Cold Reality in the 'Land of Fire'

Twenty years of geopolitical wrestling around Azerbaijani energy resources

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This paper was presented at the First Annual CSEEES New Eurasia Conference at University of North Carolina at Chapel Hill (March 26 2011), at the 49th Southern Conference on Slavic Studies in Alexandria, VA (April 8, 2011) and at the 17th Annual REECAS Northwestern Conference at Washington University, Seattle (April 16, 2011)

List of Abbreviations

ACG – Azeri-Chirag-Guneshli oil fields
AGRI – Azerbaijan-Georgia-Romania Interconnector
AIOC – Azerbaijan International Operating Company
BTC – Baku-Tbilisi-Ceyhan oil pipeline
BTE – Baku-Tbilisi-Erzurum natural gas pipeline
CIS – Commonwealth of Independent States
ITGI – Interconnector Turkey-Greece-Italy
PSA – production-sharing agreement
SOCAR – State Oil Company of Azerbaijan Republic
TAP – Trans-Adriatic Pipeline
TCP – Trans-Caspian Pipeline project

Azerbaijan was the first Newly Independent State to open up its resources for foreign investors and became one of the most spectacular areas of geopolitical contest in the Post-Soviet region. Neighbored by three regional powers (Russia to the north, Iran to the south and Turkey to the west), it is the only country that provides a possible transport route of Central Asian natural gas to the West without passing through Russia or Iran. Baku in the last two decades has been trying to lure the United States and the European Union in order to concrete its independence against its powerful neighbors, put pressure on Armenia to return the occupied Azerbaijani territories and diversify its natural gas export to the reliable, well-paying European markets.

My paper focuses on how the energy resources of Azerbaijan changed the geopolitical picture of the broader Caspian region after the collapse of the Soviet Union and how they turned Azerbaijan from an outback, war-shattered country into one of the most important pivotal states in Eurasia, as proposed by Zbigniew Brzezinski's '*The Grand Chessboard'*[1].

I am searching the answer on the following questions: How did the growing production of Azerbaijani hydrocarbon resources transform the geopolitical picture of the Caspian region? How did Azerbaijan's position change after signing the 'Contract of the Century' in 1994? Why is Baku not content with exporting natural gas on the existing infrastructure to its neighbors? Why is Baku still patient with the crawling European pipeline projects? How long might the diversification of natural gas exports in the European direction remain a priority?

1991-1995: Landlocked, war-torn producer

Azerbaijan, whose name is frequently easily translated as "the land of fire", was one of the first areas in the world to produce oil in the late 1800s. However, during the Soviet times the Azeri energy industry was not properly developed by the Soviet central planning. Being part of the Soviet Union, the area was closed for the foreign investors as well.[2] Only the collapse of the Soviet Union made possible the opening up and development of the Azerbaijani hydrocarbon resources.

After gaining independence in 1991, Azerbaijan was not in an enviable position. Beyond being geographically enclosed by the landlocked Caspian sea, Russia, Iran, Georgia,

[1] Brzezinski, Zbigniew [1998]: *The Grand Chessboard*. Basic Books. pp 46-47.

[2] Western interest in Azerbaijani oil already appeared before the collapse of the USSR, actually after the discovery of Azeri and Chirag oil fields in 1985. Гаджиева М. З.: Нефть и его историческое влияние на мировую политику (Oil and its Historical Impact on World Politics). In: *«Реформы в Азербайджане»: Экономическая стратегия и правовое обеспечение* [1998]. Бакинский Филиал Дагестанского Государственного Университета, Баку. p 78.

Turkey and Armenia, Azerbaijan was severely affected by the economic collapse of the Soviet Union, the war with Armenia for Nagorno-Karabakh[3] (1988-94) and political instability (1991-95).[4] Furthermore, in spite of being a traditional hydrocarbon producer, since the mid-1980s Azerbaijan was compelled to import natural gas from Turkmenistan and Russia in order to meet the domestic needs and depend on Iran to supply its exclave of Nakhichevan.[5] Thus, both Presidents Abulfaz Elcibey (1992-93) and his successor Heydar Aliyev (1993-2003) decided to stabilize Azerbaijan's independence, internal order and rebuild its economy by opening up its energy resources for foreign (western) investors. According to Azerbaijani intentions, foreign investment would not only bring capital and state of-the-art technology for the development of hard-to-approach offshore oil and natural gas fields, but also would give Baku a leverage against its neighbors, especially Russia, which slowly accepted the independence of South Caucasus countries at that time.[6] On September 20, 1994, Baku signed the so called "Contract of the Century", the first production-sharing agreement (PSA) with the AIOC consortium made up of 11 companies on the Azeri, Chirag and Guneshli (ACG) offshore oil fields. This signing was followed by 18 other PSAs until 2000.[7]

The 'Contract of the Century' and the PSAs made it possible for the Azerbaijani government to easily utilize its hydrocarbon resources and international importance for three foreign-oriented aims: to concrete its independence against its powerful neighbors, put pressure on Armenia to return the occupied Azerbaijani territories and diversify its oil and (after the Millennium) natural gas export to the reliable, well-paying world and European markets respectively[8]. As we can see on Graph 1, the PSAs soon bore fruit: with opening the ACG fields and others, in 1997 Azerbaijan's oil production began to rise as the oil fields under PSAs were put under operation.

