

POSSIBLE CONSEQUENCES OF A NEW GEOPOLITICAL GAME IN EURASIA ON TURKEY AS AN EMERGING ENERGY TRANSPORT HUB

Much attention has focused on Turkey emerging as a major energy transport hub as the energy security needs of EU member states have become a pressing issue. However, it will be difficult for Eurasian crude oil and natural gas to reach European markets via Turkey given Russia's grip on energy transportation routes, and bearing in mind Moscow's interest in preserving its political and economic influence in Central Asia. In the foreseeable future, with regard to the post-Soviet states of the Caspian region, only Azerbaijani and Kazakh crude and Azerbaijani natural gas is likely to be transported to European consumers via Turkey.

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The Annex to a Green Paper on energy adopted by the European Commission in March 2006 emphasized the “strategic importance” of Turkey for the delivery of crude oil and natural gas to Europe from Russia, the Caspian region, the Middle East and North Africa.¹ In an interview given in May 2006, the deputy head of the business department of the Turkish Petroleum Pipeline Corporation (BOTAFİ), Emre Engur, noted Turkey’s “unique geo-strategic location” given that approximately 73 percent of the world’s gas reserves could be found in areas surrounding Turkey. Engur estimated that by 2020, 15 percent of the gas import needs of EU member states would be transported through Turkey. According to the BOTAFİ official, after the imminent completion of the 20 billion cubic meters (bcm) capacity Baku-Erzurum pipeline to carry gas primarily from Azerbaijan’s Shah Deniz gas field, Turkmen gas deliveries to Turkey and to Europe would most probably follow.²

More attention has focused on the significance of Turkey as an emerging energy transport hub as the energy security needs of EU member states have risen to the top of the agenda. In January 2006, Russia briefly suspended natural gas exports to Ukraine when Kyiv refused to pay higher prices for the gas, and this had a knock-on effect on the rest of Europe because substantial amounts of Russian gas are transported to Europe via Ukraine. The EU is dependent on Russia for 26 percent of its natural gas demand, and this is projected to rise to 33 percent in the foreseeable future in line with long-term gas contracts. Natural gas has become an invaluable source of energy to generate electricity. In contrast to crude oil, because of the less flexible arrangements for transporting natural gas, it is more difficult to reduce dependence on gas imports. Natural gas is a network-bound commodity sold to fixed outlets in regional markets through long-term contracts.

In spite of these constraints, EU member states are seeking alternative suppliers of natural gas from the Caspian region and the broader Middle East. Turkey could play a key role as an energy bridge for the delivery of both natural gas and crude oil to Europe. However, it will not be easy for hydrocarbons from Kazakhstan, Turkmenistan, and Uzbekistan to be transported to Europe via Turkey as at present almost all westward pipeline connections from these states run through Russia. The expanding markets in China and India are also looking towards Central Asia to satisfy their energy needs. In general, however, it would seem that China and India are not direct competitors with the Europeans for Central Asian energy. Oil and gas would most probably be delivered to Chinese and Indian consumers either from fields located closer to Asian markets or from fields already managed by Chinese companies.

¹ Commission of the European Communities, “Annex to the Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy: What is at Stake – Background Document,” COM (2006) 105 Final, XXX, Brussels – SEC (2006) 317/2, p.37.

² “Turkey: BOTAFİ discusses Country’s Role as Gas Corridor,” Platts (London), 9 May 2006. Available at TrkNws-E-News, 11 May 2006.

A New Geopolitical Game?

Before examining Turkey's possible role as an emerging energy transport hub it is important to consider briefly the wider strategic context. In particular, Russia is determined to maintain an influence over developments in Eurasia and is concerned by the heightened American presence in the area in the wake of 9/11 and the U.S. engagement in Afghanistan. Moscow is also apprehensive that the Rose and Orange revolutions in Georgia and Ukraine respectively could result in a wave of U.S.-encouraged democratization in Central Asia, which could undermine Russian influence. In spring 2005, the Akayev regime in Kyrgyzstan collapsed in the so-called Tulip Revolution.

However, the spread of U.S. influence in Central Asia appears to have stalled. The Tulip Revolution has encountered serious problems with regard to clan feuds and organized crime, and the authorities in Bishkek are threatening to close down the airbase used by the U.S. unless the Americans pay a one hundredfold increase in rent. The Karimov regime in Uzbekistan has fiercely reacted to the popular protests in Andijon in May 2005 by expelling the Americans from an airbase in the country and by cultivating much closer ties with Russia. Turkmenistan, under the leadership of Niyazov, continues to keep its options open while pursuing a foreign policy based on neutrality. The Nazarbayev regime in energy-rich Kazakhstan is currently being assiduously courted by both Moscow and Washington.

