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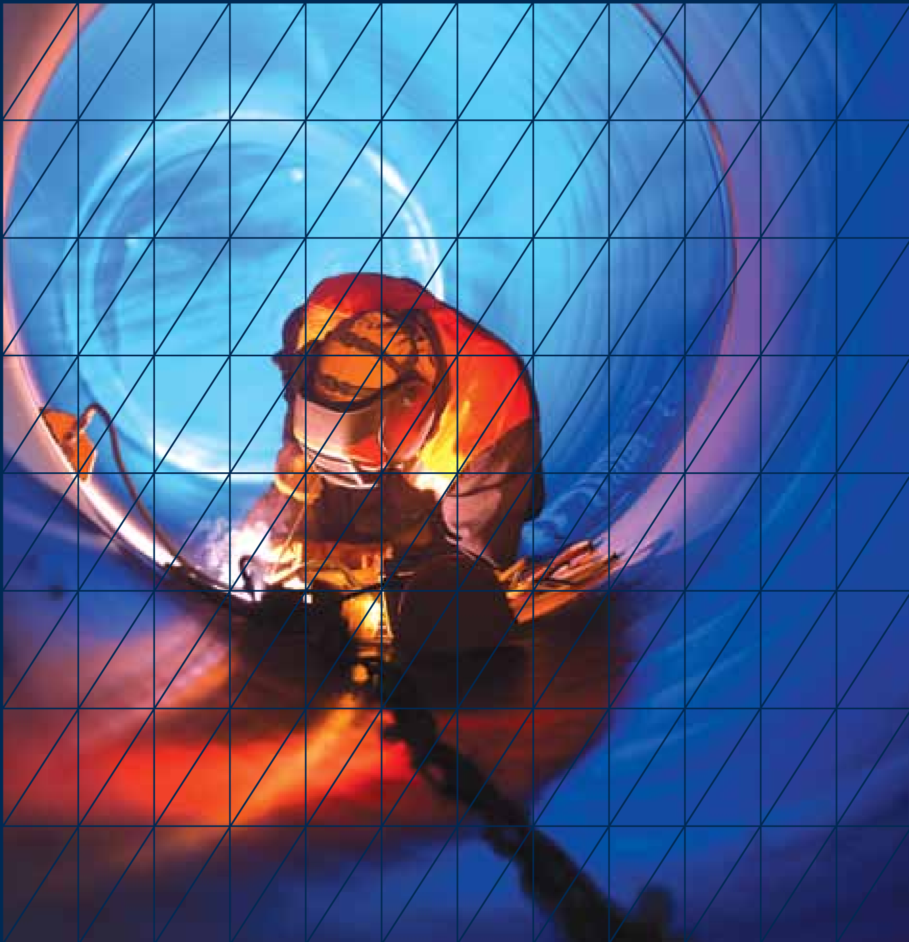
POINT OF VIEW



OSW

THE SOUTHERN GAS CORRIDOR

THE AZERBAIJANI-TURKISH PROJECT BECOMES PART OF THE GAME BETWEEN RUSSIA AND THE EU

Aleksandra Jarosiewicz

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Aleksandra Jarosiewicz

OSW | CENTRE FOR EASTERN STUDIES
OŚRODEK STUDIÓW WSCHODNICH im. Marka Karpia

Content editors
Olaf Osica, Krzysztof Strachota, Adam Eberhardt

Editor
Halina Kowalczyk, Anna Łabuszewska

Translation
Ilona Duchnowicz

Co-operation
Timothy Harrell

Graphic design
PARA-BUCH

DTP
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Wojciech Mańkowski

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Ośrodek Studiów Wschodnich im. Marka Karpia
Centre for Eastern Studies

ul. Koszykowa 6a, Warsaw, Poland
Phone + 48 /22/ 525 80 00
Fax: + 48 /22/ 525 80 40
osw.waw.pl

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1. The European Union's strategic concept of the Southern Gas Corridor as a gas supply route independent from transit states became a thing of the past when the Nabucco project was abandoned in 2012. The Southern Gas Corridor is currently a system of three complementary gas pipeline projects, each at a different stage of implementation, controlled by Azerbaijan and Turkey. These projects allow above all the advancement of Azerbaijan's vital interests, namely the launch of gas exports to Turkey and the EU. Turkey views the Southern Gas Corridor as one of the projects which improve its energy security and which might help it become a gas hub. In turn, for the EU, the corridor in its present shape as determined by Baku and Ankara is of marginal significance – it will not help guarantee energy security to the EU but is nevertheless essential for Southern European countries (e.g. Bulgaria and Greece).

2. Despite the weakness of the currently implemented Southern Gas Corridor, the crisis in relations with Russia over Ukraine has made it more important for the EU. Brussels again sees the corridor as an opportunity for a genuine diversification of gas supplies and for strengthening its position in dealing with Russia. This has stimulated the EU's activity, even though its means of influence on the corridor are slender. In turn, Russia, partly as a consequence of the Ukrainian crisis, has altered the map of energy projects in the Black Sea region, inviting Turkey and Greece to participate in the Turkish Stream gas pipeline project. Russia's moves are part of a greater game with the West, yet at the same time they complicate the implementation of the Southern Gas Corridor, which in some respects is becoming another sphere of the geopolitical conflict between Russia and the West.

3. The changing circumstances bring new challenges to Azerbaijan, for which the Southern Gas Corridor is a pillar of

economic development and an element for strengthening the country's security. It is Baku's determination that made the launch of the corridor's construction possible. However, Baku has been unable to turn it into a purely commercial project. Therefore, Azerbaijan fears that the Southern Gas Corridor may suffer from the rivalry between the EU and Russia, and has been carefully manoeuvring between the two so as not to offend either of them. In turn, Turkey and Greece, capitalising on the fact that their participation is essential for the implementation of both the Southern Gas Corridor and the Turkish Stream, have been strengthening their position with regard to the rivalling EU and Russia sides and also Azerbaijan, and they are demanding tangible economic benefits as a result.

