

## Prospects of the European Energy Security



The year 2009 along with other periods jointly making the prehistory did not go smooth for the US-EU backed (and supported at least on the paper/verbally by some of the EU member states) Nabucco (initially projected in 2002) which envisages the European energy diversification along with reducing reliance on Russia as its final goal. There are several factors that hinder Nabuccos development into a full fledged viable energy route.

To begin with, it is necessary to mention how hesitant are some of the major EU member states that is reflected in low/slow enthusiasm towards diversifying the energy routes/suppliers. very often cooperation with Russia on unequal terms is preferred...

The close look at how relations develop between Russia and C. Asian states as well as at the gas crises of 2006, 2009 provides grounds for putting additional question marks on how reliable partner Russia is. Further, Russia puts forward it own energy projects as direct/indirect rivals to the planned Nabucco gas pipeline. There is however difference of opinions towards the latter within the Russian expert community that will be reflected upon further in this paper

That the identified (desired) Nabucco transit capacity is 30 bil. cubic meter per year is not a classified information. Part of the expert community in Russia opinion of which is represented in this paper by T. Mitrova – director of the Center of the Study of World Energy Market, Energy Research Institute and L. Grigoriev – president of the Institute of energy and Finances, however are quite skeptical do not give it more than 8 to 15 bil. Putting aside the serious question marks around how competitive Nabucco can be depending on how much gas it can deliver to the place(s) of destination, there are other quite brave attempts to describe Nabucco as a “Paper Tiger”, to portray it within the solely negative scope, attempting to ascribe to it a PR dimension that causes political harm by posing even bigger threat to the good neighborly relations of the states (EU, Russia, US, FSU) especially in the period of time when it has not been materialized. Since the states directly “connected” to Russian state owned energy establishment not so long

ago, now have a good case of bargain as an alternative option of siding with Nabucco. To further continue with criticism, it is argued that Nabucco lacks one vital feature – it has no resource/supply base. Still however the EU expresses “maniacal stubbornness” in implementing it.

The same experts in Russia agree however that the impetus for Nabucco, that was conceived in 2002 and appeared to have priorities and attitudes different from the ones it has now, was given after the well-known deal on gas purchase and further sale between Russia and Turkmenistan in 2003. That is when the EU started actively pushing Nabucco forwards. This inclination was further substantiated by the conflict of Russia with Ukraine and its consequences for Europe in 2006. According to skeptics, Nabucco would nevertheless have lost even its PR dimension for the European gas consumers (columns devoted to it in the European newspapers, etc.) if not another winter gas crisis of 2009. Following this line of thinking the “illusory PR dimension” however still has to do with reality (ne bivaet dima bez ognya) validated by the facts mentioned above.

For the sake of making matters clearer, it is necessary to understand where Nabucco currently stands and what are the prospects for it to push to the final victory. Under this context it is also necessary to draw some parallels with its “rival” projects.

Nabucco has the new chief-representative: Joschka Fischer, former leader of the German Green’s party who had a post of the Minister of Foreign Affairs of Germany during the 1998-2005. He was recently employed by the consortium to lobby for the project. One of the hot topics on Mr. Fischer’s agenda is the main “rival” project – “Nord Stream”. It is ironic that the Nord Stream is headed by the former Chancellor, Gerhard Schroder whose government Fischer served as a Minister of Foreign Affairs and who is currently employed by the Russian energy giant Gazprom (Schroder signed deal with Gazprom just weeks before ending his mandate). Mr. Schroder’s effort served as the decisive factor in convincing the EU bureaucracy to support “Nord Stream” that should run from Russia through Baltic sea to Germany. Recently, the government of Finland gave its consent to the launch of this pipeline after examining the matters concerning the environmental security. The construction is to start in Spring 2010, its first phase to become operational in 2011 with 27.5 bil. cm. Gas transit capacity. France is said to be planning to join this project. Ukraine’s newly elected president, V. Yanukovich also expressed his willingness/readiness to be part of it.

