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THE GAS LABYRINTH IN EURASIA: PROJECTS, FACTS AND GEOPOLITIC CONSEQUENCES

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Abstract:

On 28 February 2012, in the Analysis Document of the IEEE 010/2012[1], we studied the main news about gas geopolitics that were taking place in the so-called south corridor of supply for the European Union (EU). In the past weeks there have been some major events in this area, and in this Document we will study its consequences.

Keywords:

TANAP, Nabucco, European Union, Turkey, Azerbaijan, Russia, South Stream, Turkmenistan, Caspian, Afghanistan, China.

[1] See "Geopolítica del gas: las novedades en el *corredor sur* de suministro a la UE", available at http://www.ieee.es/Galerias/fichero/docs_analisis/2012/DIEEEA10-2012_FJRG_Geopolitica_del_gas_las_novedades_en_el_corredor_sur_de_suministro_a_la_UE.pdf

INTRODUCTION

On the 26th of June 2012, the leaders of Azerbaijan (President Aliyev) and Turkey (Prime Minister Erdogan) signed an intergovernmental agreement regarding the Trans-Anatolia gas pipeline Project (TANAP). It will have a big impact on gas geopolitics in the area that covers from Central Asia to the European Union, passing through the South Caucasus. As mentioned in the Analysis Document of February, TANAP's construction is scheduled to take place between 2014 and 2017; this pipeline will be able to transport up to 30 bcm in 2026. It is estimated that the construction costs will range between 5 and 6 billion euro, and Azerbaijan would be the one bearing most costs (80 % through the state company SOCAR, and the remaining 20 % will be provided by Turkey).

Figure 1: The *maze* of pipeline projects in the south corridor

TANAP is a fundamental element in order to enable the south corridor of gas supply mentioned before to the EU; the objective is to reduce the dependence on Russian gas, especially in the countries through which would pass the European part of Nabucco: Bulgaria, Romania, Hungary and Austria. The producers' consortium of the Azeri gas field Shah Deniz II has chosen TANAP as the export route of the 10 bcm (billion cubic meters) of gas to Europe available from 2017 on (TANAP will transport another 6 bcm, on the same date, supplying western Turkey). It has also been planned an initial increase from 7 to 21 bcm of the gas pipeline Baku–Tbilisi–Erzurum Pipeline (BTE pipeline), a Turkish city where it would be joined to the TANAP.

WHO GAINS WITH TANAP

Azerbaijan, as the main driving force, benefits the most from TANAP. The political initiative of the project, made public in October 2011, was from the Government of Azerbaijan, who in addition to their commitment to supply gas, provides most of the capital investment necessary and takes care of the technical design. Moreover, and even though the main investor of Shah Deniz II is the British company BP, Azerbaijan has a 10 % of the exploiters' consortium through SOCAR; therefore, they also benefit from the gas sale to Europe. Finally, the strategic objective of Baku is consolidated and they obtain a dedicated connection, newly build and of high capacity, that unites their fields around the Caspian Sea to the EU, both the role as gas supplier and as a potential transit country, if they build a gas pipeline connecting Turkmenistan and Azerbaijan through across the seabed of the Caspian Sea.

Figure 2: Supplier and transit countries of resources in the south corridor

Regarding **Turkey**, as a transit country of Azeri gas and oil [through the Baku-Tblisi-Ceyhan (BTC) oil pipeline, operative since 2005], Ankara achieves the object of becoming a key corridor for the energy supply to Europe, which will produce enormous profits by the transit fares, apart from boosting Turkey's position in the negotiations with the EU, including the ones related to the accession. At the same time, the country will receive a vast capital investment, not only by TANAP, but other investments already committed, for example in the petrochemical sector, holding investments between 2012-2017 up to 15 000 million dollars.

