

opinion piece

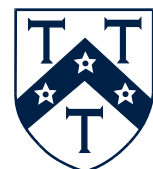
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Greece closes its third pipeline deal:
Loose ends and solid prospects in the
wake of the South Stream agreement

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Greece closes its third pipeline deal: Loose ends and solid prospects in the wake of the South Stream agreement

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The recent Greek-Russian handshake on the South Stream project, in combination with the Burgas-Alexandroupoli pipeline and the Interconnector Turkey-Greece-Italy (ITGI) natural gas pipeline, will, if brought to fruition, establish Greece as an important link in the West's supply chain to Caspian hydrocarbons. Now firmly on the energy map, Athens is enhancing its geopolitical standing and its voice and role in energy affairs, while also guaranteeing to a significant degree its own energy security and that of the wider region (in the sense that any crisis allowed to bear on energy delivery would be felt by European consumers, who will be the end users of the oil and natural gas transiting Greece). But a quick glance at a map of the region showing the various pipelines carrying energy from east to west is enough to set matters within a realistic framework: if Greece plays its cards right it will evolve into an important regional transit hub.

The ITGI, Nabucco and South Stream natural gas projects – as well as the existing Blue Stream – impact broader developments in the Balkans, but are categorized by many as supplementary, given that beyond carrying gas from different sources, the quantities of gas have been secured by different companies (e.g., ITGI and South Stream by the Italian Edison and ENI, respectively). However, given the political support and consequent involvement of the U.S. and Russia, as well as the fact that their target

markets and the quantities they will be moving are more or less the same, they will be for the most part competitive. The scolding the Greek government came in for from the State Department's Matthew Bryza¹ was no mere coincidence, and neither are the efforts to accelerate construction of the projects in question so as to beat the competition into western markets.

In this escalating energy crisis, Russia has clear comparative advantages, while the U.S. has serious strategic problems, including:

- overestimation of Azerbaijan's potential;
- the international isolation – for which the U.S. is responsible in the main – of an energy-rich Iran that could, under the right circumstances, compete with Russia;
- Iraq's inability – due to the geopolitical fluidity brought on by the U.S. invasion – to deliver its vast energy reserves to western markets;
- The agreements signed recently by Moscow with Kazakhstan and Turkmenistan, which will increase Russian control over the natural gas exports of these two Central Asian states.

Keeping Greece's options open

Greece – irrespective of its contractual obligations – thus has no choice but to bear in mind the objective energy realities that make Russia, rather than Azerbaijan, the more pragmatic choice for adequate supply of energy, at least for the time being. At the same time, Athens has to avoid becoming dependent on Moscow in terms of absolute numbers. Any

¹ U.S. Deputy Assistant Secretary of State for European and Eurasian Affairs.

reckoning by which Greece might reduce its dependence on Russia in the coming years presumes the ITGI's operation at full capacity– an eventuality by no means certain given the current state of affairs and the need to secure quantities of energy to cover the increasing needs of the domestic market.

So there is also a need to seek other supply sources in order for Greece to distance itself from any fallout from the ongoing U.S.-Russian energy tug-of-war, which may result in lines being redrawn in Europe, with perhaps unforeseeable consequences for the cohesion of the EU.

Greece, like other transit states, obviously doesn't want to identify with one or the other of the power poles (U.S., Russia). And this is because it wants to keep its options open, securing supplies from various sources. Whatever the case, the energy plans we are referring to (apart from Blue Stream, which is already operating, if not at full capacity) won't go into operation before 2012 in some cases, and 2014-2016 in others – and these are best-case scenarios.

Regarding the broader alliances taking shape as a result of the energy agreements, it would be premature to pigeon-hole Greece or any other country in any one of these. With the exception of Albania and Serbia, the countries of the region (Bulgaria, Romania, Turkey, Italy, Hungary and Greece) are participating in projects that – while serving the geopolitical interests of both the U.S. and Russia – first and foremost serve their own interests. It is no exaggeration to claim that for transit countries, given the relatively limited economic gains for transit states (these rise only in the case of re-sale or the securing of special accommodations – low

prices – for domestic markets), the basic objective is to upgrade their geopolitical role and strengthen their negotiating clout on broader issues beyond energy (e.g., the Greek government sends a message of insubordination to the U.S., which it perceives as not having supported Athens on any major national issue in recent years).

So it is easy to see why vigilance is imperative on the part of the Greek government, with the salient areas of interest being problems with the projects and potential economic gains. Specifically, while Burgas-Alexandroupoli seems to be moving towards implementation, despite delays, the other two projects have some structural problems that have to be resolved. Given that the ITGI is slated to carry Azeri natural gas, the potential for which has been overestimated,² it is unlikely that it will operate at full capacity even when the Greek-Italian section has been completed. This means that it will carry smaller quantities and be less competitive than other projects. South Stream is a high-cost, high-risk project.

Regardless of Russia's intention to move ahead with it in order to gain a negotiating advantage over other transit states, such as Ukraine, it is by no means certain that – following financial and technical studies – this project will prove viable from end to end, much less commercially alluring. We can reasonably expect the huge construction cost (over €10 billion) to be passed on to those who consume the natural gas from this pipeline. Beyond that, we should bear in mind that although Russia is the most realistic natgas supply solution at this time (in terms of production) if, as

² In 2006, Azerbaijan produced some 6-10 billion cubic meters of natural gas, with Russia producing over 700 billion cubic meters in the corresponding period. In any case, the ITGI is not expected to go into operation before 2012-2014.

some forecasts have it, Moscow does fail to attract new investments over the next several years to help fund exploration for new natgas fields, its production potential will fall. In this context, it is understandable why Moscow is expediting natural gas sales agreements –thus optimizing its market share- and why we will see in the foreseeable future a dramatic rise in natgas prices on the Russian market, curtailing domestic consumption.

