



TRANS-CASPIAN PIPELINES ROUTES: PROBLEMS AND PROSPECTS

In the face of deepening contradictions in energy relations between Russia and the European Union (EU), the Caspian region came into the focus of the international community's attention. The hydrocarbon-rich countries of the region, in particular, Azerbaijan, Kazakhstan and Turkmenistan, are considered by the EU as vital energy partners, which could secure the European energy supplies in the future. Therefore, Baku, Astana and Ashgabat occupied special place in the EU's strategy of oil and natural gas supply diversification.

Recent geopolitical confrontation between Russia and the Western countries have renewed interest in the cross-Caspian pipelines, especially, in the Trans-Caspian Gas Pipeline (TCGP), aimed to transport the Turkmen gas from the eastern shore of the Caspian Sea via a sub-sea pipeline to the Caspian coast of Azerbaijan and on through Turkey to Europe. It should be highlighted that the first attempt for the implementation of the TCGP project originated in 1996 when the project was firstly introduced and was actively lobbied by the United States (U.S.). The project worth over \$2.4-3 billion was to be 300 kilometers in length and was initially designed to provide 16 billion cubic meters (bcm) of gas annually for the Turkish market and 14 bcm for European consumers.

In 1999, the Turkmen Government approved the preliminary feasibility studies, which were conducted by the American-based energy companies, Enron and Unocal, and financed by the U.S. Government. Moreover, after reaching an agreement over the pipeline construction between Turkmenistan, Georgia, Turkey and Azerbaijan, the PSG Consortium, which was led by Bechtel, General Electric and Shell and aimed at building the TCGP, was formed in the same year. However, despite all the efforts, the project was at first delayed and then abandoned, mainly because of the conflict between Ashgabat and Baku over the disputed offshore oil fields. Furthermore, the discovery of the Shah Deniz gas field located in the Azerbaijan sector of the Caspian Sea in 1999 also significantly weakened the prospects of the TCGP. Development of the Shah Deniz gas field provided an opportunity for the Western partners to forward significant amount of natural gas to Europe via so-called Southern Gas Corridor without being involved in the process of the Caspian Sea delimitation. Actually, the first amounts of the Caspian natural gas from Azerbaijan were pumped to the Baku-Tbilisi-Erzurum pipeline in 2006 and the amounts of transported natural gas reached 1.8 bcm in 2007.

It should be admitted that Kazakhstan was also viewed as the potential resource-rich country for the trans-Caspian export pipelines options. For instance, in December 1998, Royal Dutch Shell, Chevron and Exxon Mobil signed an agreement with Kazakhstan on conducting a feasibility study for twin oil and gas cross-Caspian pipelines on the Aktau-Baku route. However, in May

1999, the members of the Caspian Pipeline Consortium (CPC) managed to overcome the difficulties relating to the project implementation and officially launched the construction of the pipeline. This step removed the need for further negotiations over Kazakhstan's participation in the trans-Caspian project. Actually, Kazakhstan started to transport its Tengiz oil via the CPC pipeline in 2001 and the project reached its design capacity of 28.2 million tons of oil per year in 2004. Nowadays, the parties are working on expanding the capacity of the pipeline up to 67 million tons of oil per year.

As a part of the Southern Gas Corridor, the Baku-Tbilisi-Erzurum pipeline with the initial capacity of 8 bcm provided on average over 4 bcm of the Azeri natural gas annually. Since such relatively small amounts of exported gas were not sufficient to meet the growing needs of the European market, in 2002 under Trans-European Energy Networks Initiative, the EU initiated the Nabucco gas pipeline, which was projected to carry initially 8-13 bcm of gas per year with further yearly increase to 31 bcm. However, even after the discovery of Shah Deniz II gas field, Azerbaijan could increase the natural gas export to Europe only by 16 bcm per year. Therefore, the commercial viability of the Nabucco could be justified only in combination with the trans-Caspian project.

Actually, in the early 2000s Kazakhstan was offered to join the updated TCGP project by constructing onshore pipeline from the Tengiz oil field to Turkmenbashi seaport, which is to be 600 kilometers long. However, constant delays in the oil and natural gas commercial production at the Caspian giant Kashagan oil field made it impossible for Kazakhstan to consider the possibility of accession to the TCGP.

