WHETHER LIGHT AT THE END OF THE EU SOUTHERN GAS CORRIDOR IS SWITCHED ON...

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SUMMARY

The political process, which has begun around iran, has created the preconditions for the energy resources of this country to return to the global markets.

It is important for the south gas corridor (i.E. The fourth gas corridor), which runs through georgia and the construction of which commenced on september 20, 2014 by opening the shah-DENIZ – 2 project, to prove its advantages in comparison with the newly initiated fifth gas corridor. But there are 8 main chalenges against this project.

Keywords: Energy, economy, Southern Gas Corridor, Georgia

РЕЗЬЮМЕ

В отношении развития глобальных энергорынков 2017 год характеризуется определенными особенностями. Экономический подъем, рост энергоемкости продукциии численности населения на протяжении 2017 года значительно опередили прогнозированное в начале года энергопотребление.

Напряженность между Евросоюзом и Россией из-за событий в Украине с начала 2014 года обязательно отразится на их сотрудничестве в энергетической сфере. Возможно, учрежденные Брюсселем антироссийские санкции не столь всеобъемлющие, однако изменение энергетической политики Евросоюза повлечет существенные сдвиги в глобальном энергобалансе, и, исходя из этого, изменения традиционных маршрутов поставки углеводородов. Именно эти изменения должны быть предметом внимания Грузии как транзитной страны.

Начатый вокруг Ирана политический процесс создал предпосылки «возвращения» энергоресурсов этой страны на глобальные рынки.

С началом в 2010 году Израилем добычи углеводородов на Восточном Средиземноморье обрисовалась перспектива создания в этом регионе нового энергетического хаба.Израиль уже фактически предложил странам-членам Евросоюза инвестировать в многомиллиардный проект строительства трубопровода для транспортировки природного газа на европейский континент. В Израиле отметили, что такой проект позволит Европе сократить свою нынешнюю зависимость от российского природного газа. Этот масштабный проект министр энергетики Израиля Сильван Шалом представил главам энергетических ведомств стран Средиземноморья на встрече в ноябре этого года в Риме. Реализация этого проекта потребует несколько миллиардов евро инвестиций из Европы. Газопровод соединит средиземноморское побережье Израиля и Кипр, оттуда газ будет транспортироваться в Грецию и Италию. Как сообщил израильский телеканал Channel 2, Кипр, Греция и Италия отнеслись благосклонно к этой идее.

Реально начато строительство в обход России «четвертого газового коридора» ЕС. В частности, 20 сентября 2014 года в Баку состоялась церемония закладки второй трубы Южнокавказского газопровода (SCP), проходящего по маршруту Баку–Тбилиси–Эрзерум. По проекту, эта труба у границы Грузии присоединится к уже действующему трубопроводу SCP.Ожидается, что к 2019 году газ «Шахдениз-2», посредством Трансанатолийского газопровода (TANAP) и Трансадриатического газопровода (TAP) дойдет до Италии, то есть, до Евросоюза.

Растущие темпы добычи сланцевых газа и нефти создали ожидания роста их поставок и, исходя из этого, последующего падения цен на энергоносители. По мнению экспертов, вышеуказанные объективные факторы обусловят «изгнание» с глобальных энергорынков примерно 70 млрд м3 российского газа, и, кроме того, новые поставщики способны повлечь снижение мировых цен на газ на $50-60 за 1000 м3.

Захват небольшой части нефтепровода Баку-Супса россиискими пограничниками на администротивной граенице с южной оссетией, и т.п. И наконец, принятая в Марте 2017 года решение Азербайджана покинуть EITI, - инициативу прозрачности добычи и транзита, поставил под вопрос выделение для Корридора столь необходимых европейских кредитов.

INTRODUCTION

On 2 October 2017 the Ministry of Environment and Urbanization of Turkey finally approved the Environmental Impact Assessment (EIA) for the offshore section of the *TurkStream* Gas Pipeline. After publishing the draft EIA on 21 June, 2017 the B. Ildirim's government established a Review and Evaluation Commission (REC), consisting of 23 relevant institutions and authorities. On 4 July, 2017 the Ministry of Environment and Urbanization organized a meeting with the REC members in order to ask questions and provide feedback on the draft

EIA. Subsequently, the REC members submitted their opinions on the draft EIA in writing. The EIA has been amended in line with these opinions. All REC members have now provided a positive opinion on the EIA to the Turkish Ministry of Environment and Urbanization. The approved EIA is available online.

