

Caspian Convention and Perspective of Turkmenistan's Gas Export to Europe

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Negotiations on the Trans-Caspian Gas Pipeline (TCGP) project have been ongoing since the 1990s. Because of China's dominant share in Turkmenistan's gas exports and Ashgabat's economic problems, the country needs a new route for gas diversification to ease its export dependence on China, as well as Russia. Thus far, the TCGP project has received numerous indications of political commitment from the actors involved in the project's realization at bilateral and trilateral levels. However, the fate of pipeline remains obscure because of numerous political, technical, and financial problems. The recent Caspian Convention raised some optimism for the prospects of TCGP, though there are issues that remain to be addressed in this regard. This article examines the prospects for the TCGP project, principally by analyzing the positions of the EU, Azerbaijan, Turkmenistan, and Russia in terms of dependent variables (to what extent does the TCGP depend on these actors' influence on the project's implementation?) and independent variables (how will these actors be influenced by the project's realization?), and presents prospective scenarios for trans-Caspian gas flow to Europe.

Key words: Azerbaijan, Russia, Turkmenistan, EU, China, Gas Pipeline, Caspian



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Introduction

Turkmenistan is one of the largest owners of natural gas reserves of the world, according to the BP Statistical Review of World Energy (2018), with around 19.5 trillion cubic metres (tcm) of total proven reserves and production of 62 billion cubic metres per annum (bcm/a) in 2017.¹ Turkmenistan's major gas exports have long been achieved through old Soviet gas pipelines (mainly the *Central Asia–Center gas pipeline*) via Russian territory to Ukraine and the European market. For a long while Russia was able to maintain control over the European orientation of Turkmenistan's gas export by transiting or buying gas at a low price and reselling it at a self-determined price to European countries.² After the explosion on the Central Asia–Centre gas pipeline,³ problems with Russia on gas price and contract terms, and the expansion of the Prikaspiisky Pipeline,⁴ Ashgabat sought to ease its export/transit dependence on Russia through alternative routes to, for example, Iran and China.

Iran imported Turkmen gas via two main pipelines: the *Korpeje–Kurt Kui* pipeline from western Turkmenistan and the *Dauletabad–Khangiran* pipeline from south-eastern Turkmenistan. Moreover, while the EU was struggling to bring Turkmen gas into the Southern Gas Corridor (SGC) through the so-called “Trans-Caspian Gas Pipeline,” China became Turkmenistan's main gas export destination via three pipelines (with a fourth under development). China's National Petroleum Corporation is actively engaged in Turkmenistan's energy sector through financing exploration/production and the construction of pipelines in the country,⁵ whereas no European energy company

1 British Petroleum, (2018) BP's Statistical Review of World Energy, July, 67th edition. Available at: <https://www.bp.com/content/dam/bp/en/corporate/pdf/energy-economics/statistical-review/bp-stats-review-2018-natural-gas.pdf>. (Accessed 19 August 2018).

2 Socor, V. (2006) “Interest Rebounds In Trans-Caspian Pipeline For Turkmen Gas”, The Jamestown Foundation, Eurasia Daily Monitor, Volume: 3 Issue: 16, 24 January. Available at: <https://jamestown.org/program/interest-rebounds-in-trans-caspian-pipeline-for-turkmen-gas/>. (Accessed 26 September 2018).

3 Trilling, D. (2005) “Turkmenistan: Pipeline Spat With The Kremlin Turns Into A Political Test Of Strength”, Eurasianet, 15 April. Available at: <https://eurasianet.org/turkmenistan-pipeline-spat-with-the-kremlin-turns-into-a-political-test-of-strength>. (Accessed 26 September 2018).

4 Eurasianet, (2007) Prikaspiisky Pipeline: Temporary Delay Or Fundamental Problem?, 26 June. Available at: <https://eurasianet.org/prikaspiisky-pipeline-temporary-delay-or-fundamental-problem>. (Accessed 30 September 2018).

5 Panfilova, V. (2018) “Gazprom Mozhet Vernut'sya V Turkmenistan”, Nezavisimaya Gazeta, 30 July. Available at: http://www.ng.ru/cis/2018-07-30/5_7277_turkmenia.html. (Accessed 27 September 2018).

has so far signed a purchase agreement with Turkmenistan for the development of gas fields.⁶

Although Russian territory previously provided the main route for Turkmenistan's gas exports to Europe, these exports were scaled down from 40 bcm/a in 2008 to 4 bcm/a in 2015, and totally suspended in 2016 (subsequently, Gazprom started to purchase 4 bcm/a of gas from Uzbekistan's state-owned company Uzbekneftegaz).⁷ As a result, China's share in Turkmenistan's gas exports increased. In fact, Turkmenistan receives cash payment for only one-third of the total gas exported to China; the remaining share of payment for the gas supply is withheld to reimburse Ashgabat's debt to Beijing for Chinese investment in the development of Turkmen fields, the construction of gas pipelines, etc.⁸

Turkmenistan, therefore, needs to avoid dependence on a single, dominant export destination, but in reality, its alternatives for gas supply are few. The alternatives for multiple gas export routes from Turkmenistan include the Trans-Caspian Gas Pipeline (TCGP) and Turkmenistan–Afghanistan–Pakistan–India (TAPI) Gas Pipeline. TAPI envisages supplying Pakistan and India with Turkmen gas. However, somehow this pipeline has not been completed, due to either political tensions (between Pakistan and India) or for security reasons (in Afghanistan), or due to the ambiguity of price negotiations and financing.⁹

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The TCGP (300 km), which has been under discussion since the late 1990s, is planned to bring Turkmen gas across the Caspian Sea bed from Turkmenistan's Turkmenbashi port to Azerbaijan's Sangachal Terminal, and then onward to Georgia via the South Caucasus Pipeline (SCP) to Turkey (16 bcm/a) via the Trans-

6 Muradli, P. (2017) "Turkmenistan's Energy Policy: The Diversification of Gas Export Market", The Politicon, March 18, p.6. Available at: <http://www.thepoliticon.net/essays/312-turkmenistans-energy-policy-the-diversification-of-gas-export-market.html>. (Accessed 19 August 2018).

7 Mostajabi, M. (2017) "Iran, Turkey Key To Turkmenistan Realizing Its Energy Potential", Atlantic Council, 6 September. Available at: <http://www.atlanticcouncil.org/blogs/new-atlanticist/iran-turkey-key-to-turkmenistan-realizing-its-energy-potential>. (Accessed 19 August 2018); Kallanish Energy News (2017) Gazprom To Buy 4 Bcm/Y Of Uzbek Gas In 2018, 7 April. Available at: <http://www.kallanishenergy.com/2017/04/07/gazprom-to-buy-4-bcm-y-of-uzbek-gas-in-2018/>. (Accessed 30 September 2018); Rickleton, C. (2015) "Turkmenistan Blasts Russia as 'Unreliable' Gas Partner", Eurasianet, 17 February. Available at: <https://eurasianet.org/turkmenistan-blasts-russia-as-unreliable-gas-partner>. (Accessed 26 September 2018).

8 Panfilova, *op.cit.*

9 Daly, J.C.K. (2018) "After Three-Year Hiatus, Gazprom to Renew Purchases of Turkmen Gas", The Jamestown Foundation, Eurasia Daily Monitor, Volume: 15 Issue: 149. Available at: <https://jamestown.org/program/after-three-year-hiatus-gazprom-to-renew-purchases-of-turkmen-gas/>. (Accessed 23 October 2018).

Anatolian Pipeline (TANAP), and on to Europe (14 bcm/a) via the Trans-Adriatic Pipeline (TAP). The TCGP project envisages the construction of two strings: the first with a throughput capacity of 12–15 bcm; the second with 15–16 bcm.¹⁰ TCGP, as an eastward extension of the SGC,¹¹ is to be integrated with the Corridor's segments in order to provide its long-term viability, with the aim of lessening the EU's gas dependence on Russia.

