

EU Energy Security and the Russian Factor

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European access to the Caspian energy resources is of vital importance not only for Europe but for transit and supplier countries as well. In this regard a variety of actors play their role. The issue has many important parts to discuss and analyze. The Russian factor is the distinctive one of them.

It is well known that with the gradual decline of the North Sea resources, Russia now more than ever before becomes one of the key suppliers to Western Europe while several Eastern European countries are totally dependent on Russia for their gas supply.

The 2006 Ukraine, Georgia, Belarus and Lithuanian gas crises artificially created by Russia, once again reconfirmed great willingness of Moscow to use its energy leverage to have an influence in the foreign policy matters and to bring disorientation and misconception within the EU. It is also notable to mention what happened just recently. Chief of the Russian energy monopoly Gazprom, Alexander Miller offered Azerbaijan prices within the European standards (between around \$400-1000) in exchange of their natural gas. Where does such a generosity from the Russian side come from? The Azeri resources are to great extent already distributed into different energy projects in advance. Therefore, that amount of gas is out of reach of the Russian energy establishment; it is less likely that Azerbaijan is going to abuse energy contracts concluded with its closest neighbors. Gazprom however aims at acquiring those 2-3 mil. cubic meters that Georgia is getting annually for a relatively modest price. When successful in this endeavor Russia will manage to leave Georgia in a very shaky condition throughout the whole winter.

Under this context energy diversification comes to the fore that in turn takes us to the energy rich Caspian region. Oil and gas resources that Azerbaijan, Kazakhstan and Turkmenistan have could become the most effective direct alternative to Europe for Russian energy.

Before addressing the main concern of this paper that is how the Russian strategy creates the EU energy dilemma, let's briefly examine the area called Caspian and its transit opportunities.

Supply diversification is understood as a crucial factor in the EU energy security. Therefore those access routes to Caspian resources which are not under Russian control must be secured. The only successful infrastructure bringing oil and gas to European markets avoiding Russian control are the Baku-Tbilisi-Ceyhan (BTC) and Baku-Tbilisi-Erzurum (BTE) or the so called South Caucasus Pipeline (SCP). Both routes go through the South Caucasus and Turkey. Here exists a problem however. Namely, how to secure *sufficient* energy supplies from the eastern Caspian. Here oil is less of a problem than gas. Oil can be shipped from Kazakhstan to Azerbaijan adding to the Azeri oil fueling into the BTC that runs to Europe. Azerbaijan on the western shore of the Caspian is much closer to Europe than the Central Asian states that are situated on the eastern shore and are major producers. There is also difference among producers and the production they make. Azerbaijan and Kazakhstan are oil producers with significant less gas production. Turkmenistan on the other hand has

gas in huge quantities (the world's fifth largest reserves for natural gas) most of which is available for export.

A considerable infrastructure development is necessary for Caspian natural gas to reach Europe in satisfactory quantities avoiding Russia at the same time. Additionally access is needed to Turkmenistan's gas reserves since the Azeri gas exports proved to be insufficient for the EU. The EU-US sponsored projects as Nabucco and Trans-Caspian pipelines could provide the necessary infrastructure. There is a clear danger however that these projects will not be implemented. Reason for that is the so far successful Russian attempts of counteracting them. Russian attempts to hinder free European access to Caspian energy has several parallel strategies.

First, through its energy monopoly Gazprom, Russia made long term deals with Kazakhstan and Turkmenistan on purchase and re-export of their energy resources. By this Russia secured monopoly of exports solely through its pipeline network. The roots to such developments go back to the late 1990's. Negotiations were well underway for creation of the Trans-Caspian pipeline that would bring Turkmen gas to Europe via the South Caucasus. However, when gas instead of the expected oil was discovered in Azerbaijan's Shah-Deniz field Azerbaijan stopped to be merely a transit country. Additionally, the Azeri disputes with Turkmenistan over the Kypyz/Serdar gas field amounted that Azerbaijan lost its interest in the Trans-Caspian pipeline. Russia of course took advantage of this situation. More recently, following the death of Turkmen president Niazov and the trilateral meeting agreement of the presidents of Kazakhstan Turkmenistan and Russia in May, 2007 Russia was granted an increased control over energy exports of the region to Europe. Thus having cheap gas purchased in C. Asia for domestic consumption freeing up the Russian gas for export often for twice as expensive price.

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II.

