CASPIAN GAS AND EUROPE.
NEW PIPELINES, OLD PROBLEMS

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2005-2007 appear to become the most significant years in the history of the Caspian oil and gas export projects as their construction is approaching its final stage. They are:

1. May 2005 - inauguration of the Baku-Tbilisi-Ceyhan (BTC) pipeline
2. June 2006 – Kazakhstan official joining the BTC, which will supply the pipeline not only with the Kazakh oil, but will also lead to its economic expediency,
3. 2006 was the final year of the construction of two regional gas pipelines that are increasing their global importance: Baku-Tbilisi-Erzurum (BTE) and Iran-Armenia.

2006-2007 also seems to become the most important year for the attempts to find a non-military solution of the Iranian nuclear problem, which may cause some re-establishment in Iranian-Western relationships. This reestablishment, in its turn, may become an important background for establishing of Iran-EU gas energy dialogue.

In the first place the article dwells on the problems and perspectives of the Caspian gas export to Europe and also supply and transit security problems. We became aware of leaving the internal political processes in the Caspian countries out of this paper, for this issue needs a special study.

1. Caspian Gas: Economy vs. Politics

The numeric analyses and reports on the importance of the Caspian gas for the energy security of Europe have created some illusions about the reserves of the region. At the beginning of the 1990s the similar quantity of analyses and hopes about the oil reserves made everyone believe that Caspian Sea is the second Persian Gulf. The time and the study of the real reserves of the region show that the Caspian is far from being compared with the Persian Gulf (oil case) and Yamal (gas case).

The country of the Caspian region with richest gas resources– Turkmenistan – holds only the 15th position in the Top20 list of the countries with significant reserves of natural gas[1]. At the same time it is obvious, that the total reserves of natural gas of Turkmenistan, Kazakhstan and Azerbaijan may play an important role in satisfying part of the Europe's growing gas demand. The three Caspian countries are probably controlling from 3 to 5 percent of total gas reserves. Probably it's because no one has exact data about the real reserves of the region.

Table 1

Gas Production in the Caspian Sea Region [2]

Country	***Natural Gas (billions of cubic feet per year)***		
	1992	2003	2010
Turkmenistan	2.02	1.89	4.24
Azerbaijan	0.28	0.20	0.60
Kazakhstan	0.29	0.49	1.24
Total Caspian/ excl. Russia and Iran	2.59	2.58	6.08
WORLD	72.195	92.433	105.00

But the geographical location around one Caspian sea is insufficient for talking about common gas export strategies for Azerbaijan, Kazakhstan and Turkmenistan, as well as it is impossible to talk about the similar strategies, for example, in the case of the countries of the Persian Gulf.

The most important question for the EU as the consumer is: Do the Caspian countries consider Europe as the most perspective consumer for their gas and if yes, do they act with such consideration, or the positions of the US and Russian energy export-import policy are decisive.

These are the questions, which are influenced not only with the up-to-date relations of Azerbaijan, Kazakhstan and Turkmenistan with Russia, the EU or the USA, but with existing local and international conflicts, also with the nature of political regimes in littoral countries and effectiveness of the foreign players in

[1] International Energy Outlook, 2005. P.40.

[2] Based on: Bernard A. Gelb – Caspian Oil and Gas: Production and Prospects// CRS Report for Congress, March 4, 2005. P.2.

the region.

Different character of the gas export policies of the Caspian countries has been based also on different interests of the countries involved in supply and transit policy of the region. The gas and oil export policy of Caspian countries has been influenced for a very long time by the interests and policy of their neighbours, as well as the consumers and exporters of their resources: the USA, Russia, the EU, Turkey and Iran. Each of the foreign players had its own concept of energy and political future of the region.

The study shows that even in the case of the USA and the EU we can hardly talk about an absolutely common strategy over the Caspian and the South Caucasus.

US. Politically interested

The United States are the main political and ideological sponsor of the East-West energy corridor. No one can say that the US are vitally interested in getting the Azeri or Kazakh oil in the Turkish port of Ceyhan, or of the Azeri and Turkmen gas in Erzurum. The need to satisfy the growing European energy demand is not the most important factor, making the US so much involved in the Caspian hydrocarbon export politics. On the one side, by sponsoring pipelines to the West through Georgia and Turkey, the USA achieves its main political goal in the region – cut off Russia and Iran from the regional economic and, as a result, political processes. On the other side, the politically unstable Georgia and full with internal conflicts Azerbaijan lets the USA achieve another important political goal: under the pretext of instability and local conflicts get more and more involved in the process of the pipelines security. This provides the USA at least with the right to establish a limited military presence in the region, because the States themselves are obliged to guarantee the security of the projects, which have been initiated from Washington.

