obviously, because Bulgaria (Bulgargaz) has already procured gas volumes from Shah Deniz II and it needs to make sure there is an effective pipeline route linking TAP to Bulgaria. This year we signed a Memorandum of Understanding with the developers of the Interconnector Greece-Bulgaria (IGB) to work together on the interconnection of TAP and IGB.

In addition, there are opportunities for the further transport of gas beyond southern Italy to northern and western Europe. One of our shareholders, Fluxys (a Belgian company), co-owns a system Transitgas, which stretches from Northern Italy across Switzerland and into Germany. From there it links up to the Benelux countries, France, and the UK. In addition, there is also TAG, the Trans Austria Gas Pipeline. From that pipeline, gas can further reach Hungary, Austria, Slovakia, etc. I think there are many ways for actually bringing gas into a good range of markets.

We need to emphasize here that the gas sales agreements for the first 10 bcm of Caspian gas have already been signed in Baku for buyers in Greece, Bulgaria, and Italy. So, these gas volumes from Shah Deniz have been accounted for. The buyers could of course further sell it on their own markets or swap and send it to other markets. It is for the free market, demand and supply, to determine where exactly the gas will be sold.

The EU is quite neutral about which countries exactly should be linked up to the Caspian gas. The joint declaration on the Southern Gas Corridor, signed by Aliyev and Barosso in Baku on the 13th of January, and also the Southern Corridor declaration of the May 8th 2009 Prague Summit talk about supporting the diversification of energy sources and market transport routes, which will not only enhance the energy security of the participating countries, but also will simultaneously constitute fair and profitable opportunities. In sum, the priority is that Caspian gas gets into Europe, but the market should decide where exactly it flows within Europe.

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It is fundamental that the proposed infrastructure development considers the availability of additional gas resources in the region in the future. Therefore, all systems – the SCP-X (South Caucasus pipeline expansion), TANAP (Trans-Anatolian gas pipeline), and TAP – need to be developed with scalability in mind.

And if we were to elaborate on the potential for additional volumes in the short term, do you think they will come from the South, the other side of the Caspian, the Eastern Mediterranean, or other fields of Azerbaijan? Where do you see that scale increase coming from?

That's a very good question. I think the most realistic sources are other gas fields in Azerbaijan such as ACG (Azeri-Chirag-Guneshli), Shah Deniz, Absheron, etc. Northern Iraq also has very good opportunities – the Turkish government and the KRG (Kurdistan Regional Government) are working very well together on solving political issues, so one may well see gas resources coming from this region on stream

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soon. The question is about volumes, and whether – given its own growing energy demand – Turkey would want to purchase that gas for domestic consumption rather than exporting it. One could argue that possibly much of that gas will be used in Turkey, given the increased industrialization and need for energy, and that this gas might not actually be available for the Southern Gas Corridor and destined for European markets.

I am less optimistic about the volumes further east, such as in Turkmenistan. The potential is huge, but I think there is a great deal of interest to potentially ship that gas further east into China or to the southeast, by TAPI (Turkmenistan, Afghanistan, Pakistan, India pipeline) to India, and other countries en route…

Is there exclusivity in terms of TAP transporting only Azerbaijani gas or could other suppliers join into the Southern Corridor? Can they all co-exist?

Absolutely, they all can co-exist. Everybody will benefit if gas comes from multiple sources. I do not see any rivalry between various gas suppliers; we just have to see which supply sources realistically can materialize first.

There is a lot of potential for Northern Iraqi, Turkmen, and East-Med gas, from Cyprus or Israel – however, the resolution of political issues is fundamental. A pipeline from Northern and Southern Cyprus to mainland Greece is possible, but would be technically complicated to build. The shortest route is to move that gas north directly to Turkey, and to integrate it further into the Southern Gas Corridor for the European market.

No matter which supplies come on stream first, there is always the factor of gas price – any developments need to make economic sense.

Some critics argued that in its current form, given the amount of gas it will transport, it seems TAP does not make a real difference for European energy security. Do you think this is the case?

I do not agree with the argument that the scale of TAP is too small to make a difference in the European energy supply. This is just a first step, and it is important to start somewhere. You cannot build a superhighway as long as there are no cars. So you build something first and then gradually the traffic will increase. Once the Southern Gas Corridor is realized, for example, the Turkmens could transport gas to the West. Once the Corridor is in place and functioning, you will be able to see the Southern Gas Corridor filling up very quickly.

Do you see competition from a potential LNG terminal in Albania that would deliver natural gas from the US?

We have to go back again to the 25-year agreement signed with the Shah Deniz consortium on 19 September 2013 with gas buyers in Europe. The first 10 bcm of Caspian gas have already been sold so we don't need to worry about competition for these volumes. Generally, the LNG from the US is an opportunity that can be beneficial for the market. But we also need to remember that there is a decline in production in the North Sea, which will need to be replaced somehow. We need to make sure that there are alternative gas supply sources available.

