

Important Step has been Made in Supply and Transit of the **Shah Deniz 2 Gas**

Ankara was also under pressure because of a delay in signing a comprehensive agreement on supply and transit of Shah Deniz 2 gas. Baku will decide the exact route of Shah Deniz 2 gas.

- ◆ Problems with Azerbaijan could discourage Turkmenistan from shipping gas across the Caspian
- ◆ Ankara is trying to gain leverage over Baku by showing favour to Moscow
- ◆ Meanwhile, Azerbaijan is hoping that the setbacks will help it secure a better deal

Turkey's government has been affected by the postponement of the signing of a supply and transit deal on the gas from Azerbaijan's Shah Deniz second stage project (SD2). Ankara and Baku did sign a preliminary memorandum in early May, but the document did not cover transit

issues. Finally Azerbaijan and Turkey have signed on October 25 a package of the gas agreements, concerning the second stage of the SD project.

Main breakthrough

It is considered as the basic source for projects "Southern Gas Corridor", alternative to the Russian projects of gas supply of Europe. According to the concluded contract, Azerbaijan will deliver to Europe of 10 billion cubic m of gas annually. The agreement has been signed during visit of president Ilham Aliyev to Turkey. Ilham Aliyev's visit was announced in the Azerbaijan 

press modestly – the president goes to Izmir where together with the prime minister of Turkey R. T. Erdogan will take part in solemn ceremony of a bookmark of the basement of new oil refining factory where the Azerbaijan invested \$5 bln. Actually, Aliyev's meeting with Erdogan has confirmed deep strategic relations between the brotherly countries, packed into a wrapper from variety of grandiose actions, and has struck blow to "Gazprom" positions in Europe.

Besides a bookmark of the basement Aliyev and Erdogan in a video report have opened AYPE-T plant, which will make polyethylene of low density widely claimed in the world. Except 160 thousand

tons of this material the plant will annually produce 11 sorts of petrochemicals. Later, the azerbaijani president and the turkish prime-minister have taken part in a bookmark of construction of other building – Heydar Aliyev Technical and Industrial Professional Lycée. According to Erdogan, the educational institution which becomes the symbolical educational bridge between Aegean and Caspian Seas, urged to personify Aliyev-senior words about Turkey and Azerbaijan: "One nation, two states". The lycée has the whole complex of inhabitant, sports and educational buildings suitable for training almost of 1000 persons. Solemn actions were accompanied by performances of Erdogan and Aliyev in which there was no lack of assurances of an eternal brotherhood, a joint pain about Karabakh and joint struggle for its returning. In this context Erdogan has congratulated Aliyev on election of Azerbaijan as a non-permanent member of the UN Security Council that is capable to facilitate the decision of the Karabakh question. In the same city in Izmir, the first session of high level Council of the Strategic Cooperation between Turkey and Azerbaijan, with participation of ministers and heads of departments of two countries has taken place. Signing of the gas agreement became the main event in Izmir.

Besides the annual deliveries of 10 bcm of azerbaijani gas in the european direction, there was agreed volumes of deliveries of gas to Turkey from the SD2 deposit after 2017 and the transit agreement for transportation of the Azerbaijan gas through Turkey also. Ilham Aliyev has underlined that next years Azerbaijan will essentially increase the gas deliveries within the limits of the contract of the SD 1.

At the first stage of the SD Turkey should receive 6,6 bcm Azerbaijani gas annually, and at the SD second stage delivery will be more than 6 bcm of gas (and more than 10 bcm later). Analyzing the agreements signed in Izmir, the expert S. Aliyev named this event as a "...historical both for these countries, for Europe and the countries of the Caspian region". These agreements have opened a direct way for the Azerbaijani gas to Europe. ►



Heydar Aliyev

Besides it, having signed the given agreements, Azerbaijan has removed last obstacles for realization of some the largest projects, such as working out of the second stage of a huge SD deposit, construction of the export gas pipelines (Nabucco, ITGI, TAP).

The agreement on gas transit will allow Baku to be defined definitively with a route of transportation of the gas to Europe. Earlier pipeline projects Nabucco, ITGI, TAP, entering into the Southern Gas Corridor, have presented offers to the partners in SD, - the route will be chosen by the middle of 2012, according to SOCAR officials. At the same time, these agreements will promote realization of the Transcaspian Gas Pipeline (TCGP).