The above mentioned assessment consists of information on the potential environmental and social impacts of the offshore section of the *TurkStream* project. It also includes recommendations for the mitigation of the potential adverse impacts and enhancement of the beneficial ones.

The renewal of the Russian-Turkish natural gas project *TurkStream* in August 2016, anticipated Middle East, so-called the *Fifth Gas Corridor* and the development of the hydrocarbon deposits on the Israeli shelf of the Mediterranean put realisation of European Southern Gas Corridor projects under the threat. That is why it is necessary for the *Fourth Gas Corridor*, i.e. the EU gas corridor running though the south of Georgia, to show its comparative advantages.

The activities, which have been in direct connection with the formation of the world gas market and creation of a new gas corridor to supply Europe and Middle East with gas, have been going on in the Middle East and the North of Africa since 2011 from the so-called Arab Spring launching to present days. In the light of the deterioration of the situation in Ukraine, the Georgian society has been paying less attention to those issues. The main stress is put on the issues related to the gas war between Russia and Ukraine. Meanwhile, the Middle East, the so-called the *Fifth Gas Corridor* and the development of the hydrocarbon deposits on the Israeli shelf of the East Mediterranean (EASTMED) caused challenges the European energy projects. That is why a thorough analysis of the events taking place around this corridor is of a vital importance to promote the European integration of the country.

ECOLOGY vs. ECONOMY

Competition over the transit pipelines control, access to pipeline routes, and the availability of cheap fuels, such as coal and oil, have constrained consumption of the environmentally friendly natural gas worldwide. Controlling the gas transit pipelines, discovering the new routes of access of the hydrocarbons and replacing the other sources of energy by the non-polluting natural gas – these are the issues getting more and more complicated in today's world. The situation has become more troublesome with the engagement of some countries' affiliated companies causing the gas market monopolization and regionalization. One of the ways for diversification of the EU gas market is construction of the Southern Gas Corridor (SGC) via Azerbaijan, Georgia, Turkey, Greece and Italy.

The EU officials met in Baku on February 23, 2017 to discuss progress on the SGC, a US$45 bln project that is envisaged to bring Caspian gas to Europe by 2020. Week earlier, however, 27 European NGOs published a report urging commercial banks to keep well away from the Trans-Adriatic Pipeline (TAP) project, the European leg of the SGC network.

Mr. George Maior, the chief of Romania's domestic intelligence, said: "There might be a Russian element here"; "Russia, as part of their sophisticated information and disinformation operations, engaged actively with so-called nongovernmental organizations — environmental organizations working against shale gas — to maintain dependence on imported Russian gas," Mr. Rasmussen NATO Secretary General said earlier[1].

This belief that Russia is fueling the protests, shared by officials in Lithuania, where Chevron also ran into a wave of unusually fervent protests and then decided to pull out.

In Italy, however, local communities are concerned that the Trans-Adriatic Pipeline (TAP) will destroy the San Foca coastline and negatively affect the tourism economy, agriculture and fisheries in the area.

Local mayors and their constituencies are viciously opposing the TAP pipeline and the risks of accidents associated with the related infrastructure. Marco Poti, mayor of Melendugno has expressed these concerns in a letter to European institutions in June 2015[2].

Also the Italian Ministry of Environment and the Ministry of Culture have expressed concerns over the pipeline. Nonetheless, the Italian government issued a construction permit in May 2015[3] . The NGOs are now calling for the EU institutions and the EIB not to finance the project. A group of 27 NGOs have sent a letter to the EIB's President Werner Hoyer, exposing the main arguments against TAP[4]. The powerful European NGOs - CounterBalance, Platform and Re:Common have launched a web documentary Walking the Line, to present the risks associated with the Euro-Caspian Mega Pipeline or Southern Gas Corridor. The young entrepreneurs, artists and citizens of the community of Melendugno in southern Italy protesting against the construction of the western section of the corridor, the Trans-Adriatic Pipeline (TAP), now expected to receive a 2-billion-euro loan from the European Investment Bank (EIB).