Under current political developments it is highly unlikely to assume the leaders of Central Asian countries would simply refuse the Russian monopolistic projects. As is known, Putin himself went on the meeting with C. Asian presidents in May, 2007 in Astana, Kazakhstan. Aware of Russia's ability to create range of problems C. Asian leaders gave in. This in particular is true of Turkmen president - Gurbanguly Berdimukhamedov. Who at the time of the meeting of the three presidents had just recently acquired power and was still not fully confident in own authority to rule. Berdimukhamedov jailed his major political rival (former ally, Akmurat Rejepov) only days after the deal with Russia was signed. He must have waited for the Russian assurances of security in this resolve. To this extent do the Russian foreign politics influence security issues in Central Asia. Additionally, a decision was made during the meeting between the Heads of States of the Caspian countries on the October 16, 2007 in Tehran. Here conclusion was made to reject the "Intervention of third parties in the Caspian" and have one intermediary meeting in summer of 2008 under the

aegis of the Russian president before another Summit comes up in October, 2008. This is another evidence of how powerful Russian authority is in the Caspian region.

Under this scenario therefore a consequence is that when C. Asia turns away from Russia at the same time it turns away from Europe too unless a trans-Caspian pipeline is constructed.

Things are not as critical as they seem to be however. The same Berdymukhamedov flew to New York in September, 2007. There he met with several American high-ranking officials and clearly expressed wish to diversify foreign policy options of his country. SCP (BTE) and BTC projects served as an encouragement for making this decision. Additionally, on November 14, 2007 there was an announcement that Azerbaijan and Turkmenistan would soon hold talks over the resolution of the Kypyz/Serdar field issue. In that case the Turkmen leadership could start exporting westward through Azerbaijan avoiding Russian dominance. This would be the cooperation the two countries were not able to execute in the early 1990's. The vent that could also be understood as a breakthrough within the EU-Turkmenistan relations is that the latter agreed to supply 10 billion cubic meters of natural gas to the European Union each year. EU external relations commissioner Benita Ferrero-Waldner confirmed the above mentioned to the Financial Times on April 13.

Another, very important event took place in Doha on April 9, 2007. This time it contributed to the Russian score. Namely, there was an attempt to form an intergovernmental gas cartel through the Gas Exporting Countries Forum (GECF). When established it would allow Russia even greater control over the European gas supply and not likely help manage the future Iranian access on the European market, since Iran along with Algeria, Qatar, Venezuela and Russia were perceived to be the initial member states.

Second parallel strategy is the Russian attempts to create vast and wide encompassing infrastructure to fuel energy from Caspian to Europe. Further, these attempts consolidate in blocking such projects as Nabucco and Trans-Caspian pipelines which seek independence from the Russian dominated pipeline networks.

For oil Burgas-Alexandroupolis planned pipeline is the competitor to the BTC. The former is planned to run through the tanker traffic from Russia's port of Novorossisk through Bulgaria to Greece and brings Kazakh oil to Europe. The deal caps negotiations that have lasted 13 years. A Russian consortium will hold a 51% stake in the pipeline. It is expected to be ready in three years' time. The consortium brings together state oil firm Rosneft, pipeline monopoly Transneft and a subsidiary of gas giant Gazprom. Bulgaria and Greece will each have 24.5% stakes. Prime Ministers Costas Karamanlis of Greece and Sergei Stanishev of Bulgaria joined Putin at the signing ceremony in the Greek capital. The pipeline project's estimated cost is 900m euros (£616m; \$1.2bn). Through this pipeline Russia also undermines any Ukrainian ambition for becoming the oil transit country. It is worth adding that in March, 2007 the US Deputy Assistant Secretary of the State, Matthew Bryza, was in Athens and congratulated the three signatories to the pipeline accord. He said the more oil that reached global markets the better. But Mr. Bryza added that the United

States was concerned that Europe could become too reliant on the Russian energy giant Gazprom as a source of natural gas.

As is known the similar project for BTC but for gas is the SCP (BTE). It is aimed at bringing the Caspian gas via Georgia to Turkey. Challenge to this project is that the Azeri gas supplies aren't enough and no viable option has emerged for bringing the C. Asian gas across the Caspian. Implementation of the Trans-Caspian pipeline is of vital importance in this context. Importance of SCP is also in promoting the role of Turkey as of a hub of energy supplies to Europe. Under the circumstances where there is Turkish interest in the EU membership Brussels might back up such development. Another advantage of the SCP (BTE) is that it could serve as a supply source to the perceived Nabucco project (that runs from Turkey to Austria through Bulgaria, Romania and Hungary) that was initiated by the European Parliament and the Council of Europe on June 26, 2003. According to the schedule it will be in operation between 2011-14 however this seems to be unlikely to happen. On the other hand, we see Turkish involvement in the Russian dominated gas pipeline project called, Blue Stream. Although, it is worth mentioning that Turkey used its import monopoly leverage on Russia in order to get price concessions on gas. This is where the two had serious problems between each other. Thus the Russian planned South Stream (planned to run under the Black Sea from Russia to Bulgaria) comes to the fore that avoids dependence on Turkey and if realized at full capacity, along with Blue Stream II, thwarts the SCP.

