THE EU'S ENERGY PRIORITIES IN THE SOUTHERN CAUCASUS

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ABSTRACT

The recent geopolitical events, and primarily those unfolding along the West-Russia trajectory, have dramatically changed the forecast of how long the EU can continue using Russian energy resources. The European countries wish to slowly free themselves from their energy dependence on Russia and make new adjustments to the conceptual approaches to this problem. In particular, the EU has been actively fortifying its position in the Black Sea-Caspian Region by dividing it into two key strategic components—the Southern Caucasus and the Caspian.

The Eastern Partnership Program, which extends to Georgia, Ukraine, Azerbaijan, Moldova, Armenia, and Belarus, has implied close cooperation between these post-Soviet countries and the EU at all levels from the very beginning. The Europeans find these countries easier to understand in historical and cultural terms than the Central Asian countries.

The energy-rich countries (Azerbaijan, Turkmenistan, and Iran) and countries with considerable transit capacities (Turkey and Georgia) have found themselves in the epicenter of the European establishment's attention. At the beginning of 2014, several important new projects for the South Caucasian Region were articulated (Nabucco, Nabucco West, TAP, Shah Deniz-2, and others).

The EU is now faced with making an urgent choice between its former dependence on Russia or undertaking gradual modernization by finding new energy partners. In this respect, the most radical part of European society is willing to engage in any economically promising cooperation (in the form of low energy prices), as long as it is not with Russia or the U.S.

The rest of society holds a more moderate position in favor of diversifying suppliers; it is not against either Russian energy resources or American shale gas, but is also considering alternative energy sources.

It should be noted that, on the whole, the EU inclines more toward the second scenario.

However, after making its South Caucasian choice, the EU is not rushing to invest huge sums in the implementation of the energy projects that, as already noted, are being actively discussed by some countries of the region. Moreover, the American factor continues to play an important role: the U.S. is striving to squeeze Russia out of the European energy zone. In so doing, it is clearly striving to monopolize the European regional gas market.

KEYWORDS: ***energy priorities, European energy resources, the EU, the Southern Caucasus, shale gas, energy resources, energy dynamics, energy dependence.***

Introduction

The appearance of new geopolitical challenges has made adopting a new energy conception an urgent issue for the EU countries. Its main emphasis is on acquiring energy independence or becoming as free as possible from energy dependence on Russia.[1]

The need to introduce a new energy conception appeared as early as 2006 when problems caused by the gas conflict between Ukraine and Russia, who could not come to terms and reach a price compromise, arose on the Russia-EU transit line.[2] The 2014 events in Ukraine and the Crimea added fuel to the fire, which led Brussels to urgently look for ways to free itself from its dependence on Russian energy suppliers.[3]

The concluding statement made on 21 March, 2014 in Brussels at the Summit of the 28 EU countries clearly voiced the Europeans' concern: "The European Council (EU summit) calls on the European Commission to conduct an in-depth study of European energy security and present, by June, a comprehensive plan for the reduction of the dependence of the EU and particularly of the most energy-dependent states on external sources of energy."[4]

It seems that the reason for this urgency was not so much the EU's geopolitical position caused by the Ukraine events and the desire of the European establishment to punish Russia by introducing sanctions as its striving to build a more independent energy policy[5] (at present supplies from Russia cover around 60% of the EU's demand for oil and gas).

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[1] It is worth noting that the main efforts are being made by the European Commission, which is presenting the conception of a single EU energy and security policy in the form of a Green Book. The latter, a European Energy Security Strategy, is the most comprehensive document to date, showing the current situation in the European energy industry and envisaging the aims of EU diplomacy until 2020-2030 (see: Energy Policy and Energy Efficiency Committee, Commission of European Communities, *Green Book*, available at [http://www.rsppenergy.ru/main/static.asp?art_id=1552], 25 March, 2014).

[2] See: "Gazprom is Leaving Ukraine without Russian Gas," Newsru.com, available in Russian at [http://www.newsru.com/arch/finance/01jan2006/gazaend.html], 24 March, 2014.

[3] See: "Brussels and Kiev are Looking for Ways to Reduce their Dependence on Russian Gas," Euronews.com, available in Russian at [http://ru.euronews.com/2014/03/20/eu-meets-to-discuss-energy-security-against-background-of-ukraine-crisis/], 25 March, 2014.

[4] "The European Commission has been Called on to Draw Up a Plan for 'Reducing the European Union's Energy Dependence on Russia,'" ITAR-TASS, available in Russian at [http: //itar-tass.com/ekonomika/1063836], 25 March, 2014.