[3] The Karabakh-question is still haunting the Azerbaijani government. The autonomous oblast' of Nagorno-Karabakh with Armenian majority was part of the Azerbaijani SSR in the Soviet times. Upon the collapse of the USSR the Armeinan population stepped up for independence and joining Armenia. By 1992 the conflict turned into war and by 1994 Armenia occupied 16-18 % of the area of Azerbaijan, including Nagorno-Karabakh, causing the flight of more than half a milion Azeri refugees (IDPs). Athough ceasefire was agreed in May 1994, the Karabakh-question is one of the unresolved, so called 'frozen conflicts' of the Post-Soviet region.

[4] The Azerbaijani GDP fell by 58% between 1990 and 1995. *Caspian oil and gas: the supply potential of Central Asia and Transcaucasia* [1998]. International Energy Agency, Energy Charter Secretariat, Organisation for Economic Co-operation and Development, OECD. p 153.

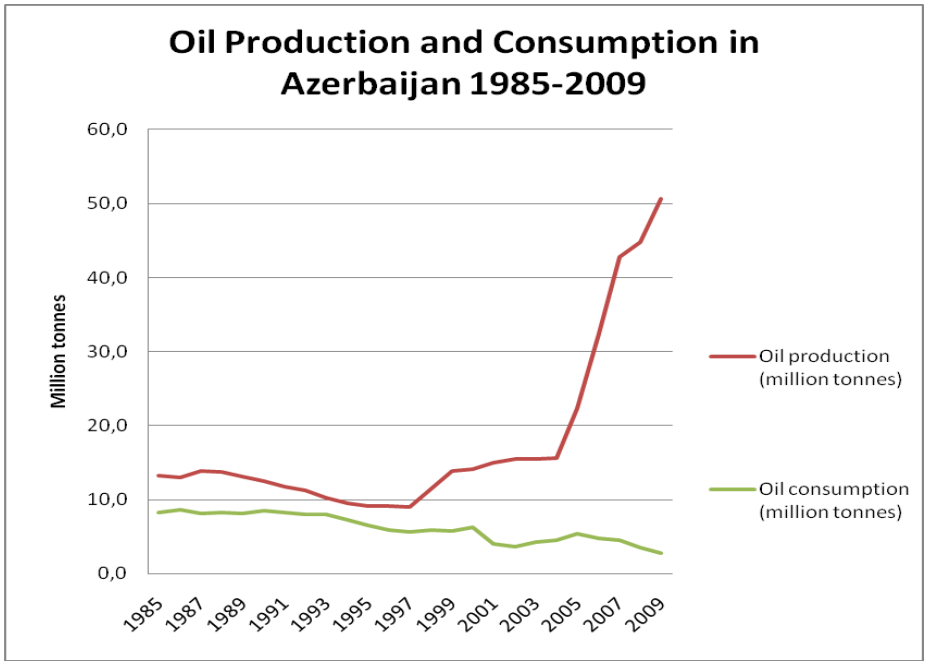
[5] Bowden, Julian: Azerbaijan: from gas importer to exporter. In: Simon M. Pirani (ed.) [2009]: *Russian and CIS Gas Markets and their Impact on Europe*. Oxford Institute for Energy Studies, Oxford. pp 207-208.

[6] Alekserov, Valeh: Achieving Azerbaijan's Strategic Vision: Negotiating the 'Contract of the Century'. In: Ismailzade, Fariz; Petersen, Alexandros (ed.) [2009]: *Azerbaijan in Global Politics – Crafting Foreign Policy*. Azerbaijan Diplomatic Academy, Baku. pp 217-224.

[7] SOCAR Projects. URL: http://socar.az/44-projects-view-en.html. Downloaded: 2 February 2009.

[8] Ismaylov, Murad: Continuity and Change in Azerbaijan's Energy Diplomacy. *Caucasus Analytical Digest*. No 16, 26 April 2010. pp 2-5.

Another favorable event also underlined the importance of PSAs. In 1999 the consortium led by BP and Statoil for the Shah Deniz field discovered a new, relatively big[9] natural gas offshore field that would not only cover the domestic needs of natural gas, but would be a possible export source as well. In 2001 Azerbaijan signed the first contract on future natural gas export with Turkey[10].