4. It is unclear what the final outline of the corridor will be due to the changing context in which its creation is being carried out. The past three years have shown the vast and complex dynamics affecting the outcomes of this project's implementation: Azerbaijan's emancipation and its limitations, the strength of Ankara's ambitions, Moscow's determination to reintegrate the post-Soviet area (also using military means) which, whatever the final outcome (in Ukraine) will be, already has a strong impact on the politics of the former Soviet republics and the strength of the rivalry between Russia and the EU, as well as the possibility of rapid changes (see the Ukrainian crisis). All these factors are opening up a new stage in the game of the Southern Gas Corridor, with a great number of variables in play.

INTRODUCTION

The communications announced by the European Commission in the past few months, outlining the EU's energy strategy (May 2014 and February 2015) and the European Commission's diplomatic activity, suggest that interest in the Southern Gas Corridor project has revived. This is happening after two years of essentially disregarding this project – Brussels' interest in the Southern Gas Corridor waned significantly after the Nabucco project was abandoned in 2012. It is the continuing crisis in relations with Russia over Ukraine that has mobilised the EU to revise its energy policy once again and to grant a higher priority to the Southern Gas Corridor. Another factor which has contributed to this was the forming of the new European Commission, which has made active diplomatic and political efforts to back this project.

The Trans-Anatolian gas pipeline (TANAP), which is almost exclusively an Azerbaijani-Turkish route (in terms of gas supplies, infrastructure ownership, financing manner and political control of the project) and in which Western firms and the EU itself have only a symbolic share, is currently the most important for the Southern Gas Corridor. The Southern Gas Corridor project entered the implementation phase on 20 September 2014. Regardless of this, its final shape, significance and implementation perspectives are still unclear, which is mainly due to the change in political circumstances and the adjustment of plans concerning new energy projects in the region (Moscow replaced the South Stream project with a new route known as Turkish Stream). These changes in turn are a consequence of a deep crisis in relations between Russia and the West over the Ukrainian crisis.

This text is intended to determine what the Southern Gas Corridor is today, what its significance is for the EU, Azerbaijan and Turkey, and which factors might be essential for the implementation of this project. Another goal of this text is to outline the challenges posed by the changing circumstances of the implementation of the Southern Gas Corridor to its main promoters: Azerbaijan and Turkey. However, it is not intended as an analysis of the impact of potential supplies of Azerbaijani gas to individual European countries and does not consider the possible implementation of the Turkish Stream route nor the development of relations between Russia and the EU. Despite progress made in the nuclear negotiations with Iran, supplies of Iranian gas may be feasible only in the long term due to the lack of transport and production infrastructure. Due to this, Iran is not a subject of this analysis.

I. THE GENESIS AND THE EVOLUTION OF THE EU'S SOUTHERN GAS CORRIDOR CONCEPT

The Southern Gas Corridor is a project aimed at diversifying the routes and sources of gas supplies to the European Union. It was first announced in the Second Strategic Energy Review in 2008[1]. Its emergence was a consequence of several processes: the increasing significance of the energy security issue following the Russian-Ukrainian crisis in 2006, the genuine interest shown by Western companies in gas supplies from the Caspian region (from Azerbaijan, Iran, Iraq and Turkmenistan – especially since the president of this country changed in late 2006/early 2007) and the longstanding US efforts to promote its geopolitical vision of building an East-West corridor running from Central Asia through the Caucasus and Turkey to Europe.

The EU's concept of the Southern Gas Corridor was based on preexisting projects of gas pipelines: the planned Nabucco gas pipeline, the Turkey-Greece-Italy (ITGI) route and the Trans-Adriatic Pipeline (TAP) were adopted as its elements. The corridor was intended to connect the EU with gas deposits located in its close neighbourhood where Western firms were the investors. In the initial phase, this concerned mainly the Azerbaijani Shah Deniz gas field, in which investments were held at that time, for example, by BP, Total, Statoil and Devon Energy.

In political terms, the corridor was intended to help the EU bring the Caucasus closer to the West. It was being created in parallel with the EU's new programme aimed at co-operation with its 'Eastern Neighbourhood', i.e. the Eastern Partnership, which was announced in May 2009[2]. It was also intended at creating stronger

1 Second Strategic Energy Review – An EU Energy Security and Solidarity Action Plan, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0781:FIN:EN:PDF

2 The EP programme replaced the European Neighbourhood Policy, which was first presented in 2003.

bonds between Turkey and the EU after the two parties had embarked on accession talks in 2005.

The European Commission planned that, in the optimal version, the corridor would be a gas supply line controlled by Western firms (infrastructure owners) and functioning according to EU law. According to this vision, the EU would be able to interconnect gas from various sources (Iran, Iraq and Turkmenistan) to this supply line in an unrestricted manner. Turkey's role was limited to that of a transit country, and Azerbaijan's to that of a supplier of gas necessary at the first stage of the corridor's operation. Thus, these two countries were considered as passive rather than active agents in contacts with the EU. It was Brussels who determined the outline of the corridor's form, hoping that it would lead to a significant diversification of supplies and would improve the energy security of Southern and Central European countries. From Baku's and Ankara's point of view, Brussels did not respect their interests and promoted the Nabucco, which was the only one to offer the opportunity of carrying out the optimal (as seen by the EU) vision of the corridor.

Since the Nabucco gas pipeline project was cancelled in 2012[3], the EU lost interest in the Southern Gas Corridor, and the European Commission in fact discontinued work on this project. Regardless of this, Azerbaijan and Turkey continued their efforts to make the Southern Gas Corridor a reality, replacing the Nabucco project with the TANAP route.

As a consequence of the crisis in relations between the EU and Russia over Ukraine (Russia's annexation of Crimea in March 2014 being the breakthrough point), the EU resumed the topic of diversification of supplies, partly through restoring significance