The Central Asians have been providing Russia with cheap natural gas, and this has enabled Gazprom to export domestically produced Russian gas to hard currency markets in Europe at a much higher price. Moscow will probably need to import more Central Asian gas because energy demand in Russia is increasing and it is becoming more difficult to extract gas from Russian fields. Western capital and technology is required to develop less accessible fields and upgrade the pipeline infrastructure in Russia. In these circumstances, the authorities in the Kremlin will not look favorably at attempts by the Central Asians to transport and sell their gas on European markets. Central Asian gas delivered to Europe through pipelines bypassing Russia would compete with Russian gas exports. Moscow would then most probably have to pay more for Central Asian gas imports.

The Putin administration had originally attempted to consolidate its control of Central Asian energy by calling, in January 2002, for the formation of a Eurasian Alliance of Gas Producers which would have included Kazakhstan, Turkmenistan, and Uzbekistan, but this failed to materialize. The EU, having embarked on an energy dialogue with Russia, clamored for a liberalized gas market in Eurasia to match an emerging liberalized gas market in Europe. In the face of this opposition, Moscow instead concluded a series of separate long-term cooperation agreements with Central Asian states to guarantee gas deliveries to Russia for the foreseeable future.



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More recently, tensions have escalated between Russia, the U.S. and the EU after Gazprom in January 2006 briefly cut-off natural gas supplies to Ukraine. This action was perceived by many as a clumsy attempt by Russia to use energy as a political tool to influence developments in other states. Moscow contended that such radical measures had been needed because Kyiv had refused to pay a higher price for Russian gas which Gazprom argued was required in the wake of rising oil bills. Beginning in 2006, almost all former Soviet states have been compelled to pay much more for Russian natural gas imports. Gas supplies from Russia to Georgia were also suspended for several days in January 2006 because of sabotage against pipelines in northern Caucasus which Georgian President Saakashvili blamed on Russian security forces. However, Gazprom is aware that Ukraine, as a major gas transit state, has some leverage. Over 90 percent of Russian gas exports to EU member states, amounting to around 110 bcm/y, are transported across Ukrainian territory. Ukraine had tapped into gas supplies which were intended to be piped to Europe when Gazprom had suspended gas deliveries. This has prompted Moscow to seriously consider other routes to transport Russian gas to Europe. In particular, attention has focused on rapidly constructing the North European gas pipeline to carry gas to Germany along a subsea pipe across the Baltic Sea. Significantly, Gazprom is also interested in delivering its gas to Europe via Turkey.

Gazprom's recent actions prompted U.S. Vice-President Dick Cheney, in a speech before leaders of Baltic and Black Sea states in Vilnius in April 2006, to urge the Russian authorities to refrain from using energy supply manipulation and efforts to monopolize control over energy transportation routes as a form of "intimidation" and "blackmail".³ Brussels has more strongly lobbied for Russia to ratify the Energy Charter Treaty, which provides for non-discriminatory and market-based conditions for trade, transit and investment in energy products. The European Commission is also pressing Moscow – with little prospect of success at the time of writing, it seems - to agree to the Treaty's draft transit protocol, which would open up Russia's pipeline system for Central Asian energy exports to Europe. However, Russia's need for Western capital and technology to develop new oil and gas fields, and the continued importance of the European market for Russian energy exports in spite of the expanding Chinese market, could give Brussels some bargaining power.

Turkey as an Oil Transport Hub

Turkish energy officials have declared that the Mediterranean port of Ceyhan is destined to become, in effect, a new Rotterdam where one of every 16 barrels of oil produced globally will be loaded. It is estimated that between 50-80 million tons (mt) of oil carried along the Baku-Tbilisi-Ceyhan (BTC) main export pipeline, 70 mt of oil transported from northern Iraq, and another 55-70 mt of oil envisaged to be piped along a line beginning at Samsun, will eventually be delivered to

³ "Cheney rebukes Putin on Democracy, Energy 'Blackmail'," *Financial Times*, 4 May 2006.

