Diversification and interdependence: Emerging realities and potential players in the Russian-Western energy equation

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Abstract

This paper looks at the current state of affairs in international energy relations in terms of constants and variables – the latter greatly outnumbering the former – and how these bear on energy relations and planning. Systemic weaknesses in the energy market and emerging clients, potential suppliers and transit routes are considered, as is the fluidity in market relations, with given players pursuing policies and projects that undermine the stability, if not the viability, of energy markets, collaboration and healthy competition.

Attention is then focused on how geopolitical, strategic and other factors impact energy issues, which are among the thorniest in Russian-Western relations, pointing to the need for a set of commonly accepted rules for regulating the trade in energy and rewarding those who honour agreements and facilitate accountability.

Linking the second and third focal points is Russia’s objective of creating a network of alternative (non-Ukrainian) natural gas storage and delivery systems that would ensure a smooth flow of energy to European markets, even in times of crisis. Southeast Europe is among these alternatives, and it is argued that despite Moscow’s using the inducement of new energy corridors to diversify the region politically, Western sway in the region is virtually unassailable, and – even if alternative corridors are viable – Ukraine will remain an important hub. It is thus argued that in addition to pursuing its EU perspective resolutely, Southeast Europe needs to seek alternative suppliers, additional sources and a common energy future (including a joint network) if it wants to avoid being caught in the Moscow-Washington geopolitical crossfire.

Finally, looking at how a more flexible and predictable Iran could figure strongly in the equation (though Tehran has a long way to go before it will be able to provide a significant, uninterrupted flow of gas to the West), this paper shows that in light of Russian-Western interdependency and compatibility as partners, it is in the best interests of both sides to develop a framework if not for sustainable cooperation, at least for healthy competition.
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Russian-Western energy equation

The world is currently in transition from the first phase of globalization (1986-2006) to a second phase. The first phase was characterized by the ascendancy of neo-liberal doctrines grounded in Anglo-Saxon thought. Currently, however, the deification of markets is receding across the globe. At the same time, “Eastern authoritarian democracy” is gaining a broader role on the world stage. The global system – institutions and mechanisms – continues to be dominated by the West, so that to a significant degree the West continues to determine the course of developments. But the state of affairs has changed, and emerging markets and powers are looking to formulate new rules and gain greater and more substantial participation in decision-making; they want a greater say in developments.¹

So those who predicted that globalization would be a walk in the park for the West were wrong. Today, peripheral countries (China, India, Brazil) are reappearing on the world stage, and others, rich in energy reserves (Arab countries, Iran, Venezuela), are steadily building strong influence in their immediate neighborhoods and on a wider, global landscape. A third path is being discussed in the international debate; one beyond reform and revolt: the path of the Rest without the West. On this path, Russia, China and India are intensifying relations amongst themselves without the mediation or input of the West, developing their own internal rules and regulations. They are creating – amongst themselves – joint ventures, infrastructure networks, investments, information networks; they are carrying out banking transactions and developing special networks for separate markets. All of this is supplementary to the existing structures controlled by the West.

Among the Rest, we see a tendency not only towards a growth in populations, transactions and productivity as compared to the West, but also towards a changing balance in relations with the West. “But what we see is in the direction of parallel reconstruction of the world, rather than a revision of the current order, while the recent financial

¹ Nikos Kotzias, Professor at the University of Piraeus, during a series of discussions with the author.
crisis has highlighted the growing interdependence between the West and the Rest."²

The role of energy diplomacy in inter-state relations has been and will continue to be catalytic. One of the precipitating causes of the Japanese attack on Pearl Harbour was the U.S. decision to drastically limit oil exports to Japan following the latter’s invasion of China. Oil was also an important factor in the overthrow of Iran’s elected prime minister by the U.S. and Britain in 1953, while the honeymoon with Saudi Arabia resulted from Western recognition that it no longer enjoyed energy self-sufficiency by the early 1970s. Two years ago, in fact, declassified Foreign Office documents revealed that the U.S. was planning an invasion of Saudi Arabia at the time of the 1973 embargo.³

Fast growth in India and China and the resulting increased demand in a market with a population of some 2.5 billion determine to a significant degree the foreign policies of New Delhi and Beijing. In China’s case, due to its permanent seat on the UN Security Council and its power of veto, if a state wishes to impose tougher sanctions on some of its suppliers, it will have to bear in mind that Beijing will probably attempt to avert the imposition of harsher measures (as it has already done) that might interrupt the smooth flow of energy towards China. Moreover, China’s extensive political and economic penetration into Africa is aimed at securing a share of the African continent’s mineral wealth to cover Chinese energy needs. But there are also broader geo-political, security and trade considerations that are of paramount significance for Beijing, and this is clear from the deepening of Sino-African relations that preceded the discovery of energy sources on the African continent and the significant Chinese population inhabiting the continent.

Meanwhile, the European Union will continue – at least through 2030 – to import two thirds of the energy it consumes (and at increasing rates), and the absence of a cohesive and common European strategy on this issue augurs ill for the resolution of this impasse. A number of EU countries have, after all, entered into bilateral agreements with states such as Russia in order to secure the required energy supplies, further weakening the chances of the Union’s hammering out a common policy towards Moscow. Germany, for instance, defying its NATO and EU partner Poland’s objections, joined Russia in promoting the Nord Stream

² Ibid.
pipeline, which will circumvent Poland and Ukraine – countries with a tendency towards insubordination to Moscow – carrying Russian natural gas directly to Germany via off-shore pipeline.

As for the evolving situation in the oil market, Alexey Miller, Gazprom’s Chairman, described it in detail a week ago. Among other things, he argued that “structural changes on the oil market did not take place. Oil prices continue to excessively depend on ‘non-energy’ factors. [...] In consequence, this means that producers will not invest because of systemic price risks. I believe the current situation does not give raise to optimism amongst energy importers. The prices are already relatively high, while there are still no guarantees that further increases in demand will be supported by a sufficient growth of investments and the resource base. Expectations remain that trimmed capital expenditure programs of international oil majors caused by the high volatility of the crude oil market will reduce production capacities and oil supply on the market in 3-5 years. Investments into geological exploration and production in the global oil and gas sector will fall by over 20% in 2009. If capital expenditure is not restored, the forecast of ‘150 USD per barrel of oil in two to three years’ voiced by Saudi Arabian representatives at the Energy Forum in Rome in May will come true. And as the global economy is expected to improve at some point, demand for oil will also grow but “in the absence of investments, the world is likely to face another vicious cycle of price spikes.”

Right now -- and more than ever before -- there are obvious signs of systemic weaknesses in the energy market in general, and especially in the oil market. It is therefore imperative that a revision be carried out of practices in the operation of the oil market, and that “efforts to reduce uncertainty and ensure stability and steadiness” be redoubled.

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5 We certainly need to bear in mind that his perspective reflects the agency he represents; the producer/supplier side of the coin, despite his not being a member of OPEC. But his view is included in this analysis because it is a snapshot of the prevailing trends, objective difficulties, disparate interests, contradictions and vulnerabilities of the oil market.

6 Alexey Miller, Gazprom’s Chairman in his speech during the 12th Annual General Assembly of the European Business Congress at Porto Cervo, Italy, June 10-11, 2009.

7 Khalid A. Al-Falih, Saudi Aramco’s Chief Executive at a Conference in Washington.

8 According to a Statement issued by Bric countries (Brazil, Russia, India, China) during their first Summit in Yekaterniburg, June 16, 2009.
In this light, it is encouraging that due to a lack and insufficiency of investment, oil producing countries (i.e. Venezuela) “which had been reticent to allow foreign investors access to their oil fields when prices were rising, have started to loosen up the rules again. The sudden drop in oil prices has hurt countries where petroleum exports account for the bulk of government revenues”.\textsuperscript{10} But at the same time, we cannot rule out that this situation might drive them to less conciliatory approaches and demands for greater gains from investors; Iraq, by the by, recently attempted to set the rules of the game when it sought “multi-billion dollar loans from oil companies as a condition for granting them access to its formidable reserves.”\textsuperscript{11}

Beyond that, the absence of a legal framework – or even commonly accepted regulations – in energy relations increases the advantage of providers and hub countries. It is no coincidence that Russia – on a number of pretexts – has refused to ratify the Energy Charter. Arguing, quite reasonably, that the Charter does not take into consideration the new state of affairs in the sector, Moscow also wants to avoid making commitments through a regulatory framework, preferring to retain the freedom to move outside the Charter, somewhere between market practices and the most effective possible promotion of its strategic interests.

As shown by the most recent Moscow-Kyiv crisis, however, the absence of a body whose decisions are respected, in combination with the absence of institutional backing for the side that honors agreements, leads to a lack of accountability and leaves the energy market and, by extension, consumers at the mercy of bilateral conflicts that may not even be exclusively energy related (the Russia-Ukraine conflict had dimensions beyond that of energy). Bulgaria, for instance, which is totally dependent on Russian natural gas – and which was hard hit by the extended shut-down of the Ukrainian network – demanded compensation from Gazprom, which pointed its finger at Ukraine, which in turn denied responsibility and tossed the ball to the Russian side. So Sofia cannot in these circumstances guarantee its legal interests.

\textsuperscript{9} According to New York Times (May 19, 2009), Venezuela is holding its first exploration licensing round since 2000 and Chavez is suddenly eager to strike deals with foreign investors to pump more oil. The country’s cash-strapped government, for example, is seeking a complex three-way deal involving China National Petroleum Corp. and Total, to produce and refine oil reserves.