[3] Aleksandra Jarosiewicz, Southern Gas Corridor managed by Azerbaijan and Turkey, *OSW Commentary*, 18 July 2012, http://www.osw.waw.pl/en/publikacje/osw-commentary/2012-07-18/southern-gas-corridor-managed-azerbaijan-and-turkey

to the former idea of diversifying supplies using the Southern Gas Corridor. At present, according to official EU's declarations, the increasingly complicated political situation once again makes diversification of energy supply routes and sources an important issue, and the corridor project is viewed as offering the opportunity for the construction of new gas pipeline infrastructure that will lessen the dependence on Russian gas supplies. Its growing significance is reflected in the provisions of EU documents, for instance, the communication on the Energy Union[4] (announced on 25 February 2015) and the new European Commission's diplomatic and political activity. This activity has included the participation of Maroš Šefčovič, the vice president of the European Commission, in the first meeting of the Southern Gas Corridor Advisory Board, i.e. the advisory body tasked with supporting the implementation of the Southern Gas Corridor, appointed by Baku[5], and the European Commission's efforts to facilitate co-operation between Turkmenistan, Azerbaijan and Turkey to enable supplies of Turkmen gas to the EU. The results of these moves include the meeting of ministers from Turkey, Azerbaijan and Turkmenistan and the vice president of the European Commission in Ashgabat and the passing of a multilateral declaration on energy co-operation on 1 May 2015[6]. The parties agreed, for instance, on the appointment of a working group at the vice ministerial level and the preparation of a framework agreement on gas supplies from Turkmenistan to the EU. The European Commission has also

4 http://ec.europa.eu/priorities/energy-union/index_en.htm, the European Commission's communication was accepted by the European Council on 19-20 March 2015 http://www.consilium.europa.eu/en/meetings/european-council/2015/03/19-20/. In addition to the Southern Gas Corridor, the EU pointed to the need to develop LNG infrastructure and build gas interconnectors inside the EU.
Another document proving that the Southern Gas Corridor is a key project, was the European Commission's communication announced in May 2014, presenting the EU's new energy strategy, http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52014DC0330&qid=1407855611566

5 http://en.apa.az/xeber_socar_announces_details_of_joint_declara_223611.html

6 http://ec.europa.eu/commission/2014-2019/sefcovic/announcements/ashgabat-declaration_en

made attempts to establish closer co-operation with Turkey, the most important transit country, one consequence of which is the initiation of a platform for energy dialogue between Ankara and Brussels at the ministerial level[7].

The European Commission's moves concerning the Southern Gas Corridor have been inspired by concerns about energy security, but the implementation of this project also has a political meaning. From Moscow's point of view, the European Commission's activity in the post-Soviet area violates the exclusive Russian zone of interest, and this is happening at the time of a serious crisis concerning Ukraine.

[7] High Level Energy Dialogue, http://ec.europa.eu/commission/2014-2019/arias-canete/announcements/eu-turkey-high-level-energy-dialogue-and-strategic-energy-cooperation_en

II. THE CORRIDOR TODAY: NEW INFRASTRUCTURE OWNERS AND NEW RULES OF OPERATION

What is today referred to as the Southern Gas Corridor is in fact primarily an Azerbaijani-Turkish route consisting of three complementary gas pipeline projects at different stages of development. Two of them, i.e. TANAP and the gas pipeline which runs in parallel to the Baku–Tbilisi–Erzurum route, are controlled by Azerbaijan and to a lesser extent by Turkey.

The present shape of planned and implemented infrastructure for gas exports from Azerbaijan to the EU

– a gas pipeline which runs parallel to the existing **Baku--Tbilisi-Erzurum** route (BTE, also referred to as the South Caucasus gas pipeline), its shareholder is a consortium operating on the Shah Deniz gas field formed by: BP (28.8%), TPAO (19%), SOCAR (16.7%), Petronas (15.5%), LUKoil (10%) and Iran's NICO (10%). The sole owner of the Turkish section of this gas pipeline is Turkey's BOTAS. To increase the route's annual transport capacity from the present level of 8 billion m^3 to 25 billion m^3 of gas, it is planned to build a parallel section with a transport capacity of 17 billion m^3 pf gas. Its estimated construction cost is US$ 3 billion and will be incurred solely by Azerbaijan. Baku will also have total control of this route[8].

The construction of a gas pipeline running in parallel to BTE was launched on 20 September 2014, which was announced by Azerbaijan as, the launch of work on the Southern Gas Corridor. Even though no representatives of the European Commission were present at the ceremony, this was positively received by the European Union.

[8] http://www.contact.az/docs/2013/Economics&Finance/012300025666en.htm#.VBRYsYVa-Iw

- the **TANAP (Trans-Anatolian)** gas pipeline, whose shareholders are: SOCAR (58%), Turkey's BOTAS (30%) and Britain's BP (12%). During the first stage (2021; the construction will end in 2019), the route's annual transport capacity will be 16 billion m^3 of gas, to ultimately reach the level of 32 billion m^3 in 2026. The estimated construction cost of the pipeline, running from the Turkish-Georgian border to the Turkish-Greek border, is around US$ 11 billion. According to assurancesthe cost will be incurred solely by the project's shareholders in proportion to their respective shares held – Azerbaijan has allocated for this purpose part of its incomes deposited in the SOFAZ Oil Fund. Contrary to Azerbaijan's expectations, Statoil and Total have not decided to join the shareholders of this project. The construction work began in Kars in Turkey in March 2015.

- **TAP (Trans-Adriatic Pipeline**) – its shareholders are: BP (20%), SOCAR (20%), Statoil (20%), Fluxys (19%), Enagas (16%) and Switzerland's Axpo (5%). Total and E.On withdrew from this project. The route's annual transport capacity will reach between 10 billion m^3 of gas and 23 billion m^3 as a maximum. The estimated construction cost is around US$ 2 billion. The gas pipeline's construction is expected to begin in 2016. The TAP consortium hopes to receive loans for the implementation of this project – it has signed letters of intent, for example, with the EBRD and the EIB. It has also entered into a number of agreements with West Balkan gas firms and states in order to connect the planned route with the Ionian Adriatic Pipeline currently under construction. This would make it possible to supply Azerbaijani gas to Bosnia and Herzegovina, Montenegro, Slovenia and Croatia.

Since the planned infrastructure has changed (Nabucco has been replaced with the planned TANAP route), the rules of gas transport have also changed. Gas transit via TANAP will be controlled by the project's shareholders (i.e. the company referred to as the

TANAP Project Entity) – and thus at present by Azerbaijan and Turkey, holding the greatest shares – 58% and 30% respectively[9].

The provisions of the Turkish-Azerbaijani agreement of 2012 regulate the mutual relations of TANAP shareholders and offer them the opportunity to block each other. On the one hand, the fact that Baku holds a 58% stake lets it decide as regards gas supplies from other producers, i.e. Baku may impede or even block the transit of non-Azerbaijani gas via TANAP. On the other hand, the agreement provides for transit of only 10 billion m^3 of Azerbaijani gas to the EU. This means that Azerbaijan is forced to offer to Turkish consumers all quantities in excess of this volume of gas sent via TANAP. Only when Turkey refuses to buy Azerbaijani gas will it be possible to transport it to other markets[10].

