

Implications of Azerbaijani gas

*for the Southern Corridor and
European energy security*

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Bilgin***

Abstract

This article examines the emerging role of Azerbaijani gas in European energy security with a particular focus on the impact of TANAP project. It refers to demand and supply constraints, and concludes that the conjuncture favors additional gas supplies from Azerbaijan to Europe via Georgia and Turkey, by benefitting from existing pipeline infrastructure. TANAP emerges as a facilitator, rather than a competitor, of other transit projects seeking to use the same transit route traversing Turkey. Gas transportation from Shah Deniz I and Shah Deniz II to Europe through TANAP opens the gate for European markets for Southern Corridor, and this will accelerate (rather than decelerate) other pipeline projects such as ITGI, TAP, Nabucco, SEEP and others, depending on contractual terms.

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Azerbaijani gas from Shah Deniz I reaches the European market through Baku-Tbilisi-Erzurum (BTE) gas pipeline, which started transportation in 2006 with an actual capacity of 6.6 bcm/y. The significance of this pipeline is more than the gas volume it transports, and that it will channel in the near future. Under current economic and political conditions, one thing is clear: all the other projects that are aiming to pass through Turkey from the Caspian and the Middle East would be dismissed as unfeasible or unreliable for at least in the next decade without Azerbaijani gas.

Azerbaijan and its partners in gas trade took further initiatives to channel increased volumes of gas from the second phase of Shah Deniz (Shah Deniz II) field, and engaged in important accords. The Memoranda of Understanding (MoU) of the Izmir agreement and the Governmental Agreement and the Host Government Agreement to implement the Trans-Anatolia Gas Pipeline (TANAP) in late June drastically changed the dynamic for pipeline projects of Southern Corridor.

There are, of course, multiple pros, cons, incentives and obstacles concerning a myriad of existing pipeline projects within the Southern Corridor. This article explores the emerging role of Azerbaijani gas in European energy security with a special focus on the impacts of the

Izmir agreement and the TANAP project, both of which prompted alternative projects to accelerate their initiatives and adapt them to the actual priorities of Shah Deniz Consortium. The main hypothesis here stems from the following argument: gas transportation from Shah Deniz I and II opens the gate to European markets for Southern Corridor and this will accelerate (rather than decelerate) other pipeline projects, not only in terms of demand opportunities starting at the Turkish borders with EU member countries, but also with regard to suppliers who will likely get involved in the emerging web of pipelines once the matter of supply constraints has been resolved.

From this perspective, the first chapter elaborates the role of gas for global energy security in the 21st century with a particular focus on European gas demand, and the way in which the expected increase in consumption makes the rise of Southern Corridor an important alternative. The second chapter addresses the Southern Corridor and its constituent pipelines and pipeline projects. The third chapter reviews supply options and constraints with reference to alternative countries in Caspian and the Middle East. The last part scrutinizes the significance of reliable Azerbaijani gas in market turmoil, and concludes that the TANAP project constitutes a turning point for the Southern Corridor by offering strategic leverage to Azerbaijan and

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European energy security and the role of gas in the 21st century

We are in an age of transition, between what can be termed the 'late oil' era to the 'energy mix' era. However, fossil fuels (mainly coal, oil, and gas) are still the main source of energy for international consumers, and of those, natural gas is expected to be a strategic source of energy. Many experts agree on the rising profile of natural gas, which, bolstered by high oil prices and environmental, safety and other factors, could become the most used hydrocarbon by 2030.¹ According to estimates by the United States Energy Information Agency (U.S. EIA), world net natural gas consumption will increase by at least 50% by 2030. In light of these considerations, it is possible to make two conjectures: 1) as a result of peaking oil prices, natural gas will replace oil wherever possible, and 2) as a result of environmental constraints, governments, NGOs and consumers seek to use natural

¹ The fact that natural gas contains zero sulfur dioxide (SO₂), releases low levels of nitrogen oxide (NO_x), CO₂, and other pollutants is extremely important in European countries which are very responsive to air quality.

gas whenever possible.² Natural gas remains a key energy source for the industrial sector and for electricity generation, with a rising stake in household consumption (including heating and cooking), along with transportation (mainly public). In terms of safety, modern technology allows the safe production, transportation and consumption of natural gas. With regard to comfort; natural gas allows constant and controlled heating at better terms when compared to other fuels.³

As for global energy security, the rapidly increasing energy demands of China and India puts pressure on the U.S. and other consumer countries.⁴ The EU, in the meantime is eager to diversify gas suppliers in Eurasia, Mediterranean and the Gulf, in order

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to guarantee supply security.⁵ The Caspian provides one of the best options for EU energy security.⁶

² EIA, *World Natural Gas Consumption*, Report #:DOE/EIA-0484(2008), September 2008, http://www.eia.doe.gov/oi/af/ieo/excel/figure_35data.xls, accessed on 25 May 2012.

