

RWE may withdraw from Nabucco

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On 17 January, Jurgen Grossmann, CEO of RWE, Germany's second largest energy company, announced that his company was considering withdrawing from the project to build the Nabucco gas pipeline. The Management Board of RWE, which has so far backed the idea of this project, is currently making the company's participation in the construction of the gas pipeline dependent on gas supplies being guaranteed under contracts with Azerbaijan and Turkmenistan. Nabucco is one of the key energy projects supported by the European Union. It is aimed at improving the diversification of gas supplies to Europe, which is expected to reduce the dependence on gas supplies from Russia. 31 billion m³ of gas annually would be transported by Nabucco (3,900 km) from Azeri and Turkmen gas fields via Turkey, Bulgaria, Romania and Hungary to Austria. Its estimated cost is 8 billion euros. However, according to some experts, the total costs of this project may reach as much as 16 billion euros. So far, no gas supply contracts have been signed and no shares in gas fields have been guaranteed to any member of the consortium which, besides RWE (16.6% of the shares) is formed by: Austria's OMV, Hungary's MOL, Romania's Transgaz, Bulgaria's Energy Holding, and Turkey's Botas.

Commentary

- The announcement of RWE's possible withdrawal from Nabucco shows that this company sees little chance for the realisation of this project, which seems to be unprofitable. The management of RWE has so far been among the staunchest supporters of the construction of this pipeline. The company was to be the key recipient of the gas from Azeri and Turkmen fields because of its access to a large consumer market. Following its withdrawal from Nabucco, RWE wants to become engaged in smaller projects, which seem to offer a higher rate of return, such as TANAP (a planned gas pipeline running from Azerbaijan through Turkey to Europe, with a capacity of 10 billion m³) or ITGI (a planned gas pipeline running from Turkey through Greece to Italy, with a capacity of over 11 billion m³).
- The withdrawal from Nabucco would fit in with the new investment strategy of RWE, namely giving up high-risk projects and instead become engaged in investments which offer higher rates of return (for example, the energy market in Turkey) and the fastest developing sectors (for example, the renewable energy sector). The company has decided that it will by 2015 invest 5 billion euros, which it will save through selling its assets, mainly in wind farms in Germany and on the North Sea. The company may invest more of its savings in the conventional electric power sector (coal and gas power plants)

in a developing country (Turkey, Brazil or India). RWE's possible withdrawal from Nabucco may also be influenced by its present financial condition, since it has the highest debts of any German energy company (approximately 27 billion euros) and has incurred losses as a result of the German government's decision to no longer use nuclear energy (a total of approximately 2 billion euros) and unfavourable gas contracts with Gazprom (a total of approximately 1.5 billion euros).

- RWE's withdrawal along with the lack of access to gas fields and gas supply contracts, high gas prices, the economic crisis and, last but not least, the low cost-efficiency of Nabucco; all this could make other investors give up this project. This seems even more realistic, when one considers the fact that Austria's OMV has already removed Nabucco from the list of its key investments, and the governments of Azerbaijan and Turkmenistan have not been showing any great interest in this project.