Graph 1: Oil Production and Consumption in Azerbaijan 1985-2009[11]
Source of Data: BP Statistical Review of World Energy Historical Data.
http://www.bp.com/productlanding.do?categoryId=6929&contentId=7044622

In the Focus of Growing Foreign Interests (1996-2005)

The growing number of PSAs[12] and their implementation led to growing Azerbaijani oil production that goaded the curiosity of not only the international oil companies but also the key regional geopolitical players as well.

[9] The Shah Deniz field is estimated to have at least 625 billion m^3 of natural gas. Source: http://www.offshore-technology.com/projects/shah_deniz/. Downloaded: 12 January 2009.
[10] Energy Information Administration. Source: http://www.eia.doe.gov/emeu/cabs/caspgase.html. Downloaded: 15 November 2008.
[11] Due to the lack of exact sources on export data, I display the difference of production and consumption as an indicator of amount of oil *availabe* for export, indicated by the oil surplus. Graph 1 reaffirms the statement that the output of Azerbaijani oil fields began to decrease in the 1980s and the rise appeared after the commencement of Chirag field in 1997 that was put under operation in the frame of the Contract of the Century.
[12] Due to the foreign investment in the oil indurstry from 1994, by 1997 Azerbaijan already had higher per capita investment then all other countries of the CIS. Мамедов D. A., Алиев O. A.: «Контракт века» и его вияние на экономическое развитие Азербайджанской Республики. ('The Contract of the Century': Its Impact on the Economic Development of Azerbaijan) In: *„Azerbaijan on the Threshold of the XXI Century" Azerbaijan Republic Scientific-Practical Conference* [1998]. Azerbaijan Academy of Sciences, Centre of Science and Education „Tafakkur" University, Azerbaijan Economists Union, Baku. p 86.

Russia, trying to constrain the pro-western Elcibey-leadership and its energy market opening efforts, destabilized it[13]. Then, when the new Aliyev-leadership turned out to continue Elcibey's line in calling in western investors and eventually signed the 'Contract of the Century', Moscow tried to keep the Azerbaijani oil trade under control and proposed the (then) only possible export route to a deepwater harbor for Azeri oil, the existing Baku-Novorossiysk pipeline. The Baku leadership agreed to export via that pipeline (1996), but already looked on non-Russian export routes[14].

Iran, the southern neighbor with a vast Azeri minority, fearing of irredentism in Baku, also looked suspiciously on Azeri plans to tap oil and natural gas fields under the Caspian Sea. On the one hand because of the unresolved status and borders of the Caspian Sea, and on the other, because the western involvement in the Azerbaijani energy industry meant not only (under US pressure) the exclusion of Iranian firms from the projects, but also the exclusion of Iran from the transport pipelines[15].

Turkey, beyond building an exceptional relationship with the Turkic-speaking Azerbaijan, had also interests in the Azerbaijani resources. Turkey not only considered its own dependence on energy resources, but also was interested in building an export pipeline for the landlocked Azerbaijani and possibly Central Asian oil to a Turkish deepwater port. Ankara, beyond planning to be an important transit country for oil, looked on the energy trade as an important facilitator of relations with the Turkic-speaking nations of the Caspian[16].

The United States, the external regional player, being interested in promoting the stability of the Newly Independent States, also saw a new opportunity in the Azerbaijani hydrocarbon production. Washington thought that with helping the landlocked Azerbaijan's oil production to the world markets through pipelines, it would not only add (however modest) oil production to the world supply but through pipelines bypassing Russia and Iran, it could create a more stable and peaceful region in the South Caucasus. That is why Russia staunchly opposed the Azerbaijani PSAs. Moscow considered them as the cementing of the Post Soviet geopolitical order and loss of its sole influence on Baku, and was inconvenient

[13] In 1992-93 Moscow enhanced the support of Armenian troops in the Karabakh war against Azerbaijan and backed the renegade Azerbaijani paramilitary unit of Surat Huseynov. Cornell, Svante E. [2011]: *Azerbaijan Since Independence*. M.E. Sharpe, New York. pp 70-77.

[14]Ismailzade, Fariz [2006]: Russia's Energy Interests in Azerbaijan. *Russian Foreign Energy Policy,* Global Market Briefings, London. pp 6-14.

[15] Ismailzade, Fariz and Cornell, Svante E.: The Baku-Tbilisi-Ceyhan Pipeline: Implications for Azerbaijan. In: Starr, S. Frederick & Cornell, Svante E. (ed.) [2005]: *Baku-Tbliisi-Ceyhan Pipeline: Oil Window to the West*. Central Asia-Caucasus Institute Silkroad Studies Program. p 79.