NEW CHALLENGES

In terms of development of the global energy markets, the year of 2017 is characterised by specific peculiarities as well. **Firstly,** these are - economic growth, the growth of production energy intensity and the assumed growth in the population throughout 2017 did set the forecasted in the beginning of the year energy consumption;

Secondly, the tensions between the European Union and Russia, due to the events that have been taking place in Ukraine since the beginning of 2014, will have a huge impact on their cooperation in the energy field. Perhaps, the anti-Russian sanctions set in Brussels are not so comprehensive, yet, the changes in the energy policies of the European Union will lead to significant changes in the global balance of energy; and, as a result, this will lead to a change in traditional routes of hydrocarbon supply. These are exactly the changes which should be paid attention to by Georgia, as the transit country;

Thirdly, the Russian border guards stationed by the Kremlin on the perimeters of Georgia's breakaway, pro-Russian enclave of South Ossetia, have moved the enclave's border markers further into Georgian territory. The expanded border gives South Ossetia, which has declared itself an independent state, and its Russian backers, control of a mile-long stretch of the Baku-Supsa pipeline. Russia's seizure of the Baku-Supsa pipeline has important economic and political dimensions. Controlling even a small portion of the western backed Baku-Supsa pipeline means the Russians and South Ossetians can steal the oil flowing bypassing Russia through it.

Seizing a pipeline is just the newest weapon Moscow has come up with to bully its neighbours, which it still sees as its vassals just decades after the demise of the Soviet Union. As Europe supports new, competitive regional initiatives to diversify its energy supplies, it must react to such challenges with tough words and touched actions, or their viability might also be in jeopardy;

Fourthly, the political process, which has begun around Iran, has created the preconditions for the energy resources of this country to *return* to the global markets. The new Trump administration and the new ROK government cannot come to agreement with regard to policies toward Iran;

Fifthly, with Israel's extraction of hydrocarbons in the East of the Mediterranean, which started in 2010, a perspective of establishing a new energy hub in the region was outlined. Israel has virtually offered the EU member-states to invest into the multi-billion project of constructing a pipeline which will supply the European continent with natural gas. The Israeli authorities have mentioned that this project will let Europe reduce its current dependence on the Russian natural gas. This large-scale project has been presented to the Heads of Energy Departments of the Mediterranean countries at the meeting in November in Rome. The execution of this project will require a few billion Euros in the form of investments from Europe. The gas pipeline should connect the Mediterranean coastline of Israel with Cyprus, from where the gas will be transported to Greece and Italy. The Israeli Channel 2 reported that Cyprus, Greece and Italy reacted favourably to the idea;

Sixthly, the construction of the *Fourth Gas Corridor* of EU bypassing Russia has already started. In particular, on September, 20 2014 Baku hosted an official ceremony to commemorate the beginning of the construction of the second pipeline of the South Caucasus Gas Pipeline (SCP), with the route Baku – Tbilisi – Erzurum. According to the project, this pipeline will be joined to the existing SCP pipeline at the Georgian border. It is expected that by 2019, the *Shah Deniz -2* gas will reach Italy, i.e. the European Union, by means of Trans-Anatolian Gas Pipeline (TANAP) and the Trans-Adriatic Gas Pipeline (TAP);

Seventhly, the growing pace of the extraction of the shale gas and oil has created a sense of expectation of their delivery, and has been the reason for the reduction in the oil and gas prices. According to experts, the above-mentioned objective factors will stipulate the *exodus* of approximately 70 billion cubic metres of Russian gas from the global energy markets. Apart from that, the new suppliers will be able to reduce the world gas prices to $50 – 60 for a thousand cubic metres;

Eighthly, in March 2017 Azerbaijan has announced it has quit the Extractive Industries Transparency Initiative (EITI – so-called Tony Blair initiative[5]), which could have severe repercussions for the EU's long planned Southern Gas Corridor (SGC) project. Membership of the EITI (Georgia, as a hydrocarbon transit country, is EITI member from 2003), which promotes the responsible management of countries' hydrocarbon resources, has been a condition of World Bank and EBRD loans for the TANAP and TAP pipeline projects. They form the core of the SGC scheme. Baku's quit of the EITI membership can cause the Corridor financing ban;