In case if the Russian backed projects mentioned above would come into existence following things are going to happen: the supply will certainly be available however mostly through the Russian pipeline network; consequently, on the one hand dependence on Russia will increase on the other hand, the access and the security of supply decrease drastically; the supply diversification will be greatly diminished.

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III.

The third factor that is worth mentioning in this discussion is following: Russia under Putin has become more concentrated, ambitious and successful at the same time. Through its power position on international energy market Russia is advancing its interest through Europe with a pace not seen since the Soviet Union epoch. Besides the successful attempts of acquiring the European based energy companies and infrastructure, it also reaches out to the territories outside Europe – Algeria, Nigeria, Libya, for example. Thus Russia ventures to control those pipelines that run far outside its territory this way increasing its energy leverage. Russian efforts became especially active in 2008. Russia signed a major gas deal with Bulgaria on January 18 committing the later to the South Stream project. To this Russia added 51 per cent of the Serbia's NIS oil and natural gas company, which it purchased shortly after the deal with Bulgaria. Finally, on January 25, it was announced that Gazprom had acquired 50 per cent stake in Austria's OMV natural gas company, the planned distribution center for Nabucco (this does not mean that Nabucco is dead. There could be demand for both).

Blaming Russia solely for European problems is not correct thing to do however. Rather, some European countries, western European especially took selfish and irresponsible decisions and struck bilateral deals with Russia. These simply did not care about the joint action as a whole EU. Italy under Berlusconi, France under Chirac and Germany under Schroder are the recent examples. Schroder even called Nabucco – a “nonsense”. Not surprisingly Schroder very soon became a top person in Russian Gazprom leadership. On the other hand, leadership transitions in these countries as well as growing concern within the EU regarding the energy security produced some desirable outcomes. One of them is the 2006 document called “An external policy to serve Europe’s energy interests” created by the EU Commission and the General Secretary of the council at that time, Javier Solana. The document stresses among others two important factors: one, that the threats come from those unstable countries and those that use energy as a means of pressure; two, that an external actor that enters the European market having no competition at home – constitutes a threat. One of the main targets of the conclusions drawn above is of course Russia.

Based on what was argued above, it is relevant to draw two more points as a conclusion. First, the EU’s so called “post modern” and free market based approach is no good in the Caspian region. It might well work vis-à-vis countries as Norway – traditional partner and trustworthy supplier to the EU. However, in the region like Caspian, where actors such as Russia, China and the US have vested their diverse, often conflicting interests it is useless to be “post modern”. Further, it is vital to acknowledge geo-political realities and realize competition as well as partnership perspectives. Cooperation with the US is of paramount importance for the EU in this very controversial region. Second, when dealing with the Caspian region and namely, Central Asian states, European leaders must remember that they are in no position of putting conditions. C. Asian states have variety of options how to implement their political and economic relationships, say with Russia or China. Which, by the way, have more advantageous proximity with C. Asian states in both political and geographical terms. Therefore, Europe should navigate its engagement on a very careful tactics, based on broad security, energy and governance dialogue.

International Press review

Turkmenistan to cut EU dependence on Russian gas

EUobserver.com 2008

14.04.2008 - 09:24 CET / By Renata Goldirova

Turkmenistan has agreed to supply 10 billion cubic metres of natural gas to the European Union each year - something that should cut the energy-hungry bloc's dependence on gas from Russia.

"The president [Kurbanguly Berdymukhamedov] gave us assurances that 10 bcm will be set aside for Europe in addition to possibilities in new fields to be tendered," EU external relations commissioner Benita Ferrero-Waldner told the Financial Times on Sunday (13 April).

Ms Ferrero-Waldner described the deal as "a very important first step" in energy cooperation, although she acknowledged the amount agreed by the two sides does not represent a "vast quantity".

The former Soviet Republic in Central Asia has the world's fifth largest reserves of natural gas and substantial deposits of oil. It annually produces 60 billion cubic metres of natural gas, but two-thirds are exported to Russia's state-run Gazprom.

