



ISSUE BRIEF

# Europe's Southern Gas Corridor:

## The Italian (Dis)connection

OCTOBER 2018 JOHN M. ROBERTS

### Introduction: "There is no Plan B"

The next few months will likely prove crucial for the completion of the Southern Gas Corridor (SGC), Europe's biggest integrated energy project. The project is already delivering Azerbaijani gas to Turkey and in 2020 it is scheduled to start supplying Italy and European customers beyond Italy.

Although more than three-quarters of the project has been completed, there is still a question concerning a crucial element: landfall in Italy. Vehement local opposition to a landing at San Foca, located on Italy's heel, threatens the completion of the Corridor's last major component, the Trans Adriatic Pipeline (TAP). The problem is that there are no good alternatives to San Foca. Those that might exist are examined in this paper, but each of them raises complex questions that cannot be solved quickly.

Officially there is optimism that all will be well. Public statements stress that the project will be completed, and even assert that it will be completed on time. During a discussion on the Southern Gas Corridor held by the Atlantic Council on September 11, 2018, representatives from BP and the State Oil Company of Azerbaijan (SOCAR)—the two companies involved in the entire value chain of SGC projects—made some extremely forthright comments.

"Progress is being made and I am very confident that we will land this pipeline in Italy," said Emily Olson, BP's vice president, Communications and External Affairs, Southern Corridor. "We'll get this done, and it will be done well and on time," Olson added.<sup>1</sup>

The Atlantic Council's **Global Energy Center** promotes energy security by working alongside government, industry, civil society, and public stakeholders to devise pragmatic solutions to the geopolitical, sustainability, and economic challenges of the changing global energy landscape.

<sup>1</sup> Emily Olson, "Connecting Europe: The Southern Gas Corridor & the Future of European Gas Supply," Event at the Atlantic Council, September 11, 2018, Webcast: <http://www.atlanticcouncil.org/events/webcasts/connecting-europe-the-southern-gas-corridor-the-future-of-european-gas-supply>.

Vitaliy Baylarbayov, SOCAR's deputy vice president for Investments and Marketing, echoed these sentiments: "We obviously are watching with concern the way TAP implements the last eight kilometers of its almost 900 kilometers route."<sup>2</sup>

Baylarbayov added: "Just to reiterate what has been said: there is no Plan B and there should not be any Plan B because Italy needs this gas. The demand is growing, the volumes of their imports is growing from year to year and the supply base is shrinking."<sup>3</sup> There were, he said, "elements of confidence" that made him think all would be well. "The fact that money has been spent, the fact that contracts have been executed, the fact that tens of thousands of people are working along the whole value chain—and many of them in Italy—all that makes us believe that the project will be completed on time."<sup>4</sup>

Powerful political pressures are also being brought to bear to convince the Italian authorities that TAP should proceed as planned. On September 4, 2018, former British Prime Minister Tony Blair, who chairs an SGC advisory panel, held what were described as positive talks in Rome with Italian Interior Minister Matteo Salvini. Salvini comes from the League side of Italy's populist coalition government and has been accused of backing

TAP by TAP's opponents, who generally support the other half of the government, the Five Star Movement.

Such pressure may be having an effect. On September 16, 2018, one of the principal opponents of the project, Puglia regional councillor Sergio Blasi, accused other TAP critics of backsliding; notably, he accused the local Melendugno commune mayor, Marco Poti, of switching sides under the guise of calling for a cost benefit analysis to assess TAP's impact on San Foca and its environs. Moreover, Blasi added: "Let me be clear, that the TAP will most likely be done. I do not say so, this government says so."<sup>5</sup>

Even regional authorities may be coming round to the view that TAP needs to proceed. With TAP reported to be ready to resume work on the key landfall microtunnel, the Port Authority of Otranto issued a notice on October 1, 2018, banning all bathing and fishing in the vicinity of TAP's maritime activities for a 15-month period with immediate effect and ordering all shipping to stay at least 300 meters away from TAP vessels.

But for all the displays of confidence, doubts remain. Maybe that's why Ms. Olson also said:

"I'm not willing to go to Plan B yet. But ... there's always that option."<sup>6</sup>

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2 Vitaliy Baylarbayov, "Connecting Europe: The Southern Gas Corridor & the Future of European Gas Supply," Event at the Atlantic Council, September 11, 2018, Webcast: <http://www.atlanticcouncil.org/events/webcasts/connecting-europe-the-southern-gas-corridor-the-future-of-european-gas-supply>.

3 Vitaliy Baylarbayov, Atlantic Council webcast.

4 Vitaliy Baylarbayov. Atlantic Council webcast.

5 Regional Council of Puglia, TAP, Blasi: "I was, I am and I will be against the landing at San Foca. But the protest of Poti, today, is instrumental and incoherent," September 17, 2018 (translated) <http://www.consiglio.puglia.it/dettaglio/contenuto/61079/Tap--Blasi---Ero--sono-e-saro-contrario-all-approdo-a-San-Foca--Ma-la-protesta-di-Poti--oggi--e-strumentale-e-incoerente->.

6 Emily Olson, Atlantic Council webcast.

When Italian President Sergio Mattarella visited Azerbaijan in July 2018, one question loomed larger than any other: what could he do to end the imbroglio that threatens the completion of a \$40 billion project to bring Azerbaijani gas 3,500 kilometers to Western Europe?

The Italian delegation provided its hosts with assurances that problems involving the Trans Adriatic Pipeline (TAP), the final leg of the massive Southern Gas Corridor (SGC) project, would be resolved; however, domestic opposition to TAP still poses a serious challenge.

Even though most of the SGC work has already been completed—and even though its first customer, Turkey, began taking gas from the system on June 30, 2018—there are still serious questions concerning landfall in Italy and, thus, the delivery of most of the gas due to flow through the system to customers in Italy and beyond.

What is at stake is the completion of the corridor's final components: a subsea connection from Albania to Italy, landfall in Italy, and a connection to the Italian grid. These components are supposed to be ready for use by the end of 2019, so a delay of a few months at this stage would not be catastrophic. However, it is looking increasingly likely that the delays could be more substantial, with sources within the SGC anticipating that gas deliveries to Italy, initially expected around the start of 2020, will likely be delayed until the end of that year, and possibly until 2021.

Moreover, there is a serious possibility—though, it is important to stress, not yet a probability—that national and regional objections to the project's Italian landfall might result in demands for major changes to the project, which would result in substantial delays, and might even force the Southern Gas Corridor's commercial and political backers to find a fresh outlet for some 8 billion cubic meters (bcm) of gas already contracted for delivery to Italy and to customers served via Italy.

Other issues bedevil the future of the SGC, including the challenges to its future expansion posed by Russia.