[5] See: Ibidem.

President of the European Council Herman Van Rompuy mentioned the start of a new strategy in his speech at the summit, saying that in ten years Russian oil and gas supplies could comprise up to 80% of all the EU's consumption, which would mean complete energy dependence on Moscow.

It should be noted that Europe intends to replace fuel from Russia with shale gas from the U.S. But this also has its negative aspects, since the cost of shale gas is increasing with each passing year (due to the increase in expenditures on its development and production), while when replacing Russian energy resources with alternative sources of energy, the Europeans need to at least retain the current trade, payment, and price balance.

Director of the Analytical Department of the Alpari Company A. Razuvaev had the following to say about this: "The production of shale gas in many European countries is prohibited for environmental reasons. Europe is unlikely, to put it mildly, to go for an increase in production because the Greens and the opposition are against this. In any case, it will require enormous investments and time. Even if the Europeans do go for it, I think it will be another three years before the first deliveries appear. It could be that Ukraine has shale gas, but there is none in Europe itself. An infrastructure will have to be built for receiving liquefied natural gas; this also means tens of billions of dollars and a time-limit of three to five years. And if we are talking about America, it is impossible to say what production will be like there in five years."[6]

The European leadership is placing its hope of acquiring rapid energy independence to some extent on the U.S., which has already made it clear that it is equally concerned about this problem and is willing to carry out direct deliveries of natural gas to Europe. So, when talking at the summit in Brussels held in March 2014, U.S. President Barack Obama said: "We recognize that … these sanctions … will have some impact on the global economy as well as on all the countries that are represented here today. And we're mindful that that's going to be different not just between the United States and Europe but also among different countries inside of Europe, some of whom are more dependent, for example, on energy from Russia than others are. And we've already licensed, authorized the export of as much natural gas each day as Europe uses each day. But it's going into the open market; it's not targeted directly. It's going to private companies who get these licenses and they make decisions on the world market about where that energy is going to be sold."[7]

So it is unlikely that alternative deliveries of American gas will be possible in the short or medium term, since this will require multibillion investments. Moreover, according to the calculations, the price of American energy resources will be several times higher than the price of Russian deliveries to the EU.

On the other hand, another alternative is hypothetically possible, which presumes developing energy resources on the basis of domestic sources. For example, shale gas could be produced at fields in the EU countries, particularly in Poland. However, this project will require significant investments, which the EU is essentially unable to provide today. The European countries will profit much more from the import of energy resources and the use of renewable sources; this will require introducing measures aimed at increasing energy efficiency of production and consumption and gradually modernizing their energy grids.

This will make it possible to ensure sufficient energy security for the EU countries, as well as reduce the emissions of greenhouse gases in their territory and, thus, improve the environment.

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[6] "The price of the EU's 'Energy Independence' from Russian (AUDIO)," Radio "Voice of Russia," available in Russian at [http://rus.ruvr.ru/2014_03_24/Cena-jenergeticheskoj-nezavisimosti-ES-ot-Rossii-4019/], 27 March, 2014.

[7] *Press Conference by President Obama, European Council President Van Rompuy, and European Commission President Barroso*, Council of the European Union, Brussels, Belgium, 27 March, 2014, available at [http://www.whitehouse.gov/the-press-office/2014/03/26/press-conference-president-obama-european-council-president-van-rompuy-a].

The development of domestic resources will most likely not meet the needs of European consumers. However, according to Sanford C. Bernstein & Co., if the EU turns away from Russian energy resources, more than 10,000 jobs will be lost in the next five years, along with a decrease in gas consumption (by 15 bcm a year) and transfer to alternative sources of energy. Switching from gas to coal will also dump an additional 300 million tons of CO_2 into the European environment, while atomic energy plants will have to increase their capacity by 5%. Enterprises that use large amounts of natural gas will be forced to close down or transfer to other types of fuel.

All of this indicates that Europe will essentially be unable to give up Russian gas any time soon. So after examining different scenarios of Europe foregoing deliveries of Russian gas, the analysts and experts at Sanford C. Bernstein & Co. conclude that not one of them is attractive.[8] The broader public and scientific circles of Europe, which are already talking about the inefficiency of transferring to a new energy system, are of the opinion that shale oil and gas will only provide the American economy with limited profit, while they will be of even less benefit to Europe. The report of the well-known French Institute of Sustainable Development and International Relations (IDDRI) said on this account: "…the shale gas boom in the U.S. proved beneficial for the local state economies, but on a nation-wide scale, it has had very little effect on economic growth. What is more, the sharp drop in gas prices noted after the discovery of shale deposits is unlikely to last long. The positive effect will be even less noticeable in Europe due to its different geological conditions, special environmental considerations, and amount of time required for developing fields. We forget that the shale gas revolution in the U.S. was possible only after decades of geological exploration."[9]

This is why the most optimal response to the notorious energy challenges for the EU is to take advantage of the opportunities provided by the Southern Caucasus. This region is acting as a "special energy zone" for Brussels even if only by merit of the alternative route it offers for transporting energy resources to Europe.