Symptomatically, the pipelines became the most important legitimating factor for the US active military involvement in the region. In addition to this factor in 2005-2007 appeared another one – possible military action against Iran. The war against Iran, according to some American and especially regional Caucasian experts, needs a military presence in the South Caucasus. This strategy can be defined in the terms of *Regions and Empires* – one of the storylines, offered by the CIEP in the "Study on Energy Supply and Geopolitics" and antagonistic to the second storyline – *Markets and Institutions*.

In the case of American policy we are able to say that the political background of the American energy policy in the Caspian is the decision-making part of the energy interests in the region. The Washington active policy towards the export of Caspian hydrocarbons is not determined with vital interests of the American and European economy.

The economic background of the gas export projects of the region also has some political background, maybe more than the projects of oil transportation. It is clear that the US can not become a consumer of the Caspian gas in contrast to the Caspian oil, which can be shipped to the US from the port of Ceyhan. The future gas pipeline Baku-Tbilisi-Erzurum, is able to play a minimal role in satisfaction of the US energy needs. Even if Turkey in the port of Ceyhan tries to develop LNG technologies in the future, the reserves of the Caspian basin, the needs of the nearest to Turkey European market will leave only a very small quantity of the Caspian gas for the LNG export. And even this little quantity can be made only in case if Turkmenistan and Kazakhstan agree to supply the BTE with their gas. The reserves of Azerbaijan are not significant enough for supply the US, Turkey and the EU at the same time.

The US "Regions and Empires" strategy calls for solving several political problems:

- To provide Georgia with non-Russian gas. Energy dependence on Russia is considered to be one of the challenges for Georgia on its Euro-Atlantic integration track. Political and economic crisis in Georgia during the whole period of its independent state-formation never made the dependence on Russian gas supply sensitive for the political elite. But now, after the "revolution of roses" is over, this dependence of the new Georgian government of Saakashvili is considered to be overcome. Though the new price of Russian gas for Georgia – 110 dollars for thousand cubic meters – is far from being compared with the average price for the European consumers of the Russian gas. Saakashvili's government considers the 110 price as part of the across-the-board Russian "blackmail". At the same time during the winter of 2006 Georgia succeeded in getting an alternative Iranian gas through the territory of Azerbaijan but for an unbelievable for the CIS countries price – 233 USD for thousand cubic meters. In a year the BTE pipeline will give Georgia a chance to get its first gas from Azerbaijan. It will be much cheaper than the Russian or the Iranian ones. According to the agreement, signed between Georgia and Azerbaijan, instead of the transit customs, Georgia will get a chance to withdraw 5% of the gas passing through its territory from Azerbaijan to Turkey. At the same time Georgia will get a chance to withdraw an additional quantity of gas, paying a privileged price – 55 USD. Georgian experts consider that this additional opportunity for

Georgia has been given after the Bush - Aliev negotiations in spring of 2006. In 2011 the BTE can provide Georgia with 800 million cubic meters of gas per year. This quantity, without any doubt, may rise if Turkmenistan enters the Trans-Caspian gas pipeline project. But this opportunity may never come into being.

- To limit the influence of the "Blue Stream". The Iraq war and the refusal of Turkey to support the USA in its war against Saddam's Iraq have a big chance to become the sign of US-Turkish future misunderstandings over the regional political and energy security issues. The continual growth of the gas demand will make Turkey considerably dependent on gas supply from abroad. This dependency will be not less considerable for Turkey than dependence on the American financial assistance during the period of economic and financial crisis. The "Blue Stream" pipeline provides Turkey not only with the Russian gas, but makes this country more interested in increasing mutual contacts with Russia. The last public opinion polls in Turkey show that more than 50 % of the Turkish population would like to see Russia as the main strategic partner of their country. It is obvious, that in a country like Turkey, with limited freedom of speech and with a strong state-control of the main instruments of propaganda, the pro-Russian public opinion can be mostly formed only in the case, if the state starts steadily sending corresponding messages to people. The interdependence of Russia and Turkey, which developed after the construction of the "Blue Stream" pipeline, is a fact of great concern and irritation on the part of the USA. Washington, of course, understands that Turkey needs imported gas and the growing demand makes Ankara get that gas from anywhere. But Washington is unlikely to let Russia become the monopolist in the Turkish gas market. Russia itself succeeded in cessation of the Iranian gas supply to Turkey because of price cuts in "Blue Stream" supply. On the other hand, "Blue Stream" is a project of certain risk to the creation of the Turkey-Georgia-Azerbaijan political and strategic alliance, which, being first of all a part of US *Regions and Empires* strategy formed on the basis of energy supply and security terms. All this makes Washington speed up the BTE project.
- To limit the Iran-Turkey (Turkmenistan-Turkey through Iran) energy cooperation. The Turkish-Iranian Tebriz-Ankara gas pipeline, opened in December 2001, became the first chance for Iran to enter the global gas market. Tebriz-Ankara was the first gas pipeline project, realized by Iran during the last decade. The first negotiations over the Iran-Armenia and Iran-