These challenges were addressed in previous Atlantic Council papers, notably *The Impact of Turkish Stream on European Energy Security and the Southern Gas Corridor* and *The Caspian Sea and Southern Gas Corridor*, and most recently in a report published by the Council in September 2018, *Three Pipelines and Three Seas: BRUA, TAP, the IAP, and Gasification in Southeast Europe*.<sup>7</sup>

With almost all the rest of the massive SGC project already completed, half of it already in service, and gas now flowing from Azerbaijan to Turkey, the continuing disputes concerning TAP's landfall in Italy mean the future of Europe's biggest energy-security project risks being held to ransom at the last minute.

And, as Baylarbayov has said, there is no Plan B.

### TAP and the Southern Gas Corridor

In the four and a half years since the string of projects that comprise the SGC received their final investment decisions, almost all the construction work required to deliver an initial 6 billion cubic meters per year (bcm/y) to customers in Turkey and 10 bcm/y to other European countries has been completed. As of July 2018, much of the SGC was not only completed, but operational. As for the upstream facilities in Azerbaijan, all is set for second-phase production at the massive Shah Deniz gasfield—commonly dubbed SD2—to be ramped up to full capacity by 2022–2023 to meet scheduled delivery dates.

Gas deliveries to Turkey through the Trans-Anatolian Natural Gas Pipeline (TANAP) began on June 30, 2018, when Turkey's state-owned pipeline and trading company Botas received its first gas at the Eskişehir offtake station in western Turkey. This demonstrated that there is now a 2,000-kilometer, operational and integrated supply chain connecting the upstream development at SD2, the expansion of the existing South Caucasus Pipeline (SCP-X), and the operation of the newly constructed TANAP across Turkey.

In addition, three-quarters of the work on the last of the four major components of the system, the Trans-

<sup>7</sup> John Roberts, *The Impact of Turkish Stream on European Energy Security and the Southern Gas Corridor* (Washington, DC: Atlantic Council, 2015), [http://www.atlanticcouncil.org/images/publications/TurkishStream\\_webfinal.pdf](http://www.atlanticcouncil.org/images/publications/TurkishStream_webfinal.pdf); Bud Coote, *The Caspian Sea and Southern Gas Corridor: A View from Russia* (Washington, DC: Atlantic Council, 2017), [http://www.atlanticcouncil.org/images/publications/Caspian\\_Sea\\_and\\_Southern\\_Gas\\_Corridor\\_web\\_0427.pdf](http://www.atlanticcouncil.org/images/publications/Caspian_Sea_and_Southern_Gas_Corridor_web_0427.pdf); John Roberts, *Three Pipelines and Three Seas: BRUA, TAP, the IAP, and Gasification in Southeast Europe* (Washington DC: Atlantic Council, 2018), <http://www.atlanticcouncil.org/publications/reports/three-pipelines-and-three-seas-brua-tap-the-iap-and-gasification-in-southeast-europe>.

## Existing, Planned, or Proposed Long-distance Pipelines in Southeast Europe



Source: Atlantic Council.

Adriatic Pipeline (TAP) from the Turkish border with Greece to southern Italy, has been completed. (See *Box—The SGC: Progress to Date*, for details.)

Not quite all the work on these projects has been completed; some will still be required as throughput volumes climb to their projected plateau levels in 2023. But, setting that aside, the bulk of the SGC already

completed constitutes a truly massive combined operation, with some \$30.5 billion of an estimated total final bill of \$40.5 billion already spent.

The most immediate problem is that, while deliveries to Turkey have started, there is a gigantic question mark concerning completion of the corridor's crucial final components in Italy and, thus, the future of gas

deliveries to European customers in and beyond the country. These components include the final sections of the Trans Adriatic Pipeline (TAP) and its connection to the main gas-distribution system in Italy.

### What Still Needs to Be Done?

As of September 2018, the following work remained to be carried out:

- the 105-kilometer subsea connection from Albania to Italy
- the 8-kilometer connection to the TAP receiving terminal at San Foca in the Melendugno commune (district)
- the 56-kilometer connection from the receiving terminal to a connection with Italy's Snam-Rete gas trunkline system near Brindisi

These components—due to be completed by the end of 2019, to enable first deliveries at the start of 2020—are now threatened because local and regional opponents of the TAP project argue the pipeline would damage the local onshore environment, notably by forcing the removal of some historic olive trees, while offshore it would threaten a delicate marine ecosystem. Some critics oppose the project along classic anticapitalist lines, asserting that it would benefit private shareholders at public expense. What has changed recently is that this opposition now enjoys considerable emotional support, and some political support, from within Italy's new government. Without completion of these components, the sales contracts underpinning the entire TAP project are threatened, since more than 8 bcm/y of the initial 10 bcm/y that the line is intended to carry are for delivery to customers in or beyond Italy.

Therefore, time is of the essence. The gas-sales contracts provide for roughly half of the deliveries to reach Italy sometime in 2020, and for the other half to reach Italy between mid-2020 and mid-2021, with full-plateau delivery levels reached within three years. In effect, this means that TAP is contractually obliged to start delivering gas by the end of 2020, and to carry the full complement of gas bound for Italy no later than July 1, 2024. (See *Table—SD2 Gas Contracts to Europe Agreed in 2013*.)

While there have been stirrings of local opposition to the landfall point for some years, with protests about the pipeline running through a popular beach (and tourist) area, the attitude of the new Italian government is a key element. The TAP consortium's strategy for securing—and enforcing—the necessary permits for construction has relied on the authority of the central government to override regional opposition. However, this strategy suffered a setback in 2016, with the failure of a referendum that would have, *inter alia*, clarified the division of authority between central and regional authorities and, where matters of national interest were concerned, provided the government with a mechanism to impose its authority.

A second setback occurred on March 4, 2018, when two populist parties, the Five Star Movement and the League (formerly known as the Northern League), combined to win a majority in Italy's parliamentary elections.

Immediately after the election, Daniela Donno, the newly reelected Five Star senator for the Salento district, which includes the Melendugno commune, issued a statement asserting that “the people of Salento do not want the pipeline” and adding that “we are increasingly convinced that this public work should not be carried out, as it is useless and harmful for the environment and for the territory.”<sup>8</sup> The senator continued, “We need to review the issue of international treaties with all the States involved, starting with Azerbaijan.” Terminating TAP would not be easy, Donno said, as “the people of Salento, the environment, tourism, the economy of the territories will have to prevail over the favor of the lackeys and the agreements with the multinationals and foreign powers.”<sup>9</sup>

Seven weeks later, three Five Star MPs lodged a formal complaint against TAP, prompting a local prosecutor to seize part of the project's local construction site.

This was followed by the installation of the Five Star/League government on June 1, 2018. Within days, new Environment Minister Sergio Costa, a Five Star member, said that TAP would be reviewed, along with some other major projects. Costa told *Reuters* that “TAP is on the table and we are looking at it as a priority.” He

8 Giuseppe Puppo, “Tap. La Saipem Prevede Difficolta,’ Ma Non e’ Preoccupata dal Responso Elettorale. Pero’ la Senatrice Daniela Donno del M5S a leccecronaca.it Annuncia: ‘Ora Vogliamo Rivedere i Trattati Internazionali. E Tutti i Precedenti Decreti,’” *Tribunale di Lecce*, June 30, 2010, <http://www.leccecronaca.it/index.php/2018/03/06/saipem/>.

