NABUCCO PIPELINE POLITICS

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Introduction

The vast expanses of the former Soviet Union harbor oil and gas riches will be crucial in fueling the global economy of the 21st century. The huge oil reserves, estimated at over 25 billion barrels, under the Caspian Sea in the Central Asian and South Caucasus republics of Kazakhstan, Turkmenistan, Uzbekistan and Azerbaijan are similar to those in Kuwait and larger than those in Alaska’s Northern Slope and the North Sea combined.

Control over these energy resources and export routes out of the Eurasian hinterland is quickly becoming one of the central issues in post-Cold War politics. Like the “Great Game” of the early 20th century, in which the geopolitical interests of the British Empire and Russia clashed over the Caucasus region and Central Asia, today’s struggle between Russia and the West may turn on who controls the oil reserves in Eurasia. On the other hand Moscow is attempting to ensure that the only route for exporting the energy resources of Eurasia will pass through Russia.

Seen historically opportunities to link the Caspian Region’s gas to Europe have always been difficult and not successful. The Caspian region has strategic significance to the West, where both West and East have their eyes on. While US reserves are running down, China is desperate for more oil, and no one outside the Gulf wants to rely on Saudi Arabia, Kuwait or Iraq which have the biggest oil reserves. Europe’s options in natural gas are limited and the Caspian Sea region presents the best opportunity for Europe’s diversification in natural gas. The Europeans have been exploring various options for accessing Central Asian and Caspian energy without relying on Russia especially after the Russian-Ukraine crises and Russian-Georgian war. The Turkey-Greece Inter-connector was a small first step. But the project that could make a bigger difference to Europe’s energy security, and to Turkey’s role as an energy hub, is Nabucco. The idea of Nabucco gas pipeline, which emerged in 2002, is closely connected with the logic and spirit of two other projects, Baku-Tbilisi-Ceyhan (BTC) oil pipeline and South Caucasus gas pipeline or Baku-Tbilisi-Erzurum (BTE) where these two projects bypassed Russia.

In 2002, Turkey and four other European countries (Bulgaria, Romania, Hungary and Austria) agreed to build the Nabucco pipeline to transit gas from Caspian Sea to Austria, allowing European countries to buy gas from Caspian basin, without having to rely on Russia. Countries that will supply Nabucco pipeline with gas are Azerbaijan, Turkmenistan, Kazakhstan, Egypt, Iraq and maybe Russia and Iran.

But Nabucco is facing many obstacles and difficulties due to the political instability in the region. What are the key reasons for the failure?

- Russia is putting “veto” on Georgia’s participation in the project.
- Political conflicts between Azerbaijan and Turkmenistan which are the main suppliers of the pipeline.
Future military operations on Iran.

Lack of interest and political support from transit states.

A major power retreated from the initiative (US-in case of Iran’s participation in the project) or blocked the project (Russia-in case of Georgian participation in the project).

The important and the most paradoxical question is will Nabucco succeed? Could the West “defeat” Russia’s regional ambitions and how this class will shape the Armenian-Turkish relations?

Role of the West

Russia’s invasion of Georgian territory (which was a setback for Europe’s planned Nabucco pipeline), in addition to reasserting Moscow’s military strength, has complicated Europe’s effort to diversify its oil and gas supplies away from the growing dominance of Kremlin’s controlled energy giant Gazprom. According to the US Department of Energy Europe’s demand for gas is expected to rise more than 50% in 2025.

Europe gets a quarter of its gas from Russia, with 80% of it passing through Ukraine. Germany, Europe’s biggest economy, receives more Russian gas than any other European country and relies on Moscow for almost 40% of its imports, which come through either Ukraine or Belarus. From 2006-2007, for example, France relied on Russia for only 36% of its natural supply. While on the other hand, Slovakia, Bulgaria, and the Czech Republic relied on Russia for 100%, 96%, and 79% of supplies, respectively [1].

Diversifying the supply of gas away from Russia has become a priority for the EU in the wake of a recent spat between Russia and Ukraine that left millions of Europeans without heating in the middle of a winter cold snap [2]. Therefore Nabucco would be the only solution to reduce Europe’s dependence on Russian natural gas delivered through Ukraine [3].

