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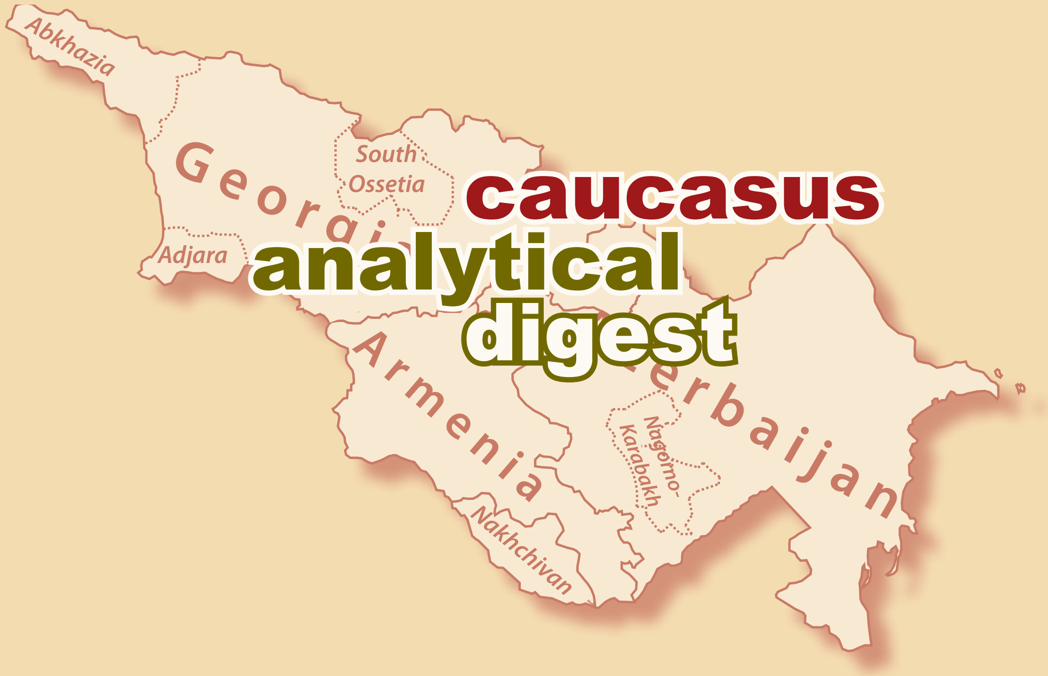

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OIL AND GAS PIPELINES IN THE SOUTH CAUCASUS

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Interlinked Energy Supply and Security Challenges in the South Caucasus

By Lusine Badalyan, Bremen

Abstract

The article examines the interplay of external powers' energy security interests in the South Caucasus, showing in particular how energy supplies and transportation routes affect and alter regional security dynamics. Pipelines that could have promoted peaceful outcomes are in fact facilitating greater tension.

Introduction

The recent debate on Georgia's plans to sell a minority stake in its segment of the North–South gas pipeline, which supplies Russian natural gas to Armenia, is one piece of a larger energy policy puzzle in the South Caucasus region that sheds light on the importance of energy issues and their close interconnections with security dynamics in the region.

The plan to sell the Georgian segment of the North–South pipeline, which connects Mozdok, Tbilisi, and Yerevan, first arose in early 2006, because the poor condition of the pipeline required private investment for reconstruction. The Russian majority state-owned energy company Gazprom hurried to buy the segment. The deal almost had been concluded when the US offered $49.5 million to renovate the pipeline. In return for the US investment, the Georgian government agreed to ban the sale of the pipeline for 5 years, a period which expired in April 2011.

In 2010, the issue again returned to the agenda. The Georgian Parliament passed a bill, which removed the pipeline from the list of strategic government-owned facilities and made a sale possible. The US raised no objections to the idea of privatization.

Among the potential companies that are interested in purchasing the North–South gas pipeline are Gazprom and Azerbaijan's state-owned company SOCAR. Russia's desire to buy the segment seems to be driven by its intention to gain additional economic leverage for implementing its foreign policy in the region. In the case of Azerbaijan, acquiring the pipeline would offer a possibility to put economic pressure on Armenia and potentially help in forging a solution to the Nagorno-Karabakh conflict.

Armenia, possessing no major energy resources, is heavily dependent on extensive energy imports from Russia. Thus, the North–South pipeline is of strategic significance for the country. If the pipeline comes under SOCAR's control, Armenia will perceive the transfer as a threat to its energy supply as well as its national security. This development in turn may generate bilateral tensions that risk jeopardizing regional stability.

Export Pipelines

The South Caucasus is one of the subcomplexes of the larger post-Soviet Regional Security Complex, which is defined as a set of units, whose major process of (de) securitization are so interlinked that "their security problems cannot reasonably be analyzed or resolved apart from one another" (Buzan and Waever 2003: 44). As such, this approach assumes not only that the security concerns of all three South Caucasian states—Armenia, Azerbaijan and Georgia—are significantly interconnected, but also that the region's security architecture per se is largely affected by the strong foreign penetration of regional and global powers. Thus, any change in general power balances, state-to-state interdependences, and durable patterns of amity and enmity at the regional and global levels may have an essential impact on the security dynamics of the South Caucasus region.

Caspian energy resources and strategic export pipelines traversing through the region have a crucial impact on the complex security framework of the South Caucasus. Russia's, and to a lesser extent Iran's, gas supplies to the region also play a strategically important role. Located in the unique geostrategic area between the EU, Russia, Central Asia and the Middle East, the South Caucasus represents a key transit corridor of energy resources between the landlocked Caspian basin and Western consumer markets.

During the Soviet era, Moscow controlled Caspian energy reserves and the pipeline networks were constructed so as to link all the energy-rich countries to Russia. The Soviet Union's demise opened up the region to external actors allowing foreign companies to invest in exploiting energy reserves and constructing alternative pipeline routes to transport gas and oil from the region to the lucrative international markets.

The proven energy reserves of the Caspian basin are modest compared to the enormous energy volumes in the Middle East, and in fact are also far below the figures suggested in the early 1990s, e.g. by the US State Department. (An overview of reserves and production figures is given in the data section following this article.) What makes Caspian energy resources so significant is that they offer Western buyers the opportunity to diversify energy imports away from the near monopolistic energy supplies of the Middle East and Russia.

Currently the region relies on two major pipelines. The BTC pipeline running from Baku (Azerbaijan) via

Tbilisi (Georgia) to Ceyhan (Turkey) is the main oil export pipeline and the BTE running from Baku via Tbilisi to Erzurum (Turkey) is the main gas export pipeline. The other important export pipelines run from Baku to Novorossiisk (Russia) and to Supsa (Georgia); both were constructed for Azerbaijani "early" oil production and have only a small capacity. In addition there are two import pipelines which deliver gas to the South Caucasus region, namely the North–South pipeline, which originates in Russia, and the Iran–Armenia pipeline.

