The Strategic Significance of Azeri Oil & Gas for Greece and SEE

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Azerbaijan stands out as a unique case in the energy security balance among its BSEC, Caspian and EU partners.

Despite its long history as Europe’s first ever oil exporter in the late 19th century and the continent’s first prototype oil production, refinery and transportation hub, modern Azerbaijan is also developing as a significant non-OPEC producer, (and prospective oil transit via the KCTS after 2018-20).

More importantly Azerbaijan ALSO aspires to emerge –and has the resource base to become- a major gas exporting state.

In this sense it is among the very few world energy powers (such as Russia & Saudi Arabia) that has a holistic understanding of energy security as a supplier, consumer and transit state.

This is not the case for Turkmenistan, Kazakhstan and even Iran, despite their superior hydrocarbon resource bases and reserves/production ratios.
Gas export potential (in billion cubic metres) of the main producers to the European Union, Switzerland and the Balkan countries
Total export potential by year

Source: Observatoire méditerranéen de l'énergie/Manfred Hafer
- The strategic significance of Azeri gas exports to Europe was not lost to the EC. If anything it has actually increased by the Arab Revolutions of 2011.

- Azerbaijan covered in 2010 less than 5% of Greek oil imports but more than 18% of Greek natural gas demand.

- What was lost though was the need for a better understanding on how Azerbaijan and the two other major gas resource holders of the Caspian Sea, Iran and Turkmenistan, would respond to the EU’s import diversification policy. The BSEC region which already constitutes the initial consumer and inescapable transit area will be severely affected by this discrepancy.

- This policy overemphasized the promotion of a primarily politically motivated project, that increasingly lost touch with reality after the unexpected rise of Mr. Ahmadinejad to power in 2005.
This major gap in Nabucco’s strategy may have been blurred in 2009-2010 by the Turkish-Azeri impasse over Ankara’s attempted rapprochement with Yerevan and the protracted negotiations between Ankara and Baku on the terms of the gas exports/transit details for Shah Deniz Phase I & II.

The discrepancy did emerge into the fore though in Feb.2011 when Nabucco announced that it had decided to re-route its original pipeline direction from Iran in order to link with the FUTURE Iraqi NGTS.

How realistic though is this? Is there an alternative to Iraq in a Trans-Caspian Pipeline how soon?

Even though the opening of a TCP is more than likely after 2017 it will not materialize in time to save Nabucco. Neither Azerbaijan nor Turkmenistan are in a hurry to resolve the Kyapaz/Serdar dispute and feel no economic pressure to do so.

First offshore gas produced by Petronas sold domestically.
Turkmenistan: current situation

Western Turkmenistan: 8 bcm exports to Iran (Korpeje-Kurt-Kui) (1997)

Dauletabad-Serakhs-Khangeran pipeline -First phase (Jan. 2010) Second phase (Nov 2010) - 20 bcm (2010 - 8 - 10 bcm)
HUNGARY → ROMANIA
ARAD-SZEGED
MID 2010 – Local TSOs + shippers

BULGARIA → ROMANIA
GIURGIU-RUSE
15 km / 20 MEUR / 2010?
Local TSOs? + shippers?

GREECE → BULGARY
DIMITROVGRAD-KOMOTINI
100 km / 150 MEUR / 2011-2012?
Local TSOs? + shippers?

TGI (TURKEY GREECE INTERCONNECTOR)
EDISON – DEPA
Already in operation
BSEC Importers

- Major BSEC Gas Importers such as (Romania & Bulgaria) due to the burden of financial crisis and their IMF-supervised severe austerity programmes can no longer sustain major capacity pipeline projects that make little economic sense.

- Minister Aliyev’s statement in Instanbul last week clearly indicates that Nabucco is no longer Baku’s preferred option (if it ever was).

- All EU-Nabucco members have already invested in South Stream –save Romania- and more importantly are giving far greater emphasis on Interconnections of 3-5 bcm/y capacity that are far better focused on serving their actual needs by 2015 and beyond.
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How to better harmonize Azeri and BSEC importer strategies?

* Use Southeast Europe (S.E.E.) interconnectors to expand Azeri gas exports by up to 3 bcm/y before Shah Deniz Phase 2 start-up. This gas can come from associated fields or increased savings.

* Maximize SD2 utilization by combining ITGI/IGB & TAP so as to create a unitary S.E.E. market for Azeri gas exports that would cover the region from the Adriatic to the Black Sea and from the Danube to the Aegean.

* BP’s SEE Pipeline option is not a real option. It duplicates existing infrastructure (IBR/IRH), while ignoring the only readily available 10 bcm/y capacity export option (ITG) and rendering useless the IGB which is securely financed at 1/3.

* Build an integrated LNG/Pipeline system across the Black Sea focusing on AGRI for Azeri gas exports beyond Shah Deniz 2 quantities.