9 Ibid.

### Box—The SGC: Progress to Date

The SGC consists of four major components: upstream development; a pipeline across Azerbaijan and Georgia; a pipeline across Turkey; and a pipeline from the Turkish border with Greece across Albania and the Adriatic to southern Italy.

The state of the project, at time of writing:

**SD2 Upstream.** The second stage of the Shah Deniz gasfield development, or SD2, aims to add 16 bcm/y of production at Azerbaijan's giant offshore Shah Deniz field, where stage-one (SD1) production has already reached 10 bcm/y. Total costs are estimated at \$22.7 billion, of which \$18.8 billion was spent by mid-2018. SD2 is actively producing gas, which started flowing to Turkey, with the first Turkish offtake recorded June 30, 2018. Current flows are minimal, around 1 bcm/y, but these are due to reach 2 bcm/y next year, and climb steadily to the plateau delivery level of 6 bcm/y in 2021. Deliveries to European countries beyond Turkey—notably Greece, Bulgaria, and Italy—are due to start in early 2020 and reach their contracted plateau level of 10.2 bcm/y in 2023. Construction works include all offshore facilities, marine pipelines, and a major expansion of the onshore processing facilities at Sangachal. All works have been completed for initial deliveries. The work is being carried out by the Shah Deniz Consortium, for which BP is the operator. The consortium shareholders are: BP 28.8 percent; SOCAR (Azerbaijan) 10 percent; Turkish Petroleum 19 percent; Petronas (Malaysia) 15.5 percent; Lukoil (Russia) 10 percent; NICO (Iran) 10 percent; and Azerbaijan's Southern Gas Corridor Closed Joint Stock Company (SGC- CJSC) 6.7 percent.<sup>1</sup> It should be noted that, on August 6, 2018, President Trump issued a waiver from

US sanctions targeting Iranian companies with respect to the SD2 project.

**SCP-X:** The South Caucasus Pipeline Expansion (SCP-X) project comprises two main elements intended to upgrade the existing 692-kilometer South Caucasus Pipeline (SCP) from the processing terminal at Sangachal on Azerbaijan's Caspian coast to the Georgian border with Turkey. One is the laying of new 48-inch linepipe for 424 kilometers from near Sangachal to the Azerbaijan-Georgia border, together with a 63-kilometer extension to Tbilisi in Georgia, and a 2-kilometer connection with TANAP at the Georgian border with Turkey. The second is an increase in capacity through about 184 kilometers of the existing SCP line through the Lesser Caucasus mountains in Georgia, by means of added compression. SCP-X is estimated to cost \$4.5 billion, with \$4.2 billion already spent. All works have been completed for initial deliveries. This project, sometimes accounted for separately and sometimes included in SD2 upstream accounting, is being carried out by the Shah Deniz Consortium and, therefore, has the same shareholders. The current system should carry 23.5 bcm/y as far as the Turkish border, comprising 6.6 bcm/y of SD1 gas, 6 bcm/y of SD2 gas bound for Turkey, 10-11 bcm/y of SD2 gas bound for European countries beyond Turkey, and a small amount of gas required to fuel SGC compressor stations and pumping stations along the Baku-Tbilisi-Ceyhan (BTC) oil pipeline. Whereas the rest of the SGC system essentially requires only the addition of further compressor stations to boost capacity—to 32 bcm/y to the Turkish offtake station at Eskişehir, and to 20 bcm/y for the rest of the system—some new pipe will

<sup>1</sup> SGC-CJSC is a special-purpose vehicle set up by the Republic of Azerbaijan. The Ministry of Economy holds 51 percent of its equity, and the state-owned State Oil Company of the Azerbaijan Republic (SOCAR) holds the other 49 percent.

added, "Given (our) energy policy, given falling gas demand, that project today looks pointless."<sup>10</sup> In July 2018, Five Star MP Barbara Lezzi, a TAP critic and the

new minister for the South, reportedly said she hoped a special committee would review whether it was possible to halt the project or change its route.<sup>11</sup>

<sup>10</sup> Massimiliano De Giorgio, "Exclusive—Italy's New Government to Review TAP Gas Pipeline," *Reuters*, June 6, 2018, <https://uk.reuters.com/article/uk-tap-italy-exclusive/exclusive-italys-new-government-to-review-tap-gas-pipeline-idUKKCN1J21W4>.

<sup>11</sup> Chiara Albanese, "The 1,600 Olive Trees Holding Up a \$5.2 Billion Pipeline," *Bloomberg*, July 4, 2018, <https://www.bloomberg.com/news/features/2018-07-05/the-1-600-olive-trees-holding-up-a-5-2-billion-pipeline>.



have to be laid in Georgia. For the SCP-X to carry more than initial plateau deliveries of 23.5 bcm/y into Turkey, a second pipeline through the Lesser Caucasus will need to be laid, as the existing 184-kilometer stretch of line cannot be further enlarged, while the mountainous terrain includes ridges too narrow for a parallel line to be laid alongside the existing pipe.

**TANAP:** The Trans-Anatolian Pipeline (TANAP) is an 1,850-kilometer project connecting with SCP-X at Türkgözü, on the Turkish border with Georgia, and terminating on the border with Greece. Its principal elements are: a pipeline with 1,340 kilometers of 56-inch pipe from the Georgian border to Eskişehir in western Turkey, the main offtake station for gas deliveries to Turkey; some 494 kilometers of 48-inch pipe on the onshore sections between Eskişehir and Ipsala; and twin 36-inch pipelines for the 17.6-kilometer subsea crossing of the Dardanelles Strait. TANAP will connect with TAP in the middle of the River Evros, which forms the international boundary between Turkey and Greece. Its terminal is usually called Ipsala, the town on the Turkish side of the border. As of July 2018, when work was reportedly 94.8 percent complete, the line was operational as far as Eskişehir, with the remainder scheduled to be ready for use by the end of 2019. The project is currently projected to cost \$8 billion, of which \$5.5 billion had been spent as of May 31, 2018. TANAP's shareholders are: SGC-CJSC, 58 percent; BOTAŞ, 30 percent; and BP, 12 percent.

**TAP:** The Trans-Adriatic Pipeline (TAP) is designed to run from the connection with TAP on the River Evros (with the town of Kipoi on the Greek side of the river usually named as its starting point) to San Foca in southern Italy. The 878-kilometer pipeline involves construction of 550 kilometers of pipeline in Greece, 215 kilometers in Albania, 105 kilometers as a subsea connection from Albania to Italy, and 8 kilometers in Italy. A key ancillary

element—although not part of the TAP pipeline itself—is a 56-kilometer onshore connection from San Foca to a connection with Italy's existing Snam-Rete gas pipeline network near Brindisi.