Consequently, the TCGP was renewed in September 2011 after the EU adopted a mandate for the European Commission to negotiate the Trans-Caspian pipeline construction with Azerbaijan and Turkmenistan. In fact, it was the first operational decision of the EU members as part of united external energy strategy. Furthermore, in October 2013, the TCGP appeared in the European Commission's list of key selected energy infrastructure projects designated as Project of Common Interest (PCI), that gives the TCGP exclusive rights to get financial support from the EU budget. Therefore, it can easily be seen that the role of the Trans-Caspian project in the realization of the Southern Gas Corridor was significantly enhanced. However, despite the large number of multilateral consultations held by the parties in the early 2010s, Turkmenistan, Azerbaijan and the European Commission could not manage to sign the Trans-Caspian Pipeline agreement that should set out the legal commitments between the parties.

The lack of success in signing the agreement affected the Nabucco project. The uncertainty over the available natural gas, which was ready to be transported from Turkmenistan together

with excessive costs caused the Nabucco pipeline's carrying capacity and total length to be cut by half with its further modification to the Nabucco-West project in 2012. In 2013, the Nabucco-West pipeline project was officially abandoned. The last choice for the South Gas Corridor were a more cost-effective routes with less carrying capacity: the Trans-Anatolian Natural Gas Pipeline (TANAP) and the Trans-Adriatic Pipeline (TAP). Therefore, by 2019, with the expansion of the Baku-Tbilisi-Erzurum pipeline and the construction of TANAP and TAP, the Caspian-European energy route will become available. Considering that in 2015 Turkmenistan commissioned the East-West Pipeline, which provides Ashgabat the opportunity to transport the natural gas produced at the largest gas fields to the Turkmen coast of the Caspian Sea, it is quite expectable that the EU will continue to develop its Caspian gas supply route that origins from Turkmenistan.

However, the uncertainty over the legal regime of the Caspian Sea along with the rejections of Russia and Iran, who clearly realize that the Trans-Caspian project could threaten to weaken their positions in the European energy market, are still one of the main obstacles to the implementation of the TCGP. Furthermore, in addition to the unsettled legal dispute over Caspian maritime boundaries, there is still lack of available natural gas that could be carried via the TCGP. Due to the growing confrontation between Russia and Turkmenistan over the energy supply, which resulted in termination of the purchase-sale contract since January 1, 2016, Ashgabat was obliged to strengthen the cooperation with China by signing a gas purchase agreement that envisages annual delivery of 65 bcm of gas until 2021 through the Central Asia-China Gas Pipeline. For instance, in 2015, Turkmenistan exported over 28 bcm of natural gas to China and it is planned to increase to 30 bcm in 2016. Therefore, all additional amounts of natural gas produced in Turkmenistan would be sent to China. Taking into account the fact that in 2016 the natural gas production in the country will increase only to 83.8 bcm compared to 76.2 bcm in 2015, there are major concerns over Ashgabat's ability to rapidly increase the natural gas production providing additional volumes necessary for filling the TCGP.

In conclusion, it should be admitted that there is strong political momentum to launch the Trans-Caspian Gas Pipeline. Thus, the EU will not give up the idea to connect energy-rich Turkmenistan and possibly Kazakhstan with Europe via sub-sea and onshore pipelines. Turkmenistan is also interested in diversifying its exports routes in order to avoid dependence only on China. However, there are still some obstacles for the implementation of the TCGP. Therefore, the prospects for construction of the Trans-Caspian project will be rather discussed in detail in future.

Politics, Foreign Affairs and Security

- The Central Election Commission of Turkmenistan reported that the number of candidates for the presidential election that would be held in February 2017 reached nine, including current President, Gurbanguly Berdimuhamedov.
- According to the decree of the President of Kazakhstan, Nursultan Nazarbayev, Kairat Abdrakhmanov and Timur Suleimenov were appointed as the new Minister of Foreign Affairs and the new Minister of National Economy.
- The Summits of the Collective Security Treaty Organization (CSTO) and Eurasian Economic Union (EEU) were held in St. Petersburg. At the meeting of the Supreme Eurasian Economic Council the leaders of EEU countries except Belarus sum up the results of the first two years of the Union including drafting the new Customs Code of the EEU. During the session of the CSTO Collective Security Council, the parties discussed topical issues including the counteraction of terrorist and extremist threats.
- During his official visit to Pakistan, the Deputy Prime Minister of Uzbekistan, Ulugbek Rozukulov, and the President of Pakistan, Mamnoon Hussain, discussed cooperation against extremism and radicalism. In addition, the parties discussed the cooperation between two countries in the fields of energy, economy and human resources.
- During his official visit to Samarkand, President of Kyrgyzstan, Almazbek Atambaev, and his Uzbek counterpart, Shavkat Mirziyoyev, discussed on developing political dialogue and expanding economic relations, exchanged opinion on some international and regional issues of mutual interest.
- During his official visit to Dushanbe, the Deputy Prime Minister of Uzbekistan, Rustam Azimov, and the President of Tajikistan, Emomali Rakhmon, exchanged opinions on current state and perspectives of developing bilateral cooperation in economy, trade, transport and communication, water, energy, culture and border issues.
- During their official visit to Tashkent, the Senior Advisor of President of Afghanistan on economic issues, Humayun Kayumi, and the Special Representative of President of Afghanistan on developing cooperation with Central Asian states and Russia, Muhammad Shokir Orgar, and the Minister of Foreign Affairs of Uz-

bekistan, Abdulaziz Kamilov, discussed the priorities on further developing the bilateral cooperation focusing on the schedule of upcoming contacts in 2017.

