

"The race for energy security in the Balkans-Parameters and the variables at hand".

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Preface

The present day energy security environment in South East Europe and in particular in the natural gas sector is characterized by a number of distinct features:

- Firstly it is the least developed market in terms of consumption in Europe.
- Secondly it has low level hydrocarbon production capabilities coupled with potential optimistic findings over the past few years.
- Thirdly the placement of the region is crucial for the overall energy supply architecture of the EU and fourthly the local market is significantly fragmented.
- Additional contemporary features, include i) mostly stagnant economies and reduced potential for energy consumption as an effect, ii) several infrastructure projects of pan-European importance, iii) oligopolistic supplies and widespread corruption, as well as, iv) low economies of scale and technology investment deriving from most of the aforementioned.

Lastly Southeastern Europe is the only territory in the EU that has a moderate political and consequently business risk nowadays, despite the ease of interethnic differences in the past decade or so. Thus the research and monitoring of the energy market in Southeastern Europe offers its set of challenge, being a distinct market as compared to the rest of EU ones.

Southeastern Europe has the advantage of being the only "gate away" for the EU which combines the supply routes of both the Former Soviet Union states (FSU) and most importantly Russia, Kazakhstan and Azerbaijan. At the same time it neighbors with the hydrocarbon producing territories of Middle East and North Africa (MENA). If one adds the potential significant natural gas resources in the neighboring East Mediterranean, then the wider Balkan region acquires a great role of geo-economic importance for the consumers of West and Northern Europe that are facing and will face even further a significant drop in the hydrocarbon production of the North Sea.

The region combines in a geo-economic sense the Caspian basin-Black Sea-East Mediterranean-Adriatic Sea and Danube basin, along with Pannonian-Aegean axis leading to the vital Suez channel and Suez Med pipeline, along with the hydrocarbon producing sites and export terminals of East Libya. Therefore it is unquestionable that the overall future EU energy security policy lies in the stability of the region and in the steady and secure flow of energy within it.

For all the above reasons, natural gas culminations in the Balkans are not solemnly business

oriented but geopolitical ones, based on the confrontations or collaborations of global political actors.

Current Geopolitical facets

The Greek & Bulgarian options

Greece and Bulgaria over the past few years have placed importance on combining forces and viewing themselves as integral parts of a wider interconnecting gas transit system. Nowadays, it is becoming more and more obvious that both countries have seemingly diverging viewpoints and essential strategies that will ultimately clash regarding which country will achieve first and foremost a natural gas hub presence in the Balkans.

Firstly, Greece is seriously promoting both Trans-Adriatic Pipeline project (TAP) and the newly conceived Turkish Stream. Regarding the latter, although it is too soon to have a detailed assessment if it as a viable project to begin with, already the Greek Administration is propping up the idea of resurrecting the Italy-Greece Interconnector (IGI) which originally was to transfer Azeri sourced gas from Western Greece to Southern Italy via the Adriatic Sea. Due to the existence of the TAP route which will follow more or less the same path, going into Albania and then Italy, Greek authorities are pressing forward for the following plan.

Turkish Stream will traverse the Greek territory as 'Greek Stream' and then it will spread itself into two routes. A main line towards the North via FYROM and Serbia and one towards Italy, merging itself with the ITGI plan. It is of interest to note that IGI is already eligible under the EU's Projects of Common Interest (PCI) and it is already owned by 50% by the Italian Company Edison which is a subsidiary of the French EDF.

That detail is of great importance regarding the EU Commission's clauses of the Third Energy Package that will prohibit an involvement of Gazprom in that sector. Thus Greek Stream is envisaged as a 50-50 project between the Greek DEPA (and DESFA) and Gazprom and the remainder would be a DEPA and Edison partnership. It is supposed that the Italian market would also be used as a stage point for the introduction of some quantities of Russian gas into France as well.

Of course the bulk of the Turk-Greek stream would still be directed towards the Austrian gas hub of Baumgarten and supply also the traversing counties of the Balkans plus Hungary, as well as, the Northern Italian market.

Former Greek Energy Minister Panayiotis Lafazanis assumed that this would boost the ambition for a Greek gas hub in the Northern parts of the country, due also to the simultaneous introduction of Azeri gas via TAP, along with LNG sourced quantities. The proposed location for the hub is the city of Thessaloniki where also the Greek Stream would be divided into the two aforementioned routes.

US Diplomacy was alarmed by the new developments that occur in the triangle between Russia-Greece-Turkey with the notable inclusion in it of European companies. Amos Hochstein, Special Envoy and Coordinator for International Energy Affairs leading the Bureau of Energy Resources (ENR) of the State Department, has already visited Athens and expressed the negative stance of Washington regarding the Turk Stream in general.

