

POLICY BRIEF



Turkmen Natural Gas in the European Energy Security Discourse: Perceptions, Realities, Outlook

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Key Points

- Although Central Asia has long been of pivotal interest to the European Union (EU), the latter has been unable to become an influential actor in the region. However, energy issues, in particular the establishment of natural gas ties with Turkmenistan, have steadily remained at the centre of the EU's strategic aspirations in Central Asia. While the EU seeks to introduce new suppliers into its energy security architecture, export diversification is a strategic necessity for Turkmenistan.
- Even if the results have been very limited in this field, the EU's determination for reaching out to Turkmen natural gas has proven to be unwavering, and this has consistently been reflected in the EU's energy policy discourse.
- When it comes to analysing the chances of Turkmenistan–EU gas relations, the conclusion is inevitable that this question cannot be assessed simply on a bilateral basis, as these relations are inseparable from the developments of regional energy geopolitics. Thus, Turkmenistan–EU energy relations can be properly analysed only if due attention is paid to all the relevant regional actors including Russia, Azerbaijan, Iran, China, Turkey, etc.
- When it comes to assessing the chances of establishing gas connectivity between Turkmenistan and EU markets, it is necessary to shed light on the odds of revitalising the stalled Trans-Caspian Pipeline project. With regard to this project, it must be clarified by the EU whether there is a firm demand for Turkmen gas in the EU, and whether it could become a competitive alternative to gas imports from other countries.
- Despite the fact that the European Union has put significant efforts in facilitating dialogue with Turkmenistan, one can inevitably see that Turkmenistan's restrictive approach to foreign investments has been a major factor that has hindered cooperation in the Trans-Caspian Pipeline project. Without a more supportive investment climate in Turkmenistan, and without a change in Turkmenistan's approach regarding its refrainment from signing production sharing agreements, European companies remain discouraged from investing in a potential Trans-Caspian Pipeline.
- In August 2018, negotiations on the legal status of the Caspian Sea have been held, and these have resulted in a more positive legal environment for a potential Trans-Caspian Pipeline. This paper asserts that despite these favourable developments, a number of further obstacles, such as geopolitical and commercial factors, will continue to impede this strategic project, strongly limiting thus the chances of feeding Turkmen natural gas to the EU in the upcoming years. As recently as 2019, Russia has resumed some of its gas import from Turkmenistan, which can at least to some extent counterbalance Turkmenistan's overdependence on China, but on the other hand, this partial diversification of Turkmenistan's gas export can further decrease the chances of its opening towards Europe.

Introduction

Given the European Union's lack of self-sufficiency in terms of energy resources, it has to rely on imports, which inevitably establishes a strong nexus between its energy security aspirations and its foreign relations. In this context, natural gas has become a highly politicised commodity in the European Union, which is mostly analysed in a framework based on the current import structure of the EU, and on Brussels's determination to alter it in a way that EU member states would become less dependent on their current suppliers. Russia is unquestionably at the centre of this matter. Multiple rounds of Russia–Ukraine gas crises and their effect on EU's supply security have reinforced the EU's aspiration to decrease its dependency on Russia. Accordingly, the EU seeks to gain access to natural gas from alternative sources and possibly, via alternative supply channels. In the past two decades a very wide array of academic papers has been discussing comprehensively the relevance of the Caspian Sea Basin or Central Asia for the EU in terms of energy relations. However, a much more limited number of them were explicitly dedicated to the assessment of the complex situation of Turkmenistan, which has long been on the EU's energy security agenda. Accordingly, this paper seeks to shed light on the EU's discourse on its gas supply challenges, and to analyse how Turkmenistan's abundant natural gas resources are perceived from the EU point of view in our days. The paper further seeks to offer an up-to-date reality check on the interests and capabilities of the European Union in this regard by assessing the various factors enabling and those hindering the potential establishment of energy relations between the EU and Turkmenistan. This paper departs from the fact that in the past couple of years both in Turkmenistan, as well as in its broader neighbourhood a number of energy security related events and developments can be identified which might affect the future of EU–Turkmenistan gas relations in both positive and negative directions. These events and developments, including geopolitical, economic, trade, legal, and infrastructural issues, are put in the spotlight in the following analysis.