³ See, M. Kojima, *Breathing Clean*, Washington, The World Bank Publications, (Technical Paper No. 516), 2001, pp. 3-5.

⁴ M.T. Klare, *Rising Powers, Shrinking Planet: The New Geopolitics of Energy*, New York, Metropolitan Books, 2008, pp. 63-87.

⁵ S.S. Haghghi, *Energy Security: The External Legal Relations of the European Union With Major Oil- And Gas-Supplying Countries*, Portland, Hart Publishing, 2007, pp. 341-380.

⁶ D. Mavrikas, F. Thomaidis and I. Ntroukas, "An assessment

The EU, however, must face Russia's desire to retain its energy monopoly in relation to European markets. Discrepancies between national energy policies and the EU Commission's goal of diversifying resources from a variety of countries in Caspian, the Middle East and Africa are causing regional gas projects to lose pace. The Southern Corridor, which entails an emerging web of pipelines from the Caspian and the Middle East to Europe via Turkey, deserves closer attention, given that it promises to increase European energy security in addition to strengthening gas markets.

The most optimistic view of European gas consumption was given in a 2004 International Energy Agency Report, which stated that EU members would need additional gas supplies to satisfy rising gas consumption, estimated to reach 900 bcm in 2030. Indigenous production is forecasted at less than 300 bcm, which requires annual gas imports of 600 bcm. The IEA projected the diversification of European suppliers as follows: Russia (79 bcm of natural gas), Central Asia and Caspian (51 bcm of natural gas), Middle East (40 bcm of natural gas and 117 bcm of LNG), Africa (70 bcm of natural gas, 61 bcm of LNG) and Latin America (18 bcm of LNG).⁷

of the natural gas supply potential of the south energy corridor from the Caspian Region to the EU," Energy Policy, Vol. 34, No. 13, September 2006, pp. 1671-1680.

⁷ IEA, "Outlook for European Gas Demand, Supply and Investment to 2030," *World Energy Investment Outlook*, Paris,

This projection remains over-optimistic, because the global financial crisis has negatively affected European economies; demand from EU countries has increased less than the IEA estimated in 2004, but nonetheless its gas consumption will still be crucial. A recent quantitative analysis based on a mathematical formulation and illustrative results of the World Gas Model, which is a multi-period complementarity model for the global natural gas market with explicit consideration of market power in the upstream market, again generates an optimistic estimation, although expected consumption remains below the levels estimated by IEA. Total projected consumption in Europe in 2030 is put at 667 bcm/y. Of this, a projected 27 bcm/y will be supplied in the form of LNG, or 4% of the total consumption; 200 bcm/y produced domestically, and a large proportion will be imported from Russia, the Caspian, and from North Africa as pipeline gas."⁸ In terms of supplies, this study projects a split of Russian, Caspian and Middle Eastern gas between Europe (first main destination for natural gas), Asia (second main destination for natural gas) and North America (small amounts sold as LNG).⁹

IEA Publications, 2004, p. 8, <http://www.iea.org/textbase/work/2004/investment/outlook%20for%20European%20gas%20demand.pdf>, accessed on 30 May 2008.

⁸ R. Egging, F. Holz and S.A. Gabriel, "The World Gas Model: A multi-period mixed complementarity model for the global natural gas market," *Energy, Vol. 35, No. 10, 2010, pp. 4016-4029.*

⁹ *Ibid.*, 4025.

A recent analysis focuses on European gas demand trends from a policy perspective, combining economic forecasting with geopolitical scenario building. The analysis, based on reports by the EU Commission, sets out four possibilities: 1) Baseline scenario with average oil price of 61\$/bbl; 2) Baseline scenario with average oil price of 100\$/bbl; 3) New energy policy scenario with average oil price of 61\$/bbl; 4) New energy policy scenario with average oil price of 100\$/bbl. The policy analysis outlines options, restraints, priorities and strategies of concerned actors, and generates four policy scenarios: 1) Russia first; 2) Russia dominant; 3) Security first; 4) Each for itself.