\textsuperscript{11} Ibid.
The WIEN Group, too, argues for the urgent need to deal effectively with the absence of a mechanism for consultations, the lack of consensus on a framework of rules and terms, and the lack of a sufficient legal framework. Compiling the various suggestions put forward in the wake of the January 2009 Russia-Ukraine crisis, the WEIN Group published specific proposals\textsuperscript{12} for confronting a potential future crisis, sounding the alarm in the EU and urging it to

- look for interim financing solutions (for example, bank guarantees for payment of at least one month of natural gas needs) for Ukraine, in case of a failure on Kyiv’s part to meet contractual obligations. This will have to involve appropriate institutions, such as the World Bank, the IMF, the European Bank for Reconstruction and Development (EBRD) and commercial banks;
- maintain an observer mission on Ukrainian territory and promote improved exchange of information via observers, who will be in a position to report on the transit (to European markets), storage and consumption of gas from Russia;
- ensure the implementation of directives by Russian, European and Ukrainian stakeholders involved in preventing and resolving transit conflicts;
- make it clear to all involved parties that the January 2009 commercial disagreement did long-term damage to the countries’ images, rendering uncertain the prospects of natural gas as a fuel on the European energy market;
- establish a level playing field for all stakeholders, based on trilateral dialogue;
- look at the possibility of setting up an independent technical and financial monitoring agency charged will collecting transit data that can be made available to each stakeholder following a relevant request as a party to the process for resolving differences.

**Current state of play in Russian-Western energy relations**

Energy is without a doubt among the most challenging issues in Russian-Western relations. Disparate interpretations of the term ‘energy security’, as well as a failure to differentiate other problematic areas – such as broader geopolitical rivalry – from energy, have

\textsuperscript{12} “WIEN Group Concerns Regarding a New Russia-Ukraine Gas Crisis”, found at http://www.energia.gr/article.asp?art_id=27622, 3 June 2009.
resulted in a vicious cycle of standoffs and reciprocal accusations that perpetuate a climate of distrust.

As a basic energy supplier and hydrocarbon transit hub, Russia is turning this state of affairs to account, sometimes aggressively promoting its interests around the globe, while also controlling the game at home by keeping the largest energy companies and pipelines under state control, and thus dictating the rules of competition and increasing the Kremlin’s clout in negotiations with foreign investors. Even the judicial system and state services in general serve this end: cases of clamping down on environmental issues, tax evasion and non-fulfillment of contracts have resulted in companies like BP, Chevron, Exxon-Mobile and Shell being brought to heel and adapting to a modus vivendi with the Russian government.

Russia is also capitalizing on its control of the pipeline network in the post-Soviet space, offering better financial terms and the prospect of infrastructure projects to energy-rich former Soviet republics, ensuring better access to greater quantities of energy that it can use as it sees fit. This also means better terms for the creation of new routes that will help Moscow secure its interests more effectively and more economically. Within this framework, Russia is promoting Nord Stream (direct offshore link with Germany) and South Stream in order to minimise its dependence on a recalcitrant Ukraine and increase its share of the European energy pie. Meanwhile, stockpiling of profits from sales of oil and natural gas in previous years strengthened Moscow’s buyouts abroad, while also enabling it to use a large portion of these profits to soften the blow from the current global financial crisis.

At the same time, Russia comes across as wanting to diversify its exports to the benefit of Asian markets, with the possible ulterior motive of playing its energy ‘partners’ – that is, the EU, China and India – off against one another: the Kremlin’s stated intention of earmarking 30% of its oil exports over the next 15 years for Asian buyers, if

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13 There is, however, the issue of whether and to what extent Russia will continue to buy natural gas from former Soviet republics at high prices, limiting its resale profit margins and burdening Gazprom’s budget. There is the danger that Russia’s efforts to corner gas exports from Kazakhstan, Turkmenistan and Uzbekistan to the West will prove too costly. Thus, Gazprom may well be forced into a gradual reduction of gas purchases from these sources, leaving an opening for its Western partners to deal directly with the sources. In fact, some of the aforementioned former Soviet republics are already reorienting themselves towards eastern markets, where Russia’s role and position in controlling exports is much more limited, though it must be noted that Moscow retains the advantage of its participation in the production process.
followed through on, will drastically limit its exports to the West.\textsuperscript{14} By stoking East-West competition for greater access to Russian energy reserves, Moscow’s leadership essentially hopes to attract investments, but mainly on its own terms. However, Europe, to date, is a more favourable market for Russian gas,\textsuperscript{15} as 

- Historically, natgas has not been a major fuel in China. As of 2006, natural gas accounted for only around 6 percent of total energy consumption in China. Beijing in 2006 produced more gas (1800 billion cubic feet) than it consumed (1600 billion cubic feet). The International Energy Agency has forecast that Chinese net gas imports will not grow significantly, and energy demands will be satisfied mostly through LNG (crucial agreements with Australia) and coal.

- The bulk of China’s energy needs is concentrated in its Southern and Eastern areas, land pipelines from Russia do not offer a solution.

- There is very limited pipeline capacity from western Siberia for gas supplies to China. A large share of the gas transported through pipelines in the area is consumed by various Russian regions. A new, large-scale pipeline from western Siberia is therefore required.

- There have been negotiations for supplies through the ‘Altai’ pipeline, but Russia is reluctant to allow Chinese access to significant upstream assets. Sakhalin-2 LNG is already contracted to other countries.

- Russia and India are separated by high mountain ranges and turbulent areas (Afghanistan and Pakistan), so pipelines from Russia are not a realistic option.

Looking at the energy issue from a consumer perspective, the West is pursuing a two-pronged approach: diversification of its energy suppliers, on the one hand, and gradual reduction of its dependence on hydrocarbons through the use of alternative forms of energy, on the other. The emergence of oil- and natural gas-producing ‘champions’ as key states in the energy community has heightened Western concerns

\begin{itemize}
\item Vladimir Milov, Russia’s former Deputy Energy Minister in a roundtable discussion at Chatham House, September 2006.
\end{itemize}
regarding state intervention in the rules regulating the international energy market. The fact that 79% of global oil production rests in the hands of state-controlled companies bears out these concerns.\textsuperscript{16}

Whatever the case, in Western circles there are two inclinations – with a common thrust, but different points of departure. The US – which by the by is not dependent on Russian oil or natural gas\textsuperscript{17} – wants on the one hand to limit the energy-based leverage Russia wields in its wider neighborhood, and on the other to undermine Moscow’s quasi-monopoly on the transport of Caspian reserves to Western markets.\textsuperscript{18} Within this framework, it is endeavoring to create conditions (while ignoring certain objective realities)\textsuperscript{19} for the circumvention of Russia through new transport networks, while at the same time trying to ensure the economic viability of Ukraine and Georgia,\textsuperscript{20} so that they can be pointed to as countries where the gradual strengthening of democracy\textsuperscript{21} neutralizes Russian leverage.

Europe, on one level, is trying to forge a cohesive, common energy policy vis-à-vis Russia, but has so far been unsuccessful because a number of EU member states are very heavily dependent on Russian natural gas. In fact, it is a structural obstacle for Brussels that the respective energy monopolies in the EU states are pursuing privileged partnerships with Gazprom – negotiating one-on-one agreements and concluding long-term contracts in order to secure the provision of maximum quantities of natural gas to their domestic markets – thus hindering Brussels’ efforts to avert a hostage situation in which Russia will be holding the gun.

On another level, Brussels is trying to persuade Moscow to open its market, as lack of investment in gas exploration and development, especially in the far north and eastern Siberia, may result in Gazprom’s inability to meet supply targets in the next decade, while the optimum use of gas exports by the Kremlin to pressure Ukraine and, to an extent, Moldova clashes with the EU’s preference for their development.

\textsuperscript{16} Richard Lugar (US Senator), September 2006.
\textsuperscript{17} Despite the fact that Russian companies are active in the US market, mainly in petroleum products (e.g., gasoline).
\textsuperscript{19} Among these are the overly optimistic projections for Azerbaijan’s production potential. The Baku-Ceyhan pipeline, with a 50-million-ton-per-year capacity, carried a mere 29 million tons of crude to Western markets in 2006.
\textsuperscript{21} As Washington appears to perceive it.
Obstacles to energy diversity: Russian confidence and Western uncertainty

Beyond Russian-Western energy dilemmas, and given that we should not exaggerate Russia’s role in the energy market (e.g., no power when it comes to determining prices), we must not overlook certain facts with regard to the Caspian basin and Central Asia; facts that bear on Southeast Europe as well, and make the energy-diversification puzzle extremely difficult to solve:

A. The deals\textsuperscript{22} Russia has made recently with Kazakhstan (rich mainly in oil, but also natgas), Turkmenistan (natural gas) and Uzbekistan (potential strong player in natural gas) mean Moscow controls a large portion of their exports, thus strengthening its position vis-à-vis the West and limiting the European partners’ potential share in the energy pie; limiting, that is, the extent to which the states in question can enter into direct agreements on supplying energy without Moscow’s participation or consent. So Russia has secured a potential role as a mediator/bridge between Brussels and hydrocarbon-rich former Soviet republics, with the salient objective of denying the EU the option of negotiating directly with these countries with regard to current fields. By stepping up its promotion of projects like South Stream, Russia clearly intends to

1. get commitments from as many clients as possible;
2. get commitments from suppliers by involving them in such projects, and
3. get a jump on the competing projects being planned.

