



Atlantic Council

GLOBAL ENERGY CENTER

The Caspian Sea and Southern Gas Corridor

A View from Russia

Bud Coote



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Energy Diplomacy Initiative

The **Energy Diplomacy Initiative** (EDI), as part of the Atlantic Council's **Global Energy Center**, aims to drive a global conversation on critical climate and energy security challenges, with the objective to prevent conflict and build bridges through energy ties, provide everyone with access to reliable, affordable, sustainable, and modern energy, and galvanize communities for climate action around a more stable, secure, and prosperous world.

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Cover photo: Reuters/Yuri Maltsev. Vladimir Putin and Gazprom Chief Executive Officer Alexey Miller attend a gas pipeline signing ceremony in Vladivostok.

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Executive Summary

Russian views on energy development in the Caspian Sea and the European Union (EU)-backed Southern Gas Corridor are intertwined and provide a window into how the West can influence Russian behavior toward practices in the energy sector that are more competitive and less monopolistic. Beginning in the early 1990s, the startup of major offshore oil and gas projects involving leading international oil companies in the Caspian Sea helped compel Moscow to accept the division of the Caspian Sea into national sectors for resource development. The more contentious issue of the trans-Caspian pipeline would not be addressed for years.

Similarly, progress toward establishing the EU-backed Southern Gas Corridor has helped lead Moscow to focus more on its own export projects and less on efforts to block or co-opt the EU-backed project. In both cases, the establishment of firm projects with major infrastructure and international political, financial, legal, and technical support resulted in “facts on the ground” that Moscow grew to respect and accept. By providing non-Russian countries with real alternatives to produce and transport energy, these projects also helped influence Russian behavior more positively.

Although Russian views on Caspian Sea energy development and the Southern Gas Corridor bear similarities, Moscow’s actions have moved in opposite directions. Russia has been able to stifle further independent actions in the Caspian Sea, such as trans-Caspian pipelines, by widely applying the agreed-upon principle that major decisions require the consent of all five littoral countries, and has built up a naval capability that can enforce its policies. Combined with past agreements that the Caspian Sea is for the most part open to shipping by all five littoral states, Russia’s military dominance lends aspects of a frozen conflict to the South Caspian Sea.

On the other hand, the playing field for the Southern Gas Corridor has become more favorable, at least as long as it does not require a trans-Caspian pipeline. This project is designed to combine an expansion of the existing South Caucasus Pipeline through Azerbaijan and Georgia with the new Trans Anatolian Pipeline and Trans Adriatic Pipeline to establish a pipeline corridor that will deliver natural gas from Azerbaijan’s Shah Deniz field in the Caspian Sea to Turkey beginning in 2019 and to Southeast Europe beginning in 2020.

The project is also a core initiative to help diversify EU gas supplies and enhance energy security by easing dependence on Russian gas imports.

For Russia, however, the view is different. One of the highest priorities in Russia’s gas export and marketing strategy is establishing its own southern corridor for gas exports to Europe, in competition with the EU-backed project. Key indicators of Russia’s intent are revealed in the progress of onshore infrastructure in Russia, proposed projects such as TurkStream to connect with Europe, numerous prior reactions to progress of the Azerbaijani-driven Southern Gas Corridor, Russian policies toward Caspian Sea use, and Moscow’s tactics to prevent anyone from laying an east-west gas pipeline across the Caspian Sea.¹ Russia is also driven by an excess of gas production capacity that it seeks to sell to the European market. Gazprom, for example, is eyeing a planned capacity expansion in the Trans Adriatic Pipeline or another pipeline linking Greece with Italy to increase exports to Southern Europe.

Ample evidence and a multitude of factors underscore that Russia’s interest in establishing its own southern gas corridor to Europe is an important and enduring objective. Russia’s vision for its southern gas corridor has varied over time and now consists of two new pipelines onshore in Russia that feed gas from fields in the north southward to Russia’s Black Sea coast: a western pipeline starting at Russia’s border with Ukraine and a longer, eastern pipeline running from West Siberia to the same point on the Black Sea. From there, the TurkStream pipeline will run under the Black Sea to Turkey’s Black Sea coast and onshore to Turkey’s western border with Greece. From this point, existing or newly built pipelines will deliver gas to customers in Southeast Europe. Russian President Vladimir Putin orchestrates the efforts to fulfill this vision with the full control and assistance of the Russian government, industry, and state gas export company Gazprom.

The evolution of Russian plans and efforts to establish a southern corridor delivering Russian gas to southeastern Europe that rivals the Southern Gas Corridor from Azerbaijan suggests Moscow may be

¹ This report will use “Southern Gas Corridor” to refer to the Azerbaijani-driven, EU-backed pipeline project, and “southern gas corridor” to refer to the onshore pipeline system Russia is building to deliver gas from the north to Russia’s Black Sea coast. “TurkStream” is the current name on the Gazprom website of the pipeline from Russia under the Black Sea to Turkey.



The Gepard-Class frigate Dagestan above is one of twenty-six warships in Russia's Caspian flotilla and one of four vessels that fired forty-four Kalibr cruise missiles from the Caspian Sea at targets in Syria in 2015. Russia's military superiority can block construction of a trans-Caspian pipeline. *Photo credit: Wikimedia Commons.*

moving toward competitive rather than monopolistic practices. This strategy of competing with the EU-backed Southern Gas Corridor evolved after attempts extending from the early 1990s to block or co-opt the corridor failed.

Although these tactics often overlap, Moscow's pattern of trying first to block, then to co-opt, and finally, if necessary, to compete with non-Russian oil or gas transportation projects is not unique to the Southern Gas Corridor project and is evident in Russia's reactions to nearly every non-Russian oil and gas transportation project initiated in the former Soviet Union since its breakup in 1991.

Early Russian attempts to head off the Southern Gas Corridor date back to the early 1990s, when some Russian factions opposed Azerbaijan's claims to oil and gas development rights in the Caspian Sea. As efforts to block or co-opt the Southern Gas Corridor have failed, the focus of Russia's efforts has gradually shifted toward establishing its own corridor that can compete with the EU-backed project.

A major implication of the evolution of Russia's strategy is that a way to influence Russian behavior toward competition and away from monopoly is to establish facts on the ground that provide export outlets for non-Russian gas producers and alternative routes and sources of gas. These facts most importantly include infrastructure such as production, processing, and transportation facilities that enable non-Russian former Soviet states to move oil and gas to external markets. They also include facts on the water such as offshore oil and gas exploration and drilling rigs and production platforms, facts under the water such as offshore wells and pipelines, and facts under the ground such as wells and pipelines. In addition, they include facts on paper such as major production-sharing contracts, inter-governmental and host country agreements, and financing commitments from major international financial institutions.

For Europe, another important implication is the valuable role that establishing its Southern Gas Corridor, expanding its liquefied natural gas trade, and connecting infrastructure can play to better distribute

“It is clear that one of Russia’s strong interests is completing its own southern gas corridor and Moscow will continue to pursue this objective.”

gas from additional gas sources and further promote competition among all suppliers, including Russia. The integration of the European gas market—which includes laws and regulations as well as sufficient infrastructure to move gas to countries and markets that rely on single suppliers—is critical to eliminating monopolistic practices. The European Commission (EC) has already completed some infrastructure projects to better integrate markets. More are underway and still more are planned, but gas markets in eastern and southeastern Europe are still relatively isolated from major European gas supplies and depend heavily on Russian gas.

When confronted with integrated markets with alternative gas supply sources, Russia’s gas export monopoly Gazprom offers its own gas supplies at competitive prices. Countries and markets without alternative supplies tend to pay Gazprom the highest prices, regardless of their distance from Russia. For example, in 2013 the United Kingdom, the Netherlands, and Germany paid the lowest prices in Europe for Russian gas, despite being farther from the Russian border than many other European countries. The same year, the former Yugoslav Republic of Macedonia, Poland, and Bosnia-Herzegovina paid Gazprom an average price 50 percent higher than that paid by the United Kingdom, Netherlands, and Germany.² Price differences have flattened a lot since then because

of ample gas supplies and EC progress in integrating European gas markets, but the United Kingdom, Netherlands, and Germany still pay among the lowest prices for Gazprom gas because of their greater access to alternative supplies.

At the same time that Moscow’s strategy toward the EU and Southern Gas Corridor has turned more competitive, however, its ambition to further reduce gas transit through Ukraine has increased its motivation to build its own southern gas corridor. Moscow is a master of putting facts on the ground itself, knows the value of the leverage that comes with being a transit country, and does not want Ukraine to have any of its own. New facts on the ground over the years that have strengthened Moscow’s leverage include bypass pipelines such as Yamal-Europe and Nord Stream, and pipelines within Russia that bypass the Baltic countries. Others include the annexation of Crimea and military assets on the ground in eastern Ukraine, South Ossetia, and Armenia that provide leverage in the Ukrainian conflict and frozen conflicts in the Caucasus. Moscow’s military assets in the Caspian Sea also provide control over the southern as well as the northern Caspian Sea.

Russia also has had several successes in limiting the growth of the Southern Gas Corridor, despite not being able to stop Azerbaijan’s progress to establish the corridor. These include building the Blue Stream pipeline, keeping Turkmen gas out of Europe, limiting the diameter of Iran’s gas pipeline to Armenia to keep its gas from being marketed beyond Armenia, keeping Kazakh gas out of Georgia, and turning the southern Caspian Sea into a frozen conflict zone.

Russia’s own capability to establish facts in its favor and persistence in achieving its goals make it a formidable champion for its interests. It is clear that one of Russia’s strong interests is completing its own southern gas corridor and Moscow will continue to pursue this objective.

² “Gazprom’s Grip: Russia’s Leverage over Europe,” Radio Free Europe and Radio Liberty, February 7, 2017, <http://www.rferl.org/a/gazprom-russia-gas-leverage-europe/25441983.html>.

