NO PUBLIC MONEY FOR MEGA-GAS PIPELINE PROJECTS

External “Projects of Common Interest” for gas import will be harmful for the host countries and for the EU

With the crisis in Ukraine there is much discussion about Europe’s dependence on Russian gas and how this could be reduced. The options on the table include the reduction of energy demand through energy efficiency, increased investment in renewable energies and the supporting grid infrastructure, imports of US gas, more LNG terminals and more pipelines bringing gas from regions other than Russia. Unfortunately, discussions on how to reduce dependence by reducing demand are taking a back seat. We take a look here at the proposed new gas pipelines and - based on the EU’s own figures - question the assumption that there is a real need for them, at the same time emphasising that they will have severe environmental, social and human rights impacts if constructed.

In October 2013 the European Commission designated a list of 248 major energy infrastructure projects as EU Projects of Common Interest (PCIs). Among these projects more than 100 projects are for natural gas transmission, storage and LNG, out of which at least 15 are aimed at increasing the import of gas into the EU, most notably the series of projects making up the Euro-Caspian mega pipeline - the so-called ‘Southern Corridor (including the Trans Adriatic Pipeline (TAP), Trans Anatolian Pipeline (TANAP) and Trans-Caspian Gas Pipeline (TCP)) and the Algeria-Italy Galsi pipeline. Only two PCI projects are for smart grids, while the remainder are transmission projects and 6 oil projects, including construction of an oil terminal in Gdansk (Poland) and an Italy-Germany oil connection. The PCI investment costs are estimated at about EUR 140 billion for electricity transmission projects and EUR 70 billion for gas. No matter how many attempts are made to bring private capital into such projects, much of the risk will ultimately be borne by the public sector, and public sources such as the Connecting Europe Facility, Project Bonds and EBRD and EIB funds are expected to support the projects. This briefing will explain why we believe that the prioritisation of large-scale natural gas import infrastructure by the EU is the wrong priority, and what can be done about it.

In brief, the new gas infrastructure will have high costs – financial, political and environmental - for the EU, which do not appear to be justified by the actual needs identified by the EU’s own Roadmap 2050. Large gas import projects will also strengthen authoritarian regimes in the exporting countries and experience shows that the benefits from such projects are usually concentrated among elites. However far from being a done deal, these projects require a significant direct and indirect public sector financing, so there are still plenty of opportunities to prevent the EU providing yet more support for these projects. One such opportunity is the call for Connecting Europe Facility energy projects, for which the submissions deadline is in August 2014¹, while another is the high likelihood that the EBRD and EIB will be asked to finance the gas and oil pipeline projects.
Do we need more gas import infrastructure in an era of decarbonisation?

There is much talk about the need to diversify away from Russian gas imports, but the idea that we should be seeking to decrease dependency on the import of gas overall is not being given nearly as much attention.

The good news is that energy efficiency and decarbonisation offer an opportunity to do just that. The role of natural gas in decarbonisation is still being debated: whether it should serve as a short-term ‘bridging’ fuel until renewable energy becomes more dominant, or as a long-term ‘destination’ fuel that would provide back-up during periods of low renewables availability, even beyond 2050. In order to examine this issue, we take the EU’s Energy Roadmap 2050 as a reference. In all scenarios, the Roadmap’s impact assessment shows that decarbonisation decreases the EU’s energy import dependence. This is crucial because the EU’s own production of natural gas is forecast to drastically decrease by 2050. This could be expected to automatically lead to increasing imports, however this is not the case because in all scenarios the EU’s overall consumption of gas also decreases, although staying at a much higher level than production. So in fact in all of the EU’s five decarbonisation scenarios there is a decrease—at least to some extent—in natural gas imports by 2050 compared to 2010.