In case of Azerbaijan and Turkmenistan couldn’t reach to a final solution, Iranian transit pipeline could be constructed that will link Turkmenistan to Iran and these two will supply Nabucco with their gas. Iran controls the largest reserves of natural gas after Russia. After some agreements were signed between Turkey and Iran over Nabucco, the US State Department told Turkey that it would withdraw its support for Nabucco if the pipeline pumps Iranian gas. Reuters reported that US special energy envoy Richard Morningdtar said that Washington will oppose the use of Iranian gas in Nabucco. Unrealistic expectations of filling Nabucco with Iranian gas have also created tensions between Europe and the US over the issue and delayed project. It’s paradox that neither the US nor Europe seem to appreciate the meager potential that Iran actually possesses in filling Nabucco, because of Iran’s nuclear program [4]. In addition, the Tabriz-Erzurum pipeline has also been vulnerable to attacks by PKK militants and numerous explosions have disrupted its operation. Therefore as we mentioned that Russia is against Georgia’s participation in Nabucco and USA is against Iran’s participation so the only way to link South Caucasus to Turkey would be Armenia, that’s why the West was trying to speed up the Armenian-Turkish relations and Turkey open up its border.
Role of Russia

Moscow has gone beyond words to establish its power in the Caucasus. The Russians set up military bases in the region (Armenia, Abkhazia...) in order to gain exclusive control over all future pipelines. Nabucco is Russia’s nightmare, for if this pipeline is built, Moscow, specifically Russian gas giant Gazprom, would lose its monopoly over the Eurasian gas transit markets and Nabucco will “free” Europe from Russia’s energy bondage. Therefore, Kremlin will use its gas as political weapon against EU countries. By bypassing Russia, the Nabucco project, caused Western and Russian interests to clash in South Caucasus. Hence to defeat Nabucco Russia could follow three strategies: The first strategy is the most obvious: “if you cannot defeat your enemy, buy it”. Russia will try to sell gas to the Nabucco pipeline. With Russian gas in it, Nabucco would become yet another Gazprom project, ensuring Russia’s continued monopoly over the Eurasian energy markets. The second Russian strategy would be to ensure that Nabucco is not built. To this end, Moscow might coo one more of the five European Nabucco partners away from the consortium, or persuade potential gas-providing countries, such as Azerbaijan, Turkmenistan, and Kazakhstan, to stay away from Nabucco. The third strategy would be breaking the Nabucco chain in the Caucasus where Georgia is the weakest link. Some saw Russia’s war against Georgia, in 2008, as driven by territorial ambitions over South Ossetia and Abkhazia; but viewed from Nabucco perspective though, this war is born out of Moscow’s ambitions to amputate and cast Georgia as a weak and unreliable state on the Nabucco corridor. [5] Georgia is a key country for Nabucco. While the Turkish-Armenian border is closed, Georgia is the only country linking Turkey with Azerbaijan and the Caspian. If Georgia will withdraw from Nabucco, the pipeline could not build, unless Turkey opened its border with Armenia. However, Nabucco would face another hurdle: if turkey established ties with Armenia, Azerbaijan, offended by Turkey would desist from partnering with Ankara in Nabucco: Russia in both cases would be the winner. This chess board provided clues about Moscow’s Caucasus policy: promoting Turkish-Armenia rapprochement for the end goal of creating discord in Turkish-Azeri ties; win Azerbaijan over, if necessary by breaking a deal in the Azeri-Armenian conflict, for Armenia is not going to abandon Russia. As a result Russia offered to buy all of Azerbaijan gas output at world prices. According to Azerbaijan this is an extremely seductive offer, since it has long sold gas to Turkey and Georgia at prices far below the world rate. Russia also wanted to destabilize Georgia so it becomes even more unreliable along Nabucco’s path. In addition, Russia has enjoyed a complete monopoly over the Armenian market by the hands of ArmRusGazprom Energy Company. Hence incase the Nabucco pipeline passes from Armenia, (instead of Georgia) Nabucco will be controlled by Gazprom. Moscow’s strategy is to win over all three Caucasus countries. If successful, this strategy would make Nabucco a “pipedream”.

Role of Turkey

Turkey is a crucial partner in the Nabucco project, which Europe is counting on to ease its energy dependence on Russia. During 1987-1994 Turkey was dependent on Russian gas
One July 2006, Azeri gas arrived to Turkey through Baku-Tiblisi-Ceyhan pipeline which increased Turkey’s profile as an energy hub.

Nabucco will allow Turkey to play a bigger role in regional energy diplomacy by keeping open the window to the West for Caspian energy producers, especially Turkmenistan and Azerbaijan. And it will help build stronger relationships in the Middle East by providing viable export options from Iraq and perhaps one day Iran. Lastly, it will provide a critical alternative to reliance on Russia for natural gas supplies.