The Baku–Novorossiisk and Baku–Supsa Pipelines

In 1994 the Azerbaijani state oil company (SOCAR) signed a $7.4 billion 30-year production contract with a consortium of major international oil companies called the Azerbaijan International Operating Company (AIOC) which became known as the "Deal of the Century". This much-publicized contract made Azerbaijan a global supplier of energy and opened the Azeri energy sector to major international oil companies which made multibillion investments. The prospect of oil wealth and foreign investment that resulted from this deal became an important stabilizing factor contributing to the ceasefire and freezing of the Nagorno-Karabakh conflict.

From the outset the contract prompted extensive discussions around the possible pipeline options for the transportation of Azerbaijani oil and gas and became a controversial issue for the global as well as regional and interregional actors of the Caucasus.

During the Soviet period large oil projects were undertaken in the Azerbaijani energy fields and they could utilize pipelines traversing Russia which already existed. From the commercial perspective, relying on the existing pipelines for the new projects would have been more feasible, since small modifications or the construction of new parts would have cost less than to build a totally new pipeline. However, the AIOC consortium was reluctant to opt only for the existing cheap option. It pursued a "multiple pipelines" approach, aimed at reducing Russia's position as a transit country of Caspian energy supplies and diversifying Azerbaijani energy export options. Ultimately, it was decided to pump the "early" oil of Azerbaijan in two directions, namely via northern and western route export pipelines.

In 1996 Azerbaijan signed an intergovernmental agreement with Russia to build up the Baku–Novorossiisk pipeline to transport Azerbaijani "early" oil from Baku to the Russian Black Sea port of Novorossiisk which hosts a huge oil terminal. The pipeline, 1,347 km long, began operations in December 1997 with a total capacity of 100,000 barrels of oil per day. Notwithstanding the pipeline's commercial viability, the northern route, was not an reliable option, as it passes through the North Caucasus, where the Chechen war started in 1994 and where military and terrorist activities have continued ever since.

The need for an alternative line to export Azerbaijani "early" oil was critical. Despite Russia's various pressures to make the northern pipeline the single route for transporting Azerbaijani oil, in 1995 the AIOC announced its intention to utilize a second pipeline route, the Baku–Supsa pipeline. Capable of carrying 120,000 barrels of oil per day, the pipeline (917 km long) runs from Baku to Georgia's Black sea coast of Supsa. The pipeline began operations in 1999, exactly at the same time when Russia closed the Baku–Novorossiisk line because of active military operations in Chechnya.

In the new geopolitical environment of the Caucasian subcomplex in the 1990s Russia emerged neither strong enough politically nor sufficiently economically robust to impose its will and to be able to force Azerbaijan to export its energy supplies exclusively through the Russian pipeline system. What is more, both global and interregional actors started to become actively engaged in the Caspian energy utilization process and balanced Russia's efforts to control the export routes.

The Baku–Supsa pipeline marked the beginning of reorienting Azerbaijani energy exports away from Russia and created the first alternative route bypassing Russian territory for Caspian energy exports. However, with its small capacity, the pipeline, which had been designed to carry only "early" oil, could not bring any substantial shift in power and security dimensions in the region.

Iran–Armenia pipeline

The Iran–Armenia gas pipeline, which primarily sought to serve as an alternative energy source for Armenia and to reduce its dependence on Russian gas supply, in fact started to operate under the control of Russia's gas company Gazprom. The agreement on the pipeline construction, which had been signed in early 1992, was put into practice only 12 years later. In 2007 the first section of the pipeline opened, running from the Iranian city of Tabriz via the Iran–Armenian border town Meghri to Kajaran in Armenia. It is only 142 km long with a small capacity of 2.3 bcm of gas per year. According to the agreement, most Iranian gas is used to fire the Hrazdan power station and the electricity produced by the Armenian power station is exported back to Iran.

Initially, planners wanted to build a pipeline with double the capacity of the existing pipeline. As a result the pipeline would have made Iran not only an important energy supplier for the Caucasian region, but would have also allowed it to carry gas to the European markets, thereby competing with Russia's energy supply monopoly. It has, therefore, been alleged that it was pressure from Gazprom that kept the pipeline small.

Thus, from the very beginning, Russia became actively involved in the project and controlled the competitor's supply. For the construction of the pipeline, Gazprom invested $200 million in the project and afterwards also purchased the section of the pipeline that runs through Armenian territory via the ArmRosGaz company (owned by 45% by Gazprom, 10% by Itera and the remainder by the Armenian energy ministry).

As a result, the only plausible alternative to Russian energy supplies for Armenia came under Gazprom's control. It is potentially important and strategic for Moscow's foreign policy to continue to control pipelines and the distribution network in Armenia as well as to prevent any possible challenge to its existing energy supplies. Thus, Iran's potential attempt to transit its energy resources to western markets and to become a prominent player in the South Caucasus was blocked not only by the US sanctions regime but by Russia's strategic economic interests.

BTC and BTE Pipelines

The construction of the Baku–Tbilisi–Ceyhan (BTC) and the Baku–Tbilisi–Erzurum (BTE) pipelines introduced significant changes to the South Caucasus status quo by changing the relationship among the external actors.

The BTC is probably one of the most controversial and politicized energy pipelines of modern times. It is the second longest (1,768 km, following only Russia's approximately 4,000 km Druzhba pipeline) and one of the most expensive pipelines in the world, costing $4.6 billion. The pipeline began operations in July 2006 and its capacity is 1 million barrels of oil per day. It starts from the Azerbaijani Azeri-Chirag-Guneshli oil field and connects to the Turkish Mediterranean port of Ceyhan via Tbilisi bypassing the overloaded Turkish Straits. In 2006 Kazakhstan made a pledge to provide the BTC an additional 53 million barrels of oil each year.

Parallel to the BTC is the BTE natural gas pipeline (also known as the South Caucasus Pipeline) which carries natural gas from the Shah Deniz field in Azerbaijan through Tbilisi and links to the Turkish national gas pipeline network in Erzurum. The BTE became operational in December 2006 and has a total capacity of 6 bcm per year. Most of the gas is exported to Turkey, and only a small amount is sent to Europe via a transit pipeline through Greece.

Western leaders called the BTC and BTE pipelines one of the most important projects of the 21st century. In the case of the EU, the pipelines serve as an important factor for the preservation of its energy security. Diversified energy supplies and alternative delivery routes to EU markets in a safe, timely and economically sound manner represent key EU policy priorities. The BTC and the BTE projects can help the EU to avoid its strategic dependence on Russian energy supplies and delivery routes.

The US government's strong support for the pipeline projects goes beyond merely assuring energy security. The pipelines are viewed as strategic projects that are critical to US national security interests. This perspective is connected with the evolving geo-strategic and geo-economic location of the South Caucasus. It represents a crossing point between the EU, Russia, Central Asia and Middle East. Moreover, it is a unique corridor connecting the Caspian basin with the Black Sea, and serves as a key transportation route for Caspian energy supplies (bypassing Russia and Iran) to western markets. Additionally, the region provides direct access for allied operation forces in the Greater Middle East and Central Asia. In this respect, the pipeline projects opened new prospects for expanded US involvement in the region while NATO became the principle guarantor of the pipelines' security.