The South Stream (also supported by G. Schroder) however is perceived as the main “rival” project to Nabucco. It counts on almost the same transit and supplier countries. Its transit capacity is 63bil cm as opposed to Nabucco’s 31bil. The latter however is still very much attractive to Europe since it offers to diminish the vast reliance on Russian energy and supply routes. When planning South Stream – diversification is what in turn motivates Russia, so they claim; especially after those problems piled up with the transit country Ukraine (nowadays 90% of the Russian gas goes to Europe through Ukraine).

The Gas crisis of 2006, 2009 as well as previous disputes with Ukraine is the core for providing the arguments of both Russia for building South Stream – in order to avoid to be tied to the “troublesome” neighbor by this keeping an image of the trustworthy partner, monopolistic one however still (“popitka ne pitka” – the Russian saying)... and for those who support Nabucco - not to be dependent on Russia solely for no matter what reason.

As was mentioned above one and the same supplier/transit countries (Azerbaijan-Turkmenistan-(Iran)/Turkey) are dealt by both of the ‘sides’. Turkey, in particular, is the country with the diplomatic circles of which Mr. Fischer has close contacts. He is the staunch supporter of the Turkish interests within the German political spectrum. The same is true of Mr. Fischer in Romania and Bulgaria. The key transit countries – Turkey, Bulgaria, Romania, Hungary, Austria have signed the Intergovernmental Agreement (July 13, 2009 in Ankara) affirming their consent that the pipeline should pass on their territories. Germany with an observer status was also present at the ceremony.

So was the Iraqi Prime Minister, Nuri al-Maliki, attending the ceremony as well. It was his initiative to offer his country as an additional source for Nabucco and claiming to be able to provide 8-15 bil. cm. of gas by 2015 a year after the Nabucco is planned to be launched. For skeptics this could be understood as a hint that should anything go wrong with the South Caucasus transit corridor (including Azerbaijan as a central supplier country) then Iraq could step in.

The EU however refuses to think in these terms, moreover it pushes quite energetically to reach for C. Asian countries in hope to receive their contribution as a commitment to finalise Nabucco. The US seems no less motivated while pursuing the same goals. According to the newly appointed US envoy for Eurasian Energy, Ambassador R. Morningsrtar, the top US priority is to see the opening of a new corridor – the so called Southern Corridor, that would bring the

Caspian gas to Europe. In hope of this corridor to include Nabucco as well, Morningstar thinks: "A Southern Corridor would provide commercial benefit for the countries of the Caucasus and Central Asia and also create a long-term partnership based on mutual interests with Europe" His mandate is further strengthened when remembering what fundamental goals president Obama's government is pursuing. According to Morningstar these are: "First and foremost, ... U.S. policy is to encourage the development of new oil and natural gas resources across the Eurasian region while simultaneously promoting alternative technologies and the efficient use of all energy resources.

Second, ... the United States is supporting Europe in its goal of achieving energy security. EU countries forced to rely on one source of energy are at a disadvantage when spats between producing, transit, and destination countries interrupt supply lines, as happened last year with Russia and Ukraine. ...

Third, ... the United States wants to help countries in the Caucasus and Central Asia find new routes to export their oil and gas. That goal is tied to the United States' larger goal of fostering economic growth and prosperity in that region."

[http://www.rferl.org/content/US\\_Envoy\\_For\\_Eurasian\\_Energy\\_Explains\\_Goals\\_Strategy\\_For\\_Region/1943405.html](http://www.rferl.org/content/US_Envoy_For_Eurasian_Energy_Explains_Goals_Strategy_For_Region/1943405.html)

The officials from the European Commission have further noted that enhancing the EU member states' security of supply and lessening their reliance on Gazprom amount to the same thing. The same is true with transit countries, like Turkey for example with which Russia has indeed overarching relations in other industrial fields too.

Additionally, Morningstar disagrees with those who see the US support for the European energy security as anti-Russian.

Nonetheless, what could go wrong with the South Caucasus transit corridor?