[16] Baran Zeyno: The Baku-Tbilisi-Ceyhan Pipeline: Implications for Turkey. In: Starr, S. Frederick & Cornell, Svante E. (ed.) [2005]: *Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West*. Central Asia-Caucasus Institute Silkroad Studies Program. p 104.

because of the small ability of Russian companies to participate as well[17] - even if Azerbaijan tried to appease Moscow that the Lukoil was soon invited to participate in the ACG project.

In the late 1990s the USA backed several pipeline projects to transport oil (and later natural gas) from Azerbaijan to the world markets without passing through Russia: the Baku-Tbilisi-Supsa oil pipeline, put into operation in 1999, carries a limited amount of Azeri oil to the Georgian coast[18]. The more ambitious Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the Baku-Tbilisi-Erzurum (BTE) natural gas pipeline, that were eventually opened in 2006, were aimed to transport further Azerbaijani oil production to the world markets (BTC) and the natural gas surplus of the Shah Deniz field to Georgia and Turkey (BTE) - bypassing both Russia and Iran. During the accelerating pipeline negotiations of 1999-2000 the proposed Trans-Caspian gas pipeline (TCP) was aimed at carrying Central Asian natural gas to the European market through Azerbaijan.[19]

Changes and Challenges, the Beginning of the Gas Era (2006-)

By early 2006 the geopolitical picture around Azerbaijan began to change again. In spring 2006 both BTC and BTE pipelines were commissioned[20], opening the most important alternative oil export route for the Russian transit option to the world markets and rendering the export of natural gas.[21] The beginning production of the first phase of Shah Deniz in December 2006 not only covered the domestic needs but also provided some slight surplus for export to Turkey and Georgia. Thus, following a gas price debate, in early 2007 Azerbaijan suspended natural gas imports from Russia and became completely independent of Russian

[17] Cornell, Svante E. et al.: Geostrategic Implications of the Baku-Tbilisi-Ceyhan Pipeline. In: Starr, S. Frederick & Cornell, Svante E. (ed.) [2005]: *Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West*. Central Asia-Caucasus Institute Silkroad Studies Program. pp 30-31.

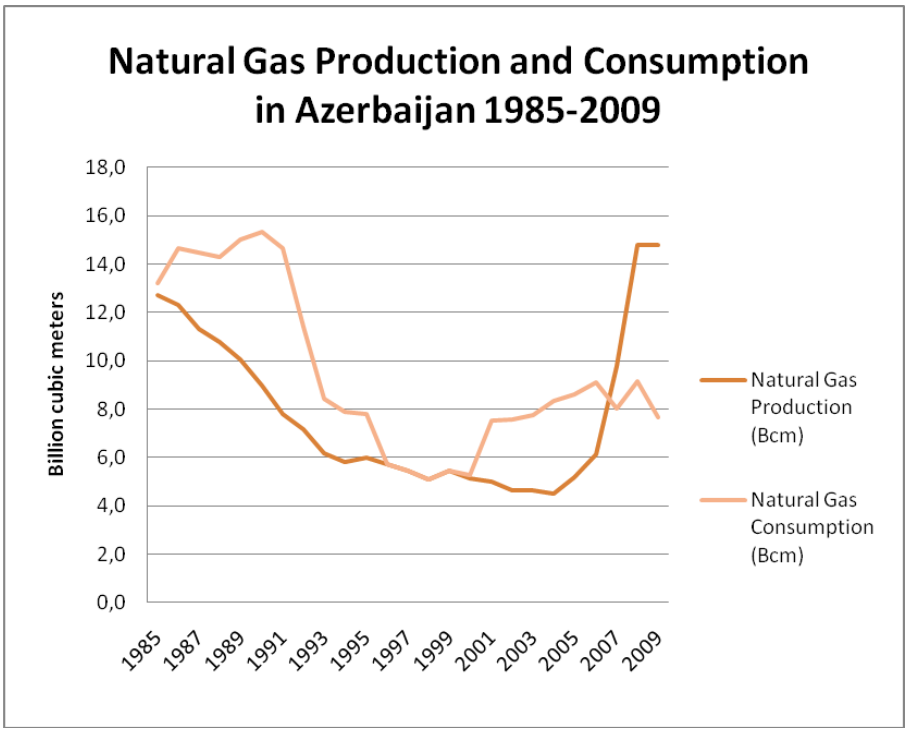
[18] Georgia was at least as concerned of its independence from Russia as Azerbaijan was: that is why Tbilisi participated in the US-backed oil and natural gas pipeline plans.

[19] The TCP plan stalled in 2000 due to the debate between Azerbaijan and Turkmenistan about the division of the capacity of the proposed pipeline. Earlier Azerbaijan was considered to be only a transit country for Turkmen gas, but after the discovery of Shah Deniz, Baku wanted to engage the half of the capacity of the TCP for its own gas. Stern, Jonathan [2005]: *The Future of Russian Gas and Gazprom*. Oxford University Press, Oxford. p 75.