If TANAP's annual transport capacity is to be increased above 32 billion m^3 of gas, an additional intergovernmental agreement will have to be signed by Turkey and Azerbaijan. Turkey also defines the legal framework of the project's implementation and operation of the gas pipeline, such as the tax rates, for example.[11]

Such provisions mean that the parties are able to block one another. It is Turkey who will decide on what may happen with additional Azerbaijani gas (above the limit of 10 billion m^3), while Azerbaijan can block other suppliers' access to TANAP – holding a 58% stake in the project, it can decide on the route's transport capacity and tariff rates[12].

9 Pursuant to the intergovernmental Azerbaijani-Turkish agreement, Azerbaijan will hold at least 51% of the shares. Cf. article 7.4 of the agreement of June 2012, which is available here: http://www.tanap.com/content/file/TANAPIGA.pdf

10 Article 7.6 of the aforementioned agreement.

11 http://www.oxfordenergy.org/wpcms/wp-content/uploads/2014/02/NG-82.pdf

12 According to article 7.4 of the aforementioned agreement, TANAP Project Entity has the right to use the gas pipeline's capacity in its sole discretion, make it available to third parties and set the transport tariffs. At the same

Thus, for the firms engaged in Azerbaijan[13] the emergence of TANAP, which is dominated by Azerbaijan and Turkey, will mean the need to agree the rules of transit via this route with Baku and Ankara (the main shareholders). The same concerns the possible transport of gas via this route from sources other than Azerbaijan, for example from Iran, Iraq or Turkmenistan – either they will receive consent from Azerbaijan, the majority shareholder in TANAP, or they will be forced to build new infrastructure and negotiate transit issues with Turkey. Furthermore, Turkey is not a member of the Energy Community, and EU directives do not apply to it – therefore it may shape its transit policy as it sees fit.

The role of the European Union in the infrastructure designed this way has been reduced to that of a gas consumer.

time TANAP Project Entity only has the obligation to inform the Ministry of Energy and Natural Resources of the Republic of Turkey of these moves.

13 At other gas fields than Shah Deniz 2, which is the raw material base for TANAP and has been granted preferential rules of access to this pipeline.

III. THE SIGNIFICANCE OF THE SOUTHERN GAS CORRIDOR FOR THE ENERGY SECTOR

The significance of the Southern Gas Corridor which is currently under construction, i.e. the supply route running from Azerbaijan via Turkey to Europe, where the TANAP gas pipeline is the most important element, varies in the case of each of the entities interested in it and depends on the functions they perform in this project: consumer, supplier and transit country. The perception of the project by individual entities is also affected by the size of the built and planned infrastructure.

1. Azerbaijan – the life line

The Azerbaijani-Turkish gas pipeline currently under construction has the greatest significance for **Azerbaijan**. From Baku's point of view, this project enables gas exports independently from Russia to the Turkish and European markets. TANAP will be an addition to the already existing routes: the gas pipelines running to Turkey (BTE), Iran and to Russia, via which Azerbaijan imported Russian gas until 2007.

The new gas pipeline will play the leading role in the transport of Azerbaijani gas, i.e. it will provide the route for around 70% of Azerbaijan's gas exports (around 25% will be supplied to the BTE route). Thus, like the Baku–Tbilisi–Ceyhan oil pipeline for the oil sector, TANAP has a fundamental significance for the development of the gas sector in Azerbaijan. In turn, given the continuously falling oil output, gas production is essential for the country to maintain economic and political stability. If the construction of TANAP is unsuccessful, Azerbaijan will have no other choice but to export gas to its previous recipients: Russia or Iran, or to Turkey at best. A possible failure of the plans to build the gas pipeline could also lead to withholding investments in the development of the gas sector. Given the falling oil output and problems related to the need for genuine diversification and modernisation of the economy, this would result in economic and political problems, posing a threat to a country governed by an authoritarian regime.

All the aforementioned factors mean that TANAP holds a similar strategic importance for Azerbaijan as the Baku–Tbilisi–Ceyhan oil pipeline which was built in 2006. It is a way to lessen the country's dependence on Russia, strengthen co-operation with Turkey (co-dependencies) and generate income from the development of the energy sector[14]. Traditionally, the development of oil and gas export routes independently from Russia and in co-operation with the West has been the pillar of the policy of an independent Azerbaijan, on which the country's economic development and security has been based.

Forecast of gas exports from Azerbaijan via individual routes (in billions of m³)

Route	Transport volume in 2014	Transport volume in 2020	Transport volume in 2030	Annual transport capacity (in billion m³ of gas)
Azerbaijan-Russia	0.2	1	1	5 (operational; technical – 13)
Azerbaijan-Iran (swap to Nakhchivan)	0.4	0.5	0.5	10
BTE: to Georgia To Turkey	1.4 6.6	1.4 6.6	1.4 6.6	8

14 In symbolic terms, this strategic significance of the Southern Gas Corridor was manifested through the choice of the date on which work on the first stage of this project commenced (i.e. the construction of the gas pipeline running in parallel to BTE) – 20 September 2014, i.e. the twentieth anniversary of Azerbaijan's signing the 'contract of the century' concerning the development of the country's largest oil field (Azeri–Chirag–Guneshli) by Western firms.

Route	Transport volume in 2014	Transport volume in 2020	Transport volume in 2030	Annual transport capacity (in billion m³ of gas)
TANAP	-	16	26	16 in 2021 32 in 2026
Total	8.6	25.5	35.5	39 in 2021 49 in 2026
TANAP's share in total exports from Azerbai-jan	0	41%	73%	

2. Turkey – TANAP as a stage in the construction of a gas hub

For **Turkey**, which heavily relies on Russian gas supplies (they account for over 60% of its imports), the construction of TANAP is a way to diversify the routes and sources of its gas supplies, and is expected to improve its energy security. Ankara has guaranteed itself supplies of 6 billion m³ of gas from Azerbaijan (transported via TANAP) and has opened up the way to further negotiations concerning gas supplies from this country.