1. Natural Gas: A Key Energy Resource for the European Union

“For the EU, an important challenge in an increasingly uncertain world is that we are still heavily dependent on fossil fuels today, and that this dependence will only decrease gradually.”¹ This statement delivered by Climate Action and Energy Commissioner Miguel Arias Cañete at the 4th EU Energy Summit in April 2018 in Brussels, clearly demonstrates that despite significant endeavours to shift to a more diversified and greener energy supply portfolio, oil, coal, and natural gas will remain indispensable for securing energy for the EU in the upcoming decades. In 2016, 88% of EU’s oil demand, 70% of its gas demand, and 40% of its solid fuel demand was met from imports.² Concerning natural gas, the EU’s total gas demand equals approximately 480 bcm per annum, and according to the projections of the European Commission, this figure will most probably remain stable in the forthcoming years.³ However, domestic gas production is expected to decrease, therefore gas import will gain more prominence.⁴ Although the use of LNG in the European Union is increasing – in 2017 it equalled 14% of total extra-EU gas import – , pipelines and long-term gas sales and purchase agreements, which maintain dependent relations between the supply and demand sides, will continue to play a key role in the EU’s gas imports.⁵ In terms of natural gas, EU-28’s import dependency has long been on a growth track: in 1995 it equalled 43.4%, in 2010 it reached 62.5%, while in 2016 it already exceeded 70%.⁶ Russia is an indispensable player in supplying Europe with natural gas: in 2016 it ranked first with supplying 39.9% of EU-28’s natural gas import, while Norway and Algeria were the second and the third largest suppliers with 24.8% and 12.4%, respectively.⁷

2. Natural Gas on the EU–Central Asia Agenda

The dissolution of the Soviet Union has engendered profound changes in the regional energy security landscape, too. After gaining independence, and appearing as new actors in the international arena, Central Asian states were among those that attracted major interest to Western countries, including the U.S. and the European Communities, later the European Union. One strategic reason behind their growing interest in the newly independent Central Asian states was based on the vast energy resources, which were identified by Western countries as a new source for securing their energy needs, and from another point of view, the intensifying interactions with Central Asia created an opportunity for the Western countries to appear in a strategically important space, which

¹ European Commission, “Speech by Commissioner Miguel Arias Cañete at the 4th EU Energy Summit: International geopolitical uncertainties: brakes or accelerators for the EU energy transition?” <http://europa.eu/rapid/press-release_SPEECH-18-3242_en.htm> (accessed July 21, 2019).

² Ibid.

³ European Commission, “Liquefied Natural Gas,” <<https://ec.europa.eu/energy/en/topics/oil-gas-and-coal/liquefied-natural-gas-lng>> (accessed July 21, 2019).

⁴ Peter Fraser in Workshop Proceedings. EU Energy Independence, Security of Supply and Diversification of Sources, (Brussels: European Parliament, 2017), 7.

⁵ European Commission, “Liquefied Natural Gas.”

⁶ European Commission, “EU Energy in Figures Statistical Pocketbook 2018,” <<https://publications.europa.eu/en/publication-detail/-/publication/99fc30eb-c06d-11e8-9893-01aa75ed71a1/language-en>> (accessed July 21, 2019), 72.

⁷ Ibid. 26.

used to be Russia's traditional backyard. From the mid-nineties on, the EU developed a framework for energy cooperation with Eastern Europe, the Caucasus Region and Central Asia by launching the "Interstate Oil and Gas Transport to Europe" (INOGATE) technical assistance project, which has been aiming to support these countries in lessening their dependency on fossil fuels and imports, improve the security of their energy supply, mitigate risks related to climate change, and last but not least to promote energy cooperation between the European Union and the target countries.⁸

In order to further institutionalise EU action in this field, the "Baku Initiative" has been launched in 2004 by the 1st Ministerial Conference on Energy Cooperation, which has repeatedly shown the EU's commitment to expand interactions in the energy field, and created permanent working groups for the agreed priority areas.⁹ Two years later in Astana, at the 2nd Ministerial Conference on Energy Cooperation an "Energy Road Map" has been proposed to further facilitate energy dialogue between the partners.¹⁰ It is important to mention that the EU has adopted its overall Central Asia strategy in 2007 titled "The EU and Central Asia: Strategy for New Partnership." In this strategic document energy cooperation has been marked as a priority area, and the importance of creating a Caspian Sea – Black Sea – EU energy transport corridor was explicitly raised.¹¹