Not surprisingly, Russia denounced the pipelines and viewed the projects not as a purely economic venture but as a political project directed against its security, political and economic interests. Since Putin's presidency, Russia has emphasized a greater strategic interest in maintaining its influence in what it calls the "near abroad". Clearly, redirecting Caspian energy exports away from the Russian transit system challenged not only Russia's dominant role as a key channel for Caspian energy supplies to Europe but also its traditional strategic interests in the Caucasus.

Conclusion

The South Caucasus, after the demise of the Soviet Union, emerged at the crossroads of strategic energy supply routes, making the region increasingly important for global as well as regional actors. This role has been particularly enhanced with the construction of new energy export pipelines, particularly the BTC and the BTE, that connect landlocked Azerbaijani energy resources with international markets. These pipelines altered the status quo of power relations in the region. They marked the end of Russia's monopolistic control over the energy transportation routes from the Caspian region and helped both Azerbaijan and Georgia move away from the Russian sphere of influence. The pipelines helped to strengthen their political and economic autonomy, enabling them to choose their own foreign policy and security orientation. As a result they became significant regional actors.

While the BTC and the BTE projects clearly met the US and the EU strategic interests, for the Caucasus region per se the projects cannot be described as "peace pipelines" promoting security and stability in the region. The new role of Azerbaijan and Georgia has increased tensions in the region, most obviously in Georgia's relations with Russia. However, while Georgia after the Rose revolution has made steps towards the establishment of democratic institutions and standards, Azerbaijan has made no such gains. Its political system is based on a strong centralized authoritarian regime where the independence of the country implies the survival of its elite and their policies rather than legitimate democratic governance. Azerbaijan's authoritarian political elite uses energy revenues to modernize its military capacity and build-up the army. Since 2003 the country's defence spending has grown dramatically. This year military outlays amounted to one fifth of overall state budget expenditures, equal to $3.12 billion. At the same time, this sum is more than the entire Armenian state budget. (More detailed figures are given in the data section following this article.)

Although it is unlikely that another war will break out over Nagorno-Karabakh and Azerbaijan's military build-up might simply be an effort to increase its prestige, in the volatile security structure of the region it creates a potentially destabilizing environment. In this respect, it can lead to an unplanned escalation of tensions and pre-emptive actions by one side or the other, inevitably affecting the existing precarious stability in the region.

Azerbaijan's efforts to isolate Armenia from the regional pipelines projects, thus weakening the country economically, fit into this context. Armenia, mostly as a consequence of the unresolved Nagorno-Karabakh conflict, was left out of these major regional energy projects. In its energy consumption it is highly dependent on Russian gas supplies while the only "diversified" energy export route, the Iran–Armenia gas pipeline operates under Gazprom's control. As with the North–South pipeline discussed in the introduction, Azerbaijan might aim to employ its economic capacity at the negotiating table over Nagorno–Karabakh. However, in Armenia the energy export routes are not viewed as tied to the resolution of the Nagorno-Karabakh conflict.

As has been demonstrated, the energy supplies and the choices of energy export routes are closely interlinked with the security dimensions in the South Caucasus. While the main export pipelines could have served as strategic "peace" projects for the sake of which the regional actors cooperate, they instead have the potential to create dividing lines and disharmony between the participating states and thus exacerbate the existing regional insecurities.

It is essential for regional security that energy reserves and supply routes are used appropriately. At the same time, the core imperatives of regional security are domestic political in nature and depend highly on the establishment of democratic institutions, legitimate governance and the rule of law.

Moreover, it is important to promote cooperation between foreign as well as regional actors by not excluding anyone but creating a win-win situation from which all relevant actors profit. Achieving this goal requires an understanding of the South Caucasus as a single region, where the economic needs and security issues of the regional entities are so closely interlinked that they cannot be successfully resolved without a holistic approach.

About the Author

Lusine Badalyan is a PhD student at the Research Centre for East European Studies at the University of Bremen. Her research is funded by a grant from the Volkswagen Foundation as part of a research project on domestic discourses and foreign policy-making in the Caspian region.

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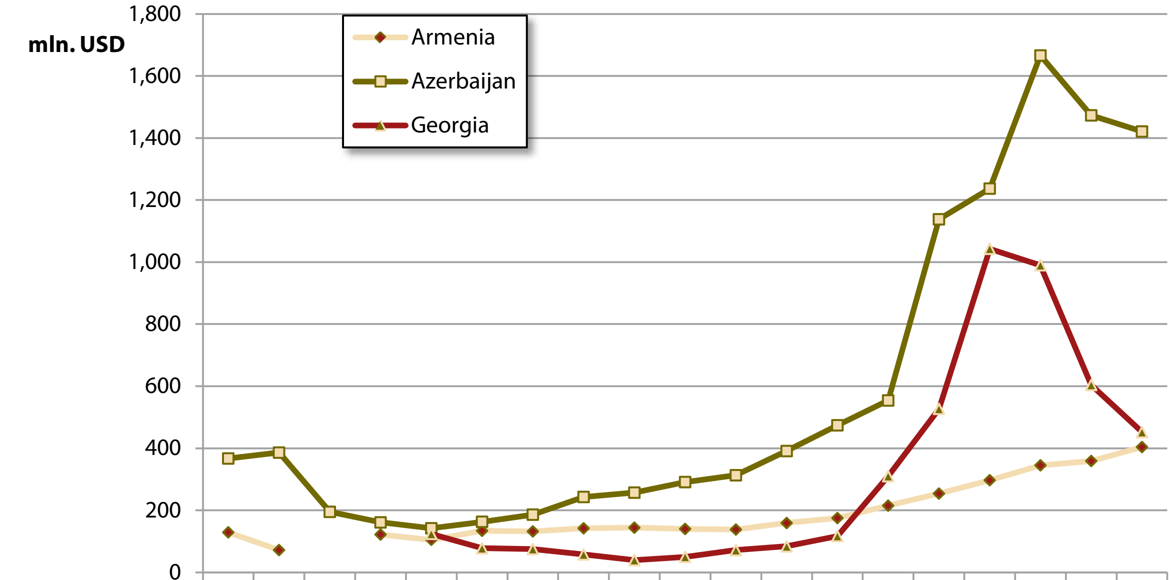
TABLES AND GRAPHS

