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# THE REVIVAL OF THE ITGI PROJECT: MYTHS AND REALITIES *

## Background

The deterioration of Turkish-Russian relations after Turkey shot down a Russian warplane near the Syrian border in November 2015 has created uncertainty around the fate of the Turkish Stream project. Turkish Stream is a grandiose attempt by Moscow to export Russian gas through Turkey to Greece. With growing interest around Moscow's next move, the statement by Russian energy giant Gazprom on 25 February 2016 came as a surprise. In Rome, Alexey Miller, Chairman of the Gazprom Management Committee, Marc Benayoun, Chief Executive Officer of Edison SpA and Theodoros Kitsakos, Chief Executive Officer of DEPA SA, signed the "Memorandum of Understanding in relation to gas supplies from Russia across the Black sea through third countries to Greece and from Greece to Italy" to develop a gas pipeline project between Greece and Italy, thus enabling the realization of a southern route for the Russian gas supply to Europe. For this purpose the parties intend to use to the maximum possible extent the works already completed by Edison and DEPA for the Poseidon project, aimed at completing the natural gas corridor through Turkey, Greece and Italy (Interconnection Turkey Greece Italy-ITGI).

## Analysis

The ITGI gas pipeline was first proposed by DEPA and Edison in early 2000, as a route to bring natural gas from Azerbaijan's Shah Deniz field to Italy. The project was abandoned in 2012, following the selection of TAP by the Shah Deniz II consortium. The ITGI segment now to be developed by DEPA, Edison and Gazprom will involve the Adriatic underwater segment (217 km) and the land-based one in Western Greece (250 km).

The project consists of two sections: The 590 km long onshore IGI pipeline across Northern Greece (from Komotini to the Thesprotia region), which is developed by DESFA, and the 207 km long offshore Poseidon pipeline connecting Northern Greece with Italy (from the Thesprotia region in Greece to Otranto in Southern Italy). The latter is being developed by the company IGI Poseidon SA (50% DEPA – 50% Edison).

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The Poseidon pipeline has been included in the European Union Projects of Common Interest list (PCI list), according to EU Regulation 347 of December 2013, as well the Greek list of Fast Track projects. The project's studies have been co-financed by the TEN-E and the European Energy Program for Recovery (EEPR) funds. The Poseidon project has already obtained all the mandatory authorizations for construction and operation, and has been granted 25 years' third party access exemption.

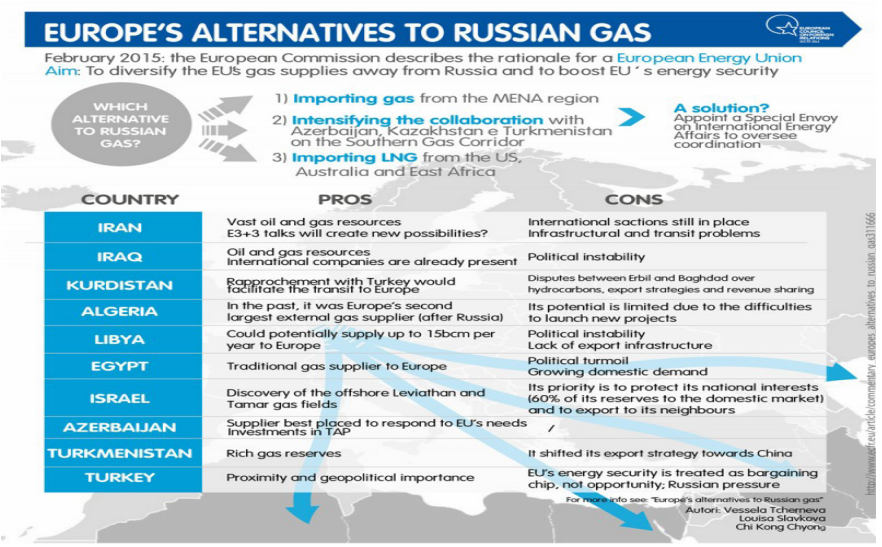

ITGI now proposes to double its capacity to deliver 20bn $m^3$/y to southern Italy. However, the most intriguing element of the whole project is the Black Sea route. In late 2014, Russia abandoned the South Stream pipeline project, which aimed to deliver gas under the Black Sea to Bulgaria and then onwards to other southeast European countries. Instead it came up with a new plan: Turkish Stream, which would connect Russia to Turkey. However, deteriorating bilateral relations between Russia and Turkey over Syria meant that this project was halted last year. As a result, the "third countries" referred to in the press release are most likely to include Bulgaria, apart from Turkey. There has been speculation in the Bulgarian media about possibility of the revitalization of a subsea scheme in Black Sea, with gas delivery from Russia to Bulgaria and further pumping to Greece and Italy.