On the other hand the US needs both Greece and Turkey for a variety of geopolitical fronts in the wider MENA region and in particular it eyes closely Greek stance towards the EU lenders and Germany in particular where it seems that US is content having Greece as a "rebel youth" within the Eurozone for reasons relating to the wider Euro-Atlantic relationships and in particular that between Washington and Berlin.

Bulgaria now has its own priorities which are of contrast to that of Greece. A new Nabucco is envisaged that would bring Iranian gas into Europe. This could be a viable option once and if the embargo in that country is lifted and should the so-called "Iranian Gorbachev" the President Hassan Rouhani, is able to persuade the Iranian establishment to export gas into Europe.

Already the Bulgarian Embassy in Iran has become a hotbed of dialogue between the two countries and the central Administration in Sofia seems eager to get in touch with Rouhani's political environment, assuming that the plan will be successful, and quantities of gas up to 50 bcm per annum could be heading towards Bulgaria after 2020.

Concurrently Sofia is aiming to create the necessary gas hub infrastructure that requires underground storage facilities and new transmission networks, basing its aims in the so-called "Juncker package" a pan-European proposed €315 billion capital stimulus. Requests from Sofia towards Brussels to give the green light for a formal announcement of Bulgaria as the preferred gas hub in the Balkans have already been made.

Common ground for both ?

Despite diverging aims of both countries, there is increasing activity to push forward the Interconnector Greece-Bulgaria (IGB) that is scheduled to commence construction in spring 2016 and be completed by 2019. Furthermore, the Vertical Gas Corridor has also been agreed upon, along with the governments of Romania and Hungary. For that reason the Interconnector Bulgaria-Romania will be operational by early 2016 and the interconnectors Bulgaria-Serbia by 2018, while Turkey will also have a new link with Bulgaria approximately the same period. LNG plans of Greece close to the borders with Bulgaria, further add to the hypothesis that more collaboration between them could follow.

On the other hand, Greece, FYROM, Serbia, and Hungary are on the verge of signing a joint memorandum of cooperation on Turkish Stream and its Balkan route. Serbian media have already named part of the route as the "Tesla Pipeline" in an obvious attempt to "nationalize" the section that will pass through Serbia. It should be noted the foreign ministers, not energy

ministers, have taken the lead on this pipeline.

Meanwhile, Bulgarian Energy Minister Temenuzhka Petkova has announced new efforts to push forward with South Stream, recently telling local media the project still remains a major goal for the country. Kiril Domuschiev, head of the Confederation of Employers and Industrialists in Bulgaria, noted that pipework for South Stream could also be used for Turkish Stream or any other project involving both Bulgaria and Gazprom. He added that no one would stop Bulgaria from doing business with Russia.

As a remark, it can be said that based on the current highly uncertain international climate across Eurasia and the clashes amongst global energy system, both countries are speeding up their efforts to attain a primal position in the gas hub race within the EU.

Nevertheless, they both fail to recognize that all of their trials have a common denominator and that is the further strengthening of Turkey as the unquestionable gas hub. In that sense and bearing in mind the traditional rivalry between Greece-Bulgaria from one side and Turkey on the other, may bring about more upturns and surprises for all sides involved.

EU's involvement and drawbacks

The European Union's all-encompassing long-term strategy, known as the Energy Union, seems to be out of context when observing current developments and especially in the natural gas sector. Each country or groups of states follow their own policies and make or break alliances as suited to their national interests and wider visions. Below, a set of present day developments is going to be presented so as to illustrate the case and the factors involved.

The 2015 Saint Petersburg International Economic Forum (SPIEF) introduced an "unexpected" upturn when Gazprom announced that it will proceed in with Nord Stream 2 phase together with E.ON, Shell and OMV. Moreover, BASF was also noted as a possible partner to decide on its inclusion later on in 2015.

This new route will run in parallel with the already operational Nord Stream and it is envisaged it will be completed by 2019 and will be able to carry up to 55 bcm per annum. Effectively this project renders the unstable role of Ukraine as a transit route for Russian exports into Europe and further elevates German territory as the ultimate gas hub in Europe, a long-term national priority for Germany. Despite numerous analyses by mostly eastern US political papers, there seems no way that major economic powers in Europe/Eurasia such as Germany would relinquish their special and very profitable but also industrially vital relationship with Russia over Ukraine's geopolitical brinkmanship. Furthermore, the Energy Union as it has been beginning to take shape under Maroš Šefčovič directorship seems to have been shaped more on rhetoric and sentimentalism rather than the hard and cold logic of geo-economic relations. Hence Nord Stream 2 also contradicts recent Gazprom initiatives to construct Turkish Stream as only one of the two could be established due to mass quantities having been already allocated.