Georgia and Turkmenistan also benefit from the Project. Regarding **Georgia**, even though the shortest trans-Caspian route to Europe goes through Armenia, the conflict between this country and Azerbaijan concerning the enclave of Nagorno-Karabakh makes it impossible; therefore, it's necessary to take an alternative route and go through Georgian territory. Due to this fact, and the same as Turkey, Tblisi gains more geopolitical value as a key corridor for the supply to the EU, and benefits from transit fees related to the mentioned capacity expansion of the BTE. Regarding **Turkmenistan**, a country to which we will dedicate an independent section, TANAP makes possible the construction of a trans-Caspian gas pipeline that will join the country to Azerbaijan.

Figure 3: Original layout of Nabucco. TANAP saves us the trouble of having to go through Asia

Regarding the **European Union**, the initial ambitious project of Nabucco, that required great investments from the European Commission and the European Investment Bank, failed in 2011. The reasons were that the gas from Shah Deniz II was not guaranteed, it was economically unviable, and a few corporations of the consortium (like the German RWE and Turkish BOTAS) didn't want to be in. However, with the construction of TANAP in Turkish territory, one only needs to build the western part of Nabucco (from the Turkey-Bulgaria border to Central Europe), a 1 300 Km route, instead of the original 3 900 Km. This fact reduces dramatically the costs that Europe would assume. In addition, only two days after TANAP's launching announcement, the consortium of Shah Deniz II said that Nabucco West

was their first choice to transport gas for TANAP's end to Austria, an agreement that hadn't been possible for the EU with the original project.

Lastly, the Member States through which Nabucco West will go, **Bulgaria**, **Romania**, **Hungary** and **Austria**, that presently receive gas mainly from a Russian pipeline and have Ukraine as a transit country, will diversify their supply sources and increase their energy security against occasional gas cuts like the ones occurred in 2006 and 2009, because of the disagreements between Moscow and Kiev. Romania will be the one who benefits the most, due to the fact that, out of these four countries, is the only one through which the alternative to the Russian project, the South Stream, won't pass. (See the next section).

WHO LOSES WITH TANAP

Regarding energy, **Armenia** is the eternal loser in the South Caucasus. Azerbaijan punished them for the conflict of Nagorno-Karabakh and, as a result, the country is surrounded by all the Caspian supply routes to Europe. Therefore, Yerevan depends on the Russian gas imports through Georgia, and is trying to increase its energy security through connections with Iran.

Another seeming loser is the British **BP**, because they promoted that the Shah Deniz II gas, in whose consortium is the most important with a 25.5 %, reach Europe by means of the so-called SEEP (South Eastern Europe Pipeline), using existing pipelines to export the first 10 bcm from Shah Deniz, a highly cheap project, but without growing capacity. Nevertheless, BP supported this alternative against the original Nabucco when it was clear that it was going to fail, but with TANAP and the new Nabucco West it doesn't make any sense. That's why the SEEP can be viewed as a past project.

Regarding the other projects that wanted the first 10 bcm of Shah Deniz II, the **Interconnector Turkey-Greece-Italy pipeline** (ITGI) is out of the game, because the Greek

crisis has forced Athens to sell the company DEPA, the project's leading promoter, and hasn't got enough credit to undertake it. In respect of the **Trans Adriatic Pipeline** (TAP), the consortium of Shah Deniz II has declared that it is an alternative for Nabucco West to export gas to Europe, in this case, to Greece, Albania and Italy; however, it still has the same disadvantages mentioned in the Document published in February: it is addressed to a relatively saturated market, it fails to reduce the dependency on Russian gas of the eastern UE member countries, and Azerbaijan has clearly stated that their main concern is for gas to reach Central Europe and not Italy.

Another loser is the **Russian Federation**, because this may break their almost monopoly as gas supplier to the South-Eastern Europe, that is carried out via pipelines which pass through Ukraine. Moreover, the ambitious project of the South Stream pipeline to transport gas across the seabed of the Black Sea, from Russia directly to Bulgaria, and from there to Serbia, Hungary and Austria, loses its appeal in front of the TANAP and Nabucco West combination. The key is that even though the gas supplies for which TANAP and South Stream compete are different (the latter not being gas from the Caspian Sea, but the one Russia provided from unidentified gas deposits), they have the same potential customers in central Europe.