As of July 1, almost all the pipelaying had been completed in Greece and Albania, with some 720 out of a total 765 kilometers laid in the ground and at least 59 percent of the land above the line reinstated. However, there is at least one section in Greece, some 10 kilometers near the port of Kavalla, where pipelaying had yet to take place because of local landholder opposition.

Total costs are estimated at €4.5 billion (\$5.3 billion) of which €3 billion (\$3.5 billion) had been spent as of May 31, 2018. TAP's shareholders are: BP (20 percent), SOCAR (20 percent), Snam (20 percent), Fluxys (19 percent), Enagás (16 percent), and Axpo (5 percent).

**A note on sourcing:** Specific figures for the amount spent on all four SGC components, and completion rates for SD2, SCP-X, and TANAP are those given by Afgan Isayev, the general director of SGC-CJSC, in a statement to the press on June 30, 2018. See: Turali Ibadh, "First Commercial Gas Deliveries to Turkey Commence via TANAP," *Report News Agency*, June 30, 2018, <https://report.az/en/energy/first-commercial-gas-deliveries-to-turkey-commence-via-tanap>.

Specific completion details for TAP pipelaying come from TAP tweets. See: "94% of Gas Pipes in Albania, Greece Laid End-to-End—TAP," *SeeNews*, June 14, 2018, <https://seenews.com/news/94-of-gas-pipes-in-albania-greece-laid-end-to-end-tap-616398#sthash.EmOlwzuO.dpuf>, and "Nearly 59% of Land Along TAP Route in Albania, Greece Reinstated," *SeeNews*, May 24, 2018, <https://seenews.com/news/nearly-59-of-land-along-tap-route-in-albania-greece-reinstated-613880#sthash.HKHke72E.dpuf>.

Although these statements include at least one major factual inaccuracy—Italian gas demand is actually rising—these developments should be taken seriously. The Five Star Movement draws most of its strength from the relatively impoverished regions of southern Italy, and is particularly strong in the southeastern Puglia region, which embraces Melendugno, and the surrounding Salento area, which forms the heel of the Italian boot. So,

while there may well be a degree of political opportunism in the government's opposition to TAP—in effect, using its opposition to secure an improved deal concerning TAP development in Italy—it would be wrong to rule out the possibility that its opposition is based on principle.

However, even if sincere, Five Star opposition to TAP on environmental grounds is misplaced, as the TAP

**Table—SD2 Gas Contracts to Europe Agreed in 2013**

Billion cubic meters per year (bcm/y)	Purchaser	Presumed market	Note
2.64	GdF-Suez	Beyond Italy	
1.44	Uniper	Beyond Italy	Contract originally with E.ON
0.99	Edison	Italy	Contract originally with Fenosa; switched April 2018
0.94	Bulgargaz	Bulgaria	
1.0	DEPA	Greece	
0.3	Hera Trading	Italy or beyond	
0.48	Axpo (PSV)	Italy gas hub PSV	
0.96	Axpo (WTB)	Italy or beyond	
0.48	Enel	Italy or beyond	
0.95	Shell Energy Europe	Italy or beyond	

**Total contracted sales: 10.18 bcm**

Source: Southern Gas Corridor, "Consolidated Financial Statements," December 31, 2016.<sup>1</sup>

Note: Azerbaijan's SOCAR has actually booked some 10.9 bcm of space in TAP. The balance, which is not underpinned by contracts, is to be used for short-term spot market and emergency supplies. SOCAR has also signed agreements to help Albania develop its gas sector. This includes help in designing a 1-bcm/y connection from an offtake point on the TAP line at Fier to serve the currently disused thermal-power plant at Vlore. However, no supply agreements have yet been signed, and any gas required by Albania would probably have to come during the SGC expansion phase, although small volumes might be feasible as a result of debottlenecking various SGC projects.

<sup>1</sup> Southern Gas Corridor, "Consolidated Financial Statements," December 31, 2016, <https://www.sgc.az/storage/reports/7/document-en-financial-report-of-2016.pdf>.

team has worked hard to address the two environmental issues that pose genuine problems.

The first is the landfall issue, as the coastline of Italy's heel has a delicate ecology. The meadows of the *posidonia oceanica*, a fragile marine ecosystem providing a habitat for many species, lie just offshore. This area is steadily diminishing, due to coastal development,

pollution, eutrophication, and trawling. The meadows, which extend along Apulia's Ionian and Adriatic coastlines, have particularly disintegrated offshore from the industrial areas of Brindisi and Bari. TAP officials told the author in August 2017 that San Foca was chosen as the landing point some eight years earlier precisely because there was a gap there, between a continuous belt of *posidonia* meadows extending roughly northwest up the



coast to Brindisi and a cluster running roughly southeast to Otranto. To ensure there was no damage to the actual beach at San Foca—a fine, award-winning stretch of sand, but with relatively few holidaymakers and ice-cream stalls, even in summer—TAP officials decided that the final connection from sea to shore would involve placing the line in a microtunnel. The tunnel would start about one kilometer offshore, and only emerge onshore some 800 meters inland from the holidaymakers' beach.

Secondly, the issue of the olive trees has generated the most excitement. In March 2017, TAP began removing olive trees along the 5.6-kilometer stretch of ground being prepared for the pipeline section that would connect the microtunnel to the terminal. Although this was just a temporary removal—with the trees being temporarily housed in a giant net cube the size of a small office block prior to replanting—it was not enough to prevent persistent demonstrations by the NoTAP protest group. Two hundred and eleven olive trees were involved, some of them historic, hence the need for preservation and replanting. But, at least four trees infected with deadly *xylella* bacteria were earmarked for destruction.<sup>12</sup>

The operation epitomized the complex politics that underpin TAP's situation in Italy. On March 16, 2017, Melendugno Mayor Marco Potì formally ordered TAP to stop the transplant operations; the next day, the Environment Ministry's director-general, Giuseppe Lo Presti, said TAP could proceed.<sup>13</sup>

As of mid-2018, pipelaying for both the 8-kilometer onshore section of TAP and the 56-kilometer connection from the TAP terminal to the Brindisi region will require the temporary removal of olive trees. This is likely to prove contentious, resulting in further legal wrangling that has the ability to delay project implementation. TAP President Walter Peerner has stated categorically that operations in Italy will have “not the least environmental impact.”<sup>14</sup>

TAP's managing director, Luca Schieppati, is confident that the project will survive such challenges. “TAP continues to propose a proactive positive dialogue with all the stakeholders, including the regional authorities,” he told the author.<sup>15</sup> He continued:

“We have developed a good project. We got our EIA [environmental impact assessment] evaluation and Single Authorization permit and 65 verifications of compliance are progressively under assessment and approval. Our pipeline and infrastructures will have minimal impact during construction, with mitigation actions in place. We will ensure land is given back to landowners exactly as taken.”<sup>16</sup>

He added: “During the operational phase of the pipeline there will be no social and environmental impact and the land will continue to be used according to local agricultural and touristic needs.”<sup>17</sup>

While TAP's critics regularly lodge formal complaints in court, questioning whether TAP is abiding by its environmental undertakings, the Administrative Court has so far delivered ten positive rulings confirming the project's environmental compliance and the validity of the Single Authorization Decree issued by the Ministry of Economy on May 20, 2015, which gave TAP the right to build its pipeline. Although further challenges will come to court in the next few months, TAP officials remain confident that the project will continue to be found in compliance with the various authorizations and permits previously obtained.