Yet we already have an overall surplus of gas import infrastructure, and the EU is backing huge further expansion. The EU, according to our calculations, as of 2013-2014 already has a total import capacity for natural gas of 537.62 BCM per year or 446.529.5 ktoe. Some of this infrastructure, especially for LNG, is already under-used. Juxtaposing existing gas import capacity with gas projections from the Energy Roadmap scenarios shows that, assuming the existing infrastructure stays functional for the next few decades, the infrastructure surplus will only widen, even without any large new infrastructure like the Southern Gas Corridor.
Adding the gas PCIs would add around 69,434 ktoe to the EU’s import capacity, widening the surplus even further. Of course it will be objected that the problem is not the quantity of infrastructure but its location and the dependence on Russian gas. And indeed there are some cases such as the Baltic states where some investments may be justified to reduce the vulnerability of the countries’ systems and to better distribute gas within the EU. However the problem with adding additional import capacity is that infrastructure operators will do their best to make sure that it is filled with gas. Unless significant amounts of existing gas import infrastructure is decommissioned, which does not seem likely, this represents a direct threat to decarbonisation as well as reducing the EU’s overall energy dependence. It will also add pressure on the environment and human rights of communities that live where gas is extracted, with all the negative impacts and implications that extractive industry dependence carries with it.

A further concern about the Projects of Common Interest is that just by virtue of having been included on this list, they are eligible to undergo fast-track approval procedures, which may have an impact on the quality of the environmental impact assessments and public participation.

Who will pay?

While most of the EUR 70 billion for gas PCIs is supposed to come ‘from the private sector’, experience shows that such projects, especially in recent years, are usually reliant on public sources taking on much of the risk. EUR 5.85 billion has already been approved for direct EU support for projects for the period 2014-2020 through the Connecting Europe Facility. Some of this is to be made up of grants, and some of financial instruments such as:

- ‘Enhanced’ loans: The EIB takes a higher risk for financial operation than other financiers.
- Project bonds issued by the project developer, with EiB backing. Due to the subordinated loans of the EIB, the bonds will be issued with a higher rating than they would have otherwise had. This attracts institutional investors, and helps the construction company to move off the books the existing debt, artificially improving its overall economic situation.
- Equity instruments: The Commission provides risk capital to the Project Developer via the EIB.

While EUR 5.85 billion is a relatively small proportion of the estimated overall costs of the PCI projects, it is still a huge amount of public money to risk for projects that may not bring major benefits. At a time when public funds are limited and are much-needed for the development of local services, energy efficiency improvements, smart grids and renewable energy, instruments such as the Connecting Europe Facility are being peddled as a way to avoid public debt, but in practice they are still shifting the risk of large projects onto the public sector while the benefits flow to private investors. There are a number of projects within the current Projects of Common Interest list such as smart grid project or offshore grids in the Northern Sea and in the Baltic that are needed for the low-carbon transformation ahead of us and in any case should be given priority funding ahead of the gas pipelines that are plagued with problems and bring few if any benefits for the EU’s long-term decarbonisation needs.

In addition, assistance from EIB and EBRD loans is expected. The EBRD is already financing Lukoil’s part in the Shah Deniz II gas and gas condensate development in Azerbaijan, and the bank’s President reportedly expressed interest in the bank’s participation in the TANAP/TAP mega-Caspian pipeline project in July 2013.

Supporting authoritarian regimes and stunting democracy

The gas import PCIs would mostly bring gas from countries such as Azerbaijan, Turkmenistan and Algeria with repressive regimes. While Algeria is already the EU’s third largest supplier of natural gas, Turkmenistan and Azerbaijan have currently no major natural gas export routes to the EU and the ambitiousness of the projects needed to bring Turkmen and Azeri gas to the EU mean that without serious political backing from the EU it is unlikely to happen. As can be seen from the case studies below, the gas PCIs will have serious impacts on the exporting countries including limiting the political space both for democratic decision-
making over use of natural resources – considering that export contracts are for 25+ years - and for the development of democracy in some countries by entrenching autocratic regimes.

In addition, there are often serious impacts in the transit countries, such as the creation of militarised strips unregulated by domestic law around such gas infrastructure; unfavourable host government agreements, and environmental and tax waivers. After Gezi Park one no longer needs to have much of an imagination to see how the Turkish authorities react to attempts by the public to challenge decisions on construction projects.