During these years the potential linking of Central Asia's abundant natural gas resources to Europe was kept on the agenda uninterruptedly. For instance, in 2008, the European Commission called for cooperation in its strategic energy review titled "An EU Energy Security and Solidarity Action Plan" to work on the planning and construction of pipelines with Turkmenistan, among others.¹² Besides that, the European Union urged to sign MOU's on energy cooperation with energy-rich Central Asian states, that might play a role in supplying gas to Europe in the future. Such documents were inked in 2006 with Kazakhstan, in 2008 with Turkmenistan, and in 2011 with Uzbekistan. Another important step to facilitate the EU–Central Asia energy dialogue was the Ashgabat Declaration in 2015, signed by the European Union, Azerbaijan, Turkey, and Turkmenistan. This document was explicitly aiming at boosting cooperation with regard to a Trans-Caspian Pipeline.¹³ Prior to it, the Caspian Development Corporation (CDC) was also an important European Commission backed attempt to invigorate Turkmenistan-EU gas trade. As described in the official communiqué, it was a "concept that has been designed in order to enable Turkmenistan to sell large volumes of natural gas for delivery to Europe, helping to diversify European gas supply."¹⁴ However, this concept was doomed to fail,

⁸ INOGATE, "In Brief," <<http://www.inogate.org/pages/1?lang=en>> (accessed July 21, 2019).

⁹ INOGATE, "15th Anniversary Edition – INOGATE in Milestones 1996-2011," <http://www.inogate.org/documents/15years_WEB_EN.pdf> (accessed July 21, 2019), 6.

¹⁰ INOGATE, "2nd Energy Ministerial Conference - Astana, 30 November 2006," <http://w1.inogate.org/index.php?option=com_content&view=article&id=90%3A2nd-energy-ministerial-conference-astana-30-november-2006-&catid=45%3Aministerial-conferences&Itemid=114&lang=en> (accessed July 21, 2019).

¹¹ Council of the European Union, "The EU and Central Asia: Strategy for a New Partnership," <https://eeas.europa.eu/sites/eeas/files/st_10113_2007_init_en.pdf> (accessed July 21, 2019), 13.

¹² Commission of the European Communities, "An EU Energy Security and Solidarity Action Plan," <<https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0781:FIN:EN:PDF>> (accessed July 21, 2019), 4.

¹³ European Commission, "Ashgabat Declaration" <https://ec.europa.eu/commission/commissioners/2014-2019/sefcovic/announcements/ashgabat-declaration_en> (accessed July 21, 2019).

¹⁴ Caspian Development Corporation, "Final Implementation Report," December 2010. <https://ec.europa.eu/energy/sites/ener/files/documents/2010_12_report_cdc_final_implementation.pdf> (accessed July 21, 2019), 3.

as it could neither attract the commitment of European energy companies, nor could it substantially break the deadlock with the Turkmen government.¹⁵

In line with the above, by adopting its new Central Asia strategy in 2019 titled “The EU and Central Asia: New Opportunities for a Stronger Partnership,” the EU has once again reinforced its strategic approach towards Turkmen gas. The document refers to the relevance of Central Asia for the EU’s energy security endeavours, and underlines the importance of assessing the possibility to build the Trans-Caspian Pipeline.¹⁶ Furthermore, it is also essential that the Trans-Caspian Pipeline project is listed among the EU’s Projects of Common Interest, which are of utmost importance for achieving the EU’s energy security goals, and these projects might be able to receive funds from the Connecting Europe Facility, as well as to benefit from fast-tracked procedures with regard to planning and permitting processes.¹⁷ Maroš Šefčovič, the European Commission’s Vice President for the Energy Union stated on the occasion of the official opening of the TANAP Pipeline that “Our long-term objective is to create a pan-European energy market based on free trade, competition and diversified supplies, sources and routes. This shows that the Energy Union does not stop at the EU’s borders and it has a strong external dimension. Only like this it can be truly resilient”.¹⁸ These words are crucial for understanding the EU discourse on energy security, and the inevitable conclusion is that there is an underlined necessity of energy imports from a diversified portfolio, in which Turkmen gas, among others, could play a role.