However, it is not just a question of whether TAP's actions are being backed up by the courts. Physical protests, and the disquiet of some members of Italy's new coalition government concerning TAP's impact on the environment, are also an issue.

12 *Xylella fastidiosa* is a sufficiently serious problem that any olive tree within 100 meters of an infected tree needs to be uprooted, regardless of whether it, too, is infected. In Puglia, where the disease is particularly rampant, there are major disputes over how to tackle it, since the uprooting of vast number of trees near xylella victims threatens the livelihood of local farmers.

13 Marcello Greco, “Espianto Ulivi: Ministero da Ragione a TAP,” *TagPress*, March 18, 2017, <http://www.tagpress.it/ambiente/espianto-ulivi-ministero-ragione-tap-20170318>

14 Walter Peerner, comment at Caspian Oil and Gas Conference, Baku, Azerbaijan, May 29 2018. Author's notes.

15 Luca Schieppati, telephone interview with the author, Baku, Azerbaijan, July 18, 2018.

16 Ibid.

17 Ibid.



Pipes for the construction of the TAP pipeline through Albania, taken in September 2017. As of September 2018, pipelaying for the onshore portion through Albania is nearly complete. *Credit: John Roberts.*

The protests could prove dangerous. At times, workers at the receiving terminal and the onshore pit for the microtunnel have required armed guards to protect them from protesters. The depth of the fierce opposition that TAP faces is epitomized by the president of the Puglia region, Michele Emiliano, who has expressed bitter opposition to one of the consortium's major social projects, the training of young people to work in the local tourism industry, since the Salento area is not only Puglia's delight, but one of Italy's gems.

In February 2018, Emiliano called on the trainees to abandon these courses, and urged prospective employers not to hire them. On March 1, he declared:

“It is shameful that someone who is assaulting the heart of our tourism by building the

pipeline there [at San Foca] should think to promote the development of tourist managers. I appeal to young and old Salentines: do not accept TAP's invitation. And to the media: refuse TAP'S advertisements.”<sup>18</sup>

TAP, Emiliano added, had made a “design error” that was “evident to all and would be very easy to correct.”<sup>19</sup> Almost certainly, the “design error” to which Emiliano referred was the choice of San Foca for TAP's landfall, rather than Emiliano's own preference: Brindisi.

The consortium is working to overcome the various governmental obstacles that now beset the project. Lisa Givert, TAP's head of communications, said on June 8, 2018: “TAP will continue to work closely with the Italian government and relevant ministries and authorities to

<sup>18</sup> Jacopo Giliberto, “Tap e le Ricadute Sul Territorio,” *Il Sole 24 Ore*, April 3, 2018, <http://www.ilsole24ore.com/art/impresa-e-territori/2018-04-02/lecce-si-misura-mappa-sociale-no-tap-e-ricadute-territorio-173439.shtml?uuid=AEUJufRE>.

<sup>19</sup> *Ibid.*

share contents, benefits and values of the project for Italian citizens and businesses, in terms of employment, revenues and reduction of natural gas prices.”<sup>20</sup>

Perhaps in response to ministerial claims that the project was pointless, Givert added, “TAP will bring natural gas, a sustainable energy commodity to contribute to the ongoing decarbonization process in Italy and a reliable ally for energy efficiency and renewables, as it provides necessary flexibility to manage the country’s energy needs.”<sup>21</sup>

Strangely, there was little indication that TAP and its contractors utilized the recent hiatus between the Italian election in March and the installation of the new government in June to speed up work on the project. Italy’s Saipem, which in 2016 won the contract to lay the 105-kilometer subsea section from Albania to Italy, has yet to start pipelaying. Saipem is also the contractor for the 1.6-kilometer microtunnel under the beach at San Foca. The pit from which it is to be drilled was completed well before the March election and, in early 2018, there was talk of drilling the tunnel before the summer holiday season. Current plans call for work to start after the end of the summer holidays. Partner BP said in May that it would take about five months to drill the tunnel. In July, Givert acknowledged that “the construction of the Trans Adriatic Pipeline (TAP) has been suspended in Italy,” although she added that this referred to the microtunnel, “in line with our commitment not to conduct any construction works during the summer season.”<sup>22</sup>

Construction work on the final piece in the jigsaw, the 56-kilometer line from the TAP receiving terminal to Brindisi, should start in the fall. Schieppati said Snam has secured construction permits and is preparing for procurement. Schieppati should know; before he was appointed TAP managing director in June 2017, he

held the same role at Snam Rete Gas S.p.A, the Snam subsidiary that manages Italy’s 32,500-kilometer natural-gas pipeline network.

Schieppati added: “Construction could start from October when removal of olive trees is allowed. In the meantime, the Open Season procedure is under discussion and construction could start when the procedure is completed.”<sup>23</sup> SGC sources said the Open Season procedure, which will confirm guaranteed use of the pipeline link for SD2 deliveries to customers in and beyond Italy, is expected by the end of 2018.

The TAP managing director was speaking in Baku during a July 2018 visit to Azerbaijan by a large Italian delegation, headed by President Sergio Mattarella and including Foreign Affairs Minister Enzo Moavero Milanesi.

Azerbaijani sources said the talks on the SGC and the TAP landfall in Italy were in-depth and extremely positive. “The President believes that the TAP project will happen in time; that everything will be implemented; that they will make sure it does,” said Vitaliy Baylarbayov, SOCAR’s deputy vice president for Investments and Marketing, who has been intimately involved in developing the SGC.<sup>24</sup> “They told us: ‘We understand the project, its importance for Italy; if there are some outstanding issues, they need to be promptly resolved. But we don’t see any of them as critical.’”<sup>25</sup>

But, these outstanding issues may, in fact, continue to cause problems. The Italian press quoted the foreign minister as saying that the Italian government considers TAP to be important for the diversification of Italian energy imports because “gas is cleaner than oil” and that the government “confirms its commitment to the pipeline project, taking into consideration environmental safeguards.”<sup>26</sup> The most precise reference to what the Italians had in mind came in a report from *Reuters* in

20 Mark Smedley, “Tap Hopes to Soften Rome’s New Stance,” *Natural Gas World*, June 8, 2018, <https://www.naturalgasworld.com/tap-hopes-to-mollify-romes-new-stance-61850>.

21 Ibid.

22 “TAP Construction in Italy Suspended,” *Azerbaijan State News Agency*, July 16, 2018, [https://azertag.az/en/xeber/TAP\\_construction\\_in\\_Italy\\_suspended-1180051](https://azertag.az/en/xeber/TAP_construction_in_Italy_suspended-1180051).

