

Impact of Five-Day War on Global Energy

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The brief armed conflict in South Ossetia will have long-lasting and serious repercussions globally. The infrastructures of the energy sector have been particularly affected by the crisis. It is hard to say at the moment whether fundamental changes in the energy landscape of the Caspian and Middle East regions should be expected, but the immediate character of the reaction of exporters and transit countries shows that the military factor is bound to play a bigger role in assessing both individual energy projects and the potentials of entire regions in the global energy politics.

It is also true, though, that the essence of the conflict in South Ossetia is not limited to struggle over transit routes used to deliver oil and gas from the Caspian region. The situation should be viewed in a broader perspective: Russia has resolutely made a bid to regain its positions in the Caspian region, and the control over energy transit routes is just one of the aspects of the matter.

The hostilities in South Ossetia triggered a new information war between Russia and the US largely centered on the control over oil and gas transit from the Caspian region. Expressions of skepticism concerning a number of corresponding energy projects – primarily the Baku-Tbilisi-Ceyhan pipeline constructed thanks to the US political and financial backing – are often perceived in the US as efforts aimed at deliberately discrediting them. As a result, Washington has a thin skin to any criticisms of the Trans-Caucasian routes originally devised to bypass Russia. “We have important strategic interests at stake in Georgia, especially the continued flow of oil through the Baku-Tbilisi-Ceyhan pipeline, which Russia attempted to bomb in recent days”, said US presidential contender Sen. John McCain. He called for US to cooperate with Baku and Ankara on the BTC security: “The US should work with Azerbaijan and Turkey, and other interested friends, to develop plans to strengthen the security of the Baku-Tbilisi-Ceyhan oil pipeline”.

Currently, the atmosphere in which the US is appealing to its traditional and freshly baked allies became different from what it used to be prior to the war in South Ossetia. Several new factors are contributing to the balance of forces in the region.

The Turkish Factor

In the usual US manner, Sen. McCain is pinning the blame for the problems on a wrong party. Damage to the Baku-Tbilisi-Ceyhan pipeline was indeed caused recently, but not by Russian bomb strikes. It was paralyzed by a terrorist attack launched by Kurdish insurgents in response to the Turkish army’s incursion into the northern part of Iraq.

The closure of the Baku-Tbilisi-Ceyhan pipeline costs Turkey \$300,000 a day. Turkey’s

transit revenues since the opening of the pipeline in May, 2006 had totaled \$2.6 bn, but following the terrorist attack oil had to be taken from the Ceyhan terminus stockpile which was to a great extent depleted as a result.

Turkey was also worried by the reaction of the Kazakh and Azerbaijani exporters to the problem. Immediately, they asked Russia's Transneft for additional pipeline quotas in order to send their oil via the Russian territory to the Russian Novorossiysk seaport.

Even the brief disruption of the transit revenue flow came as a blow to Ankara, which regarded the Baku-Tbilisi-Ceyhan revenue as a partial compensation for supporting Operation Desert Storm in 1991. By the time of the 2003 US invasion, the sanctions imposed on Iraq after Desert Storm had cost Turkey \$80 bn due to the loss of transit revenues from the Kirkuk-Ceyhan pipeline and to the freezing of its trade with Iraq.

To prevent a replay of the scenario, Turkey took an active role in the settlement in Georgia. Turkish Prime Minister Recep Erdogan visited Moscow to meet Russian President D. Medvedev and Prime Minister V. Putin. Erdogan expressed support for Russia's actions. Turkey is keenly interested in stability in the Caucasus as it gets most of oil and gas across it. Erdogan said to President Medvedev that the purpose of his visit was to demonstrate Turkey's solidarity with Russia.

Ankara finds itself in a difficult situation now that the West has shown how easily it can ignore Turkey's interests. Having taken Iraq, the US allowed in its north a de facto independent Kurdish state which became a stronghold of Kurdish separatism. Europe continues to deny Turkey admission to the EU. Finally, the recent developments in Pakistan, where the West and the US in particular had abandoned their traditional ally Gen. Pervez Musharraf, made Turkey question the expediency of the exclusively pro-Western orientation. Turkey had to search for an alternative "frame of reference" and to think of its own security architecture in the region, one of its functions being to safeguard the energy transit routes. This is the explanation behind Turkey's support for Russia's peacekeeping mission in South Ossetia, and not only on the verbal level - US warships which headed for Georgia could not pass through the Turkish straits until the active phase of the conflict was over.

Ankara's ire drawn by the US policy of destabilizing the region is no reason to expect that Turkey is going to make a definitive step away from NATO and the West. Nevertheless, from the standpoint of Turkey's interests, Washington's plan to partition Iraq is prone to cause a surge of Kurdish separatism. Clearly, Iraq will not be the only country affected as Kurdish populations reside everywhere from the Caucasus to the Middle East, and Turkey will inevitably be the number one target.

The Iranian Factor

The parallel preparation for the Georgian offensive against South Ossetia and buildup of the US Navy presence in the Persian Gulf were seen by many analysts (in Tehran especially) as a prelude to a US attack against Iran. Under the circumstances, the devastation of the Georgian military infrastructure by the Russian army made the use of Georgia as a foothold for an operation targeting Iran much less probable, and thus reduced the threat of the US-Iranian armed conflict. Besides, Iran seized the opportunity opened as a result of the developments in the Caucasus to strengthen its own position in the European energy market.