EU decision-makers therefore have a serious responsibility to consider whether pouring billions of euros into supporting Ilham Aliyev or Gurbanguly Berdimuhamedow or further increasing support for the militarised Algerian regime is a morally acceptable move, or rather one that could backfire later.

Trans Adriatic Pipeline (TAP)

The Trans-Adriatic Pipeline is planned to be part of a much longer gas pipeline from the Caspian region to the European “market”. It would start near Kipoi, at the Greece-Turkey border, cross the North of Greece, then the South of Albania and near Fier it would enter the Adriatic Sea, re-emerging in the Apulia region of Italy. The overall cost of TAP is unknown. According to the media, the Greek part alone may cost about EUR 1.5 billion\(^1\).

The project has been facing fierce opposition by residents and public authorities in the province of Lecce in Italy, where the project is expected to surface, and where large infrastructure (including a decompression station) should be
built. “Look at this bay, it is one of the most beautiful beaches of Southern Italy. This is what the pipeline will destroy”, said one resident. Indeed, the location is beautiful. “It will destroy our sea and our coast, it may put at risk our fresh water reserve, it will destroy hundreds of olive trees which are up to a thousand years old” said another resident of Melendugno, the Municipality where the pipeline would come ashore. A fisherman and manager of a fish restaurant told us during a site visit in January 2014 that “They will never do the TAP. It is too much of a crazy project, they can’t be serious in moving forward with construction”.

Indeed, there are numerous issues in the environmental impact assessment presented by the TAP consortium to the Italian Ministry for Environment in September 2013. It received negative comments from a technical commission from the Melendugno Municipality, from the Region of Apulia, from experts from residents’ associations and large environmental groups such as WWF. In November 2013, hearings were organised at the Italian Parliament on the ratification of the international Treaty between Italy, Albania and Greece, where additional concerns were raised on the economic and financial aspects of the project\textsuperscript{11}. In 2013, over 20 municipalities voted a motion rejecting the project. They are now asking the regional government of Apulia to challenge the international treaty, and to reject the construction permit in the entire region. In Spring 2014, the EIA commission at the Italian Ministry of Environment asked for a long list of additions to the TAP study, including on fundamental aspects of the project. The amended document is open for comments, and the Municipality of Melendugno and the No TAP committee flagged to the media in June 2014 that the project is still inadequate and most of the issues raised in the observations remain unaddressed.

The proponent of the TAP project is a consortium registered in Baar, a city in the Swiss canton of Zug, a well known tax haven. TAP’s shareholders are British Petroleum (20\%), Statoil (20\%), Fluxys (16\%), Total (10\%), E.ON (9\%) and Axpo (5\%), some of them also part of the consortium that plans to develop the Shah Deniz II gas field in Azerbaijan. As of early June 2014 there are unconfirmed reports that Total and E.ON may leave the consortium\textsuperscript{12}. TAP is expected to transport 10 billion m\(^3\) of gas per year, to be expanded to 20 billion m\(^3\) in a second phase. Strangely for a project that is supposed to diversify away from dependence on Russia, Russian oil company Lukoil is part of the consortium developing the second phase of the Shah Deniz gas field, with 10\% of the investment.

The European Commission and EBRD have been backing TAP and the other components of the Euro-Caspian mega pipeline since its feasibility stage: TAP acknowledged two grants in 2005 and 2006, and used EBRD standards as a reference for the EIA\textsuperscript{13}. The EBRD makes no secret of its interest in financing the project\textsuperscript{14}, and in January 2014 approved a loan to Lukoil for Shah Deniz II. However TAP presents itself as a “private finance” project\textsuperscript{15}.