Gazprom is also at risk from its haste in concluding the abovementioned agreements and paying such high prices for natural gas: Valery Golubev, the deputy Chairman of Gazprom’s Management Committee, recently stated that because natural gas from Turkmenistan “cannot be resold”, there will have to be a reduction in either the quantities Gazprom is purchasing or the prices it is paying. To justify this, he pointed to this year’s 40% fall in gas deliveries to Ukraine, which consumes mainly natural gas imported by Russia from Turkmenistan and then resold to Kyiv. It should be noted that in July 2008, Gazprom agreed to pay the European “market price” for Turkmenistan’s natural gas starting in the

\begin{footnote}{Among them, the Caspian Littoral Gas Pipeline (1700 km) which will run from Turkmenistan along the eastern shore of the Caspian Sea into Kazakhstan and then parallel to the Central Asia-Centre 3 pipeline network within Russian soil. At the initial stage (2009-2010) its annual capacity is estimated at 20 billion cubic metres.}
second quarter of 2009, while in 2008 it paid $150 per cubic metre – half of what Europe was being charged. However, the recent fall in oil prices has resulted in a drastic fall in the price of natural gas, due to the prices of the two commodities being linked.\textsuperscript{23}

B. The impact on mainly U.S. energy planning of the overestimation – particularly during the 1990s – of Azerbaijan’s oil and natural gas production potential,\textsuperscript{24} as well as the circumspection with which states in the region look upon the plans of their Western partners’ and the waning enthusiasm of investors in the wake of the August 2008 Georgian-Russian crisis. At the same time, certain constants deriving from geographical considerations, along with relatively limited and delayed European action, complicate any endeavour to contain not only Russia’s influence in the region, but also its energy power.

\begin{center}
\textbf{Oil Production}
\end{center}

of Azerbaijan, Kazakhstan and Russia

\begin{center}
(mln tons per year)\textsuperscript{25}
\end{center}

\begin{figure}[h]
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\includegraphics[width=\textwidth]{oil_production.png}
\caption{Oil Production}
\end{figure}

\textsuperscript{23} For more, see \url{http://www.energia.gr/article.asp?art_id=27574} (in greek).
\textsuperscript{24} Primarily related to oil reserves and on the back of that spilled over somewhat to gas estimates.
Oil Production
of Azerbaijan, Kazakhstan, Russia and Saudi Arabia
(mln tons per year)\textsuperscript{26}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{oil_production_chart.png}
\caption{Oil Production of Azerbaijan, Kazakhstan, Russia and Saudi Arabia (mln tons per year)\textsuperscript{26}}
\end{figure}

\textsuperscript{26} Sources: International Energy Agency (IEA) Oil Information, 2008

Gas Production
of Azerbaijan and Kazakhstan
(bcm per year)\textsuperscript{27}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{gas_production_chart.png}
\caption{Gas Production of Azerbaijan and Kazakhstan (bcm per year)\textsuperscript{27}}
\end{figure}

\textsuperscript{27} Sources: Sources: International Energy Agency (IEA) Gas Information, 2008
Gas Production of Azerbaijan, Kazakhstan, Turkmenistan and Russia in 2007 (bcm per year)\(^{28}\)

Everyone – including the Azeris themselves – is now aware that Baku cannot on its own supply all of the ambitious projects bypassing Russian soil. What is more, Moscow is capitalizing on the fact that hydrocarbon-rich former Soviet republics are seeking the most direct, cheapest and surest solutions for getting their energy to market, and in this light it is important to remember that Moscow inherited almost 65% of the Soviet Union’s pipeline infrastructure. This has forced neighbouring countries to rely on the existing network, due to the high cost of creating new ones.

The Director of the Transportation Department of the Republic of Kazakhstan’s JSC National Company “KazMunayGas”, Ms. Klala Rahmetova, was quite bold in claiming that exports through Russia are a cheap and convenient solution, precisely for this reason.\(^{29}\) Of the 57 million tons of oil that Kazakhstan exported in 2007, some 42 million passed through Russian territory, via the somewhat decrepit – but nevertheless operational – old Soviet network.

\(^{28}\) Sources: International Energy Agency (IEA) Gas Information, 2008

\(^{29}\) November 2008, Institute of International Relations, closed roundtable meeting with The Director of Transportation of the Department in JSC National Company “KazMunayGas” of the Republic of Kazakhstan Ms. Klala Rahmetova on Kazakhstan’s positions with regard to energy developments in the Caspian, focusing on Europe’s energy security.
## Natural gas proven reserves

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country/Region</th>
<th>Natural Gas-proven reserves (m³)</th>
<th>Date of Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Russia</td>
<td>44,650,000,000,000,000</td>
<td>1 January 2008 est.</td>
</tr>
<tr>
<td>2</td>
<td>Iran</td>
<td>26,850,000,000,000,000</td>
<td>1 January 2008 est.</td>
</tr>
<tr>
<td>3</td>
<td>Qatar</td>
<td>25,630,000,000,000,000</td>
<td>1 January 2008 est.</td>
</tr>
<tr>
<td>4</td>
<td>Saudi Arabia</td>
<td>7,167,000,000,000,000</td>
<td>1 January 2008 est.</td>
</tr>
<tr>
<td>5</td>
<td>United Arab Emirates</td>
<td>6,071,000,000,000,000</td>
<td>1 January 2008 est.</td>
</tr>
<tr>
<td>6</td>
<td>United States</td>
<td>5,977,000,000,000,000</td>
<td>1 January 2008 est.</td>
</tr>
<tr>
<td>7</td>
<td>Nigeria</td>
<td>5,210,000,000,000,000</td>
<td>1 January 2008 est.</td>
</tr>
<tr>
<td>8</td>
<td>Venezuela</td>
<td>4,708,000,000,000,000</td>
<td>1 January 2008 est.</td>
</tr>
<tr>
<td>9</td>
<td>Algeria</td>
<td>4,502,000,000,000,000</td>
<td>1 January 2008 est.</td>
</tr>
<tr>
<td>10</td>
<td>Iraq</td>
<td>3,170,000,000,000,000</td>
<td>1 January 2008 est.</td>
</tr>
<tr>
<td>11</td>
<td>Kazakhstan</td>
<td>2,832,000,000,000,000</td>
<td>1 January 2008 est.</td>
</tr>
<tr>
<td>12</td>
<td>Turkmenistan</td>
<td>2,832,000,000,000,000</td>
<td>1 January 2008 est.</td>
</tr>
</tbody>
</table>

Geography is destiny, and so is history: by virtue of common traditions, attitudes and perceptions, Russia enjoys a comparative advantage in the former Soviet space that facilitates the finding of common denominators by the political and business elite. The values and – mainly – democracy that the West promotes, on the other hand, are incompatible with the priorities, rationales and practices of the regimes in Turkmenistan, Uzbekistan, Azerbaijan and Kazakhstan. Moreover, due to Brussels’ limited presence in the region (failure to undertake specific commitments, etc), there is a sense among the regimes of Central Asia that at critical moments, the EU will not be there for them and that in general they will not have the full or effective support that they would need from Brussels if they were to opt for a stand-off with Moscow.
This state of affairs is more or less borne out by the case of Georgia, which looks to the U.S. as its sole “protector”.

The strengthening of Russia’s role also limits the potential for Western influence. Recently, in fact, through the agreement on the creation of a joint “rapid reaction” force within the framework of the CSTO, the agreement on a customs union with Kazakhstan and Belarus and consequently their attempt to draw ranks, jointly pursuing WTO membership, Russia has further strengthened its influence in the majority of former Soviet republics.\(^{30}\) In the case of the Central Asian countries, Russia is trying to guarantee security, principally with regard to Islamic extremist elements active within their borders (Uzbekistan) or in their near abroad. Meanwhile, the authoritarian regimes in the Central Asia countries want to secure their own political survival in the face of popular discontent and efforts by the U.S. to gain influence – a combination seen as potentially leading to “coloured revolutions”. Feeling insecure in the midst of an unstable international system and a global economic crisis, these regimes are apparently willing to give Moscow a freer hand in the Central Asian region, in exchange – naturally – for retaining power in their given countries.

The ulterior motive behind the Kremlin’s creating small, flexible regional alliances, while also strengthening bilateral relations, is the setting in place of a framework of obligations and commitments of member states; a framework that will tie countries’ hands – particularly those of third countries that are not members of the organization – supplanting the relatively lax Commonwealth of Independent States that succeeded the USSR.

Whatever the case, for the time being western-inspired projects need oil from Kazakhstan and gas from both Kazakhstan and Turkmenistan in

\(^{30}\) Russia’s attempts to corner access to energy sources are not always effective. For example, Turkmenistan’s government has recently called for bids for the construction of the strategically important East-West pipeline, despite its initial promise – the outcome of the April 2009 squabbles – to give the project to Gazprom. Nor is Moscow’s effort to dominate the region (despite the much-touted voluntary basis of all collaboration) met with appreciation, as we can see from Uzbekistan’s apparent willingness – for the first time since the events in Andijan – to discuss the possibility of supplying an air base to the U.S., but mainly its reluctance to commit its special forces on a permanent basis in the 4 January 2009 Agreement on the creation of a CSTO joint military force. Tashkent, like Minsk, reportedly was discontent with Moscow’s unilateral attitude concerning the new troop formation, arguing that the deal on the formation of the rapid-reaction force was illegitimate in the absence of unanimous approval by all six member states. However, Russia’s ongoing efforts to strengthen its influence make it difficult for alternatives to Moscow to be considered by the former Soviet republics, with the result that the latter will be on the lookout ways to limit Russian power and gain space in which to manoeuvre.
order to operate. And this is where the technical and practical difficulties come in. The following are among these problems:

- The morphology of the Caspian seabed hinders the construction of pipelines, as does the fact that the legal status remains unresolved. Although it raises operating costs, transporting oil by sea is an option, but in the case of gas, it cannot be shipped unless it is LNG, and with Iran’s current isolation it cannot transit Iranian territory.

- Large quantities from both Kazakhstan and Turkmenistan have been secured by Russia. This, of course, can change if Western companies secure quantities from untapped fields or Moscow is forced to reduce the quantities it purchases due to high prices.

- Both Kazakhstan and Turkmenistan are interested in the Asian markets, particularly because in these dealings they do not need Russia. The fact that the price China offered in 2008 (i.e. $195 per 1000 cubic metres of gas to Turkmenistan) was competitive with the price Turkey is paying for Azeri gas, as well as that “the existing gas transportation network ensures mutual dependence between Central Asian producers and Russia,” is among the reasons the Central Asian republics are inclined to sell their hydrocarbons to customers in to the east. It is therefore no accident that “China and the Central Asian countries, especially Kazakhstan, are developing large-scale infrastructural projects, such as the construction and modernization of railways and highways, aimed at boosting trade relations with Beijing.”

- Therefore, the Trans-Caspian pipeline (which would link Azerbaijan with Turkmenistan, thus facilitating the latter’s participation in Nabucco) that has been vetoed by Russia and Iran simply cannot be implemented. This situation will persist until the status of the Caspian (sea or lake and thereafter the division of the seabed and the water) is resolved.