Ceyhan. Clearly, the security situation would need to improve considerably in Iraq before crude could be carried along pipes without being susceptible to sabotage. On the other hand, the much-trumpeted BTC pipeline will become operational in summer 2006 and will transport Azerbaijani and probably Kazakh crude along a route bypassing both Russia and the already crowded Bosphorus. This will be a landmark achievement bearing in mind Russia's persistent opposition to the pipeline's construction.

The Azerbaijani authorities insist that enough oil will be produced at its Azeri, Chirag and Günefli oil fields, together with condensate from the Shah Deniz field, to fill the initial 50 mt/y capacity BTC pipeline. But ExxonMobil and Devon Energy, with shares of 8 percent and 6.5 percent in the consortium developing the Azeri, Chirag and Günefli fields, have made arrangements to transport their share of production by rail to the Georgian port of Batumi, until at least 2010.⁴ It is generally believed that Kazakh crude will be needed to guarantee the necessary throughput and make the BTC project more profitable. At the time of writing, there were reports that Azerbaijan and Kazakhstan were about to sign inter-governmental agreements concerning oil transportation. There is talk of up to 20 mt/y of Kazakh crude being carried across the Caspian Sea to Baku in tankers. By 2007 small amounts of "early" Kazakh crude could start to be delivered from the Tengiz oil field, with larger amounts of "main" Kazakh crude to be carried from Kashagan in 2010 after production rises in this new oil field. Kazakh exports of over 20mt/y would need to be transported to Baku along a yet to be constructed subsea pipeline across the Caspian Sea.

Given that Kazakh oil production is set to expand considerably, there would seem to be enough Kazakh crude to fill pipelines running to Atyrau and Novorossiisk in Russia while also boosting throughput in the new BTC pipeline. A project to transport Kazakh crude to Iran via Turkmenistan appears to have been put on the backburner indefinitely because of the lack of support from Western investors. The recently launched Atasu-Alashankou pipeline connecting Kazakhstan with Xinjiang in China will be used to transport oil from Chinese-managed fields in western and southern Kazakhstan.

In the long-term, though, there could be problems with regard to the possible transportation of significant amounts of Kazakh crude to Baku along a proposed subsea pipeline. It appears that such a pipeline will not be laid until the dispute over the legal status of the Caspian Sea has been resolved⁵. Moreover, there are reports that the draft provision of a possible Caspian Convention forbids the laying of subsea pipelines on environmental grounds. Russian and Iranian officials have reiterated warnings of the dangers of seismic disturbances on the Caspian seabed. In practice, it would seem that for strategic reasons Moscow would prefer

⁴ "Exxon commits Azeri Oil to Batumi for 5 Years," *Turkish Daily News*, 25 November 2004.

⁵ Disagreements among the five littoral states over whether the Caspian Sea is actually a sea or a lake, have contributed to the failure of these states to agree on a single formula to apportion the Caspian seabed among themselves.

to restrict the amount of Kazakh crude delivered to western markets along routes bypassing Russia. There is no prospect in the foreseeable future of oil from Turkmenistan accessing the BTC pipeline given the lack of investment and under-developed nature of the Turkmen oil sector.

The Italian energy company ENI and Çalık Enerji have prepared a feasibility study to construct a 1.5 billion dollars, 55-70 mt/y capacity oil pipeline to connect Samsun with Ceyhan. This would alleviate future tanker congestion on the Bosphorus by enabling Russian and Kazakh crude loaded at Novorossiisk to be transported initially to the Turkish Black Sea coast. A number of other international energy firms have expressed an interest in the Samsun-Ceyhan project. In May 2006, at a meeting in Moscow of Russian and Turkish economic officials, the hosts signaled that they would consider backing the project, and in the same month there were reports that Nazarbayev and Turkish Prime Minister Erdoğan had agreed to construct a refinery at Samsun to process Kazakh crude.⁶ Unlike the BTC pipeline, Russia could still regulate the amount of Kazakh crude transported to Novorossiisk along the Caspian Pipeline Consortium's pipeline, and also benefit from collecting transit revenues.

However, Moscow is still exploring other possible Bosphorus-bypass options, including in particular a Burgas-Alexandroupolis link connecting the Bulgarian Black Sea coast with the Greek Aegean. Russian support is needed for the Samsun-Ceyhan project to proceed. Bearing in mind also the continued uncertainty with regard to the security situation in northern Iraq, there is therefore no guarantee that Ceyhan will become a second Rotterdam in the foreseeable future.