In the late 1990s, US,¹² Israeli, Turkish,¹³ and European companies¹⁴ planned to develop the TCGP by building a consortium to deal with the commercial agreements, transit of gas, and feasibility studies. In 1998, the first contract for TCGP feasibility studies and construction was awarded to PSG, a joint venture of Bechtel Group, General Electric, and Royal Dutch Shell. Construction was to start in 2001 and finish in 2002. However, efforts to capitalize the project became muted¹⁵ due to a series of developments, including: Turkey's engagement in Russia's Blue Stream gas pipeline;¹⁶ the discovery of Azerbaijan's giant Shah-Deniz (SD) gas field (1999); the collapse of the Nabucco project (2013) and the subsequent launch of the TANAP and TAP projects;¹⁷ Russian and Iranian opposition to the TCGP; China's increasing share in Turkmenistan's gas exports;¹⁸ Turkmenistan's unwillingness to

10 Gurbanov, I. "Trans-Caspian Pipeline Conundrum: Turkmenistan, Quo Vadis?", *The Geostrategic Maritime Review Journal*, No.5, Fall/Winter Issue 2015.

11 The SGC is comprised of the South Caucasus Pipeline (SCP), Trans-Anatolian Pipeline (TANAP), and the Trans-Adriatic Pipeline (TAP).

12 The Jamestown Foundation, (1999) Enron Submits Feasibility Study For Trans-Caspian Gas Pipeline, 28 January. Available at: <https://jamestown.org/program/enron-submits-feasibility-study-for-trans-caspian-gas-pipeline/>. (Accessed 20 August 2018).

13 The Jamestown Foundation, (1999) Progress On Trans-Caspian Gas Pipeline And Turkmen-Turkish Relations, 14 April. Available at: <https://jamestown.org/program/progress-on-trans-caspian-gas-pipeline-and-turkmen-turkish-relations/>. (Accessed 20 August 2018).

14 The Jamestown Foundation, (2001) Another Chance For The Trans-Caspian Gas Pipeline?, 28 June. Available at: <https://jamestown.org/program/another-chance-for-the-trans-caspian-gas-pipeline/>. (Accessed 20 August 2018); Badalova, A. (2015) "Trans-Caspian pipeline: statements turn into action", *Trend*, 26 March. Available at: <http://en.trend.az/business/energy/2377267.html>. (Accessed 4 August 2015).

15 Cutler, R.M. (2003) "Turkey And The Geopolitics Of Turkmenistan's Natural Gas", *Robertcutler.Org*. Available at: <http://www.robertcutler.org/download/html/ar01ria.html#title02>. (Accessed 20 August 2018).

16 Socor, V. (2012) "Turkey Sees Opportunity In Trans-Caspian Gas Pipeline Project", *The Jamestown Foundation, Eurasia Daily Monitor*, Volume: 9 Issue: 164, 11 September. Available at: <https://jamestown.org/program/turkey-sees-opportunity-in-trans-caspian-gas-pipeline-project/>. (Accessed 27 September 2018).

17 TANAP will receive 16 bcm/a of Azerbaijani gas from Shah Deniz II field in the Caspian Sea through the South Caucasus Pipeline; and TAP will receive from TANAP 10 bcm/a of gas for Europe.

18 Fitzpatrick, C.A. (2011) "Turkmenistan: Chinese Deal Helps Stall Trans-Caspian Pipeline, Deter Caspian Conflict", *Eurasianet*, 30 November. Available at: <https://eurasianet.org/turkmenistan-chinese-deal-helps-stall-trans-caspian-pipeline-deter-caspian-conflict>. (Accessed 23 September 2018).

finance external projects;¹⁹ and the undefined legal status of the Caspian Sea.²⁰ However, the relevant provisions in the recently-signed Convention on the Caspian Sea's legal status that endorse the construction of a subsea pipeline have increased optimism regarding the TCGP project.

Divergent Positions on the Prospects for the TCGP

TCGP as a Dependent Variable

Following the Russia–Ukraine gas crises (2006; 2009), the European Union (EU) has been lobbying to broker a deal between Azerbaijan and Turkmenistan to potentiate the TCGP.²¹ Access to Turkmen gas has been a key element of the EU's SGC concept laid out in the *EU Energy Security and Solidarity Action Plan* (2009), one of the union's highest energy security priorities.²² The EU's Central Asia strategy (2017) avowed the union's determination “to extend the Southern Gas Corridor to Central Asia” to promote “multilateral and bilateral energy cooperation.”²³

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In this regard, the EU has hitherto taken a number of measures to materialize the TCGP, for example: (1) Mandating the European Commission (EC) to negotiate a legally binding agreement on “Trans-Caspian Gas Transmission and Infrastructure”²⁴ between

19 Gurbanov, I. (2018) “Difficult Geopolitics Of The Caspian Complicate Potential Energy Projects”, The Jamestown Foundation, Eurasia Daily Monitor, Volume: 15 Issue: 18, 5 February. Available at: <https://jamestown.org/program/difficult-geopolitics-caspian-complicate-potential-energy-projects/>. (Accessed 23 September 2018).

20 Fitzpatrick, C.A. (2010) “EU Seeks To Broker Trans-Caspian Pipeline Deal Between Turkmenistan And Azerbaijan; Russia Finds Project ‘Absurd’”, Eurasianet, 11 August. Available at: <https://eurasianet.org/eu-seeks-to-broker-trans-caspian-pipeline-deal-between-turkmenistan-and-azerbaijan-russia-finds>. (Accessed 23 September 2018).

21 Ziyadov, T. (2018) “Europe Hopes To Revive Trans-Caspian Energy Pipelines”, The Jamestown Foundation, Eurasia Daily Monitor, Volume: 3 Issue: 38, 24 February. Available at: <https://jamestown.org/program/europe-hopes-to-revive-trans-caspian-energy-pipelines/>. (Accessed 24 September 2018).

22 Kabouche, L. (2018) “Despite Caspian Sea Agreement, Obstacles To Trans-Caspian Pipeline Remain”, Global Risk Insights, 2 September. Available at: <https://globalriskinsights.com/2018/09/despite-caspian-sea-agreement-obstacles-trans-caspian-pipeline-remain/>. (Accessed 9 September 2018).

23 The Council of the European Union, (2017) Council Conclusions on the EU strategy for Central Asia, 19 June. Available at: <http://www.consilium.europa.eu/media/23991/st10387en17-conclusions-on-the-eu-strategy-for-central-asia.pdf>. (Accessed 20 August 2018).

24 European Commission, (2011), Communication from the Commission to the European Parliament, The Council, The European Economic and Social Committee and The Committee of the Regions - On security of energy supply and international cooperation - “The EU Energy Policy: Engaging with Partners beyond Our Borders”, 7 September. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011DC0539&from=en>. (Accessed 23 September 2018).

the EU, Azerbaijan, and Turkmenistan;²⁵ (2) inking the “Ashgabat Declaration” with Azerbaijan and Turkmenistan for preparation of the draft Framework Agreement on natural gas supply from Turkmenistan to Europe and formation of relevant transport infrastructure;²⁶ (3) registering the TCGP in the EU’s list of Projects of Common Interest²⁷ to facilitate the project’s funding from the EU’s agencies and banks;²⁸ and (4) funding the project’s commercial engineering,²⁹ feasibility,³⁰ and environmental³¹ studies.

After Azerbaijan and the EU signed a Joint Declaration in 2011 on gas delivery for Europe through the SGC,³² Turkmenistan had started to support more eagerly the export of its gas via SGC/TCGP to Europe. However, as discussed above, the project’s prospects were dampened not only by China’s increasing gas imports from Turkmenistan and the Caspian’s legal status, but also by the postponement of the Nabucco project and the commissioning of the Russia–Turkey Blue Stream³³ and Iran–Turkmenistan Dauletabad–Sarakhs–Khangiran pipelines, among other factors.