[20] The surge in production from 2005 displayed by Graph 1 caused by the fact that key foreign operator BP increased the oil output with the commencement of Central Azeri oil field in March 2005, in preparation for the commission of the Baku-Tbilisi Ceyhan pipeline. Azeri Oil Export Starts. *BP Global - Press Releases*, 5 March 2005. See: http://www.bp.com/genericarticle.do?categoryId=2012968&contentId=7004732. Downloaded: 19 March 2011.

[21] The successful transit diversification of Azerbaijani oil through the BTC is one of the best markers of the diversification of oil transit system in the Post-Soviet region. See: Deák, András György: Az EU-n kívüli térségekbe irányuló orosz szénhidrogén-export perspektívái. (The Perspectives of Russian Hydrocarbon Exports to non-EU Regions) In: Novák, Tamás (ed.) [2008]: *Kelet-Európa tanulmányok III*. Magyar Tudományos AkadémiaVilággazdasági Kutatóintézete, Budapest. p 207.

hydrocarbon supplies. In 2007 Azerbaijan exported only 1 billion m^3 natural gas altogether, but this amount grew to an estimated 7-8 billion m^3 in 2009.[22]



Graph 2: Natural Gas Production and Consumption in Azerbaijan 1985-2009[23]
Source of Data: BP Statistical Review of World Energy Historical Data.
http://www.bp.com/productlanding.do?categoryId=6929&contentId=7044622

Another favorable event placed Azerbaijan in the focus of international attention more than anything ever before. As a consequence of the 2005-2006 gas debate between Russia and the Ukraine, the European Union accelerated plans on loosening its natural gas dependence on Russia. The EU is expected to dynamically increase its natural gas consumption[24] and from 2006 on began to push forward the Nabucco plan that is aimed to bring natural gas from the

[22] British Petrol Statistical Review of World Energy 2008 and 2010. See:
http://www.bp.com/subsection.do?categoryId=9023762&contentId=7044550
http://www.scribd.com/doc/3487147/statistical-review-of-world-energy-full-review-2008

[23] Graph 2 shows the decreasing output of Azerbaijani natural gas fields in the 1980s that led to imports. Due to the shrinking economy between 1990-95 the consumption fell dramatically. In 1995 Baku ceased gas imports, then the consumption was limited to production. The imports resumed only in 2000. The rise in gas output in 2005 can be accounted to the affiliated gas produced at the Azeri and Chirag fields, the surge from 2007 shows the effects after the commission of the Shah Deniz Stage 1.

[24] The consumption of the EU was 564 billion m^3 in 2006, while the production was only 316 billion m^3. That means that some 40% of the EU consumption came from import, 60% of which came from Russia. According to some estimations, due to the rising consumption and declining production in the EU, the ratio of imported gas may rise up to 80% of the EU consumption by 2020. Rempel, Himar; Schmidt, Sandro; Schwartz-Sampera, Ulrich; Röhling, Simone; Brinkmann, Klaus [2007]: Die Rohstoffe Zentralasiens: Vorkommen und Versorgungen für Europa. (Central Asia's Natural Resources: Resources and Supply for Europe) In: *Osteuropa*, Volume 57, Issue 8-9.pp 433-448.

Caspian Region[25]. The Nabucco project is based on Azerbaijan (and the future Stage 2 of Shah Deniz) as the keystone of its natural gas needs on the one hand, and as a transit country for the possible Central Asian natural gas on the other. The other European pipeline plans (which, together with Nabucco are parts of the Southern Gas Corridor defined at the Southern Corridor Summit in Prague in May 2009, see Appendix 2) proposed by European states or multinational companies also aim to ship the same Azerbaijani (and Central Asian) resources to Europe: the Trans-Adriatic Pipeline (TAP) is aimed at carrying Caspian natural gas via a pipeline from Greece to Italy[26]. The Interconnector Turkey-Greece-Italy (ITGI) is a similar proposal to connect the Turkey-Greece natural gas pipeline network with Italy, forwarding more natural gas there[27]. The White Stream project[28] plans to deliver Azerbaijani Natural gas to Ukraine and Romania through a pipeline to be built under the Black Sea without involving Turkey. The Azerbaijan-Georgia-Romania Interconnector[29] (AGRI), is aimed to deliver Azerbaijani natural gas liquefied at a Georgian port to Romania and Hungary – again, without involving Turkey.

Azerbaijan received the European plans well[30], considering that with their implementation it may reach at least two foreign policy goals: the export diversification to the European market that pays much higher prices for natural gas than the CIS market and the cementing of political and economic independence through the European pipelines. However, by far the pipelines to Europe (correctly, the lack of pipelines) and the crawling implementation of the projects have turned out to be the key issues.