TAP is included in the list of Projects of Common Interest approved by the European Commission and in the May 28th 2014 Communication from the Commission: European Energy Security Strategy - Comprehensive plan for the reduction of EU energy dependence\textsuperscript{16} it is referred to as a key security of supply infrastructure project\textsuperscript{17} This means that the project could benefit in the future from the Project bond Initiative and Project Bond Credit Enhancement instruments that the EC and the EIB are testing.
The Euro-Caspian Mega Pipeline

TAP is just one part of a much bigger piece of gas infrastructure: the Euro-Caspian Mega Pipeline (or Southern Gas Corridor). This would carry gas from the Azerbaijani coast to Northern Italy, however the Projects of Common Interest also include the Trans Caspian pipeline which, if built, would go under the Caspian Sea from Turkmenistan to Azerbaijan. Plans for the initial Azerbaijani phase are currently being developed. 26 new gas wells would be drilled in the Shah Deniz II gas field. From the wells the gas would be pumped over 4500km across Azerbaijan, Georgia, Turkey, Greece, Albania, Italy, Montenegro and Croatia.

The whole of the Euro-Caspian Mega Pipeline is included on the Projects of Common Interest List – listed as follows:

- Adriatica Pipeline – from Puglia in Southern Italy to Northern Italy
- Ionian Adriatic Pipeline – from Fieri in Albania, along the Adriatic coast via Montenegro to Split in Croatia
- Trans Adriatic Pipeline (TAP) (see section above)
- Trans Anatolian Pipeline (TANAP), the South Caucasus Pipeline extension (SCPx) and the Trans Caspian Pipeline (TCP). TANAP horizontally bisects Turkey - running from the Greece/Turkey border at Kipi (to tie in to TAP) to the Georgia/Turkey border to tie in with SCPx. SCPx then runs from the Georgia/Turkey border to the Sangachal Terminal in the vicinity of Baku, Azerbaijan. Finally TCP would extend from SCPx in Azerbaijan under the Caspian Sea to offshore collection points or the East-West Pipeline in Turkmenistan.

If built the Euro-Caspian Mega Pipeline is likely to lock Europe into fossil fuel use for the next 50 years. The initial Azerbaijan-to
Italy stretch of the pipeline would by itself put over a billion tonnes of CO2 into the atmosphere by 2048. In addition the Euro-Caspian Mega Pipeline does not even provide security of an alternative supply route from Russia. Azerbaijan and Turkmenistan are both unreliable suppliers. The unreliability of Azeri gas supply through the South Caucasus Pipeline has already been demonstrated on previous occasions when Turkey had to purchase gas from Russia / Gazprom as cold winters meant Azerbaijan was unable to meet Turkish demand.

The Euro-Caspian Mega Pipeline does not offer clean, affordable, reliable energy, and it would also have a detrimental impact on the human rights of people living in countries of gas extraction and along the route. A brief overview of these impacts in three countries is detailed below.

1. Azerbaijan

In Azerbaijan the Aliyevs have established a family dictatorship. They have held onto power for the past two decades through a combination of fraudulent elections, arresting opposition candidates, beating protesters and curtailing media freedom. Last October Presidential elections were held in the country. In the run up to the elections the regime conducted a systemic campaign of repression and intimidation, they put rival candidates in jail, viciously beat candidates children and forbid rallies. On the day of the vote there were 143 political prisoners in Azerbaijan, videos emerged of ballot boxes being stuffed by the regime and the elections were criticised by the OSCE for failing to meet international standards.

Aliyev’s repressive regime is funded by fossil fuels – if the Euro-Caspian Mega Pipeline is built the pro-Aliyev elite will make billions while Azeri citizens are left with crumbling infrastructure and unaffordable healthcare. The money from the oil industry was supposed to be controlled by the State Oil Fund for Azerbaijan (SOFAZ), which was intended to finance the transition of the Azeri economy away from oil and to ensure the wealth was kept for future generations. Instead much of it has been pumped into over-priced construction projects. Intentional price inflation enables companies to make large amounts of money from construction projects and much of Azerbaijan’s oil and gas revenue ends up in offshore bank accounts. Investigations by Azerbaijani journalists have linked these companies to the Azeri elite – including the President and his family.