The results indicate that European gas demand is very likely to increase although with different policy implications. The matrix obtained out of 4 economic and 4 policy options results in 16 contingencies defining the impact of gas supply/demand characteristics on European energy security in 2020. Accordingly; *Russia first scenario* refers to a situation in which the EU Commission and EU member states attribute a priority to Gazprom's and Russia's concerns in Europe while supporting on going projects. *Russia dominant scenario* describes Russia's and Gazprom's extensive control over supplies in Caspian, Middle East and North Africa mainly through successful corporate expansions and geopolitical maneuvers. *Security*

first scenario implies balanced and equitable gas supplies from Russia, Azerbaijan, Turkmenistan, Iran, Iraq, Egypt, Libya, Algeria and Nigeria. *Each for itself scenario* describes a hypothetical situation in which the EU fails at taking a common action. Individual states attribute high priority to national options by undermining the common good and negative externalities.

Making sense of the Southern Corridor

To start from the big picture, as presented by the EU Commission prior to the global financial crisis, the EU openly seeking to extend its partners eastward to the former Soviet Union, and southward towards Mediterranean and Middle Eastern regions, as part of the Wider Europe concept.¹⁰ The Caspian, and to a lesser extent the Middle East, promises to contribute to European energy security.¹¹

The Southern Gas Corridor entails a portfolio of a pipeline projects mainly Nabucco, the Interconnection Turkey Greece Italy (ITGI), White Stream (a Georgia-Ukraine-EU gas pipeline project), the Trans-Adriatic Pipeline (TAP) and Trans-Anatolian Pipeline (TANAP). The South East Europe Pipeline (SEEP), first proposed by BP

¹⁰ J. W. Scott, "The EU and 'Wider Europe': Toward an Alternative Geopolitics of Regional Cooperation?," *Geopolitics*, Vol. 10, No. 3, 2005, pp. 429-454 at 430.

¹¹ Y. Kalyuzhnova, "The EU and the Caspian Sea region: An energy partnership?," *Economic Systems*, Vol. 29, No. 1, 2005, pp. 59-76.

on 24 September 2011, also deserves further analysis within this context.

The Nabucco Gas Pipeline Project appears to be the most ambitious. The concept was launched by a consortium on 24 June 2004, to develop, construct, and operate the Nabucco pipeline from the Georgian/Turkish and the Iraqi/Turkish border to Baumgarten in Austria to transport and then distribute 33 bcm/y of gas with a lifespan of 50 years.¹²

“The White Stream project was conceived in 2005 and is a key component of the EU Southern Energy Corridor to transport up to 32 bcm/y of gas from Azerbaijan and other countries in the Caspian Region via Georgia directly to countries on the Western side of the Black Sea (Romania, Ukraine) and onwards to markets in Central and Eastern Europe through a pipeline which will cross the Black Sea in water depths in excess of 2,000 meters, using advanced proven technology.”¹³ This project, however, is struggling with high investment costs, and remains unfeasible under current economic conditions, which are likely to prevail for at least the next five years.

ITGI is composed of ITG (Interconnector Turkey-Greece), which has been in operation since November 2007 and has a capacity of 11.5

bcm/y, and the IGI (Interconnector Greece-Italy) project, which aims to reach a capacity of 9 bcm/y.¹⁴

The Trans Adriatic Pipeline (TAP) will start in Greece, cross Albania and the Adriatic Sea and come ashore in southern Italy, allowing 10-20 bcm of gas to flow directly from the Caspian region to Italy and other European markets.¹⁵

SEEP aims to transport Azerbaijani gas to Austria via Turkey by combining existing pipelines that would for the most part use existing nationally owned pipelines, pipeline sections, and inter-connectors, with a new one that could be 800-1000 km long, as opposed to building the Nabucco pipeline along that entire route.¹⁶

Supply options and constraints

Volume and cost are not the only issues at stake in the Southern Corridor. There are also important political and geo-political consequences. Gas supplies to the proposed pipelines inevitably lead to controversies stemming from geopolitical and economic difficulties.¹⁷ For instance,

¹⁴ Edison, ITGI, <http://www.edison.it/en/company/gas-infrastructures/itgi.shtml>, accessed on 20 May 2012.