TANAP and co-operation with Azerbaijan also allow Turkey to put into practice a number of the key guidelines of its energy strategy, i.e. gaining access to gas fields (Turkey's TPAO has increased its share in Shah Deniz from 9% to 19%) and the development of gas infrastructure in its territory (Turkey's BOTAS has a 30% stake in the Trans-Anatolian gas pipeline).

Turkey is not just a transit state in the case of TANAP (unlike Nabucco). Ankara has a greater access to raw material sources and owns transport infrastructure, can buy additional volumes of gas from Azerbaijan, and can also to a limited extent co-decide on its transit using the infrastructure currently under construction.

All this offers Turkey a greater opportunity to become a gas hub (an autonomous gas disposer) for the EU[15]. Even though it is still an open question whether this will be a transport or a trading hub – the latter being the ultimate goal of the Turkish energy policy.

TANAP is also an instrument used by Ankara in the course of implementing its policy with regard to other entities. Turkey has been engaged in active talks with Turkmenistan regarding gas supplies, even though it cannot decide on gas transit using this route.

3. The EU – a drop in the ocean of needs

The Southern Gas Corridor in the TANAP version is of marginal significance for the energy sector of **the EU as a whole**. The volumes of gas export to Europe declared by Azerbaijan (10 billion m^3, of which 8 billion m^3 will be supplied to Italy and 2 billion m^3 will be divided between Greece and Bulgaria) will not have any major impact on improving the energy security of the EU as a whole, since this quantity will cover only around 2% of the present demand level.

On the other hand, in the case of individual countries, i.e. Greece and Bulgaria, and to a lesser extent Italy, supplies from Azerbaijan

15 Turkey's strategic goal is to build a regional natural gas exchange in its territory, which would result in a reduction of gas prices for Turkish consumers and allow Ankara to maximise the benefits offered by the country's strategic location. Gas from Turkey would be supplied to the EU not so much as part of transit but rather as a product bought from the Turkish exchange. To make this strategy a reality, Ankara has been engaged in an active search for additional sources of natural gas (Iraqi Kurdistan, Israel and Iran). However, given the deteriorating political situation in the region, it will take long before these supplies will become possible (one exception is Iran, where the political situation is improving, but the chances of increasing supplies to Turkey from the underinvested Iranian gas fields are still low). For more on Turkey's plans and conditions of their implementation, cf. Gulmira Rzayeva, Natural Gas in the Turkish Domestic Energy Market: policies and challenges, Oxford 2014, http://www.oxfordenergy.org/wpcms/wp-content/uploads/2014/02/NG-82.pdf

will cause a real diversification of gas supply routes and sources. Russian gas accounts for between 70% and 100% of Greek and Bulgarian gas imports. Therefore, gas supplies from Azerbaijan would tangibly improve their energy security.

IV. UKRAINE CASTS A SHADOW OVER THE SOUTHERN GAS CORRIDOR

The Southern Gas Corridor in the TANAP version is a small-scale project aimed above all at implementing the interests of Baku, i.e. transporting Azerbaijani gas. Principally, it offers no room for gas supplies from other sources. The small scale of this gas pipeline is fully satisfactory to Baku, which has proven that it is ready to incur the costs of its implementation.

It also appeared that TANAP was acceptable to Russia, which – unlike the case with Nabucco – until recently did not view it as serious competition for its export plans and refrained from criticism of it. The possibility that Azerbaijan and Russia entered into a gentlemen's agreement in 2012 cannot be ruled out, i.e. that Baku gave up Nabucco and chose the TAP route (Italian market) in order to avoid competing with Gazprom in the Central European gas markets.

The circumstances of the implementation of the gas pipeline running from Azerbaijan to the EU changed as the crisis between the West and Russia over the Ukrainian conflict became more serious. It undermined the trust and the existing foundations of co-operation between the EU and Russia, made Russia even more resistant to gas transit via Ukraine and, in geopolitical terms, triggered a new strife between Russia and the West. In the post-Soviet area, the Ukrainian crisis has aggravated concerns about the intentions of Moscow's new aggressive reintegration policy.

In the context of the energy sector, the Ukrainian conflict initially led to a breakdown of the dialogue between Moscow and Brussels (which, for example, completely halted the work on the South Stream route which was intended to run from Russia via the Black Sea to Bulgaria and further on to other European countries), and then to changes in the EU's and Russia's energy policies. These include the replacement of South Stream with Turkish Stream by

Moscow and the European Commission's renewed support for the Southern Gas Corridor at the diplomatic and political level, since it is viewed as a route for supplies not only from Azerbaijan but also from Turkmenistan (disregarding genuine possibilities, Russia's resistance and the need to compete with China).

Ukraine has also indirectly influenced the political and energy calculations of the actors imvolved in the Southern Gas Corridor, and has also added to its political weight.

1. Turkish Stream instead of South Stream – the Russian gas gambit

Russia's decision to reject South Stream, a project it had been pushing through for years, and to replace it with the idea of building a gas pipeline running through the Black Sea and Turkey to the Greek border (using the Turkish Stream and the still imprecise idea of a gas hub in Turkey) has completely disproved the assumptions on which the region's energy policy had been based. These included the belief that Russia is determined to build South Stream and is interested in gaining access to the end user in the EU. Meanwhile, Moscow has shown that it can make attempts to replace the lack of interaction with the EU and Ukraine (in fact their refusal to accept Moscow's conditions) with co-operation with Turkey[16].

Turkish Stream

The proposal to build a gas pipeline known as Turkish Stream was made on 1 December 2014 during a visit by the Russian president Vladimir Putin to Ankara. The pipeline's route has not been set precisely as yet. According to initial information,

[16] For more on changes in Russia's policy and the rational reasons for its withdrawal from the South Stream project, see: https://www.oxfordenergy.org/2015/01/cancellation-south-stream-signal-fundamental-reorientation-russian-gas-export-policy/

Turkish Stream will run parallel to the planned South Stream route and turn southwards in the direction of Turkey before entering Bulgaria's territorial waters (cf. map).