3. Strategic Events Affecting Turkmenistan’s and its Neighbourhood’s Energy Security Landscape

3.1. Developments in Europe’s Energy Supply Security

It is necessary to highlight that the progress made on the Southern Gas Corridor creates a positive environment for the discussion on the introduction of Turkmen natural gas into this system. The inauguration of the TANAP pipeline in 2018, as well as the ongoing construction works on TAP pipeline are major steps toward completing Europe’s desired gas supply channel.¹⁹ Out of the initial 16 bcm throughput capacity of the Southern Gas Corridor, 6 bcm gas is kept for Turkey, and the remaining 10 bcm is destined to be

¹⁵ Matteo Verda, “The Foreign Dimension of EU Energy Policy: The Case of the Southern Gas Corridor” In: Jakub M. Godzimirski, “EU Leadership in Energy and Environmental Governance: Global and Local Challenges and Responses,” Springer, 2016, 78.

¹⁶ European Commission, “The EU and Central Asia: New Opportunities for a Stronger Partnership” <https://eeas.europa.eu/sites/eeas/files/joint_communication_-_the_eu_and_central_asia_-_new_opportunities_for_a_stronger_partnership.pdf> (accessed July 21, 2019), 12.

¹⁷ European Commission, “Projects of Common Interests” <<https://ec.europa.eu/energy/en/topics/infrastructure/projects-common-interest>> (accessed July 21, 2019).

¹⁸ European Commission, “Statement by Vice-President Maroš Šefčovič on the opening of TANAP” <https://ec.europa.eu/commission/commissioners/2014-2019/sefcovic/announcements/statement-vice-president-maros-sefcovic-opening-tanap_en> (accessed July 21, 2019).

¹⁹ Georgi Gotev, “Three presidents inaugurate TANAP pipeline in Turkey,” Euractiv (Brussels), June 12, 2018. <<https://www.euractiv.com/section/energy/news/three-presidents-inaugurate-tanap-pipeline-in-turkey/>> (accessed July 21, 2019).

delivered to European markets, while further capacity expansion is envisaged through the 2020s.²⁰ The expansion would not only mean that the pipeline could transport extra volumes of natural gas to European markets, but it would also increase the geopolitical weight of the project.

In contrast, it should be underlined that Russia's Nord Stream 2, still under construction, will bring to Germany another 55 bcm of Russian natural gas per year, adding up to the already present 55 bcm per annum natural gas flow through Nord Stream 1.²¹ This project is a strongly disputed issue in the European Union, as it is widely perceived to be contradicting to the EU's purpose of shifting away from Russian gas. However, it is rather worth comparing the Southern Gas Corridor to another Gazprom project, the TurkStream, which is scheduled to be operational still in 2019.²² The total throughput capacity of the two strings of the latter pipeline linking Russia to Turkey via the Black Sea will be 31.5 bcm per annum. The first string is intended to supply Turkey, while the second string would transport natural gas that is destined to be further delivered to European markets.

Clearly, in our days, there are both EU- and Russia-backed gas pipeline projects simultaneously in progress involving the broader European gas market. This line-up undoubtedly raises further questions. To mention but a few, it remains to be seen how the expansion plans for the Southern Gas Corridor will progress in the upcoming years, as well as how it could keep the pace with TurkStream in terms of the gas volumes carried. It is also a question through what infrastructures the Russian gas that will arrive to the West of Turkey via TurkStream can be further transported towards EU markets, and at the end of the day, it remains a primary issue whether the Russian gas arriving through TurkStream, or the Caspian gas arriving through the Southern Gas Corridor will be economically more attractive to the customers in the long run.

Moreover, it should also be highlighted that LNG markets are developing. The U.S. and Australia are on the rise as global providers of LNG, and it might have an effect on current EU energy status quo.²³ Of course, a certain country's capability to benefit from LNG depends also on the fact whether it has the appropriate geographical and infrastructural preconditions for that. Landlocked countries are in a less favourable position in this regard, since they cannot directly get involved in sea-based LNG trade, only through intermediary countries. However, the recently intensively discussed construction of an LNG terminal in Croatia's Krk Island could for instance become a key infrastructure that could improve the resilience of landlocked Central and Eastern European countries'

²⁰ "Turkey opens TANAP gas pipeline from Azerbaijan," Pipeline Oil and Gas Magazine (Dubai), June 13, 2018. <<https://www.pipelineoilandgasnews.com/regional/international-news/regional-news/2018/june/turkey-opens-tanap-gas-pipeline-from-azerbaijan/>> (accessed July 21, 2019).