And ninthly, the EU gas production decreased by 9% in 2015, compared to the same period of 2014. On both the last quarter of 2015 and the first quarter of 2016, import volumes were significantly higher than in the previous year, with the biggest increases coming from Russian and Algerian supplies. The non-Russian LNG imports increased in the last quarter of 2015 but decreased in the first quarter of 2016 on a year-on-year basis. In 2015 as a whole, Russian supplies represented 40% of total extra-EU imports, followed by Norway (37%), Algeria (7%) and Libya (2%); LNG imports covered the remaining 13%[6]. This means Russian Gazprom strengthened again its positions on the EU energy market.

Those trends precondition the creation of diversified infrastructure (other than Russian) of gas supply to the EU under the contemporary conditions.

WARS ON PIPES

The Civil War in Syria has been underway since 2011along with the harsh actions undertaken by the Islamic State of Iraq and Syria (ISIS). Most experts believe that all that is happening in the Middle East is due to the rivalry in taking control over oil and gas pipelines. It is worth mentioning that back in 2009, the President of Syria, Bashar Assad, turned down the agreement with Qatar on the pipeline which was supposed to stretch from the Qatari North Dome deposit, bordering with Iranian South Pars, all the way to the European Union, through the Saudi Arabia, Jordan, Syria and Turkey. This pipeline could have become the *Fifth Corridor* of the gas supply of Europe, not mentioning the previous four corridors (running through the North Sea, the Northern Africa, Russia and the South Caucasus). According to Assad, by turning down the agreement with Qatar, he protected his country's interests in favour of Russia as Syria's main ally, which is the biggest supplier of natural gas to Europe. Along with that, back in 2012, Assad claimed that he was ready to start talks with Russia on the subject of constructing an alternative gas pipeline worth $10 billion through Iran, Iraq and Syria. The pipeline's potential purpose was supposed to be to transit Iranian gas to the EU (from the South Pars and Asaluyeh deposits). At the height of the civil war in Syria, the Memorandum of Understanding on the construction of a competitive gas pipeline from Qatar to the Mediterranean was signed between Russia and Iran in July, 2012. As a sequence of this, in 2013, with the assistance of Russia, a framework agreement on construction of the Iranian- Iraqi-Syrian 'The Friendship Pipeline' was signed. As a result, it can be assumed that the reasons of the Syrian war are, on the one hand, an echo of the *Arabian Spring*, and, from the other, the search of ways of forming of the global monopoly-free gas market.

And this way runs through Georgia as well, since the South Caucasus is the *Fourth Corridor* of the EU gas supply. This route involves the oil pipelines, such as Baku – Tbilisi – Ceyhan, and Baku – Supsa, as well as the future European projects: the South Caucasus gas corridor (including, Nabucco-West, Tans-Adriatic gas pipeline (TAP), Interconnector Turkey – Greece – Italy (ITGI), and the 'White Stream'), apart from those, the Azerbaijani – Turkish TANAP (the extension to the South Caucasus Gas Pipeline), and the Azerbaijani – Georgian – Romanian – Hungarian project, the AGRI (LNG). It is noticeable, that the prospects of the most profitable for Georgia projects, the AGRI and the White Stream, have been postponed to the annexation of the Crimea and Abkhazia by Russia.

It is very likely that the USA is not going to openly join into the Middle East conflict. In the medium-term perspective, Washington is more interested in the mass export of their shale oil and gas at the beginning of 2018 – 2020. That is why it is becoming less and less interested in the geo-economic and geo-political challenges in the Middle East and the Central Asia (and, of course, the running-through Georgia the *Fourth Corridor* as its transit route). Israel is now becoming more and more interested on transporting gas by means of the transporting routes…