The gas pipeline's final declared capacity is expected to reach 63 billion m^3 (the same as in the case of South Stream). A section with a transport capacity of 16 billion m^3 will be built in the first stage (Gazprom has promised to bring it into operation in 2016). This would allow Russia to cease sending gas via the Ukrainian-Balkan pipeline to Turkey. Russia has also offered to create a gas hub in Turkey as part of Turkish Stream, without however giving any details of what it would be like (apart form the general information that around 47-49 billion m^3 of gas would be supplied to it). President Putin suggested in February this year that Turkish Stream could be extended to Baumgarten (using the Nabucco route). It has not been agreed who will finance the gas pipeline. It is also unclear yet which firms will be chosen as subcontractors (Russia has promoted Gazprom Russkaya). Another known fact is that the maritime section of the gas pipeline will be built by Saipem.

Since Turkish Stream was announced, Russia has made efforts to create the impression that progress has been made in work concerning the pipeline. Blatant grandstanding, such as the common helicopter flight of Gazprom's head and the Turkish energy minister along the planned route of the gas pipeline (which has still not been agreed) in February this year, and the announcement in May that work on the construction of this route had begun even though the agreement with Turkey had not been signed, have been employed for this purpose.

Russia's moves (Turkish Stream) demonstrate its desire to regain the strategic initiative in relations with Turkey and Southern European countries (above all, Greece) at the expense of the EU. Russia's proposals have been positively received in Ankara, which itself wants to be treated more on equal terms in contacts with the EU and to strengthen its role in the region. Co-operation with Russia helps Ankara achieve these goals. Thus, Ankara's desires coincide with Russia's expectations, which hopes to remove Turkey from the orbit of Western influence, offering it co-creation of energy routes running to the EU. This forms strong foundations for building closer relations between these two countries. Moscow's negotiating position will thus become stronger during the efforts to set a new order of relations with the EU. Russia wants to maintain its dominant position in gas supplies to Southern Europe or to take over control of supplies from its competitors (the vague idea of creating a gas hub in Turkey is intended to serve this purpose).

Whatever the actual shape Turkish Stream will take, and regardless of Russia's determination and ability to carry out this project, the fact alone that the idea of building a gas pipeline running from Russia to Turkey emerged, has changed the situation of TANAP and the energy calculations of the countries located in the Black Sea region.

Firstly, one tangible consequence of Russia's decision is the emergence of competition between Turkish Stream and the gas pipeline running from Azerbaijan via Turkey to the EU. Both projects run through Turkey and assume that the Turkish-Greek or the Turkish-Bulgarian border will be the point of entry to the EU. Thus, Baku's hopes that it will avoid competing with Russian gas on the European market have deflated[17] – even though contracts with consumers in the EU have been signed, Azerbaijan fears that Russia will use Turkish Stream to maintain its dominant position on the Greek and Bulgarian markets, and will not let Azerbaijani gas be supplied to these markets. Competition will intensify, if TANAP's capacity increases[18].

17 It is emphasised in Azerbaijan's official narrative that TANAP has no chance of undermining Russia's position on the EU market.

18 Oficially, Baku denies that competition is possible between TANAP and Turkish Stream, emphasising that Azerbaijan has signed contracts with gas recipients. However, in practice, Azerbaijan's concerns are enormous and have

Secondly, the Russian proposal has been addressed to Ankara, which has strengthened its position against Baku and Brussels. Turkey believes that it has become an important partner from Russia and the EU alike, which has an impact on its political and energy calculations. Ankara is behaving as the main player as regards gas issues in the region, for example, while negotiating gas supplies from Turkmenistan. The consequences of Turkey's stronger assertiveness have been felt by Russia strongest of all as yet – Ankara, seeing Moscow's determination to build Turkish Stream, has taken a tough stance while negotiating a reduction in gas prices[19]. However, it is conceivable that Ankara will soon present an equally tough stance in dealings with Azerbaijan or the EU. The Russian proposal has doubtlessly seriously affected Ankara's calculations in the energy sector, because, even if it is imprecise, it has strongly increased Turkey's chance of becoming a gas trade hub and has added to Ankara's political weight.

Thirdly, the idea of building Turkish Stream has affected the calculations of those EU member states who are potential recipients of Azerbaijani gas from the Southern Gas Corridor and participants of the TAP project, i.e. the third European section of the corridor. This concerns above all Greece, which has been invited by

been expressed partly through press reports outlining any difficulties linked to Turkish Stream and SOCAR's assurances that TANAP cannot be stopped, cf. an interview with the deputy head of SOCAR: http://www.euractiv.com/sections/energy/socar-it-impossible-stop-Southern-Gas-Corridor-314810
The issue of competition, in the case that the route's transport capacity is increased, has been raised amongst others by the main manager of the company in charge of implementation of TANAP: http://www.azernews.az/oil_and_gas/82686.html

19 When the idea of building the Turkish Stream gas pipeline was announced on 1 December 2014, the Russian president Vladimir Putin promised Turkey a 6-percent discount on gas prices. However, this offer was rejected by Ankara, which managed to obtain a discount of 10.5% (February 2014). Then Gazprom questioned the price component with regard to which the discount was to be applied, and the parties launched another round of negotiations.
A gas price discount has already been offered to private importers: http://1prime.ru/energy/20150506/809600142.html

Russia to take part in the Turkish Stream project[20]. So far, due to the change in the economic situation and the victory of a more pro-Russian Syriza political party in the election in Greece, Athens has made efforts to revise the previous arrangements concerning the construction of the TAP gas pipeline. Greece's demands have been rejected by Azerbaijan. It can, nevertheless, be assumed that a further rapprochement between Athens and Moscow and Russia's proposal to extend Turkish Stream to Greece will adversely affect the co-operation between Baku and Athens[21].

2. The EU's interest in the Southern Gas Corridor – no implementation instruments

Apart from the actions taken by Russia, the situation around the construction of the gas pipeline running from Azerbaijan to Turkey is additionally complicated by the European Commission's intensified interest in the diversification of gas supplies and the higher significance granted to the Southern Gas Corridor. Paradoxically, by granting strategic significance to the Southern Gas Corridor once again and recognising TANAP as its essential element, the EU has turned it once more into a geopolitical instrument of rivalry with Russia. This is true at least according to the Kremlin's perception, which has traditionally made efforts to prevent gas supplies from the post-Soviet area to the EU that would be independent of Russia.