In the mid-1990s, the EU was included in regional energy projects through the INOGATE and TRACECA programs, but this was clearly not enough for it. In addition to everything else, an important vector in the European neighborhood policy, in the form of the current Eastern Partnership program, is energy cooperation and primarily the building of the West-East gas pipelines; but things are not entirely smooth there either. The geopolitical strivings of the European Commission aimed at drawing the Southern Caucasus (as an energy resource supplier) into the European energy system are encountering a whole series of difficulties. A clear example of this is the Nabucco project, which has still not come to fruition and which, as European experts believe, is inferior to the Nabucco West and Shah Deniz projects.[10]

From the viewpoint of the EU's energy interests in the South Caucasus region, its cooperation with Azerbaijan seems particularly important, which has a key role in the more promising South Gas Corridor project.

At the same time, Europe recognizes full well that Azeri energy resources alone will not be enough (which is essentially why the Nabucco project was suspended), so it will be necessary to include Turkmenistan or Iran in the project, which is fraught with several serious problems. They are related to the conflicts and uncoordinated interests existing among the potential participants (the Azerbaijan-Turkmenistan opposition over Kiapaz-Serdar, gas competition, the status of Azeris in Iran, and so on).

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[8] See: "Giving up Russian Gas will Cost the EU More than $200 Billion," Steelland.ru, available in Russian at [http://www.steelland.ru/news/business/1148.html], 14 April, 2014.

[9] "The French Refuse to Consider Shale Gas a Panacea for the EU Energy Industry," Lenta.ru, available in Russian at [http://lenta.ru/news/2014/02/13/shale/], 29 March, 2014.

[10] See: "Will TANAP and Nabucco-West Take the Place of Nabucco? *Sobytiia i fakty*, available at [http: //allwebb.info/article/budet-li-vmesto-nabucco-tanap-i-nabucco-west.html], 10 March, 2014.

On the other hand, without Turkmen blue fuel deliveries from Azerbaijan will not be able to have any strong impact on gas prices in Europe. Despite this, Azerbaijan still provides Turkmenistan with a window of sorts to Europe. Consequently, neither Azerbaijan, nor Turkmenistan will go for open confrontation with Russia in the medium term if only because both of these countries are gas exporters to Russia, and Gazprom is still the main gas supplier to Europe.[11]

The complicated Azeri-Iranian relations[12] could prompt Baku and Tehran to rapidly draw up joint energy projects for delivering gas in the European direction. However, on the other hand, this proposal does not correspond to today's reality,[13] which European investors are very well aware of.

At the same time, since the Ukrainian events of 2014, which resulted in the Crimea becoming part of Russia, energy cooperation within GUAM has become more complicated. This is explained by the fact that Russia is no longer interested in laying pipelines through the buffer zone of Ukraine to transit gas through Crimean territory.

During recent decades the EU, on the whole, has been consolidating its foreign energy policy, which was prompted both by the internal needs of its member states and by external factors. Parallel to this, the role of the Southern Caucasus is growing as the most important strategic corridor for transporting energy resources, the demand for which is continuing to rise in the current globalizing world. We take the liberty of presuming that the EU will become more flexible in its involvement in the South Caucasian region in the future and that it will continue to initiate new energy projects.

European Energy Interests and the Southern Caucasus: A Survey

The EU's demand for imported energy is continuing to grow. At the same time, the countries to the East of the EU are striving to make maximum use of their own energy resources. In its cooperation with its Eastern neighbors, the European side found the way things are entirely acceptable. It resulted in a whole series of projects that envisaged creating predictable and transparent energy markets capable of stimulating investment and economic growth, as well as ensuring safe deliveries. In so doing, both the energy producers and the transit countries are important for the EU. For example, according to the Statement of the EU General-Directorate for Energy, if the EU wants to reach its goal of a safe, competitive, and sustainable energy industry, it has to attract other countries and cooperate with them, be they producers, consumers, or countries providing the transit of energy resources.[14]

This strategy is extremely acceptable for almost all the EU countries, since pursuing a common foreign policy, including in security, has long been a topic of broad public discussion. However, its practical implementation often contradicts the tactical and strategic precepts of the EU member states.

