CCEE POLICY BRIEF

September 2017 | No.33

TRANS-CASPIAN GAS PIPELINE: IS THERE A FUTURE AFTER ALL?*

Background

Turkmenistan ranks fourth globally in terms of asserted natural gas reserves, with around 50 trillion cubic meters/tcm, according to the latest announcements of the state-owned energy company Turkmengaz. Although these reserves are not fully developed, current production is more than 75 bcm/ year, with plans to increase this to 230 bcm by 2030. The majority of is destined for export . China remains Turkmenistan's first and most important client, though Ashgabat has long aspired to export natural gas to Europe, via the construction of a subsea pipeline in the Caspian Sea (the Trans-Caspian gas pipeline project). However, Russia and Iran are both opposed to this subsea pipeline.

Analysis

An assessment by the British accounting company Gaffney, Cline & Associates indicates that Turkmenistan's largest gas field (Galkynysh, former South Iolotan) holds over 24 tcm. This makes it the second largest field in the world after Ghawar in Saudi Arabia. Two other fields, Yashlar-Minara and Bagtyarlik, are reported to hold 1.45-5 tcm and 1.3 tcm of natural gas respectively. Ashgabat has opted to develop these giant fields not via the popular Production Sharing Agreement model (PSA), but rather by granting concessions and service contracts to certain companies, namely Petrofac, LG International, CNPC and Hyundai Engineering and Construction Co.Ltd, for a specific time frame.

Despite the fact that Turkmenistan's main client for natural gas is China, Ashgabat has long been interested in exporting its gas resources to the European market, as discussed during the Turkmenistan president Gurbanguly Berdimuhamedov's the recent visit to Azerbaijan.

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ISSN 2313-1233

The Trans-Caspian gas pipeline entails the construction of a 300 km pipeline along the bottom of the Caspian Sea to the coast of Azerbaijan, and is seen as the optimal solution for the delivery of Turkmen energy resources to Europe. Further along the way, Turkmen gas can be transported through the existing and under construction pipelines to Turkey and through Greece to the rest of South East and Central Europe. In theory, the project can be implemented as a part of the Southern Gas Corridor (SGC), designed to transport gas from the Caspian region to Europe through the joint systems of South Caucasus Pipeline (SCP), TANAP, and TAP.

There are three key elements in relation to the construction of the Trans-Caspian pipeline:

1. Commercial production of natural gas, in order to justify the construction and operation of the pipeline;
2. Sufficient demand to support stable sales on commercially attractive terms for the government of Turkmenistan and the companies involved in production;
3. Commercial champion(s) interested in developing infrastructure that will deliver the Turkmen gas to Europe.

The first element is in place; Turkmenistan has the reserves. The second component needs to be secured, to enable the third.

However, the current economic context remains a challenge: low global oil prices, as well as the ongoing embargo against Qatar, the biggest LNG producer and exporter in the world. From the perspective of the global market, building a pipeline to bring remote Turkmen gas supplies to Europe appears an increasingly unlikely endeavor, when oil and gas prices are historically low. Furthermore, does Europe really need Turkmen gas at this time?

Azerbaijani natural gas from Shah Deniz II will come online in 2020, with an initial 10 bcm reaching Turkey, Greece, Albania and Italy. At a further stage, when the supplying capacity will double to 20 bcm/ year, Bulgaria will also import 2 bcm/y, through IGB (Interconnector Greece Bulgaria). There is also a potential extension to the Western Balkans through the construction of IAP (Ionian Adriatic Pipeline). Meanwhile, Russia remains the main natural gas supplier for Europe, both North and South. Last but not least, Europe's southern flank in the Mediterranean is already heavily reliant on LNG imports, with Greece, Italy and Spain importing large quantities of LNG from Algeria and Qatar. It is worth mentioning that the European Comission Vice-President for Energy Union Maros Maroš Šefčovič, addressing the participants of the Ashgabat's Energy Charter Forum, said that the EU expects to receive Turkmen gas in 2019.

Russia and Iran have long resisted the construction of a pipeline along the bottom of the Caspian Sea, citing environmental concerns. The real issue, however, is that Moscow does not want Europe to acquire Turkmen gas, as this will significantly dilute its leverage on European supplies. Nonetheless, the reality is that Russia needs to adopt a win-win approach and to listen to the EU's serious message: that if Gazprom wants to sell more gas to Europe via Nord Stream II and Turkish Stream, it has to end its opposition to the Trans-Caspian pipeline.

For its part, Tehran also opposes the Trans-Caspian gas pipeline, as it aspires to become the key transit country to carry Turkmen gas westwards, through the Iran-Turkey gas pipeline.

Despite all of the above, the key countries involved in the realization of the Trans-Caspian pipeline are the two Caspian neighbors: Azerbaijan and Turkmenistan.

Azerbaijan and Turkmenistan have declared themselves strategic partners; they try to cooperate in supplying natural gas to Europe, despite their continuing conflict over disputed fields in the middle of the Caspian Sea.

