



BULLETIN

No. 80 (156) • May 25, 2010 • © PISM

COMMENTARY

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Consortium Created for Transportation of LNG through the Black Sea

by Tomasz Sikorski

The conclusion of an agreement on 12 May this year between Azerbaijan, Georgia and Romania creating a consortium to supply LNG through the Black Sea is – despite competition being created for the Nabucco project – favorable for Poland as another venture that diversifies gas supplies to Europe. How profitable the new concept is, will be ascertained by a feasibility study due to be ready by the end of this year.

On 12 May the foreign ministers of Azerbaijan, Georgia and Romania signed a protocol for creation of a company that would supply Azeri gas from 2013 via a pipeline to Kulevi on the Georgian coast, where it would be liquefied and transferred via LNG carriers through the Black Sea to Constanța in Romania, from where it would go to the European transmission grids. The costs of the Azerbaijan–Georgia–Romania Interconnector (AGRI) are estimated to be approximately € 6 billion and the transmission capacity of the installation – 7 billion m³ (compared to 31 billion m³ in Nabucco). The new company is to draw up a feasibility study, which will specify the level of the venture's profitability, by the end of this year.

The project is competitive for Nabucco but complies with EU guidelines for diversification of gas supplies, and this is why – if it turns out to be economically rational – there is a possibility of obtaining support in the future as a part of the so-called “south corridor”. This is all the more likely as there are still obstacles hindering implementation of the Nabucco project. The most important of these include: the Azeri-Turkmen dispute regarding the Caspian shelf; the strengthening of Turkmenistan's negotiating position towards the EU following the opening of new gas pipelines to China in December 2009 and to Iran in January this year; and the Azeri-Turkish dispute, as a result of which the launch of the second stage of exploitation of the Azeri Shah Deniz gas fields was postponed until 2017. The launch of Nabucco, which is planned for 2014, is therefore becoming more and more unlikely. At the same time the concept of AGRI is more realistic than the White Stream project, under which it is assumed that a pipeline will be laid from Georgia to Ukraine on the bed of the Black Sea.

The cooperation with Georgia and Romania (signing of bilateral agreements in February and a trilateral agreement on 13 April) initially was helping Azerbaijan to apply pressure to Turkey, with which it had a long-term dispute over the conditions for gas supplies. Due to lack of other instruments Azerbaijan could make use only of the offer of alternative projects for gas sales to change Turkey's steadfast position in a dispute with underlying economic (prices) and political issues (Azerbaijan's fears of normalization of Turkey's relations with Armenia).

Despite an initial compromise being reached with Turkey on 26 April the AGRI project is to be carried on, which shows that Azerbaijan not only treats the Project as a lever in negotiations but also wants to create a new export route that bypasses both Russia and Turkey. At the moment Azerbaijan supplies gas to Georgia, Turkey, Greece and Russia, while trying to maintain proper relations with all of those countries. However, the rising importance of Turkey as a transit country is causing concern in Azerbaijan and is leading it to seek cooperation with other partners. Azerbaijan's export potential should grow from approximately 8 billion m³ of gas in 2010 to approximately 16 billion m³ in 2015. However in view of rising export obligations, it will not be possible to cooperate simultaneously within the Nabucco and AGRI projects until the second stage of Shah Deniz is started up.

The AGRI Project is beneficial for Georgia because it will increase its significance as a transit country, which is important for the country's security, as well as for financial reasons (transit fees). Meanwhile Romania is attempting to establish for itself the role of a regional energy hub.

The project is also beneficial from Poland's point of view because it increases the options for diversification of the EU's gas supply sources, especially of Southern and Eastern European countries which are highly dependent upon Russia's supplies. The AGRI project means that the region's countries would be less susceptible to a sudden stoppage of gas deliveries from the dominant source.