
South Stream pipeline may carry Azerbaijani oil

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- Gazprom CEO Alexei Miller has made a surprise proposal during his short stay in Baku. The press release of the Russian energy giant says he has proposed buying Azerbaijani natural gas at market prices under long-term contracts.

Analysts immediately concluded that Russia needs Azerbaijani gas for the South Stream pipeline, under construction to pump Central Asian gas to Europe.

Baku is currently hosting the 15th International Caspian Oil and Gas Exhibition and Conference. Judging by the number of participants, which keeps growing every year, global interest in Azerbaijan's energy resources is increasing.

This year, 380 companies from 33 countries are attending the forum.

They are analyzing the recent statements by the Azerbaijani leaders about the country's huge energy resources, trying to determine if they will be enough for the current projects.

President Ilham Aliyev has said oil production in Azerbaijan will grow to 60 million metric tons (441 million bbl) by 2009 from 50 million metric tons in 2008, and that the country has enough natural gas to satisfy domestic requirements in the next 100 years.

Experts say that Azerbaijan has 1.5 trillion cu m (52.95 trillion cu f) of prospected gas reserves, including at the Shah Deniz offshore deposit in the Azerbaijani part of the Caspian Sea, with recoverable reserves of 1.3 trillion cu m (45.89 trillion cu f) of natural gas.

Azerbaijan annually consumes 10-11 billion cu m (388.3 billion cu f) of gas.

Foreign policy priorities today largely depend on the direction of export pipelines. Therefore, such projects as the Nabucco pipeline, designed to deliver natural gas from Central Asia to the EU via Azerbaijan and Turkey, bypassing Russia, is a political rather than an economic project. Remaining an outsider in this event means losing instruments of influencing the situation in the given region.

Miller's sensational proposal is evidence of Russia seriously considering ways to regain its positions in the region as an active strategic player. Russia's former tactic of an observer who underestimates the growth potential of the region has apparently not succeeded.

Russia's largest private oil producer LUKoil has left the South Caspian region and gas exporters soon followed in its footsteps, weakening the country's economic positions there.

Therefore, Miller's visit to Azerbaijan can be interpreted as an attempt to change the energy transportation policy in the region to suit Russian interests. On the other hand, it may also point to the intention of the Vladimir Putin government to focus on foreign economic policy.

Rovnag Abdullayev, president of Azerbaijan's State Oil Company, said: "We will use the most profitable routes to export gas," choosing between the Nabucco pipeline, the Trans-Adriatic pipeline and Gazprom's proposal.

Azerbaijan has not initiated any new pipeline projects lately. At the beginning of the year, President Aliyev made a statement signifying that the country would not initiate new energy transportation routes, like other countries are doing, because it wants to stay away from political quarrels between superpowers and other centers of power. Azerbaijan will limit its international role to participation in projects supported by the international community.

This position suits the West and Russia, though some people interpret Gazprom's proposal as a trick. According to them, Gazprom has proposed buying Azerbaijani oil in order to draw its attention away from the Nabucco project and therefore hinder its implementation.

Others see it as a public confirmation of Azerbaijan's considerable reserves.

Another argument is Iran's interest in buying oil from the Shah Deniz deposit, in which Naftiran Intertrade Co (NICO) holds a 10% stake.

But probably neither interpretation is the truth: Gazprom is considering possibilities of participating in promising gas projects in the South Caspian region, notably the second stage of the Shah Deniz project, which will start operation after 2012 when production should grow to 20 billion cu m (706 billion cu f).

Gas export is expected to grow at this stage and the South Stream, which should be commissioned by 2013, could be used to transport Azerbaijani gas to Europe.

As for competition between Nabucco and South Stream, there will be none when both pipes carry Azerbaijani oil.

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