Turkey as a Gas Transport Hub

Prior to the European Commission's March 2006 Green Paper on energy, Brussels had been fully aware of the potential importance of Turkey as a passageway for the transportation of natural gas. The Caspian-Middle East-Turkey corridor had been listed as one of only three priority projects concerning natural gas to be supported by the European Commission within the framework of its trans-European energy networks. In order for Turkey to be a gas transport hub, a pipeline infrastructure is required to transport natural gas to Turkey, across Turkish territory, and onwards to Europe. The Baku-Erzurum pipeline is expected to take deliveries of Azerbaijani natural gas from the Shah Deniz field beginning in September 2006. Another 20 bcm/y capacity Tabriz-Erzurum pipeline is already operational for the transportation of Iranian natural gas to Turkey. Plans have been approved to extend the Arab Gas Pipeline from Syria to the Turkish border to enable 2-4 bcm/y of Egyptian natural gas to be delivered to Turkey by early 2008, with a further 2-6 bcm/y to be carried to Europe via Turkey. If the security situation in

⁶ "Rusya'dan Samsun-Ceyhan görüşmesi," [Samsun-Ceyhan meeting from Russia], *NTVMSNBC.COM*, 15 May 2006. Available at <http://www.ntvmsnbc.com/news/373224.asp> accessed 16 May 2006; and "Kazakhstan and Turkey agree on a new Oil Refinery", *Turkish Daily News*, 24 May 2006.

northern Iraq improves, the 1996 framework agreement to construct a 10 bcm/y capacity pipeline to carry Iraqi natural gas to southern Turkey could be activated.

In order to possibly transport larger quantities of Azerbaijani natural gas, and also perhaps additional amounts from Kazakhstan and Turkmenistan, as well as more natural gas from the broader Middle East, the pipeline network in Turkey will need to be expanded. At present, a 22 bcm/y capacity East-West Main Trunk Pipeline connects Erzurum with Ankara. Salih Paflaoğlu, the deputy undersecretary in the Turkish Ministry of Energy and Natural Resources, has stated that BOTAFİ intends to transport up to 100 bcm/y to Europe by 2020.⁷ This will clearly require considerable financing.

Work has already commenced to expand Turkey's links with the European natural gas pipeline system. A 12 bcm/y capacity pipeline to connect Turkey and Greece is expected to be completed by late 2006. There are plans to extend this line to Italy by 2009. Progress is also being made towards finalizing an agreement on the Nabucco Pipeline Project which could carry 30 bcm/y of natural gas to Austria along a projected route connecting Turkey with also Bulgaria, Romania and Hungary. Preliminary talks have been held with Iranian energy officials with regard to the possible transportation of Iranian natural gas to Europe along the Nabucco Pipeline. Natural gas from Azerbaijan and Central Asia could also be carried to Europe along these pipelines having transited Turkish territory.

Azerbaijani Gas

The Baku-Erzurum pipeline could in future be expanded to accommodate 30 bcm/y of natural gas. There would thus be spare capacity for transporting gas in addition to gas produced at Shah Deniz. In March 2001, Turkey and Azerbaijan concluded a 15-year agreement according to which up to 6.6 bcm/y of natural gas will be destined for Turkish consumers. In December 2003, Turkey and Greece finalized a sales and purchase deal which would permit up to 0.737 bcm/y of Azerbaijani gas committed to the Turkish market to be re-sold to Greece from 2008. Greek energy officials have been involved in negotiations with their Turkish and Azerbaijani counterparts to reach agreements to ensure that in future more Azerbaijani gas will transit Turkey and fill the Turkish-Greek pipeline. Gas extracted from the Shah Deniz field will also enable Azerbaijan and Georgia to become less dependent on imports of Russian natural gas.

However, there are complications. Gazprom has been lobbying for some of its gas, transported to the Turkish market by the 16 bcm/y capacity Blue Stream network running across the Black Sea, to be redirected in future to Europe via the Turkish-Greek pipeline. Indeed, Russian energy officials are pressing Turkey

⁷ Presentation delivered at the Ninth Eurasian Economic Summit by Salih Paflaoğlu, Istanbul Chamber of Commerce, Istanbul, 8 May 2006.

to support the construction of a new subsea pipeline running parallel to the Blue Stream network, to deliver Russian natural gas which could be transported in future to markets in Europe and Israel. Visiting Athens in spring 2006, the Gazprom head Alexei Miller had offered to make investments to triple the capacity of the Turkish-Greek pipeline and provide a long-term supply agreement. This prompted U.S. Secretary of State Condoleezza Rice, on a trip to Athens in April 2006, to urge that instead of deliveries from Gazprom, more Azerbaijani gas should be carried along the pipeline. It was reported that Rice was also opposed to Gazprom becoming a stakeholder in the company responsible for the pipeline.⁸ Interestingly, in contrast to the Bush administration, EU energy officials have not publicly expressed alarm at the possibility of Russian gas being transported to Greece via Turkey.