Pakistan-India pipeline projects started in the middle of 1990th, but the Iran-Turkey pipeline construction agreement was the first signed by Tehran in 1996. At that time Iran understood that it had an excellent chance to enter the Turkish gas market and become the main importer for Ankara for a long period. But in 2002 Turkey suddenly stopped buying the Iranian gas, because of the price cuts in Russian supply, but in 2004 it had to turn to Iran with the suggestion to buy a significant quantity of gas, if Tehran sells it cheaper, than it did before. Iran refused. First of all because Turkey was planning to resell the Iranian gas to Europe, in order to raise its revenues. From the first day of the Turkish-Iranian gas agreement the US opposed it, understanding that Turkey was not only a possible consumer of Iranian gas, but also a possible gate for exporting Iranian gas to Europe and assisted Iran in becoming an active player not only in European oil market, but also the gas market. At the same time, for Washington and Europe Iran is not simply a supplier, it's a perspective transit country for the Turkmen gas export to Turkey and Europe leaving the projects of the Trans-Caspian gas pipeline unrealized and making the South Caucasus energy corridor absurdly free for significant energy projects. The active construction of the BTE pipeline is considered to be an important background for the second time suggestion to the Turkmen government to be more attracted with the idea of Trans-Caspian pipeline construction. Geographically Iran is the most attractive transit corridor for the Turkmen gas. But Iran used to be a politically problematic corridor, because of its amazingly long-playing opposition to the USA. On the other hand, it could be hard for Washington to explain Baku and Ashkhabad why Turkey may contact and act with Iran and they may not. It is very important to unite Caspian gas fields with Turkey before this question is asked in a stronger manner than now. It will happen very soon, when the unsatisfied gas needs of Turkey and Europe will make them cooperate with Iran more actively, without paying any attention to the nature of today's and tomorrow's Iranian regime.

The necessity of solving all the mentioned above problems makes the USA more actively military involved in the processes in the South Caucasus. This goal may be achieved first of all in the form of guaranteeing the security of oil and gas pipelines. The problems in US-Turkish relations made the USA in 2003 change the strategy of future protection of the pipelines. If before 2003 Turkey was considered the most important guardian of the pipelines also on the territories of Azerbaijan and Georgia – this role was provided after Turkey according to the

2003 Trabizon agreement between Turkey, Azerbaijan and Georgia – after 2003 the USA started positioning themselves as a guarantee of security of the energy corridor. The strategy of displacement of part of the American army from the Europe to the East became another legalizing factor in US-Azeri negotiations on dislocation of American "mobile groups" on the territory of Azerbaijan.

In particular, this military-political part of the American Caspian-Caucasian strategy is the most important factor, which defines the strategy of other participants in the region – Russia, Iran, Turkey and, of course, the EU. For the Caspian countries a possible American military presence has a symbolic meaning most of all, for it guarantees that their hydrocarbons export and transit policy is being supported by a superpower. As much powerful that superpower is, as much is greeted its presence – this is an obvious part of the Eastern political culture of both Azerbaijan and Georgia which has chosen the way of European integration.

The EU. A strategy of the economically interested

Europe is vitally interested in getting access to the Caspian hydrocarbon resources. Maybe more interested than the USA, because the European interests in the region are not limited only to the oil factor, but also to the factor of gas availability. In 2030 the EU can be three times more dependent on exported gas, than it is now[1].

Much is written in Russia that Europe tries to diversify the gas supply and that's why it tries to get access to the Caspian gas resources. It's partly right. But according to the very high growth of gas demand in Europe, the Caspian gas can hardly let the EU make Russia leave the European market. Caspian gas can only partly fill up the misbalance between gas consumption on the one side and gas production and import on the other side. This situation will take place even if Russia stops realization of Russia-China oil and gas dialogue projects and send its perspective Eastern Siberian gas directly to Europe.

The political situation in the CIS, especially in the Ukraine, which pumps more than 110 bcm of Russian gas to Europe per year, risks the stability of supply from Russia on its side. The Current political events in the Ukraine and existence of different positions of political parties over the problems of cooperation with Russia and Europe show that Ukraine has an obvious chance to become a new gas "Strait of Hormuz" on the route of Russian gas export to Europe. The North-European gas pipeline, which is under construction now, will offer an alternative gas export route from Russia to Europe only for some 45-50 bcm per year. So the

[1] Muller F. - Why Iran is Key for Europe's Security of Energy Supply -- *"Iran and Its Neighbors". -2005* - P.67.