Russia, being disturbed by the appearing European natural gas diversification efforts, has been trying to undermine the EUs plans and offering an alternative. That is why Moscow proposed a series of pipeline projects (Blue Stream II, South Stream) to compete with the Nabucco plan and to siphon off the resources from it. In the frame of this strategy, in mid-2008 the Russian gas giant Gazprom made an offer for *importing* Azerbaijani natural gas at 'European prices'. Azerbaijan, having seen the slow implementation of Nabucco and under

[25] Nabucco Pipeline project: http://www.nabucco-pipeline.com/portal/page/portal/en
[26] Trans Adriatic Pipeline: http://www.trans-adriatic-pipeline.com/
[27] Papandropoulos, Athanassios [2011]: What is the ITGI Pipeline Project. *NewEurope.eu*. 13 February 2011. Source: http://www.neurope.eu/articles/104750.php. Downloaded: 15 February 2011.
[28] The White Stream Project: http://www.gueu-whitestream.com/main.php?id=1&lang=eng
[29] Négyoldalú közös nyilatkozat az AGRI projekt jövőjéről. (Fourlateral Common Declaration on the Future of the AGRI Project) Source: http://www.kormany.hu/hu/nemzeti-fejlesztesi-miniszterium/klima-es-energiaugyi-allamtitkarsag/hirek/negyoldalu-kozos-nyilatkozat-az-agri-projekt-jovojerol. Downloaded: 22 February 2011.
[30] At the Nabucco Summit in Budapest in January 2009 Azerbaijan was the only possible supplier that was represented by the president himself. President Ilham Aliyev personally promoted the Nabucco plan on the summit. Elméletileg épülhet a Nabucco. (Theoretically the Construction of Nabucco can Begin) *Híradó.hu*, 27 January 2009. Source: http://www.hirado.hu/Hirek/2009/01/27/20/Elmeletileg_epulhet_a.aspx. Downloaded: 28 January 2009.

the commercial need of selling its own growing production, signed an export contract with Russia in 2008 and increased the amount of exported gas to 2 billion m^3 yearly, beginning 2011.[31]

Iran has been looking on Azerbaijani natural gas resources as well. Despite sitting on the second largest natural gas resources in the world, Iran's production is surprisingly low due to the lack of foreign investment. The domestic investment is insufficient due to the high subsidization of enormous domestic consumption and the infrastructure based on domestic resources doesn't cover all parts of the country[32]. Thus, Iran has been eager to buy more Azerbaijani gas for 'European prices' to meet its domestic needs. In January 2011 Iran and Azerbaijan contracted the yearly export of yearly 1 billion m^3 of natural gas for five years[33].

Turkey began to look on Baku and the European plans as great opportunities as well. Given the fact that European pipeline would pass through Turkey and Ankara itself has been a customer of growing importance for Baku, the Turkish government decided to transform Turkey into a regional energy hub. The natural gas needs of the Turkish economy have been dynamically rising and Turkey has been trying to reach three goals: first, Ankara tries to make use of its location as a leverage for speeding up its accession to the European Union; second, Turkey tries to keep the purchase price of Azerbaijani gas low and third, given the fact that all the Azeri (and if implemented, Central Asian) gas would flow through its territory, it tries to bargain more amount of it for the rising Turkish economy[34]. In the last two years these aims led to growing price disputes[35] with its otherwise fraternal ally, Azerbaijan.

The United States, having reached its key goal, the commission of BTC and BTE pipelines, has been backing the natural gas diversification efforts of the European Union.

As a conclusion - Azerbaijan in a new role

Azerbaijan made a successful outbreak of its geopolitical position that it met on the eve of independence. Having implemented the Baku-Tbilisi-Supsa and the Baku-Tbilisi-Ceyhan oil pipelines, it strengthened its economic independence by diversifying its transport

[31] «Газпром» и ГНКАР подписали дополнение к контракту купли-продажи азербайджанского газа. (Gazprom and SOCAR Signed Amendment to the Contract on the Trade of Azerbaijani Gas) *Gazprom.ru*. Source: http://www.gazprom.ru/press/news/2010/september/article102779/. Downloaded: 2 February 2011.
[32] Shaffer, Brenda [2009]: *Energy Policy*. University of Pennsyvania Press, Philadelphia. pp 149-154.
[33] Азербайджан поставит в этом году в Иран 1 млрд. кубометров газа. (Azerbaijan Delivers 1 Bcm Gas to Iran This Year) *AzNews.org.* Source: http://aznewsorg.livejournal.com/3439458.html. Downloaded: 23 January 2011.
[34] Winrow, Gareth M. [2009]: Problems and Prospects for the Fourth Corridor: The Positions and Role of Turkey in gas Transit to Europe. Oxford Institute for Energy Studies, Oxford. N30, June 2009.
[35] Abbasov, S. "Turkey, Azerbaijan Gas Agreement Reached, but Talks to Continue," *EurasiaNet*, June 7, 2010 Source: http://www.eurasianet.org/node/61234. Downloaded: 10 August 2010.