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[11] See: "Turkmenistan and Azerbaijan are Pumping their Gas Muscles," Teknoblog.ru, available in Russian at [http://teknoblog.ru/2013/11/11/], 22 March, 2014.

[12] See: "Both Countries, Azerbaijan and Iran, are Inclined toward Developing Bilateral Relations," Zia.az, available in Russian at [http://zia.az/kose/1266-obe-strany-azerbaydzhan-i-ran-sklonny-k-razvitiyu-dvustoronnih-otnosheniy.html], 22 March, 2014.

[13] See: A. Abasov, "Azerbaidzhan i Iran: protivorechia i perspektivy razvitiia otnoshenii," available at [http: // theanalyticon.com/?p=478&lang=ru], 22 March, 2014.

[14] See: Official website of the European Union. Statement of the EU General-Directorate for Energy, available at [http://ec.europa.eu/dgs/energy/index_en.htm], 25 March, 2014.

The European economy today is in general characterized by a steadily growing consumption of energy that is mainly obtained from mineral fuel (oil, coal, and natural gas). It is these energy resources that provide 4/5 of Europe's total energy consumption, whereby almost 2/3 of the fuel today is imported. And whereas radical measures to change the current trends will not be taken until 2030, the share of import in overall European energy consumption will significantly grow.

In 2000, 15 EU countries imported 49% of the energy consumed; it is presumed that by 2020, this figure will increase to 62%. The EU Green Book on Energy, published in 2000, forecasts an increase in this figure to 51% by 2020.[15] The South Caucasian countries are also alternative sources for expanding import.

The Europeans began assimilating this region as a sphere of EU energy interests as early as 1883 when the Rothschild family financed the building of the Baku-Poti railroad, via which oil was transported to the international market.[16] The West was denied access to the region during Soviet power, but after the collapse of the Soviet Union, the situation dramatically changed. It should be noted that the European states began stepping up their policy regarding the Southern Caucasus in the end of the 1980s, which was related to the ethnic conflicts in the South Caucasian republics.

After the collapse of the Soviet Union, the Southern Caucasus became an arena where the interests of the largest regional (Russia, Iran, Turkey) and extra-regional actors (the EU, U.S., NATO, China, Central Asian countries, and Arab states) met. This was generated by the fight for control over the water areas and resources of the Black and Caspian seas and influence on the Southern Caucasus, which was a potential transit route for energy resources from Central Asia and the Middle East to Europe.

In 1993, the TRACECA transport corridor program (Europe-the Caucasus-Asia) was launched in Brussels, which was an attempt to activate the Great Silk Road. This project was instituted as the main component of the TACIS program (Technical Assistance to the CIS). All three South Caucasian states were among the TRACECA participants. At that time, the main vector of the transport (and subsequently energy) strategy of the EU in the Southern Caucasus was established—creating a corridor that bypassed Russia[17] designed to "diversify the traditional centralized trade and transport flows and open new (alternative) trade routes to the Western countries."[18]

In order to ensure the safety of energy transportation from the Caspian and Black Sea regions, the European Commission adopted the INOGATE program (an international energy cooperation program between the EU and its partner countries) in 1995, which envisaged not only pumping hydrocarbons to Europe, but also encouraging the development of the oil and gas infrastructure of the countries concerned.

It should be noted that at the first stage of implementation of the TRACECA and INOGATE projects, the EU was not even thinking of developing a methodology for forming its energy security strategy. The thing is that those projects, which were mainly technical, did not have any definite strategic operators, and this significantly reduced their influence.

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[15] See: M.E. Bogucharskiy, "Energeticheskaia strategiia Evropeiskogo soiuza na sovremennom etape," *Finansy. Pravo. Menedzhment*, available at [http: //www.flm.su/?actions=main_content&id=828#_ftn1], 11 April, 2014.

[16] See: J. Wisniewski, "EU Energy Diversification Policy and the Case of South Caucasus," *Political Perspectives*, Vol. 5, No. 2, 2011, p. 60.

[17] By 2008, a very unusual situation had developed in the Southern Caucasus. Georgia was actively supported by the Bush administration while being in just as active conflict with Russia. The EU policy toward Georgia was diversified. On the whole, it seems that, in the context of the West's general policy, the role of the EU in the Southern Caucasus until 2008 was to oust Russia from the region by supporting the GUAM countries (Georgia, Ukraine, Azerbaijan, and Moldova) and advance the global energy Nabucco project (see: A.D. Tsiganok, *Voina na Kavkaze 2008: russkiy vzgliad. Gruzino-osetinskaia voina 8 avgusta 2008 goda*, 2nd edition, supplemented, AIRO-XXI, Moscow, 2011).