¹⁵ Trans Adriatic Pipeline Company, TAP Project Concept, <http://www.trans-adriatic-pipeline.com/tap-project/concept/>, accessed on 22 May 2012.

¹⁶ V. Socor, “Europe queries BP pipeline,” *Asia Times Online*, http://www.atimes.com/atimes/Central_Asia/MK08Ag01.html, accessed on 24 May 2012.

¹⁷ For a supply side analysis and prospects of further production, see M. Bilgin, “Geopolitics of European natural gas demand: Supplies from Russia, Caspian and the Middle East,” *Energy Policy*, Vol. 37, No. 11, 2009, pp. 4482-4491.

¹² Nabucco Gas Pipeline, Overview, <http://www.nabucco-pipeline.com/portal/page/portal/en/pipeline/overview>, accessed on 20 May 2012.

¹³ White Stream Pipeline Company, *Diversifying Europe's Gas Imports*, <http://www.gueu-whitestream.com/main.php?id=1&lang=eng>, accessed on 22 May 2012.

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bringing Turkmen gas to Europe via trans-Caspian and Nabucco pipelines¹⁸ makes more sense as a simple supply diversification issue. It would be very expensive for Gazprom to satisfy Europe's rising demand by developing its conventional fields or even new ones (e.g. Shtokman) if it cannot buy natural gas from Turkmenistan.¹⁹ Russia's growing domestic market, along with production decline in the West Siberian fields of Yamburg, Urengoy and Medvezhye,²⁰ is forcing Gazprom to use natural gas from Turkmenistan as opposed to confronting the issues of high production and transit costs in the new fields. This is why Russia needs to keep Caspian, or at least Turkmen gas, within its infrastructure. Most experts point to Russia's increasing attempts to compete with Southern Corridor pipelines, and to dismiss them as unfeasible for Europeans,

18 3,300 km (2050 miles) long Nabucco pipeline project is planned to cost about \$5.5 billion to transport 31 bcm of gas from the Middle East and Central Asia to European markets. For other features and capacity, see, M. Pickl, F. Wirl, "Auction design for gas pipeline transportation capacity—The case of Nabucco and its open season," *Energy Policy*, Vol. 39, No. 4, 2011, pp. 2143-2151.

19 See, Bilgin, 2009.

20 For depletion in Yamburg, see International Energy Agency, *Russia Energy Survey*, 2002, Paris, OECD/IEA Publications, 2002, p. 55.

instead promoting their own initiatives, namely the Nord Stream and South Stream pipelines. In the meantime, facing the difficulty of building a trans-Caspian pipeline, Turkmenistan has signed long-term contracts with Russia and China.

Regarding further extensions in Africa and the Middle East, the joint statement released after the European Commission's meeting on "Enhancing Energy Cooperation" on May 5 2008 warrants further attention. The statement suggested that the 10 bcm/y capacity Arab Gas Pipeline, which runs from Egypt through Jordan to Syria, be connected with Turkey and Iraq as soon as possible. The Commission excluded Iran for political reasons stemming from its nuclear agenda, and thus proposed that the EU diversifies its gas supply by connecting North Iraqi El Anfal, or Akkas in Sunnite region, gas resources with Arab Gas Pipeline to feed Nabucco.²¹ The EU will gain its alternative gas supply system if this joint statement leads to the proposed Middle Eastern gas network comprising of Iraq and Egypt. Nevertheless, Iraq cannot satisfy regional security concerns; nor can Egypt sell natural gas if the rise of LNG demand on the one hand, and the geopolitical concerns of the USA on the other, are ignored. The security threats in Iraq, Lebanon, and Egypt

21 "EU-Turkey agree on Arab gas pipeline cooperation," *Hurriyet Daily News*, <http://www.hurriyet.com.tr/english/turkey/8871261.asp?gid=231&sz=38847>, accessed on 10 January 2009.