25 European Commission, (2011) EU Starts Negotiations On Caspian Pipeline To Bring Gas To Europe, Press Release, 12 September. Available at: http://europa.eu/rapid/press-release_IP-11-1023_en.htm. (Accessed 23 September 2018).

26 European Commission, (2015) Ashgabat Declaration, 1 May. Available at: https://ec.europa.eu/commission/commissioners/2014-2019/sefcovic/announcements/ashgabat-declaration_en. (Accessed 23 September 2018).

27 European Commission (2018), Commission Delegated Regulation (EU) 2018/540 of 23 November 2017 amending Regulation (EU) No 347/2013 of the European Parliament and of the Council as regards the Union list of projects of common interest, Official Journal of the European Union, 6 April. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018R0540&from=EN>. (Accessed 19 August 2018); European Commission, (2017) ANNEX to Commission Delegated Regulation (EU) No 347/2013 of the European Parliament and of the Council as regards the Union list of projects of common interest, 23 November. Available at: https://ec.europa.eu/energy/sites/ener/files/documents/annex_to_pci_list_final_2017_en.pdf. (Accessed 19 August 2018).

28 Cutler, R.M. (2018) “Commentary: U.S. Push Could Revive Turkmen Gas Hopes”, *RadiofreeEurope/Radioliberty*, 22 January. Available at: <https://www.rferl.org/a/commentary-turkmenistan-gas-hopes/28990352.html>. (Accessed 19 August 2018).

29 European Commission (2018), Pre-FEED, Reconnaissance Surveys and Strategic and Economic Evaluations of the Trans-Caspian Pipeline, Connecting Europe Facility, Energy Supported Actions, May, p.113.. Available at: https://ec.europa.eu/inea/sites/inea/files/cefpub/cef_energy_brochure_2018_web.pdf. (Accessed 24 September 2018).

30 Nebit-Gaz, (2018) Brussels and Tbilisi will finance the engineering of the Trans-Caspian gas pipeline project, 11 June. Available at: <http://www.oilgas.gov.tm/en/blog/1942/brussels-and-tbilisi-will-finance-the-engineering-of-the-transcaspian-gas-pipeline-project>. (Accessed 23 September 2018).

31 EC, “Ashgabat Declaration”, *op.cit.*

32 European Commission, (2011) Commission and Azerbaijan Sign Strategic Gas Deal, Press Release, 13 January. Available at: http://europa.eu/rapid/press-release_IP-11-30_en.htm. (Accessed 26 September 2018).

33 The Jamestown Foundation, (1999) Trans-Caspian Gas Pipeline Project Poised to Start Ahead of Russian Blue Stream, 7 December. Available at: <https://jamestown.org/program/trans-caspian-gas-pipeline-project-poised-to-start-ahead-of-russian-blue-stream/>. (Accessed 26 September 2018).

Lately, certain positive impulses have been observed for the prospects of the TCGP, including: the Turkmenistan–Azerbaijan Memorandum of Understanding (2017)³⁴ for expanding energy cooperation through implementation of new joint energy projects;³⁵ the first ever participation of a Turkmen delegation in the ministerial meeting of the SGC’s advisory council in Baku³⁶ (where the EU and Turkmen delegation discussed the possibility of Turkmen gas export via the SGC and the construction of TCGP³⁷); and the launch of regular meetings of an Azerbaijan–Turkmenistan working group striving to negotiate the diversification of energy routes and energy projects.³⁸

However, unlike Azerbaijan, which is as actively engaged as an owner of gas resources in the construction and financing of the SGC,³⁹ Turkmenistan has not made a similar commitment for the external pipelines; it is eager neither to bear their financial burden⁴⁰ nor to grant the concerned international oil/gas companies a Production Sharing Agreement, instead merely offering a Technical Service Contract,⁴¹ which deters these companies from investing in the exploration and transportation of Turkmenistan’s gas reserves. The Turkmen government thus far prefers to sell its gas at the border, requiring interested stakeholders to assume the financial risks and costs of the external

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34 President.az (2017) “Azerbaijan, Turkmenistan signed documents”, Official Web-Site of President of Azerbaijan Republic, News, 8 August. Available at: <https://en.president.az/articles/24918>. (Accessed 22 September 2018).

35 Tariverdiyeva, E. (2017) “Ashgabat, Baku To Expand Energy Co-Op”, Trend, 8 August. Available at: <https://en.trend.az/azerbaijan/business/2785131.html>. (Accessed 1 October 2018).

36 Mukhtarli, F. (2018) “Turkmenistan Joining Southern Gas Corridor Is “Quite Realistic””, Caspiannews.com, 5 March. Available at: <https://caspiannews.com/news-detail/turkmenistan-joining-southern-gas-corridor-is-quite-realistic-2018-3-3-24/>. (Accessed 22 September 2018).

37 Haqqin.az, (2018) Amerikanskiy Analitik: «Reshayushchiy Shag Turkmenistana V Baku», 17 Fevral. Available at: <https://haqqin.az/news/123006>. (Accessed 22 September 2018).

38 Interfax, (2017) Azerbaydzhan i Turkmenistan Rasshryat Sotrudnichestvo v Oblasti Postavok Energoresursoy v Yevropu - Deklaratsiya, 9 August. Available at: <http://interfax.az/view/710267>. (Accessed 22 September 2018); Trend.az, (2018) Na Zasedanii Rabochey Gruppy v Baku Obsudili Energootrudnichestvo Azerbaydzhana i Turkmenistana, 19 Fevral. Available at: <https://www.trend.az/azerbaijan/politics/2862936.html>. (Accessed 22 September 2018).

39 President.az, (2018) “Azerbaijani President, German Federal Chancellor held joint press conference”, Official Web-Site Of President Of Azerbaijan Republic, NEWS, Press Conferences, 25 August. Available at: <https://en.president.az/articles/29744>. (Accessed 24 September 2018).

40 Shiryev, Z. (2015) “Turkmenistan, Turkey And Azerbaijan: A Trilateral Energy Strategy?”, The Jamestown Foundation, Eurasia Daily Monitor, Volume: 12 Issue: 45, 11 March. Available at: <https://jamestown.org/program/turkmenistan-turkey-and-azerbaijan-a-trilateral-energy-strategy/>. (Accessed 26 September 2018).

41 Kulkarni, S.S. (2018) “Turkmenistan Needs To Revisit Its Gas Policy”, Institute for Defence Studies and Analysis, 2 September. Available at: https://idsa.in/idsacomments/turkmenistan-needs-to-revisit-its-gas-policy_askulkarni_020916. (Accessed September 26 2018).

pipeline construction from Turkmenistan's borders onwards.⁴²

Azerbaijan's position on the TCGP project is confined to its readiness to offer its territory and infrastructure for transit of Turkmen gas to Europe.⁴³ In this regard, Azerbaijan makes

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clear that Baku does not plan to invest in TCGP; either Turkmenistan or European companies should do so. In the future, when the throughput capacities of TANAP and TAP are increased to 31 bcm/a (from 16 bcm/a) and 20 bcm/a (from 10 bcm/a), respectively, to accommodate extra gas from third suppliers [under Third Party Access granted by the EU], the Turkmen gas can possibly enter the SGC⁴⁴ and diffuse to the existing Balkan and Eastern European pipeline systems from there.⁴⁵

In fact, the Balkans and Eastern Europe are where Russia's Gazprom had cemented its market position. Therefore, Russia opposes the TCGP, claiming that the project can damage the vulnerable environment of the Caspian Sea,⁴⁶ and the construction is impossible without the approval of all Caspian states.⁴⁷ The expert community has judged the environmental concerns of Russia in the context that Gazprom itself has laid gas pipelines across the Black Sea to Turkey (Blue Stream; Turk Stream) and across the Gulf of Finland to Germany (Nord Stream/NS; in addition, NS2). Others say it is merely a commercial approach in terms of not relinquishing its market share in Europe.⁴⁸

42 Muradli, "Turkmenistan's Energy Policy...", *op.cit.* p.4, 5.

43 President.az. Azerbaijani President, German Federal Chancellor held joint press conference, *op.cit.*

44 Trend, (2018) Energy Minister: Southern Gas Corridor Has Prospects For Expansion In Eastern, Central Europe, Including Balkans (Interview), 8 May. Available at: <https://en.trend.az/business/energy/2899703.html>. (Accessed 25 September 2018).