- During his official visit to Baku, the Special Representative on the Delimitation and Demarcation of the State Border with the Neighboring Countries of the President of Russia, Igor Bratchikov, and the Deputy Foreign Minister of Azerbaijan, Khalaf Khalafov, held bilateral consultations on the legal status of the Caspian Sea. During the meeting, the parties emphasized the need to intensify joint efforts to hold an effective meeting of the Ad Hoc Working Group for the development of the Convention.

Economy, Finance and Energy

- The State Oil Company of Azerbaijan Republic (SOCAR) reported that it produced 6.94 million tons of oil at Azerbaijan's offshore and onshore fields in January-November 2016 as compared to 7.58 million tons in the same period of 2015.
- The Executive Director of the State Oil Fund of Azerbaijan, SOFAZ, Shahmar Movsumov, stated that total revenues of the Fund would be \$5.8 billion in 2016 instead of the forecast of \$2.8 billion. It was also stated that expected increase was due to the fact that the Fund's budget and the state budget for 2016 were prepared on the basis of oil price of \$25 per barrel, while the average price for a barrel of oil was \$41.7 during 2016.
- During the Azerbaijani-Iranian Business Forum held in Baku, the National Confederation of Entrepreneurs Organizations of Azerbaijan (ASK) and the Iranian Chamber of Commerce, Industry, Mines and Agriculture (ICCIMA) signed a Memorandum of Understanding (MOU) in spheres of industry, agriculture, construction, tourism and trade. It was also stated that the trade turnover between two countries amounted to \$174.97 million in January-November 2016.
- The Chairman of the National Bank of Kazakhstan, Daniyar Akishev, stated that 400 million tenge was given to Kazkommertsbank as a bailout, with the aim of increasing the liquidity of the bank.
- According to the Chairman of the Board of the Eurasian Economic Commission, Serzh Sargsyan, the Presidents of Russia, Kazakhstan, Kyrgyzstan and Armenia have approved proposals on the need to start talks on the creation of the free trade zone between the EEU and Iran, Egypt, India and Singapore. It was

noted that the Presidents had instructed their governments to create working groups that will take part in the negotiations as well as to appoint officials responsible for the talks. In addition, it was stated that at present the talks on the creation of the free trade zones with Serbia and Israel are ongoing while talks on trade and economic relations were launched with China.

- The President of Azerbaijan, Ilham Aliyev, approved the Law on 2017 State Budget. The law projects the state budget revenues and expenditures for 2017 would reach 15.955 billion manats (\$9.75 billion) and 16.6 billion manats (\$10.15 billion), respectively.

Society and Culture

- The Heads of Azerbaijan, Germany, Kazakhstan, Russia, the United States and other Eurasian and European countries sent their condolences to the victims of the terrorist attack in Istanbul's Reina nightclub. At least 39 people were killed and at least 65 wounded in the attack in the nightclub in Istanbul during the New Year celebration.
- The U.S. Embassy in Kazakhstan announced the introduction of longer-term validity business and tourism visas for Kazakhstani citizens. Starting from December 29, 2016, qualified Kazakhstani applicants will receive visas valid for multiple visits to the United States within ten years. Meanwhile, the Ministry of Foreign Affairs of Kazakhstan introduced ten-year validity visas for the U.S. business and tourism visitors to Kazakhstan. In addition, starting from January 1, 2017, the U.S. citizens visiting Kazakhstan for fewer than 30 days do not need a visa.
- The Chief of the Russia's space corporation Roscosmos announced that the next launch program of the corporation would begin to be implemented as of January 2017 at the Baikonur space site in Kazakhstan and the Guiana space center. The Plesetsk space site will start active operations in February. A large amount of construction work is still to be completed at the Vostochny cosmodrome.
- The Economy Minister of Azerbaijan, Shahin Mustafayev, reported that the country plans to simplify the visa regime for Iran's citizens in 2017. It was noted that Iranian citizens will be able to register visas for entry into Azerbaijan via the ASAN Viza system, as a result of which, they will be able to obtain visas within three days.