The fighting in South Ossetia was going on when Dr. Hojatollah Ghanimifard, deputy director for investments of the National Iranian Oil Company, said that the Georgian segment of the Baku-Tbilisi-Ceyhan pipeline is no less vulnerable than the Turkish one and that the halt of its operation is a reason to reassess the whole project's security and environmental safety. In Ghanimifard's view, Iran's Neka-Jask export pipeline could serve as a viable alternative to BTC. Iran's Deputy Oil Minister Hossein Nogrekar-Shirazi says a feasibility study for the project is underway. Recently Russia and Kazakhstan indicated being ready to join it.

Having faced problems shipping its oil to the West, Azerbaijan turned to Iran for new transit routes. *Iran News* reported the first transit oil shipment from Azerbaijan to Iran on August 26.

Besides, Tehran is increasingly exerting pressure on Europe in the framework of the "political support for energy" formula. Judging by the interview given by head of Nabucco Gas Pipeline International Reinhard Mitschek, the possibility of gas hunger gives Iran a chance to get heard in Europe. According to Mitschek, market studies show that potential exporters need more than 100% of the Nabucco capacity (up to 31 bn cu m of natural gas annually). Europe is interested in buying gas from Azerbaijan, Turkmenistan, Iraq, and Iran. Considering that Azerbaijan and Turkmenistan have no reserves sufficient to load a major pipeline, Iran remains the only potential source provided that massive investments are poured in gas production in the country.

The Israeli Factor

The interests of Israel in various ways affected by the conflict in South Ossetia are diverse and contradictory. On the one hand, instructors and armaments from Israel went to Georgia. On the other, Israel is anything but willing to have its relations with Russia strained, largely due to concerns over its own energy security. Located in the world's major oil-producing region, Israel has no oil reserves of its own and has to import fuel. Since Israel's chances to get any oil from its Arab neighbors are nonexistent, it is shipped to the country from outside the Middle East. **Currently, 80% of Israel's 300,000 bpd oil import are supplied by Russia.**

To lessen its oil dependency on Russia, Israel made efforts to have Caspian oil and Turkmen gas supplied to it via the Ceyhan terminus. Intense negotiations between Israel, Turkey, Georgia, Turkmenistan, and Azerbaijan on the construction of new pipeline legs in Turkey to transit oil and gas to the Red Sea terminals in Ashkelon and Eilat are underway. Oil from the terminals could be shipped to the Middle East across the Indian Ocean.

The corridor's capacity, however, is bound to be limited due to the difficulty of large tanker navigation through the Bosphorus and the Suez. Still, linking the BTC and the Ashkelon-Eilat pipelines could open new opportunities for reaching the rapidly growing Asian energy markets. The project is quite realistic and should not be overly costly. Interest in it has been expressed by Azerbaijan and Turkey, but the BTC security is the key obstacle.

The above explains the contradictions in Israel's position on the situation in Georgia. Nor do Tel Aviv's threats to Iran help Israel join the new oil transit route to Asia, since the Strait of Hormuz would be sealed off immediately in the event of a conflict with Iran, and the tanker segment would thus come to a halt. Consequently, now Israel is faced by the dilemma: either the quite realistic BTC plus Eilat-Asia project or a confrontation with Russia and Iran for the sake of Washington and at the expense of Israel's own energy security.

The Russian Factor

Russian *Utro.ru* said on August 27 that Russia's decision to recognize South Ossetia and Abkhazia signaled with ultimate clarity the country's joining the big geopolitical game, the stake being Russia's new role and status in the present-day world.

Having stepped in to protect its citizens in South Ossetia, Russia has also established itself as the only stable transit space connecting Europe, Central Asia, and the Caspian region. When the Baku-Tbilisi-Erzurum pipeline suspended shipments following the halt of BTC and Baku-Supsa, Georgia as a transit country drew another round of criticisms from the expert community. The August 13 report entitled "Turkey and the Problems with the BTC" presented by the Jamestown Foundation says: **"...the long-term impact of the crisis is to throw into sharp relief the West's assumptions about the expediency of using Georgian territory for oil and natural gas projects without taking Moscow's views into consideration"**.

Europe is not delighted to see Moscow's control over the oil and gas transit from the Caspian region restored. The options open to it are a confrontation or a new architecture of relations with Russia. The West is threatening Moscow with «a new cold war» but has no intention to downscale trade with Russia, and, consequently, the energy cooperation with it. German Chancellor A. Merkel said the conflict in Georgia would not tell on the Nord Stream pipeline project whose strategic importance to Europe she reiterated during her visit to Sweden on August 26. European media express reservations concerning Europe's potential in an energy confrontation with Russia. *Le Monde* wrote on August 27, for example: "Some experts criticize Europe's strategy as overly aggressive and warn against new mistakes. It must be understood that Russia is an energy threat, and nearly all of the gas supplied to Europe in the coming 30 years is going to be either Russian or Iranian".

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