C. Also bearing on the diversification issue is the recent Russia–Iran–Qatar trilateral agreement on an informal natural gas OPEC. Given that

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31 Although it is bound to be affected by the European price level paid by Russia for Central Asian gas, which will be driven by the volatility of oil markets. See: Shamil Midkhatovich Yenikeyeff, “Kazakhstan’s Gas: Export Markets and Export Routes”, Oxford Institute for Energy Studies, November 2008, p. 73.


33 Ibid.
this agreement does not focus on markets and prices as such,\textsuperscript{34} but instead on technical cooperation, exchange of knowledge, and joint investment, it has some benefits for Russia, which will in fact be able to participate in the exploitation not only of deposits already at some stage of development, but also of deposits as yet untapped. So Moscow’s share in the energy market may increase as newly exploited deposits are added, consequently limiting the share available to other energy players. What is more, Moscow has the opportunity to expand its activities in the liquefied natural gas market, which is beginning to compete with its pipelines.

If this idea finally comes to fruition, Russia will have further reason to celebrate: on the one hand, major quantities of natural gas are necessary to satisfy mainly Western needs, and on the other, gains will be maximized because it will probably be purchasing Iranian gas at relatively low prices and reselling it on European markets at particularly high prices. Europeans, who are pursuing the diversification of suppliers, failed to effectively promote the need for the normalization of Western-Iranian relations to the previous U.S. administration, putting precisely this argument to their U.S. partners. The likelihood is that Europe was deprived of this opportunity by a number of factors:

- Failure to handle the issue of Iran’s nuclear program via diplomatic means.
- Tehran’s involvement (however indirect) in Iraq and the war in Lebanon.
- The feeling on the part of the Bush administration that Iran might go the way of Iraq.

But was it by mere chance that Gazprom partly filled the vacuum left by France’s Total and the Netherlands’ Shell so promptly? Or that Turkey has consistently lobbied Europe to accept gas from Iran since Ankara signed preliminary energy deals with Iran last year worth $3.5 billion? In fact, the China National Petroleum Company undertook in June 2009 to develop phase 11 of South Pars (one of the largest natural gas deposits in the world), replacing Total due to delays on the latter’s part. Though

\textsuperscript{34} Not least because natural gas is sold based on tight contracts that enable buyers to ‘lock’ the price for a period of up to 25 years, with natural gas prices linked to oil prices. Moreover, the Gas Exporting Countries Forum represents only 14% of worldwide production, while OPEC represents 30% of oil production. Moreover natgas prices are set – albeit following a lag of some six to nine months – based on oil prices.
we cannot be sure of the extent to which the French company was responsible for this, the practice of excluding western companies from Iranian deposits might be put down to either retaliation for the pressure Tehran is under for its nuclear programme, or the difficulties and limitations resulting from the U.S. embargo on Iran. However, the pressure Iran feels from the fall in oil prices and Obama’s willingness to create the conditions for strengthened consultations and dialogue has created the conditions for a re-examination of relations with Tehran.

In any case, given that Russia already controls

- a major portion of natural gas exports from Turkmenistan, Kazakhstan, and Uzbekistan—though at a significant cost, which may become unbearable—and
- an additional stake in Algeria and potentially Egypt, Nigeria and even Libya,

the geopolitical headache for a Europe in a particularly unfavorable position is that Iran and Qatar have now—to some extent—been added to this list via the cartel idea. We are thus talking about quantities vital to satisfying European needs. Taken together with Azerbaijan’s limited capabilities and the perceptible reduction in North Sea reserves, as well as the fact that Chinese companies have established a firm foothold in African energy assets, this means that the EU’s options are dwindling.

Dependencies concerning energy deliveries between Russia and Europe are, however, not at all one-sided. Europe is a secure, reliable, high-paying customer for Russia. Gazprom’s sales to Europe account for 65% of the enterprise’s revenues, although in terms of quantity they

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35 The economic situation in the various strata of society is deteriorating, and—despite the fact that these are not westerners—the people’s disappointment will find expression. The lack of infrastructure, combined with the global recession and sliding oil prices, increases the need to attract investments that will limit pressures on the national economy, as well as the need to find a common denominator with the West so that the country can emerge from its international isolation. In such a case, it might play a vital role in the energy market. Even under these circumstances, the conservative regime appears to be unflinching, but the fact that its political survival to some degree rests on the economic situation of citizens may, in the end, render the leadership more flexible.  
36 The Russian President’s trip to Africa from 23-27 June 2009 took him to—among other places—Egypt and Nigeria, where he reaffirmed Moscow’s interest in gaining access to Africa’s mineral wealth, including hydrocarbons. With the know-how and experience in energy production that is so vital in African countries, Russia aims to deprive Europe of alternative energy suppliers. And if the agreements with African countries move ahead—particularly those with Egypt and Nigeria—along with the plans for participation in the trans-Saharan pipeline, the probability of Europe’s remaining dependent on Russia for energy will increase significantly.
represent some 35% of total deliveries. No new projects (Shtokman, Yamal-LNG etc.) have been moving forward in the energy sector for some time, as the current Russian economic model does not facilitate their implementation and Gazprom capital investment in recent years has been channelled into areas other than gas production.

Foreign investment and – in some cases – Western know-how is needed if Russia is to explore new fields in order to fulfil its future obligations. Foreign investment and – in some cases – Western know-how is needed if Russia is to explore new fields in order to fulfil its future obligations. Technology will continue to shape the future of energy – renewable and conventional – and the oil and gas industry has a track record of technological innovations that is probably unmatched by other energy industries (e.g., deep offshore drilling). But innovation requires investment and commitment from those involved, so building trust is fundamental.

In fact, an International Energy Agency report underscores that the natural gas market is currently relaxing, with prices falling for the first time in 50 years. The economic crisis is having a negative impact on construction programmes for 2009 and 2010, and a productivity shortfall is projected for after 2012, with prices continuing to fall. The IEA, which advises OECD countries on energy matters, notes that Russia will face technical and financial problems that, in combination with the fall in prices, might jeopardise Europe's energy supply at any given time.

Furthermore, the fact that oil production has reached its peak while gas production is declining (from 656.2 bcm in 2006 to 650.1 bcm in 2007 and expected to reach 620–644 bcm in 2009) points to the need to reassess the state's strategic hold on the energy sector and to create new rules for healthy competition so that the participation of foreign investors will not depend on who happens to be in the Kremlin, or on the vicissitudes of the bureaucratic and justice systems. Meanwhile, continuing uncertainty regarding the course of the Russian economy – which is damaging even Putin's heretofore unassailable image – is increasing the likelihood of the country's political elite seeing reason and adopting a more flexible agenda. To confront the worst
crisis since the slump of 1998, the Kremlin will need the institutions that are – for the time being – controlled to a large extent by its Western partners.

All this entails interdependence. The potential downside of the situation for Moscow is that the EU will have more leverage if the partners in Brussels can reach a consensus on a clear, cohesive stance in their energy dealings with Moscow. For Europe, solidarity is the key, at least in a crisis situation.

Ukraine and the case of Nabucco

In yet another strong indication of the importance to the Kremlin of the energy arm of its foreign policy, as well as the self-confidence that energy lends the Kremlin, a new dimension seems to have appeared in the role of energy. Beyond being a means of exerting political pressure or coercion, it may also serve as a tool for precipitating “velvet” regime changes in the post-Soviet space.

In the recent crisis in Ukraine, for example, the Kremlin used Gazprom to leverage an acceleration of domestic developments in a third country: Applying pressure to an already fragile Yushchenko–Tymoshenko alliance, the Kremlin endeavoured to widen the chasm between them and bring about the desired breach in the governmental coalition. Also within this framework, Moscow tried to make it clear to the Ukrainian citizenry that their present government was incapable of securing low natural gas prices, much less a secure economic environment. It thus appeared that Russia was the safest choice and Kyiv would be courting danger if it distanced itself from Moscow. The fact is, an increase in prices for Russian natural gas – from the previous year’s $179.80 per TCM – would have serious repercussions for a Ukrainian economy already highly susceptible to systemic pressures, and would exacerbate social discontent, possibly precipitating political developments.

Ukraine is by far the most strategically important post-Soviet country for Moscow but since 2004, Kyiv has shown a clear pro-NATO

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40 The Russian political elite never really “swallowed” Ukrainian independence – and particularly that of the eastern portion of Ukraine – at least until 1996. And it is unimaginable for Moscow that its little sister might enter the Western sphere of influence, much less that of the U.S. and NATO. As shown by its intervening in 2004 to avert Yushchenko’s election and the unbroken pressure exerted since then on the leadership in Kyiv, the Kremlin considers the prospect of losing Ukraine to be a red line and will do anything to avert such an eventuality. It is no coincidence that the Russian-speaking residents of the Crimea are provided with Russian passport so that in the event of a Russian intervention, protection of Russian citizens can be invoked, just as it was in South Ossetia in August 2008.
orientation that runs counter to Moscow’s interests. As a result, the Kremlin saw no reason to continue offering subsidized prices or even to be particularly flexible in negotiations. With regard to security of supply, since at least as far back as 2006, Russia has seen Ukraine as a transit country that might, from time to time, hinder the flow of energy to Europe, and thus it is seeking safer alternatives. In fact, the Russian leadership hopes to see Europe perceive Ukraine’s unreliability as a transit country, coming to terms with – if not discreetly supporting – Russian-backed projects (Nord Stream, South Stream) that circumvent a recalcitrant Kyiv.

But even if Russia moves ahead with both projects, Ukraine will still be holding the reins: according to Gazprom calculations, some 55-60% of natural gas will continue to transit Ukraine (down from the current 80%), so that Moscow’s main goal is for Kyiv to go with a new leadership that, rather than distancing itself from Russia, will be able to work things out with Moscow and achieve the compromises necessary for smoothing Ukraine’s course. As such, Ukraine’s pivotal position has the West and Russia vying for greater influence among the political and business elite in Kyiv.

The January 2009 Putin-Tymoshenko energy agreement, which was questioned by the Ukrainian president, signaled Russia’s backing for the Ukrainian prime minister – as a more “well behaved” politician that Yushchenko or the stigmatized pro-Russian Yanukovych – who might be more mindful of the Kremlin’s sensitivities should she come to power. Regardless of energy-pressure maneuvering and ulterior strategic motives, Russia runs the risk of further tarnishing its image as a European supplier, boosting the credibility of circles in the EU and Washington that are pushing for the search for alternative suppliers and forms of energy.