The Italian Undersecretary, the Greek Prime Minister, the British Foreign Secretary and the European Energy Commissioner all went to Azerbaijan in December 2013, less than two months after the heavily criticised elections, to attend the signing of the final investment decision for Shah Deniz II. The day before they arrived Anar Mammadov – a key Azerbaijani election monitor - was arrested under false drug charges, and has now been jailed for 5.5 years. Aliyev is using his country’s hydrocarbon wealth to gain political legitimacy from European politicians who are willing to do business with him despite his terrible human rights record. Despite the detrimental social impacts of this project the EBRD has already approved a loan to Lukoil for the development of Shah Deniz II.

2. Turkey

The Trans Anatolian Pipeline (TANAP) will create a high security, militarised corridor across the whole of Turkey. It is estimated to cost USD 11.7 billion. There have been several previous pipeline projects in Turkey, in particular the Baku Tbilisi Ceyhan (BTC) pipeline. Much can be learnt from these previous projects about the likely impacts of TANAP. People living along the route would face major disruption. During the construction of the BTC pipeline, people lost land that they relied on for their livelihoods.
A flawed compensation process meant that people were not properly recompensed and when they publicly questioned this they were sometimes silenced with beatings or arrests. For example, Ferhat Kaya, an activist from Calabas, in the Ardahan province of Turkey found himself arrested and tortured by the Jandarma paramilitary police.

Ferhat recalls during an April 2013 interview with Platform: "Living along the route of BTC pipeline I saw what the free movement of oil and gas meant for the people of Turkey: environmental destruction, loss of livelihood and heavy repression along the militarised route. I was arrested and tortured for speaking out against the BTC pipeline. If the Euro-Caspian Mega Pipeline goes ahead, people living along it will experience the same repression."

Such repression is likely to be repeated if the Euro-Caspian Mega Pipeline is built. Already security firms are being consulted on how to militarise the route, creating corridors of violence running across entire countries. TANAP is currently owned entirely by Azerbaijani and Turkish with SOCAR owning 80%, Botas 15% and TPAO 5%. BP has agreed to acquire a 12% share. SOCAR’s pivotal role in the delivery of TANAP is concerning because of the company’s record. Numerous cases of SOCAR corruption have been documented – including traders selling Azeri oil below price for personal profit.26 In addition there are serious human rights accusations levelled at SOCAR. The company has its own paramilitary force and has used this to violently silence critical journalists.27

3. Turkmenistan

It is extremely concerning that the Trans Caspian Pipeline is listed as a European Project of Common Interest. This technically challenging and economically unproven pipeline28 would threaten human rights by further entrenching the rule of Turkmenistan’s autocratic ruler Berdimuhamedow. According to Human Rights Watch Turkmennist is one of the world’s most repressive countries.29 The state control all print and digital media and there are a high number of political prisoners; the actual number is impossible to ascertain because independent monitoring is not possible.

Many people arrested on political grounds have been in jail for over a decade and there have been cases of prisoners disappearing or dying while in detention. In many cases the charges prisoners face remain secret and not even their families know the supposed reason for their arrest. Torture is a serious problem, especially in high-security facilities. The government does not allow independent human rights monitors into the country, including from international NGOs and has ignored ten United Nations special procedures30.

The Turkmen regime is dependent on the hydrocarbons sector for income. The wealth and access to the European Market which the Trans Caspian Pipeline creates, would give the regime wealth and political legitimacy which would make Berdimuhamedow’s rule more secure. The rate of corruption in Turkmenistan is one of the highest in the world according to Transparency International31. It is of great concern that in September 2011 the Council gave the European Commission an exclusive mandate to negotiate with Turkmenistan an agreement for the Trans Caspian gas pipeline.32. Until today, the negotiation is being handled in full secrecy, on the basis of a mandate whose legal basis is also unknown. The Trans Caspian Pipeline should immediately be removed from the Projects of Common Interest, and the legislative base for the mandate to the Commission should be disclosed to the public.
GALSI