Introduction

This report seeks to identify how Russia's approaches to the Southern Gas Corridor and Caspian Sea division provide lessons for how to influence Russia's behavior toward more competitive, rather than monopolistic, practices. The analysis begins and ends with Russian objectives and policies in the Caspian Sea, which are integral to the development of the Southern Gas Corridor. First, the lack of a coordinated Russian policy on the division of the Caspian Sea in the wake of the breakup of the Soviet Union allowed the new littoral countries—Azerbaijan, Kazakhstan, and Turkmenistan—to begin independent oil and gas development projects. Currently, Moscow's dominant military strength in the Caspian Sea and alliance with Iran in opposition to trans-Caspian pipelines are the main obstacles to Turkmenistan and Kazakhstan joining the Southern Gas Corridor.

The middle part of the report examines the evolution of Russia's many efforts to block, co-opt, or compete with the Southern Gas Corridor and how Azerbaijan and its partner companies and countries were able to set a clear path to the corridor with the help of the EU, United States, other governments, financial institutions, and private political action coalitions. The main question addressed here is not so much who will win the southern corridor competition, but how it evolved into a competition in the first place despite persistent Russian opposition. Analyzing this process illuminates lessons the West can use to influence Russia's behavior. Looking reflexively, for example, might Turkmenistan have a trans-Caspian pipeline now if Ashgabat had built one before Russia's opposition had hardened? Using such lessons, the final section examines conclusions and implications.

Caspian Sea Is Focus of First Attempt to Block the Southern Gas Corridor

The genesis of both southern gas corridors dates back to the breakup of the former Soviet Union in 1991, which created new countries independently producing and exporting oil and gas in competition with Russia and each other. This genesis predates Putin's rise to power as prime minister of Russia in 1999 and again during 2008 to 2012 and as president from 1999 to 2008 and from 2012 to the present, which probably helps explain how Azerbaijan succeeded in establishing oil and gas development projects in the Caspian Sea and export routes to the Black Sea and Turkey.

After gaining the presidency of Azerbaijan two years after the breakup of the Soviet Union, Heydar Aliyev took advantage of the lack of a concerted, coordinated Russian policy on how to address resource exploitation in the Caspian Sea. He embarked on a strategy to establish development rights to Azerbaijan's offshore energy resources by attracting foreign investment from Western energy companies. To help cement his claims to national energy development rights, Aliyev cleverly invited Russian and Iranian companies to participate in offshore projects.

Russia's poorly coordinated efforts failed to stop the signing of Azerbaijan's first offshore contract—called “the Contract of the Century”—in September 1994, which led to the development of a large oil complex containing the Azeri, Chirag, and deepwater Guneshli fields by the Azerbaijan International Operating Company (AIOC). The makeup of the consortium, consisting of major Western oil companies and the Russian company Lukoil, was designed by President Aliyev to attract Russian acceptance of Azerbaijan's right to develop its offshore energy resources. The high number of Western companies in the consortium was intended to gain widespread and strong Western diplomatic support as well as investment, and the inclusion of Lukoil was intended to gain Russian government support.³

3 The original members of the Azerbaijan International Operating Company were the State Oil Company of the Azerbaijan Republic (SOCAR) with 20 percent, BP with 17.127 percent, Amoco with 17.01 percent, Unocal with 11.2 percent, Lukoil with 10 percent, Pennzoil with 9.82 percent, Statoil with 8.563 percent, McDermott with 2.45 percent, Ramco with 2.08 percent, and Turkish State Oil Company (TPAO) with 1.75 percent.

The Contract of the Century gained a lot of attention globally and especially in Moscow. Despite Lukoil's share in the AIOC project, the signing of the contract prompted contradictory responses from Russian officials. Russia's Foreign Ministry rejected the deal and charged that it contradicted international law and posed a threat to the ecological system of the Caspian Sea.⁴ However, Russia's Fuel and Energy Minister Yuri Shafranik participated in the signing ceremony and claimed to have the support of Russian Prime Minister Viktor Chernomyrdin.⁵

This first deal involving a newly independent country and a major offshore oil development project in the Caspian Sea met a divided reaction in Moscow and set in motion a measure of irritation that would grow over time. Putin and Igor Sechin, head of the Russian state oil company Rosneft, would later lament the rise of competition from the new producers. In the words of renowned author and professor of political science Thane Gustafson, “The real disaster is the breakup of the Soviet Union and particularly the loss of territory and the rise of commercial rivals on Russia's doorstep. Putin and Sechin accept that Russia now functions in a global economy, but the goal of Russian policy should be to regain control of the country's trade outlets and to displace foreign competitors.”⁶

The Contract of the Century was followed in 1996 by the ratification of a production sharing agreement between Azerbaijan and a consortium led by Britain's BP and Norway's Statoil for the offshore Shah Deniz prospect. Shah Deniz was generally believed to contain primarily gas rather than oil because of its deep reservoirs. The potential size of the field and interests of the companies involved strongly suggested the gas would be targeted for export if sufficient quantities were found.

4 “Azerbaijan's ‘Contract of the Century,’” Azerbaijan International, Winter 1995, http://www.azer.com/aiweb/categories/magazine/24_folder/24_articles/24_aioc.html.

5 Guner Ozkan, “Economic and Security Values of Caspian Energy for Azerbaijan,” *The Journal of Turkish Weekly*, September 8, 2006, <http://www.turkishweekly.net/2006/09/08/article/economic-and-security-values-of-caspian-energy-for-azerbaijan/>.

6 Thane Gustafson, *Wheel of Fortune: The Battle for Oil and Power in Russia* (Cambridge, MA: Harvard University Press, 2012).

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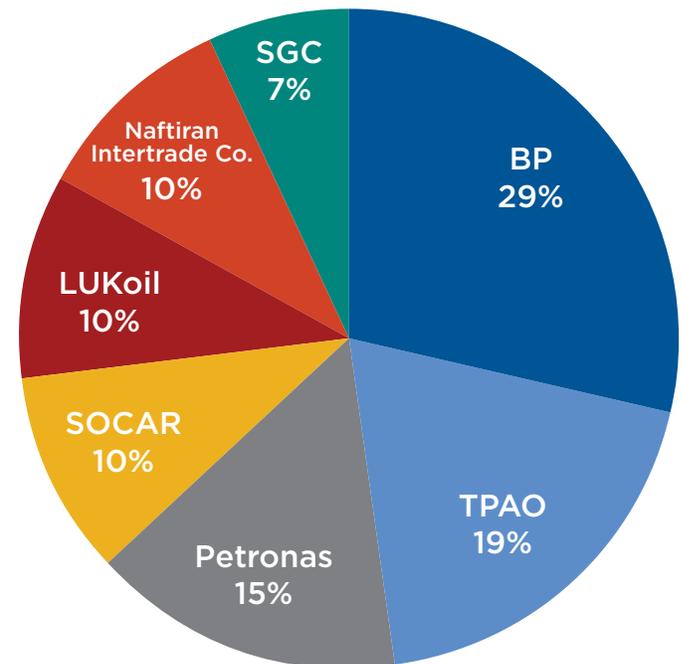
The Shah Deniz project, which now supplies gas to Georgia and Turkey and will supply the gas for the Southern Corridor, served the dual purpose of solidifying Iran's acceptance of Azerbaijan's right to exploit energy resources in waters south of the AIOC project by inviting an Iranian company to join the consortium. Iran's Oil Industries Engineering and Construction company had a 10 percent stake in Shah Deniz, which it sold to Iran's Naftiran Intertrade Company in 2001.⁷

To further cement Russian acceptance of offshore projects in the Caspian Sea, Azerbaijan gave Lukoil a share of the Shah Deniz project and in July 1997 Azerbaijan signed a contract in Moscow giving Lukoil a 60 percent share in the Yalama prospect in the far northern part of the Azerbaijani offshore sector. The purpose of the contract was mainly to legitimize Azerbaijan's claim to this area, which borders Russia's sector.⁸ Several years later, Russia and Azerbaijan formally agreed to a boundary line for national offshore sectors, which Russia insisted applied only to the exploitation of subsea energy resources.

Additional offshore contracts were signed with other major international firms such as Chevron, ENI,

ExxonMobil, and Total, in keeping with President Aliyev's strategy of security through oil contracts. These moves created facts on the ground in the Caspian Sea, which have proven to be one of the few ways to impact Russian behavior.

Graph 1. Current Stakeholders in the Shah Deniz Consortium



Source: BP.

7 Tamsin Carlisle, "BP Studies Latest Iran Sanctions," The National Business, July 31, 2010, <http://www.thenational.ae/business/energy/bp-studies-latest-iran-sanctions>.

8 "Azerbaijan Oil Contracts," Azerbaijani International, Summer 1998, http://www.azer.com/aiweb/categories/magazine/62_folder/62_articles/62_socar_yalama.html.

Russia Launches Blue Stream Pipeline To Secure Turkish Gas Market

As soon as the Shah Deniz contract was signed in 1996, Russia began its efforts to protect its dominance of the Turkish gas market through a series of measures intended to block, co-opt, or compete with the anticipated gas export corridor from Azerbaijan to Turkey. The first of these measures began in 1997, when Russia signed an initial agreement with Turkey to deliver future gas via the Blue Stream gas pipeline, which would link Russia directly with eastern Turkey by laying two pipes under the Black Sea. The move was closely tied to progress on Azerbaijan's offshore Shah Deniz gasfield and reports that the consortium of companies developing the field would look toward an export market in the West to monetize their gas exports.⁹

“Moscow’s concern about the Southern Corridor has always included preventing Middle Eastern gas from gaining a pipeline route into Europe. . . .”

The Blue Stream project was intended to soak up any remaining gas demand in Turkey not already served by Russia, leaving no room for gas from Azerbaijan or other potential suppliers. The project would also feed gas into the Turkish region that is closest to Azerbaijan, supplementing Russian gas already reaching western Turkey through the Trans-Balkan Pipeline transiting Ukraine, Moldova, Romania, and Bulgaria.¹⁰

At the same time, Russia must have been concerned that the establishment of a gas corridor from Azerbaijan to the West could also pave the way for even larger resources from the Middle East to be exported to Europe by pipeline. Iran was the major concern. In 1996, the same year that the Shah Deniz

development contract was signed, Turkey and Iran signed a contract calling for Iran to export gas through a pipeline into eastern Turkey. Deliveries of Iranian gas began in 1999, beating both Shah Deniz gas and Blue Stream gas.¹¹ Moscow’s concern about the Southern Corridor has always included preventing Middle Eastern gas from gaining a pipeline route into Europe, and Iran’s link to western Turkey was another unwanted threat to Russia’s gas markets in Europe.