23 Author phone interview with Schieppati.

24 Vitaliy Baylarbayov, interview with the author, Baku, Azerbaijan, July 18, 2018.

25 Ibid.

26 “Italian Foreign Minister Says TAP Will Go Ahead,” *Interfax Global Energy*, July 19, 2018, <http://interfaxenergy.com/gasdaily/article/31806/italian-foreign-minister-says-tap-will-go-ahead>.



Baku, which quoted an Italian source as saying: “I think they will move [the pipeline] to avoid the olive trees.”<sup>27</sup>

The problem is that there is simply no way that any onshore pipeline in Puglia can avoid olive trees. This would be like driving through Manhattan and finding a route that avoided all cars. In effect, the only way to avoid the olive trees and still make landfall in Italy is to reroute the subsea pipeline to Brindisi.

### What Happens Next?

In terms of the project's supporters, almost all efforts appear concentrated on a single approach: finding a way for TAP to proceed, if not exactly on schedule, then with minimal delay. Those proponents argue TAP is simply too advanced, too big, and too important to be allowed to fail. They exude an air that while they are aware of problems, they have no fear of them. This is certainly the attitude of various TAP shareholders, who, when contacted by the author, consistently gave responses along the lines of “throw more money at the problem.”<sup>28</sup> While the shareholders acknowledge that there will be delays, they believe that these should not prove fatal. In essence, their attitude is that common sense—and cash—should ensure the problem gets resolved.

If the protesters' aims are essentially economic—promotion of jobs and regional development—this approach should work, though it may take some time. However, if the opposition is based on principle and rooted in environmental concerns, and if those views are backed by the central government and regional authorities, the question of what happens next must be asked. Given the changes in Italian politics, it can no longer be assumed that, even if the new central government eventually comes out in favor of TAP, it retains the legal authority to override regional court rulings.

At an official level, the position of SGC's developers was made clear by Baylarbayev: “There is no change in the plans of TAP whether we are talking about its route or the startup time of the pipeline, which is still

2020. The route remains the one reflected in the Single Authorisation Decree of Italy.”<sup>29</sup>

Despite the opposition, there are good, and practical, reasons why the various regional and national authorities should accept the project. The first concerns Italy itself, with Italian Foreign Ministry sources noting during the Baku visit that current gas-import contracts with Russia, Algeria, and Libya expire next year, and completing TAP will increase Italy's negotiating power for new contracts.

Second, TAP has been developed on the back of firm long-term contracts for gas delivery. While gas intended for the Italian market accounts for about 40 percent of total SD2 gas supplies delivered to Italy, the rest is bound for destinations beyond Italy—a situation that comes with enormous consequences.

Third, Italy's gas demand is soaring. Between 2014 and 2017, Italy, along with Germany, saw the biggest consumption growth in gas within the twenty-eight-member European Union (EU). Consumption climbed from 59.4 bcm in 2014 to 64.8 bcm in 2015, to 68.0 bcm in 2016, and 72.1 bcm in 2017. At the same time, Italian gas production slipped steadily, from 6.9 bcm in 2014 to 5.3 bcm in 2017.<sup>30</sup>

Fourth, a potential consequence of TAP being effectively killed is that major project developers would be unable to take Italian partners' word on delivering complex projects in the face of popular opposition, however limited. In this context, as the Azerbaijani hosts pointed out to their Italian guests during the July 2018 visit, Italian companies, and consortia led by Italian companies, have so far secured some \$7 billion worth of SGC contracts.

Fifth, there could be major lawsuits between the parties involved as they try to recoup some of their losses. While such devastating suits should result in an eventual settlement, what price would be paid—and how it would be paid—remain impossible to assess.

27 “Italy Tells Azerbaijan It Is Committed to TAP Pipeline,” *Reuters*, July 18, 2018, <https://uk.reuters.com/article/tap-italy-confirmation/italy-tells-azerbaijan-it-is-committed-to-tap-pipeline-idUKL8N1UE2TT>.

28 Based on interviews conducted by the author and responses given on background.

29 Baylarbayev, interview.

30 BP, *Statistical Review of World Energy 2018*, <https://www.bp.com/content/dam/bp/en/corporate/pdf/energy-economics/statistical-review/bp-stats-review-2018-full-report.pdf>.



Sangachal Terminal, Azerbaijan. A key terminal in the Southern Gas Corridor, opened in late May of this year. *Source:* Official website the President of Azerbaijan.

In addition, for Azerbaijan and all the companies involved in developing the SGC project, it is not simply a matter of delivering contracts on time; it is important to maintain the planned production profile. Shah Deniz produces both gas and condensate, with the stage-one (SD1) project producing around 0.6 million tons of condensate alongside some 2.7 bcm of gas during the first quarter of 2018. On this basis, full-field SD2 production of 16 bcm/y could produce the equivalent of around 70,000 b/d of oil, which is highly significant, given declining production at Azerbaijan's major oilfield, Azeri-Chirag-Guneshli. If the gas is not produced, then neither is the condensate, which would have a serious impact on the project's overall commerciality.

### No Plan B

The most striking aspect of the TAP issue is that there is no Plan B. There appears to be little, if any, structured discussion—either within the TAP consortium or within

individual TAP shareholders—aimed at formulating a radical alternative to the current approach of working out how to complete the project in line with current specifications. The partners have not agreed on any concrete alternatives, and the consideration and study of prospective alternatives appears confined to *ad hoc* discussions by worried executives.

There is some justification for this. While various conceivable alternatives might be envisaged, all of them come with a heavy price in terms of additional costs and delays.

The principal alternatives are:

**Rerouting the subsea line to Brindisi:** This has one great advantage as, in the past, both local and regional authorities have urged TAP to reroute the subsea line so that it terminates in or near the industrial port of Brindisi. However, this would entail serious delays, since new engineering studies and environmental-im-

pact assessments would need to be carried out. It would also be much more expensive. As of May 2018, some €3.0 billion of TAP's estimated cost of €4.5 billion had already been spent.<sup>31</sup> It is reasonable to assume that laying the 105-kilometer subsea line will account for around €500–600 million of the remaining costs. Lengthening this line to around 170 kilometers, to ensure landfall at Brindisi, would probably double the subsea costs, since fresh engineering and environmental studies would have to be commissioned for a new and longer route. In terms of timing, 2022 completion might just be possible.