routes to the world market of oil. Having upgraded its hydrocarbon industry through foreign capital and technology investment, Baku has been trying to make use of its location and natural gas reserves for its foreign policy goals. We can state that Azerbaijan has not only become an important hydrocarbon supplier, but also a key pivotal state in Eurasia for the transit of Central Asian hydrocarbon resources, marked by the fact that Kazakh oil is already delivered through the BTC pipeline and Baku is in the focus of the Trans-Caspian pipeline project as well.

Thanks to the growing production of Shah Deniz gas field, in early 2007 Azerbaijan successfully put an end to its dependence on gas imports from Russia. At the same time, the BTE gas pipeline was opened, that meant the full independence of Azerbaijan from the Russian gas transit pipeline system. However, in the last few years Azerbaijan has sold much of its yearly gas surplus on the existing infrastructure for Russia, Iran for 'European prices', for Turkey and Georgia at lower prices[36].

Baku, yet doesn't seem to be contented with selling its natural gas surplus to its neighbors: Turkey is a tough partner seeking low prices, Russia and Iran are commercially viable partners, but the reliance only on them on the long term means a certain limit of dependence as well (as it has happened in the history of the area). Thus Baku still places the European diversification option on the first place, for more reasons: Europe may provide not only a far-reaching well-paying, but politically not too interfering partner (as Iran or Russia have the historical past and the future possibility). Additionally, given Azerbaijan's resources and transit position for the possible Central Asian natural gas corridor to Europe[37], only the European diversification option may give Baku enough leverage and pivotal position against its neighbors. That is why even though the Azerbaijani government hasn't committed itself to anybody on the long term, Baku has been backing all projects to the European direction that look on Azerbaijani resources as long as there is any possibility of implementing them. Azerbaijani leaders have declared not at once, that who builds the infrastructure, will get natural gas.

[36] Georgia is of key importance for Azerbaijani plans of oil or gas export diversification because of the fact that Georgia is the only way to build pipelines to the Black Sea or Turkey without trespassing Russia or Armenia. The lower prices that Tbilisi pays for Azerbaijani gas reflect this fact.

[37] Although there are a lot of unsettled legal, technological and environmental issues concerning the Caspian seabed, one factor has changed since the decade-long stalemate of the Trans-Caspian natural gas pipeline plan: The relations between the two possible key participants Azerbaijan and Turkmenistan are improving spectacularly. See: Sokor, Vladimir 'Turkmenistan Demonstrates Commitment To Trans-Caspian Gas Pipeline'. *Eurasia Daily Monitor*, Volume: 8 Issue: 46. 8 March 2011. Source: http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=37612&tx_ttnews[backPid]=13&cHash=30b0193b0c86bda2a1127203879a7df0. Downloaded: 11 March 2011.

Every European Southern Gas Corridor plan, however, beyond the problem that they are aimed at the same source (Shah Deniz Stage 2), has its own stumbling block or unclear factors (see Appendix 3)[38]. Even if the signing of the Joint Declaration on the Establishment of the Southern Gas Corridor (and the export of yearly 10 billion m^3 of Azerbaijani natural gas)[39] between the EU and Azerbaijan on January 13 2011 means an official development, details about the implementation are still to be clarified. Concerning the European plans, a further key decision should be made in Baku 2011, when the Azerbaijani government will decide which European project would be backed by Baku to get the production of Shah Deniz Stage 2. As for the European plans, though, the practical European steps toward the implementation are much more important in this game, but these steps are still unclear.

Baku is obviously trying to take a proactive stance in the energy game. Keeping other natural gas export diversification options open, Azerbaijan tries to have leverage on Europe as well. In late December 2010, Azerbaijan proposed the delivery of 1 billion m^3 of natural gas to Syria in their ongoing project[40] and a month later at the Davos Summit, the Presidents of Azerbaijan and Ukraine signed an intergovernmental agreement about the delivery of liquefied natural gas from 2015[41]. These latest plans, however, serve the dual role of options and leverage in the hands of Baku: we should note that the fulfillment of *all* the proposed projects from the relatively limited Azerbaijani reserves and production does not seem to be viable.

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[38] Nabucco, backed officially by the European Commission, has only been part of the political messages and international declarations but the financial background is not known and there is no common EU energy policy to foster it. The TAP and ITGI need political and financial clarification as well, the White Stream has even not risen beyond a proposed idea, the AGRI is a newborn regional proposal with other details to be clarified.