45 Cutler, R.M. (2018) "Europe Looks To Turkmenistan To Expand Southern Gas Corridor", NATO Association of Canada, 3 July. Available at: <http://natoassociation.ca/europe-looks-to-turkmenistan-to-expand-southern-gas-corridor/> (Accessed 18 August 2018); Cutler, R.M. (2018) "How Central Asian Energy Complements The Southern Gas Corridor", Euractiv, 24 January. Available at: <https://www.euractiv.com/section/energy/opinion/how-central-asian-energy-complements-the-southern-gas-corridor/>. (Accessed 19 August 2018).

46 Socor, V. (2011) "European Union Officially Endorses Trans-Caspian Pipeline To Link Up With Nabucco", The Jamestown Foundation, Eurasia Daily Monitor, Volume: 8 Issue: 172, 20 September. Available at: <https://jamestown.org/program/european-union-officially-endorses-trans-caspian-pipeline-to-link-up-with-nabucco/>. (Accessed 26 September 2018).

47 Coote, B. (2017) "The Caspian Sea and Southern Gas Corridor A View from Russia". Atlantic Council, Global Energy Center, April, p.25. Available at: <https://www.naturalgasworld.com/pdfs/Caspian%20Sea%20and%20Southern%20Gas%20Corridor%20FINAL.pdf>. (Accessed 7 September 2018).

48 Radio Free Europe, (2018) Analysis: A Landmark Caspian Agreement -- And What It Resolves, 9 August. Available at: <https://www.rferl.org/a/qishloq-ovozi-landmark-caspian-agreement--and-what-it-resolves/29424824.html>. (Accessed 7 September 2018).

Moreover, each Caspian state has hitherto been developing major offshore oil/gas projects in its national sector without the pre-consent of other littoral states.⁴⁹ There are currently operational underwater pipelines transporting natural gas and condensates from Azerbaijan's offshore fields to its terminals.⁵⁰ Furthermore, Russia has never objected to the TAPI project, nor China's or Iran's gas imports from Turkmenistan, as these separate Ashgabat from the European direction of energy export.⁵¹

Russia likely plans to re-arrange the import and resale of Turkmen gas to Europe, promising joint gas exploration and transit via Russia to Europe in exchange for Ashgabat's pledge not to commit to the TCGP. This would cut into any volumes that would be contracted to the TCGP. A decade ago, Russia wanted to apply the same strategy toward Azerbaijan by purchasing gas from the SD field to decrease the SGC's promised gas volumes.⁵² It is expected that Russia's Gazprom can resume the purchase of Turkmen gas (suspended in January 2016) very soon.⁵³ Since Ashgabat needs new sources of cash revenue due to its financial troubles, and until (if ever) the TCGP is realized, Turkmenistan may seek to restart shipping its gas to Europe via Russian pipelines running in the northern direction, through which Turkmenistan historically exported natural gas to the CIS and Eastern European countries.⁵⁴

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49 Pannier, B. (2015) "Still One Big Obstacle To Turkmen Gas To Europe", Radio Free Europe, 5 May. Available at: <http://www.rferl.org/content/turkmenistan-natural-gas-europe-trans-caspian-pipeline/26996003.html> (Accessed 1 July 2015).

50 Khatinoglu, D. (2014) "Interest in Turkmen Natural Gas Heats Up", Natural Gas Europe, 24 November. Available at: <https://www.naturalgasworld.com/turkmenistan-natural-gas-export-routes-west-south>. (Accessed 30 September 2018).

51 Socor, V. (2011) "Bluff In Substance, Brutal In Form: Moscow Warns Against Trans-Caspian Project", The Jamestown Foundation, Eurasia Daily Monitor, Volume: 8 Issue: 217, 30 November. Available at: <https://jamestown.org/program/bluff-in-substance-brutal-in-form-moscow-warns-against-trans-caspian-project/>. (Accessed 30 September 2018).

52 Gurbanov, "Difficult Geopolitics Of The Caspian...", *op.cit.*

53 Tass, (2018) Peregovory o vozobnovlenii zakupok gaza u Turkmenii mogut sostoyat'sya osen'yu, 27 Iyul. Available at: <https://tass.ru/ekonomika/5409761>, (Accessed 7 September 2018); Turkmenistan Segodnya, (2018) Gazprom: Turkmenistan - traditsionniy partner Rossii v gazovoy sfere, October 9. Available at: <http://tdh.gov.tm/news/articles.aspx&article14990&cat14> (Accessed 23 October 2018).

54 Gurbanov, I. (2018) "Caspian Convention Signing And The Implications For The Trans-Caspian Gas Pipeline", The Jamestown Foundation, Eurasia Daily Monitor, Volume: 15 Issue: 127, 12 September. Available at: <https://jamestown.org/program/caspian-convention-signing-and-the-implications-for-the-trans-caspian-gas-pipeline/>. (Accessed 15 September 2018); Pannier, B. (2017) "Russia Says Caspian Legal Status Resolved. Agreement Ready For Signing", Radiofreeeurope/Radioliberty, 7 December. Available at: <https://www.rferl.org/a/qishloq-ovozi-caspian-status-resolved-russia-says/28903729.html>. (Accessed 19 August 2018); Reuters, (2017) Turkmenistan Considers Shipping Gas Through Russia To Europe, 2 November. Available at: <https://www.reuters.com/article/us-turkmenistan-russia-gas/turkmenistan-considers-shipping-gas-through-russia-to-europe-idUSKBN1D21U6>. (Accessed September 27 2018).

Alternatively, Gazprom will also look at the possibility of using capacity in the TAP (at the expansion capacity). If the TAP receives Russian gas in the second stage (expansion) of the pipeline, then the prospects for Turkmenistan's gas exports via the TCGP into the SGC will be questionable.⁵⁵ Azerbaijan's SOCAR does not exclude receiving gas from any potential source for the SGC, but simply requires that "the supplier must be legitimate and interested in using [Azerbaijan's infrastructure] system."⁵⁶

TCGP as an Independent Variable

Ashgabat can benefit from the TCGP due to its diversification needs and vulnerable revenue portfolio associated with its overdependence on energy incomes...

Ashgabat can benefit from the TCGP due to its diversification needs⁵⁷ and vulnerable revenue portfolio associated with its overdependence on energy incomes, notably on China's gas imports.⁵⁸ In contrast, it is not yet clear what volume of gas Turkmenistan can supply in the western direction. Turkmenistan has contracted significant gas volumes for China and plans to develop the fourth branch of the Central Asia–China gas pipeline to supply 35 bcm/a by 2020. In addition, Turkmenistan is also committed to the TAPI pipeline project in the south.⁵⁹

On the other hand, regardless of the EU's legal steps for the TCGP project, these measures have been merely political commitments only, not legally binding obligations; and, therefore, neither commercial nor legal arrangements have thus far been established. Moreover, the EU's moderate financing covers the pre-construction technical aspects only, raising questions on where the larger financing for TCGP's construction

55 Gurbanov, I. (2018) "Injecting Russian Gas Into TAP: Downgrading Importance Of Southern Gas Corridor", The Jamestown Foundation, Eurasia Daily Monitor, Volume: 14 Issue: 20, 16 February. Available at: <https://jamestown.org/program/injecting-russian-gas-tap-downgrading-importance-southern-gas-corridor/>. (Accessed 25 September 2018).