There is no question that the recent crisis – whether it resulted from the Kremlin’s inability to arrive at a quick settlement or Ukraine’s strong opposition – compromised Russian and Ukrainian credibility. How useful

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41 Whether driven by the anti-Russian sentiments of the leadership, or by external factors; specifically, the U.S.
42 Nord Stream is planned to pump eventually 55 bcm per year to Western Europe. Still, there are second thoughts on the exact routing given the environmental and security concerns by neighboring countries; furthermore, the German military has asked for another direction to be followed, as they consider Nord Stream’s construction to be adjacent to zones where the German Army and Navy hold exercises.
the immediate development (and testing, wherever needed) of a joint EU-Russia-Ukraine early warning system would become quite clear. “An immediate analysis should be carried out of the potential damage and probable weak links in the system that will concern these cases. And this analysis will result in – among other things – recommendations for measures aimed at protecting vulnerable consumers in Europe. These measures might even include the reconstruction of sections of the transit network in cases where this is deemed urgent.”

Beyond that, the second Russian-Ukrainian natural gas crisis has brightened the outlook for non-Russian-controlled pipelines. It is no coincidence that the implementation of the Nabucco natural gas pipeline is back on track following an EU initiative. In trying to limit the extent of its energy dependence on Russia, Europe – quite reasonably not wanting to put all its eggs in one basket – is promoting the Nabucco natural gas pipeline. But despite its efforts to accelerate the construction of this pipeline, which would in some sense free it from Gazprom, serious problems have arisen, the most basic of which is determining the suppliers that would make this project viable.

The key factors that need to be considered when looking at the potential viability of a given project include the markets it is targeting, the extent to which the product is available and in what quantities, and secure transport. If a project satisfies these criteria, then it will more easily attract the investments that will fund it. In the case of Nabucco, they first have to find the quantities of gas to justify its contribution to European energy security, and then ask for funding based on the availability of that gas. There are, however, serious reservations as to available quantities and secure transport, the latter resulting from the recent Russian-Georgian conflict in the Caucasus. More specifically, even if Turkmenistan participates, the data indicates that by 2020 the Azeri and Turkmen gas – if delivered to the pipeline – will account for only 58% of the pipeline’s capacity. Of even more decisive importance is the forecast that after 2020, European natural gas needs will increase

44 For more see “WIEN Group Concerns Regarding a New Russia-Ukraine Gas Crisis”, found at http://www.energia.gr/article.asp?art_id=27622, 3 June 2009.

45 Some European governments are due to sign an agreement on the Nabucco gas pipeline on 13 July 2009, including the pipeline’s five transit countries, Turkey, Bulgaria, Romania, Hungary and Austria. It is telling that the company’s official map (map 4, below), which promotes the projects implementation, there is no departure point from the supply sources.

46 Turkmenistan, like Kazakhstan and Uzbekistan, has refused to undersign the EU-Turkey agreement, and the still unresolved legal status of the Caspian rules out the prospect of a direct link between Turkmenistan and Azerbaijan. If not via the non-existent and very controversial ‘Trans-Caspian’ gas pipeline, then via Russia or Iran? Certainly not!
from the current 500-550 bcm annually to 700-800 bcm\textsuperscript{48}. Consequently, even if Nabucco operates at 100% capacity (31 bcm) – covering less than 5% of Europe’s natural gas needs – the European energy market will achieve no substantial diversification without Iranian natural gas.

This state of affairs would of course be altered significantly if Iran were brought out of isolation and Iranian natural gas became accessible to the EU, and this explains the willingness of Washington and Brussels to find a \textit{modus vivendi} with Tehran. According to a source who requested to remain anonymous, the French company Total has let it be known that it will not participate in Nabucco if its participation in Iran is not guaranteed first. Another alternative is natural gas from the Kurdish section of northern Iraq, but this would require settlement of the Kurdish question\textsuperscript{49}, significantly improved relations with Turkey and ensured safe transport. In both cases (Iran, Iraq), we are looking at long routes with no shortage of obstacles\textsuperscript{50}.

The approach of the Azerbaijan Diplomatic Academy’s Publications Advisor is indicative both of Baku’s changing conduct/direction and of the new state of affairs created by the Georgia conflict and how this bears on energy planning\textsuperscript{51}. He writes, in reference to the recent Nabucco Summit in Budapest, that “in the wake of Georgia and Ukraine, Budapest underscored just how much the rules of the game in the gas sector have changed in the last six months. None of the countries in the region can be sure of just how far Moscow may be prepared to go to advance its interests. Consequently, all of them are recalibrating their policies, seeking to avoid alienating the Russian authorities lest

\begin{itemize}
\item \textsuperscript{48} According to some estimates, demand will remain at about the same level. If this is the case, Nabucco’s contribution will come to a little over 5.5%.
\item \textsuperscript{49} Not wanting to miss out on the economic and geopolitical benefits that would accrue for the energy rich northern, Kurdish region of Iraq, the central government in Baghdad has so far refused to allow the Kurds to negotiate energy deals directly without its consent.
\item \textsuperscript{50} Some claim that Nabucco can even carry gas from Iraq and Egypt, but how much, via which routes, and when, are among the logical questions raised. These are all unclear and as long as there is no reliable and adequate source to guarantee easy flow of gas through Nabucco. Therefore, many analysts suggest that forecasting Nabucco’s great contribution to European energy security, and hence funding, is risky at best.
\item \textsuperscript{51} On 29 June 2009, yet another agreement was signed within the space of 18 months between Gazprom and Azerbaijan, providing for initial purchases of 500 mcm in 2010, with that amount to increase later on. Of greater interest is the fact that according to Gazprom’s chief executive, Alexei Miller, his firm has also been promised priority for purchasing gas from the second phase of the Shakh Deniz Caspian Sea field. This is seen as a potential key source of gas for the EU-backed Nabucco pipeline, which circumvents Russia. What remains to be seen is whether the resolution of the Nagorno-Karabakh problem is an important factor – if not an imperative – for Baku in its energy dealings with Moscow; that is, the extent to which the agreement in question is binding for the future, or just a gesture of good will.
\end{itemize}
Moscow’s power be directed at them. Nor can the Nabucco countries be sure of what the U.S. and the EU might be willing to do to counter Russian actions – or even whether the new American administration may open a dialogue with Iran, an action that would make that country a far easier, less expensive and more attractive route out for Caspian Basin gas and one that would almost certainly postpone if not kill Nabucco.”

He even argues that the Nabucco project has now become a secondary priority for Azerbaijan, underscoring that Baku “is a participant in five other pipeline projects, a reminder that from Azerbaijan’s point of view – and the point of view of many others even if not expressed – Nabucco is far from the only game in town.”

Enthusiasm for the Nabucco project derives from the fact that it is an opportunity to create a natural gas route that runs through neither Russia nor Iran, which would limit Moscow gas-supply leverage over Europe and perpetuate Iran’s longstanding U.S.-brokered international isolation. This has, however, backfired to some extent, in that it forced Moscow to assert its sway over Central Asian gas supplies and pointed up Iran’s increased importance in the region in the wake of the Russian-Georgian crisis.

Turkey: A separate agenda

The Southeast European country playing the most important role in transporting Caspian hydrocarbons, Turkey recently proposed Russia’s involvement in Nabucco, despite the fact that Nabucco’s being dependent on Russian gas would more or less defeat the purpose of the endeavor. And Turkey is certainly using its role as a potential energy hub to increase its leverage vis-à-vis Brussels. Given the power Ankara derives from its role in the energy game and its control of the Straits (after all, neither the West and Russia nor energy-rich

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53. Ibid.
54. This depends on a number of factors, including the size of the target market of the gas transiting Turkish territory, potential for consumption by the domestic market, and the share of total energy routes its pipelines account for.
55. Nevertheless, on 1 July 2009 Turkey was invited, via Russian Deputy Premier for energy issues Igor Sechin, to participate in the South Stream natural gas pipeline, in an effort to render the Nabucco pipeline impracticable. Also at the focus of Russian-Turkish energy consultations is the extension of the Blue Stream offshore natural gas pipeline through the creation of Blue Stream 2, which would run through Turkey towards the Mediterranean, eventually covering Israel’s energy needs. Some time ago, the Gazprom CEO’s Blue Stream 2 proposal was then met less than enthusiastically by Moscow’s political elite, due to the fact that it would further strengthen Turkey’s energy role. Although
Caspian/Middle East\textsuperscript{56} states want to negotiate with so powerful a Turkey, and that is why they are seeking alternatives), the Europeans are asking themselves what will happen if Turkey is disappointed by Europe in the not-unlikely event of the former’s non-accession, or if Ankara decides to use energy as a means to exert pressure to better promote its own interests.

In any case, Turkey is not currently pursuing an award for reliability – at least not in the energy sector\textsuperscript{57} (closing of the tap on the Turkish-Greek pipeline to pressure Azerbaijan for increased quantities for resale due to higher demand in winter; breaching contracts when cheaper natural gas is found from another source), while there are those who believe that Turkey’s conduct does not qualify it for status as a partner, at least not for the West. So we can claim with some certainty that Turkey is not oriented towards the needs of the EU and that it feels little or no obligation to Brussels; Ankara has its own, discrete agenda, the exclusive objective of which is optimum promotion of its interests irrespective of the desires or needs of the EU.

At the same time, Ankara’s willingness to negotiate directly with present and – mainly – potential EU suppliers, pursuing maximum gains and resale rights (i.e., there is speculation that Turkey wants around 15\% of Nabucco gas to be used domestically, but principally to be able to market it), perceptibly limits the EU’s room for maneuvering, taken together with Russia’s tightening hold on Central Asian republics. This is the case for two reasons:

1. It limits access to the source. It would certainly be in Europe’s interest to deal directly with Turkmenistan, Uzbekistan and Azerbaijan,\textsuperscript{58} rather than doing so through Russia and Turkey.