Military Spending in the South Caucasus Region

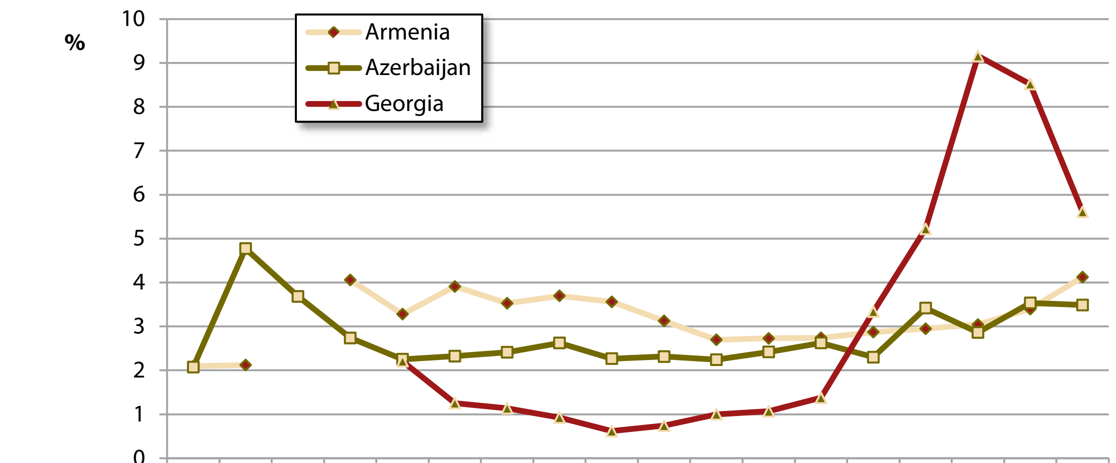
Figure 1: Military Spending in Mln. USD



	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10
Armenia	129	72	n.a.	122	105	134	132	142	144	140	138	159	175	215	254	297	345	359	404
Azerbaijan	367	386	195	161	142	163	186	243	257	291	313	391	474	554	1,138	1,237	1,666	1,473	1,421
Georgia	n.a.	n.a.	n.a.	n.a.	124	78	75	58	39	50	72	84	117	310	527	1,043	990	604	452

Note: Figures for Armenia and Georgia do not include military pensions. If the figures for Armenia were to include military pensions they would be 15–20% higher.
Source: Military Expenditure Database of the Stockholm International Peace Research Institute, http://www.sipri.org/databases/milex

Figure 2: Military Expenditure as Share of GDP

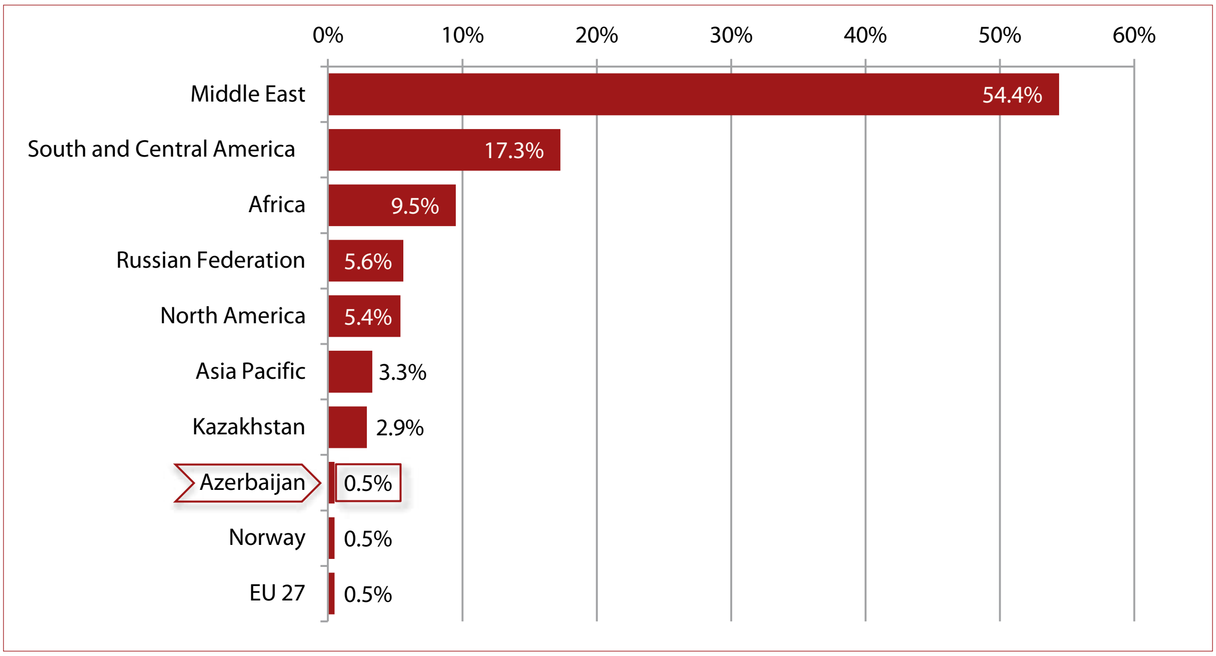


	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Armenia	2.10	2.12	n.a.	4.06	3.28	3.91	3.53	3.70	3.56	3.13	2.70	2.73	2.74	2.87	2.95	3.04	3.40	4.12
Azerbaijan	2.07	4.77	3.68	2.74	2.25	2.32	2.41	2.63	2.27	2.31	2.24	2.42	2.63	2.30	3.42	2.86	3.54	3.49
Georgia	n.a.	n.a.	n.a.	n.a.	2.21	1.25	1.14	0.92	0.62	0.74	1.00	1.07	1.37	3.34	5.22	9.16	8.52	5.61

Note: Figures for Armenia and Georgia do not include military pensions. If the figures for Armenia were to include military pensions they would be 15–20% higher. Source: Wold Bank—World Development Indicators, http://data.worldbank.org/data-catalog/world-development-indicators; *see also the source for Fig. 1.*

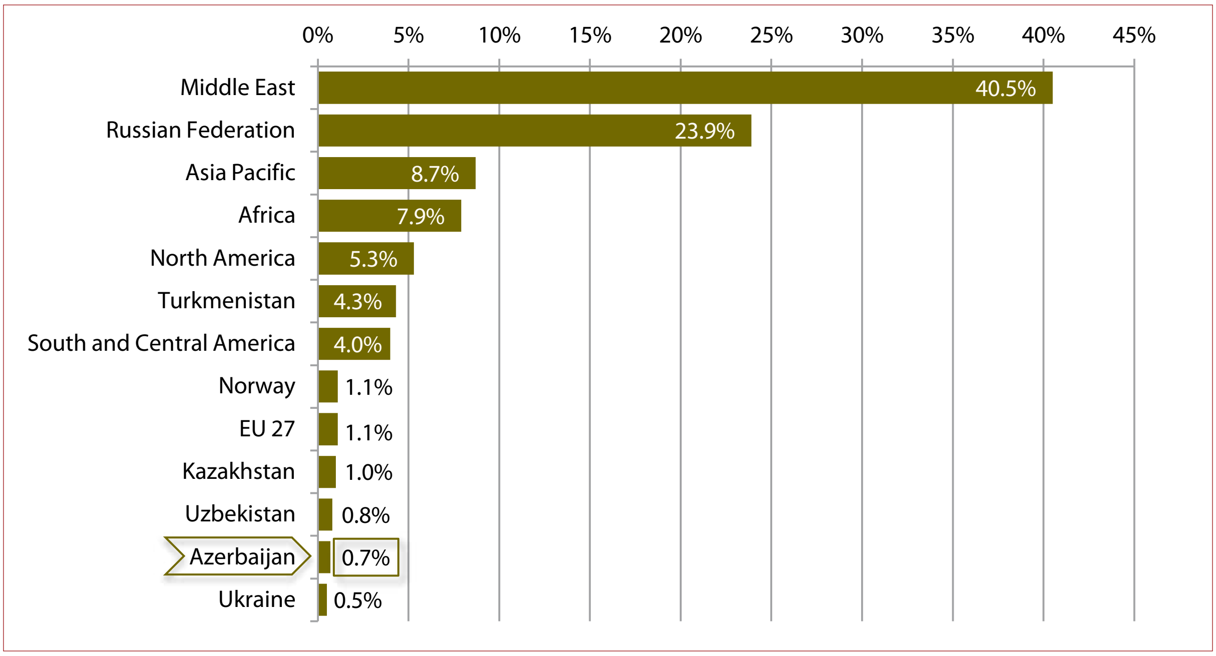
Oil and Gas Reserves—International Comparison