56 Azernews, (2018) Azerbaijan Does Not Make Exceptions In Selection Of New Gas Sources For SGC – SOCAR, 8 July. Available at: https://www.azernews.az/oil_and_gas/134431.html. (Accessed 25 September 2018).

57 Eurasianet, (2017) Turkmenistan, Iran Gas Dispute Serves As Ill Omen For New Year, 2 January. Available at: <https://eurasianet.org/turkmenistan-iran-gas-dispute-serves-ill-omen-new-year>. (Accessed 26 September 2018).

58 Rickleton, C. (2014) "Is Turkmenistan'S Gas Flowing Toward A One-Country Policy?", Eurasianet, 18 August. Available at: <https://eurasianet.org/is-turkmenistans-gas-flowing-toward-a-one-country-policy>. (Accessed 26 September 2018).

59 Barsukov, Y. & Chernenko, Y. (2018) "O kaspiskikh trubakh dogovoryatsya na beregu", Kommersant, 23 July. Available at: <https://www.kommersant.ru/doc/3694315>. (Accessed 26 September 2018).

will be allocated from (although the cost of the entire project was reduced thanks to the construction of the East–West pipeline (EWP) by Turkmenistan).⁶⁰

By hosting the transit of Turkmen gas, Azerbaijan could benefit from transit fees for gas transportation through its territory. The transit fee could be even applied in the form of gas (as Georgia does in the case of gas transit from SD via SCP),⁶¹ and this gas could be re-sold in Turkey or Europe and may be complementary in case of decline in Azerbaijan’s domestic production or shortfall in the capacities of TANAP/TAP.⁶² However, Azerbaijan’s gas stays first in the queue to reach to the gas markets of southeastern Europe (8 bcm for Italy, 8 bcm for Turkey, 1 bcm for Greece, 1 bcm for Bulgaria). Thus, the flow of Turkmen gas in the SGC can challenge Azerbaijan’s current and future gas export calculations in terms of price competition and volume,⁶³ because the initial capacity of the SCG’s pipeline segments has already been booked for Azerbaijani gas from the SDII field under long-term contracts.⁶⁴ Moreover, the State Oil Company of Azerbaijan (SOCAR) is contemplating bringing additional volume from its new gas fields, such as Babek, Umid, and Absheron, into the SGC, rather than hosting gas from other countries.⁶⁵ Thus, the early realization of TCGP with huge volumes of relatively cheap Turkmen gas will make the augmentation of Azerbaijan’s gas volume for the SGC less attractive. Nor would Turkmenistan want to provide a smaller volume of gas to Europe as it is not commercially attractive. (For this reason, Turkmenistan itself constructed the EWP

By hosting the transit of Turkmen gas, Azerbaijan could benefit from transit fees for gas transportation through its territory. The transit fee could be even applied in the form of gas...

60 Haqqin.az. (2018) Azerbaydzhan i Turkmenistan V Obkhod Rossii - Zayavlyayut Pravitel'stva ES I Gruzii, 7 June. Available at: <https://haqqin.az/news/130114>. (Accessed 8 September 2018).

61 Sputnik, (2015) Zapad Ne Mozhet Prinudit' Strany V Vyboire Gazovogo Marshruta, May 22. Available at: <https://ru.sputnik.az/economy/20150522/400033919.html>. (Accessed 25 September 2018).

62 Vestnik Kavkaza, (2016) Construction of Trans-Caspian gas pipeline primarily depends on Azerbaijan's actions, 10 October. Available at: <http://vestnikkavkaza.net/interviews/Igor-Korobov-Construction-of-Trans-Caspian-gas-pipeline-primarily-depends-on-Azerbaijan-s-actions.html>. (Accessed 22 September 2018).

63 Pirani, S. (2018) "Let's not exaggerate: Southern Gas Corridor prospects to 2030", Oxford Institute for Energy Studies, OIES PAPER: NG 135, July 2018, p.14-16. Available at: <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2018/07/Lets-not-exaggerate-Southern-Gas-Corridor-prospects-to-2030-NG-135.pdf>

64 Gurbanov, I. (2018) "Azerbaijani Leadership Resolutely Upholds The Southern Gas Corridor", Vocal Europe, 29 March. Available at: <http://www.vocaleurope.eu/azerbaijani-leadership-resolutely-upholds-the-southern-gas-corridor/>. (Accessed 25 September 2018).

65 Azerevents, "Azerbaijan Does Not Make Exceptions...", *op.cit.*

to transfer 30–40 bcm/a gas from the south-east fields to the Caspian coast of the country.⁶⁶)

Russia's and Iran's opposition stem from the fact that Turkmenistan's gas exports via the TCGP would circumvent them as transit countries. That will create new alternatives and

Russia's and Iran's opposition stem from the fact that Turkmenistan's gas exports via the TCGP would circumvent them as transit countries.

competition for Russia's fortified market position in Eastern Europe and would break Moscow's stranglehold over re-export of Turkmen gas thereto.⁶⁷ The export of Turkmen gas would drive gas prices down in that market and threaten Gazprom's price-setting flexibility.⁶⁸ The TCGP would help further consolidate Azerbaijan's geopolitical importance in the region and bring more foreign energy companies to the Caspian Basin. However, Russia's true opposition to the TCGP is most likely linked to the pipeline's ability to present an alternative to its Turkish Stream (TS) pipeline to Turkey and its prospective extension to Europe. The completion of the TCGP—thus combining Azerbaijani and Turkmenistan gas volumes exported to Europe—would render TS's prospective expansion redundant. Therefore, Gazprom has accelerated the realization of TS ahead of the TCGP, as it did earlier with the construction of Blue Stream. Similarly, the realization of TS will undermine the geo-economic significance of the TCGP.⁶⁹

The Caspian Convention and Implications for the TCGP

In fact, the most current and significant development regarding the TCGP is the signing of the Convention on Legal Status of Caspian Sea by five Caspian littoral states, namely Azerbaijan, Kazakhstan, Russia, Iran, and Turkmenistan, in Astana, Kazakhstan. The Convention's Article 14 recognizes the parties' right to lay submarine pipelines along the bottom of the Caspian Sea. The document says that only those countries

66 Cutler, "How Central Asian Energy Complements...", *op.cit.*

67 Diba, B. (2018) "Iran And The Trans-Caspian Gas Pipeline", Payvand, 8 January. Available at: <http://www.payvand.com/news/18/jan/1030.html>. (Accessed 20 August 2018); Rickleton, C. (2015) "Turkmenistan: EU Eyes Trans-Iranian Gas Pipeline", Eurasianet, 4 May. Available at: <https://eurasianet.org/turkmenistan-eu-eyes-trans-iranian-gas-pipeline>. (Accessed 26 September 2018).

68 O'Byrne, D. (2018) "With Draft Convention, Resolution Of Caspian Sea Status Appears Closer Than Ever", Eurasianet, 27 June. Available at: <https://www.eurasianet.org/with-draft-convention-resolution-of-caspian-sea-status-appears-closer-than-ever>. (Accessed 6 September 2018).

69 Kosolapova, E. (2017) "Turkish Stream To Affect Prospects Of Trans-Caspian Pipeline, Expert Says", Trend, 18 May. Available at: <https://en.trend.az/other/commentary/2756204.html>. (Accessed 30 September 2018).

through whose sectors of the sea floor the underwater pipeline is built will determine the route.⁷⁰ This provision is considered a key legal point for the construction of TCGP, which was long discussed in the context of the EU's gas supply security, but stalled mainly due to the undefined legal status of the Caspian and Russian/Iranian opposition to the pipeline on the basis of their environmental concerns.⁷¹ According to Turkmenistan's state information agency, the signing of the Convention means that the TCGP can no longer be vetoed.⁷² Therefore, the Convention can be considered a significant compromise document in this regard.

