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# Azerbaijan's President Turns Down Gazprom's « Blackmail » Price.

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Azerbaijan has ceased importing gas from Russia as of January 1. Despite the anticipated shortage of gas in the country -- compounded by an unanticipated production delay at the international Shah Deniz gas project -- Azerbaijan has refused to pay \$235 per 1,000 cubic meters of Gazprom-delivered gas in 2007. President Ilham Aliyev turned down such 'commercial blackmail,' telling the Russian media, 'I cannot allow that to happen. Azerbaijan is no longer the kind of state that can be forced into anything' (Ekho Moskvu, December 23).

Gazprom's final proposal to Azerbaijan in late December increased the volume offer from 1.5 billion cubic meters of gas to 2.5 billion cubic meters for 2007, though still far below last year's 4.5 billion cubic meters. And it raised the asking price to \$235 per 1,000 cubic meters for 2007, compared with the \$110 price charged to Azerbaijan, Armenia, and Georgia in 2006. Moscow left the price unchanged for Armenia in 2007 in return for property takeovers in that country; but it more than doubled the price to Azerbaijan and also to Georgia, which ruled out property transfers to Russia.

President Aliyev, Industry and Energy Minister Natig Aliyev, and State Oil Company president Rovnag Abdullayev all declared publicly in the closing days of the year that Azerbaijan would not accept arbitrary overpricing or a politically motivated price. Indeed, geopolitics largely motivates Moscow's decisions to raise the price and slash the volume of gas deliveries to Azerbaijan. The goal is to prevent the latter from helping Georgia to resist Moscow's twin threats of supply cuts and extortionate pricing.

Azerbaijan currently extracts some 5 billion cubic meters of gas annually and the international oil-producing consortium extracts some 2 billion cubic meters of associated gas. The country's annual requirement is 10 to 11 billion cubic meters. Azerbaijan will use some internally produced gas, as well as fuel oil, instead of Russian-delivered gas, to generate electricity. Almost all of Azerbaijan's electricity-generating capacities operate on gas, but a large part can also operate on the more expensive fuel oil.

To obtain that fuel oil, Azerbaijan must redirect some volume of crude oil from export to refining in the country. It will definitely not redirect any volume from the Baku-Tbilisi-Ceyhan pipeline, but rather from the line that runs to Russia's Novorossiysk Black Sea port. That pipeline handled some 4 to 4.5 million tons of oil from Azerbaijan per year in 2005 and 2006, some of it from the international consortium and some from Azerbaijan's state company. The international consortium's share in using that pipeline has grown in late 2006 due to technical problems on the BP-operated Baku-Supsa (Georgia) pipeline -- a situation that seems to persist. Azerbaijan can shift some of that volume into the pipeline to Ceyhan and another portion for in-country refining, producing fuel oil to generate electricity.

Technical problems are also causing a further delay of the start of commercial production at the BP-operated Shah Deniz giant gas field, the source of the Baku-Tbilisi-Erzurum (Turkey) pipeline. Planned for mid-2006

and postponed into December, that production start has again been postponed for 'some weeks' due to a leak at the first well, deep under water. Three other wells are due on stream shortly. The delay has complicated the gas supply situation for 2007 in Azerbaijan and especially in Georgia. The first gas deliveries from Shah Deniz had been scheduled to reach Georgia in September 2006, then rescheduled for December 20. The postponement has been a factor in forcing Georgia at the end of December to sign a contract with Gazprom, buying gas at the extortionate price of \$235 per 1,000 cubic meters, as a stop-gap solution to survive the winter.

Both Azerbaijan and Georgia have considered the possibility of emergency imports of Iranian gas in small volume to tide them over the winter. In Azerbaijan's case, Iran was willing at the end of December to supply 1.8 billion cubic meters of gas in 2007, but the talks on the price were inconclusive. In January-February 2006, Azerbaijan transited small but critical volumes of Iranian gas to Georgia through the Astar-Gazi Mahomed-Gazakh pipeline during the Russian energy blockade of Georgia. Recalling that situation recently, U.S. Deputy Assistant Secretary of State Matt Bryza declared in Tbilisi that no one can 'tell Georgia to refuse buying Iranian gas and freeze in winter.'

The winter of 2006-2007 is almost certainly the final opportunity for Russia to exert leverage on Azerbaijan and Georgia through manipulation of energy supplies. Clearly, this form of leverage has lost its effectiveness thanks to the direct availability of Caspian supplies to Azerbaijan and Georgia. By next winter, both countries should have become completely immune to Moscow's use of the energy trade as a pressure tool.

(ANS, APA, Turan, Interfax, December 23-30, January 3; see EDM, December 8)

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