Figure 1: Distribution of World Oil Reserves (Proved Reserves, End of Year 2010)



Source: BP Statistical Review of World Energy 2011, http://www.bp.com/statisticalreview

Figure 2: Distribution of World Gas Reserves (Proved Reserves, End of Year 2010)



Source: BP Statistical Review of World Energy 2011, http://www.bp.com/statisticalreview

MAP

Major Oil and Natural Gas Pipelines Around the Caspian Sea

Figure 1: Major Oil Pipelines

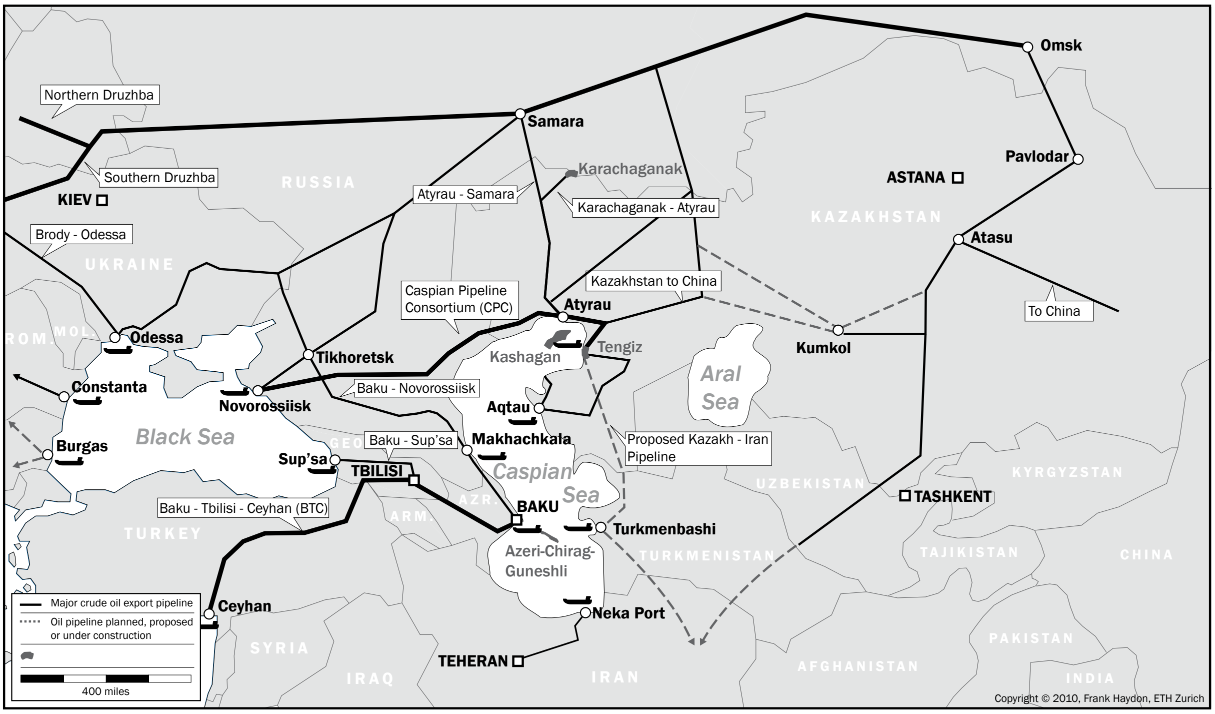
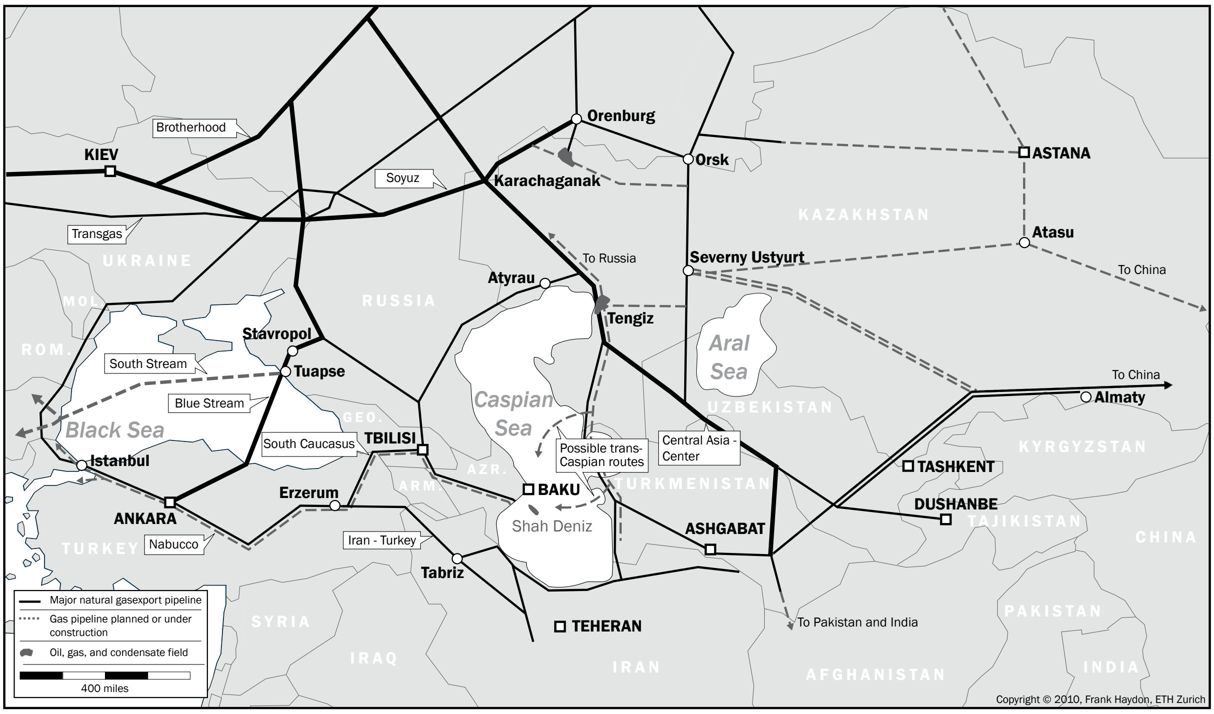


Figure 2: Major Natural Gas Pipelines



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The Nabucco Gas Pipeline Project and its Impact on EU Energy Policy in the South Caucasus

By Julia Kusznir, Oslo

Abstract
If constructed, the Nabucco Gas Pipeline would provide Europe with up to 31 billion cubic meters of gas a year from non-Russian sources. While a variety of problems hinder construction of the pipeline, Russia's evolving relationship with Ukraine may promote change in the current stagnant situation. However, a growing role for the European Union in the South Caucasus may provoke new tensions in its relations with Russia.