Nonetheless, serious issues remain. First of all, Gazprom's serious lack of funds, due to falling oil prices alongside economic sanctions against Russia over Ukraine, is a major economic obstacle for Russia. Moreover, we should not forget that in recent months, there has been no serious gas research and development activity in Russia. Despite Moscow's ambitious declarations, all major Siberian fields remain shut.

According to official sources, the revival of the ITGI project does not involve new natural gas deliveries; the aforementioned 20bn $m^3$/y refer to volumes of natural gas already signed between Gazprom and the European purchasing companies. However, these quantities have not yet been delivered, due to the ongoing economic crisis and falling demand, the latter thanks to good weather conditions.

As a result, it seems that ITGI does not refer to additional Russian gas for the European market, but to existing bilateral contracts, thus ending speculation on the possibility of bringing additional Russian gas to Europe. Out of the 20bn $m^3$/y, around 10-12bn $m^3$/y would be aimed at the Italian market, and the rest would be distributed to Greece, Bulgaria and/ or Turkey.

The philosophy behind the revival of the ITGI project is rooted in Russia's desire to circumvent Ukraine and establish a non-Ukrainian southern route for the Russian gas supply to Europe, via the Black Sea. Whether the Russian gas would be transported through Turkey or Bulgaria remains to be seen. This is one of the many topics to be negotiated by all sides involved.




According to media reports, the assessment of the route of the pipeline is currently underway. The subsea is considered more mature and more ready for a Final Investment Decision (FID), given that the Black Sea is already host to the fully operational Blue Stream. As a result, most of the technical work is already in place. In fact, the onshore part of the project requires far more work. Additional pipeline infrastructure connecting the Black Sea to Greece is required for the ITGI project to become operational. First of all, there needs to be a definite decision as to whether the pipeline will run through Bulgaria or through Turkey. For Russia, the Turkish path would make more sense, since Turkey is not an EU Member State like Bulgaria is, meaning that the EU Third Energy Package regulations would not apply. As a result, it would be easier for Russia to deliver as much gas as it wants up to the Turkish- Greek border. EU rules would then apply after the Russian gas crossed into Greek territory.

It is estimated that it would take around two years to reach a FID for the onshore segment of ITGI project.

# Conclusion

It should be emphasized that the MoU is a document signed between the aforementioned three companies, rather than between the representatives of the three governments of Greece, Italy and Russia. As a consequence, it is not an interstate agreement, nor a legally binding company document. Major bilateral and trilateral negotiations have to take place, in order to produce an Interstate Agreement that will open the way for the final FID. Furthermore, the ITGI is actually due to come on-stream in several years time, since key political and investment decisions lie ahead. Taking into account that it does not involve additional, only existing and already contracted quantities of natural gas, it is unlikely to meet the fierce opposition from the EU that South Stream did. It is a smaller project that does not threaten the EU's vision of the diversification of future energy supplies.

The key project that serves this purpose, i.e. the diversification of supply sources, is the TAP project, currently in development. The construction of the Greek segment of the pipeline is due to be inaugurated in Thessaloniki- Greece on 17 May 2016. TAP will bring 10-20bn $m^3$/y of Azeri natural gas to Europe, via Greece, Albania and Italy, and with potential future expansion to Bulgaria, through the Interconnector Greece- Bulgaria is also in the initial stages of construction. Both TAP and IGB are component parts of the EU Southern Corridor, which aims to diversify natural gas resources for the EU market, initially with gas from Azerbaijan. Additional volumes, perhaps from Turkmenistan, may be added later if a consensus on the legal status of the Caspian is reached, and the Caspian littoral States agree on the laying of subsea pipelines.

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