Different points of view reflect various scenarios as always. The grounds for skepticism recently were reignited with the March 2009 visit of the head of the State Oil Company of the Azerbaijani Republic (SOCAR) to Moscow at the Gazprom headquarters where Abdullaev and Miller, representing SOCAR and Gazprom consequently, signed the memorandum of understanding on supplying the Azeri gas to Russia (through Baku – Novo-Filya pipeline into Dagestan), with

negotiations followed by the forthcoming deliveries to start in January, 2010. Hence, the cascade of discouraging analysis/evaluations came: Gazprom agreement “strengthens the probability that the Nabucco project will be left without gas” says T. Mitrova; “now we can say that Azerbaijan has refused Nabucco as a gas supplier” – argues N. Jafarli, Baku based economist.

After having a bit closer look however it can not go unnoticed that things are way better for Nabucco than the latter see or try to portray. The Azerbaijani Shah Deniz II gas field, projected to go online in 2010 and become operational only by 2014-15 is able to at least provide necessary start up amounts for Nabucco (as initially 8bcm.) even after selling the promised 500 mil. to the Russian gazprom which is not much of a loss when taking into consideration the even possible 30 bcm. output by 2015.

However to stay just not to justify skepticism: Unlike Gazprom, Nabucco does not yet have a single written commitment from Azerbaijan or any other supplier country. Although, president of Turkmenistan declared his desire to supply the Nabucco pipeline network with gas. That stays as a verbal expression of desire which has to apparently be validated by the documented signature.

To further extend on the important supply demand issue, Werner Auli, Austria’s OMV head of oil and gas – which already is a partner to Nabucco, recently pointed on the necessity to have a clear picture with respect of how much demand is there on gas in Europe. The same issues are touched upon in the second Strategic Report on Energy politics of the EU (Program 20-20-20). The latter however keep lots of nuances within and therefore are the subject of separate discussion.

There is indeed quite a work to carry out for Mr. Fischer to bring Nabucco into existence. Those countries seen as playing crucial role in implementing Nabucco have in parallel signed agreements with Russia on South Stream. Governments of Turkey and Bulgaria agree to participate in South Stream - with Turkey having granted Gazprom the right to explore its Black Sea territorial waters in August, 2009. This is seen as a success for Russia’s Gazprom along with Italy’s Eni which is not surprise sine both of them have decided to fund this project. Turkey, knowing its role is crucial in Nabucco, says the two projects should complement each other. South stream is scheduled to go online in 2015.

Another impediment for Nabucco is inexistence of the trans-Caspian pipeline with the Turkmen gas in it (hypothetically, trans-Caspian is a first portion to Baku-Tbilisi-Erzurum (BTE as same

as SCP), then BTE serving as an interconnector to the planned Nabucco). Especially if there is a consensus that the Iranian export capacity is small due to the huge domestic consumption. Therefore, expectations put on Iran are often exaggerated, some experts argue, even in case if it decides to become a part of Nabucco in the future. It is worth adding here that on November 14, 2007 the governments of Azerbaijan and Turkmenistan expressed willingness to demarcate their maritime borders in the Caspian sea. In case there is a final resolution on this matter, developing the unexplored, offshore Kyapaz/ Serdar field lying in between these two countries is a promising prospect a major step forward in constructing the trans-Caspian natural gas pipeline.

Energy sector in Iran is another controversial issue. Here the some EU countries are willing to invest thus contradicting with the US policies towards the former. To continue with Iran, its export capacity is very small, as noted by some experts. Iran was thought as of a clear option while planning on supplying Nabucco in 2002-at its 'pilot' stage. The events developed afterwards however and namely the US refusal to tolerate Iran's nuclear program (supported by the UN SC) blocked it out of Nabucco. There is a huge domestic gas consumption of Iran, moreover Iran is a net importer despite having the second largest gas reserves in the world. nonetheless, absence of Iran still is evaluated as a loss for Nabucco.

Further, China as a major energy consumption giant has put itself to the fore when making deals with C. Asian states.