Moving into the Balkans, the Greek government, already embroiled in hard bargaining over its debt, seems eager to proceed with Turkish Stream and has signed a "political declaration memorandum" with the Russian government. More interestingly, former Greek Foreign Affairs Minister Nikos Kotzias at a recent visit to Belgrade complained that Athens is being frowned upon for attempting to be involved with Turkish Stream, while its Northern partners proceed with their own plans which are of a competitive nature.

Similar comments were made by the Serbian side which has already complained that Northern EU states want to be exclusive importers of Russian gas and excluded the Balkans. Nevertheless, Athens still strives for the project which was the top item in the agenda for Kotzias when meeting his counterparts in Serbia but also in FYROM.

Meanwhile, Romania follows its own individual course away from Germany and from the rest of the Balkan states. The Energy Ministry in Bucharest unraveled the two basic versions of the Azerbaijan-Georgia-Romania Interconnector (AGRI). The first plan calls for a 5 bcm per year transfer via LNG from Georgia to Constanta in Romania and the second option is for 8 bcm per year. The project has been pending since 2010 and the quantities are deemed as small for the EU's overall needs, but Bucharest assures its partners that it aims to open the Caspian Basin producers (Turkmenistan, Uzbekistan) with far larger supplies sometime after 2025.

Interestingly enough that is exactly the assumption of the designers of the TANAP-TAP-IAP system of pipelines, commonly known as the Southern Gas Corridor, thus it becomes clear that competing projects have been taken off by different countries, aiming at the same producers, regardless of the fact that supplies are far from being tapped either in the short term or in the long run.

Conclusively it is becoming obvious day by day that the Energy Union has strategic deficiencies in terms of implementation since diverging interests of a vital nature regarding energy security interlinked with geopolitical considerations are nullifying any common stance. Additionally, other countries such as Spain and Portugal are relying on their plans for LNG introduction and their strong bonds with the North African producers, while Turkey, being of course an outsider but with a strong influence in the EU follows its own individualistic natural gas strategy.

Variables at hand

Dead end in sight for EU's ambitions

The Southeastern part of Europe, mostly in the Balkan Peninsula is in the midst of strategic competition between proposed pipeline projects such as Turkish Stream led by Gazprom, assisted by Turkey and agreed upon in principle by Greece. In addition the Southern Corridor project including TANAP-TAP and perhaps IAP pipelines is another addition, still in progress. Still both of the above do not address the major focus which has been magnified by the Ukrainian crisis that of diversification from Gazprom's seemingly dominance in the local

market.

The Southern Corridor cannot achieve this aim by itself if it is not coupled with the wider opening of the Caspian gas producers, namely Turkmenistan and Uzbekistan as it has been noted by all shareholders in all leading fora and conferences in the past few months. Hence the objections of Russia, primarily, and Kazakhstan and Iran secondarily to not permit the aforementioned central Asian state to establish a pipeline in transit of the Caspian Sea nullifies such plans. Moreover China is steadily absorbing more and more of the natural riches of Central Asia and constructs its own version of modern day Silk Road of gas pipelines.

Iran, another possible candidate country for the future supply of the Southern Corridor has first to be accepted into the international community and overcome the objections of all of its neighboring Sunni states plus Israel who are all adamant about not recognizing a role of importance of Teheran in European energy affairs. Furthermore, Iranian gas would have to pass through Turkey and it is unlikely that the European member states would be glad to exchange Russia for Iran. That, in addition to unresolved territorial issues from where an Iran-sourced pipeline would pass, such as the Kurdish rebel areas and the all-encompassing Jihadist-controlled territories nearby.

Thus, LNG is becoming more and more as a referred strategic vision by Brussels. In that sense, shale gas from the US coupled with a thorough agreement based on the Trans-Atlantic trade partnership agreement could potentially flood EU markets with American LNG. In order for that to be practically available, significant infrastructure in terms of pipelines from inland USA to the Atlantic shores should be established along with LNG terminals, and a boosting of similar resources in the other side of the Atlantic. Concurrently the US suppliers should be persuaded to forgo a more lucrative pricing in Asian markets and direct en mass shipments to the much lower in pricing terms EU markets. In addition one has to take into account that the Russian Gazprom could depress markets even further by increasing discounts, since it has favorable earnings to turnover ratio and can afford it.