The intervention by Rice placed officials in Ankara in an awkward position. Turkey receives two-thirds of its natural gas imports from Russia, and in 2010 is committed to import 30 bcm of Russian gas to satisfy a projected total energy demand of 38.5 bcm. There have been complaints about the high price of this gas and the onerous take-or-pay obligations. It appears that there is ongoing bargaining between representatives of Gazprom and BOTAfi. Gazprom is interested in acquiring a stake in distribution in the Turkish gas market, and is eager to be involved in projects to develop gas storage and build a liquefied natural gas (LNG) plant in Turkey. BOTAfi officials have over-contracted and made commitments to procure gas from other states with the result that by 2010 Turkey may be importing over 51 bcm. The possible re-export of Russian natural gas previously committed to Turkey would help resolve the problem of over-contracting. A BOTAfi delegation in Moscow in March 2006, had argued that Russia could make use of the Turkish-Greek pipeline for natural gas from the Blue Stream project in return for Gazprom reducing the price of its gas sold on the Turkish market. Evidently, Gazprom instead offered to ease take-or-pay obligations.⁹

Moscow is keen on exploiting the Turkish-Greek pipeline in order to be less dependent on Ukraine for exporting gas to Europe. The benefits that may accrue to Turkey from Russian gas exports via Turkish territory to Europe, and possibly Israel, indicate that Turkey may become a transport hub for the carrying of natural gas from Russia, as well as from the Caspian region and the broader Middle East.

Turkmen Gas

In May 1999, Turkey and Turkmenistan concluded an agreement which envisaged the supply of 16 bcm/y of natural gas to Turkey, with the prospect of an additional 14 bcm/y to be transported to Europe across Turkish territory. But the plans to construct a Trans-Caspian Gas Pipeline to carry Turkmen gas collapsed because of the dispute over the status of the Caspian Sea, serious disagreements between

⁸ Kerin Hope, "Rice to pressure Greece to reject Gazprom Proposal," *Financial Times*, 24 April 2006.

⁹ Begüm Gürsoy, "US demand deprives Turkey of Bargaining Card against Russia," *Turkish Daily News*, 28 April 2006.

Azerbaijan and Turkmenistan over the ownership of certain Caspian oil fields, and Niyazov's insistence that the international consortium interested in developing the pipeline should make an initial down-payment of \$ 1 billion. Nevertheless, BOTAFI continues to list Turkmenistan in its table on natural gas supply and demand scenarios, with the note that there is an "uncertainty" about the purchase of natural gas. This is presumably because certain contractual terms and conditions have not expired.

Following the events of January 2006 concerning Russia and Ukraine and the increased focus on the EU's energy security needs, speculation has re-surfaced over the possibility of reactivating the Trans-Caspian Gas Pipeline project to deliver Turkmen gas to Turkey and Europe. This speculation was encouraged by reports of talks between Niyazov and the American and Turkish ambassadors in Ashgabat on energy cooperation on 31 January 2006.¹⁰ However, the prospects for the transportation of Turkmen gas to Turkey do not appear promising. Russia and Iran continue to oppose the laying of pipelines across the Caspian Sea, and Turkmenistan and Azerbaijan have yet to resolve their disputes. Moreover, there are serious doubts with regard to whether in the foreseeable future Turkmenistan will be able to produce enough gas to satisfy its domestic needs, meet various export commitments, and also deliver gas to Turkey and Europe via Turkey. According to official statistics, in 2005 Turkmenistan produced 63 bcm, of which 45 bcm was exported. Questions have been raised over whether Turkmenistan has a maximum export potential of 100-120 bcm/y, or if Turkmen gas production is already declining.¹¹ What is clear is that Turkmenistan has already made commitments to export substantial amounts of gas to Russia (possibly as much as 70-80 bcm by 2008!), to Ukraine (41 bcm in 2006), and to Iran (8 bcm in 2006). Negotiations are ongoing to export 30 bcm/y to Pakistan and India on the projected Trans-Afghan Pipeline, and there are also tentative plans to transport up to 30 bcm to China by 2010. Given these commitments and other possible export markets, and bearing in mind the past problems with regard to the Trans-Caspian Gas Pipeline, it is difficult to envisage the transportation of Turkmen natural gas to Turkey and via Turkey to Europe in the foreseeable future.