Ukraine will maintain the position of the main gas transit corridor for Europe and Russia. Of course, the possible membership of the Ukraine in the EU will partly solve the problem of Kiev energy policy that is too independent and specific, but the membership may never happen because of internal problems in both the Ukraine (East-West relations) and the EU (enlargement crisis).

Everything mentioned above once more makes the necessity of finding new resources in the Caspian and Persian Gulf vital for Europe. At the same time practice shows that the realization of the *Market and Institutions* storyline in these regions by Europe mostly does not succeed. In the South Caucasus the *institutional* involvement of the EU, called to make Europe an active player in the region and make the regional exporters and transitors act in the terms of free market, suggests some important initiatives:

- Make the countries accept and protect the principles of the European Energy Charter,
- EU partnership and cooperation agreement,
- EU TACIS programs,
- Membership of Azerbaijan, Armenia and Georgia in the Council of Europe (CE).

The results of the application of such complex strategy in the wild and contradictory South Caucasus are not indisputable: membership in CE has not made the regimes in the region less authoritarian, even after the election of pro-Western Saakashvili, Baku-Supsa pipeline continues functioning with more than 400 holes, the peacemaking missions of OSCE failed in promoting peace and cooperation in the zones of Nagorno-Karabakh, and South Ossetian and Abkhazian conflicts. The steps of the regional superpower - Russia and global superpower - the USA – can be considered more successful in the mentioned above fields.

The shortcomings of the European policy are directly connected with the lack and groundlessness of the policy tools, which have been used by the EU on the territory of the former USSR. The market tools proved to be deficient to guarantee the EU economic and political influence in the region, especially if the goals of this influence do not correspond with the goals of the USA or Russia. The Iran case is an evident proof of this reality.

2003 – the year when the inspectors of IAEA found some security-guarded infrastructure of uranium enrichment in Iran – gave the EU a brilliant chance to cooperate with Iran. The US problems in Iraq, shortcomings of the Russian policy in Iran made obvious, that the EU had got a wonderful chance to negotiate with Iran over the issues of nonproliferation and economic cooperation. In 2003 the

EU was the only power, which could start negotiate with Iran without having a significant negative (Washington) or positive (Moscow) background in cooperation with Tehran. This chance was also reinforced with some moral obligations of the EU group – Germany, France and Britain – to promote the inviolability of the nuclear weapons for the Gulf countries – especially Iran. Iranian nuclear problem gave EU a good chance to be involved in geopolitics and geo-economics of the Persian Gulf.

The most notable fact (and also a possible background) in Iran-EU negotiations was – Iran is not simply a possible proliferator. Iran's gas reserves, estimated at 812 trillion cubic feet account for 15.8 percent of the world's proven gas reserves, are second only to those of Russia. Iran has been actively developing its gas deposits during the last 10 years, but still hasn't become an exporter of gas and has significant free reserves for export. Evidently, the Iranian reserves are several times more than the reserves of the Caspian states – the region, which took and is taking both from the US and the EU a huge political energy and a region, which, from the point of view of its reserves, can only be called an appendix of Iran or the Persian Gulf.

Unfortunately, the EU failed in its attempts to come to an agreement with Iran over the nuclear problem. The possible agreement could become an internationally-legitimated background for the Iran-EU energy dialogue process to start.

The possibility of the establishment of Iran-EU energy dialogue was almost settled in the range of proposals, made by EU-3 to Iran in 2005. The former Secretary of the Security Council of Iran, Mr. Hasan Rowhani said in July 30, 2005, that the European proposals anticipate that Iran will become a main supplier of oil and gas to Europe[1]. The most important mistake of the EU in the negotiations with Iran was unwillingness or maybe the inability of the European part to discuss the problems of Iran's security guarantees. The European proposal was full with ideas, which used to be called demagogic in Iran, because they had not supposed any American confirmation or agreement. It is clear, that the Islamic republic of Iran shouldn't wait for any aggression or anti-terrorist campaign on the European side, so it doesn't need the European guarantees, but the international ones. The most important thing for Tehran is the problem of the acceptance from Washington of the results of Iran-EU agreements over the problems of the regional and Iranian security.

Anyway, Europe is still involved in the process of peaceful settlement of Iranian nuclear problem, but Russia, the US, and China also joined the EU-3 group with their special ideas and plans about Iran. The concepts of the US, China

[1] Iran Daily, 01 August 2005.

and Russia differ from the ideas and plans of the European parties. This also concerns, among others, the future role of Iran in the world gas market.

