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# **Pipeline Gas from the Caspian Region and the Middle East**

**Professor Jonathan Stern  
Director of Gas Research  
Oxford Institute for Energy Studies**

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## Material for this presentation is drawn from:

- **Russian and CIS Gas Markets and Their Impact on Europe, ed. Simon Pirani, OUP: 2009**
- **Natural Gas Markets in the Middle East and North Africa, eds. Bassam Fattouh and Jonathan Stern, OUP: forthcoming 2010**
- **The Transit Dimension of EU Energy Security, Katja Yafimava, OUP: forthcoming 2010**
- **The Turkish-Iranian Gas Relationship: politically successful, commercially problematic, Elin Kinnander, January 2010**
- **Continental European Long Term Gas Contracts: is a transition away from oil product-linked pricing inevitable and imminent? Jonathan Stern, September 2009**



# Is The 4<sup>th</sup> Corridor Just About Pipeline Project Competition?

Usual presentation of Caspian/Middle East gas focusses on: Nabucco versus South Stream versus ITGI versus TAP versus White Stream etc

**BUT:** gas availability, security and commercial (pricing and transit tariff) issues are the main determinants of which (if any) projects go ahead and when

**This presentation is about prospects for the 2010s; post-2020 many things may be possible**



# Potential Caspian/Central Asian and Middle East Gas Importers and Issues

## CURRENT AND POTENTIAL IMPORTERS:

- Russia
- China
- Regional countries: Iran, Mashreq, Gulf
- Turkey
- European Union

## MAJOR ISSUES:

- Availability of gas in the 2010s
- Transit/legal problems
- Security problems: internal/transit
- Commercial complexity

**Many potential markets, limited gas availability, lots of issues and questions**



# A Changed Outlook for Central Asian/Caspian Gas Post-2008

## BEFORE 2009:

- Gazprom keen to lock up 100 Bcm/year and build new/refurbish existing transportation capacity even at “European” prices
- Competition with China – and even Europe – seemed possible in the 2010s

## POST 2009:

- Gazprom drastically reduced imports from Turkmenistan
- Azeri negotiations are primarily political
- Chinese plans made easier

**China and Iran are the immediate non-Russian markets for all Central Asian supplies**



# Central Asian/Caspian Supplies in 2010

## TURKMENISTAN:

- Exports to China started in 2009 ~ 3 Bcm in 2010 rising to 40(?) Bcm by 2013
- \$10bn (Chinese and Middle Eastern) investment agreed for Yolotan
- Exports to Iran 5.8 Bcm in 2009, export capacity increased to 14 Bcm
- 10 Bcm to Russia in 2010

## OTHERS:

- Uzbekistan: 13 Bcm to Russia
- Kazakhstan: around 9.3 Bcm to Russia, some to China
- Azerbaijan: 1 Bcm to Russia

**All potential importers have to compete with  
“Chinese economics”**



## **Azeri Shah Deniz Phase 2 is the only gas from the region which could definitely be available before 2020**

**Up to 17 Bcm of additional gas from Shah Deniz Phase 2 starting around 2017 of which:**

- **Turkey (at least) 6 Bcm**
- **Iran ~1 Bcm**
- **Russia ~ 1 Bcm**

**So, maximum of 9 Bcm available for other buyers in Europe (Syria?)**

**Complex geopolitical situation means that Azeris cannot afford to neglect any regional sensitivities while maximising its revenues**



# Security Issues/Transit and Legal Problems for European Importers

- Kazakh and Turkmen supplies to Europe avoiding Russia and Iran depend on:
  - Caspian Sea legal resolution
  - Resolution of Turkmen-Azeri boundaries
- What is the record of regional suppliers in delivering secure gas?
  - Turkmenistan
  - Iran-Turkey

## **Turkmenistan-Iran-Turkey-Greece : events of December 2007-March 2008**

- **December 29th 2007: Turkmenistan cuts off gas exports to Iran (price is the main issue) and as a result....**
- **Iran cut off gas to Turkey (citing cold weather) and as a result...**
- **Turkey cut gas supplies to Greece and as a result...**
- **Gazprom supplied more gas to Turkey and Greece to make up for the shortfall**

**And the reason why Europeans (and Americans) are promoting 4<sup>th</sup> corridor gas to Europe is....to diversify away from Russian gas**

# Iran-Turkey Gas Trade Since 2001

- Have never reached intended volumes
- Have been interrupted numerous times for different reasons:
  - Quality/technical disputes
  - Price disputes
  - Cold weather in Iran (lack of availability)
  - Terrorist (PKK?) activities within Turkey most recently in July and August 2010

**Major issues around whether Turkish pipelines are secure against terrorist threat; Gazprom constantly has to provide additional supplies to compensate for Iranian shortfalls**



# Commercial – Specifically Price – Issues for European Importers

- Current uncertainties in European gas pricing
- What will investors in a \$20bn+ greenfield investment project be seeking?
- Will importers be willing to sign traditional long term take or pay, oil-indexed contracts for Shah Deniz gas?

**Great uncertainty about future European gas demand and pricing**



## **Summary and Conclusions: pipeline gas from the Caspian Region and the Middle East**

- 17 Bcm/year of Azeri gas starting in 2017 of which less than 10 Bcm will get past Turkey
- Significant supplies from all other suppliers look highly doubtful or impossible before 2020
- Any supply which has to come across the Caspian Sea will need resolution of legal status issue
- Security issues connected with this region are difficult and have not been addressed
- Changing commercial conditions in European gas markets are a further major complication

**Europe could get maximum 15 Bcm/yr before 2020; a “corridor” (60-100 Bcm/y) is a concept for the 2030s**