GALSI (Gazoduc ALgérie – Sardaigne – Italie) is a planned 900 km gas pipeline that should connect Algeria with Italy via the island of Sardinia. Promoted by the Algerian energy major Sonatrach (41.60% ownership), the pipeline should have started construction in 2010, to be completed in 2014, for the transport of 8 billion m\(^3\) of gas from Algeria to the EU. The consortium, set up in 2003, includes several Italian energy companies and public entities: Sfirs (11.6%), Enel Power (15.60%), Edison (20.80%), Hera S.p.A. (10.40%). In 2007, Snam rete gas signed an agreement with the consortium to build the Italian part of the pipeline. In June 2009, Sonatrach signed a contract with Saipem (part of the ENI group) related to the realisation of the GK3 gas pipeline (linked to GALSI, and including an LNG plant and 2 power plants in Skikda, near the Tunisian border). In July 2009, a GALSI/Saipem/Technip contract was signed related to the engineering of the ground section of the gas pipeline. However after this progress with the project, both documents were acquired by Italian magistrates as part of a major international investigation for alleged corruption that in February 2013 hit Sonatrach and the Italian company ENI as far up as its CEO Paolo Scaroni. The project is still included in the EU’s list of Projects of Common Interest however it seems now politically dead.

The expected investment for the deepest gas pipeline ever built (2885 m below sea level) has been estimated at EUR 3 billion. In November 2008, GALSI received EUR 120 million from the EC in financial support through the European Economic Recovery Programme launched by the European Commission.

What can be done? Recommendations

- The European Commission needs to undertake an analysis of what network infrastructure the EU needs and doesn’t need in order to achieve decarbonisation. The approach of defining EU priorities through Member State shopping lists will not bring the desired results. A thorough analysis of the impact of oil and gas projects from the PCI list on the EU 2030 and 2050 GHG reduction goals needs to be analysed by DG Climate Action and discussed with all interested stakeholders.

- MEPs are recommended to prepare an own-initiative report on the current PCI list composition with recommendations on energy infrastructure needs to support decarbonisation. The Connecting Europe Facility, EIB and EBRD should not support large new gas import projects. The first CEF energy call deadline is in August 2014 and requires attention from MEPs, NGOs and other stakeholders to ensure that it finances projects that bring benefits for the use of renewable energy and increased energy efficiency ahead of controversial gas mega-pipeline projects and oil projects. MEPs, NGOs and other stakeholders need to monitor the approval procedures on the national level for the PCI projects and ensure that fast-tracking does not lead to a watering down of environmental standards and public participation.

- Where projects are in conflict with EU law, climate goals or human rights, MEPs need to insist that they are removed from the PCI list – most notably the projects making up the Southern Gas Corridor. In any case the list will be renewed every two years, providing opportunities to oppose particularly problematic projects.

- So far the Projects of Common Interest list has been put together with very limited public
participation. Given that projects making it to the list can expect broad support through public money, there is an urgent need for the EC to broaden the possibilities to discuss the projects and the rationale behind the list publicly before any new list is produced.

• The EC must disclose the legislative basis for its mandate to negotiate with Turkmenistan to the public.

Endnotes

3. In some of the scenarios there is a temporary increase around 2030 and 2040, however these seem to be some of the least realistic scenarios currently, given that they assume quite wide usage of CCS. In any case, these temporary import increases amount to less than the current import capacity.
4. The capacity figures do not include infrastructure from Norway, as gas production is predicted to decline in the coming decades and most likely will not make up a significant proportion of gas imports to the EU by 2050.
8. EBRD eyes financing of TAP and TANAP; http://www.azernews.az/oil_and_gas/56865.html, 16.07.2013
12. http://uk.reuters.com/article/2014/06/03/uk-energy-tap-idUKKBN0EE0FH20140603
18. This is based on a total of 16 bcm of extra gas being moved through the pipeline.
30. http://cpi.transparency.org/cpi2013/results/#myAnchor1
34. http://www.reuters.com/article/2013/02/11/eni-algeria-idUSL5N08BAUX20130211

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