²¹ "Nord Stream 2 company says starting preparatory work off German coast," Reuters, May 15, 2018. <<https://www.reuters.com/article/nord-stream-pipeline/nord-stream-2-company-says-starting-preparatory-work-off-german-coast-idUSL5N1SM43D>> (accessed July 21, 2019).

²² "Gazprom completes pipeline system for TurkStream project," Offshore Energy Today, March 20, 2019. <<https://www.offshoreenergytoday.com/gazprom-completes-pipeline-system-for-turkstream-project/>> (accessed July 21, 2019).

²³ Coby van der Linde in Workshop Proceedings. EU Energy Independence, Security of Supply and Diversification of Sources, (Brussels: European Parliament, 2017), 12.

energy security.²⁴ By the same token, Russian gas dominated Poland started to import Qatari gas through its Świnoujście LNG Terminal to lessen its import dependency from Russia.²⁵ It is vital that the increasing role of LNG offers greater flexibility for European countries, which might negatively affect their interest in constructing pipelines. In line with the global tendencies, gas markets are becoming more flexible, and accordingly, shorter-term contracts might come to the fore in the future. While the construction of pipelines has generally been linked to long-term gas sales and purchase agreements, which guarantee more return on the investment, it can be expected that the role of pipelines might be decreasing in the era of LNG. This can be applicable for the European Union, which shows readiness to benefit from LNG. However, Central Asia is exceptional in this regard: due to the landlocked situation of this energy-rich region, Central Asia can barely benefit from the global LNG boom. On the contrary, its integration in the regional energy security architecture can be strengthened via pipelines and by increasing exports towards multiple destinations.

3.2. Turkmenistan's Gas Realities

Turkmenistan is by far the most relevant Central Asian country in the eyes of the EU in terms of potential gas relations. Turkmenistan has the fourth largest proven natural gas reserves in the world, while Kazakhstan being the 19th, and Uzbekistan being the 21st in the same ranking. In terms of production, Turkmenistan ranks for the 11th place, Uzbekistan ranks for the 15th place, while Kazakhstan ranks only for the 30th place on worldwide level.²⁶ After the dissolution of the Soviet Union, Central Asia's gas export opportunities were limited to exporting to and through Russia via the existing Central Asia – Centre Pipeline network. This direction has been complemented later with the establishment of other export routes, namely the Turkmenistan – Iran pipelines in 1997 and 2010, and by commissioning so far three lines of the Central Asia – China gas pipeline, stretching from Turkmenistan via Uzbekistan and Kazakhstan to the Xinjiang Province of China. According to earlier plans, Turkmen gas export to China was expected to increase to a 65 bcm per annum level by 2020, which at the moment seems to be unrealistic.²⁷ The same pipeline offers export opportunity for Kazakhstan and Uzbekistan, too, however, compared to Turkmenistan the volume of their export is significantly lower.²⁸

²⁴ Dávid Korányi, "Croatian LNG Terminal: Now or Never?" Atlantic Council, April 27, 2018. <<http://www.atlanticcouncil.org/blogs/energysource/croatian-lng-terminal-now-or-never>> (accessed July 21, 2019).

²⁵ "Qatar looking to strengthen LNG ties with Poland," LNG World News, April 25, 2018. <<https://www.lngworldnews.com/qatar-looking-to-strengthen-lng-ties-with-poland/>> (accessed July 21, 2019).

²⁶ "OPEC Annual Statistical Bulletin 2018," <<https://asb.opec.org/index.php/data-download>> (accessed July 21, 2019).

²⁷ "Turkmen gas exports to China to hit 65 bcm/year by 2020," Reuters, September 3, 2013. <<https://www.reuters.com/article/gas-turkmenistan-china/turkmen-gas-exports-to-china-to-hit-65-bcm-year-by-2020-idUSL6N0GZ00T20130903>> (accessed July 21, 2019).

²⁸ "China's CNPC imports first gas from Kazakhstan ahead of winter," Reuters, October 23, 2017. <<https://www.reuters.com/article/china-gas-imports/chinas-cnpc-imports-first-gas-from-kazakhstan-ahead-of-winter-idUSL4N1MY186>> (accessed July 21, 2019).