[39] Barroso tops Azeri gas deal with visa facilitation. *Euractive*, 14 January 2011. Source: http://www.euractiv.com/en/energy/barroso-tops-azeri-gas-deal-visa-facilitation-news-501255. Downloaded: 8 Ferbuary 2011.

[40] Баку планирует поставлять газ в Сирию с 12 года. (Baku Plans to Deliver Gas to Syria from 2011) *Reuters Россия и страны СНГ*, 27 December 2010. Source: http://ru.reuters.com/article/businessNews/idRURXE6BQ1DL20101227. Downloaded: 10 January 2011.

[41] Украина и Азербайджан подписали документы о поставках сжиженного газа. (Ukraine and Azerbaijan Signed Documents on Delivery of Liqufied Gas) *РИАНовости Украина*, 28 January 2011. Source: http://ua.rian.ru/economy/20110128/78636447.html. Downloaded: 28 January 2011.

Appendix

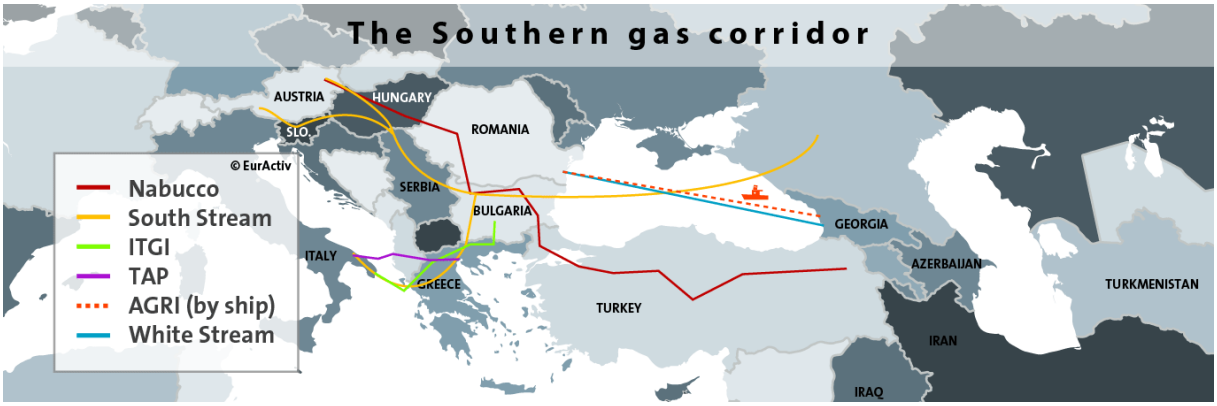
Appendix 1: Map of Oil and Natural Gas Pipelines in the South Caucasus



Map by AY Deezy

Source: http://ay-deezy.deviantart.com/art/South-Caucasus-Pipelines-186805101?q=&qo=

Appendix 2: The European Southern Gas Corridor Plans



Source: Euractiv

http://www.euractiv.com/sites/all/euractiv/files/Southern_gas_corridor_0.gif

Appendix 3

Planned Southern Corridor Pipelines

Project	Consortium	Countries of transit	Capacity	Cost	Completion	Sources of gas	Sources of financing
Nabucco	OMV of Austria, MOL of Hungary, RWE of Germany, Bulgargaz of Bulgaria, Transgaz of Romania and Botas of Turkey	Turkey, Bulgaria, Romania, Hungary	38 bcm/year upon completion	The total investment of Nabucco is estimated to exceed EUR 7.9 billion	Construction is expected to start in 2012, and the first gas to flow the end of 2015	Azerbaijan and Iraq	Private and public
South Stream	Gazprom, ENI of Italy, inter-governmental agreements signed with Bulgaria, Serbia, Greece, Hungary, Slovenia.	Bulgaria, Greece, Italy, Serbia, (possibly Romania), Hungary, Slovenia	63 bcm/year upon completion	From 19 to 24 billion euros according to estimations	2015	Russia. Gazprom could also sell gas it would buy in the Caucasus	Gazprom wants a EU label to the project to attract investors
ITGI	Edison of Italy, DEPA of Greece	Turkey, Greece, Bulgaria,	10 bcm/year in 2015	Not disclosed	2015	Azerbaijan	Private and public
TAP	EGL, Statoil, E.ON Ruhrgas	Greece, Albania, Italy	10 bcm/year to 20 bcm/year	1.5 billion euros	2016	Azerbaijan	Project finance
AGRI	State-own energy companies of Azerbaijan, Georgia, Romania	Georgia, Romania	One, five or eight bcm/year according to variants	Not known, feasibility study not yet realised	?	Azerbaijan	Mostly public
White Stream	Consortium members not disclosed	Georgia, Romania	8 bcm/year	Not known	?	Azerbaijan	?

Source: Euractiv
http://www.euractiv.com/sites/all/euractiv/files/clip_image002.jpg

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