Moreover, the Convention also clearly articulates the necessity of coordination with other coastal states for these pipelines' compatibility with the environmental standards set out in international treaties (including the Framework Convention for the Protection of the Marine Environment of the Caspian Sea and the Protocol on Environmental Impact Assessment in a Transboundary Context to the 2003 Tehran Convention). This implies that each coastal country will have a voice in the comprehensive environmental evaluation of pipeline projects (notably the TCGP when it is in the early design stage) envisaging the transfer of hydrocarbons from one coast of the Caspian Sea to another and that may have an impact on the environment of the Caspian Sea.⁷³ During the Caspian Summit, Russian President Vladimir Putin particularly emphasized that "[t]hese documents ensure strict environmental inspection of infrastructure projects" that generate potential risks for the Caspian Sea.⁷⁴ Azerbaijan's President Ilham Aliyev, on his part, reiterated that all oil and gas operations conducted by Azerbaijan in the Caspian Sea respect

...the Convention also clearly articulates the necessity of coordination with other coastal states for these pipelines' compatibility with the environmental standards set out in international treaties...

70 Kremlin.ru, (2018) "Konventsiya O Pravovom Statuse Kaspiyskogo Morya", Prezident Rossii, 12 Avgust. Available at: <http://kremlin.ru/supplement/5328>. (Accessed 27 September 2018).

71 Gurbanov, "Difficult Geopolitics Of The Caspian...", *op.cit.*

72 Turkmenistan Segodnya, (2018) Podpisaniye Kaspiyskoy Konventsii – Istoricheskiy Shag k Mirovoy Energobezopasnosti, 14 Avgust. Available at: <http://tdh.gov.tm/news/articles.aspx&article14061&cat11>. (Accessed 7 September 2018).

73 MID Rossii, (2018) Otvet Rukovoditelya Rossiyskoy Delegatsii Na Mnogostoronnikh Peregovorakh Po Pravovomu Statuse Kaspiyskogo Morya, Posla Po Osobym Porucheniyam MID Rossii I.B.Bratchikova Na Vopros SMI O Vozmozhnosti Stroitel'stva Transkaspiskogo Gazoprovoda Posle Podpisaniya Konventsii O Pravovom Statuse Kaspiyskogo Morya, 17 Avgust. Available at: http://www.mid.ru/web/guest/foreign_policy/news/-/asset_publisher/cKNonkJE02Bw/content/id/3320564. (Accessed 27 September 2018).

74 Kremlin.ru, (2018) "Pyatyy Kaspiyskiy Sammit, Vladimir Putin prinyal uchastiye v Pyatom kaspiyskom sammite, sostoyavshemysya v Respublike Kazakhstan", Prezident Rossii, 12 Avgust. Available at: <http://kremlin.ru/events/president/news/58296>. (Accessed 27 September 2018).

international ecological standards.⁷⁵

Thus, both the Convention and related protocols set clear procedures on how parties (such as Azerbaijan and Turkmenistan) should act before the construction of the TCGP; i.e., they are obliged to provide all information on the project's technical characteristics to other littoral states, which can request additional environmental measures.⁷⁶ However, it is not clear if this mechanism will ultimately request the opinions of other coastal states, or require their permission.⁷⁷ Russian newspaper *Kommersant* argues that, "Russia and Iran will receive an instrument that will at least delay the possible construction of a gas pipeline from Turkmenistan to Azerbaijan."⁷⁸ Thus, the

The Convention, however, does not fully clarify the issue of the delimitation of the sea floor, but only says that "the delimitation of the seabed and subsoil of the Caspian Sea into sectors is carried out by agreement between neighbouring and opposing states..."

TCGP's construction ultimately became subject to final environmental consent of the littoral states—and that is what Russia and Iran were insisting on from the very beginning.⁷⁹

The Convention, however, does not fully clarify the issue of the delimitation of the sea floor, but only says that "the delimitation of the seabed and subsoil of the Caspian Sea into sectors is carried out by agreement between neighbouring and opposing states by taking into account universally recognized principles and norms of law."⁸⁰ Ashgabat and Tehran have disagreements with Baku over the question of ownership of a number of fields⁸¹

75 President.az, (2018) "The Heads of the Caspian littoral states made statements to the press at the Aktau Summit (in Azerbaijani)", Official Website of the President of Azerbaijan, News, Events, 12 August. Available at: <https://president.az/articles/29675> (accessed September 27 2018).

76 Aljazeera, (2018) Will the Caspian Sea deal hold? 13 August. Available at: <https://www.aljazeera.com/programmes/insidestory/2018/08/caspian-sea-deal-hold-180813193010369.html> (accessed 27 September 2018); Stanislav, P. (2018) "Konstitutsiya Kaspiya. O Chem Dogovorilis' Pyat' Kaspiyskikh Stran V Aktau", Carnegie Moscow Center, 15 August. Available at: <https://carnegie.ru/commentary/77043> (accessed 19 August 2018).

77 Mehtiyev, A. (2018) "Caspian Convention Challenges Gazprom's Rule In Europe", Pravdareport, 14 August. Available at: http://www.pravdareport.com/world/ussr/14-08-2018/141395-caspian_convention-0/ (accessed 27 September 2018).

78 Chernenko, Y. (2018) "Ni more, ni ozero Pyat' faktov o novom statute Kaspiyskogo morya", Kommersant, August 12. Available at: <https://www.kommersant.ru/doc/3712593> (accessed 27 September 2018).

79 Garibov, A. (2018) "Russian Government Approves Draft Convention On Legal Status Of Caspian Sea", The Jamestown Foundation, Eurasia Daily Monitor, Volume: 15 Issue: 99, 27 June. Available at: <https://jamestown.org/program/russian-government-approves-draft-convention-on-legal-status-of-caspian-sea/> (accessed 27 September 2018).

80 Barsukov, Y. & Chernenko, Y. (2018) "More dlya svoikh: Pyat' stran dogovorilis' o razdele Kaspiya", Kommersant, 23 June. Available at: <https://www.kommersant.ru/doc/3667577> (accessed 26 September 2018).

81 These are under the jurisdiction of Azerbaijan, namely: Kapaz, Chirag, Azeri, and Sharg; but in the Turkmen version they are Serdar, Osman, Omar/Khazar, and Altyn Asyr respectively.

because of lack of clarity on the division of subsoil between their respective sectors of the Caspian Sea.⁸² Thus, the Convention fails to present any tangible solution in this regard, but merely ensures the continuity of the *status quo* on unresolved issues regarding offshore fields.⁸³ However, Azerbaijan and Iran had signed a MoU on joint development of relevant offshore blocks⁸⁴ in the Caspian Sea during Iranian President Hassan Rouhani's official visit to Azerbaijan in March 2018.⁸⁵ Although there is no sign from Turkmenistan of similar willingness to agree to this kind of formula of joint development with Azerbaijan,⁸⁶ Azerbaijani–Iranian collaboration, as well as Azerbaijan's technological advances in developing the offshore fields, might be motivating factors for Ashgabat.⁸⁷

Moreover, the Convention bypassed the “modified median line” principle for all (which is supposed to be the final solution for all),⁸⁸ and this will make Azerbaijan's position stronger in determination of ownership over “disputed fields” contested by Turkmenistan. Meanwhile, Russia has relinquished its “veto” leverage over the TCGP, but gained a right of “environmental policing,” according to both the Convention and its protocols.⁸⁹

82 CSAF, (2012) Trans-Caspian Gas Pipeline: Goals, Problems and Risks, 24 June. Available at: <http://csef.ru/en/politica-i-geopolitica/237/transkaspiskij-gazoprovod-czeli-problemy-i-riski-3455> (accessed 5 September 2018).