The EU views TANAP as the first step towards the fulfilment of far more ambitious plans to import natural gas from Central Asia,

[20] http://www.ekathimerini.com/4dcgi/_w_articles_wsite2_1_07/05/2015_549808

[21] An indirect proof for these concerns are the US appeals to Athens to withdraw from Turkish Stream and become fully engaged in the construction of the Southern Gas Corridor: http://www.nytimes.com/2015/05/09/business/international/greece-us-russia-energy-pipeline.html?_r=0
SOCAR has also difficulties finalising the transaction of purchase of a 66% stake in the Greek gas system operator DESFA due to resistance from the European Commission (the requirements of the third energy package) and the revision of Greece's privatisation strategy:

and more precisely, Turkmenistan[22] (cf. the provisions of the European Commission's communication on the Energy Union published on 27 February 2015), and as a way to significantly reduce its dependence on gas supplies from Russia. The EU hopes that it will be able to increase the transport capacity of the Southern Gas Corridor's infrastructure to 60 billion m³ and connect other countries to it, i.e. Turkmenistan and Iran (this means a return to the assumptions formulated in 2008). The EU's vision is strongly at variance with the present shape of the infrastructure which is both planned and under construction, and is extremely unlikely to be put into practice, at least in the medium term.

Given the lack of real possibilities for influencing the shape of the constructed and planned infrastructure of the Southern Gas Corridor (in its present variant), the European Commission's moves have been limited so far to offering political support to the project: participation in the Southern Gas Corridor Advisory Board, visits to Turkmenistan (2), Azerbaijan (2) and Turkey (1) by the vice president of the European Commission in charge of the Energy Union, and signing documents primarily of a declarative nature. Even though the European Commission has never before been so active, it still lacks the instruments which could give the EU a real influence on TANAP and, more broadly, on the Southern Gas Corridor. The instruments the EU has at its disposal have not undergone a qualitative change over the past few years and are insufficient to provide adequate support on the political and financial level to the corridor in the maximal form promoted by the EU.

Western firms are also unlikely to become involved in the implementation of the Southern Gas Corridor, since, given the present situation on the gas market (i.e. hardly any demand and low gas

[22] See to the communication of the EU Commission on Energy Union published on February 27, 2015, http://eur-lex.europa.eu/legal-content/PL/TXT/?uri=CELEX:52015DC0080

prices) and considering the way the geopolitical situation is developing, this would be a risky investment at the least.

Regardless of this, it should be noted that the process of EU support for the infrastructure forming the Southern Gas Corridor has just begun, and its success will ultimately depend on the effectiveness of the instruments developed by the EU. Given the present geopolitical conditions and the fact that the West has lost its credibility in the post-Soviet area, these tools would have to be cross-sectoral and extend to the security, financial and political spheres, which is extremely difficult.

V. TANAP: THE CLASH OF VISIONS OF BAKU, BRUSSELS AND ANKARA

Actions taken by the EU and Russia alike have made Azerbaijan's situation more complicated. Baku's intention is not to build a large supply route to the EU (for Turkmen or Iranian gas) but a gas pipeline for exporting Azerbaijani gas which at the same time would allow it to avoid competing with other suppliers. Azerbaijan would be ready to transform the Southern Gas Corridor into a transit route only over a long-term perspective. In Baku's official narrative, supplies of gas other than Azerbaijani to TANAP will only be possible in the indefinite 'future'[23], while the EU hopes that such supplies could be possible as early as 2019[24]. Azerbaijan has adopted a cautious stance on the EU's activity – on the one hand it participates in the European Commission's initiatives (for example, in the meeting in Ashgabat in May this year), hoping that this will make the EU more inclined to back the gas projects promoted by Baku, but on the other, it has made efforts to reduce the geopolitical significance of the Southern Gas Corridor. Having restricted the concept to the TANAP project (in 2012, after Nabucco was rejected), Baku has in fact limited the transport capacity of the Southern Gas Corridor and the possibilities of its being opened up to additional suppliers[25]. In turn, as regards TANAP

[23] http://report.az/en/energy/rovnag-abdullayev-tanap-will-be-one-of-the-main-arteries-of-the-region/

[24] http://uk.reuters.com/article/2015/05/02/uk-turkmenistan-gas-europe-exclusive-idUKKBN0NN0FI20150502

[25] Even though Azerbaijan is ready to accept supplies from other sources, it has not been lobbying for this. Symptomatic of this was the statement made by Azerbaijan's ministerfor energy, Natig Aliyev, who said in June 2015 that gas supplies from Iran, Izrael and Cyprus to TANAP were possible, but this would require a number of political and infrastructural problems to be resolved and was at least uncertain, and at the same time he skipped the option of supplies from Turkmenistan (which the EU is lobbying for). When asked whether Turkmenistan could participate in TANAP, Aliyev replied that this would be "irrelevant". Cf. http://en.apa.az/xeber_minister__turkmenistan___s_acquisition_sha_226999.html, http://abc.az/eng/news/88807.html

itself, Azerbaijan has denied that it could compete with Russian gas in the EU market[26].

Azerbaijan does not make efforts to become engaged in co-operation with the EU, but it rather responds to the EU's demand for natural gas above all in accordance with its own and not the EU's interest. The EU is viewed as a recipient of Azerbaijani gas. According to the stance adopted by Azerbaijan, its own vision and interests will determine the shape of the Southern Gas Corridor, and the EU will play just an auxiliary role. Thus Baku has insisted on the EU's support in relations with Greece, expecting it to place pressure on Athens as regards the implementation of the TAP gas pipeline, and counts on the European Commission's assistance in the process of privatisation of the Greek gas system operator (DESFA).

This fits in with the policy of avoiding provocation of Russia in the context of the developments in Ukraine. Baku, fearing Russia's aggressive reintegration initiatives in the post-Soviet area, has begun to adjust its policy more and more to the Kremlin's expectations[27]. This is intended at protecting Azerbaijan from becoming another target of Russia's aggressive policy and at the same time allowing it to implement its strategic goals in the energy sector, i.e. the construction of the gas pipeline running to Turkey and the EU.