Figure 4: South Stream pipeline's layout

Although it may seem contradictory, we can include the **European Union** in this section, despite the advantages mentioned before. One could say that the object, which is to

diversify the sources of supply, does not justify the means, because:

- The alternative suppliers to Russia are the countries located in geopolitical regions with conflicts and instability (like the South Caucasus and Central Asia), with political regimes and negotiating traditions that are very different from the EU's model than the Russian one.
- Transit countries share this complex neighborhood (one only has to think about the current Syrian conflict, in which Turkey is highly involved), and transforming Turkey into the key corridor of resources to Europe may not be the best decision, in a time of reaffirmation for this country as a regional force and its frustration towards the EU, due to the lack of progress regarding the accession.

Lastly, and like the fact that TANAP-Nabucco favours Romania, the South Stream's potential failure would affect **Serbia**, that would cease being a transit country for the Russian gas to Central Europe.

TURKMENISTAN'S GAS AND ITS RAMIFICATIONS

As explained above, TANAP will transport in 2017 16 bcm of Azerbaijan: 6 to Turkey itself and 10 of Shah Deniz II to Europe. In 2026, when TANAP reaches the capacity of 30 bcm, Azerbaijan could, in best case scenarios, supply 25 bcm; this would make essential the search of more supply sources, and Turkmenistan would be the most suitable option.

However, it's more complicated than it first appears. Beginning with the supposed Trans-Caspian gas pipeline which should unite Turkmenistan with Azerbaijan, Russia and Iran are against this project and they argue the lack of agreement regarding the social status of the Caspian Sea and the potential environmental problems against their fish farming abundance. Behind Moscow's position are clearly the concerns on the possibility that the gas from Turkmenistan may someday reach directly the EU, Gazprom's favored customer.

Figure 5: Gas pipelines in Central Asia

In addition, despite the fact that as Altaic people they share an ethnic origin, Turkmenistan and Azerbaijan have had several disagreements since their Independence from the Soviet Union concerning the Caspian Sea. Last June Ashgabat ordered to start seismic research in Serdar's oilfield (Azeris call it Kapyaz), the sovereignty of which isn't clear due to its location in the line of the maritime border. As a result, the Ambassador of Turkmenistan in Baku made some consultation calls, and the Turkmen Government issued an official notice reporting Azerbaijan's harassment to the ships working in the area.

Some analysts consider that Russia can be behind this incident, because it coincided with some naval maneuvers of the Russian Navy in the Caspian Sea and the visit of the US Secretary of State Hilary Clinton in Azerbaijan, where she defended a Trans-Caspian gas pipeline; whereas others consider that the most interested country is Iran, because Iran wants Turkmenistan to provoke Azerbaijan and to undermine their relationship given that the confrontation between Tehran and Baku the past months, that has even lead the Azeris to resort Israel in other to rearm. In any case, it shows the extreme instability of the region and all the geopolitical interests intertwined.

Regardless of what happens in the Caspian Sea, we must highlight that Turkmenistan is providing itself with multiple routes to supply gas, and there are doubts if Turkmenistan will be able to meet the supply commitments that has assumed:

- **Towards Russia**: they have the CAC gas pipeline that reinforces the old soviet pipelines, the only export cannel of Turkmen gas over several decades.
- **Towards China:** they have an operating gas pipeline since 2009 that goes through Uzbekistan and Kazakhstan.
- **Towards the south:** is projected the TAPI (Turkmenistan-Afghanistan-Pakistan-India), a project that has an important US support due to the potential contribution that can do towards Afghanistan's stability and development.
- Finally, **China and Afghanistan** announced in June a new project that could transport Turkmen gas to China through the north of Afghanistan and Tajikistan, and that would directly compete with TAPI for resources.