TURKMENISTAN	2002	2007	2012	2017
Proven reserves (bcm)	2.680	2.680	9.967	9.838
Production (mcm)	50.190	64.000	65.590	80.479
Export (mcm)	42.400	52.400	35.810	39.001
Demand (mcm)	7.790	11.600	29.780	43.355

Natural gas reserves, production, export, and demand data for Turkmenistan²⁹

It is not unsafe to assert that in spite of having abundant gas resources, Turkmenistan has not been in an easy situation in the past couple of years. Natural gas is the main source of foreign currency income for the country, and the country is highly dependent on its major export destination, China. In the era of low gas prices, Turkmenistan has been facing the negative consequences of low export revenues, alongside the necessity of paying back loans to China that the latter had provided for the development of Turkmenistan's energy infrastructure, including the Central Asia–China gas pipeline. From the economic point of view, Ashgabat finds itself in straitened circumstances, which has also negatively affected the population of the country, due to the currency crisis and its economic and social implications.³⁰ This situation undoubtedly underscores the necessity for the diversification of Turkmenistan's gas exports, and raises the question whether the potential gas exports to the EU could counterbalance China's dominant role in Turkmenistan's gas export.

Parallel to China becoming the most important consumer of Turkmen gas, exports to Russia have been gradually shrinking until they completely ceased in January 2016. Similar events have happened in Turkmen–Iranian relation: since 2017, there is no more export of Turkmen gas to Iran due to unsettled financial and accounting disputes.³¹ At the moment only some swap deals exist between Turkmenistan and Iran. Iran receives modest volumes of natural gas from Turkmenistan, and it pumps the same amount to Azerbaijan.³²

However, with Russia, there seems to be some kind of rapprochement in terms of their gas relations recently. In April 2019, Gazprom announced that it has resumed the import of Turkmen gas, at least to some limited extent.³³ A few months later, in July 2019, Gazprom and Turkmen gas reinforced their intention to resume their gas trade ties, and inked

²⁹ "OPEC Annual Statistical Bulletin 2018," <<https://asb.opec.org/index.php/data-download>> (accessed July 21, 2019).

³⁰ Jakub Jakóbowski and Mariusz Marszewski, "Crisis in Turkmenistan: A test for China's policy in the region," OSW Commentary, 284 (2018). <https://www.osw.waw.pl/sites/default/files/commentary_284.pdf> (accessed July 21, 2019).

³¹ Kamila Aliyeva, "Gas dispute between Iran, Turkmenistan escalates further," Azernews (Baku), January 30, 2018. <<https://www.azernews.az/region/126305.html>> (accessed July 21, 2019).

³² Georgi Gotev, "Turkmenistan to tap into Southern Gas Corridor," Euractiv (Brussels), May 8, 2018. <<https://www.euractiv.com/section/energy/news/turkmenistan-to-tap-into-southern-gas-corridor/>> (accessed July 21, 2019).

³³ Natalia Konarzewska, "Russia resumes natural gas imports from Turkmenistan," New Eastern Europe (Krakow), May 31, 2019. <<http://neweasterneurope.eu/2019/05/31/russia-resumes-natural-gas-imports-from-turkmenistan/>> (accessed July 21, 2019).

a five-year contract about supplying annually 5.5 bcm of Turkmen gas to Gazprom.³⁴ From Ashgabat's point of view this can have a positive impact on Turkmenistan, as the financially stranded country will receive extra export revenues, and thus, it can also decrease its overdependence on China to some degree. At the same time, this partial diversification of Turkmen exports can lower the government's willingness to cooperate with the EU along the Trans-Caspian Pipeline project, which can be considered as a negative development from EU perspective.

Despite the recent resumption of some gas export to Russia, in our days, only China can be identified as a major export market for Turkmenistan, therefore, export diversification is a strategic necessity for the country. However, the near future commissioning of the Russia–China natural gas pipeline called “Power of Siberia” further complicates the overall picture. This infrastructure will enable Russia to export yearly 38 bcm of natural gas to China, which is a similar amount to Turkmenistan's current gas export to China.³⁵ Although the Chinese market is enormous and the local demand can easily absorb these volumes, the introduction of these new supplies might still result in a greater competition for Turkmen gas on the Chinese market in the future.