Russia’s pursuit of the Blue Stream pipeline failed to deter Azerbaijan’s development of the Shah Deniz field or the Shah Deniz consortium’s plans to export gas from Phase 1 of the field’s development to Georgia and Turkey. After the Shah Deniz consortium drilled its first wells and announced the discovery of gas in 1999, Azerbaijan signed an intergovernmental agreement and gas purchase deal with Turkey in 2001, followed by an intergovernmental agreement and transit, transportation, and purchase commitments with Georgia.¹²

Russia began the construction of the Blue Stream pipeline in 2001, the same year that Azerbaijan signed its first agreements to export gas to Georgia and Turkey. Russia started commercial gas exports to Turkey via Blue Stream in early 2003, two years after the startup of Iranian gas exports to Turkey but four years before Shah Deniz gas first reached Turkey in 2007.¹³

Gas delivered to Turkey through Blue Stream started slowly. Until 2003, Russian gas had been delivered to Turkey only by the western route, called the Trans-Balkan Pipeline, running through Ukraine, Moldova, Romania, and Bulgaria into western Turkey. Russia delivered gas to Turkey through the western route under two contracts totaling 14 billion cubic meters (bcm) annually. Blue Stream was built using two parallel pipes, each with a capacity of 8 bcm annually, but the second line was not needed until 2007, when Turkey imported 9.3 bcm through the two Blue Stream pipes.

9 “Shah Deniz Project Timeline,” BP, June 9, 2016, http://www.bp.com/en_az/caspian/operations/projects/Shahdeniz/projecthistory.html.

10 “Blue Stream,” Gazprom, February 26, 2017, <http://www.gazprom.com/about/production/projects/pipelines/active/blue-stream/>.

11 Elin Kinnander, *The Turkish-Iranian Gas Relationship*, Oxford Institute for Energy Studies, January 2010, <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2010/11/NG38-TheTurkishIranianGasRelationship-ElinKinnander-2010.pdf>.

12 “Shah Deniz Project Timeline,” BP.

13 “Blue Stream,” Gazprom.

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Map 1. Blue Stream gas pipeline route



Source: Gazprom.

Russia Doubles Down with Blue Stream 2

Concerns with growing competition for gas markets in Central and Southern Europe in general and the formation of the Nabucco pipeline consortium in 2002 coupled with continuing progress on Azerbaijan's plans to deliver Shah Deniz Phase 1 gas to Georgia and Turkey in particular led Moscow to propose an expansion and extension of the Blue Stream pipeline in the same year.¹⁴ In August 2005, even before the official inauguration of Blue Stream 1, Vladimir Putin and Turkish President Recep Tayyip Erdogan agreed on Blue Stream 2 and announced a decision to extend Blue Stream 1 to southeastern Europe. Blue Stream 2 would at least duplicate the capacity of Blue Stream

1 and extend the pipeline westward and southward to deliver Russian gas beyond Turkey to Europe and possibly even Israel.¹⁵

Blue Stream 2 was never built largely because of complications in negotiations over a number of issues linked with the project, including prices Turkey would pay for Russian gas, Russia's unwillingness to build an oil pipeline from the Turkish city Samsun to the port at Ceyhan to ease shipping congestion in the Turkish Straits, and Russia's later pivot to South Stream as its preferred project to send gas directly to Southern and Central Europe.

14 "Nabucco Gas Pipeline Project," Nabucco, February 27, 2017, <http://www.iraniangas.ir/Portal/File/ShowFile.aspx?ID=787d9dec-025e-44dd-9f43-bd8fd3f18216>.

15 "Blue Stream Natural Gas Pipeline," Offshore Technology, June 28, 2016, http://www.offshore-technology.com/projects/blue_stream/.

Targeting Control of Georgia's Main Gas Trunklines

At about the same time Russia was working on a Blue Stream 2 pipeline option to bring more gas to Turkey and southwestern Europe, Moscow saw an opportunity to acquire control of Georgia's main gas pipeline system in 2003. Georgia's gas debts were building and Russia offered an attractive debt-for-equity swap in the energy sector.¹⁶ At around that time, Gazprom took over the supply of Russian gas to Georgia from Russian oil and gas company Itera. Gazprom was particularly interested in Georgia's high pressure gas transmission pipelines, which are major trunklines that run north-south and east-west and make up the backbone of Georgia's main gas pipeline system. In May 2003, Georgian President Eduard Shevardnadze and Alexey Miller, chief executive of Gazprom, announced they had reached a handshake agreement to sign a new "strategic partnership."¹⁷

The deal would give Gazprom a controlling interest in Georgia's main gas pipelines and the right to participate in any future gas export project. This could have enabled Gazprom to block the pipeline bringing Shah Deniz gas through Georgia to Turkey.¹⁸ The timing was revealing. Just months earlier, in February 2003, the Shah Deniz consortium had reached its final investment decision to proceed with the first phase of development of the Shah Deniz gasfield and construction of a new pipeline, the South Caucasus Pipeline, from Azerbaijan through Georgia to Turkey.¹⁹

US and European intervention helped keep the contract with Gazprom from being finalized, along with pressure from Georgian officials who recognized the threat to Georgian economic security and political independence. US and European diplomats also weighed in heavily with similar arguments, backed with financing for the energy sector. Most significantly, in early 2003 the US Agency for International

16 Zeyno Baran, "Deals Give Russian Companies Influence over Georgia's Energy Infrastructure," Eurasianet, August 17, 2003, <http://www.eurasianet.org/departments/business/articles/eav081803.shtml>.

17 Jaba Devdariani, "Potential Deal with Russian Gas Conglomerate Sparks Controversy in Georgia," Eurasianet, June 5, 2003, <http://www.eurasianet.org/departments/business/>

[articles/eav060603.shtml](http://www.eurasianet.org/departments/business/articles/eav060603.shtml).

18 Ibid.

19 "Shah Deniz Project Timeline," BP.



Russian soldiers ride a tank after fighting in the Georgian town of Gori in August 2008. The military action is a reminder of Georgia's vulnerability. *Photo credit: Reuters/David Mdzinarishvili.*

Development began to help finance the rehabilitation and management of Georgia's gas and electric power sectors, including by installing meters, improving the collection of payments, and overhauling the country's hydroelectric infrastructure.²⁰

In 2005, Gazprom again proposed to purchase or buy a stake in Georgia's major north-south pipeline that delivers gas from the Russian border to Georgia and Armenia. Earlier in the year, Gazprom had announced that it was raising the gas prices it charges to several former Soviet republics, including doubling Georgia's price from \$55 to \$110 per thousand cubic meters (tcm) for 2006. Again, Washington objected, accompanied by a large financial assistance package

that included funding by the US Millennium Challenge Corporation to renovate the north-south pipeline to Armenia. In return, Georgia had to agree not to sell the pipeline, or any part of it, to a third party without Washington's consent. The deal with Washington precluded selling the north-south pipeline that carries gas through Georgia from Russia to Armenia before the South Caucasus pipeline was up and running.²¹

Moscow's effort to gain control of Georgia's main gas pipelines was probably intended to either block or co-opt Azerbaijan's budding gas corridor to Turkey. Moscow at least would have gained the right to add its own gas to Azerbaijan's exports.

20 Isabel Gorst, "Mission Improbable," *Financial Times*, November 20, 2006, <http://www.ft.com/cms/s/0/661378be-783b-11db-be09-0000779e2340.html#axzz4CQAOCxUZ>; "Georgia," US Agency for International Development, June 23, 2016, <https://www.usaid.gov/energy/smartutilities/reform-stories/georgia>.

21 Jean-Christophe Peuch, "Georgia-Russia: Both Sides Move Closer on Gas Issues," *Eurasianet*, December 21, 2005, <http://www.eurasianet.org/departments/business/articles/pp122205.shtml>.

Three Pipeline Proposals Raise the Stakes

The stakes for Russia to counter the Southern Corridor were raised substantially by announcements in 2002 and 2003 that three new projects—the Nabucco gas pipeline, the Interconnector Turkey-Greece-Italy (ITGI) gas pipeline, and the Trans Adriatic Pipeline (TAP)—all planned to import gas to Europe through Turkey from the Caspian Sea and possibly Iran. All of these projects were touted by backers as key to boosting Europe’s energy security by diversifying natural gas sources. Each of these pipelines threatened to expose Russia to unwanted gas market competition in Eastern and Southern Europe, and possibly as far as Germany.