Even though this last project is in its embryonic state, it's very representative of what's at stake around the Turkmen gas. At first glance, it reflects that the President of Afghanistan Karzai has more confidence in the physical safety of a gas pipeline that may cross the north of Afghanistan, with a Tajik and Uzbek ethnic majority, than in TAPI which would go through more conflictive areas with a Pashtun majority, like Helmand and Kandahar. China is involved in the exploitation of gas fields in Turkmenistan, and funds the construction of pipelines towards Xingjian, whereas the funding of TAPI is not clear due to the security problems mentioned above, because the US support for TAPI is only political.

Moreover, the new project is in line with the growing connection between Turkmenistan and China where energy is concerned, because the gas supply through pipeline has gone from 10 bcm in 2010 to 15, 5 bcm in 2011 and to the 24 bcm expected this year. In the Summit of Shangai Cooperation Organization (SCO) held at the beginning of June, the Chinese state company CNPC signed a framework agreement with its Turkmen equivalent in order to increase the supply up to 65 bcm per year, an amount that could partly (around 25

bcm) transit through the new gas pipeline in Afghanistan. Experts are sure that it's impossible for Turkmenistan to supply all that gas to China and also supply 33 bcm per year to TAPI, not to mention the possible provisions to Europe.

For **Pakistan** TAPI is an essential project, but its difficulties are so obvious that in the Summit of SCO (organization where Pakistan and Iran have observer status) they pressed Iran on the relaunch of a gas pipeline Iran-Pakistan-India (IPI), more viable from the security point of view than TAPI; however, the USA is politically against it (due to Iran's nuclear program) and this increases the tension between Washington and Islamabad. Curiously, in this case the interests between Pakistan and **India** coincide, because this country can only receive the supplies by means of pipelines through its western neighbour, it doesn't matter if it's Turkmen or Iranian gas. That's why India sees the Chinese project as a way to get more Turkmen gas and eliminate the TAPI as another episode of the geopolitical issues between New Delhi and Beijing.

The last implication is one of the former Soviet republics of Central Asia, which are divided in the steppe-land with energy resources, but without water (Turkmenistan, Uzbekistan and Kazakhstan), and the mountainous area where the equation is inverted (Kyrgyzstan and Tajikistan):

- To **Kyrgyzstan** the problem is not that serious, because its relationship with Kazakhstan and China is excellent, and even Beijing has thought about constructing a pipe that goes to Kyrgyzstan from the operating gas pipeline Turkmenistan-Uzbekistan-Kazakhstan-China.
- For **Tajikistan**, however, the new Afghan-Chinese Project would be essential, because it would serve them to by-pass Uzbekistan, with whom it has a poor relationship and who even cut them the gas supply last winter in retaliation for the construction of Tajik dams in the basins of the rivers they both share.

Finally, also in this region we must mention Russia. There's an agreement between Moscow and Beijing to export up to 68 bcm of Russian gas to China, in near equal measure from Western Siberia to Xingjian, and from the Russian Far East to Manchuria; however the lack of

agreement between Gazprom and CNPC about the prices endangers those ambitious projects, because they also include placing in service new gas fields that require enormous investments in which China should take part[2]. Nonetheless, if China obtains more and more Turkmen gas, they won't be interested in negotiating with the Russian, for which the EU is also their favorable consumer because they pay more.

CONCLUSIONS AND PROSPECTS

Regarding the southern natural gas corridor for EU, the launch of TANAP is a key factor; Azerbaijan funds most of the project, because they own most of the gas that it will transport and sell at European rates. Turkey partly finances it, because they become the key transit zone of gas from the Caspian Sea to Europe and receives great investments from Azerbaijan. Lastly, the EU reduces the dependence on Russia, as intended the initial Nabucco Project that failed, but with a cheaper formula, the Nabucco West.

However, sometimes the interests of the EU-European Commission appear not to be in line with the EU Member States. The most obvious case is that in the north front of gas supply Germany promoted their own union with Russia (the North Stream), without taking into account the supposed dependence and without looking for complex formulas to reduce it, considering that the responsible for the problems in 2006 and 2009 were the transit countries and not the Federation[3].