Introduction
For about 15 years after the collapse of the Soviet Union, there was very little activity in the energy relations between the European Union and the countries of the South Caucasus. At the beginning of the 1990s, the European Commission created the program of Technical Assistance to the Community of Independent States (TACIS) to support the development of the post-Soviet countries. Two components of this program covered cooperation with Armenia, Azerbaijan and Georgia: TRACECA and INOGATE, which focused on, among other areas, improving the energy transportation network, guaranteeing energy supply and coordinating investment in pipeline projects. In this context, EU institutions have supported the development of the South Caucasus hydrocarbon transportation routes, including the Baku–Batumi railroad and three pipelines: the Baku–Tbilisi–Ceyhan (BTC) oil pipeline, the Baku–Supsa oil pipeline and the South Caucasus gas pipeline (SCP). However, the EU only provided technical support and helped in framing the agreements between the countries involved (Azerbaijan, Kazakhstan and Georgia). At the same time, the EU devoted less attention to Armenia. This lack of cooperation was explained by the dearth of energy resources in Armenia and the country's high dependence on Russian gas giant Gazprom. In general, the EU saw the South Caucasus as part of the Russian "Near Abroad". Another reason for the EU's relative lack of interest in active energy cooperation was the considerable divisions between, and competition among, the different actors and institutions at the EU level. There was also no consensus on the external policy toward the South Caucasus due to the anxiety that direct competition with Russia in this region would have a negative impact on EU–Russian energy relations.

In the mid-2000s, the situation began to change as a result of the rise in European gas demand and the increasing imports from Russia to meet it. Currently, Russia provides 40% of the EU's gas imports. The EU Commission forecasts that the Russian portion of gas supply will rise to over 60% by 2030, strengthening its position as the dominant importer to the European energy market. The fact that a number of EU states, above all the new Central and East European members, are completely dependent on Russian natural gas for their domestic energy consumption makes the situation more difficult. At the same time, the frequent conflicts over the last few years between Russia and the transit countries Ukraine and Belarus have raised questions regarding Russia's reliability as a partner and her willingness to use her energy power as a "political weapon" to influence European foreign and economic policy.

This increasing dependence on Russian energy resources led European policy-makers to develop in 2007 the EU Security and Solidarity Action Plan. This document focuses on liberalizing the EU energy market, enhancing energy efficiency and diversifying energy supply. One of its main priorities was the promotion of the Southern Gas Corridor as a means of developing new supply sources and infrastructure to transport gas from the Caspian and Middle Eastern regions, particularly from Azerbaijan, Turkmenistan, Iran and Iraq. Three main gas pipeline projects were included in the Southern Corridor plan: (1) the Interconnection Turkey–Greece–Italy pipeline project (ITGI), (2) the Trans-Adriatic Pipeline project (TAP) and (3) the Nabucco pipeline project (for an overview of the pipelines, see Table 1). Following the adoption of the Security and Solidarity Action Plan, the Nabucco pipeline was named as a flagship project for the European Union. The European Commission viewed the project from two perspectives: (1) as a foundation for the diversification of gas supply and (2) as a real opportunity to realize its geopolitical vision of connecting the Caucasus and the Caspian region into one energy network. The EU has accorded Azerbaijan an important role within this project as a major energy-producing country.

Nabucco as a Flagship Project for the EU
Nabucco has been in planning since 2002. It is envisaged as a 3,900 km pipeline from Turkey to Austria via Bulgaria and Hungary that would carry up to 31 billion

cubic metres (bcm) of gas to Europe per year with estimated construction costs of over 7.9 billion euros. Currently, the Nabucco consortium is made up of Austria's OMV, Bulgaria's Energy Holding Bulgargaz, Germany's RWE, Hungary's MOL, Romania's Transgaz and Turkey's Botas, each of which holds a 16.67% stake. The project plans to receive about 20 bcm of gas per year from the Azerbaijani Shah Deniz gas field 2 (SD2) and, initially, 10 bcm from Turkmenistan. In the long term, gas should also come from Iraq. In addition, there are negotiations with other suppliers, such as Kazakhstan and Egypt. The construction of the pipeline has been postponed many times. According to optimistic forecasts, the project will start in 2013 and the first supplies will be commissioned in 2017.

In spring 2007, the project was accorded highest priority as laid down in the guidelines for trans-European energy networks (TEN-E). Within this system, the European Commission has given significant support for Nabucco in a number of ways. First, the European Commission (based on a mandate from the 27 EU states) was actively involved in the negotiations between the Nabucco consortium and the supplier countries. As result, an intergovernmental agreement lasting 50 years was signed in July 2009 and later ratified by the state governments and the parliaments of the EU members involved in Nabucco, as well as by Azerbaijan and Turkey. The consortium also received financial support: European banks were willing to contribute 4 billion euros (2 billion of which came from the European Investment Bank, 1.2 billion from the European Bank for Reconstruction and Development, and 800 million euros from the International Finance Corporation). The rest is expected to be financed through shareholder borrowing and by private investors. In addition, the European Commission helps coordinate the administrative, environmental and social impact assessments in the countries through which Nabucco will run.

However, the competition among the three planned pipeline projects in the Southern Corridor (ITGI, TAP and Nabucco) became evident when the Shah Deniz consortium led by BP and the Azerbaijani state oil company SOCAR announced in summer 2011 a bid for the Shah Deniz gas. All three consortia submitted their comprehensive transportation proposals. However, BP has also announced a plan for its own South East Europe Pipeline (SEEP), which would be able to transport SD2's post-2017 gas output of 10 bcm per year to Europe. This would be a third of Nabucco's volumes. In addition, SEEP put forward its proposals for the SD2 gas in the case that none of the three proposed pipeline projects meet the Shah Deniz consortium's needs. Consequently, there are currently four proposals in the running, but it is not clear which is a front runner. The partners from the Shah Deniz consortium have stressed that they will select from these four proposals the best route to transport SD2's gas to Europe at the end of this year or early next year. However, the European Commission strongly believes that Nabucco is the only project in the Southern Corridor that will enable a diversification of Europe's gas supply.

Meanwhile, the representatives of the Azerbaijani government pointed out that there are also other pipeline projects in planning that could be attractive for the transportation of gas from the SD2 field to the European market; the Nabucco pipeline could therefore be a good future option when the gas from Azerbaijan's other gas from fields located in other countries of the Caspian basin are available. In addition, Baku has stressed many times that it is much more interested in the diversification of its export routes and that it would prefer to concentrate on smaller pipeline projects, which could be more profitable. As a result, Azerbaijan's SOCAR and Turkey's state operator BOTAS have declared the establishment of their own gas corridor across Turkish territory by building the Trans Anadolu Pipeline (TANAP), which will run parallel to Nabucco's planned route and have a capacity of 16–17 bcm per year.