According to Turkey’s energy minister Taner Yildiz “Turkey is willing to buy at a cost reflective price 15% of the gas that ship through the pipelines via the territory of Turkey”. Ankara is also demanding higher transit fees and the right to use some of the gas rather than simply sending it all to Western Europe (noting that 60% of the pipeline will lie on Turkish land). On January 19 2009 in Brussels, Turkish Prime Minister Receb Tayyib Erdogan threatened to “reconsider” his country’s participation in the Nabucco gas transit pipeline project unless the European Union promptly opened negotiations on the energy chapter in the Turkey’s EU accession process [6]. This confounded EU officials who just weeks earlier thought the main obstacle to a deal was overcame. Richard Morningstar, US energy envoy said “Turkey does not have to satisfy internal gas demand but it also has a strategic vision, I believe it wants to play a role in the Caucasus and Central Asia and this project is a way to do it”. [7] Turkey is using Nabucco as leverage to boost its bid for EU membership.

Turkey, a member of the Nabucco consortium, continues to pose difficulties for the project. According to Franfurter Allgemeine Zeitung, “Ankara seeks onerous concessions for allowing Azerbaijani gas to move westward to Europe. It is also using its participation in the Nabucco project as a bargaining lever in Turkey’s accession negotiations with the EU. Turkey risks scuttling its own accession prospects, if it holds up the Nabucco project to spite the EU”.

Impact on Armenian-Turkish relations

Turkey was one of the very first states to recognize Armenia’s independence in 1991; but it never followed up to establish relations. Several difficult issues divide the two states. One of them is Turkey’s position that Armenia should renounce any claims on the territory of the Turkish Republic. Another is Armenia’s insistence that Turkey recognize the Armenian Genocide. A third is Turkey’s demand that Armenia withdraw from the territory of Azerbaijan that it “occupied”. [8]

Previous developments in Armenia–Turkish relations has yielded an unexpected outcome, as reported by Kommersant.ru, there had been talks in Ankara for Armenia to join the Nabucco pipeline project. Similar statements were echoed immediately after Armenia and Turkey announced on making a protocol to establish Armenian-Turkish diplomatic relations.

Director of the Turkish Center for International Relations and Strategic Analysis, Sinan Organ, said to Kommersant.ru, “Early on in the process of establishing Armenian-Turkish diplomatic relations, Armenia’s Minister of Foreign Affairs Edward Nalbandian made it known that Armenia is ready to participate in energy projects in the South Caucasus...when the Russo-Georgian war started a year ago, I was predicting that the Nabucco pipeline would pass from Azerbaijan through Armenia toward Turkey”. [9] According to Elhan Shahinoglu, director of the Atlas Political Research Center, “Azerbaijan can accept Armenian participation in Nabucco if Armenia is “fairly flexible” about Karabakh.”. But the situation had become more complicated following the war in Georgia, and the cooling of relations between the US and Russia. Experts
maintain that Moscow is not in favor of a rapid solution of the dispute over Nagorno-Karabakh, which would favor the normalization of relations between Turkey and Armenia, and could involve Yerevan in the “anti-Russian” Nabucco project. But the experience of Georgia is prompting the sides to seek a rapid solution. Furthermore, official establishment of diplomatic relations between Turkey and Armenia evoked a very harsh reaction from Baku, which is still in war-like state with Armenia about the region of Nagorno-Karabakh. On October 14, 2009 when Armenian President was in Ankara watching a football match with his Turkish counterpart, Azerbaijan signed a deal to sell each year 500 million m3 of natural gas to Gazprom. That is why Russian foreign minister Sergei Lavrov so actively supported the Armenian-Turkish agreement; Moscow managed to woo one of the most important potential suppliers for Nabucco.

Turkish President Abdullah Gul also revealed that there has not yet been any movement on the matter of Turkey ending its economic embargo against Armenia. The AzeiTaj news agency reported Gul as telling a Turkish Diaspora group on September 28 2009 that “no talks over the border re-opening with Armenia re- possible before Armenia’s liberation of Azerbaijani occupied territories”. [10]

What could Armenia gain?

The Armenian economy contracted by 15.7% in January-May 2009. In addition, imports exceeded exports in Armenia almost five times and the negative balance of trade totaled more than $1 billion. Considering the sharp increase of Armenia’s foreign dept in the past several months the situation of Armenia became “alarming”. [11]

Armenia would like to see Turkey lift the blockade it imposed in 1993. The blockade has stunted landlocked Armenia’s economic development, leaving it dependent upon Georgia and Iran. The disruption caused by Russia’s invasion to the operations of Georgia’s ports, rail lines, and roads has hit Armenia’s economy especially hard. Indeed, even before this most recent war, it was clear that Armenia’s lack of relations with Turkey had left it excessively dependent upon Russia. [12]

The Nabucco project is of interest of Armenia due to several reasons:

Firstly, the project of the pipeline is carried out in our region and it would create new infrastructural relations in the line of import of Caspian and Iranian gas to the European market.

Secondly, the pipeline is directly connected with the political relations, which, despite the fact that whether the gas pipeline goes through Armenia or not, concerns its interests.