According to the current prospects, the ongoing TAPI pipeline project is not likely to help Turkmenistan in its export diversification attempts, either, in the foreseeable future. Both financial and security issues hinder the overall progress of this project, therefore, it is not expected to become a realistic option for Turkmenistan's export diversification, or, at least, not in the upcoming years.³⁶ In short, Turkmenistan's gas export to Iran has ceased, some export has just been resumed to Russia after a more than three-year-long hiatus, while China has remained Turkmenistan's only significant export market. This situation undoubtedly urges Ashgabat to reconsider its export opportunities, which are inevitable for maintaining the country's economic and social stability. Therefore, it is quite timely to assess the chances of Turkmenistan's westward gas exports, too.

3.3. In Focus: The Trans-Caspian Pipeline

There is an observable tendency in the past two decades that the EU actively sought to initiate energy dialogue with post-Soviet countries. Due to the construction of oil and natural gas pipelines enabling Caspian energy resources to reach European and world markets, the EU could achieve a more advanced cooperation with Azerbaijan. However, despite its steadfast interest and efforts, the EU has not managed to cross the Caspian Sea, in terms of establishing natural gas links with Turkmenistan. Vice President of the European Commission Maroš Šefčovič highlighted in an interview that the EU's vision of the Southern Gas Corridor “is not limited to the Shah Deniz II field” and stated that “the

³⁴ Gazprom, “Purchase contract signed for Turkmen gas,” <<https://www.gazprom.com/press/news/2019/july/article483669/>> (accessed July 21, 2019).

³⁵ Gazprom, “Power of Siberia,” <<http://www.gazprom.com/projects/power-of-siberia/>> (accessed July 21, 2019).

³⁶ Bruce Pannier, “Afghan TAPI Construction Kicks Off, But Pipeline Questions Still Unresolved,” Radio Free Europe / Radio Liberty, February 23, 2018. <<https://www.rferl.org/a/qishloq-ovozi-tapi-pipeine-afghanistan-launch/29059433.html>> (accessed July 21, 2019).

EU welcomes the interest of potential additional suppliers of natural gas from the Caspian Basin, Central Asia, the Middle East, the Eastern Mediterranean Basin and the Black Sea to use the Southern Gas Corridor to further diversify natural gas supplies to Europe.”³⁷

In the 2000s, some natural gas originating from Turkmenistan could reach European markets through transactions involving various actors of the Russian and Ukrainian gas market, as well as the transit infrastructure of the two countries.³⁸ However, the essence of the EU’s diversification plans would be to gain access to these natural gas resources via alternative infrastructure, notably the Southern Gas Corridor. Therefore, the long-standing desire to bring Turkmen natural gas to Europe via the Southern Gas Corridor is still a central question of the EU–Central Asia energy agenda. Despite the EU’s unwavering political will, and the existing political dialogue, this issue has however remained unresolved. As a key aspect of this paper, in the below paragraphs a number of factors are listed which need to be contemplated when it comes to assessing the chances of future EU–Turkmenistan gas relations.

Regarding the potential establishment of a Turkmenistan–EU gas connectivity, the point of departure is that the EU’s determination to extend the Southern Gas Corridor to Turkmenistan meets with Turkmenistan’s need to diversify its gas exports. Besides the coinciding interests, at least three other relatively recent events could theoretically give momentum to the stranded Trans-Caspian Pipeline project, which has been on the agenda since the 1990s. First, Azerbaijan and Turkmenistan inked a Memorandum of Understanding in August 2017 on their future energy cooperation, which creates a rather positive environment for joint actions with regard to the Trans-Caspian Pipeline.³⁹ Second, it adds up to the picture that in 2015, Turkmenistan completed its domestic pipeline that enables the gas flows from the energy-rich South-Eastern part of the country to the shores of the Caspian Sea.⁴⁰ Third, it is crucial to stress that in August 2018, the Caspian Summit of the littoral states resulted in signing the Convention on the Caspian Sea’s Legal Status, which in theory at least, can provide a more favourable legal background for the construction of a potential Trans-Caspian Pipeline.⁴¹

Laying down such infrastructure on the seabed between Turkmenistan and Azerbaijan has long been subject to discussion, but without tangible results. From a technical point of view, the undersea construction of a 300 km long pipeline would not mean significant difficulties. But from another point of view, there is a long list of issues, that have impeded the implementation of this project in the past decades. On the one hand, the unsettledness of the Caspian Sea’s legal regime had hindered any major steps

³⁷ “EU welcomes interest of additional suppliers to join Southern Gas Corridor – Sefcovic,” Azernews (Baku), June 13, 2018. <https://www.azernews.az/oil_and_gas/133394.html> (accessed July 21, 2019).