**Developing the Ionian Adriatic Pipeline (IAP):** While the IAP has been under serious discussion for years, it remains stalled. The project consists of a line that would start at the TAP offtake station at Fier, Albania, and then connect to the main Croatia gas system near Split, largely following the Adriatic coasts of Albania, Montenegro, and southern Croatia. The project is estimated to cost €618 million for a 511-kilometer line capable of carrying 5 bcm/y. However, to serve as an effective extension of TAP, it would have to be built with an expanded capacity, accompanied by considerable upgrading of the internal distribution systems within Croatia and Slovenia, to enable gas dispatched through TAP to access major European receiving terminals such as Baumgarten in Austria or Tarvisio in northeastern Italy. In practice, IAP is not one project but several, and costs would escalate significantly, even allowing for any savings from non-implementation of the subsea link. When a suggestion was made by the author at a recent meeting of gas specialists in the Energy Community—a body grouping Balkan states outside the European Union with neighbors already in the EU—that the IAP could be considered a backstop for TAP, it was met with a deafening silence by all save the Albanian delegates. For a fuller assessment of the IAP, please see the section on IAP in John Roberts, *Three Pipelines and Three Seas: BRUA, TAP, the IAP, and Gasification in Southeast Europe*.<sup>32</sup>

**Revisiting the SEEP concept:** During previous discussions of the potential European markets for SD2 gas, TAP partner BP prepared an assessment of the Balkans, to see whether this region might collectively serve as

a market for up to 10 bcm/y. This was commonly—and somewhat unfortunately—dubbed the South East Europe Pipeline (SEEP). Despite the name, it was never really envisaged as a single-pipeline project, but, rather, as a concept that looked at distributing gas throughout the Balkans in a capillary manner by means of several relatively small-capacity pipelines, including existing and yet-to-be-built local interconnectors.

**Speeding up BRUA and other Balkan interconnectors:**

A number of projects under way in the Balkans could ensure delivery of some gas from TAP to a major European hub, such as Baumgarten. The most prominent of these is the BRUA system, named after the Romanian initials of the four countries it is intended to connect: Bulgaria, Romania, Hungary (Ungaria), and Austria. Although the sections within Romania—the core of the BRUA—are already under way, their capacity is just 4.5 bcm/y, and the capacity of the connection from Bulgaria to Romania is barely half that. For BRUA and projects such as the Interconnector Greece–Bulgaria—necessary to connect TAP to the Bulgarian system, and, thus, to BRUA—to play a significant role in delivering SD2 gas to customers in or beyond Italy would require a major expansion, not least because one of BRUA's main purposes is to handle new volumes of gas that Romania hopes to produce from newly discovered offshore fields in the Black Sea. For a fuller assessment of BRUA, please see the section on BRUA in John Roberts, *Three Pipelines and Three Seas: BRUA, TAP, the IAP, and Gasification in Southeast Europe*.<sup>33</sup>

**Reversing the Soviet-era megapipelines that currently carry Russian gas to Turkey and Austria:**

A pair of very-large-capacity pipeline systems could, in theory, be connected to the Southern Gas Corridor at one end, and to Baumgarten or Tarvisio at the other. The pair are the Brotherhood system, built by Gazprom's Soviet-era predecessor to carry Russian gas west to the heart of Europe, and the Trans-Balkan Pipeline, built to serve customers in the Balkans and Turkey. These lines are supplied by Gazprom via Ukraine, and Gazprom has repeatedly said it does not intend to continue their use once current transit contracts with Ukraine expire at the end of 2019. However, while it looks increasingly likely that Gazprom will be able to end use of the West Balkans

31 Afgan Isayev, general director of SGC-CJSC, press statement, June 30, 2018. SGC-CJSC is Azerbaijan's special-purpose vehicle for holding much of its stake in various SGC components. See box *The SGC: Progress to Date*, for further information on SGC costs and outlays.

32 Roberts, *Three Pipelines and Three Seas*.

33 Roberts, *Three Pipelines and Three Seas*.



line once its TurkStream system starts operation, delays to Russia's flagship Nord Stream 2 project in the Baltic will require Gazprom to continue using the Brotherhood system to serve customers in Central Europe, notably in Hungary. Moreover, even if Gazprom might not be using these lines, it won't necessarily be prepared to let anyone else use them, raising the question of how long it might take for EU regulations on access to such infrastructure to be implemented.

## Consequences

The difficulties with the potential alternatives underscore the consequences of failing to complete TAP, which cannot be underestimated. As one diplomatic source has said: "The problems associated with any Plan B demonstrate the need to succeed with Plan A, the original plan."<sup>34</sup> The existing sale and purchase contracts that underpin not only the development of TAP, but much of the rest of the SGC venture, are at stake. What will happen to the 8 bcm of gas to be supplied to already-contracted customers? Will the customers sue the various SGC partners? Might TAP have to default on its obligations and declare *force majeure*?

In the longer run, this could challenge the principle on which such projects are based. The giant \$22.7 billion Shah Deniz Phase Two upstream development was largely based on the principle of hub pricing, and the idea that gas production in Azerbaijan could be developed, produced, and sold to customers on the basis of competitive gas-on-gas pricing. While this did not apply to the 6 bcm/y to be sold to Turkey, it does apply to the 8 bcm/y to be sold to customers in or beyond Italy.

Two years ago, prominent European banker Eric Rasmussen, who was deeply involved in arranging financing for various elements of the SGC system, commented that "Shah Deniz is the first project of this size to be

based on hub pricing not oil pricing." Rasmussen, head of the Natural Resources Unit at the European Bank for Reconstruction and Development, then added, "It shows we can use hub pricing for major contracts."<sup>35</sup>

There are also practical issues plaguing the theoretical alternatives. "How can we speak today about alternatives?" said one high-level SGC source.<sup>36</sup> "Any alternative will require a similar process of discussion, evaluation, studies and engineering, with similar concerns—environmental and strategic—taken into account."<sup>37</sup> Alternative options require a process to cover such elements as environmental impact assessments, right-of-way permitting, and the development of fresh construction and purchase programs. In contrast, the source argued, the existing process "has already started producing commercial gas on 30 June and is working to fulfil the SGC's promise to deliver to its Euro customers."<sup>38</sup>

The source added, "The alternative will require us to go through a process which would take at least five years."<sup>39</sup> If there are delays, the TAP consortium will "have to go out to the buyers and see what flexibility they can offer." But, the source added, "they (the buyers) will want some compensation."<sup>40</sup>

## Resolving the Conundrum

In Baku, President Mattarella declared, "With the Puglian protestors we will start a transparent dialogue and not a façade."<sup>41</sup> It will not be an easy dialogue. Lezzi, the minister for the South, is passionately opposed to TAP. As one SGC source said, "This is her true belief. If you try to change her political platform, you will fail, because it is the platform that brought her to power."<sup>42</sup> If she changed her mind, the source added, "she would not be understood by those who are currently on her side."<sup>43</sup> In theory, Lezzi has no role in TAP deliberations; but, in practice, she is a powerful voice,

34 Diplomatic source, comment in Baku, Azerbaijan, July 17, 2018.

35 Eric Rasmussen, director of natural resources, EBRD, comment during Sofia Gas Conference, October 20, 2016. Author's notes.