[18] Official website of the TRACECA program, available at [http: //www.traceca-org.org/ru/traseka/istorija-traseka/], 5 April, 2014.

Beginning in 2000, the EU started taking active steps in developing an integral strategy. For instance, the official documents concerning Eastern Partnership emphasize that the energy industry is the main indicator for this structure. In particular, the European Commission notes that stepping up strategic energy efforts with neighboring countries is the main element of strategic development for Eastern Partnership, while the Southern Caucasus is a vital region for developing and transporting resources.[19]

An important milestone in extending the energy interests of the EU to the Southern Caucasus was instituting a new format called the Baku Initiative. Within the framework of this initiative, a Road Map was adopted in 2006 in Astana that determined the spheres of energy cooperation. It particularly mentioned the gradual convergence of energy markets with the principles of the internal EU energy market, ensuring energy security and energy efficiency, and improving the investment environment in the energy sector.[20]

The South Gas Corridor program was the last stage in drawing the South Caucasian countries into the orbit of the EU's energy interests.

On the whole, there are many such energy projects today. However, not one of these projects has been put into operation yet, despite the willingness of the sides to engage in their permanent implementation.

The Nabucco gas pipeline is one of the ambitious projects that the EU has tried to implement while looking for an alternative to Russian gas. It was supposed to stretch for 4,000 km from Azerbaijan to Austria and deliver more than 30 bcm of gas a year. However, implementation of this grandiose project immediately encountered two problems: its high cost (around $13 billion) and the lack of a guaranteed raw material base. There was clearly not enough Azeri gas, Turkmen gas was offshore, and deliveries from Iran were halted due to international sanctions. Consequently, the Nabucco project divided into two parts—TANAP (the Trans-Anatolian gas pipeline) and Nabucco West. The first will stretch from the east to the west of Turkey to the border with Bulgaria or Greece, and the second from the borders of Turkey and Bulgaria to Baumgarten in Austria.

Azerbaijan, Turkey, Turkmenistan, and the European Commission, inspired by such a promising prospect, continue to hold talks on the delivery of Turkmen gas via TANAP; it is presumed that by 2023, its volumes will reach 23 bcm a year. At the same time, keeping in mind Europe's growing need to increase gas export volumes, the sides began actively showing an interest in implementing the Shah Deniz-2 project, development of which is scheduled for 2016-2017.[21]

Speaking at the World Economic Forum in Davos in January 2014, President of the Azerbaijan Republic Ilham Aliev said: "At present, the main priority is to carry out grandiose energy projects. I am referring to the Shah Deniz-2 project, which we began implementing last month. According to the project, two gas pipelines will be built: one in Turkey and the other from the Turkish-Greek border toward Italy. One is called the Trans-Anatolian and the other the Trans-Adriatic. These two projects envisage the transportation of natural gas from gigantic fields, and this will become the largest infrastructural project of Europe."[22]

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[19] See: *European Neighborhood Policy—Strategy Paper*, Commission of the European Communities, Communication, Brussels, 12 May, 2004, pp. 17 & 11, available at [http://ec.europa.eu/world/enp/pdf/strategy/strategy_paper_en.pdf], 15 March, 2014.

[20] See: "The Eastern Partnership Multilateral Platforms," available at [http://eeas.europa.eu/eastern/platforms/index_en.htm], 3 April, 2014.

[21] Shah Deniz is a gas-condensate field situated on the shelf of the Caspian Sea in Azerbaijan. The total reserves are estimated at 1.2 tcm of natural gas and 240 million tons of gas condensate. The first well went into operation at the end of 2006. At present, gas production at the field amounts to 9 bcm a year. The anticipated total volume of production from the second stage is 16 bcm a year (see: Will TANAP and Nabucco-West Take the Place of Nabucco?).

[22] "President Ilham Aliev: Shah Deniz-2 will be the Largest Infrastructural Project of Europe," APA.AZ, available in Russian at [http: //ru.apa.az/news/264057], 26 February, 2014.