Crucial step

The postponement of the SD2 agreement was a problem for NGP (Nabucco Consortium), which saw that signing of such an accord was a crucial step towards filling this pipeline. The consortium has indicated in the past that it would like to secure as much gas as possible from Azerbaijan to fill its 31 bcm per year pipeline. It therefore took heart from the European Union's successful bid to secure a commitment from Azerbaijan on future gas supplies in January of this year.

However, as was mentioned earlier, only 10 bcm per year of SD2 gas will be available (the field's second stage will yield 16 bcm per year, but 6 bcm per year has already been promised to Turkey). NGP has said it hopes to fill much of the gap with gas from Turkmenistan. However, G. Rzayeva, an expert from the Strategic Research Centre (SRC) of the president of Azerbaijan, pointed out in February 2011, during a NATO meeting on energy security, that this plan was problematic. There was little chance that Turkmenistan gas can be transported across the Caspian Sea to Azerbaijan by the TCGP for loading into a pipeline to Turkey.

Ashgabat has long been cautious about expressing its opinion on the TCGP project and

has been looking for more guarantees from Brussels. However, it changed its tone in September 2011, when the EU's executive arm, the European Commission, received a mandate to negotiate with Ashgabat and Baku on an agreement to build the pipeline.

But, Iran has joined Russia in voicing opposition to the TCGP project. Kazakhstan has been invited to join the scheme but has not yet formally expressed its opinion.

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Filling Nabucco

Azerbaijan has claimed that it can fill Nabucco on its own. Kh. Yusifzade, the vice-president of the State Oil Company of Azerbaijan (SOCAR), has said repeatedly that the country's gas reserves are large enough for this.

Roland Kobia, the European Union's ambassador to Baku, echoed this point at an industry conference in the Azerbaijani capital. He pointed out that Southern Corridors' projects were not limited to SD2, saying that there were also other deposits in Azerbaijan. These fields could yield a considerable amount of gas, and it is only a matter of time before they come online, he said.

This gas could be transported to Europe by sea, R. Kobia has said. However, the EU views plans for 

gas transportation through Turkish territory as strategic.

Gaining leverage

Azerbaijan appears to have acquired leverage over the EU and Turkey.

On one hand, the EU is keen to avoid gas shortages and sees Caspian deposits as a means to forestall them. As a result, it is chasing Azerbaijan production.

On the other, for a long time, Turkey was keen to turn itself into a key corridor for gas deliveries to Europe. Azerbaijan has hoped to turn this to its advantage. As a consensus, in early November 2011, the state oil company of Azerbaijan (SOCAR) and Turkish pipeline monopoly BOTAS have begun formation of a consortium for export of SD gas from the Azerbaijan sector of Caspian Sea to the European Union via Turkey. I. e. Azerbaijan will export of it's own gas on the border of Turkey to the third countries. Baku becomes a regional energy actor!

Possible consequences

The construction of new gas pipeline (or pipelines) via Georgia and Turkey and signing

of an agreement between Azerbaijan and Turkey on SD2 gas have positive consequences for the EU-backed Southern Gas Corridor projects.

First, it will allow in the ongoing negotiations between the Shah-Deniz consortium and European companies on the purchase of SD2 gas. This is because the final price for this gas can be set recently, because the transit fees are already known.

Second, successful gas negotiations could, in turn, force a promotion of the final investment decision (FID) for the SD2 project. This is because the operators involved in that project may base their decision on the commitments made by european buyers (it should be noted, however, that Russia and other buyers have offered to take as much gas from SD2 as possible.)

If SD2 will go in "stamped schedule", azerbaijani SOCAR may also start an actions on the AGRI (Azerbaijan-Georgia-Romania Interconnector) project, which will shipping gas to Europe in the form of liquefied natural gas (LNG), as well as a plan for working with Bulgaria to arrange shipments of compressed natural gas (CNG) from Georgian Black Sea terminal Kulevi, which belongs to SOCAR. Such developments would send a positive message to Turkmenistan about the viability of TCGP.

The excellent pace of negotiations between Azerbaijan and Turkey on SD2 gas supply and transit could tip the balance against the Russian interests. As long as the EU's Southern Gas Corridor plan is close to being implemented, conditions will be against for the Russian alternative – the South Stream project.

Note:

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