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THE ITGI PROJECT: ANOTHER ALTERNATIVE TO CENTRAL EUROPEAN PIPELINES OR A COUNTERPRODUCTIVE FORM OF COMPETITIVENESS?

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In the last few years the European Union has been committed to diversifying the sources of energy it imports in growing quantities. Thus the EU is pushing for the construction of huge energy and infrastructure projects to link southern Europe with the Middle Eastern and Caucasus regions so as to reduce the EU's exposure of to reliance on Russian and Libyan natural gas. With this perspective in mind, on June 17th, 2010 Italy, Greece and Turkey signed a Memorandum of Understanding (MoU) that should lead to the joint construction of a natural gas pipeline called ITGI (Interconnector Turkey-Greece-Italy). When completed, this project will transport Middle Eastern and Caspian gas resources to south and south-eastern Europe. The link between that resource-rich area and energy-hungry Europe must be Turkey, as its territory stretches from Iran, Azerbaijan and Iraq to Greece and Bulgaria.

The 800 kilometre-long pipeline (with an estimated capacity of 10 billion cubic meters per year) has been under discussion between the directly interested states since 2002 with the active support of the European Union and its member countries. The purpose of the gas interconnector is to diversify energy (namely natural gas) resources and routes in an effort to upgrade the EU's energy security. Another major aim is to avoid the transit area between Russia and the European Union, formed by Belarus, Ukraine and Georgia, which contain the pipelines that bring 20% of the natural gas consumed in the EU.

If carried out as planned, the ITGI will be completed by 2015, around the same time as other similar but bigger energy pipelines. However, time is not the only important factor: other complicated issues converge to hinder ITGI's viability. There are two other critical issues: availability of supplies (in terms of routes and amount of accessible natural gas) and \ the simultaneous construction of the South Stream undersea pipeline from Russia's Caspian Sea coast to Bulgaria and through the Balkans.

Availability of supplies for the ITGI

The countries selling natural gas for the ITGI can be, in order of fossil energy exporting relevance, Azerbaijan (the Caspian fields), Turkmenistan, Iran, Iraq and in fourth place Syria.

The lion's share of natural gas resources should come from the Caspian Sea and therefore from the Azerbaijan and Turkmenistan waters. This could pose problems due to the multiple customers buying natural gas from Baku and Ashgabat. This implies that a good share of the amount of available natural gas is already being delivered by those two countries to other destinations or other existing pipelines, like the BTC (Baku-Tiblisi-Ceyhan) for Azerbaijan or the recently opened pipeline between Turkmenistan and the Chinese Xinjiang. This situation greatly reduces the chances for ITGI natural gas supplies to be sufficient to ensure its practicability.

Iran has the quantitative capability to supply gas through the ITGI, but the strategic, political and diplomatic rift dividing Tehran and Brussels does not seem to be near a solution, thus hampering the collaboration necessary for the steady delivery of natural gas.

Regarding Iraq, the problem lies in the country's stability and the knot of Kurdistan (both Iraqi and Turkish) where a low intensity war and lack of security can obstruct the road to the Iraqi gas fields. Moreover, China's and India's huge demands for hydrocarbons are orienting natural gas output eastward instead of westward (this being true for Iran too).

As for Syria, its natural gas reserves are not vast enough to satisfy such faraway needs. Furthermore, Damascus is trying to follow other patterns exemplified by its recent efforts to sign energy agreements with Egypt and Iran.

In addition to all these obstacles there is the issue of the Nabucco pipeline. Like the ITGI, construction of Nabucco has not yet begun but it is another natural gas pipeline that follows the same geographical corridor to reach Europe and is intended to capture its resources from the same gas fields. Nabucco has the advantage of being promoted by a larger coalition of states (including the United States) and international financial institutions. Because of these favourable circumstances Nabucco appears to have more chances as well as strength to go ahead and compete with the traditional natural gas supply line to central and western Europe fed by Russian natural gas, which goes through Belarus and Ukraine. If this is the case, the probability of profitably completing the ITGI would dramatically decrease and it will no longer be attractive for investors or suppliers. Furthermore, many analysts doubt whether the existing natural gas fields and the ones to be opened in a relative short time in the Caspian Sea are large enough to supply Nabucco's estimated demand. If this scenario turns out to be true, only the discovery of new large natural gas fields in the Middle East and Caspian regions would justify the ITGI project.

ITGI's prospects become even dimmer if we consider another pipeline under construction in the Caspian region: the South Stream pipeline. This is a Russian sponsored project that runs from the Russian coast of the Black Sea to the Bulgarian port of Varna and from there to the rest of the Balkans and central Europe. It has also been conceived as an alternative to the Belarusian and Ukrainian land routes to Europe that have repeatedly caused troubles during the last years in terms of deliveries of natural gas to Europe. Besides Russia several west European private companies are participating in South Stream, notably ENI from Italy, which is the final destination of ITGI. This important natural gas pipeline will be completed around 2013 and represents a new solution for gas delivery for both Russia and the European Union; it most probably will be finished on time and will thus eclipse other smaller projects. ITGI may be one of the pipelines damaged in terms of viability by South Stream's success.

South Stream and especially Nabucco could harm ITGI's profitability since they are going to serve the same geographical area and the same demand, using the same gas fields for supplies, but displaying a greater technical capacity, means and economic viability. Therefore the ITGI might result in a counterproductive form of competitiveness.

Conclusions

At present the ITGI project's overall prospects do not seem very positive and its actual feasibility is somewhat doubtful. The high level of competition for supply routes, pipelines and LNG terminals must be taken into greater consideration before the ITGI's start-up and go ahead. In the Middle East, the Caucasus, the Caspian region and Turkey a relevant number of similar energy projects are set to be analyzed and evaluated, and some of these are set for start-up reasonably soon, or in any case at roughly the same time as ITGI. It is not clear if there will be enough available gas fields to supply all the projects on the paper and ready to start in the region. It is therefore plausible that some of them will have problems with investors and promoters alike. Will this be the case of ITGI? Given the prominence of the Nabucco pipeline, it may be possible.

However, Europe urgently wants new suppliers of natural gas as well as new supply routes to deal with the difficulties which have intermittently arisen with the Belarusian and Ukrainian gas transport routes. Of course the ITGI will not be a solution in terms of quantity of imported natural gas, but it adheres to the general European energy strategy aimed at overcoming these problems. Furthermore, in the years to come the European Union wants to reduce its dependence on coal and oil, replacing it with a larger share of natural gas. This will help to diminish emissions while avoiding a cut in energy consumption. From this perspective Brussels must take into consideration all available supplies and this factor is in the ITGI project's favour.

Finally, it is worth noting two other factors connected to the ITGI pipeline project.

The first one is the lack of a coherent European approach to energy issues. This is evident in the ITGI project's development. It has been promoted by Italy, Greece and Turkey, countries separated from one another, acting almost independently from a comprehensive European approach. From the perspective of the European Union, will leaving the main energy issues in the hands of single countries with no harmonization between them be a successful strategy?

The second awkward issue is the environmental one. The European countries' emphasis on natural gas is not a long term solution because it only moves Europe's longstanding ecological concerns about oil and coal to natural gas, be it liquefied and shipped or brought by pipeline to southern Europe. Unless natural gas is undoubtedly more environment-friendly than oil and coal, the ITGI project will help little to reduce greenhouse emissions and it may contribute to establishing another kind of expensive and increasingly dangerous external energy dependence.

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