An equivalent solution in the south would have been to trust the gas supply to the South Stream; however, it's true that in this case the origin of the gas Russia would have to supply is not clear. In contrast, the EU has decided to entrust the transport of all its future supplies to a joint venture between Azerbaijan and Turkey, through a region with great geopolitical instability, and the supply of Azeri gas (theoretically ensured) and to an extra amount that

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2 See "El papel de los recursos energéticos en la relación Rusia-China", available at http://www.ieee.es/Galerias/fichero/docs_analisis/2011/DIEEEA27-2011ElPapeldelosRecursosenlaRelacionRusia-China.FRuiz.pdf.

3 See "Novedades y tendencias en la geopolítica europea del gas", available at http://www.ieee.es/Galerias/fichero/docs_analisis/2011/DIEEEA31_2011GasRuiz.pdf

should be Turkmen and whose viability is more than questionable, like we will comment later.

For this reason, and if Russia doesn't abandon the South Stream project, it may result in a odd intersection of several gas pipelines in the Balkans: on one hand, from Azerbaijan would arrive the combination of BTE-TANAP-Nabucco West to Austria; on the other hand, from Russia would arrive the South Stream, with pipe going to Serbia (and even to the Republic of Macedonia/FYROM), and another connection with the TAP to Greece-Albania-Italy. If this happened, **Bulgaria** would be the key country of gas supply to half of Europe, because both routes would intersect in its territory.

But back to the EU-Commission's choice to reduce the dependence on Russian gas; let's revise the means to achieve it. If everything happens as set out above, in 2007 there will be a gas pipeline that will enable the EU to receive gas from the Caspian Sea thanks to the regime of the Aliyev's hereditary republic in Azerbaijan that has the 20 % of its territory occupied by Armenian secessionists of Nagorno-Karabakh. This gas will pass through Georgia, with two de facto independent regions (Abkhazia and South Ossetia), and had a war against Russia in 2008, and through Turkey, who has been trying unsuccessfully to join the EU for decades. Turkey intends to re-establish itself as a regional power with interests different from the West, and is more and more involved in the Middle East conflicts like the one in Syria.

Everything presents a discouraging picture and leads us to question if it wouldn't be better to promote the energy relationship with a European country like Russia, whose exchange earnings from the sale of resources to Europe are essential for their public finances. Moreover, Russia needs investments and the know-how that the EU major corporations can provide, in order to upgrade their transit infrastructure and to set new exploitations in the Arctic area. If the EU's efforts to look for complex alternatives in exotic regions were put in trying to sign an Energy Charter Treaty with Russia, which may provide a stable framework to the strategic relationship in this sector between both parties, the result would probably be better for Europe.

But back to the south corridor, the Azeri supplies don't cover the total transport capacity of the BTE-TANAP-Nabucco, so it's necessary to look for an extra contribution. We shouldn't look towards the south (Iraq and Iran) so that the only seemingly viable option is the Turkmen gas. To do this, first of all it's necessary to build a gas pipeline across the seabed of the Caspian Sea (with the opposition of Russia and Iran, the uncertainty of its legal status and the disagreements between Ashgabat and Baku).

Once this has been achieved come the negotiations of the supplies with the isolationist and quasi-feudal regime of President Berdimuhamedoy heir in 2007 of the deceased Saparmurat Niyazov, former communist leader of the URSS and self-proclaimed "Turkmenbashi" (father of the Turkmens). All of this hoping that the promised gas volumes aren't the same as the ones this country has promised China (68 bcm), or the 33 bcm that would need the TAPI, or the ones Turkmenistan could sale to Russia through the CAC, resuming the usual export activities until 2009.

To sum up, all the south corridor and the chess game that's being played there between so many actors seems an aimless race of the EU, in order to versify routes and supply sources; and its final result can be more complex and negative for the Member States than the problem in its origin point, the excessive dependency on the Russian gas. Maybe the solution is in our own continent, nearer to Brussels than the steppes of Central Asia, and Europe could forget the Turkmen gas and leave the Chinese and Indian to fight over it.

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