It should also be noted that North Sea gas resources, especially from the UK, are steadily decreasing while those of Norway are reaching a plateau. Further, US supplies are not unlimited, on the contrary, the US has to supply its own large market and it has far less reserves both of conventional and from shale than does Russia, Iran or Qatar. According to the US Energy Information Administration, in early 2014, proven reserves were around 10 TCM, which places the country in 5th place worldwide below Turkmenistan (17.5 TCM), Qatar (24 TCM), Iran (33 TCM) and Russia (49 TCM). The US consumes around 750 BCM per annum, the largest in the world, followed by Russia and the EU (around 450 BCM).

Another parameter of great importance is "consumer strategic competition" which is the new emerging market that will fight over increased supplies vi-a-vis the EU. At a recent international energy conference in Istanbul, interesting details were presented. Sohbət Karbuz, director of the

hydrocarbon sector of the Mediterranean Energy Observatory, estimated that by 2040 the energy consumption in the Mediterranean will increase by 50%. That would be the result of the rise of population and economic activity. With the exception of Israel and its newly found offshore reserves of around 650 BCM gas, the rest of the countries have to battle challenges of political and social instability, most notably Egypt, while trying to increase their energy capacity. The Southern Mediterranean countries will need much more energy than now, including gas via imports.

Israeli gas capacity will mostly go to secure the indigenous energy security needs of the country, while the Eco Energy Financial & Strategic Consulting, and its CEO Amit Mor, estimate that Egypt would be a preferred export market and not the EU. Speaking recently at a conference in Nicosia, Cyprus, he relayed to local press that Turkey continues to be a non-preferred option as a transit route for the gas to reach Europe, due to political reasons. Moreover, the East Med Pipeline to shift gas to Greece and then Italy is not a viable project due to its cost and technical challenges and depressing pricing environment, whilst quantities found do not justify such a project. While Greece and Cyprus continue to lobby Brussels for that pipeline, it can be safely estimated that if more and significant offshore reserves are not found in the region, then it has extremely limited chances of being materialized.

The EU may find itself soon back to square one when designing its long-term natural gas strategy. The facts and parameters at hand point out that it needs to have stable relations with existing suppliers, far more attention into sector energy efficiency and diversification of energy production, such as use of nuclear and coal energy and further strengthening of research for potential indigenous reserves.

In any case the political implications of the Ukrainian crisis for instance cannot change the facts on the ground which clearly calls for the EU markets to find a modus vivendi with the Russian producers, who are slowly but steadily diverting their own supplies to Europe's industrial rival, namely China.

Russia playing carefully

The recent agreement among world powers and Iran regarding the latter's nuclear program has numerous ramifications. One of them is the domino effect it has on strategic natural gas issues between Russia and Turkey. The likely introduction of Iranian gas into the European Union via Turkey is also a crucial consideration.

The head of Russia's National Energy Security Fund organization, Konstantin Simonov, comments that "Turkey is seriously considering transferring westwards not only Russian gas but also from Iran, apart from its already established deals with the Azeris". The Turkish Stream project is being held up with the Russian side blaming Turkey for obstructing the development. The Russian energy minister, Alexander Novak, announced that Gazprom and Turkey's BOTAS have agreed in principle to a 10.25% reduction in gas pricing for future deliveries made by

Gazprom to BOTAS. Nonetheless, Moscow is also dragging its heels on announcing a formal agreement opting to wait for Ankara to conclude the Turkish Stream. In the meantime, Turkey has been fighting a two-fold military campaign against PKK Kurdish rebels and the Islamic State, while the security and political climate in the country gradually deteriorates, thus shifting the priorities of the Turkey's government.

All available and credible diplomatically-sourced information suggests Turkey is being pressured by Washington not to proceed with the Turkish stream project even as diplomacy between Gazprom and the Turkish energy ministry takes place. Details are being worked out and observers anticipate a formal announcement being made at a future meeting between Vladimir Putin and Recep Erdogan. The main obstacle has little to do with technicalities or even Washington's opposition, but the stance of Iran regarding its own gas export preparations and how they fit into the Turkish Stream plan. Moscow is already in talks with Tehran about a potential security alliance that would see Iran supplied with high-tech weapons worth \$10 billion. Russia also aims to increase imports of Iranian oil in exchange for industrial goods. In a play of high-level diplomacy, Russia is also attempting to build closer relations with Saudi Arabia. Should Iran decide to proceed with plans that will strategically clash with Russian goals, Russia may then formalize recent agreements made with Riyadh that stipulate construction of nuclear reactors in the country and a supply of weaponry.