83 Rahimov, R. (2018) “Five Nations Bicker Over Whether The Caspian Is Lake Or Sea”, The Russia File, Kennan Institute Blog, 5 September. Available at: <http://www.kennan-russiafile.org/2018/09/05/five-nations-bicker-over-whether-the-caspian-is-lake-or-sea/> (accessed 9 September 2018).

84 These blocks are supposedly Azerbaijan's “Araz-Alov-Sherg” fields (“Alborz” in Iranian) that are still subject to the dispute.

85 President.az, “Azerbaijan, Iran signed documents”, Official Web-Site Of President Of Azerbaijan Republic, News, 28 March. Available at: <https://en.president.az/articles/27611>. (Accessed 26 September 2018).

86 Rahimov, R. (2018) “Azerbaijan, Iran Reach Breakthrough on Disputed Fields in the Caspian Sea”, The Jamestown Foundation, Eurasia Daily Monitor Volume: 15 Issue: 52, April 5. Available at: <https://jamestown.org/program/azerbaijan-iran-reach-breakthrough-on-disputed-fields-in-the-caspian-sea/>. (Accessed 26 September 2018).

87 Inews, (2018) Konvetsiya O Pravom Stature Kaspiya - Novaya Stranitsa V Istorii Kaspiyskogo Regiona, 13 Avgust. Available at: <http://www.1news.az/news/triumfal-naya-tochka-podpisan-naya-konvetsiya-o-pravom-stature-kaspiya---novye-perspektivy-i-sotrudnichestvo>. (Accessed 26 September 2018).

88 Garibov, A. (2017) “Are The Littoral States Close To Signing An Agreement On The Legal Status Of The Caspian Sea?”, The Jamestown Foundation, Eurasia Daily Monitor, Volume: 14 Issue: 61, 8 May. Available at: <https://jamestown.org/program/littoral-states-close-signing-agreement-legal-status-caspian-sea/>. (Accessed 27 September 2018).

89 Dubnov, A. (2018) “Doraspad SSSR. Chto Izmenit Razdel Kaspiya”, Carnegie Moscow Center, 15 August. Available at: <https://carnegie.ru/commentary/77042>. (Accessed 19 August 2018).

Alternative Scenarios for Turkmenistan's European Gas Exports

Turkmenistan's gas alternatively might be exported in the western direction under several scenarios, as described below.

(1) **Swap deal 1:** Turkmenistan proposed a gas-swap deal with Iran in 2017 to deliver its gas to Turkey, where it could be injected into TANAP, but the idea was rejected by Iran.⁹⁰ Iran had made a similar offer to Ashgabat in 2012 to transport Turkmen gas through Iran's existing pipelines.⁹¹ Under the swap operation, Iran could receive Turkmen gas via the Korpece–Kurtuki (8 bcm/a) and Dautelabad–Sarakh–Khangiran (12 bcm/a) gas pipelines⁹² and deliver its gas to Turkey via existing domestic pipelines/interconnections⁹³ to connect with TANAP, the capacity of which is set to rise to 23 bcm by 2023 and to 31 bcm by 2026.⁹⁴ This proposal was not realized because of its costliness, international sanctions, and gas supply cut (from Turkmenistan to Iran) due to their debt issues.⁹⁵ Transit of huge volumes of Turkmen gas to Europe, which Tehran considers a potential market, would ultimately undermine the latter's plans for exports and to be considered as a potential alternative source by the EU.⁹⁶ The tension with Iran is blocking Ashgabat's manoeuvring for southern/western diversification and will simply increase Turkmenistan's dependence on China's imports. Transit of Turkmen gas through Iran to Europe in the long perspective is also uncertain given the US's evolving position on the nuclear agreement with Iran.⁹⁷

Transit of huge volumes of Turkmen gas to Europe, which Tehran considers a potential market, would ultimately undermine the latter's plans for exports and to be considered as a potential alternative source by the EU.

90 Pannier, B. (2017) "Analysis: Iran Rejects Turkmen Proposal For Gas Shipments To Turkey", Radiofreeeurope/Radioliberty, 30 October. Available at: <https://www.rferl.org/a/iran-rejects-turkmenistan-proposal-gas-shipments-turkey/28824118.html>. (Accessed 28 September 2018).

91 Socor, "Turkey Sees Opportunity In Trans-Caspian Gas Pipeline Project", *op.cit.*

92 Shaban, I. (2015) "Iran's Proposal to Deliver Caspian Gas to Turkey", Natural Gas Europe, 3 February. Available at: <http://www.naturalgaseurope.com/irans-proposal-to-deliver-caspian-gas-to-turkey> (Accessed 13 July 2015).

93 Gurbanov, "Trans-Caspian Pipeline Conundrum...", *op.cit.*

94 Mostajabi, *op.cit.*

95 Shlapentokh, D. (2016) "Prospects Of Turkmenistan-Iran Gas Cooperation", The Central Asia - Caucasus Analyst, 12 October. Available at: <http://www.cacianalyst.org/publications/analytical-articles/item/13402-prospects-of-turkmenistan-iran-gas-cooperation.html>. (Accessed 28 September 2018); Mehrnews.com, (2018) Iran-Turkmenistan Gas Row Goes To ICA, Ruling Expected In Two Years, 15 August. Available at: <https://en.mehrnews.com/news/136784/Iran-Turkmenistan-gas-row-goes-to-ICA-ruling-expected-in-two>. (Accessed 28 September 2018).

96 Trend, (2018) Sefcovic: EU Ready To Mull Possibility Of Connecting Iran To SGC, 15 February. Available at: <https://en.trend.az/business/energy/2861487.html>. (Accessed 28 September 2018).

97 Shlapentokh, D. (2017) "Turkmenistan's Gas Export Dilemma", The Central Asia - Caucasus Analyst, 15 November. Available at: <https://www.cacianalyst.org/publications/analytical-articles/item/13483-turkmenistans-gas-export-dilemma.html>. (Accessed 19 August 2018).

(2) **Swap deal 2:** Alternatively, under this swap operation,⁹⁸ a small volume (2–6 bcm/a) of Turkmen gas can be bought by Azerbaijan to supplement its domestic demand until new fields come on stream, as most of its gas portfolio is contracted to foreign customers.⁹⁹ Under the swap deal, Turkmenistan can deliver the gas to Iran at their common border, and Iran can pass the same amount of its own gas to Azerbaijan at its border.¹⁰⁰ As the price of Turkmen gas is cheaper in summer, it can be held in Azerbaijan's gas storage facilities¹⁰¹ and re-sold at a profit during the winter period when there is a premium price for natural gas.¹⁰² During a visit to Turkmenistan last March, Iranian President Hassan Rouhani was quoted as saying that the two governments want to increase gas swap transactions and make more extensive use of pipeline infrastructure to export Turkmen gas to third countries.¹⁰³ However, the prospects for such an operation are obscure due to the debt dispute between Iran and Turkmenistan.¹⁰⁴

(3) **Connecting the underwater platforms:** Since Turkmenistan prefers to sell gas at the country's border, Azerbaijan can buy around 3–5 bcm of associated gas from Malaysia's Petronas (which has a 15.5 percent stake in SDII) which also works in Turkmenistan's offshore fields in the Caspian.¹⁰⁵ The Turkmen gas can be picked up by accessing one of Azerbaijan's offshore fields, from where the gas can be pumped to Sangachal via Azerbaijan's existing underwater pipelines.¹⁰⁶ Because most of

98 Tehran Times, (2017) Turkmenistan Offers Boosting Of Gas Swap To Lure Iran Back, 31 January. Available at: <https://www.tehrantimes.com/news/410582/Turkmenistan-offers-boosting-of-gas-swap-to-lure-iran-back>. (Accessed 28 September 2018).

