Georgia and Its Role in Energy Transit Towards the West

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As a part of the ancient Silk Road Georgia historically was on a significant trading route between East and West. Georgia's importance for energy transit became obvious in the beginning of 20th century by oil exports from Azerbaijan to the Black Sea ports and its role as the key energy transit country was revived in post Soviet times. Currently Baku–Supsa and Baku-Tbilisi-Ceyhan oil pipelines transport about 30mln tons of oil annually while SCP gas pipeline supplies up to 8 BCM of natural gas per annum from Azerbaijan to Turkey. Railway transports 4mln tons of Kazakh oil. Georgia also provides transit of Russian gas to Armenia transporting about 1.5-2 BCM annually.

Having no significant oil & gas reserves, Georgia covers 60-70% of domestic gas needs through the gas provided by transit agreements while the rest is also imported. Thus by linking the interests of own energy supply to the interests of other countries Georgia has achieved a reasonable level of energy security and stable gas prices. Notably, it was the startup of SCP that allowed Georgia to diversify its gas supply away from critical dependence on Russian imports.

Energy transit is also a major factor of state security for Georgia. It is noteworthy that during the 2008 warfare with Russia no energy infrastructure was damaged and though about 20% of Georgian territory is still occupied, there has been no interruption in energy flows. Georgia's potential role in energy transit to Europe is believed to be among the strongest factors of Western interest and support for Georgia's independence and aspirations to join NATO and EU.

Therefore, due to political, energy security and economic reasons Georgia is vitally interested in further development of energy transit routes over its territory.

Georgia's transit role is strongly enhanced by EU plans of diversifying its external energy supply. While facing the challenges of growing energy demand, declining gas production, unreliable supply from North Africa and dim prospects of nuclear energy, Europe calls for development of renewable energy sources and use of natural gas as the most economical and climate friendly intermediate fuel. At the same time EU needs to assure the security of gas supply and avoid the dependence on major monopoly players that would be tempted to use their monopoly position for political gains. Indeed, natural gas is tied to the delivery routes and the goal for Europe is to achieve that these routes operate with transparent and equitable rules assuring stability and fair market price of the supply.

Currently Russia supplies about 30-35%[1] of EU gas demand while some Eastern European states are completely dependent on Russian gas. Many instances indicate the use of energy as political instrument by Russia and make this high degree of dependence unacceptable for the EU. Political differential pricing of gas for different countries, 2009 winter gas crisis in Eastern Europe, earlier 2006 winter electricity and gas attack on Georgia, as well as emerging internal political instability do not add to the Russia's image

[1] 34.2% in2009 http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Energy_production_and_imports

as a reliable and neutral supplier. Trying to enhance its monopoly position Russia is actively engaged in acquisition of strategic energy infrastructures in other countries and subsidizes the construction of new strategic pipelines to enclose the Europe by the network under own control and to separate it from the vast gas reserves of the Caspian and Middle East.

In its search for diversification of energy supplies EU has been developing the concept of Southern Gas Corridor (SC) to allow EU consumers' access to vast Caspian gas reserves. According to current estimates the gas reserves of Azerbaijan are evaluated at 4-5 trillion cubic meters (tcm)[2], while Turkmenistan and Kazakhstan own 20+[3] and 2.5 tcm respectively[4]. *The strategic objective of the (Southern) corridor is to achieve a supply to the EU of roughly 10-20% of EU gas demand ("**Big Gas**") by 2020, equivalent to 45-90 bcma.*[5] There are several intended projects (Nabucco, White Stream, TAP, ITGI, but also AGRI, recently announced SEEP and Trans-Anatolian pipeline) at various stages of development that comprise the concept of Southern Corridor. The EU strategy of developing the key SC projects concurrently is designed to reduce the transportation risks for the Caspian producers by assuring the "***Effective CORRIDOR"*** for gas transportation via two parallel routes west of Georgia, one across Turkey (Nabucco, TAP, ITGI, SEEP and Trans-Anatolian pipeline) and another across the Black Sea (White Stream subsea pipeline and AGRI (Azerbaijan-Georgia–Romania Interconnector) LNG transportation system).

Southern corridor is a complex mix of projects involving a big number of diverse players. Its strategic value to the EU is directly linked to independence from Russian influence. Georgia, being a small but critical link of this complex chain, may critically affect its success by avoiding or falling under the influence of this monopoly player.

Georgia's Euro-Atlantic aspirations contribute to its image of a country with proven track record of a reliable transit state. The potential leverages that might be provided by Russian military presence, ownership or control of critical energy infrastructure and informal business relations, can be effectively curbed only by transparent legal environment and decision making practices of EU standards as well as political support by Western countries. Thus it is in the interests of EU as well as Georgia that the latter strengthens its independence and becomes a more democratic country with stable and transparent legal system, open policy making, strong institutions and sustainable development prospects.

It is in mutual interest to expedite Georgia's reforms and Euro-Atlantic integration process through existing and new mechanisms including Eastern Partnership, Energy Community etc. An important condition of this work should be closer cooperation and more detailed consideration of specifics of Georgian energy market and its economic interests that should be protected in this process. Such an approach will result in a faster progress and allow to seize the opportunities still existing for both sides in the rapidly changing global environment.

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[2] SOCAR

[3] http://oilprice.com/Energy/Natural-Gas/Green-Eyed-Gazprom-Attacks-Turkmenistan-s-Natural-Gas-Resources.html

[4] CIA https://www.cia.gov/library/publications/the-world-factbook/rankorder/2179rank.html

[5] http://ec.europa.eu/energy/infrastructure/strategy/2020_en.htm