

SOUTHERN EUROPEAN ENERGY CORRIDOR: STATUS, PROSPECTS AND GEOPOLITICS

EVENT SUMMARY



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Another event in the Wilson Center's Regional and Global Energy Series took place on April 14, as the Global Europe Program hosted two panels of distinguished speakers to focus on the progress made in the Southern Gas Corridor project. The Corridor offers significant support for helping to meet Europe's rising energy demands, but also faces challenges to its ultimate success. The introductory speakers representing the government and industry perspective were:

- Robin Dunnigan, Deputy Assistant Secretary for Energy Diplomacy, U.S. Department of State
- Greg Saunders, Senior Director for International Affairs, BP

The speakers in the second panel were:

- Richard Morningstar, Founding Director, Global Energy Center, Atlantic Council; former Special Eurasian Energy Envoy and US Ambassador to Azerbaijan
- Richard Kauzlarich, Co-Director, Center for Energy Science and Policy, Adjunct Professor, School of Public Policy, George Mason University, and former US Ambassador to Azerbaijan
- Emre Tuncalp, Managing Partner, Sidar Global Advisors
- Julia Nanay, Principal, Energy Ventures LLC, and former Senior Director, PFC & IHS Energy

Andrew Selee, Executive Vice President of the Wilson Center, opened the event by emphasizing the importance of this timely discussion of the Southern Gas Corridor and the impact the book *Energy and Security* (published by the Wilson Center Press and Johns Hopkins University Press) has on the discussion of the future of global energy security. Mr. Selee introduced Jan Kalicki, Public Policy Fellow and Energy Lead at the Wilson Center and, with David L. Goldwyn, co-editor of *Energy and Security*, who moderated this event. Mr. Kalicki began by noting that pipeline development, whether carrying natural gas or oil, is critically important in this part of the world: "Europe has been supplied from Northern and Central Europe, and increasingly through Turkey to the South, which is our focus today." Former projects such as Nabucco and South Stream have given way to a more practical Southern Gas Corridor pipeline project, with the supplemental Blue Stream and proposed Turkish Stream pipelines.

Robin Dunnigan then spoke about the U.S. interest in European energy security. She argued that a region's energy vulnerability (Europe's) can be exacerbated by a regional conflict (such as the one between Russia and Ukraine) as the world grows increasingly interdependent. This energy security vulnerability can be a threat to national security and, with Europe deeply connected to the U.S. in the international energy market, Europe's energy security prospects are the U.S.'s energy security concerns and vice versa. U.S. energy policy towards Europe, Ms. Dunnigan said, "is not an anti-Russian approach, but a pro-European approach." She went on to say that Russia could remain a primary supplier of natural gas to Europe -- in 2014, six European countries imported 100% and 9 countries imported 40% of their natural gas from Russia -- but that some form of diversification is needed. She emphasized that looking for different energy suppliers to Europe from a different source or location, and through a new route, is the main goal for energy diversification in Europe, as is the case with the Southern Gas Corridor.

Greg Saunders, speaking on behalf of Joseph Murphy, Vice President, Southern Corridor, BP, outlined the project's history, status and prospective challenges. The Southern Gas Corridor is a

combination of four different energy projects: the offshore development of the Shah Deniz Phase 2 gas; the expansion of the South Caucasus pipeline from Azerbaijan through Georgia and into Turkey; the construction of the Trans-Anatolian Pipeline (TANAP) across Turkey; and the construction of the Trans-Adriatic Pipeline (TAP), which will connect to TANAP and transport natural gas to Greece, Bulgaria, Albania, and Italy. The current South Caucasus pipeline, fueled by the Shah Deniz oil field in offshore Azerbaijan, provides 8.6 billion cubic meters of natural gas a year to Azerbaijan, Georgia, and Turkey. Shah Deniz phase 2 has the potential to provide an additional 16 billion cubic meters of natural gas to the four European countries served by TAP. The final investment decision for the second phase of the Shah Deniz project was made in December of 2013, and the construction of this second phase is underway. Even with the connection of 3 pipelines in the Southern Corridor sending natural gas to Europe, challenges remain. Saunders noted that: “when you look at [a] map, these pipelines move across seven different countries, twelve or thirteen companies, and nine buyers of the gas.” Keeping companies and countries aligned during the development of the Southern Gas Corridor, he continued, will be a great challenge. These are just some of the complexities of the project which spans 3500 kilometers, rises to over 700 meters above sea level in the mountains of Turkey and drops to 800 meters below sea level in the Adriatic Sea.

The panel opened with Richard Morningstar, who highlighted the importance of the EU following its own laws, both in regard to its third energy package and competition laws. A great example of this, he argued, was the failure of South Stream, which fell through because it violated Europe’s third energy package. The eventual construction of TANAP and TAP would have to comply with European law. Morningstar noted that: “any pipeline that was transporting that gas would have to have third party access... It would mean that no contract with buyers in Europe would be able to have clauses to forbid the resale of that gas into other countries.” This means that European purchases of Russian gas through Ukraine would have to be “amended in some way” and that Gazprom would have to abide by competition laws as well.

Richard Kauzlarich focused on Caspian Sea demarcation as being a barrier for the eastern Caspian Sea to supply energy for Europe and the western Caspian Sea to supply Asian energy markets. The investment climate, the domestic energy demand, and regional power grids of Azerbaijan, Kazakhstan and Turkmenistan are all issues that have been overshadowed by the production of natural gas and the construction of Southern Corridor pipelines to transport these resources. Major energy companies in Azerbaijan have done well with production sharing agreements, but secondary industries have suffered. Domestic energy efficiency can dictate whether or not these countries can free up resources for energy exportation as well.

Turkey’s role within the Southern Gas Corridor project was further elaborated on by Emre Tuncalp, as he emphasized Turkey’s goal of being an energy transit hub. Yet, people often forget about Turkey’s growing domestic energy demand. Because it imports 98% of its oil and 92% of its natural gas, Turkey does suffer from an account deficit, but has an opportunity to make up some of that given the current low price of oil. For every \$10 drop in the price of oil, Turkey gains about \$4 billion in revenue. These lower prices, in addition to working energy relationships with Russia and Europe, provide Turkey an important geopolitical opportunity.

Finally, Julia Nanay focused on the marginalization of Ukraine through its self-imposed failure to take the necessary action to become a gas producer in the 1990's and through the Turkish Stream pipeline which will completely isolate the country as a transit hub for natural gas from Russia. Nanay highlighted the large drop in natural gas transit in Ukraine "from 84 billion cubic meters in 2013 to under 60 billion cubic meters of gas in 2014." This marginalization could end Ukraine's energy relationship with Europe as well, with Russia trying to substitute Turkey for Ukraine as an energy transit hub and partner by 2020. As a result, Europe's energy dependence on Turkey could increase and its dependence on Ukraine could come to an end.

Overall, the development of the Southern Gas Corridor, along with the Turkish Stream pipeline, will have ramifications for Ukraine's role as a transit hub from Russia to Europe, and Europe will grow increasingly dependent on energy via Turkey in the future. This will only happen if both pipeline projects can be constructed without any setbacks, which may or may not be the case. One thing is for certain: the development of the Southern Gas Corridor pipeline project will be carefully watched as time moves forward.