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\textsuperscript{56} Azerbaijan, Turkmenistan, Iran, and Iraq seem to belong to that category.

\textsuperscript{57} A fact that is making life difficult for Azerbaijan and even Iran, while worrying Russia as well.

\textsuperscript{58} As a moderate/soft power, it is in the EU’s interest to promote interaction and political dialogue, strengthening ties and understanding – as opposed to the exclusionary policy of the Bush administration (which led nowhere if not backwards) – and gaining leverage in these states. If we do this, we will see that they need to pursue autonomy from Russia or Turkey. This is because these states realize that their dependence – in the case of Uzbekistan, for example – on Russia denies them any room whatsoever to negotiate higher sales prices or better terms than those imposed by the energy giant Gazprom. The longer we hang back, the deeper Moscow can dig in, determining not only the current, but also future rules of the energy game; choosing allies; putting military pressure on non-Moscow oriented energy regimes; determining prices; and developing a mini cartel participated in by Central Asia republics.
2. It makes it more difficult for the EU to negotiate on its own terms: Turkey is participating not only as a transit country, but as a potential retailer with resulting additional – if not greater – demands, beyond those of a mere supplier. This gives Ankara leverage in its discussions with the EU and is a strong negotiating advantage.

To this extent, Borut Grgic, Director of the Institute for Strategic Studies, Brussels, observes that “After receiving less than a warm embrace by the EU, Recep Tayyip Erdogan’s administration and the Turkish public are not eager to jump on the EU bandwagon when it comes to the southern gas corridor. Ankara’s objective is to turn Turkey into a regional energy hub. This means that Turkey would not be a transit state, but a buyer and reseller of Caspian gas to European customers. Of course, Mr Erdogan is playing hard ball to get this status for Turkey”59.

It is to be noted that if Ankara is prepared to accept the obvious risks of a prosperous and economically and politically autonomous Kurdish entity within Iraq, the initial moves being made towards normalization of relations between the Kurds in northern Iraq (the territory where the largest certified quantities of oil are located) and Turkey will certainly facilitate the transiting of hydrocarbons through Turkish territory. Consequently – and despite the danger of undermining its own position via the doubts raised by the demands it makes60 from time to time on both suppliers and buyers – Turkey is pursuing the role of a southern energy hub circumventing Russian territory, whether the energy in question comes from the Caspian (including Iran) or Iraq.61

**Russia reasserts itself in Southeast Europe, with energy as its primary tool**

Recent years have seen an attempt by Russia to re-establish a presence and some of its former influence in Southeast Europe, using primarily the inducement of new energy corridors, while also trying to diversify the region politically to some extent by undermining the West’s strong sway there.

The Kremlin saw that the Baltic States and Poland were among the main influences in NATO and Washington lobbying for anti-Moscow stances, and that, following the orange revolution, Ukraine had become an

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59 Borut Grgic, “EU is losing its grip on Caspian gas corridor”, Financial Times, February 15 2009
60 From economic/commercial issues, such as market price, transit duties or the potential for resale, to geopolitical issues – and even as a function of its relations with the West and the EU in particular.
61 Necessary conditions for this include the healing of open wounds between Shiites, Sunnis and Kurds, firmly established stability and security, and the gradual consolidation of a climate of trust that will reduce dangers and risks for energy companies that invest in a currently unstable Iraq.
unpredictable partner. It was thus decided that new energy routes skirting Poland and Ukraine should be created. After all, longstanding goals of Russia’s energy strategy included

- freeing itself from the limitations and dependency imposed by intermediary countries (Ukraine, Poland, even Belarus);
- creating a network of storage facilities in countries besides Ukraine; and
- ensuring uninterrupted supply to European markets in times of crisis while restricting Kyiv’s potential for exerting pressure.

And within this framework, Russia discerned prospects for cooperation with states in Southeast Europe.

The Kremlin would thus kill two birds with one stone, as it would also be countering western initiatives to promote new pipelines that would bypass Russian territory. So Moscow had to get the jump on the West by involving countries that might facilitate the latter’s plans, and, as the natgas map tells us, Southeast Europe is a region key to implementing this policy, as the rest of European continent is already criss-crossed if not saturated with pipelines. Thus, Russia had to pursue energy commitments from countries with a clearly Western strategic orientation. In this attempt, while exploiting the fact that Russian gas is the “predominant – in the case of many countries the only62 – source of gas supply to most Balkan states,”63 Moscow used a double incentive:

- bolstering of their energy security,64 given their increasing energy needs and dependence on Russia, and
- upgrading of their geopolitical role via participation in planned projects.

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63 Bulgaria, Greece, Serbia, Bosnia and Herzegovina and FYROM.
64 The January 2009 Russia-Ukraine crisis clearly indicated the vulnerability of the states in the region. The dependence of most of these states on Russia, as well as the latter’s irresponsible conduct, will likely result in the search for alternative suppliers and ways to improve the functioning of networks and develop energy infrastructure, so that a given crisis will not have the repercussions we saw last January. But even here, Moscow (by virtue of its leading position among Europe’s energy suppliers, its know-how, and the ready cash it can provide for infrastructure projects, new transport routes, storage facilities and connecting of networks) can improve its image and contribute substantially to developing means and tools that will enable the states of Southeast Europe to more effectively meet energy security challenges and improve their security of supply. This, of course, should not mean greater dependence on Moscow for most states in the Region.
With regard to oil, the Burgas–Alexandroupoli pipeline project (see map 1)\(^{65}\) can bring oil from Novorossisk to the Aegean, and thus to the Mediterranean, avoiding the Bosporus straits. Out of 111 million tons concentrated in the Black Sea in 2008, 100 million tons pass through the Bosporus, converging on a choke point (see map 2). Consequently, the importance of the project in question derives from the partial circumvention of problematic and heavily delayed transport through the Straits,\(^{66}\) because beyond that, the pipeline is of relatively small capacity, with high operating costs.\(^{67}\)

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\(^{65}\) Source: Pipeline Transport Company OAO “Transneft”.

\(^{66}\) Delays that are often long enough to mean increased costs involving the suppliers.

\(^{67}\) Due mainly to multiple loading and unloading, operating costs rise. This, coupled with the fact that oil prices were still low in 1993, when the project was first conceived, left Russia with no real reason to push forward the project’s implementation until the price per barrel rose.
Russia has also secured a further 13-17 million tons from Kazakhstan to feed this project, with the aim of operating at 50 million tons annually at full capacity – approximately the same as the Baku-Tbilisi-Ceyhan project, which bypasses Russian soil. For the transportation of gas, Russia has already built the Blue Stream (under the Black Sea to Turkey) and is planning to go ahead with the multi-branched South Stream (map 3). Brussels and Washington express concern because they feel that the new plans may undermine combined European efforts to build the Nabucco pipeline (map 4), carrying gas from Azerbaijan, Turkmenistan and possibly Iran, through Turkey, Bulgaria, and Romania to Austria and Hungary and the gas line, the TGI (map 5). Moscow has also made overtures to the Greek and Turkish governments for the use of the Azerbaijan–Turkey–Greece–Italy TGI pipeline to transport to the West excess gas from its already-built Blue Stream line to Turkey, but this is not a likely eventuality, given that the participants appear determined not to transport even a single drop of Russian gas.

I would like to thank Mr. Savva, Minister-Counsellor at the Embassy of the Russian Federation in the Hellenic Republic, Athens, for allowing me to use maps from his powerpoint presentation to University of Piraeus.
Furthermore, after concluding the deal with Serbia to buy state-giant NIS, “Gazprom now has access to all the downstream markets of the former Yugoslavia. Serbia was a gas hub in the past and the networks are still there, if a little rusty. By refilling them with Russian gas, Gazprom can establish control over the south-east European gas market in no time.”\textsuperscript{69} “The lack of interconnections which would have allowed the region to receive gas from available supplies elsewhere in Europe,” naturally creates the need to link the three supply systems\textsuperscript{70} that carry gas to the Balkan countries, and it also points to the need to create new, sufficient storage infrastructure or expand existing storage

\textsuperscript{69} Borut Grgic, “EU is losing its grip on Caspian gas corridor”, Financial Times, February 15, 2009

\textsuperscript{70} Romania, Bulgaria, Greece and FYROM are supplied by a system of transit pipelines from Ukraine, Serbia and Bosnia and Herzegovina are supplied from Ukraine via Hungary, while Croatia is supplied via Austria and Slovenia (Aleksandar Kovacevic, “The Impact of the Russia-Ukraine Gas Crisis in South Eastern Europe”, p.2).
Therefore, the dire effects of disruption of natgas supply resulting from the Russian-Ukrainian crisis at the beginning of 2009 were obvious in SE Europe. In fact, also within the framework of creating a network of alternative – non-Ukrainian – natural gas storage facilities that would keep the European market supplied in time of crisis, Moscow might well look to existing or potential Naftna Industrija Srbije (NIS) storage infrastructure.

In the process of closing major energy deals, the Kremlin observed that due to the desire of certain states – Greece, Bulgaria and, lately, Serbia, for example – to start putting themselves on the energy map and thereby eventually strengthen their geopolitical positions, there was room to strengthen Russia’s ties with these countries. It would be no exaggeration to argue that in light of the relatively limited economic gains for transit countries, these states are basically pursuing an enhanced geopolitical role and stronger negotiating positions on a broad range of non-energy related issues. For example, the Greek government is sending a message of defiance to the U.S., which in recent years has not supported Athens on any major national issue. But the U.S. retains a key role in the resolution of Greece’s national issues and most regional security issues, and this has thwarted Moscow’s efforts to significantly alter the strategic orientations of states in the region.

Other factors limiting Russia’s potential influence over Southeast Europe include the following:

1. Moscow’s long absence from the region in the 1990s deprived it of the opportunity to establish significant footholds.

2. A privileged bilateral partnership with Moscow cannot solve the problem of isolation from the West (e.g., in the case of Serbia). As demonstrated with the signing of energy agreements, Russia is part of the equation, but is no substitute for a track to Euroatlantic institutions.