Turkmenistan president Gurbanguly Berdymukhamedov paid an official visit to Baku on August 8th, when he met with his counterpart Ilham Aliyev. During two days of talks, the Presidents discussed several key regional issues including the construction of the Baku-Tbilisi-Kars railroad, new ports on the Caspian Sea, and joint efforts to develop routes for transporting Caspian gas to European markets.

The two leaders also signed a strategic partnership agreement. However, their public statements left unmentioned the yet unresolved borders in the Caspian Sea, including the status of one offshore field that lies right along the contested martime border – called Kyapaz in Azerbaijan and Serdar in Turkmenistan.

Both sides have tried to exploit the deposit. An attempt in 1997 by Azerbaijan's SOCAR and Russia's Rosneft and Lukoil to develop the deposit delivered a major blow to relations between Baku and Ashgabat. Turkmenistan later sought to partner with Mobil to develop the deposit, but the American company withdrew in order to avoid damaging its ties with Azerbaijan. In 2008, the two sides reached an agreement not to carry out any hydrocarbon exploration until the Caspian legal status has been resolved.

However, the following year, Ashgabat threatened to take the issue to the International Arbitration Court, and in 2012 the Azerbaijan's Border Service detained a Turkmen ship sent to carry out exploratory work on the field. The tense situation surrounding the Kyapaz/Serdar field may prove a barrier to Azerbaijan-Turkmenistan energy cooperation. Once the legal status of the Caspian is resolved, the two countries' maritime border will certainly be around the area of the field. Multilateral negotiations between the five littoral states are still ongoing, but while considerable progress has been made during recent years, consensus remains out of reach.

Another stumbling factor is that both Azerbaijan and Turkmenistan remain wary of angering Russia and Iran, whose economic and political influence in the region is far greater than West's. Russia and Iran strongly disagree with construction of the Trans-Caspian gas pipeline, insisting that until all legal questions surrounding the Caspian are resolved, the project must gain the support of all five countries.

Conclusion

Last but not least, we should not ignore the legal dimension of laying a subsea pipeline. The issue is regulated by the articles 79 and 87 of the UNCLOS[i] (United Nations Convention on the Law of the Sea) of 1982, which states that every littoral state, while making use of its sovereign right to explore its seabed and the natural resources that lie beneath it, as well as to prevent any potential pollution or environmental damage, it cannot prevent the laying and/ or preservation of cables and pipelines. However, the route of each pipeline on top of the seabed is subject to the consensus of the littoral state.

However, Turkmenistan and Iran have not ratified the UNCLOS, and therefore the Convention is not applicable in the Caspian Sea. Russia, Kazakhstan and Azerbaijan have all of them ratified the Convention, which was signed by the Soviet Union in 1982. Turkmenistan is the only former Soviet state which hasn't ratified so far.

Therefore the consensus of all littoral states is required in order to proceed with construction of the pipeline. If all the littoral states had ratified the Convention, the issue of the implementation of the Trans-Caspian would be much simpler, at least from a legal point of view. As long as the legal status remains unresolved, it is assessed that the issue of the Trans-Caspian pipeline will linger on, unless Russia and Iran decide to swift their positions.

Caspian Center for Energy and Environment of ADA University welcomes submission of policy briefs by researches and practitioners working on Caspian energy and environment issues. Policy Briefs are relatively short analytical papers (usually not exceeding 1400 words) focusing on causes and implications of energy and environment related trends in the wider Caspian region. Research should cover one of the hot topics on energy sector, mainly on the major technological, economic, social, political and regulatory trends influencing the energy and environmental issues in the Caspian basin and address a clear question with the pragmatic focus on current developments and prospects of the issue. Policy briefs are expected to provide well-explained and evidence-based arguments. Researcher should stay focus on the problem, and its important dimensions, and offer viable recommendations together with justifications.

By sticking to its primary goal on generating research-based information in the field of energy and environment, CCEE expects policy briefs to contribute to the process of advancing the understanding of readers in the field. Ethical and objective approach of the researcher is highly appreciated by CCEE.

The views expressed in this policy brief are solely those of the author in his/her private capacity and do not in any way represent the views of the institution.

i Article 79 of UNCLOS states: "1.All States are entitled to lay submarine cables and pipelines on the continental shelf, in accordance with the provisions of this article. 2. Subject to its right to take reasonable measures for the exploration of the continental shelf, the exploitation of its natural resources and the prevention, reduction and control of pollution from pipelines, the coastal State may not impede the laying or maintenance of such cables or pipelines. 3. The delineation of the course for the laying of such pipelines on the continental shelf is subject to the consent of the coastal State. 4. Nothing in this Part affects the right of the coastal State to establish conditions for cables or pipelines entering its territory or territorial sea, or its jurisdiction over cables and pipelines constructed or used in connection with the exploration of its continental shelf or exploitation of its resources or the operations of artificial islands, installations and structures under its jurisdiction.

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