According to many experts, the BP pipeline proposal seems to be more attractive than its three competitors because it would be based on a combination of existing and new infrastructure. Moreover, there are powerful arguments against the other two small projects (ITGI and TAP): while they plan to deliver gas to several European countries, the main gas volume is intended for the Italian market, which is already oversupplied. The current financial problems of Greece also place doubt on the realization of these two projects. Taking all this into account, the Shah Deniz consortium has also renewed discussions about other possible supply options to Europe, for example by expanding the capacity of the existing transport infrastructure in Azerbaijan and Georgia or using tanker routes across the Black Sea.

Troubles Surrounding the Nabucco Project

All these factors are weakening the momentum of the Nabucco project and reducing significantly its chance of being selected as the optimal delivery route for SD2 gas to Europe. Although the Shah Deniz consortium still has time to decide which pipeline it will use and the Azerbaijani government has the right to veto any decisions on the pipeline routes, it seems that a smaller project—possibly the SEEP project supported by BP—is the frontrunner in the matter of the Southern Corridor. However, the European Commission has refused to give up. As a compromise, it has suggested cooperating with all the gas pipeline consortia involved in order to combine pipelines into one gas delivery system for SD2's gas to Europe.

The Nabucco project has made very slow progress since 2002 for several reasons. First, rising costs and the lack of the necessary financial support have prevented the project from going ahead: a few months ago, the consortium announced that the pipeline's estimated costs were 12–15 billion euros instead of the 7.9 billion euros initially planned, but the final price tag could to be considerably higher. The EU hopes to encourage private investors to invest in the project. At the same time, the lack of a common set of clear laws and regulations at the EU level that could underpin the investment undermines these efforts.

Second, the questions concerning the availability of gas in the Caspian basin and the Caspian Sea's unclear legal status make the realization of Nabucco much more difficult. In addition, there is uncertainty about the availability of gas in Turkmenistan; most of the gas fields there are inaccessible for European companies because of the lack of a pipeline connecting the fields with Azerbaijan's existing export infrastructure. The Azerbaijani government has declared many times that it has the right to build a trans-Caspian pipeline to import gas from Turkmenistan and to fill Nabucco with additional gas. However, the littoral states Russia and Iran, which are not included in any of these projects, have proclaimed that all five littoral states in the basin must consent to any Caspian projects, otherwise they would face legal obstacles. They have also claimed that the construction of the pipeline is very risky and unacceptable from an environmental point of view. Moreover, the uncertainty about the development of the gas fields in Iraq in the short term raises further doubts about the availability of additional gas sources for the project. The protest by the Bagdad authorities against the deal made between the pipeline consortium's shareholders OMV and MOL and the Kurdish Regional Government has stopped the first stage of operation. EU sanctions on business with Iran rule out the country's participation.

Thirdly, since the inception of the Nabucco project in 2002, a lot has changed in the global gas market, including the increased viability of unconventional gas from shale, which makes Nabucco less commercially attractive for private investors.

The situation surrounding Nabucco became more complicated when Russia started pushing ahead with its own South Stream pipeline project (initiated in June 2007), which will be a rival to Nabucco. The gas pipeline will transport Russia's gas to, among others, Bulgaria, Austria, Greece and Italy. It is expected to cost more than 15 billion euros and will carry about 63 bcm of gas per year. Construction is planned to begin in 2013. The Russian authorities are hoping that the EU will support this project, above all by giving South Stream Trans-European Network (TEN-E) status. They are seeking German help to achieve this; Germany is already viewed by Russia as an ally because of their successful cooperation on the Nord Stream pipeline across the Baltic Sea. France, too, was asked to support the project. With their help, Russia is hoping to lobby the European institutions to change the regulation of the EU's Third Energy Package. Kremlin officials have also often declared that none of the planned pipelines in the Southern Corridor should be taken seriously because of the lack of necessary gas volume; they claim that South Stream would be the best solution. In pushing the project ahead, Russia's Gazprom has reached several intergovernmental agreements necessary to the project with transit countries such as Austria, Bulgaria, Greece, Hungary, Serbia and Slovenia. In addition Gazprom has signed bilateral agreements on cooperation in the field of project implementation with companies including OMV, MOL and Bulgargaz, which are also involved in Nabucco project. That has seriously increased doubts about their loyalty to Nabucco.

There are still other problems for Nabucco to clear up. Most of the proposed pipeline is planned to run across Turkey. This would make both the EU and the suppliers more dependent on the policy of that transit country. Turkey's government is already trying to set the rules by directly influencing the prices and transportation volumes.

Conclusion

Europe's expected demand for gas has risen recently. In addition, Germany's decision to shut down its nuclear plants in the wake of the Fukushima disaster has increased European gas demand by 31 bcm per year. We can assume that the share of gas in the EU's primary energy demands will increase: The EU currently consumes more than 500 bcm of gas. Consequently, the 31 bcm delivered through Nabucco will only represent a relatively small addition to this. However, the project is still a political and economic priority for the EU because it will promote non-Russian routes, increase the gas capacity available to Europe and strengthen energy networking inside the Southern Corridor, as well as the political and economic role of the EU in general.

It is also worth noting that the Lisbon Treaty's regulations on EU energy policy have simplified the institutional structures responsible for the policy in the Caspian region and made them more unified and transparent. These have promoted the development of a more consistent policy in the area of European energy security, particularly toward the Southern Corridor. Nevertheless, it seems that other important factors, such as the intensity of bilateral energy relations between the countries involved in the Nabucco project and Russia or the geographical location and access to alternative energy sources of these countries, still play the main role in the further development of the project. Moreover, the emergence of two groups inside the EU—the group of the CEE states and that of Western countries led by Germany and France—following very different strategies hinders the adoption of a common position on Russian gas. It is also evident that the EU's proclaimed goal of "speaking with one voice" has not been achieved. Nabucco has shown that the EU member states involved in this project have generally not acted in the long-term common interest of the energy security of the EU but according to their own calculation of costs and benefits. This could also have a negative impact on the project's development.

However, we can assume that the situation will change in the near future as a consequence of the accession to power of a new and more pro-Russian Ukrainian government in 2010. This has given Russia the opportunity to renegotiate the regulation of Ukraine's gas transit system in its favour. In turn, this could reduce the need for a South Stream project and, thus, lessen the political tension surrounding Nabucco. It is obvious that an increase in EU involvement in the South Caucasus region would help the region's countries, above all Azerbaijan, to secure direct access to the European energy market and to strengthen their economic independence from Russia. The strengthened position of the EU in the South Caucasus would also signify a new phase in the relationship between two powers—the EU and Russia—by perhaps increasing the mistrust of the latter towards the former with unpredictable results for the relations between the two.

About the Author
Dr. Julia Kusznir is an external fellow at the Norwegian Institute of International Affairs in Oslo. Her research is funded by a personal mobility grant from the E.ON Ruhrgas programmes for economics and business administration, law and political science (IS-RUHR).