The Azeri leader's proposal could be worth considering if all the gas were exported only to Europe. But it is important to note that Turkey is making a bid for 6 bcm of gas from the second Shah Deniz line, which, obtaining it at present from Russia and Iran, is also interested in diversifying deliveries. The fact that Turkey is the main participant in the Trans-Anatolian project makes it essentially impossible for the Azeri side to transport gas without going through its territory. As a result, Europe will be left with only 10 bcm of Azeri gas, which is not very much even for Nabucco West. Despite the fact that Baku is willing to increase the production volume to 30 bcm a year by 2030, this project, which is very expensive, could remain a long-term prospect, since Europe's energy appetite will inevitably grow in time.

Prospects for Delivering Azeri Gas to Europe—Reality or Metaphor?

As early as 8 April, 2013, meetings were held in Baku to discuss pumping South Caucasian regional energy resources to Europe. At one of them, Turkish Minister for Energy and Natural Resources Taner Yıldız said that next year, real steps will be taken to create trans-Anatolian energy resources. In particular he said: "Along with implementing the South Stream project from Russia, Turkey is also successfully carrying out the Trans-Anatolian gas pipeline project with fraternal state Azerbaijan."[23] Taner Yıldız added that it should be extended to North Europe either by means of Nabucco West or the Trans-Adriatic Pipeline.

However, the Shah Deniz company has the right to choose one of these pipelines since it is to this company that Nabucco is conceding more than 50% of its share in the work to implement the Nabucco West project. Moreover, the State Oil Company of the Azerbaijan Republic, which intends to sell 29% of its shares to BP, Statoil, and Total, has pledged to invest $17 billion in Turkey's energy sector in the next five years.[24]

So this proposal looks very promising not only for Europe, but for Turkey too, the companies of which already own more than 20% of the state shares of Azeri oil. The initiative of the Azeri side to assume the main expenditures is also in the interests of Turkey.[25]

As U.S. Ambassador to Azerbaijan Richard Morningstar said recently, official Washington does not intend to interfere and will most likely assume a neutral position regarding all the energy projects along the Caspian-Europe route, since they could create geopolitical contradictions in the region.

For instance, speaking at the First World Economic Forum on a Strategic Dialogue on the Future of the Southern Caucasus and Central Asia organized in Baku, Richard Morningstar said that the U.S. was taking a neutral position regarding the transportation of Azeri gas via TAP and Nabucco West. Mentioning several commercial and geopolitical difficulties, he added that he thought that in addition to Azeri gas, Turkmen gas would also be transported in the future via the pipelines passing through this region, and Turkmenistan would also become part of the Southern corridor.[26]

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[23] "Taner Yıldız: 'Baku-Tbilisi-Kars and Baku-Tbilisi-Erzurum are the Key Regional Projects,'" News.day.az, available in Russian at [http: //news.day.az/economy/394458.html], 7 April, 2014.

[24] See: "BP, Statoil, and Total will Buy Shares in the Azerbaijan-Turkey-Europe Gas Pipeline," Center for Transport Strategies, available in Russian at [http: //cfts.org.ua/news/49031], 7 April, 2014.

[25] See: "Pipeline Prospects-2014: The Large Diameter is Making a Comeback," UGMK.info, available in Russian at [http://www.ugmk.info/print/art/1391447662.html], 7 April, 2014.

[26] See: "Unprecedented Event in Azerbaijan," Haqqin.az, available in Russian at [http: //haqqin.az/news/4885], 8 April, 2014.

The above citations make it possible to conclude that the EU intends to obtain Azeri energy resources bypassing Russia, whereby they will be transported at the supplier's expense. This scenario is related to the unwillingness of European companies to invest in such large-scale projects and their concern about the rapid exhaustion of Azeri oil. Investments from the EU countries can only be expected if Turkmen hydrocarbons are hooked up to the pipelines.

As a result, the European players have seen to it that the Azeri side will only be responsible for work on the section of the Nabucco West project that encompasses EU territory.

So if Azerbaijan decides to export its oil to Europe, it will not only have to build pipelines that reach the EU borders, but also take responsibility for carrying out half of the work in its territory.

It should be noted that Turkey is particularly interested in these projects. As a transit country, it could not only gain large profits from these transactions, but also be able to put pressure on the European countries in the future. Ankara, like the EU, has no intention of making vast investments in these projects and is trying to implement them using Azeri funds.

The difference in the EU and Turkish positions is that the latter is concerned not so much about the possible exhaustion of Azeri oil supplies, as about interference from Russia. Moscow might try to prevent Turkmenistan from joining these projects, or pressurize Georgia into not participating in them; the latter depends on Russia for its energy so is not at all interested in any new opposition with it. Richard Morningstar's statement above about the U.S.'s neutral position regarding the transportation of Azeri gas can also be related to similar concerns.