- *The US* will try to postpone the possible Iran-Europe gas dialogue till realization of the Caspian Sea-South Caucasus-Turkey energy corridor projects,
- *Russia* will try to limit the possibilities of Iran to play an independent role in the European gas market,
- *China* is interested in realization of the Eastern route projects of Iran's gas export in a form of LNG and possibly by the route Iran-Pakistan (China)-India.

The settlement of the Iranian nuclear problem also influences the perspectives of the future export policy of Turkmenistan. The decision of this country to raise the prices of gas for Russia is not simply a reaction to the new Russian price policy in the CIS. Of course, it is very strange for the Turkmen dictator Turkmenbashi Niyazov, that Russia sells its gas to the Ukraine for 230 USD for thousand cubic meters and Turkmenistan has to sell its to Russia for 50 USD. The latest decisions of Turkmenistan to raise the gas prices are only the first step of getting more independent from the Russian monopolistic role in Turkmen gas export. But the future of the Turkmen policy gas export policy depends on the perspectives to settle the Iranian nuclear crisis, because it is clear that Iran's territory and Iran-EU energy cooperation will give Ashkhabad a chance to become a little bit more independent from Russian- pipes. Though the dependence on Iran's pipes has a chance to be more serious and unbearable.

Iran. A strategy of the politically and economically interested

South Pars gas field, which is set to increase Iran's gas exports, stretches along the maritime border between Qatar and Iran in the Persian Gulf. It is estimated to contain around 14.2 trillion cubic meters of gas, equal to 7 percent of the world's total proven reserves. Iranians used to call the South Pars Free Economic Energy Zone "A new Iranian Civilization". This little part of the territory near the Iranian city of Assaluye can hardly be called "free" but it can be called actually something "new" for the modern Iran.

Iranian government used a large amount of Iranian and foreign investments for developing the gas fields of this region though it territory isn't so large. One of the authors of the article visited Asaluye in March, 2006. At that time 12 phases of the gas fields were almost ready for the production of 25-30 million cubic meters of gas per day each. There are some 8-10 phases in prospect which are under exploration and consideration now.

South Pars, of course, is far enough from the Caspian basin, but new developments in Iran's gas export policy makes the authors write about this gas field, because the Iranian policy-makers during the last two years have been actively discussing the South Caucasian route for the South Pars gas export.

These discussions are the result of several regional and global changes within the last 2-3 years. They are:

1. *Crisis of EU enlargement.* The EU constitution that failed at the referendums makes the future of the EU enlargement problematic. First of all this concerns Turkey, which possible membership in the EU irritates not only part of the European population, but also a large part of the European political establishment. Being the most favourable route for the Iranian gas export to Europe, Turkey has never been considered a reliable partner on the part of Iran. It's not a result of the historical Turkish-Persian rivalry mentioned in many problems analyses of today's relations, taking into consideration without any historical background, are enough for distrust towards each other. Both Tehran and Ankara try to play a role of the regional leader in the Middle East. These countries evidently have to compete. EU membership of Turkey is considered to be welcomed by Iran, as Turkey will become less independent in the course of its economic and energy transit policy, will have to respect the principles of the European Energy Charter, especially the part, concerning the problems of transit. On the other hand, the European integration of Turkey should leave Iran alone in his struggle for regional hegemony. Obviously, the European Turkey with the dominance of secular values in the internal and foreign policy can not be attractive for the Middle East, which shows a constant tendency for further islamization. So Iranian interests make Tehran be inclined to see Turkey in the family of European nations. But the crisis of the EU enlargement minimizes the chances of Turkish membership in the EU. This fact is acting against the Iranian interests and makes Tehran look for some alternative and less ambitious routes for its gas export to Europe.
2. *Iran-Armenia pipeline and "velvet revolutions" in the CIS.* The project of the Iran-Armenia gas pipeline has been discussed from 1994, when Armenia, because of the blockade by Turkey and Azerbaijan and often sabotages against the Russia-Armenia pipeline, passing through Georgia, started looking for some alternatives for gas supply. Iran was the closest country to Armenia, which could be called even an ally of Armenia with its antagonism with Turkey and Azerbaijan. Iranians liked the idea of the Iran-Armenia gas pipeline, but the agreement on its construction was signed only in 2001.

In the interview with one of the authors of the article, the head of the Iranian department of the Armenian Foreign Affairs Ministry, told that negotiations with Iran, started in 1994, had never showed a perspective to end with a definite agreement, because Tehran considered that the pipeline couldn't be economically profitable, as the Armenian gas market is limited. At the same time Russian Itera and Gazprom have always been successful in uninterrupted gas supply to Armenia. However, the Iranian attitude to the idea of the pipeline has changed in 2003-2004 – after the so-called "velvet revolutions" in Georgia and Ukraine and establishment of regimes in these countries, partly anti-Russian and mainly pro-Western. The Iranian elite suddenly understood that the borders of the EU and its allies are very close to Iran and its border would not be the one with Turkey. The Iran-Armenia gas pipeline from that moment was considered as a chance to establish direct cooperation with Europe through the territories of smaller and less ambitious countries of the South Caucasus. This was the first and the most important reason, which made Iran sign the pipeline construction agreement with Armenia and start the works a month after the agreement was signed. From that very day Iran stopped being simply a neighbour of the South Caucasus energy corridor: Iran became an important player in the region, defining the Russian and American counter-acts in 2005-2006.