The Greek Embassy in Baku recently drafted a memo that researched the opportunities of importing Iranian gas. However, Greek diplomats relayed that no such imports should be expected before 2023, taking into consideration the TANAP-TAP system of pipelines will be used. On the other hand, Iranian LNG may flow into international markets as soon as 2020, but it will mostly be directed to non-European markets. This export route is costly and would involve Western multinationals such as Shell. Iran has made previous plans to supply the Pakistan-Indian markets and also Iraq, Syria and Lebanon.

That along with the need for Iran to upgrade its infrastructure and increase domestic gas consumption is another factor to be taken into consideration. Most importantly though, tacit approval by the United States for Iran to supply the EU with gas would rouse opposition by Saudi Arabia and Israel, due to the perceived increase of Tehran's role in the region and decreasing American guarantees to them. Therefore, in the short term anyway, Iranian exports to Europe are not viable.

The domino effect of the above scenarios may lead to the materialization of the North Stream 2 pipeline project, agreed to recently between Russia and EU gas companies. Shell has expressed a strong interest in participating in the project and its CEO, Ben van Beurden, made recent comments to the Russian TASS press agency confirming this. In June, Gazprom, Shell, E.ON, OMV and Wintershall announced North Stream 2 in June. The project is an upgrade of the route with as much as 55bcm capacity per annum, comparable to the first Nord Stream pipeline. If the proposal goes ahead, Turk Stream would become irrelevant since the bulk of Russian gas

delivered to major EU markets would be shifted to North Stream 2. In economic terms, even given the likelihood of Iranian finding its way into Turkey, the Russian northern route would probably prove cheaper and more reliable since it would traverse a secure geopolitical region such as Baltic Sea, instead of the Kurdish regions, Middle East, and the Balkans. The cost of the pipeline infrastructure would also be much less than if a new route were constructed from Tehran to Vienna for instance.

In a nutshell, the gas policies in the region between Central Europe, Black Sea, and the Middle East have become more complicated, and even exciting, with the Iranian breakthrough. Turkey will play a vital role as to which direction future pipelines will proceed.

A strategic outlook (view from the top of the mountain) may open eyes

The players that export or could have through Southeastern Europe en route to the core of the EU

Russia

Certainly this country will remain a key supplier to the EU for a long-time owing to its sheer size of reserves and its already established transport infrastructure. The question is the size of its share in the market.

Azerbaijan

Over the coming generation Azerbaijan will increase rapidly its share in the European natural gas import mix. Nevertheless its quantities are not simply enough to cover demand across the Continent and for a prolonged period.

Iran

The country has vast reserves and the transfer of gas is accessible through Turkey-Balkans. The nuclear projects of Iran need surely to be addressed while at the same time Iran aims to shift its exports towards India-Pakistan and in the long-term to China through Central Asia. Iran's domestic needs are also rising sharply.

Iraq

This country has significant amounts although not the extent it can cover Europe's needs, not even in short term.. The political risk is substantial and the Iraq is the midst of destabilizing developments in the Middle East.

East Mediterranean (Offshore Cyprus, Israel, Lebanon, Syria, Egypt)

Promising findings in the region are coupled with lack of coherent strategy of the local players on where and if they want to export the amounts of gas explored. Secondly and importantly the

volatility of the region heightens political risk, while it will take several years before the exact assessment of the amounts found is firmly put on the table. The amounts so far found are also too small for the EU's market and would be very expensive to be transferred towards Northern Europe.

Qatar-Gulf states

A gigantic pipeline from the Gulf to Europe through Turkey-Balkans is feasible but the political situation in the Middle East prohibits in practical terms such a solution, while Asian importers are also vying and importing from those states, paying as well higher prices. This particular plan is also out of the (geopolitical question) due to the war in Syria-Iraq.

In lieu of a conclusion

The ongoing debates, political confrontation and power struggles within the South East Europe natural gas sectors, have one common denominator in sight. That is the inability or the unwillingness of the US side and the Russian one to agree into a modus vivendi.

Thus although many projects are being discussed, designed or theorized about, no actual development comes forward. In reality not even small-scale projects such as the interconnector between Greece-Bulgaria are being speedily implemented-this particular project was conceived back in 2008 and it is still on theoretical level-. Thus instead of prioritizing the business aspects of the projects involved, a centered discussion on the geopolitical agenda is clearly and urgently needed.

Moreover since the Balkan countries are mostly transit territories for the bulk of gas to be heading towards the large consumers (i.e. Germany, Italy, France), then it is a high time for the EU to acknowledge the realities involved, constrains ahead and voice its own realistic projects. Otherwise it is more than certain that truly important infrastructure projects will not be materialized any time soon, while other global players such as China are reaping up the profits by engaging themselves with top producers and achieving long-term viable gas structures.

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