Thirdly, the normalization of the Armenian-Turkish relations and activation of the negotiations on Nagorno-Karabakh one may have an impression that it is possible that
“Nabucco” would go through the territory of Armenia. Noting that if Nabucco passes from Georgia it will be expensive since the pipeline will be longer and the EU will spend a lot of money on that. [13]

Fourthly, if Nabucco passes from Armenia, Armenia could impose pressure on the neighboring countries even in the long-run on EU. But it is wrong to say that Armenia would join “Nabucco” project automatically after Turkey opens the border.

**Azerbaijan’s role**

The Azeri economy has been expanding at a rate of 25-30% GDP growth annually. In 2003 the budget of Azerbaijani government was approximately $3 billion. In 2008 it reached $12 billion. Poverty has been reduced from 50% to 60%, and unemployment has virtually disappeared. More than $1 billion has been invested in roads, bridges, and underpasses. In addition, more than 1600 new public schools were built in the past 7 years and more than 600 were repaired. [14]

Since the late 19th century, the oil in Azerbaijan has played a key role in the economies of Russian empire and Soviet Union, as well as the global energy market [15]. There are number of gas fields in the Caspian Sea which will be of particular importance to Europe: primarily Shah Deniz in Azerbaijan and other offshore fields on Azeri territory such as Nakhichevan and Gunashli. According to Azeris the Shah Deniz was the place that made Azerbaijan “independent from Russia”. [16] Azerbaijan has apparently decided to play its energy card.

As much of the word applauded Turkey’s historic rapprochement with Armenia, Azerbaijan felt left out in the cold and abandoned by its closest ally. Baku had argued strenuously that a deal to reestablish relations between Ankara and Yerevan should not be signed while Armenia continued to “occupy” Nagorno-Karabakh, and it treated to take unspecified countermeasures if one was. Speaking at a nationally televised cabinet meeting on October 16, 2009, Azerbaijani President Ilham Aliyev revealed one of those steps: “It is not a secret to anyone that for many years Azerbaijan has been selling its gas to Turkey for one-third of market prices...What state would agree to sell its natural resources for 30% of the world market prices, especially under current conditions? This is illogical”. If Baku follows one move, analysts say it could severely undermine—if not completely kill—the Western backed Nabucco pipeline project to bring gas from the Caspian Sea to Europe via Turkey. As Turkey-Armenia rapprochement gained steam, before 3 years, Aliyev began moving closer to Moscow where the same day when Armenian President Serzh Sarkissian was in Turkey, Azerbaijan signed a deal with Moscow. Speaking about the deal, Aliyev said the 500 million cubic meters was just a starting point and that there was “no upper limit” to the amount of gas Baku could sell to Russia. [17]

Azerbaijan’s commitment should, however, not be taken for granted indefinitely. If the Nabucco project suffers further delays—whether for insufficient EU support, Turkish obstructions, or some other reasons—Azerbaijan may find it difficult to resist Russian inducements and pressures, Russia is currently arming the Armenian military while playing the Karabakh card with Azerbaijan [18]. Loyalty to Nabucco means that Azerbaijan loses short-term commercial opportunities to sell gas to Russia while irritating Moscow politically. The EU needs to resolve this dilemma soon. As Azerbaijan’s Minister of Foreign Affairs Elmar Mammadyarov declared in 2009; “The Russians have offered a deal. But there are different options on the table. At the end of the story it is our gas”. [19]
Therefore we can assume that the Azerbaijanis could be saying to the West and Turkey that if you are not supportive on Nagorno-Karabakh, we will abandon Nabucco.

**Conclusion**

Nabucco is not only energy project but it is also political project. It’s directed to the reduction of the role of Russia as the main supplier of natural gas to Europe. This is the main and the only aim of the project. For sure that Western and Russian foreign policies will clash against each other in the South Caucasus as had seen in Georgia and maybe in the near future at Nagorno-Karabakh. So far, only Azerbaijan has committed itself to supplying gas to Nabucco, but it can only fill a fraction of the pipeline’s capacity. Other potential suppliers, such as Turkmenistan or Iran, are problematic for logistical or political reasons.

And while Turkey’s role as a transit route is crucial, Nabucco is under threat of being held hostage to the politics of Ankara’s troubled EU membership bid. Nabucco could also be undercut by Moscow, which suggests that Europe diversify its shipment routes by constructing South Stream, a pipeline that would bring Russian gas under the Black Sea to Bulgaria. Moreover as the Armenian-Turkish relations are halted, and with Russia’s veto on Georgia and USA’s on Iran, things are becoming more problematic. Nabucco is turning pipeline economics on its head. Normally you find gas and then start to build a pipeline; now Nabucco member states are building the pipeline, before looking for gas. Nabucco projetc is becoming the West’s pipedream and Russia is winning the “Great Game”.

**References:**

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