A possible increase of the planned scale of gas supplies via the Southern Gas Corridor to 60 billion m^3 would also aggravate the conflict of interest between Turkey, Azerbaijan and the EU. For Azerbaijan, this scenario would mean the need to compete with other gas suppliers in the European market, and this is something Baku has been trying to avoid so far by causing the break-off of

[26] http://report.az/en/energy/socar-competing-with-russia-for-gas-exports-is-impossible/

[27] Cf. Aleksandra Jarosiewicz, Azerbaijan – a growing problem for the West, *OSW Commentary*, 15 September 2014, http://www.osw.waw.pl/en/publikacje/osw-commentary/2014-09-15/azerbaijan-a-growing-problem-west

talks with Turkmenistan concerning the Trans-Caspian route[28] and pushing through TANAP, a project it is able to control. It is only a radical change in the region's geopolitical order that might make Azerbaijan more interested in transforming TANAP into a transit route for third countries.

The EU and Turkey are interested in increasing gas supplies to the European market or possibly also to the Turkish market to the maximum extent. Ankara's strategic goal is to turn Turkey into a gas trading hub, which, in addition to legal changes, ownership transformation in BOTAS and investments in storage infrastructure[29], requires above all an increased level of gas supplies to Turkey. As a result, Turkey wants more entities, and not just Azerbaijan, to join the Southern Gas Corridor – hence the activation of Ankara's efforts seen over the past few months to ensure supplies of Turkmen gas to TANAP and even attempts to take control over them[30]. Ankara's moves go in line with the EU's interests, which is also interested in receiving as much natural gas as possible from sources other than Russia.

In turn, each of these variants in terms of supplies to the EU is contrary to Moscow's interests. Moscow has been trying to maintain its dominant position as a gas supplier to the EU market, and is not interested in competing with Azerbaijani gas. Since the Nabucco

[28] Talks with Turkmenistan concerning the Trans-Caspian gas pipeline were broken off following an incident provoked by Azerbaijan on the Caspian Sea waters which are the subject of its territorial dispute with Turkmenistan. Cf. http://www.turkishweekly.net/columnist/3650/rising-tension-between-azerbaijan-and-turkmenistan-in-the-caspian.html

[29] Cf. Gulmira Rzayeva, *op. cit.*

[30] A framework contract between Turkmengaz and the private firm Atagas concerning Turkmen gas sale was signed in November 2014 during the visit by the Turkish president Recep Tayyip Erdoğan to Ashgabat. In turn, in March this year, the Turkish president announced that a Turkish-Azerbaijani-Turkmen energy triangle would be formed. Atagas, and at least its CEO, is linked to Calik holding, whose head, Ahmed Calik, served as a minister in the Turkmen government under Niyzaov's rule: http://www.borsamatik.com.tr/haber-detay/eski-tpao-mudurunden-son-bomba/10881/

project was given up, Russia has practically not mentioned the issue of Azerbaijani gas supplies to Europe and has mitigated its criticism of the Southern Gas Corridor. However, its attitude to this project has changed, one proof of which was the comment made by the Russian ambassador to the EU in March this year, who expressed doubts about the profitability and technical feasibility of the TANAP project, and said that Russia wanted to use the transport capacity of the Trans-Adriatic route[31].

[31] http://www.interfax.ru/interview/429339

VI. CONCLUSIONS

Even though the Southern Gas Corridor in its present version, which is restricted to the currently implemented TANAP project, will not solve the problem of guaranteeing energy security to the EU, and the EU has only modest means of influencing the shape of the project, paradoxically, its significance has grown. The project is currently occupying a more serious role due to the Ukrainian conflict and the crisis in relations between the EU and Russia, which has affected their respective policies towards the Southern Gas Corridor and towards the actors engaged in its construction. The European Commission's active engagement in issues linked to the Southern Gas Corridor proves that its political significance for the EU has grown.

Meanwhile, even though Russia has been forced to withdraw from the South Stream gas pipeline project, it has replaced it with Turkish Stream, and is thus trying to take the political initiative with regard to Turkey and Greece. By addressing the Turkish Stream project to the countries which are participating in projects as part of the Southern Gas Corridor, Russia is gaining a tool that can make their implementation more difficult. The implementation of the project has also been complicated due to the harsh economic situation in Greece, which on the one hand has stimulated Athens to bring ever new demands to the TAP consortium, but on the other has paralysed the operation of the government administration.

In turn, Azerbaijan, even though it was able to transform the EU's concept of the Southern Gas Corridor in 2012 into a project which serves its own interests and to take control of it, cannot be certain how this initiative will end. The changing circumstances have forced Baku to adopt a more flexible and cautious policy, so as not to provoke Russia. Azerbaijan, taking into account Ukraine's experience, does not want to be viewed as the EU's key ally in its plans to weaken Russia's position on the EU gas market, and fears that Russia might make some moves that will complicate the implementation of the Southern Gas Corridor. The set of Russian measures (in addition to Turkish Stream) includes the ability to destabilise the situation in Azerbaijan, for example, by fuelling conflict in the region of Nagorno-Karabakh. Given these fears, Baku may find it difficult to reject a possible Russian offer to use TANAP for transporting Russian gas[32] or to refuse Russia's proposal to join the project. It cannot be ruled out that Russia might try to convince Azerbaijan to accept its participation in the TANAP project by offering to partly resolve the conflict in Nagorno-Karabakh.

Beyond any doubt, the party which benefits from these changes is Turkey, which is becoming a highly desirable partner for both Russia and the EU. Ankara has made attempts to capitalise on the disagreements between these two entities to maximise the political and financial benefits it can derive from co-operation with each of the parties. Thus, Ankara's activity in the energy sector, especially as regards the Southern Gas Corridor and Turkish Stream, will be a reflection of the revision of its policy with regard to the EU, Russia and also Azerbaijan. One consequence of the emergence of Turkish Stream is certainly Turkey's stronger position in relations with Azerbaijan.

The Southern Gas Corridor, even though it is controlled by Azerbaijan and not by any of the players involved in the crisis, is turning into an element of geopolitical rivalry. As a result, its future will depend not only on Baku's determination but also on the factors generated by the changing context of its implementation. The components of this context will above all include relations between the EU and Russia, and Moscow's policy towards each of the actors involved in the Southern Gas Corridor.

ALEKSANDRA JAROSIEWICZ

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[32] The proposal to resume Russian gas exports to Azerbaijan is quite interesting in this context (the statement of Gazprom's head in June 2015) cf. http://en.apa.az/xeber_alexei_miller__gazprom_is_ready_to_expor_228649.html).

Map. Southern Gas Corridor