On July, 6, 2004 the Georgian president visited Iran, where he negotiated with the Iranian president M. Khatami. The Georgian Energy Ministry head, Mr. N. Gilauri declared that one of the most important issues, discussed during the meeting of the Iranian and Georgian presidents, was the problem of Iranian gas export to Georgia through Armenia. The perspective of such supplies has been confirmed later by the Georgian Foreign Office head, Mr. S. Zurabishvili[1].

The same issue has been discussed later by the presidents of Iran and Ukraine M. Ahmadinezhad and V. Yushenko in September 16, 2005 in New York. During the meeting Iranian President said, that the issues of cooperation can broaden owing to the cooperation in the field of gas[2].

In March 2006, the representatives of the Iranian petroleum ministry told the guests of the Energy conference, organized by the Institute of Political and International studies of the Iranian Ministry of Foreign Affairs, that the possibility of the Iranian gas export to Europe through South Caucasus and Ukraine is more attractive than through Turkey, because Ankara positions itself more as a

[1] Whetton C. -- Global perspectives: Iran back in Europe – *http://www.isa.org*

[2] IRNA, 17 September, 2005.

reseller, but not a transit country for the South Pars gas. It is beyond any doubt, that the Caucasian countries have fewer possibilities for claiming to become an independent player in the EU gas market, unlike Turkey. But at the same time the two possible gates for Iran's gas export to Georgia – Armenia and Azerbaijan – are limited in their opportunities to act independently. Armenia depends on the position of its strategic ally – Russia, and Azerbaijan – on the position of its main sponsor of energy export projects– the USA. Obviously, nor Russia, neither the US are interested in Iranian gas export through the South Caucasus, as this export can have qualitative influence the political and economic processes in the region. Washington is afraid of Georgia and Armenia becoming dependent on Iran, and Moscow is afraid of Georgia, Armenia and, of course, Ukraine becoming more independent from Russian gas supply.

In 2005 and 2006 Washington and Moscow made some steps for closing the Armenian gate for the Iranian gas export: Russia succeeded in privatizing of the Armenian gas pipelines infrastructure, getting a possibility to control the pipeline's future, Washington suggested that Yerevan helped build a new nuclear energy reactor that in the future might limit Armenia's dependence on both Iranian and Russian gas supply.

The EU could not offer Yerevan any alternative projects and never even promised directly that they would try to make Armenia an important transit link in EU-Iran gas supply projects.

Probably, Iran understood that the Iran-Armenia gas pipeline doesn't have a favourable prospect. As a result, in spring of 2006 Tehran declared that they will sell gas to Armenia for 130 USD per thousand cubic meters instead of 90 USD, which was fixed in Yerevan-Tehran private talks in 2003. Iran's decision to raise the future price is an index of Tehran's despair to arrange transit through the Iran-Armenia pipeline.

Surprisingly, in the case of the Iran-Armenia pipeline the positions of regional competitors – Russia and the USA – coincided. At the same time it is impossible to say, that in this case the US and the EU had similar interests.

Anyway, it would be wrong to say that the idea of Iran-Armenia-Georgia-Black Sea-Ukraine pipeline will never be realized, especially taking into consideration that there is still a little possibility of Iran-US re-approach and also a possibility of establishment a comprehensive Iran-Russia cooperation in the gas field. This issue was suggested to be discussed by the Iranian president M. Ahmadinejad with his Russian colleague Vladimir Putin in Shanghai in June 2006.

The fact, that the possibility of the South Caucasus to become a transit region for the Iranian gas depends on the positions of Russia and the US or on the future developments in Russian-Iranian and Iran-US relations, shows how much the countries of the region depend on the positions of the superpowers and the insignificant influence of the EU and its institutions. The main reason of such dependence lies in the conviction of the South Caucasus regimes that only Washington and Moscow openly express their dissatisfaction with the these policies with particular counteraction. Despite being the members of the Council of Europe, Georgia, Armenia and Azerbaijan are more worried with the US State Department reaction over the elections or human rights problems than with CE or OSCE resolutions.