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Another argument is the security and reliability of pipeline gas compared to LNG. The strategic interest to diversify and increase competition, which is the EU's objective, means that the more supply routes there are, the more competitive the market is, and the end-consumer benefits.

Since TAP begins at the Turkish border, it relies on TANAP being built on time. Do you have any concerns on that front? Do you think a crisis in the Caucasus region – similar to one in Ukraine – might interrupt construction?

We are following the TANAP developments closely, as we will connect with TANAP on the Turkish-Greek border. We regularly meet with our colleagues in TANAP. Back in November 2012, we signed a MoU and a whole range of other framework agreements. We are currently working together with them on planning for the technical interface. The relationship is excellent, including the exchange of information.

Do we have doubts or concerns about them delivering on time? Not really. The Shah Deniz Consortium states that the first gas delivery to Turkey and Georgia will take place by late 2018, and delivery to the European market will come approximately one year after, so there's enough time.

Given that they have been working only for two years, TANAP has achieved some remarkable progress already. They have the best team of engineers at the moment. Also, their shareholders, including BP, have a lot of expertise and knowledge of the Turkish system. Hopefully they will also benefit from much of their work previously done on the Baku-Tbilisi-Ceyhan (BTC) and on South Caucasus Pipeline (SCP). From that point of view, they should be able to deliver on time. But this is not to say it will be easy. That pipeline is 1800 km long. Ours is 870 km long, so theirs is more than double our length.

Besides the length difference, there is also a political stability risk. There is a difference between the geography through which TAP passes and the geography that TANAP and the SCP pipelines cross. Do you have concerns with regard to political conflicts or potential security risks along the route?

The Southern Gas Corridor is a geopolitical project that is strategically important for all countries through which it passes: Azerbaijan, Georgia, Turkey, Greece, Bulgaria, Albania, and Italy. Despite the changes of government we have seen in Greece, Albania, and Italy, there has been consistent support for the pipeline. So I do not expect uncertainties even in the case of government change. I expect that clear support and the endorsement of TANAP, SCP-X, or TAP will prevail. This is a 45 billion dollar world-class gas value-chain. So I imagine that everybody will continue to support the development of the Southern Gas Corridor – regardless of whichever government is in power.

Ankara has been expressing the wish to be an energy hub for a number of years. What is the viability of this goal?

I think Turkey has enormous potential, geographically, strategically, and historically. It has been at the right place at the right time, especially with all the developments in the region: Northern Iraq, the Eastern Mediterranean, and Caspian gas. If all this gas needs to flow to Europe, it has to pass through Turkey. From that point of view, Turkey has a great opportunity to become an important energy hub.

Given the country's growing economy, it will be very energy-hungry. You see these massive developments by SOCAR in Turkey, including the PETKIM refinery and others. There is massive interest in Turkey from big energy companies. So I think it is a matter of when Turkey becomes an energy hub, not if.

What are the challenges to this end?

I am not saying this is a major challenge, but transparency is important in all of these processes. Turkey has a good legal structure to be able to deliver on all of that.

With this gas potentially coming through the country, I think the challenge for Turkey is actually more about whether they can trade that gas – buy it and sell it around the region. Turkey is growing, so it will need gas for domestic consumption. It will need to determine how much Turkey wants to keep and how much it wants to trade and export.

What does Turkey itself want – to look inward or outward? It clearly has its own view of the world, which puts it in a unique position in the region. It's very exciting; many big companies such as E.ON and Axpo are coming in to do business in Turkey, as one of the big growth areas with opportunities.

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The free market is a challenge in this sense. Many of the Turkish companies are state-owned. It is important for them to be fair and transparent in negotiations, in gas buying and selling agreements. If everything is determined by a few state enterprises, it is difficult to have an open and free market. At the moment I understand that there are heavy subsidies provided to the consumers, which is also problematic for a well-functioning market. Therefore, a whole set of issues needs to be resolved in the move towards a real market economy, and once that is done, the possibility of becoming an energy hub can be very, very real.

Does Turkey's potential as an energy hub delivering gas to Europe mean it is positioning itself against Russia?

No, I wouldn't put it in terms of countries being against each other. I think one has to look at this in company terms – which companies are dealing where. At the moment, there are not many Turkish companies exporting gas. You do have the TPAO interest in Shah Deniz II, of course. The important thing is for more Turkish companies to get into energy production. They are already involved in Northern Iraq and other places.

Nobody should be afraid of competition. At the end of the day, more competition leads to lower prices, which can only be a good thing for consumers.