ESTMED FINDINGS

The old pun about Moses, who was leading the Jews in the desert for 40 years, to, which later turned out, to find the only place in the region which did not have any carbohydrates, lost its actuality after the fact that solid deposits of natural oil and gas were found in the Mediterranean Sea. According to the experts of the Geological Department of the USA, apart from the perspective deposits *Aphrodite* and *The Ninth Block*, on the Cyprus shelf, there have been discovered three perspective deposits, *Tamar, Dalit* and *Leviafan*, in the Levant Basin belonging to Israel. Their total reserves amount to approximately 3.45 billion m^3 of natural gas (to compare: the deposits of the Russian natural gas equal to about 50 billion m^3), and to about 235 million tons of oil. The Minister of Energy and Water of Israel, Silvan Shalom, at the Conference of the Ministers of Energy of the Mediterranean countries in Rome, suggested the Europeans build a new gas pipeline (East Med Pipeline) from the Israeli deposits in the Mediterranean Sea in direction towards Italy through Cyprus and Greece. In order to implement such a costly project, Israel will need some significant investments. In particular, the sea depth at the *Tamar* deposit is approximately 1000 metres, and it is about another 5500 metres until the oil deposits from the bottom of the sea. For the 'Dalit' deposit, these indices are 1200 and 3700 metres, respectively. The depth of the sea above the *Leviafan*, the biggest deposit of all, which is 135 km from the Israeli shore, is 1634 metres. At that, the gas-bearing bed lies at the depth of 5800 metres below the sea bottom, and the expected oil-bearing beds are located even deeper, 7200 metres deep. The Cyprus deposit, *Aphrodite*is located even deeper. The gas-bearing bed lies at the depth of 6000 metres from the sea bottom, with the sea depth of 1700 metres. Therefore, the price of drilling of a single well at the *Aphrodite* is estimated to be $103 million and about $75 million for both the *Tamar* and *Dalit*. However, despite the fact that Israel signed the contract on supplying natural gas worth $15 billion to Jordan in September, and is extracting natural gas for their own needs, the geo-searching works have not been complete yet. There is an array of certain place on the bottom of the *Mediterranean Sea* which have not been explored yet, and it is not known what the possible amounts of carbohydrates are to be extracted. Nonetheless, the geology is not the only stumbling block which interferes with the exploration of the beds in the East of the Mediterranean.

CORRIDOR ISSUES

The main problem of those related to the *Fifth Gas Corridor* is the non-existence of the economic cooperation among the member-countries of the region. It is also unclear as to what sort of influence can the extraction of carbohydrates from the Levant Basin bring on the regional security, how the geo-political situation will change, what position the main country of the *Fourth Gas Corridor*, Turkey, will take, what routes the transportation will have taken, and whether the Israeli inflows will join the Middle East *Fifth Gas Corridor*, etc.

Israel is willing to receive the multi-billion investments from the EU member-states to explore the shelf deposits and ship the energy carriers. A suggestion of liquefying the extracted natural gas (obtaining the LNG) at the floating plant with its further shipment into the Asian market through the *Suez Canal* is being looked into. Nonetheless, this project may face problems with the security. There is an idea of constructing the gas pipeline from Israel to Turkey through Cyprus. In this case, the pipeline will have to run through both: the Greek and Turkish parts of Cyprus, which will be very difficult to settle from the political point of view. If we let alone the Turkey – Israeli long-lasting tension, the construction of the gas pipeline in special economic zones of Lebanon and Syria, or in the coastal waters is very difficult both technically and politically.

The above-said proves that Israeli offers contain a significant political component. In particular, according to the European experts, the cost of this project is going to exceed the cost of the *South Gas Corridor* and will amount to $50 billion. According to the estimates of the European Commission, the length of the Israeli gas pipeline Israel – Cyprus – Greece – Italy will be approximately of the same length as the Russian *Nord Stream*. At the same time, a number of experts believe that the prices on oil will not be growing in a quite lengthy period of time, which will change the economy of many planned energy projects. Namely, the exploitation of the land and marine deposits and the shipping of carbohydrates will be undertaking a greater position in the diversification schemes of the EU gas supply. That is why it is important for the South Gas Corridor (i.e. the *Fourth Gas Corridor*), which runs through Georgia and the construction of which commenced on September, 20 2014 by opening the *Shah-Deniz – 2* project, to prove its advantages in comparison with the newly initiated *Fifth Gas Corridor*.

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