3. Moscow’s policy in Southeast Europe is seen as opportunistic and lacking in consistency. For example, in the case of Serbia, Russia established no systematic presence – it just took sides with Belgrade on the Kosovo issue so that Belgrade would more readily fall in with its

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71 Romania, Bulgaria, Croatia, and Serbia have the necessary infrastructure, while Greece, although it lacks underground storage, has an LNG regasification terminal at Revithoussa.
energy plans and sell NIS at a bargain price.\textsuperscript{72} We saw no significant investments, no systematic political dialogue, and, in the end, Moscow’s recognition of South Ossetia and Abkhazia without consultations with Belgrade as to possible fallout.

4. Last but not least, if Russian interests are to be served and Moscow is to maintain its influence in the region, the region will have to be incorporated into Europe, achieving the consequent political stability and steady economic growth that will render it a reliable and effective periphery.

\textbf{Energy and strategic diversification in Southeast Europe}

As mentioned above, the three projects under way that concern the Southeastern European periphery are the ITGI, Nabucco and South Stream natural gas projects. These projects – as well as the existing Blue Stream and the Burgas–Alexandroupolis oil pipeline – are each impacting developments in the region. The gas projects do not cancel each other out, given the states’ energy needs. They are, in fact, complementary to one another, achieving the aim of diversification of sources. They can, however, still be seen as competitive, given:

- that beyond carrying gas from different sources, the quantities of gas have been secured by different companies (e.g., ITGI and South Stream by the Italian Edison and ENI,\textsuperscript{73} respectively),
- the political support and consequent involvement of the U.S. and Russia, and
- the fact that their target markets and the quantities they will be moving are more or less the same (South Stream and Nabucco\textsuperscript{74}).

\textsuperscript{72} Admittedly, this is a simplified interpretation of Russian-Serbian relations, but it indicates to a significant extent the view of the Serbian elite: that the Russian stance on Kosovo has devolved into mere exploitation on the part of Moscow, whose immediate recognition of South Ossetia and Abkhazia has not been accompanied by the deepening of economic relations that would lend it real strategic significance.

\textsuperscript{73} There is some concern as to the extent to which Italy will be in a position to manage incoming gas supplies (because there is no question of all of this gas being consumed domestically), particularly given that Central Europe will obviously cover a major portion of its needs via existing networks and Nord Stream.

\textsuperscript{74} It should be noted that the Russians are now talking about a possible increase in South Stream capacity, to 60 bcm, while Nabucco’s projected capacity is 31 bcm, and ITGI’s 12 bcm.
Concerning Burgas–Alexandroupoli, it seems to be moving towards implementation – despite

- delays,
- the resignation of the Russian president of the Transbalkan Pipeline company, which has undertaken construction of the project, and
- reactions from sectors of the local community in Alexandroupoli, as well as concerns about potential accidents in the Aegean that might hurt Greece’s “heavy industry”, tourism,
- and last but not least, the involvement of Kazakhstan, which, in addition to the role of supplementary supplier, is seeking a stake in the company.

Beyond that, we need to focus on two facts that will play a decisive role in how things develop: First, sliding oil prices are making projects like this – limited in scale as compared to European needs – look less attractive due to fairly high operating costs resulting from all the loading and unloading involved. And second, there is the possibility that Turkey will lift the ceiling on oil passing through the straits, which already accounts for 90% of oil transported over the Black Sea, and this might cause Moscow to reconsider its Burgas–Alexandroupoli plans.

The two natgas projects (ITGI and South Stream) have some structural problems that have to be resolved. Given that the ITGI is slated to carry Azeri natural gas, the potential for which has been overestimated,\textsuperscript{75} it is unlikely that it will operate at full capacity even when the Greek–Italian section has been completed. This means that it will carry smaller quantities and be less competitive than other projects. And the U.S.-proposed delay (2012–2014) that would put Azerbaijan in a position to supply greater quantities may prove prudent. It is no coincidence that Moscow has made overtures to the Greek and Turkish governments for the use of the TGI pipeline to transport to the west excess gas from its already-built Blue Stream line to Turkey.\textsuperscript{76}

South Stream is a high-cost, medium-risk project. Regardless of Russia’s intention to move ahead with it in order to gain a negotiating advantage over other transit states, such as Ukraine, it is by no means certain that – following financial and technical studies – this project will

\textsuperscript{75} The ITGI is not expected to go into operation before 2012-2014.
\textsuperscript{76} As mentioned earlier, it has been agreed that Russian gas will not be carried by this project.
prove viable from end to end, much less commercially alluring. Although Moscow has the quantities necessary to supply the global market, in this particular case it seems to be moving in the direction of making geopolitical gains without taking into account the economic cost. The fact that the Kremlin decided – in a reversal of initial plans – to incorporate Belgrade into the northern branch, rerouting the pipeline, points to the vastness of the political dimension of the South Stream project. Moreover, the involvement of a number of states in this project will probably bring about delays if and when details and requirements concerning their participation need to be hammered out. Strong political will from governments speeds things up, but when the negotiations pass on to the companies involved, the process takes on another dynamic.

**South Stream vs Nabucco**

In spite of this, South Stream undoubtedly has a greater likelihood of being completed than Nabucco, due to

- a. the certified quantities that might well be multiplied by the potential participation of states like Turkmenistan.77
- b. the maximalist demands of Turkey – a key country for Nabucco – towards suppliers and consumers. Via official, indirect threat,78 Ankara has already linked Nabucco to its European perspective.
- c. the risks entailed by choosing Georgia as a transit country.79
- d. the unwillingness of states like Azerbaijan to follow a one-dimensional energy policy in the wake of the Russian invasion of August 2008. They may instead opt for agreements that do not exclude Russia.
- e. better economic terms and the prospect of immediate implementation offered by Gazprom – and, in some cases, even by Iran – to the former Soviet republics80 in order to secure access and greater quantities, and mainly to strengthen their position vis-à-vis the energy-thirsty West.

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77 Of some 70 bcm of natural gas produced by Turkmenistan in 2008, 50 bcm went to market – under Gazprom’s control – via Russian territory. Russia maintains that it has secured additional quantities from Turkmenistan, a portion of which it intends to divert to the South Stream.  
78 Erdogan during January 2009. A short time later, he took it back.  
79 Borut Grgic, Director of the Institute for Strategic Studies in Brussels, accurately observed in the Financial Times that a Moscow-controlled Abkhazia could pose a problem in building a secure gas connection from Azerbaijan through Georgia.  
80 If Azerbaijan bows to Gazprom’s pressures for the provision of additional quantities of natural gas to Russia, what incentive will Turkmenistan have to sell quantities directly to Europe?
Realities and dilemmas

Despite U.S. urgings to seek alternative suppliers, energy realities, as presented above, are having a catalytic effect on the policies of a number of Balkan states, although strengthened energy relations with Russia are in fact raising concerns as to

i) whether, in the end, this will actually help satisfy the European need for diversification of energy suppliers or, conversely, increase dependence on Russia, strengthening the Kremlin’s control, and

ii) whether it will heighten these states’ dependency on Moscow, given the likely failure of alternatives to Russian gas to reach, for example, Bulgarian and Greek markets in significant quantities in the coming years, which could mean that South Stream may only increase their energy dependency on Moscow.

Beyond that, we should bear in mind that although Russia is the most realistic natgas supply solution at this time (in terms of production and proven reserves), if, as some forecasts have it, Moscow does fail to attract new investments over the next several years to help fund exploration for new natgas fields, its production potential will fall. In this context, it is understandable why Moscow is expediting the purchase of natural gas from countries such as Kazakhstan, Turkmenistan and Uzbekistan, and why we will see in the not-too-distant future a dramatic rise in natgas prices on the Russian market, curtailing domestic consumption. Nor can we rule out increased use of nuclear energy to cover domestic needs and enable Russia to meet its commitments to its customers.

While the high price at which Moscow purchases gas from the former Soviet republics will likely lead to a reconsideration of this choice – bearing in mind the current stagnation in demand for natural gas, as well as the fact that natural gas prices, which follow those of oil at a 6- to 9-month delay, are currently at levels where Russia runs the risk of making limited gains from the sale of natural gas from Central Asian republics. But this has not stopped Russia from setting very ambitious goals and openly addressing these energy-rich countries that can be considered as alternatives suppliers- despite their limited potential at this time.

Russian energy companies appear to be in a hurry to get a jump on situations that a short time ago looked like done deals, offering better
financial terms and pointing to Russia’s existing network while underscoring how time-consuming and costly the creation of new pipelines would be. The proposal Russia has put to Azerbaijan for the transport of the latter’s natural gas reserves – which are put on the market via Russia – is part of this strategy. Such a development would of course further undermine Western plans to diversify energy routes and suppliers.

So the European Union – as well as the Balkans, to an extent – are left in the current state of affairs with a critical dilemma: dependence on Russia as a supplier, or dependence on Turkey as the principal regulator of our energy flow, given that most projects bypassing Russian soil are or will be crossing Turkish territory, giving Ankara increased geopolitical clout and an even greater role as a vital link in Europe’s energy supply chain.

Furthermore, Turkey’s credibility is being called into question: it was just last year – and just a few months after Karamanlis and Erdogan inaugurated the Greek-Turkish natural gas pipeline – that Ankara cut off Greece’s natural gas supply for a couple of weeks in order to deal with a heavy winter and to pressure Azerbaijan on the issue of resale of natural gas. But the fact that Turkey went back on its own signature creates concerns not so much as to its intentions (at least in this case, it did not use energy for their problematic bilateral relations) as to its reliability as a partner who respects and is bound by the agreements it has signed.

A more flexible and predictable Iran might render this dilemma more soluble, but the path to a state of affairs wherein Tehran would be in a position to provide an uninterrupted flow of large quantities of natural gas to the West is both long and thorny. Even if Iran’s leadership adopts a more conciliatory approach and the matter of Tehran’s nuclear

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81 According to a Moscow Times article, Gazprom has persuaded Azerbaijan to start talks with Russian agencies on the possibility of allowing Baku, as of 2010, to transport its energy reserves through Russia. What’s more, following the April 2009 talks between Gazprom’s Alexei Miller and Socar’s Rovnag Abdullayev, the two companies are jointly inspecting a 200-kilometer pipeline that runs from Baku to Dagestan to determine the extent of the necessary improvements and start work on the project.