Evidently, Azerbaijan, which is augmenting its financial possibilities and has still not found any adequate support from Turkey or the EU, is the most interested in implementing the above-mentioned projects.

Iran—New European Startup of South Caucasian Energy Dynamics?

Europe and the U.S., which have introduced tough sanctions against Iran, have begun dramatically changing their attitude toward it. This change in mood was essentially prompted by the abrupt deterioration in relations between the West (including Japan) and Moscow. This was prompted in turn by the events in Ukraine, which created a dangerous bed of international tension.

The EU and U.S. made a decision to temporarily (for six months) remove some of the sanctions against Iran[27]; this did not have any particular impact on the world economic situation. However, cancellation of the sanctions essentially proved the hypothesis that the West knew from the very beginning that Iran was not intending to use its nuclear reserves for purposes other than peaceful. This moved the topic of replacing Russian energy resources with Iranian to the foreground.

Meanwhile, the crisis in Ukraine, which threatens to become regional, is deteriorating, particularly in the energy sphere (the matter concerns Ukrainian transit of Russian energy resources). Further aggravation of the situation might create serious obstacles for the safe transit of Russian energy resources to Europe.

At present, there are two alternatives for Europe: expensive American shale gas (it is $200-300 more expensive than Russian), which is being considered as an alternative to Russian gas, and Iranian gas, which is difficult to deliver. The first alternative is too expensive; the second is realistic, but does not suit either the Americans or the Russians. What is more, according to some assess-

[27] See: "The U.S. and EU have Lifted Multibillion Sanctions against Iran," Newsru.com, available in Russian at [http://www.newsru.com/world/20jan2014/iransanct.html], 22 April, 2014.

ments, Iranian gas is uncompetitive not only with respect to delivery terms, but also in quality. However, Europe, which is not in the best shape today, is quite happy with cheap, albeit low quality Iranian gas.

In turn, the U.S. and Russia do not want to miss their chance. Russia continues to look for alternative energy transit routes that bypass Ukraine, the Baltic states, and even Turkey (the North Stream and South Stream). As for the U.S., it is investing billions of dollars in various projects that circumvent Russia and Iran, as well as striving to advance its shale energy products in the large European countries, particularly those that are EU members.

In light of the above, the recent step taken by the leaders of Iran (oil and gas being the basis of its economy), who came forward with a statement about their intention to fortify their position in the world gas market, but without competing with Russia, looks entirely logical.

Minister of Industry, Mining, and Trade of the Islamic Republic of Iran Mohammad Nematzadeh noted on this account: "We want to play an ever greater role in the world gas market in the future. As of today, Iran has the largest reserves of natural gas in the world. At present, we are working on a large-scale project to build a gas pipeline for pumping blue fuel from the south of Iran to the northwest, to the borders of Turkey. From there we could export energy resources to the countries of the West." He also mentioned that Tehran had already entered contracts with Swiss and Spanish enterprises, as well as with Shell, which it has been unable to implement because of the international sanctions. Mohammad Nematzadeh also added: "We do not want to compete with Russia, but we know that the Europeans will be needing more and more gas and we want to acquire our part (of the market). Iran could become a reliable and long-term partner for Europe. We have energy reserves and cooperation plans."[28]

Iran's categorical unwillingness to spoil its relations with Russia is largely explained by the strong ties (economic, political, partner, and strategic) between these countries. However, there is another significant aspect—at present Russia is almost the only state that supports Iran's geopolitical and geostrategic interests on the international political arena.

It is very understandable that Iran's national interests consist not only of gaining access to the international economic markets, but also of fortifying its position among the world exporters of energy resources. At the same time, its statement of intention to increase its energy deliveries to the West without competing with Russia is at best not serious and even naive.

The decision will ultimately be made by the seller (Iran), the transit country (Turkey), and the consumer (the EU).

Meanwhile, it is no secret that Turkey continues to pay in gold for the energy products exported from Iran and, in general, is not against becoming a transit country in a major EU-Iran energy project.[29] The EU also agrees to buy cheap Iranian energy resources, but, on the other hand, there are clear risks related not only to financing and technical servicing, but also to geopolitical and geostrategic issues.

The matter might concern the following components of the problem in particular:

1. The EU is still not sure about the good intentions of the Turkish and Iranian authorities to implement a project that must be underpinned with real security guarantees. Moreover, Turkey as a transit country could put forward its own conditions, including demands for its integration into the EU, and in time become a strong regional player that dictates its own rules.