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endanger this pipeline. Insurgence in Syria, which is now at its peak, raises additional concerns about regional security in the mid-term. Furthermore, the fact that Algerian LNG prices tripled between 2003 and 2008 pushed potential natural gas producers, including Egypt, Iran and Saudi Arabia, to invest in liquefaction units and terminals in order to overcome geopolitical pressures and benefit from LNG trade. Shell is about to invest 2.5 billion US dollars on a natural gas plant in southern Iraq to meet the rising demand of UAE and Saudi Arabia via LNG. The Suez Canal and Sumed Oil Pipeline have raised Egypt's significance based on strategic routes traversing the Persian Gulf, which in turn promotes LNG trade over natural gas. Port Damietta, at 50 km north-west of Port Sa'id, is likely to become an LNG hub, because Egypt is determined to bring additional trains on stream.²²

As for Iran, this country will definitely be a key player in gas markets if the government can manage its difficult relationship with the international community, pursuant to its ambitious nuclear program. Aware of the future

²² See, Oxford Business Group, *The Report: Emerging Egypt 2008*, 19 June 2009, p. 118.

significance of gas, Iran has already started to invest in infrastructure for a new domestic pipeline system (IGAT) from South Pars to North with a possible extension to Turkey and the Pakistani border, with the aim of constructing the Iran-Pakistan-India Pipeline (IPI). Iran hopes to sell natural gas to European markets, and then to India and even China if the proposed 2,600 km IPI pipeline (and its extension to China) can be completed. IPI seems to be stuck for strategic reasons, and although Iran and India are continuing negotiations toward a solution, political unrest in Afghanistan and Pakistan is impeding the construction of this pipeline.²³ Gas sales to European markets in the meantime are put at risk by doubts among European countries about Iran's nuclear agenda

In terms of international geopolitics, Russia is aligned with Iran not merely because they both consider the U.S. as their principal antagonist, which trumps any major difference between them, but also because they are both pursuing multi-polarity in the Middle East and worldwide.²⁴ "In conclusion, for different reasons, Iran, India and Russia have strong reasons for grievances against the international system, which are also

²³ H. Dhaul, "Future Shock! The Power Sector," in R. Anand et al. (Eds.), *Business Standard in India 2009*, New Delhi, BS Books, pp. 59-72 at p. 70.

²⁴ A. Cohen, L. Curtis and O. Graham, "The Proposed Iran-Pakistan-India Gas Pipeline: An Unacceptable Risk to Regional Security," *The Heritage Foundation*, 30 May 2008. <http://www.heritage.org/Research/AsiaandthePacific/bg2139.cfm>, accessed on 8 June 2008.

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shared by China.”²⁵ Russia would definitely prefer Iran to remain outside of European gas markets for as long as possible, and this may be a partial explanation of why Russia is supporting the Iranian nuclear program, aside from economic reasons.²⁶ The U.S. cannot defy the rising influence of Russia and China in Central Asia, and its insistence on excluding Iran from European markets may result in gas trade between Russia and Iran, and China and Iran. If Russian and Chinese gas relations with Kazakhstan and Turkmenistan also include Iran, this would drastically jeopardize U.S. interests and hinder the EU’s search for alternative suppliers.²⁷

Importance of reliable Azerbaijani gas in the context of market turmoil

25 H. Peimani, *Falling Terrorism and Rising Conflicts*, Westport, Greenwood Publishing, 2003, p. 91.

26 For Russia’s gas strategy See, Mert Bilgin, “Energy Security And Russia’s Gas Strategy: The Symbiotic Relationship Between The State And Firms,” *Communist and Post-Communist Studies*, 2011, Vol. 44, No. 2, pp. 119-127.

27 M. Brill Olcott, “International Gas Trade in Central Asia: Turkmenistan, Iran, Russia and Afghanistan,” in D.G. Victor, M.J. Amy and M.H. Hayes (Eds.), *Natural Gas and Geopolitics: From 1970 to 2040*, Cambridge, Cambridge University Press, 2006, pp. 202-233.

Which countries can supply gas to European markets, can improve European energy security, and do so without creating additional geopolitical tension? The answer is Azerbaijan. “Azerbaijan’s current gas reserves stand at almost 3 trillion cubic meters (tcm) following a large discovery in the Shah Deniz field a decade ago (some 1.3 tcm) and recent discoveries in the Absheron and Umid fields, each containing close to 400 bcm.”²⁸ Azerbaijan will be able to channel 15-20 bcm of gas to European markets, including Turkey, in five years, if field development studies meet expectations.

Furthermore, Azerbaijan is already part of the European gas network,

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through BTE pipeline, which currently transports 6.6 bcm/y of gas from offshore Shah Deniz I field to Turkey. This pipeline is connected to ITG, which can actually supply 3 bcm/y of gas to Greece at its maximum level.