Of the three proposed pipelines, the Nabucco pipeline posed the greatest threat to Russia because it was intended to be a long-distance, large-diameter pipeline that could deliver 31 bcm of gas per year from Turkey’s borders with Georgia and Iran all the way to the gas hub in Baumgarten, Austria. Nabucco was also the first of these projects to be proposed, in February 2002, and in June 2002 five state companies affiliated with Austria, Hungary, Romania, Bulgaria, and Turkey signed an agreement to cooperate on the project.²² The EC embraced Nabucco as a priority and awarded funds to cover 50 percent of a feasibility study for the project in December 2003.²³

The ITGI pipeline project was conceived later than Nabucco and was a much shorter pipeline, serving fewer countries and having a much smaller capacity, but posing a more imminent concern to Russia because of a more compressed timeline. The project started as a proposed gas pipeline between Turkey and Greece, agreed to by the state energy companies Botas and DEPA in March 2002, followed by an intergovernmental agreement signed by Turkey and Greece in December 2003.²⁴ Italy joined the ITGI project by signing an agreement with Greece in November 2005 that would extend the route across the Adriatic Sea to southern Italy. Like the Nabucco project, the European Commission granted the ITGI

Russia Exerts Influence over Iran-Armenia Gas Pipeline

One of Gazprom’s successes restricting competition to its markets in the Caucasus and perhaps Turkey and Southeast Europe was limiting the capacity of gas Iran could export to Armenia by insisting that the diameter of the gas pipeline from Iran to Armenia be reduced. Moscow’s influence in Armenia enabled it to convince Yerevan to decrease the diameter of the pipeline from a planned 1,420 millimeters to 700 millimeters. A reduction of more than 75 percent of the capacity of the pipeline at any given pressure, this decision effectively blocked Armenia from importing gas from Iran exceeding its needs and re-exporting the surplus to Georgia, Turkey, or other customers beyond Armenia’s neighbors.¹

1 Vladimir Socor, “Iran-Armenia Gas Pipeline: Far More than Meets the Eye,” Eurasia Daily Monitor, March 21, 2007, <https://jamestown.org/program/iran-armenia-gas-pipeline-far-more-than-meets-the-eye/>.

project priority status.²⁵ Construction on the Turkey-Greece connection began in July 2005 and the link was completed in December 2007, but the extension to Italy has not been built.²⁶

The TAP project was initiated in January 2003 with a pre-feasibility study by the Swiss firm EGL, but for years remained overshadowed by the higher profile Nabucco and ITGI projects. Despite gaining European Union (EU) status as a project of “common interest” in 2006, the project remained unlikely to gain broad support until Statoil joined the project in 2008.²⁷ Statoil’s participation in Azerbaijan’s Shah Deniz gasfield development and the South Caucasus Pipeline gave the TAP project greater credibility, which was further boosted by the addition of Germany’s E.ON Ruhrgas in 2010. The project also gained momentum and political support by clarifying that it did not intend to transit Iranian gas despite EGL’s signing a contract with Iran in 2008.²⁸

22 “Nabucco Gas Pipeline Project,” Gulf Oil and Gas, July 1, 2016, <http://www.gulfoilandgas.com/webpro1/projects/3dreport.asp?id=102885>.

23 “Nabucco Gas Pipeline,” Hydrocarbons Technology, July 1, 2016, <http://www.hydrocarbons-technology.com/projects/nabuccopipeline/>.

24 “Turkish-Greek Pipeline Now Complete,” Alexander’s Gas and Oil Connections, September 6, 2007, <http://www.gasandoil.com/news/europe/923d6fef90fe587bc1346da4f8975f5b>.

25 “ITGI Pipeline,” Edison, August 31, 2016, <http://www.edison.it/en/itgi-pipeline>.

26 “Turkish-Greek Pipeline Now Complete.”

27 “StatoilHydro Joins EGL in Trans Adriatic Pipeline Gas Project,” Trans Adriatic Pipeline, February 13, 2008, <https://www.tap-ag.com/news-and-events/2008/02/13/statoilhydro-joins-egl-in-trans-adriatic-pipeline-gas-project>.

28 D. Khatinoglu, “TAP Has No Intention to Transit Iran’s Gas to EU,” Trend News Agency, July 15, 2012, <http://en.trend.az/iran/2047095.html>.

Russian Gas Cutoffs Spur Support for Southern Corridor

Russia's four-day interruption of gas supplies to Ukraine in January 2006 caused a surge in Europe's political resolve to diversify its natural gas supplies and breathed new life into the still fledgling pipeline projects vying to bring Caspian gas to Europe. After the flow of gas resumed, then EC Energy Commissioner Andris Piebalgs said the commission would reexamine dependence on Russian gas and reevaluate Europe's energy security.²⁹ Of course, the episode also reinforced Russia's motivation to bypass Ukraine as a gas transit state.

By this time, drilling in Azerbaijan's Shah Deniz offshore gasfield and construction of the South Caucasus Pipeline were well underway; before the end of 2006 the production of gas had started up and the pipeline was completed. In July 2007, flows of Shah Deniz gas reached Turkey and in November 2007 a major new reservoir of high pressure gas in a deeper structure of the field was discovered, signifying greater volumes of gas and opportunity for further expansion of production.³⁰

Nabucco, ITGI, and TAP still lacked confirmation of substantial volumes of gas, but by 2007 all had passed significant new milestones. Nabucco concluded a joint venture agreement among its participating companies in June 2005 and a ministerial agreement among its member countries in June 2006. The ITGI project completed the Turkey-Greece pipeline link in 2007 and began transiting small volumes of gas, while Greece's state gas company DEPA and Italy's Edison began laying the groundwork for an extension to Italy. TAP produced a feasibility study in March 2006 and an engineering and design study in March 2007.

All three pipeline projects also gained additional political support from the EU following Russia's cutoff of gas supplies to Ukraine. The EU prioritized the three projects as part of an effort to diversify gas supplies to Europe by creating a fourth energy corridor, in addition to the corridors delivering gas from Norway, Russia, and North Africa. Nabucco and ITGI qualified as priority projects and projects of common European

29 Jonathan Stern, *The Russian-Ukrainian Gas Crisis of January 2006*, Oxford Institute for Energy Studies, January 16, 2006, <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2011/01/Jan2006-RussiaUkraineGasCrisis-JonathanStern.pdf>.

30 "Shah Deniz Project Timeline," BP.

Bypassing Ukraine

Besides spurring EU efforts to build new gas infrastructure, increase gas storage, and develop new gas supply sources, the cutoffs of Russian gas through Ukraine greatly added to Moscow's ambitions to bypass Ukraine by redirecting gas deliveries to Europe through new pipelines. This strategy matches similar efforts to redirect oil and gas exports through new pipelines and ports that previously passed through the Baltic states. The Yamal gas pipeline built through Belarus in the 1980s was an earlier gas pipeline that bypasses Ukraine, followed by Nord Stream through the Baltic Sea to Germany.

interest under the conditions set forth in a decision made by the European Parliament in September 2006, qualifying them for special funding.³¹ The EC named Jozias van Aartsen the coordinator for Nabucco the same month, underscoring the commission's elevation of political support for the project.³² All three projects also ramped up negotiations with Azerbaijan and the Shah Deniz consortium on natural gas purchases. Russia probably paid special attention to a move by the German firm RWE in 2007 to join the Nabucco project, which formally took place in 2008.³³

Russian gas supplies to Central and Southeast Europe were disrupted again from January 6 to 20 in 2009. This longer cutoff coincided with a period of cold weather throughout the region.³⁴ This again helped spur measures by the EU to prepare better for such disruptions by building infrastructure, and especially by interconnecting pipelines between national networks. It also was not lost on the EU that countries with access to liquefied natural gas (LNG), such as Greece and Turkey, suffered less than other countries, and that higher levels of gas storage would have helped ease shortages significantly.

31 "Decision No. 1364/2006/EC of the European Parliament and of the Council," *Official Journal of the European Union*, September 6, 2006, http://ec.europa.eu/ten/energy/legislation/doc/2006_09_22_ten_e_guidelines_2006_en.pdf.

32 "Nabucco Pipeline and Security of Supply," European Commission press release, September 14, 2007, http://europa.eu/rapid/press-release_SPEECH-07-531_en.htm?locale=en.

33 "Nabucco Gas Pipeline Project," Nabucco.

34 Aleksandar Kovacevic, *The Impact of the Russia-Ukraine Gas Crisis in South Eastern Europe*, Oxford Institute for Energy Studies, March 2009, <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2010/11/NG29-TheImpactoftheRussiaUkrainianCrisisInSouthEasternEurope-AleksandarKovacevic-2009.pdf>.

Russia Scores a Short-Lived Coup with Central Asian Pipeline Pact

In May 2007, then Prime Minister Putin signed an agreement Moscow had negotiated with Turkmenistan and Kazakhstan to upgrade the extensive Central Asia-Center pipeline system that sends Central Asian gas to Russia and add a new pipeline along the Caspian shore to ship gas from western Turkmenistan to Russia. This was followed in February 2008 by a similar deal with Uzbekistan. At the time, the deal seemed to be a coup for Moscow, ensuring that most Central Asian gas would continue to be shipped northward to Russia instead of westward across the Caspian Sea or eastward to China. In particular, it was seen as a setback to EU ambitions to add Turkmen gas to the Southern Gas Corridor.³⁵

Gazprom followed the agreement on pipelines with a deal to buy 50 bcm of gas from Turkmenistan for European prices of about \$300 per tcm, roughly double the average 2008 price paid to Turkmenistan. But both deals fell apart when demand for gas in Europe plummeted in early 2009 and an explosion in Turkmenistan on April 9, 2009, disrupted the Central Asia-Center pipeline system and sparked a

confrontation between Russia and Turkmenistan over the cause of the explosion. Although the pipelines were repaired in about two weeks, Russia refused to honor its agreement to accept or pay for the remaining 40 bcm of gas contracted for 2009, leaving Ashgabat convinced that the explosion was deliberate.³⁶ The split between Turkmenistan and Russia spurred Ashgabat's focus on exporting gas to China and has left Turkmenistan without a good export option for its growing volumes of gas produced in the Caspian Sea.

In 2009, Moscow tried a similar effort to co-opt the Southern Gas Corridor by offering to buy and import all of Shah Deniz's gas exports and pay European market prices, minus transport costs. The price offered was more than double what Turkey was paying for Shah Deniz Phase 1 gas. The bid appears to have been intended to allow Russia to control the gas flow because by paying Azerbaijan netback European prices, Russia would not make much profit itself.³⁷ Baku and the Shah Deniz consortium declined the offer.

³⁵ Nargis Kassenova, *The Gas Crisis and the Financial Crisis: The Impact on EU-Central Asia Relations in the Energy Sphere*, European Union Institute for Security Studies, March 2009, http://www.iss.europa.eu/uploads/media/Gas_crisis_and_financial_crisis_Central_Asia.pdf.

³⁶ "Turkmenistan: Gas Blast Ignites Turkmen-Russian Row," Eurasianet, April 9, 2009, <http://www.eurasianet.org/departments/insightb/articles/eav041009b.shtml>.

³⁷ Vladimir Socor, "Azerbaijan Looking at Narrow Gas Export Options," The Jamestown Foundation, May 1, 2009, <https://jamestown.org/program/azerbaijan-looking-at-narrow-gas-export-options/>.