Further concern arises from the fact that although Moscow has the quantities necessary to supply the global market, in this particular case it seems to be moving in the direction of making geopolitical gains without taking into account the economic cost. And this is why it is vacillating even now concerning the participation of certain states (e.g., Serbia). The fact that the Kremlin decided – in a reversal of initial plans – to incorporate Belgrade into the northern branch, rerouting the pipeline, points to the vastness of the political dimension of the South Stream project. Moreover, the involvement of a number of states in this project will probably bring about delays if and when details and requirements concerning their participation need to be hammered out. Strong political will from governments speeds things up, but when the negotiations pass on to the companies involved, the process takes on another dynamic.

Finally, with regard to Greek participation in the South Stream, it has not yet been disclosed whether the pipeline that passes through Greek territory will run parallel to the 670-km Egnatia motorway³ or merely transit a chunk of Komotini just large enough for Russia to secure Greece's commitment not to seek expansion of its energy supplies

³ Motorway running from Greece's north-eastern border with Turkey to Igoumenitsa, on the Ionian Sea, roughly bisecting the province of Komotini, which lies between Bulgaria and the Aegean.

elsewhere. Greece's participation would take on a substantial and strategic perspective only if the southern branch of the South Stream pipeline were to transit a significant portion of northern Greece.

Economic gains

It is difficult to forecast the direct or indirect economic gains Athens might make through participation in the three energy projects, but the general framework set out below delineates some potential benefits:

- **Transit duties.** Judging from the figure set for the Burgas-Alexandroupoli pipeline (\$1 per ton), no significant economic gain can be expected.
- **New jobs during the construction and operation phases.** Needs – and, consequently, exact numbers – are hard to predict. A significant role will be played by whether the pipelines are accompanied by infrastructure projects, the construction of storage facilities, etc.
- **Attracting foreign investment** (e.g., energy, real estate, tourism, new technologies). Used effectively – and in adequate quantities – foreign investment will bolster the development prospects of areas of northern Greece, most of which are more or less depressed.
- **Securing adequate quantities of energy for the country while avoiding dependence on a single supplier.** The argument that Greece gets (liquefied) natural gas from Algeria or other countries and thus is not dependent on Russia is specious, given that 82% of the natural gas Greece consumes is Russian. This is all the more pressing a problem because natural gas will be

consumed by more and more households in the coming years, increasing the country's dependence. This dependence could be halved in coming years if Athens doubles or triples its imports from other sources, such as – but not exclusively – Azerbaijan (ITGI). No one questions the undesirability of dependence; thus there is a clear need to seek other supply sources⁴ in the near future, at least to cover the needs of the domestic market. As for the Russian factor, with few exceptions (Hungary, Belarus), Moscow isn't big on subsidies or write-offs and operates based on prices on the open market. It would be a major success – and quite a feat – if Greece could secure Russian natural gas at a cut rate. The question is: In its recent talks with Moscow, did the Greek government succeed in capitalizing on its strategic partnership relations with Russia by securing more favourable prices for Greek households if and when the South Stream goes into operation?

- **The potential for re-sale of oil and/or natural gas by Greece.** Greece's economic and geopolitical gains would multiply if – following the required agreements – a portion of the reserves transiting Greece could be secured for re-sale to other countries (in the Balkans, for instance). This would require tough negotiating because it would mean losses for the supplier-state.

Summing up

Wielding oil and natural gas pipelines, Russia is clearly attempting a comeback in Southeast Europe. But it is equally clear that beyond doing this and backing a few hostile buyouts, Moscow has to use its

⁴ Countries like Qatar, Algeria, Egypt or even Libya cannot compete with Russia, but they can contribute significantly to the diversification of a market as small as that of Greece.

petrodollars to expand its activities into other sectors in order to go some way towards consolidating its influence. This is even more starkly the case given that the U.S. has established strong political, military and economic footholds in the region in question, while also trying to create smaller state entities (e.g., Kosovo) that are under its control.

Finally, the current clash between Washington and Moscow, which is taking place against an energy backdrop, is not Cold-War in nature. Nevertheless, the two sides do have conflicting interests; interests that they promote and, in some cases, impose – rather indelicately at times. Let's hope that the conflict between these two poles of power (one, the strongest pole, the other, up and coming) in the international system won't have collateral casualties.

ABOUT SEESOX

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South East European Studies at Oxford (SEESOX) is part of the European Studies Centre at the University of Oxford. It focuses on the interdisciplinary study of the relationship between European integration and the politics, economics and societies of the Balkans, Greece, Turkey and Cyprus. Drawing on the academic excellence of the University and an international network of associates, it conducts policy relevant research on the multifaceted transformations of the region in the 21st century. It follows closely conflict and post-conflict situations and analyses the historical and intellectual influences which have shaped perceptions and actions in the region. In Oxford's best tradition, the SEESOX team is committed to understanding the present through the *longue durée* and reflecting on the future through high quality scholarship.

SEESOX has the following objectives:

- To support high-quality academic and policy-relevant research on South East Europe;
- To organise conferences, workshops and research seminars;
- To promote multi-disciplinary study of the region's development within Oxford University (e.g. politics, international relations, law, sociology, economics) working in collaboration with other Centres and Programmes within the University, including student societies;
- To spearhead intellectual exchanges and debate on these issues among networks of individuals and institutions beyond Oxford;
- To foster cooperation between the academic and the policy making communities.

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