28 F. Ismailzade, “Azerbaijan-Turkey Energy Cooperation: Back to a Strategic Agenda,” *GMF Analysis*, 16 November 2011, p. 2. http://www.gmfus.org/wp-content/files_mf/1321557594_magicfields_attachment_1_1.pdf, accessed on 10 May 2012.

The Shah Deniz I agreement has recently led to another important accord between Azerbaijan and Turkey to boost Azerbaijani gas exports to European markets. The Azerbaijan-Turkey gas agreement (also known as the Izmir Agreement), signed in İzmir on October 25 2011, is aimed at carrying 16 bcm of gas from Azerbaijan's Shah Deniz 2 field to Turkey and EU members.²⁹ This is a significant volume, which could feed the initial capacity of ambitious projects like Nabucco, and which could result in a direct web of pipelines between Azerbaijan and the EU-27 markets via Georgia and Turkey, by supplying intermediate projects such as ITGI, TAP and SEEP.

A December 2011 MoU between Turkey and Azerbaijan saw the emergence of the Azerbaijani-Turkish Trans-Anatolia Pipeline Project (TANAP). TANAP (Azerbaijani Socar 80% and Turkish Botaş 20%) will transport 16 bcm of gas to Turkey (6 bcm) and European markets (10 bcm). If formally signed, TANAP will drastically change the course of pipelines within the Southern Corridor. Following the TANAP MoU, the Shah Deniz Consortium is about to decide with whom it would be most advantageous to transport gas from Turkish-Bulgarian border to European markets. TANAP offered a very important strategic advantage

29 B. Pannier, "Azerbaijani-Turkish Gas Deal Opens Southern Corridor," RFERL, 26 October 2011, http://www.rferl.org/content/turkey_azerbaijan_natural_gas_agreement_nabucco/24371892.html, accessed on 14 May 2012.

to Shah Deniz Consortium, and indirectly to Azerbaijan and Turkey, which "will now have to choose between a shorter and re-routed Nabucco pipeline and BP's SEEP project for transporting Azerbaijani gas to Central Europe and/or –ITGI-TAP to target the Italian market."³⁰

TANAP forced other pipeline consortia to adapt their projects according to the priorities of Shah Deniz Consortium and Azerbaijan. "The day before the signing of the transit agreement, the Greek Minister of Environment, Energy and Climate Change was in Baku, where he would have presumably lobbied for both the ITGI and the TAP which would run across Greek territory."³¹ Following the agreement, the Nabucco Consortium acted promptly to launch Nabucco-West, from the Turkish-Bulgarian border to Baumgarten, Vienna, Austria. This was a timely tactic for Nabucco. Although the Nabucco project is in good shape, as the intergovernmental agreements are already in place and the pipeline is officially backed by the EU, it faces two major disadvantages: first, being the costliest of all pipeline alternatives (\$10-20 billion); and second, requiring 31 bcm/y of gas, though currently Azerbaijan could hardly go

30 GIS, "Energy: Why 'TANAP' is changing the Eurasian pipeline competition," Geopolitical Information Service, 27 March 2012, p.3. http://www.acus.org/files/EnergyEnvironment/032712_Umbach_EurasianPipelineCompetition_PartII.pdf.

31 Sidar Global Advisors, "Turkey-Azerbaijan gas transit agreement significant event for South Corridor," NewsAz, 27 October 2011, <http://news.az/articles/economy/47641>, accessed on 17 May 2012.

Both TAP and ITGI are much-less expensive than Nabucco, in fact about ten times cheaper.

beyond 10 bcm, at most 15 bcm.³² Another important consequence of TANAP concerned the possibility of Turkmen gas in Europe. The Izmir agreements and the SEEP initiative, unlike Nabucco, do not envisage a transportation solution for Turkmen gas to Europe, and foresee throughput capacities matching the guaranteed gas volumes from Shah Deniz, at 10 bcm/y from 2017 onward. Thus these agreements decoupled Azerbaijani gas from Turkmen gas, risking one of Nabucco's important supply options.³³ TANAP, however, did not affect Turkmenistan's demand security because Turkmenistan had already agreed to supply considerable amounts of natural gas to Russia, Iran and China, and thus became less interested in European markets, at least in the short term.