Russia Turns to Competition with Its Own Southern Corridor

Moscow apparently believes that the EU-backed Southern Gas Corridor is a reality it will have to deal with, and currently is focusing on competing by establishing its own corridor. TAP and the Trans Anatolian Pipeline (TANAP) have been added to the Southern Gas Corridor, and enough facts on the ground have been established to provide credibility and confidence that the project will be completed. These facts include backing by major companies, the EU, the United States, and other governments; signed purchase contracts and other financial backing; major construction progress on the TANAP and TAP pipelines; and expansion of the capacity of the South Caucasus Pipeline. One missing element is the resolution of a landing point in Italy of the subsea section of the TAP pipeline from Greece.

Russia's attention first focused on South Stream and later on TurkStream as the key project in its southern corridor. South Stream was initiated in 2007, the same year that Azerbaijan began exporting Shah Deniz gas to Turkey. South Stream was planned to have four pipes extending from Russia's coast under the Black Sea to Bulgaria, each pipe with a capacity of 15.75 bcm per year. Various onshore routes in Europe beyond Bulgaria were discussed and Russia signed intergovernmental agreements with no fewer than seven European countries.³⁸

In December 2014, Moscow pivoted from South Stream to TurkStream as Russia and its partners in South Stream failed to meet the requirements of EU energy laws and regulations, and as political relations between Russia and Turkey thawed after a period of tension that resulted from Turkey's downing of a Russian fighter plane on its return from a bombing run in Syria. TurkStream will have two strings of pipe, each with a capacity of 15.75 bcm per year. The pipeline will surface on Turkey's western coast near Kiyikoy and an onshore section will extend to a border crossing between Turkey and Greece in Ipsala, Turkey.

Turkey is not part of the EU and is already one of Russia's largest gas customers, making TurkStream an attractive option for crossing the Black Sea but

raising challenges to reaching EU markets. Pipeline options for reaching European customers from the Turkish border are still under consideration, and may include variations of the old plans for the ITGI pipeline or unused capacity in TAP if its capacity is expanded as planned from 10 bcm to 20 bcm per year.³⁹ Russian companies previously sought to buy Greece's state gas company DEPA and state gas pipeline company DESFA during a privatization effort in 2013 but were dissuaded by concerns by the EC and Moscow that EC rules preventing pipelines from being controlled by gas suppliers would create problems.

Despite the high level of attention on TurkStream, Russia's ongoing effort to support its vision for a southern gas corridor by establishing the infrastructure needed to send more gas to the Black Sea for onward export is also an important indicator of Moscow's intent to pursue a major export project. Russia has already invested substantially in a system of onshore gas pipelines and compression stations intended to support first South Stream and now TurkStream. Gazprom's own estimates of how much just the onshore part of the southern gas corridor would cost were as high as \$22.5 billion in late 2013, which provides a strong indication of how important Moscow considers this project to be and the export outlet it might provide, even though a drop in the value of the ruble in recent years should lower the cost to Gazprom.⁴⁰

Russia's own southern corridor is a multistage project to deliver gas from fields in West Siberia to customers in central and southern regions in Russia and feed gas into the Russkaya gas compressor station on Russia's Black Sea coast for export via TurkStream to southeastern Europe.⁴¹ The onshore pipeline system in Russia was originally designed in 2010 to deliver

38 These countries are Bulgaria, Serbia, Hungary, and Greece (all in 2008), Slovenia (in 2009), and Croatia and Austria (both in 2010). "Austria Seals South Stream Deal with Gazprom," Euractiv, June 25, 2014, <https://www.euractiv.com/section/news/news/austria-seals-south-stream-deal-with-gazprom/>.

39 "TurkStream," Gazprom Export, <http://www.gazpromexport.ru/en/projects/6/>.

40 "Russia's Gazprom Hikes Southern Corridor Gas Line Capex 45% to \$22.5 Bil," Platts, December 10, 2013, <http://www.platts.com/latest-news/natural-gas/moscow/russias-gazprom-hikes-southern-corridor-gas-line-26534458>.

41 "Southern Corridor," Gazprom, 2012, <http://www.gazprom.com/f/posts/44/270918/southern-corridor-en.pdf>; "Gazprom Pushing Ahead with South Stream and Southern Corridor Projects," Gazprom, February 11, 2014, <http://www.gazprom.com/press/news/2014/february/article184145/>; "Alexey Miller: Only South Stream May Offer Now Extra Guarantees of Energy Security to Europe," Gazprom, April 25, 2014, <http://www.gazprom.com/press/news/2014/april/article189781/>.

Map 2. Planned route for TurkStream pipeline



Source: Gazprom website.

63 bcm per year to the South Stream pipeline, but Gazprom is now saying that TurkStream will be designed to ultimately carry 31 bcm per year, which may change the capacity or the pace of construction of the onshore pipelines. Like the Power of Siberia gas pipeline that will carry gas from East Siberia eastward to customers in Asia, Russia's onshore southern corridor pipelines were approved and construction began even before Moscow had a firm commitment from customers for its exports. In both cases, the projects are intended to serve Russian as well as foreign customers.

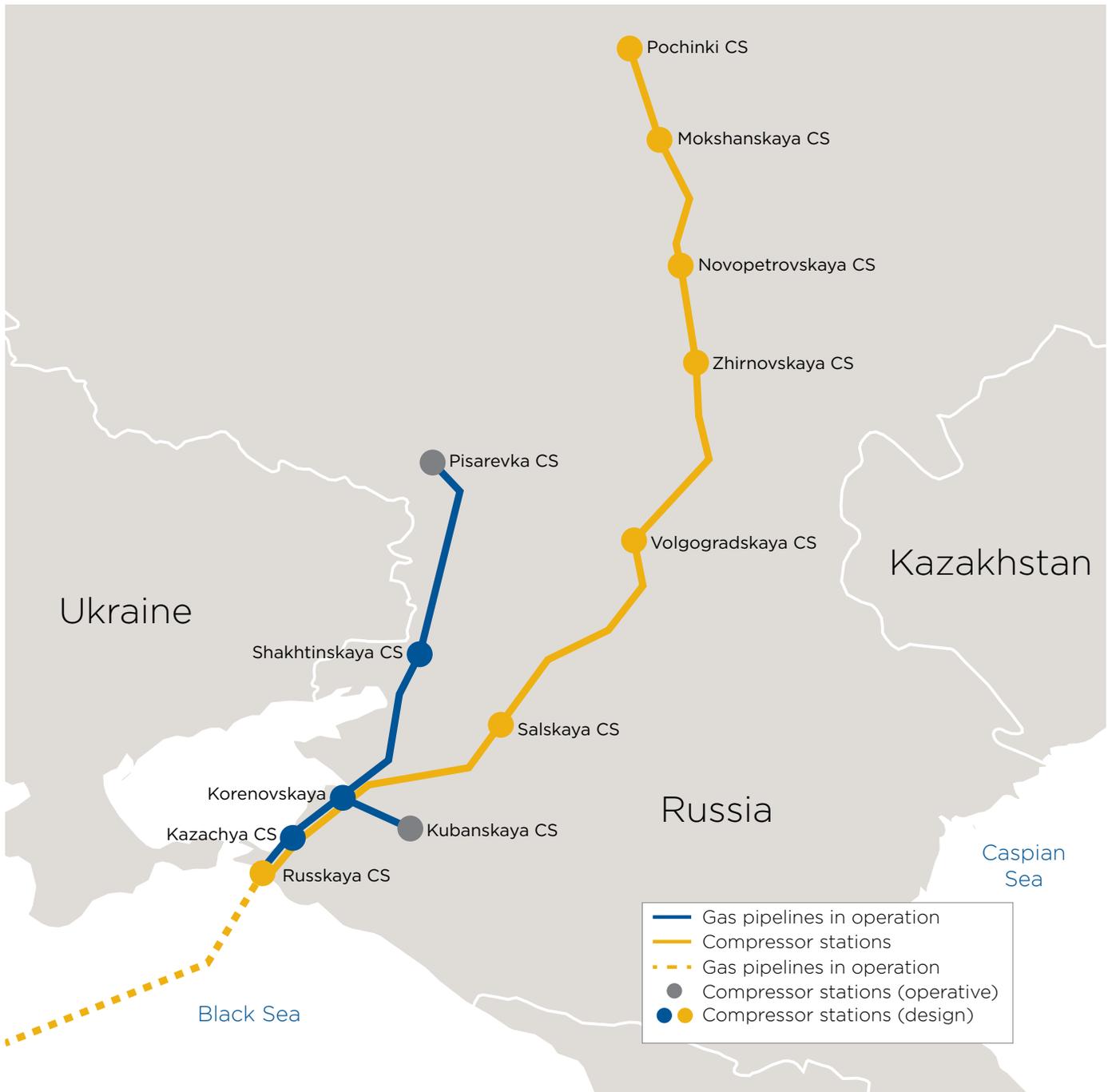
The last time Gazprom provided details on the status of its onshore southern corridor gas pipelines within Russia was in April 2014, before it scrapped the South Stream project in December of that year. As of April 2014, Gazprom said that "large-scale" construction was ongoing for Phase 1 of the project, which is the western route and the shorter of two planned pipelines at 880.6 kilometers. The western route is shorter because it will pick up gas previously delivered to the Ukraine border through existing pipelines and send it south.

The western route will use six compression stations, starting with the northernmost station Pisarevka and including Shakhtinskaya, Korenovskaya, and Kazachya, as well as Russkaya, which will be the last compression station before gas is fed into TurkStream. The existing Kubanskaya compression station will also feed gas into the western route from the east. The western route was completed by July 2015.⁴²

Phase 2 of the onshore pipeline project is the eastern route, which starts much farther north, at Nizhny Novgorod, than the western route and at 1,625.6 kilometers is much longer. The eastern route will use nine compression stations, of which three—Korenovskaya, Kazachya, and Russkaya—are also used by the western route. Gazprom said in 2014 that preparations for construction of the eastern route had begun, but apparently are falling short of targeted completion in 2017.