Demand for energy is sharply rising in the European Union. By 2020, it is expected to import at least 360 bcm - out of 500 bcm consumed - from third countries.

The 27-nation bloc has been trying to diversify its energy supplies away from Russia and is currently pushing for a new energy corridor, the Nabucco pipeline.

The pipeline - connecting Turkey with Austria, via Bulgaria, Romania, and Hungary - would enable the transportation of Caspian energy resources to the European market. Main gas supplies could come from countries such as Azerbaijan, Kazakhstan, Turkmenistan or Egypt.

Speaking about the fresh deal with Turkmenistan, Ms Ferrero-Waldner called on European business to invest in infrastructure in order to bring the project to life.

It is still unclear how Turkmen gas will be imported to Europe, with the commissioner suggesting three possible short-term scenarios in the interview with the Financial Times.

Under the first one, a 60-kilometre gap between Azeri and Turkmen offshore installations could be closed with a mini-pipeline.

Secondly, an onshore link to Kazakhstan could be built to connect with a route to Azerbaijan.

Under the third option, the gas could be compressed into liquid form and taken by tanker across the sea.

Russia questions value of Nabucco energy pipeline

EUobserver.com 2008

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EUOBSERVER / BRUSSELS – Moscow has questioned the viability of the EU-backed Nabucco energy corridor, a pipeline designed to lessen the bloc's dependency on Russia.

"I know few things about political geography. The only way to fill the Nabucco pipeline is to rely on Iranian gas," Russian ambassador to the EU Vladimir Chizhov told journalists earlier this week (15 April).

He added: "But then, it's up to the West, I would not tell the EU, to make up its mind how to deal with Iran. Either bomb Iran or buy its gas."

Mr Chizhov's blunt comments came only hours after Turkmenistan had agreed to supply 10 billion cubic metres of natural gas to the EU each year - something that should cut the energy-hungry bloc's dependence on gas from Russia.

"There have been some euphoric comments about Turkmenistan," the ambassador said, stressing that the volume agreed by the two sides is "not enough". In addition, he questioned the ability of Azerbaijan, another potential source, to fulfil the union's sharply rising energy demand.

The European Commission considers Nabucco to be "essential" to the EU as it is designed to bring gas from non-traditional suppliers via a new transport route.

The pipeline - connecting Turkey with Austria, via Bulgaria, Romania, and Hungary - would enable the transportation of gas from the resource-rich Caspian region to the European market.

Its capacity amounts to 31 billion cubic metres of natural gas per year. The bulk of the supplies are expected to come from countries such as Azerbaijan, Kazakhstan, Turkmenistan or Egypt.

The EU is also hoping to secure natural gas from Iraq, with Baghdad earlier this week pledging to provide five billion cubic metres of gas each year. The two sides are set to sign a so-called energy security memorandum of understanding in coming days.

In response to Mr Chizhov's statements, the commission said that a list of source countries was yet to be defined. It admitted, however, that once the problems with Iran are solved, Tehran can be taken into consideration on the longer term.

Meanwhile, Moscow - the world's largest producer of natural gas - has been pushing for its own project, the South Stream pipeline. It should connect Russia's Black Sea coast and Italy, with Bulgaria, Greece, Hungary and Serbia already saying they will take part in the project.

According to the Russian ambassador to Brussels, there will be enough room for the South Stream, Nabucco and perhaps for another pipeline due to growing energy consumption in Europe - but only in the long run.

In the short run, the defining difference is that the South Stream can rely on real gas supply, whereas Nabucco does not have gas, Mr Chizov said.

The South Stream project is seen by some as a rival to Nabucco, with the European Commission saying "it is not promoting it actively" because the pipeline will bring more gas from Russia.

"The two projects are complementary, not contradictory," reads the commission's official line on the issue. The EU needs 80 billion cubic metres of natural gas per year on top of current consumption.

But some experts on EU-Russia energy relations have also suggested that Moscow has made a valid point.

According to Marco Giuli from the Brussels-based Centre for European Policy Studies, the Nabucco pipeline is "economically viable only with Iranian gas".

He cited political tensions in Central Asia, the proximity of Chinese market as well as the US' tough stance on Iran among those factors that cloud Nabucco's prospects.

Within the 27-nation EU, France and the UK seem to have the toughest position towards the Iranian regime, wanting to stop its nuclear ambitions not only through dialogue, but also via sanctions.

On the other hand, Italy's oil and gas producer ENI is set to undertake some investments in Iran - something, Mr Guili says has been endorsed by the country's outgoing as well as incoming political leadership.