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Table 1: Gas Pipeline Projects in the Southern Corridor

Pipeline project	Route	Project partners	Capacity [bcm/per year]	Estimated costs of construction	Planned start of construction
Interconnector Turkey Greece Italy (ITGI)	Turkey, Greece, Italy, Bulgaria (296 km long)	Botas, DEPA (public gas corporation), IGI Poseidon	from 10 to 20 bcm	€2.0–2.5billion	2012
Nabucco	Turkey, Bulgaria, Romania, Hungary, Austria (3,900 km long)	Botas, RWE, Bulgargaz, MOL, Romanian Transgaz OMV	31 bcm	€7.9 billion	2013
Trans Adriatic Pipeline (TAP)	Greece, Albania, Italy (520 km long)	EGL Holding, E.ON Ruhrgas Statoil	from 10 to 20 bcm	€2.0 billion	2012
Trans-Caspian Pipeline	Azerbaijan Turkmenistan (exact route and length not yet decided)	still not clear	30 bcm	US$5 billion	still not clear
South Stream	Russia, Bulgaria, Serbia, Slovenia, Hungary, Austria, Greece, Italy (3,700 km beyond 1,000 km offshore section)	Gazprom Eni, Électricité de France, Wintershall Bulgargaz, MOL, Srbijagas	63 bcm	€15–20 billion	2013
South East European Pipeline (SEEP)	Turkey, Bulgaria, Romania and Hungary (1,300 km long)	BP, SOCAR, Statoil	10 bcm	$20 billion	2013
Trans Anadolu Pipeline	Turkey (exact route and length not yet decided)	SOCAR, Botas	16–17 bcm	US$5–6 billion	2012

Source: author's own compilation based on a database search at www.newsbase.com

From 15 November to 14 December 2011

15 November 2011	Taron Markarian is elected as Yerevan's new mayor by the Armenian capital's municipal assembly
15 November 2011	Billionaire-turned-opposition politician Bidzina Ivanishvili meets with Patriarch of the Georgian Orthodox Church Ilia II at the Patriarchate in Tbilisi
15 November 2011	An Armenian businesswoman says that she was assaulted by Armenian regional governor Surik Khachatrian
16 November 2011	EU foreign policy chief Catherine Ashton visits Georgia as part of an official trip to the three South Caucasus states
18 November 2011	The Azerbaijani Foreign Ministry says in a statement that it does not recognize the presidential elections in the breakaway region of South Ossetia held on 13 November 2011
18 November 2011	Patriarch of the Georgian Orthodox Church Ilia II visits Moscow to participate in the celebration of Russian Patriarch Kirill's 65th birthday
21 November 2011	The religious leaders of Russia, Armenia and Azerbaijan call jointly for a withdrawal of snipers from the frontlines in the disputed region of Nagorno Karabakh
21 November 2011	The Azerbaijani authorities launch a criminal investigation into the attack against Azerbaijani writer and journalist Rafiq Tagi, a critic of the Azerbaijani government, Iran and political Islam, on 19 November 2011
22 November 2011	The Iranian Embassy in Azerbaijan denies any involvement in the stabbing of Azerbaijani writer and journalist Rafiq Tagi in a statement
24 November 2011	The Russian company RAO Unified Energy Systems (UES) confirms plans to end its management of the Metsamor nuclear power station in Armenia
27 November 2011	The breakaway region of South Ossetia holds a runoff to the presidential elections of 13 November 2011
28 November 2011	Presidential candidate Alla Jioyeva leads in the runoff to the presidential elections in the breakaway region of South Ossetia according to early results released by the Central Election Commission
29 November 2011	Armenian President Serzh Sargsyan starts an official visit to Georgia to help further the friendly relations between the two countries
29 November 2011	The Supreme Court of the breakaway region of South Ossetia annuls the results of the presidential runoff
30 November 2011	Georgian President Mikheil Saakashvili visits Kyrgyzstan to attend the inauguration of Kyrgyz President Almazbek Atambaev
2 December 2011	Exiled former Azerbaijani parliamentary speaker Rasul Quliyev calls on Azerbaijani citizens to join his newly founded "resistance movement" in a video appeal
5 December 2011	The EU Commissioner for Trade Karel De Gucht announces the launch of negotiations on a deep and comprehensive free trade area with Georgia
5 December 2011	Journalists from Maestro TV, a Georgian television station embroiled in a dispute between its owners and the founder of its managing firm, appeal to the Georgian Public Defender to look into their case and their inability to fully carry out their journalistic duties
6 December 2011	The Supreme Court in the breakaway region of South Ossetia upholds its earlier ruling annulling the results of the presidential runoff in the region
7 December 2011	Armenian Prime Minister Tigran Sarkisian says Yerevan has no plans to join a customs union of Russia, Belarus and Kazakhstan since Armenia has no common border with these countries
7 December 2011	Prime Minister Nika Gilauri meets with Kazakh President Nursultan Nazarbayev in Astana to discuss bilateral relations, trade and economic cooperation
8 December 2011	Russian Foreign Minister Sergey Lavrov criticizes NATO foreign ministers for naming Georgia as an "aspirant" in a joint communique
8 December 2011	Georgian Foreign Minister Grigol Vashadze meets with US Secretary of State Hillary Clinton at the NATO headquarters in Brussels to discuss current reforms in Georgia and the NATO integration process

10 December 2011	Eduard Kokoity, leader of the breakaway region of South Ossetia since 2011, leaves his post as part of a deal with the opposition
11 December 2011	The opposition in South Ossetia ends its street protest after a deal is struck between opposition leader Alla Jioyeva and the former leader of the breakaway region of South Ossetia Eduard Kokoity. New elections are planned for March.
11 December 2011	Billionaire-turned-politician Bidzina Ivanishvili held an inaugural assembly of his opposition movement Georgian Dream
12 December 2011	The leader of the breakaway region of Abkhazia Alexander Ankvab signs a decree setting 10 March 2012 as the date of parliamentary elections in Abkhazia
13 December 2011	A US businessman of Armenian descent and two of his Armenian employees are released from jail in Armenia three days after their controversial arrest on charges of tax evasion
14 December 2011	The eighteenth round of the Geneva international talks is held with a focus on international security arrangements and the non-use of force
14 December 2011	Chief of Russia's National Security Council Nikolai Patrushev says that individuals are trained on Georgian territory to carry out terrorist acts in Russia

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ABOUT THE CAUCASUS ANALYTICAL DIGEST

Editors: Iris Kempe, Matthias Neumann, Robert Orttung, Jeronim Perović, Lili Di Puppo

The Caucasus Analytical Digest (CAD) is a monthly internet publication jointly produced by the Heinrich Böll Foundation in Tbilisi (www.boell.ge), the Research Centre for East European Studies at the University of Bremen (www.forschungsstelle.uni-bremen.de), the Institute for European, Russian and Eurasian Studies of the George Washington University (www.gwu.edu/~ieresgwu), the Resource Security Institute in Washington, DC (resourcesecurityinstitute.org/) and the Center for Security Studies (CSS) at ETH Zurich (www.css.ethz.ch) with support from the German Association for East European Studies (DGO). The Caucasus Analytical Digest analyzes the political, economic, and social situation in the three South Caucasus states of Armenia, Azerbaijan and Georgia within the context of international and security dimensions of this region's development. CAD is supported by a grant from the Heinrich Boell Foundation.

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With a unique archive on dissident culture under socialism and with an extensive collection of publications on Central and Eastern Europe, the Research Centre regularly hosts visiting scholars from all over the world.
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