99 Azernews.az, "Azerbaijan Does Not Make Exceptions...", *op.cit.*

100 Azvision, (2016) Iran To Reduce Gas Export To Armenia From September, 5 August. Available at: <https://en.azvision.az/news/44355/iran-to-reduce-gas-export-to-armenia-from-september.html>. (Accessed 28 September 2018).

101 Sputnik, (2017) Iran Propositit Turkmenskiy Gaz v Azerbaydzhan, No ne v Turtsiyu, 25 October. Available at: <https://ru.sputnik.az/economy/20171025/412478837/iran-turkmenistan-turcija-gaz-svop-azerbajdzhan.html>. (Accessed 28 September 2018).

102 Pannier, "Analysis: Iran Rejects Turkmen Proposal...", *op.cit.*

103 Gotev, G. (2018) "Turkmenistan To Tap Into Southern Gas Corridor", Euractiv, 8 May. Available at: <https://www.euractiv.com/section/energy/news/turkmenistan-to-tap-into-southern-gas-corridor/>. (Accessed 28 September 2018).

104 Bagirova, N. & Antidze, M. (2017) "Azerbaijan, Future Gas Supplier To Europe, Faces Shortfall At Home", Reuters, 24 February. Available at: <https://www.reuters.com/article/us-azerbaijan-gas-shortage/azerbaijan-future-gas-supplier-to-europe-faces-shortfall-at-home-idUSKBN1630SE>. (Accessed September 28 2018).

105 Eurasianet, (2016) Turkmenistan, Azerbaijan, Turkish Leaders To Meet For Gas Talks, 25 July. Available at: <https://eurasianet.org/turkmenistan-azerbaijan-turkish-leaders-meet-gas-talks>. (Accessed 28 September 2018).

106 Shaban, I. "Baku To Allow Turkmen Gas Into TANAP", Caspian Barrel, 23 May. Available at: <http://caspianbarrel.org/az/2016/05/baku-to-allow-turkmen-gas-into-tanap/>. (Accessed 28 September 2018).

Turkmenistan's offshore fields are located closer to Azerbaijan, this does not require building a pipeline all the way from terminal to terminal, but merely requires linking the two countries' undersea platforms to each other.¹⁰⁷ Azerbaijan's SOCAR President, Rovnag Abdullayev, while attending the oil and gas forum held in Ashgabat in 2015, expressed Azerbaijan's readiness to provide Turkmenistan "a developed infrastructure, a diversified system of oil and gas pipelines, depots and terminals, marine fleet and other opportunities [...] for implementation of projects in the oil and gas sector".¹⁰⁸ Although the inter-platform option might sound the most convenient and shortest way of delivering gas,¹⁰⁹ the Turkmen government would, nevertheless, be unlikely to agree to commit a small volume of gas for the SGC.

(4) *Compressed or Liquefied Natural Gas*: It is also possible to deliver Turkmen gas to Azerbaijan's coast by tankers as Compressed Natural Gas (CNG) or Liquefied Natural Gas (LNG),¹¹⁰ which does not pose an environmental threat to the Caspian Sea, nor is it subject to the Azerbaijan–Turkmenistan maritime dispute. Subsequently, Turkmen gas could be transported by rail to Georgia's Black Sea port, where the LNG will be loaded onto ships and sent to Europe (Romania's Constanta port). As another option, the CNG can be shipped by tankers to Azerbaijan, decompressed there, and transported onward through the SGC.¹¹¹ This plan could be a revival of the AGRI (Azerbaijan Georgian Romania Interconnector) project, but it would bypass Turkey in transit and be detrimental to Gazprom's market position in Europe. However, given the length of the shipment distance, LNG/CNG delivery is not economically advantageous as it is costly in terms of construction, transportation, and price, and is technically problematic because of the absence of necessary regasification/

107 Radio Liberty, (2015) The Trans-Caspian Pipeline: Technically Possible, Politically Difficult, 23 May. Available at: <https://www.rferl.org/a/turkmenistan-natural-gas-europe-pipeline-tcp/27033746.html>. (Accessed 28 September 2018).

108 Hasanov, H. (2015) "Azerbaijan And Turkmenistan - Discovering New Energy Flow Routes", Trend, 23 November. Available at: <https://en.trend.az/business/energy/2459434.html>. (Accessed 28 September 2018).

109 Pirani, *op.cit.* p.17.

110 Gurbanov, "Caspian Convention Signing...", *op.cit.*

111 Socor, V. (2018) "Turkmen President Supports Trans-Caspian Pipeline In Meeting With Top EU Officials", The Jamestown Foundation, Eurasia Daily Monitor, Volume: 8 Issue: 14, 20 January. Available at: <https://jamestown.org/program/turkmen-president-supports-trans-caspian-pipeline-in-meeting-with-top-eu-officials/> (accessed 28 September 2018).

decompression and liquefaction/compressing terminals.¹¹² Since the Caspian Sea is landlocked, it will not be commercially feasible to build relevant terminals to deliver Turkmen gas alone as it will range simply between Turkmenbashi and Baku ports (unless Uzbekistan and Kazakhstan decide to contribute), without any access to world LNG/CNG markets.¹¹³

Conclusion

The efforts mobilized by the EU for the TCGP indicate that, along with Azerbaijani gas, Turkmenistan's vast gas reserves constitute a promising alternative for the Union's gas imports and to increase the economic viability of the SGC's throughput capacity as well as softening the gas dependence of certain member states on Russia's Gazprom.

Meanwhile, Turkmenistan needs diversification due to the country's economic problems (given its budget dependence on oil/gas revenues), transit dependence on Russia, and export reliance on China's gas imports. Lack of solid political or financial support for the TCGP has demotivated Turkmenistan and turned it towards China for gas exports. China's increasing presence in the Turkmen energy sector through the financing/construction of major projects and exploration of the largest gas fields makes it necessary to diversify gas exports from China to the West. The western wing of diversification will help Turkmenistan to lessen its strong gas export dependence on both Russia and China. Up to now, China's dominant share in Turkmenistan's gas exports has delayed Ashgabat's commitment to the European direction of export. Therefore, it is questionable whether Turkmenistan can secure gas supplies for the EU countries in the long term. On the other hand, the environment-related provisions of the new Caspian Convention mean that environmental considerations, previously restricted merely to a political statement, are now legally codified in the Convention.

Meanwhile, Turkmenistan needs diversification due to the country's economic problems (given its budget dependence on oil/gas revenues), transit dependence on Russia, and export reliance on China's gas imports.

On the other hand, bringing Turkmen gas into the SGC is subject to TCGP's commercial context and market perspective, i.e., it is dependent on: (1) investment decisions and price formula for

112 Azernews, (2016) Where Additional Volumes Of Newly Discovered Turkmen Gas Head For?, 23 June. Available at: <https://www.azernews.az/region/98421.html> (accessed 28 September 2018).

113 Gurbanov, "Trans-Caspian Pipeline Conundrum...", *op.cit.*

Turkmen gas to Turkey and Europe; (2) cost of gas production and transportation tariffs that will impact on the price of gas sales; (3) construction expenses and sufficient financing for these; (4) obscurity of demand for Turkmen gas in Europe and of the purchase point for gas; and (5) competition with prospective suppliers (LNG supply and alternative sources, including Azerbaijan). Furthermore, since the late 1990s, many things have changed in the European gas market's circumstances (domestic interconnectors, LNG imports, lower prices, Gazprom's market competition, etc.), meaning that the TCGP might be less attractive now. Until the concrete infrastructure is constructed to bring Turkmen gas into the SGC, Azerbaijani gas will remain the most reliable source for the EU in the near future.