82 It should be noted that Romania imports a little over ¼ (28%-30%) of the natural gas it consumes, as is therefore not dependent on its suppliers to the extent that other Balkan countries are. But even though Romania is not included in Moscow’s ambitious energy planning and is a firm supporter of Nabucco, the two countries have concluded an initial agreement on the construction of 5 bcm of storage facilities on Romanian territory.

83 A prospect that seems remote in the wake of the recent presidential elections.
aspirations is resolved (with Israel’s stance and potential actions in this regard being of decisive importance), poor infrastructure and lack of know-how would keep Iran from playing a significant role in Western energy planning any time soon.\textsuperscript{84}

**Epilogue**

Within this complex and volatile environment, Russia and the West are going through a serious phase of distrust. Both are initiating projects (gas and oil pipelines) aimed at undermining the other’s geopolitical interests and influence and enhancing negotiating leverage.

The real issue is whether these essentially antagonistic initiatives have any substance; whether they are pragmatic. For Russia, exploiting energy as a tool of diplomacy is a gamble. “With large portions of the population still well below the poverty line and oil and gas money tied – through the Stabilization Fund – mostly to programs of social support and renewal (and more recently to softening the blow of the financial crisis), curbing or halting energy supplies to the West is not a realistic option.”\textsuperscript{85} Besides, it is misleading to assume that Moscow’s socio-economic problems can be solved through gas and oil exports alone – particularly nowadays, when oil prices are sliding. Neither is retaining the monopoly environment and strong state protection a wise move, as this has led to sharp declines in major matured Western Siberian fields, thus

\textsuperscript{84} It is illustrative, though, that between March and June 2009, Iran made three important announcements and agreements that are indicative of its renewed effort to increase its involvement in the gas market. First, in a message to multiple recipients, it proposed the creation of a “Persian” natural gas pipeline that would circumvent Turkey, carrying natural gas through Iraq and Syria to the Mediterranean. Alarmed at Turkey’s maximalistic demands, Iran’s leadership appears to be having second thoughts about Ankara’s role as a hub for the majority of projects circumventing Russia, making it clear that it does not want to become hostage to Turkish demands or confer on Ankara a strengthened role in energy affairs. Turkey will thus have to reconsider its very demanding agenda with regard to Tehran if it wants the agreements it has signed with Iran to date to retain their importance. At the same time, it is emerging that alternative transport routes circumventing Russia need not necessarily run through Turkish territory.

Tehran’s second move was its ambitious proposal to Azerbaijan for the purchase of all the natural gas from the Shah Deniz deposits, bringing to the surface the inherent competition between Iran and Turkey in the energy sector. This concerns not only Iranian and Turkish national reserves, but also those of other countries, given that Russia’s Gazprom has made the same offer to Baku. It is also significant that Azeri natural gas is cheaper than Russian natural gas – though not of particularly high quality – which would make it easier for Iran to import it at lower prices for domestic consumption, and resell it abroad with larger profit margins.

Third, the signing in June 2009 of a $4.7 billion cooperation agreement between the China National Petroleum Company and its Iranian counterpart concerns the development of phase 11 of the South Pars natural gas deposit, which is in Iranian territorial waters in the Persian Gulf, and is the largest in the world.\textsuperscript{85} Andreas Andrianopoulos, Russian Energy Diplomacy and the South East European Response, Synopsis.
necessitating the search for additional resources and the dramatic rise in domestic natgas prices for the sake of restraining consumption.86

The rapidly growing Russian economy will have increasing energy needs, which might have delimitating effects on Russia’s export potential, therefore making foreign investment an imperative. Likewise, Brussels and the West in general tacitly recognize that Russia and potentially Iran are the viable options in Europe’s endeavour to guarantee adequate supplies of energy – gas, mainly. “The Central Asia card is still extremely precarious and insecure. The countries in the region are not entirely reliable: they promise their supplies to almost everyone who makes a proposal, and for their product to reach western markets, time, heavy investment and extensive infrastructure work will be needed”87 – with Russia all the while tightening its grip on their exports.

It is therefore becoming obvious that irrespective of rhetoric, reality dictates cooperation between Russia and the West. “And cooperation there will be. There will be competition, especially for the markets in Turkmenistan, Kazakhstan and Uzbekistan,”88 but for Iran as well. But stark realities will force both sides to adopt more conciliatory attitudes and policies. For everyone’s sake and benefit, political consultations and the promotion of investments that would mutually bind both sides – and, consequently, irrespective of their differences, lead to the adoption of rules that will regulate the game – should become the order of the day. After all, the lack of an international legal framework governing energy relations necessarily shifts the burden to inter-state relations and agreements.

The EU and Russia need to reach a strategic settlement on issues that unite rather than divide them. And energy relations – instead of being approached in a zero-sum mentality – may provide a context for this. It is only natural that Europe should pursue a reduction in its energy dependence on Moscow, but why should this rule out the penetration of European companies into Russia or discourage the participation of Russian companies in projects circumventing Moscow. The goal is to obviate antagonism through mutually beneficial synergy. It would thus be constructive for the EU and Russia – given their profound interdependence in the energy sector – to put aside exclusionary and

86 Vladimir Milov, Russia’s Former Deputy Energy Minister in a roundtable discussion at Chatham House, September 2006.
87 Andreas Andrianopoulos, Russian Energy Diplomacy and the South East European Response, Synopsis.
88 Ibid.
antagonistic rationales and pursue a more consensus-oriented relationship: Scan the horizon as you might, you will see no serious alternative to Russia as a basic supplier for the EU, and no better-paying customer than the EU for Moscow.

As far as the Southeast European periphery is concerned, it is clear that Russia is staging a return to the region via energy projects. But it is equally clear that the U.S. and the EU have strong political, military and economic footholds in this region.

Aleksandar Kovacevic points out the major deficiencies and weaknesses that need to be confronted by states in the region and then makes his proposals: “The disruption in natural gas supply to South Eastern Europe during the January 2009 Russia-Ukraine crisis revealed serious shortcomings in the security of supply architecture in the region. In the medium term – up to five years – countries are facing serious energy security challenges. In the longer term – beyond five years, a stream of incremental developments could facilitate both the emergence of a regional natural gas market, and gas linkages with western and central European markets. In the short term, local energy providers and network operators need to prepare for the 2009/2010 winter; improve functionality of networks; build up stocks of alternative fuels of natural gas; enter into robust and realistic commercial arrangements; adapt tariff systems and apply appropriate demand side management.”

At the same time, Southeast European states need to seek additional supply sources if they want to avoid being caught in the Moscow-Washington geopolitical crossfire. Obviously, no current or potential transit country wants to identify with one or the other pole of power; instead, they want to keep their options open so that they can ensure supplies from diverse sources: countries with whom finding a common denominator and viable cooperation model is not so daunting a goal. It is therefore worthwhile for states in the region to look at the prospects for direct consultation – with no mediator – with producers who might help them and (Why not?) the Balkans as a whole achieve the goal of energy diversification, while also strengthening the prospects for peripheral normalization and prosperity.


90 Due to geographic proximity, North African countries – including Egypt, Algeria (which is already contributing to covering European energy needs with LNG) and now even Libya, which is no longer part of the axis of evil – are a realistic option.
In my view, beyond the geopolitical dimension of energy – its impact on power relations and broader regional equilibrium – it should also be noted that the regional security conditions in the long-suffering Balkans would improve if the states in the region shared a common energy perspective that would strengthen the ties between them and help maintain a certain level of stability. But as long as hostile practices prevail – a situation perpetuated by the planning by strong, external power poles of projects based on geopolitical alliances and interrelations, setting them firmly within a context of strategic facilitations – the prospect of region-wide projects implemented in a spirit of cooperation, or at least mutual gains, seems unlikely.

But make no mistake: all of the above should be followed by renewed efforts – not just empty commitments – to find alternative forms of energy that are friendlier to a long-suffering environment.
About the author

Dr. Constantinos Filis is a specialist in Russian and former Soviet space affairs and a strategic planning expert on Greek foreign policy on the broader region of the Black Sea, the Caucasus and Central Asia. Since November 2004 he has headed the IIR’s Russia and Eurasia Centre, which in September 2008 was renamed the Centre for Russia, Eurasia & South East Europe.

For the last three years he has been providing annual seminars for high-ranking Greek military personnel, and he submits studies to the Hellenic National Defence General Staff on a regular basis. He is also teaching in the undergraduate and graduate programmes of Panteion University, Athens.

In November 2007 he was elected Senior Associate Member (SAM) at St Antony’s College, Oxford University, and as of September 2008 he is an Associate of South East European Studies at Oxford (SEESOX). Dr. Filis is currently an International Advisor for the Research Institute of European and American Studies and is also a member of the academic council of the Institute of Strategic and Development Studies.
South East European Studies at Oxford (SEESOX) is part of the European Studies Centre at the University of Oxford. It focuses on the interdisciplinary study of the relationship between European integration and the politics, economics and societies of the Balkans, Greece, Turkey and Cyprus. Drawing on the academic excellence of the University and an international network of associates, it conducts policy relevant research on the multifaceted transformations of the region in the 21st century. It follows closely conflict and post-conflict situations and analyses the historical and intellectual influences which have shaped perceptions and actions in the region. In Oxford's best tradition, the SEESOX team is committed to understanding the present through the longue durée and reflecting on the future through high quality scholarship.

SEESOX has the following objectives:

- To support high-quality academic and policy-relevant research on South East Europe;
- To organise conferences, workshops and research seminars;
- To promote multi-disciplinary study of the region's development within Oxford University (e.g. politics, international relations, law, sociology, economics) working in collaboration with other Centres and Programmes within the University, including student societies;
- To spearhead intellectual exchanges and debate on these issues among networks of individuals and institutions beyond Oxford;
- To foster cooperation between the academic and the policy making communities.