Kazakh Gas

Much attention has recently focused on the possibility of Turkey becoming a transport hub for the export of Kazakh gas to Europe. Visiting Kazakhstan in May 2006, Dick Cheney and the European Energy Commissioner Andris Piebalgs held discussions concerning the possible construction of a subsea Caspian gas pipeline to connect the Tengiz field with Azerbaijan and then possibly hook up with the Baku-Erzurum pipeline – which, as previously noted, appears to have

¹⁰ Deniz Zeyrek, "Doğalgaz soğuk savas," [Natural Gas Cold War] *Radikal*, 2 Feb. 2006.

¹¹ Danial Kimmage, "Endnote -Turkmenistan-China Pipeline Project has far-reaching Implications," *Radio Free Europe/Radio Liberty Newslines*, Vol.10, No.66, pt.1, 10 April 2006.



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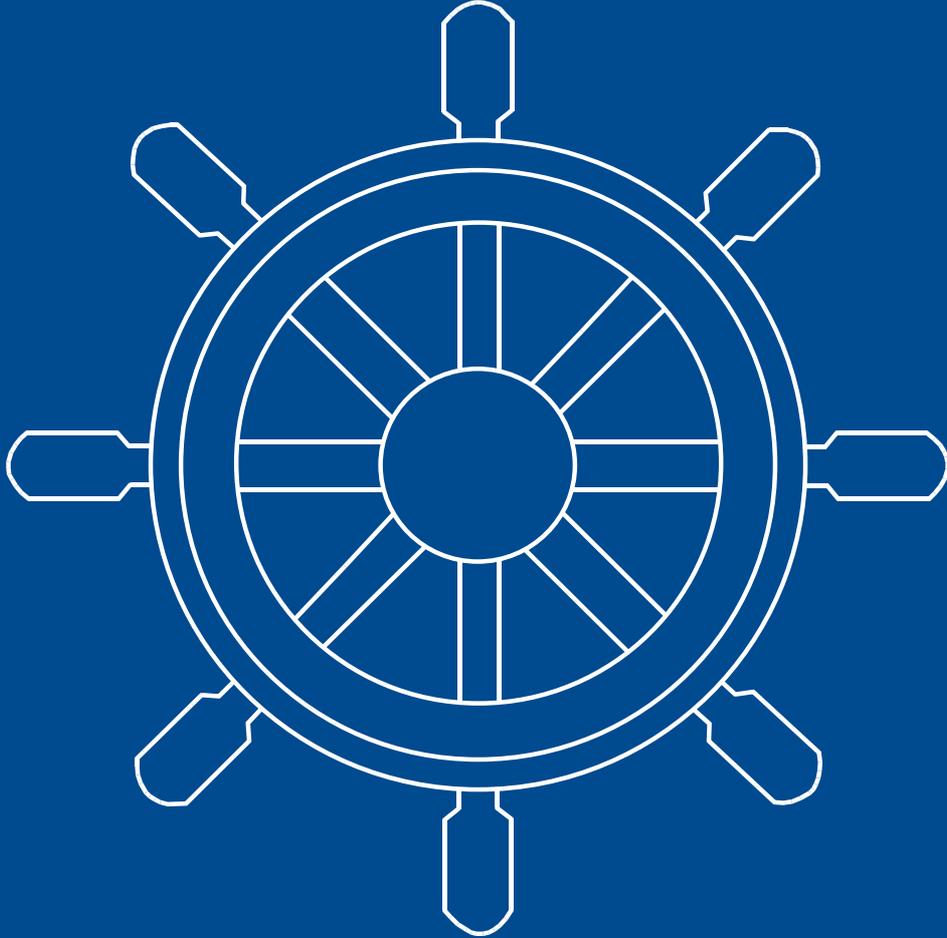
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some spare capacity. There was talk of laying a five billion dollar pipeline with an eventual capacity of 45 bcm/y by 2015.¹² The realization of such a project would boost Turkey's importance as a gas transportation corridor.