Talking about the Iranian strategy of gas export generally, it is worth mentioning, that after the election of the new President in Iran, the official Tehran declared that the most acceptable strategy for Iran is to export its gas to the East, not the West. Ahmadinejad justified the necessity of such strategy with the words: “Iran is an Asian country”. It is hard to say, whether the “Asian choice” of Iran is a part of the long-term strategy, or it’s simply a part of the Iranian blackmail of the Europeans, for Iran knows how important the perspective of getting the Iranian gas for the EU is. The crisis of the European integration of Turkey can be considered the main objective reason of Tehran’s unwillingness to combine the gas export future with the independent attitude of Ankara. In the future Iran will ask the EU for more guarantees of Turkey’s “respectable” policy towards the Iranian gas transit than Turkey’s signature under the European Energy Charter.

Turkey. More Politics

Turkey neighbours the regions, which hold 71.8 % of the world gas and 72.2% of the world oil reserves. Turkey considers that this role in the future of European energy security is among the most important ones. Such importance gives Turkey a chance to look more attractive in its talks with European capitals on the issue of its EU membership.

Without any doubt, Turkey’s transit potential and financial prosperity mostly depends on realization of the Iran-EU gas pipeline projects, which may give Turkey the possibility to transit some 100 billion cubic meters of Iranian gas to Europe. Such perspective will make Turkey a key player in the European gas market, especially in case Iran agrees to make Turkey a reseller, not just a transit country of its gas.

The BTC and BTE projects from the economic point of view are not very promising for Turkey, because Caspian oil and gas resources are far from being compared with Iranian or Iraqi resources. At the same time Turkey gets a lot from the political point of view, because the pipes connect Ankara with Baku and make Georgia dependent on the Azerbaijan-Turkey pipelines. The Georgian connection with Turkey-Azerbaijan relations is very important for Turkey, because the others – through Armenia and Iran – can not be considered as reliable: the problem of Armenian 1915 Genocide and Karabakh conflict make the future of Turkish-Armenian re-approach unclear; Iran is not interested in Turkey's rising influence in Azerbaijan and Central Asia.

The thing, which disappointed Turkey, is the US decision to secure the South Caucasus pipelines without Turkish assistance. This happened after Ankara's refusal to support the US war in Iraq and also the significant improvements in Russian-Turkish relations. From late 1990s till 2004 Georgia has been stating repeatedly that it wants to replace the Russian military bases with Turkish ones in Armenian-populated Javakhetia region. But the displeasure of the Georgian Armenians with these plans made Tbilisi promise, that Turkish military forces will never appear on the territories of Georgia populated with Armenians.

During the last 14 years the Turks made significant investments into Georgian trading and service sector, providing the Turkish companies with influential positions in the Georgian economy. But the picture has changed during the last 2-3 years because of the active undertakings of the Russian, American, Italian and also Kazakh companies in Georgia.

Today Turkish policy towards the South Caucasus go through a phase of new substantiation, which results from the American approach to solve the problems of American national interests in the region on its own. This situation can make Turkey act in the region more independently, or with a better cooperation with Russia and/or EU. Anyway, the difference in Turkish and American standpoints will surely harm the region's stability.

2. The South Caucasus: new gas "strait"

The Bosporus, Hormuz and Malacca straits, Suez and Panama canals – these geographical names are well-known to every expert involved in energy supply and transit security studies. These names stand for narrow and not very long corridors, which work suspension can brings the global economy to a crisis, look like the ones that happened in 1973 or after the Islamic revolution in Iran. The problems of these corridors are, of course, not caused by the fact, that the straits and canals are very narrow. The problem is that the most of these corridors are situated in the regions or are being more or less controlled by countries, which can not be called stable and democratic.

The straits influence the security of the world oil supply and in the future they will also influence the LNG supply. But LNG will hardly become the main form of gas export, especially for the countries, which have a chance to deliver their gas for the main consumers through pipelines.

The gas pipelines, which are now under construction, are a new phenomenon in the world energy transit. The Soviet-Western Europe pipeline crossed only one border – the one between the territories controlled by Moscow and the West. The security of supply at that time depended only on the will of consumer and supplier and never on the actions of a third part – small or big countries. After the USSR collapsed, the situation has changed and for example during the last 10 years only one country – the Ukraine – has created more problems for Russian gas export to Europe than the whole history of the Soviet-West world-wide opposition.

From that point of view, the countries, located between the gas consumers and suppliers can be called "new straits", which have not less possibilities to risk the world energy security, than the countries, which control the classic straits and canals. But there are also some differences: the "new straits" are longer than the naval ones and involve not one, but several countries at the same time, relations with which are uncontrollable by sending a torpedo-boat or even two aircraft-carriers to the zone of instability. The full control of the "new straits" attitude requires further involvement of the consumers – both institutional and political (military). Only several countries with indisputable global or/and regional resources can afford this. The main question for the EU – is the Union is ready for such involvement? The question takes on special significance especially in the case of the South Caucasus, which "strait" consists not only of the three republics – Armenia, Azerbaijan and Georgia - but of a wide specter of regional and internal conflicts, instability and relations with neighbouring countries. These problems are the main threat for the Caspian oil and gas supply security. Below we'll discuss only some characteristics of the South Caucasus "strait".

