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Prospects of the Trans-Caspian Gas Pipeline

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The planned Trans-Caspian Gas Pipeline is intended to deliver Central Asian gas to the EU via Azerbaijan, Georgia and Turkey, bypassing Russia and Iran. There are several major obstacles on the path of the project: an Azeri-Turkmen dispute over the division of the Caspian shelf, the opposition of Russia and Iran to the investment, uncertainty about funding and unclear prospects for the Nabucco pipeline, which would receive most of the gas from the Trans-Caspian pipeline. An increase in EU activity in the region can significantly help overcome these difficulties.

The Trans-Caspian gas pipeline (TCGP) will run along the bottom of the Caspian Sea and connect a compressor station in Turkmenbashi with the Sangachal terminal near Baku. The planned capacity would be 30 bcm of gas per year, and the approximate cost of investment would be $5 billion. Once constructed, the pipeline will connect Turkmenistan gas fields with the Baku-Tbilisi-Erzurum (BTE) pipeline, thus enabling Turkmenistan to deliver resources for the Nabucco pipeline. So far, however, even preparatory work for the TCGP has not begun, and disputes between the Caspian states have become an obstacle to the project. Meanwhile, the chances for the TCGP are being raised with the construction of the East-West gas pipeline. The building of the pipeline was started in May 2010 to connect the deposits located in the eastern part of Turkmenistan with the Caspian Sea coast.

Azeri-Turkmen Dispute. The essence of the quarrel is the jurisdiction over the area of a large deposit called Kapaz in Azerbaijan and Serdar in Turkmenistan as well as other smaller deposits at Azeri/Omar and Chirag/Osman. The controversy concerns the method of calculating the equidistant line (which defines the boundary sectors) between the East and West coastal lines. According to Azerbaijan the equidistant should take into account the coastline of the Apsheron Peninsula, the large, easternmost strip of Azeri land, which thus would move the line of demarcation to the east, leaving large deposits on the Azerbaijan side. According to Turkmenistan, the coastline of the peninsula should be ignored, which would move the demarcation line west.

Another issue is whether the Caspian Sea is a “sea” or a “lake.” According to geographers, it is a lake. Meanwhile, its legal status is undetermined, with existing international agreements (including the Soviet-Iranian agreements of 1921 and 1940) usually referring to the Caspian as a “sea.” International law does not regulate the issue of the delimitation of lakes, leaving the decision to interested parties, while the division of seas into sectors should be made in accordance with the UN Convention on the Law of the Sea of 1982. Out of the five basin countries, however, only Russia is a party to the Convention.

Turkmenistan already has threatened several times (for example, in 1999 and 2009) to settle the dispute of Kapaz/Serdar by international arbitrage. If that happens, probably Azerbaijan would win, which would lead Turkmenistan to a boycott of the decision and thus, a continuation of the dispute. A conciliatory settlement of the conflict is difficult because of the economic importance of the deposits in the disputed area, a lack of effective mechanisms for resolving disputes in the region and a fear of painful defeat in negotiations, which makes compromise unlikely. Any joint investment through Turkmen and Azeri sectors without determining the division between them would be very risky for potential investors.

Objections of Russia and Iran. Both Russia and Iran are discontented with the investment, which would omit their territories. Iran argues that according to 1921 and 1940 agreements, the sea should be administered by common decisions on a consensual basis. Russia used to have a similar stance, but in the late 1990s it adopted a more pragmatic approach by delimiting zones with Azerbaijan and Kazakhstan. The reason for the change was the discovery of large deposits in the Russian sector. Currently, Russia raises the issue of high ecological risks and potential losses in case of damage to the TCGP. In March 2011, Azerbaijan and Turkmenistan announced the start of an environmental risk study.

Activities of the European Union. In December 2006, Gurbanguly Berdymukhammedov took power as president of Turkmenistan and began emphasising the need to diversify markets and export routes. Since then, the EU has raised its interest in access to Turkmen gas, increasing the chances of creating the so-called Southern Gas Corridor, supported by the European Commission and the EU Council. In 2010, the EU attempted to mediate in the dispute between Azerbaijan and Turkmenistan, so far without success. In January 2011, Manuel Barroso paid a visit in Ashgabat, and Europa House offices were opened in that city. In Azerbaijan, the president of the European Commission received the political declaration from President Aliyev that “significant quantities of gas” would be delivered to the EU. The Commission’s efforts were accompanied by those of member states and individual companies, for example, the German RWE in 2009 signed a contract for exploration of Turkmen deposits.

Despite EU activity in the region, one should be sceptical about the results. The EU does not have enough instruments to operate effectively in the Caspian region. Also, the enthusiastic speeches of politicians in the Caspian region concerning TCGP or Nabucco should be treated carefully. For example, Turkmenistan has been repeatedly sending different signals to the EU about the possibility of gas exports, ranging from official assurances of establishing cooperation as soon as possible to complete silence. Such behaviour is apparently aimed at improving the negotiating position of Turkmenistan and keeping partners uncertain as to its real intentions. In fact, the most realistic support for TCGP from the side of Turkmenistan is building the East-West gas pipeline.

East-West Gas Pipeline. Construction on this project began in May 2010. The investment in the thousand-mile-long pipeline is worth about $2 billion. It is scheduled for completion in June 2015 with a target capacity of 30 bcm. The primary task of the pipeline will be the transportation of gas from the Turkmen Yolotan-Osman fields in the eastern part of the country (stocks there are estimated at 3 trillion cubic metres) to the Western part of the state. The gas can be directed from there to the North, to Kazakhstan and Russia, to the South, by existing pipelines to Iran, or—in the future—to the West by the TCGP. The East-West pipeline therefore does not prejudge the direction of exports, as it gives the opportunity for infrastructure development both in the Russian version (from Turkmenistan through Russia to Europe), and the European one (through the Southern Caucasus and Turkey, bypassing Russia.) The decision will depend on Turkmenistan, especially since the East-West Pipeline is being built without the participation of foreign capital. Despite Russian efforts, Gazprom has not been approved for construction of the pipeline.

Chances of TCGP. Investment depends on the decisions of Turkmenistan and Azerbaijan, and on EU support. The need to diversify the export destinations of gas is no longer pressing for Turkmenistan, because after opening connections with Iran in 1997 and 2010 and commissioning a gas pipeline to China in 2009, the country is no longer dependent on Russia, once the sole recipient. The primary factor that increases the chances of the project, on the other side, is an increase in Turkmenistan’s gas exports. It is estimated, that exports in 2020 will amount to 140 bcm and 200 bcm by 2030, far exceeding the capacity of all export pipelines and raising the necessity to build new connections. At the same time, the perspective of gas sales to Russia is unclear because in 2010, Gazprom contracted only 10 bcm (20% of the throughput of the Central Asia-Centre pipeline system). Since the planned TAPI gas pipeline through Afghanistan and Pakistan to India is unrealistic because of political instability in the region, exports via the Caspian Sea might be a good solution.

Azerbaijan, in turn, is now focusing on maximising the benefits from production and export of gas. It sells resources to countries like Russia (under a very favourable, flexible contract), Turkey (a dispute over prices and terms of delivery was resolved in October 2010), Greece and Iran. Azerbaijan already has opened the way to the West along with the completion of the BTE gas pipeline in 2007, so its negotiating position against the EU is now stronger, and the possibility of prolonging the negotiations is greater. However, the ambitions of the Azerbaijani authorities to increase the country’s role as a transit point should precipitate construction of the TCGP.