42 John Roberts, "Turkish Stream Set to Fall Victim to Putin-Erdogan Confrontation," *Natural Gas World*, December 3, 2015, <http://www.naturalgasworld.com/turkish-stream-set-to-fall-victim-to-putin-erdogan-confrontation-26910>.

Map 3. Russia's southern corridor onshore gas pipeline routes



Source: Gazprom website.

Evolution of Russia's Caspian Sea Policies and Position on Trans-Caspian Pipelines

Russia's position on the division of the Caspian Sea has evolved over time into one that allows both the exploitation of oil and gas resources in its own sector and Moscow to flex its military superiority and stymie projects that would allow Central Asian gas producers to compete with Russia in the European gas market.

The first phase of Russia's strategy on the legal status of the Caspian Sea was to separate the division of the seabed into national sectors for the purpose of subsea resource exploitation from the division of the sea into national boundaries. Beginning in the early 1990s, Moscow saw that Azerbaijan and Kazakhstan were beginning to invite foreign companies to negotiate contracts for offshore projects. At about the same time, Russian companies began to join projects in Azerbaijan and Kazakhstan as well as show interest in the Russian offshore Caspian Sea sector. In 1998, Russia agreed with Kazakhstan to delineate a "modified median line" between the two countries' coastlines that Russia declared was for the sole purpose of subsea oil and gas resource exploitation. The line was "modified" in part to allow shared ownership of several offshore exploration blocks along the median line. In 2001, Russia and Azerbaijan agreed on a delineation between their two offshore sectors that Russia again insisted would apply to only subsea resource development and not represent a national boundary.⁴³ These agreements were further confirmed by a May 2003 conference in Almaty, Kazakhstan, at which Azerbaijan, Kazakhstan, and Russia signed a tripartite agreement on the delimitation of offshore sectors among these countries.⁴⁴

Russia's agreements with Azerbaijan and Kazakhstan to delineate offshore sectors allowed Russia to develop its subsea oil and gas resources while preserving its ability to continue to use the Caspian Sea for fishing and navigation. It also preserved its option for future military use and influence over other uses of the Caspian Sea. Russia argued that use of the surface water of the Caspian Sea needed to be shared among

the littoral states, consistent with the 1921 Treaty on Peace and Friendship and the 1940 Treaty on Commerce and Navigation, which stipulated shared use of the waters for Iran and the Soviet Union.⁴⁵

A series of conferences attended by all five littoral states since the breakup of the Soviet Union has led to agreements and disagreements that have helped shape the second phase of Russia's approach to the legal status of the Caspian Sea, which has been to exploit territorial disputes in the south Caspian to maintain the status quo and block trans-Caspian pipelines. One of the more important early conferences was the Tehran Conference in October 1992, at which the five littoral states agreed to jointly protect the natural resources of the Caspian Sea, preserve biological resources, respect the navigational rights of all parties, and protect ecological requirements, especially related to sea level increases. This agreement to collectively safeguard the environment of the Caspian became one of the few consensus decisions made by the five states, which is why it subsequently has been repeatedly invoked by Russia and Iran to oppose the construction of a trans-Caspian pipeline.⁴⁶

The October 1994 Moscow Conference was a second important conference because it rejected separate proposals by Azerbaijan and Kazakhstan to convert the national sectors for subsea oil and gas exploitation into national sectors that include the water column. Azerbaijan's proposal argued that the Caspian Sea should be considered a boundary lake with national sectors, whereas Kazakhstan proposed that the Caspian be considered a closed sea, which could allow demarcation of national sectors to be carried out automatically in compliance with the United Nations Convention on the Law of the Sea. These proposals failed to gain acceptance, which reinforced a Russian proposal to continue to deal collectively with issues involving the water column.⁴⁷

43 Eka Siradze and Otabek Suleimanov, "Legal Status of the Caspian Sea," *Natural Gas Europe*, August 6th, 2013, <http://www.naturalgaseurope.com/LEGAL-STATUS-OF-CASPIAN-SEA>.

44 John C. K. Daly, "Caspian Summit Could Be a Game Changer," *Silk Road Reporters*, August 25, 2014, <http://www.silkroadreporters.com/2014/08/25/caspian-summit-game-changer/>.

45 Sergei Blagov, "Russia Aims at Caspian Sea Settlement," *Inter Press Service*, September 29, 2000, <http://www.ipsnews.net/2000/09/development-russia-aims-at-caspian-sea-settlement/>.

46 Rostam Mamedov, *International Legal Status of the Caspian Sea: Issues of Theory and Practice*, *The Turkish Yearbook*, volume XXXII, 2001, 217-224, acikarsiv.ankara.edu.tr/browse/3925/3086.pdf.

47 *Ibid.*

The meeting in Moscow in October 1994 followed on the heels of Azerbaijan's signing of the "Contract of the Century" with a consortium of mostly Western oil companies that formed the Azerbaijan International Operating Company. This deal gave the consortium the rights to develop a large complex of connected fields—Azeri, Chirag, and Guneshli—which has become the biggest oil producer in the Caspian Sea thus far. The signing of this contract gave the Russian Foreign Ministry reason to at least pause the momentum toward offshore sectors that could become national boundaries.⁴⁸

Moscow was able to reinforce its contention that the division of the Caspian Sea's territorial waters should be a collective decision during a series of conferences in 1995, starting with meetings in Ashgabat and Almaty that again considered the proposals by Azerbaijan and Kazakhstan as well as alternatives by Russia and Iran that would continue to treat the water column as a condominium. This was followed by working group meetings in Tehran in June and in Almaty in September, culminating in another conference in Tehran in December. At the first working group meeting in Tehran, all sides "came into conflict," which reportedly led all the participants to accept the "consensus principle" as the only way to approve any agreement on the legal status of the Caspian.⁴⁹

48 Ibid.

49 Ibid.

Moscow relaxed its embrace of the consensus principle by reaching bilateral deals with Azerbaijan and Kazakhstan on boundaries for offshore sectors for oil and gas development in 1998 and 2001. This change in approach seemed to have been prompted by new oil and gas discoveries by Russian companies in Russian waters and Moscow's observation that Azerbaijan and Kazakhstan were getting a jump on developing their own offshore oil and gas in the Caspian.

Russia briefly espoused the idea that all of the Caspian littoral states should delineate boundaries for national sectors for the purpose of subsea resource exploitation using a modified median line approach.⁵⁰ But strong opposition from Iran, Turkmenistan's adamant insistence on using an unconventional method to determine the boundary of its sector, and rival proposals by Azerbaijan and Kazakhstan to include the water column in the national sectors (which essentially would make the offshore sector a national border) led to an impasse that Russia would later embrace as Moscow recognized that an unresolved legal status served its interests.

50 Sergei Blagov, "Russia Aims at Caspian Sea Settlement," Inter Press Service, September 29, 2000, <http://www.ipsnews.net/2000/09/development-russia-aims-at-caspian-sea-settlement/>.

Caspian Sea Summits

A series of summits involving all five heads of state of the littoral countries has not done much to advance a consensus on the legal status of the Caspian Sea. In fact, Russian and Iranian comfort with the status quo has led both to block progress, armed with the two major agreements thus far. These are the shared interest in the environmental aspects of the Caspian Sea and the principle that a consensus among all five littoral countries is needed for any decision to be made on the legal status of the sea.

The first Caspian Sea summit took place in Ashgabat, Turkmenistan, in April 2002. President Saparmurat Niyazov, host of the conference, said afterward that the conference yielded no concrete results. Going into the conference, Iran claimed 20 percent of the Caspian territorial waters and Iran's Caspian envoy denounced bilateral agreements delineating national sectors, obviously aimed at Russia's agreements with Azerbaijan and Kazakhstan. Niyazov proposed before the meeting that each state's border extend fifteen nautical miles from its shoreline and that each state be given a zone extending twenty-five nautical miles from the shoreline for fishing.⁵¹ His proposal was rejected, despite being very similar to an agreement reached twelve years later at the fourth Caspian Sea summit in Astrakhan, Russia, in 2014.⁵²

Tehran hosted the second Caspian Sea summit in October 2007. In the run-up to the conference, Russian officials voiced growing opposition to trans-Caspian pipelines and to using the Caspian Sea for military purposes in response to heightened interest in trans-Caspian pipelines stemming in part from Russia's interruption of gas flows through Ukraine in January 2006.

- After a meeting with EU Energy Commissioner Andris Piebalgs in May 2006, Kazakhstan's energy minister said that Kazakhstan supported a gas pipeline across the Caspian Sea and would send a proposal for a feasibility study of a trans-Caspian pipeline to the European Commission.⁵³

- Turkmen President Niyazov and Azerbaijani Energy Minister Natig Aliyev touted interest in a trans-Caspian gas pipeline and in April 2006 Niyazov signed a deal for a gas pipeline to China, in part to increase Turkmenistan's leverage in negotiating gas sales to Russia. Turkey and the United States joined the EU in expressing interest in the gas pipeline from Turkmenistan to Azerbaijan.

Russian concerns about trans-Caspian pipelines that could increase competition for European gas markets led Moscow to focus on strengthening agreements obstructing both these pipelines and the ability of countries outside of the Caspian Sea to help protect the security of such projects.⁵⁴ Russia found a natural ally in Iran in promoting these two objectives. Iran has also strongly opposed foreign military intervention in the Caspian Sea and trans-Caspian pipelines that might undermine its claim that it is entitled to 20 percent of the Caspian Sea's territorial waters and subsea resources.⁵⁵

The second phase of Russia's strategy was to exploit territorial disputes in the south Caspian to maintain the status quo and to block trans-Caspian pipelines.

Unsurprisingly, no breakthroughs occurred at the third Caspian Sea summit, held in Baku in November 2010. By this time, Turkmen President Gurbanguly Berdimuhamedov and Azerbaijani President Ilham Aliyev agreed that a bilateral deal would be sufficient to legally build a trans-Caspian pipeline between the two countries, but Russia and Iran still objected.

The third and current phase in Russia's strategy is to solidify the impasse in the legal status of the Caspian Sea and build military capabilities for economic and political advantage.