Azerbaijan is the only country of the region, which is both a producer and a perspective transit region of the Caspian oil and gas. The BTC and BTE pipeline programs involve Azerbaijan as the most important participant of the projects. But both BTC and BTE are located only within 14-16 kilometers from the zone of Nagorno-Karabakh conflict. A possible resumption of the war between Armenia and Azerbaijan may risk the functioning of the pipelines, and the position of the EU and the US can never make Armenia – the ally of Russia and partly of Iran – not to strike the pipes, if Baku starts a war. The Iranian side has also several times implied that in the case of US strikes Tehran will attack the Caspian deposits and regional pipelines. Besides Karabakh, Azerbaijan has some other problems of separatism connected with the Talishian and Lezgin minorities. At the same time the Azeri society shows some tendencies of further islamization, which is the result of Iranian and Saudi successful activities.

Armenia is the only country, which doesn't take part in the Caspian hydrocarbons export projects. This is a result of Baku's refusal to collaborate with Yerevan. At the same time Armenia is the only strategic ally of Russia in the region and has some Russian military bases on its territory. Armenia may theoretically challenge the pipelines in case of a new war with Azerbaijan and in case of less possible conflict with Georgia because of the need to protect the rights of Armenian minorities in that country. BTC and BTE pass through Javakhetia region of Georgia populated by Armenians, which was previously controlled more by the Armenian population and its organizations than by the official Georgian authorities. The withdrawal of the Russian troops from Javakhetia in 2005-2006 will minimize the Russian political mechanisms in the region, but the Armenian minority will get some new chances for acting freely in the region with that withdrawal.

Georgia is the country with several ethnic conflicts, which doesn't control large part of its official territories and which, more than Azerbaijan, has a chance to be involved in a military conflict with its former autonomies. The Saakashvili regime may be unstable and in the future this may lead to obvious disintegration of the state in Georgia. The relations with Russia may also end with the risk to normal functioning of the pipelines. At the same time the Tbilisi-Abkhazia and Tbilisi-South Ossetia relations have two prospects: independence of the former autonomies or a new war, initiated by Tbilisi, for getting the territories back under Georgian control. Both variants will harm the stability of Georgia and security of its pipelines.

So, summarizing part of my statements, we can see that the future of the Caspian oil and gas supply depends on:

1. Azerbaijan minorities relations,
2. possible war between Azerbaijan and Armenia,
3. Islamization of Azerbaijan,
4. Iran-USA relations,
5. Georgian-Armenian relations,
6. relations with Georgian autonomies,
7. Georgian-Russian relations.

Obviously, only two countries have enough resources that secure control in the region – the USA and Russia. The future of the Caspian hydrocarbons supply depends mostly on Moscow and Washington policy and their willingness to keep everything under their control. Unfortunately, very little depends on the future main consumer of the Caspian gas – the EU. Trying to get rid of Russia, Europe is looking for new resources, but the Caspian have a chance to make Europe more dependent on Russian and US policy in the South Caucasus "strait".

3. Recommendations instead Resume

During the 10 years of criticizing of the Caspian-Turkey energy routes projects, Russia failed to prevent the construction of the pipelines. Now Russian companies declare that they are interested in using the BTC pipeline for the purpose of Russian oil export. In future it may prove useful for the EU not to "get rid of Russia" in the region, but will be of interest to Moscow and involve it in mutual energy projects. This can make Russia use its influence in Armenia, Abkhazia and South Ossetia for the purpose of securing the pipelines.

At the same time the EU and CE must stop persuading everyone in the region that the main purposes of the European policy are the promotion of democracy, human rights protection, and freedom of speech. The real energy and security interests of Europe should be presented as decisive for the EU policy in the South Caucasus and everyone should know that acting against these interests they are likely to be punished not with CE resolutions, but with real and substantial economic, financial and even political instruments.

It is important for Europe and also for the regional countries make EU become a real geopolitical player in the region, which may become a sign for Iran, Turkmenistan and Kazakhstan that there is a force in the South Caucasus, which will use all the opportunities in order to get their oil and gas. The EU can't act as "an institution with limited interest in security and geopolitics"[1] any more.

March, 2007

[1] Taras Kuzio – Is Ukraine Part of Europe's Future // The Washington Quarterly, Summer 2006, P.93.