However, as previously noted concerning the ongoing geopolitical game in Eurasia, Kazakhstan has become, in effect, a pivotal state attracting the considerable attention of American and Russian officials. The Nazarbayev regime is engaged in a careful balancing act, seeking neither to alienate Washington nor Moscow. In the case of oil, as earlier discussed, the Kazakhs appear to be maneuvering themselves to a position whereby quite substantial amounts of Kazakh crude may be delivered to European markets via Turkey along routes which both bypass and also run through Russia. This will be more difficult to achieve with regard to natural gas. Again, there is the problem of the laying of a pipeline across the Caspian Sea. Furthermore, it seems that Moscow is intending to ensure that more Kazakh gas will be destined for the Russian market. Nazarbayev and Putin have recently agreed to work together to expand the capacity of the Russian gas processing plant at Orenburg, which receives Kazakh gas produced from the Karachaganak field. There are also reports of Russia accepting to pay in future 140 dollars instead of the current 50 dollars for 1000 cm of Kazakh gas.¹³ Moreover, Russia and Kazakhstan appear about to expand and modernize the dilapidated Central Asia-Center pipeline which carries natural gas from Kazakhstan, Turkmenistan, and Uzbekistan to Russia. Plans are afoot to boost its capacity from 45-50 bcm/y to 100 bcm/y. At present, mostly Turkmen gas is transported to Russia through this network. The expansion of the pipeline infrastructure would enable significantly more amounts of Kazakh and also Uzbek gas to be delivered to Russian consumers, thereby allowing Gazprom to increase its exports to European markets.

Conclusion

Clearly, expectations have been raised concerning the possibility of Turkey emerging in the foreseeable future as a significant energy transport hub. Given the current energy security concerns of EU member states and apprehension over the prospects of over-dependence on Russia for natural gas imports, Turkish officials do seem to have the opportunity to play the energy card. Brussels would need to think twice before, perhaps, suspending EU membership accession talks with Ankara over problems related to Cyprus or failure to implement key reforms. However, with regard to natural gas in particular, it will be a number of years before the pipeline infrastructure could be in place so that Turkey could become an important transport hub. And, at present, various geopolitical, economic, legal and technical factors are stacked against Turkey and instead give Russia a stronger hand. Moscow remains acutely sensitive to developments in the former Soviet

¹² "Kazakhstan: Mulls new Gas Transportation Route across Caspian," *RIA-Novosti*, 4 May 2006; and "Kazakhs back new Gas Pipeline to Europe," *Reuters*, Astana, 4 May 2006.

¹³ "Nazarbayev: Kazakhstan and Turkey agree on new Oil Refinery," *Turkish Daily News*, 24 May 2006.

space, and has shown that it is willing to exploit energy as a political tool. The authorities in the Kremlin will also be eager to ensure that Central Asian natural gas continues to feed the Russian market thereby enabling Gazprom to maintain lucrative trade ties with western markets. It would appear that there is also no immediate prospect of resolving disputes concerning the Caspian Sea, and this will continue to prevent the laying of subsea oil or gas pipelines. The lack of a proper gas pipeline network bypassing Russia and directly connecting Central Asia with European markets will probably not be addressed in the foreseeable future as Russia and Kazakhstan appear prepared instead to upgrade the Central Asia-Center pipeline system.

To further complicate the picture, it has been noted that Turkey may become a transport hub for the delivery of Russian crude and natural gas as well as Caspian hydrocarbons to European consumers. Taking into account the European Commission's concern that EU member states should diversify their sources of energy imports, it would appear likely that the Nabucco project would at least initially transport natural gas from Azerbaijan, Iran and Egypt via Turkey to Europe. Here, the Americans would need to reconcile themselves with the delivery of probably considerable amounts of Iranian gas to the European market. Only perhaps in the more distant future will natural gas from Kazakhstan and Turkmenistan be transported westwards via Turkey if the economic and political circumstances allowed this. But, by that time, considerable quantities of LNG from the Middle East, and in particular, from Qatar, would probably be consumed in Europe as well as in Turkey. With technological progress, the liquefaction, transportation, and regasification of gas is becoming cheaper and easier to perform. Increased use of LNG will make the gas market more flexible and more comparable to today's global oil market. In those circumstances, less emphasis would then need to be placed on the transportation of natural gas through pipelines transiting states such as Turkey to fixed outlets in specific regional markets.