The fourth Caspian Sea summit, held in Astrakhan in September 2014, was similarly unproductive in making headway toward defining a legal status for the sea.

51 Jean-Christophe Peuch, "Caspian: Ashgabat Summit Ends without Agreement," Radio Free Europe and Radio Liberty, April 24, 2002, <http://www.rferl.org/content/article/1099503.html>.

52 Malika Orazgaliyeva, "Caspian Meeting in Astrakhan Makes 'Breakthrough' on Road to Convention," *Astana Times*, October 1, 2014, <http://astanatimes.com/2014/10/caspian-summit-astrakhan-makes-breakthrough-road-convention/>.

53 "Kazakhs Back New Caspian Gas Pipeline through Turkey to Europe," Reuters, May 5, 2006, <http://www.hurriyetdailynews.com/kazakhs-back-new-caspian-gas-pipeline-via-turkey-to-europe.aspx?pageID=438&n=kazakhs-back-new-caspian-gas-pipeline-via-turkey-to-europe-2006-05-05>.

54 Sergei Blagov, "Russia Tries to Scuttle Proposed Trans-Caspian Pipeline," Eurasianet, March 27, 2006, <http://www.eurasianet.org/departments/insight/articles/eav032806.shtml>.

55 Richard Weitz, "Second Caspian Summit Fails to Resolve Contentious Issues," CACI Analyst, October 31, 2007, <http://www.cacianalyst.org/publications/analytical-articles/item/11504-analytical-articles-caci-analyst-2007-10-31-art-11504.html>.

Russia and Iran again kept the agenda from even focusing on the issue. Vladimir Putin, returning to the presidency after a term as prime minister, served notice with his opening address that the summit's main goals were "banning the entrance of foreign troops; fighting extremists, terrorists, and narcotics traffickers; developing protocols on oil spills and pollution; and cooperating in economic resources."⁵⁶ The message was clear that progress toward resolution of the legal status of the Caspian Sea would not be a priority at this summit. The corollary to that message, targeted at Azerbaijan, Kazakhstan, and Turkmenistan, was that a trans-Caspian pipeline would not be tolerated. To reinforce that message, after the conference Putin pointed to an agreed statement that only the littoral states have the right to military activity in the Caspian Sea, and stressed that "the provision saying that the most part of the Caspian Sea water area is used by all parties is very significant."⁵⁷

Besides preserving the status quo on the legal status of the delimitation of the Caspian Sea, the fourth summit makes clear Russia's ability to use its naval forces throughout most of it. With by far the largest and most capable naval force, Russia could discourage any attempt to build a trans-Caspian pipeline by placing a naval vessel in the pipeline's path, especially since it enjoys the political support of Iran, the Caspian country with the second strongest navy. By limiting the options of Azerbaijan, Kazakhstan, and Turkmenistan to build trans-Caspian pipelines, Russia's military strength and warnings to these countries give the Caspian Sea the aura of another frozen conflict.

Russia maintains the status quo by not opposing Iran's claim to 20 percent of the territorial waters of the Caspian Sea and ignoring the overlapping offshore claims between Azerbaijan and Turkmenistan. Iran's claim is based on its contention that each of the five littoral countries deserves an equal share of the sea. Some Iranian officials have even claimed that

Iran should be entitled to 50 percent of the Caspian because the sea should be shared equally between Iran and the former Soviet Union rather than among the five countries that share the coastline following the breakup of the Soviet Union. The lack of progress in settling the issue of overlapping claims suits Moscow for a number of reasons:

- First, it postpones a resolution of the legal status of the Caspian Sea, allowing Moscow to claim a right to participate in any major decision regarding the sea and to intervene in any decision involving the southern Caspian Sea, including regarding navigation, fishing rights, and the construction of trans-Caspian pipelines.
- Second, it allows Moscow to fall back on the resolved principle that all five littoral states have a shared interest in the environmental health of the Caspian Sea to support its objection to trans-Caspian pipelines. This and the principle that all five littoral states must agree on such major decisions as the legal status of the sea are basically the only two major principles that have been established thus far.
- Third, Russia has been able to gain military domination of the Caspian Sea by getting the other littoral states to agree that no outside country will be allowed to establish a military presence. This prevents any foreign military force from confronting Russia's military might in the Caspian Sea and any efforts to build a trans-Caspian pipeline between Central Asia and Azerbaijan.

A number of observers have written that the key to determining the legal status of the Caspian Sea is to first determine whether it is a sea or a lake.⁵⁸ However, the reality is that this debate is academic as long as Russia is able to control the sea by virtue of its military strength, as is currently the case.

56 Mansour Kashfi, "Iran Yields to Russia in Talks over Caspian Resources," *Oil and Gas Journal*, vol. 113, no. 2, February 2, 2015, <http://www.ogj.com/articles/print/volume-113/issue-2/general-interest/iran-yields-to-russia-in-talks-over-caspian-resources.html>.

57 Mikhail Metzler, "Real Breakthrough Reached at 4th Caspian Summit—Putin," TASS, September 29, 2014, <http://tass.com/russia/751856>.

58 "Legal Status of Caspian Sea," Natural Gas Europe, August 6, 2013, <http://www.naturalgaseurope.com/legal-status-of-caspian-sea>; Barbara Janusz, *The Caspian Sea Legal Status and Regime Problems*, German Institute for International and Security Affairs, August 2005, <https://www.chathamhouse.org/sites/files/chathamhouse/public/Research/Russia%20and%20Eurasia/bp0805caspien.pdf>.

Map 4. Overlapping claims of rights to resources in the South Caspian Sea



Source: CIA. Boundary representation is not necessarily authoritative.

Turkmenistan's Approach to the Legal Status of the Caspian Sea

Turkmenistan's approach to its claim of a national sector in the Caspian Sea is unorthodox by global standards and unlike that of any other littoral state. Judging from the outer perimeter of the offshore blocks that Turkmenistan has offered for exploration and development bids, Ashgabat's approach to delineating a median line consists of measuring the equidistant point from land along successive lines of latitude. The conventional approach is to measure the equidistant point from the closest point of land, regardless of latitude or longitude. For Turkmenistan, this alternative provides the benefit of considerably reducing the influence of Azerbaijan's Apsheron Peninsula. At latitudes just to the north and south of the peninsula, Turkmenistan's claim juts sharply to the west, equidistant to the coastline in Azerbaijan at a latitude above and below the peninsula, despite the closeness of the peninsula.

- By neglecting the proximity of points on land on the Apsheron Peninsula at latitudes just north and south of the peninsula, Turkmenistan enables itself to assert a claim to a large part of Azerbaijan's Azeri-Chirag-Guneshli offshore oil complex.
- Turkmenistan's use of this methodology is supported by an article published in the late 1990s in which the author writes that "In an interview with Turkmenistan's First Deputy Foreign Minister Yolbars Kepbanov in May 1997, the author was shown a sketch map of the Caspian, said to show the method used by the Soviet Oil Ministry in delimiting the Caspian. In essence, a number of

straight lines were drawn east-west across the Caspian, and the midpoint of each of these lines formed a turning point for the boundary line."⁵⁹

Turkmenistan further expands the offshore territory of its claim by considering the long, narrow, and uninhabited island of Ogurja Ada in the same manner as its mainland. This island runs about twenty-nine miles north-south and is as much as fifty miles off the mainland along successive lines of latitude. Thus it adds as many as twenty-five miles to the perimeter of Turkmenistan's claim, and intersects Azerbaijan's offshore block that contains the prospects of Alov, Araz, and Sharg.

- Turkmenistan's claim that Ogurja Ada counts as importantly as its mainland in determining its national offshore sector for resource exploitation is disputed by both Azerbaijan and Iran. The use of an island for the perimeter of a national offshore territorial boundary is even more contentious, especially given the island's considerable distance from shore, that it is uninhabited, and that Turkmenistan lacks the military power to force the issue.⁶⁰

59 Andrew Harris, "The Azerbaijan-Turkmenistan Dispute in the Caspian Sea," *International Boundaries Research Unit Boundary and Security Bulletin*, Winter 1997-98, 56-62.

60 For a detailed depiction of overlapping claims of offshore national sectors for resource exploitation in the South Caspian Sea, see the following map: "Oil and Gas Infrastructure in the Caspian Sea Region," US Central Intelligence Agency, March 2012, via the United States Library of Congress, <https://www.loc.gov/resource/g5692c.ct003595/>.

Russia Militarizes the Caspian Sea

Moscow has turned the Caspian Sea into another frozen conflict by establishing a military presence that overwhelms those of the other littoral and former Soviet states—Azerbaijan, Kazakhstan, and Turkmenistan—and enables Moscow to call the shots on major decisions.⁶¹ One such decision is whether any of the littoral states can build a trans-Caspian pipeline. Russia strongly opposes such a pipeline, which most importantly could allow Turkmenistan and possibly Kazakhstan to join Azerbaijan in sending gas to Europe through the Southern Corridor. Iran also opposes such a project, largely to support its claim to a greater share of the Caspian seabed and its resources. Iran's position is a convenient one for Russia because it helps block a resolution of the territorial division of national sectors in the Caspian, which both countries maintain is necessary before any trans-Caspian pipeline can be considered.⁶²

Azerbaijan and Turkmenistan's failure to date to agree on a median line between their national offshore sectors has been an obstacle in the past to a trans-Caspian pipeline, but the agreement in 2010 by Presidents Berdimuhamedov and Aliyev that a bilateral deal is sufficient to legally build a trans-Caspian pipeline means this is no longer necessarily the case. The likelihood that Moscow would stop importing the 11 bcm annually it purchases from Turkmenistan and use other economic and political levers is also a

deterrent to Ashgabat, but Russian military capabilities and Moscow's strong rhetoric claiming the right to defend its interests in the Caspian Sea are the primary obstacles.⁶³

Russia has considerably expanded and modernized its Caspian flotilla since 2010 and has held numerous exercises, including one that included more than fifty vessels.⁶⁴ The flotilla contains up to twenty-six warships and additional support vessels. The warships include two guided missile frigates, three guided missile corvettes, four small gunships, one guided missile boat, five gunboats, two base minesweepers, five inshore minesweepers, and six landing crafts. Russia's Caspian flotilla is based in Astrakhan and Makhachkala.⁶⁵

Russia showed off its naval prowess by firing twenty-six long-range cruise missiles at targets in Syria in October 2015 and another eighteen cruise missiles at Syria in November 2015 from the South Caspian Sea.⁶⁶ Although the targets were in Syria, the other Caspian Sea countries undoubtedly noted the demonstration.