36 Interviews with the author, Baku, Azerbaijan, July 16-18, 2018.

37 Ibid.

38 Ibid.

39 Ibid.

40 Ibid.

41 "Gasdotto Tap, Mattarella Rassicura L'Azerbaijan: 'Si Farà Nei Tempi Previsti,'" *La Repubblica*, July 18, 2018, [http://bari.repubblica.it/cronaca/2018/07/18/news/gasdotto\\_tap\\_mattarella\\_rassicura\\_l\\_azerbaijan\\_si\\_fara\\_nei\\_tempi\\_previsti\\_-202113904/](http://bari.repubblica.it/cronaca/2018/07/18/news/gasdotto_tap_mattarella_rassicura_l_azerbaijan_si_fara_nei_tempi_previsti_-202113904/).

42 Source, interviewed July 2018.

43 Ibid.



Olive groves in the Puglia countryside. *Source:* Wikimedia Commons/Patrick Nouhailer (<https://creativecommons.org/licenses/by-sa/3.0/deed.en>).

and her opposition could provoke dissent within the Five Star Movement to any agreement that allows TAP to as currently planned.

The problems confronting TAP are essentially political, and will require a political solution. This means engaging with a broad range of generally anti-TAP officials in Italy's central, regional, and local governments. It could cost TAP's partners quite a lot, in terms of support for non-TAP projects, to secure a change of heart. As of mid-August 2018, TAP shareholders were understood to be considering how a fresh investment program for Puglia might be rapidly developed. The shareholders are concerned that actual laying of the subsea section of TAP must start no later than spring

2019; otherwise, completion of the project could be delayed another year.

Nonetheless, international financial institutions clearly have faith in the project. The most striking example was the European Bank for Reconstruction and Development's (EBRD) July approval of €1.2 billion in loans for TAP, with €500 million as a direct loan and the balance as a syndicated loan. Diplomatic sources noted that the directors of the EBRD had, at Italy's request, originally intended to postpone this decision. But, after receiving fresh information from Rome, they not only took the vote to approve the loan on time, but secured the support of the Italian board representative.<sup>44</sup> Earlier this year, the European Investment Bank

<sup>44</sup> Diplomatic sources, discussions in Baku, Azerbaijan, July 17–18, 2018.

agreed to arrange €1.5 billion in TAP funding, while further financing is expected from the export-credit agencies of France, Germany, and Italy.

Somewhat facetiously, the author suggested in a recent blog for the Atlantic Council that perhaps Russia might be enlisted to aid the campaign to get TAP completed.<sup>45</sup> This reflected the good relations Moscow enjoys with one party in the new Italian government, the League. Gazprom has—sporadically, and without detail—indicated potential interest in using TAP's planned 10-bcm/y-capacity expansion to carry gas dispatched to Turkey via the TurkStream pipeline onward to customers in Europe. Since this makes considerable commercial sense (otherwise, Gazprom will have to build a new pipeline of its own to carry gas from the second string of TurkStream to European customers), the idea of invoking Moscow's assistance is not totally far-fetched.

It would be ironic if a project intended to improve Europe's energy security would, in the end, hinge on cooperation with Russia. However, stranger things have happened in the energy business.

Baylarbayov stressed that the choice of TAP to carry SD2 gas to Europe was underpinned by an intergovernmental agreement signed between Italy, Greece,

and Albania in 2012, by Italy's Single Authorization Decree of 2015, and by detailed discussions with the Italian authorities. He stressed the overall importance of "completing the TAP project in a timely manner" and the SGC's overall potential—not only to carry Azerbaijani gas, but to bring gas from the Middle East, Central Asia, and the eastern Mediterranean to Europe. "Of course we are interested in attracting new sources of gas into the SGC," he said.<sup>46</sup> He added that it was possible that Russia's Gazprom might be interested in using the TAP system to deliver gas to Italy that had first landed in Turkey via TurkStream. He repeated the SGC mantra concerning input into TAP's projected second-stage, 10-bcm/y-capacity expansion that "we do not make any exception or discrimination concerning the source of supply, so long as the supplier is legitimate and wishes to use our system in accordance with the relevant EU regulations."<sup>47</sup>

The conclusion is, therefore, straightforward. There is no Plan B because, in effect, any Plan B would involve years of delay, and that is simply not acceptable for project developers who have already committed and achieved so much. But, if TAP is to open on time in 2020—or at least "in a timely manner," to quote Baylarbayov—then TAP will need all the help it can get to overcome the Italian disconnect.

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45 John Roberts, *The Irony of Italy's Election for Energy* (Washington, DC: Atlantic Council, 2018), <http://www.atlanticcouncil.org/blogs/energysource/the-irony-of-italy-s-election-for-energy>.

46 Baylarbayov, interview.

47 Baylarbayov, interview.





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Roberts is one of Europe's leading energy security specialists. He served as a managing editor at Platts for twelve years, and previously with Financial Times Energy, focusing on the development of energy and on the impact of energy on development. In assessing global energy security issues, he has regularly toured the Gulf and the Caspian, as well as visiting the Alaskan North Slope, the Athabasca Tar Sands, China, Norway, and Venezuela.

He has also testified to UK parliamentary committees on Turkish, Russian, Caspian, and Mideast energy security issues. He is currently researching European energy security issues, including the contribution of natural gas to a global renewables-led energy revolution; the role of Turkey in European energy security; Russian gas deliveries to Europe; the development of new supply pipelines and interconnectors within Europe; and the energy security implications of gas discoveries in the Eastern Mediterranean. He is also preparing a study on the triangular gas relationship between Russia, China and Central Asia.

He has lectured widely on a variety of subjects, including the development of Arctic oil and gas, the impact of social and political unrest in the Middle East and boundary disputes in the Caspian Sea. In September 2015 he delivered the inaugural lecture, *What is Energy Security?* at the NATO Training School's Energy Security Course in Oberammergau, Germany.

Roberts has completed studies for the Atlantic Council on oil and gas in the Kurdistan Region of Iraq, on gas interconnectors in Europe, and on the development of Russia's Turkish Stream pipeline and its impact on the development of the Southern Gas Corridor to connect the Caspian to Europe. He has also contributed to various studies on oil and gas development in the Eastern Mediterranean. His paper *Three Pipelines and Three Seas: BRUA, TAP, the IAP, and Gasification in Southeast Europe* was published by the Atlantic Council in September 2018.

Recent contributions to collated studies include: *Regional Energy Cooperation along Europe's Southern Energy Corridor*. Chapter 12 in *The South Caucasus: Security, Energy and Europeanization*, Eds. Meliha B. Altunisik and Oktay F. Tarrisever. Routledge, January 2018. *The Southern Gas Corridor*, Chapter 14 in *The European Gas Markets: Challenges and Opportunities*. Eds. Manfred Hafner and Simone Tagliapietra. Palgrave Macmillan, November 2017.

His books include *Caspian Pipelines* (1996), *Visions & Mirages: The Middle East in a New Era* (1995), and *Beyrouth: L'Été '82 (Beirut, Summer of '82)* (1983).

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