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[28] "Iran States its Intention to Deliver Gas to the EU without Competing with Russia," *Vzgliad*, available in Russian at [http://www.vz.ru/news/2014/4/14/681916.html], 22 April, 2014.

[29] See: "Turkey Pays in Gold for Iran's Energy Resources," Vestifinance.ru, available in Russian at [http: //www.vestifinance.ru/articles/20188], 25 April, 2014.

On the other hand, Brussels is very well aware of the influence the U.S. has on Turkey, the first being one of the sides interested in this project. America, worried about competition from other gas suppliers, might not only undermine its implementation, but periodically also use the Turkish factor in various geopolitical regional issues concerning Iran in particular. This position of the U.S. could be related to the introduction of sanctions against Iran.

2. Brussels is also skeptical about this project because, in contrast to Azerbaijan (TANAP and Nabucco West), Iran and Turkey are evidently trying to place all the financial obligations on the EU without particularly thinking about who is going to be responsible for funding its implementation. What is more, the EU is still stalling about holding talks with Tehran. This is likely due to the unresolved problems relating to identifying cooperation opportunities with the U.S. regarding the import of shale gas, attracting American investments in the development of European and Ukrainian fields, and the new conceptualization of relations with Russia on deliveries of energy resources to Europe.

In addition, the EU is not against building new alternative gas pipelines with Iran's participation, but only if Turkmenistan and Azerbaijan are also involved. This kind of concern is explained by the fact that such extensive financing might not only generate security risks, but also a shortage of energy products for European consumers.

However, keeping in mind the current geopolitical and geo-economic situation in the region and around it, the EU is not rushing to put the question of implementing new energy projects with Iran's participation on the agenda.

In Lieu of a Conclusion

For many decades now, the main challenge for the EU has been overcoming its energy dependence. Most EU member states do not have their own reserves of mineral fuel; only 12 of them have oil, natural gas, and coal deposits in their territory, which, however, cannot meet the growing needs of the European economy.

After the EU underwent two enlargements (in 2004 and 2007), the oil and gas dependence of the countries belonging to it grew by 10-17% (from 72% for oil and 48% for gas in 1999 to 83.5% and 64.2% in 2009, respectively).[30]

Brussels is particularly concerned about the strong dependence of European consumers on Russian gas. Confirmation of this is the recent statement by Polish Head of Government Donald Tusk. Calling on the EU countries to join in an energy union that could reduce the dependence of the European states on gas deliveries from Russia, he said: "Regardless of how events develop in Ukraine, one lesson is already clear: extreme dependence on Russian energy resources is making Europe weak. And Russia does not sell its goods cheap, at least not to everyone. This is an economic axiom—the supplier who has a dominating position can raise prices and reduce deliveries."[31]

For several decades now, the EU has been looking for alternative energy resources, and every time it faces the dilemma of choosing suppliers. It stands to reason that such factors as a change in the world economic development trends, new geopolitical trends, an international financial crisis, a price hike on essential products, and so on can influence the choice.

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[30] See: *Energy, Transport and Environment Indicators*, Publications Office of the European Union, Luxembourg, 2011, p. 24.

[31] "The EU Countries Should Join in an Energy Union—Tusk," Censor.net.ua, available in Russian at [http://censor.net.ua/news/282249/strany_es_doljny_obedinitsya_v_energeticheskiyi_ soyuz_tusk], 24 April, 2014.

After the Ukrainian events and worsening of relations between the West and Russia, the energy accent shifted to the Southern Caucasus. Today, the EU is focusing on implementing its plans to build the Trans-Caspian gas pipeline, which is one of the key segments of Nabucco.[32]

However, the Europeans are in no rush to choose major projects, including in the Southern Caucasus. In so doing, they recognize the priority of projects with the participation of Azerbaijan, which is willing to assume a large part of the expenses for their implementation.

The main bone of contention for the European partners is expert assessments, according to which the Azeri supplies of oil and gas capable of meeting only a small part of the needs of European consumers will be totally exhausted in the near future. Based on this, Brussels is placing the stakes not only on Azerbaijan, but also on Iran and Turkmenistan. The latter, in turn, is still not showing any reciprocal interest. This is most likely explained by its desire to gain maximum benefit from possible cooperation with the EU.

Incidentally, keeping in mind the diversification scenario already in the offing, it can be presumed that the EU will not be long in making its decision, particularly since its energy cooperation with Russia is becoming more aggravated with each passing day.

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[32] See: N.A. Gegelashvili, "Sovremennaia politika ES i SShA na Iuzhnom Kavkaze i v Bolshom Prichernomorie," *Vestnik Evropy*, No. 33, 2012.