61 The "frozen conflicts" in the former Soviet Union include those with Crimea and eastern Ukraine, Transnistria in Moldova, Abkhazia and South Ossetia in Georgia, and Nagorno-Karabakh in Azerbaijan.

62 Joshua Kucera, "The Great Caspian Arms Race," *Foreign Policy*, June 22, 2012, <http://foreignpolicy.com/2012/06/22/the-great-caspian-arms-race/>.

63 Shahin Abbasov, "Azerbaijan & Turkmenistan: Renewing Caspian Sea Energy Dispute," Eurasianet, July 11, 2012, <http://www.eurasianet.org/node/65646>.

64 Lidiya Parkhomchik, "Current Security Issues in the Caspian Sea Region," Eurasian Research Institute, May 3, 2016, <http://eurasian-research.org/en/research/comments/security/%D1%81urrent-security-issues-caspian-sea-region>.

65 "List of Active Russian Navy Ships 2016," Russianships.info, as of April 21, 2016, <http://russianships.info/eng/today/>.

66 Andrei Akulov, "Kalibr: Russia's Naval System Upping Cruise Missile Game," Strategic Culture Foundation, May 24, 2016, <http://www.strategic-culture.org/news/2016/05/24/kalibr-russia-naval-system-upping-cruise-missile-game.html>.

Conclusions and Implications

Russia has employed a series of preemptive actions and countermeasures to block, co-opt, or compete with the Southern Gas Corridor to deliver Caspian gas to Europe since the mid-1990s. This follows a pattern that characterizes Russia's reactions to every major export-related transportation initiative involving producing and transit countries in the Caspian region since the breakup of the Soviet Union, including such projects as the Caspian Pipeline Consortium project, Baku-Tbilisi-Ceyhan oil pipeline, Kazakhstan-China oil pipeline, and Turkmenistan-China gas pipelines.

In cases in which Russia has failed to block or co-opt non-Russian projects, Moscow has turned to more competitive behavior. This result is not likely to change Moscow's overall strategy, but the lessons of the Southern Gas Corridor show that creating alternative export projects for non-Russian oil and gas producers can establish important facts on the ground that can influence Russia in a positive way under some circumstances.

Moscow's tendency to view gas markets through the lens of a monopolist also is unlikely to change. Russia is still likely to view the Southern Gas Corridor as unwanted competition to its own ambitions to establish a southern corridor to Europe, as well as a means of attracting unwanted gas competition from other producers in the Caspian Sea and Middle East. Moscow's efforts to limit export competition complement its designs to bypass transit states it considers troublesome, especially Ukraine.

An important lesson learned by the experience of Russian approaches to the southern corridor rivalry is that further EU progress in building infrastructure and establishing regulatory control that enhances the integration of the European gas network will also influence Russian behavior in a more competitive and positive way by establishing more facts on the ground. Many such projects include those already listed in the EU's Connecting Europe Facility and those underway or planned in the EU's Projects of Common Interest. These include new gas pipelines, new connections between gas grids of neighboring countries, and the introduction of reverse flow in connections that already exist. Many of these projects are intended to create linkages that can transform the major gas pipelines delivering gas in a single direction from Russia through

Central and Southern Europe into connected networks that can move gas as needed in all directions.⁶⁷

Some of the more prominent projects include the EU-backed Southern Gas Corridor; expansion of the Bulgarian gas pipeline system and new pipeline interconnections between the Bulgarian system and Turkey, Greece, Serbia, and Romania; expansion of the Romanian pipeline network towards Hungary; new LNG terminals in the Thrace region of Greece and offshore near Krk Island in Croatia; and expansion of the capacity of the Świnoujście LNG terminal in Poland. Interconnecting pipelines would also be introduced to carry gas from Krk Island eastward toward Serbia and Bosnia and Herzegovina and northward into Slovenia and Hungary. In North Central Europe, new connecting pipelines are underway or planned from Poland to Lithuania, Slovakia, and the Czech Republic as well as between Austria and the Czech Republic. In Western Europe, the Midcat pipeline between Spain and France and other projects are planned to help facilitate the movement of gas from underused LNG terminals on the Iberian coast through France and on to Central Europe.⁶⁸

The EU has made remarkable progress integrating gas networks so far this decade, but more is needed to free some parts of the larger European market from relative isolation. The EU-backed Southern Gas Corridor will help substantially, but will initially supply only 10 bcm beginning in 2020 and potentially 20 bcm in the future to EU countries. Implementing and enforcing EU energy laws and regulations throughout the EU, the Energy Community, and the evolving European Energy Union is also imperative, as is requiring Russia to also comply with EU laws and regulations.

Additional gas infrastructure expansion beyond that already planned would provide opportunities for other suppliers, including LNG exporters, to find routes to distribute gas northward from LNG terminals in Southern Europe. Growing exports of LNG from the United States and other producers provide another and larger opportunity to establish more facts on the ground that would serve to multiply the impact of those already established. The allocation of funds to improve the western portion of Bulgaria's and

67 See "Energy Projects of Common Interest - Interactive Map," European Commission, http://ec.europa.eu/energy/infrastructure/transparency_platform/map-viewer/main.html.

68 Ibid.

“For Turkey, an important implication is that the more Southern Gas Corridor infrastructure Turkey can establish outside of Russian control the more likely Turkey can foster competition and become a viable energy hub.”

Romania’s pipeline systems would help remove a barrier to the northward flow of LNG supplies by upgrading national networks that were built primarily to accept Russian gas and to send it southward to Turkey and Greece. This work was cast by the EU as related to the Southern Gas Corridor because it might be used to send gas northward from the Southern Gas Corridor, especially as gas flows to Europe expand beyond the initial 10 bcm annually.

Other infrastructure that would help establish facts on the ground that enhance gas market integration and competition include the proposed Ionian Adriatic Pipeline and the establishment of a North-South Corridor, which would feature a new bidirectional gas pipeline extending from Poland to Croatia, linking LNG terminals at Świnoujście and Krk Island. The corridor would connect with existing pipelines and new extensions and connections that would link it with national networks throughout Central and Southeast Europe.⁶⁹

Moscow is determined to follow through with its own southern corridor. Even with success in building TurkStream, however, Gazprom’s surplus production capacity will drive further efforts to distribute its gas in Europe, including a greater role for the Nord Stream 2 project and connecting pipelines within Europe. At the European Gas Conference held in February in

Vienna, Austria, Gazprom Deputy Chairman Alexander Medvedev said that “We have installed available capacity ready to produce more than 100 bcm of gas today, so we don’t need any additional investment to produce more than 100 bcm. But in order to bring this gas to Europe we need additional infrastructure which we are working on with our European partners—Nord Stream 2 and [TurkStream]. This capacity will not be sufficient to bring all this to Europe. So this is why we are talking to use available capacity on Poseidon project, [the studies for] which will be ready soon—or maybe TAP.”⁷⁰

For Turkey, an important implication is that the more Southern Gas Corridor infrastructure Turkey can establish outside of Russian control the more likely Turkey can foster competition and become a viable energy hub. In particular, keeping capacity in TANAP available for a second 10 bcm per year for Azerbaijan will spur competition both within Turkey and in Southeast Europe. Azerbaijan’s potential gas reserves in deeper reservoirs of Shah Deniz and the Azeri-Chirag-deepwater Guneshli complex and the deepwater Apsheron field provide confidence that additional gas will be forthcoming from Azerbaijan.

For TAP and Italy in particular, it means that resolving the issue of a landing point for the segment of the pipeline reaching Italy from Greece under the Adriatic Sea is an imperative. For Bulgaria and Greece, a long-delayed pipeline connection is required for Bulgaria to receive the 1 bcm per year of Shah Deniz gas it has contracted to purchase.

The current legal status of the Caspian Sea suits Russia’s interests and is unlikely to change, especially because Iran supports Russia on the key issue that all five littoral states must agree on important decisions, which includes trans-Caspian pipelines. This means that a trans-Caspian pipeline delivering Turkmen gas to Azerbaijan is unlikely under current leadership in Russia and Iran.

⁶⁹ For more details, see *Completing Europe: From the North-South Corridor to Energy, Transportation, and Telecommunications Union*, Atlantic Council and Central Europe Energy Partners Joint Report, November 20, 2014, <http://www.atlanticcouncil.org/publications/reports/completing-europe-from-the-north-south-corridor-to-energy-transportation-and-telecommunications-union>.

⁷⁰ John Roberts, senior fellow at the Atlantic Council and senior partner at the consultancy Methinks Ltd., provided this quotation from the European Gas Conference in Vienna, held on January 24, 2017. He added that “according to the interpreter, and therefore as heard by the audience at Vienna, Medvedev referred to ‘the Poseidon project, which will be ready soon.’ He told me that he had said, in Russian, that it was the studies for the Poseidon project which will be ready soon.” The Poseidon is the offshore segment between Greece and Italy of the proposed ITGI pipeline project.

About the Author



Bud Coote is a senior fellow with the Atlantic Council Global Energy Center. He recently retired from the Central Intelligence Agency (CIA) as the Agency's leading international energy analyst and a key adviser to senior US officials on a wide array of global energy issues. He helped to establish and build the CIA's energy program dating back to the early 1970s, producing actionable intelligence that directly supported and helped shape decisions made by US policy officials, foreign officials, and private companies. His most recent publications are an Atlantic Council report on *Surging Liquefied Natural Gas Trade: How US Exports Will Benefit European and Global Gas Supply Diversity, Competition, and Security* and an Atlantic Council report he co-authored with Karl V. Hopkins on *Key Risks Companies Face in Petroleum Investment and Operations*.

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