At this juncture, Shah Deniz Consortium is poised³⁴ to choose between the different pipeline options (Nabucco West, SEEP, ITGI, and TAP) for the sale of its initial gas flow of 10 bcm.

Soltanov sets out the various arguments clearly:

32 E. Soltanov, "The South East Europe Pipeline: Greater Benefit for a Greater Number of Actors," *IAI Working Papers*, 12/2 January 2012, pp. 2-3, <http://www.iai.it/pdf/DocIAI/iaiwpl202.pdf>, accessed on 14 May 2012.

33 Socor.

34 As of May 2012.

"Both TAP and ITGI are much less expensive than Nabucco, in fact about ten times cheaper. Their capacity perfectly fits what Shah Deniz II would be able to sell to Europe after Turkey siphons off its share of 6 bcm out of 16 bcm. If ITGI/TAP is a more realistic option than Nabucco, SEEP is an attractive improvement over ITGI/TAP. SEEP is preferable to Nabucco insofar as it would not only be much smaller (and thus cheaper), but also it would mainly use existing pipelines on its route, thus lowering the cost and increasing the potential profit margin. This, of course, is what ITGI/TAP would also do. But unlike ITGI/TAP, the SEEP would reach more reliable markets than Greece and Italy. SEEP would pass through Bulgaria, Romania, Hungary and Croatia, i.e., twice as many markets as ITGI/TAP."³⁵

Nabucco West, SEEP, ITGI, and TAP offer different advantages. There is also the possibility of including more than one if production increases as much as SOCAR envisages. "According to SOCAR President Abdullayev, the agreements just signed open the way for Azerbaijan to maximize its gas exports to Europe in a follow-up stage because Azerbaijan expects to produce some 50 bcm of gas annually from 2025 onward, once the Umid, Absheron, and Shafag-Asiman offshore fields start commercial production, on top of

35 Soltanov, pp. 3-4

Shah Deniz.”³⁶ If these assumptions about production increase are realized, then there will be certainly be room for other pipelines in the future.

Conclusion

As the paper has demonstrated, there are multiple scenarios concerning European gas security in the next decade. Alternative supplies retain their significance not only due to mid-term expectations about increasing demand, but also because of security concerns that invoke the necessity of diversification. However, regarding the immediate future, the next five 5 years, there will be a shift towards affordable and relatively more feasible projects, moving away from ambitious ones that demand massive investments. This is one of the consequences of the financial restraints stemming from the ongoing economic crisis in Europe. Indeed, the current context is more conducive to affordable projects which transport to South East European markets, carry small volumes, and depend heavily on Russia for political and financial support. Central European countries are the big consumers of Russian gas, yet their energy mix is based on a well-designed strategy, which results in dependence on Russian gas in terms of Europe’s share in total consumption. This assumption will remain true as long as European countries do not

enter an economic boom, which would give rise to a drastic increase in gas consumption in countries such as Germany, France and Italy.

Azerbaijan, as part of this picture, emerges as the most reliable supplier with a clear understanding of supply, demand and transit routes, especially since TANAP has been introduced. It is now up to Azerbaijan and the Shah Deniz Consortium to decide about the potential connections between pipelines in Europe and emerging trans-Anatolian pipelines. Nabucco West, SEEP, TAP and ITGI offer different costs and benefits, as discussed in the final section. In any case, Azerbaijan will have several options to choose between in terms of gas supply to Europe. ITGI and TAP are ten times cheaper than Nabucco, and target the same markets as SEEP (Bulgaria, Romania, Hungary and Croatia). As for Nabucco West, the new proposal seems to be responsive to priorities envisioned by TANAP and the Shah Deniz Consortium. Finally, it should be noted that if Azerbaijan manages to increase production to 30-50 bcm/y from 2025 onward following successful field developments in Umid, Absheron, and Shafag-Asiman offshore fields, then we can agree that TANAP, and its extension in Europe, will be the first of many other pipelines to be chosen for the development of the Southern Corridor.

36 V. Socor, “Azerbaijan and Its Gas Consortium Partners Sign Agreements With Turkey,” *Eurasia Daily Monitor*, Vol. 8, No. 201, 1 November 2011, http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=38603&tx_ttnews%5BbackPid%5D=7&cHash=6bc581ad046414cd39c92f5db174f9fc, accessed on 14 May 2012.