³⁸ See Jonathan P. Stern, “The Future of Russian Gas and Gazprom,” Oxford University Press, 2015, 86–96.

³⁹ Ilgar Gurbanov, “Caspian Convention Signing and the Implications for the Trans-Caspian Gas Pipeline,” Eurasia Daily Monitor 15, no. 127 (2018). <<https://jamestown.org/program/caspian-convention-signing-and-the-implications-for-the-trans-caspian-gas-pipeline/>> (accessed July 21, 2019).

⁴⁰ Catherine Putz, “Turkmenistan Completes East-West Pipeline: What’s Next?” The Diplomat, December 29, 2015. <<https://thediplomat.com/2015/12/turkmenistan-completes-east-west-pipeline-whats-next/>> (accessed July 21, 2019).

⁴¹ Dina Khrennikova, “Caspian Sea Breakthrough Treaty Set to Boost Oil, Pipeline Plans,” Bloomberg, August 12, 2018. <<https://www.bloomberg.com/news/articles/2018-08-12/caspian-sea-breakthrough-treaty-set-to-boost-oil-pipeline-plans>> (accessed July 21, 2019).

forward in terms of the construction of the potential pipeline, while on the other hand, Russia and Iran had been steadily opposing such projects, and had officially referred to environmental concerns, besides the obvious reasons that such pipeline project would be against their geopolitical interests.⁴²

Alongside the above factors, a couple of further reasons behind the so far unsuccessful Trans-Caspian Pipeline project should also be taken into account. Contrary to the interests of the EU and European energy companies, the Turkmen government has been reluctant to open up its energy market to foreign investors to a larger extent, and apart from some exceptional cases, refused to conclude production sharing agreements with foreign companies.⁴³ By concluding such agreements, investors can mitigate their risks, since they share production. The situation was further complicated by the Turkmen government's approach based on the concept that they sell gas at Turkmenistan's border, and thus, leave foreign companies to assume financing risk and to construct the necessary pipeline infrastructure outside the country.⁴⁴ Since Turkmenistan has not changed its stance in this regard, it keeps discouraging the Western companies from investments, as practically all the risks are supposed to stay with them. In addition to the above, energy expert Robert Cutler identifies another set of reasons behind the failure of the Trans-Caspian Pipeline project. According to him, one reason was the inadequately designed institutional framework of the previously mentioned Caspian Development Corporation. As another reason, he mentions the failure of Nabucco promoters to reach an agreement with Turkmenistan regarding the gas export volumes and certain guarantees related to that. Turkmenistan's goal was to sell gas in the range of 30 bcm, which given its vast volume, has raised another set of questions. As a third reason he points out that instead of Nabucco, the TAP pipeline has been chosen by the Shah Deniz Consortium in 2013 to transport Caspian gas to Europe.⁴⁵ This ultimately led to the end of the Nabucco project, as well as put the future of Trans-Caspian Pipeline in a different light.

Whether the signing of the Convention in August 2018 can give an actual boost to the negotiations regarding the potential Trans-Caspian Pipeline, remains vague, such as the questions, how and by whom such project would be financed in the light of the aforementioned storyline, as well as Turkmenistan's above mentioned approach. Anyway, Article 14 of the document stipulates that for laying pipelines there is no need for the consent of all littoral states', only from those whose maritime sector the desired infrastructure would run through.⁴⁶ This is a noteworthy step forward, but beyond these

⁴² Prathamesh Karle, "Caspian agreement: Many issues still to be settled," Observer Research Foundation – Raisina Debates, October 15, 2018. <<https://www.orfonline.org/expert-speak/caspian-agreement-many-issues-still-to-be-settled-44871/>> (accessed July 21, 2019).

⁴³ Alex Forbes, "Turkmenistan sees light at the end of the tunnel," Petroleum Economist (London), June 10, 2019. <<https://www.petroleum-economist.com/articles/upstream/exploration-production/2019/turkmenistan-sees-light-at-the-end-of-the-tunnel>> (accessed July 21, 2019).

⁴⁴ Ibid.

⁴⁵ Robert Cutler, "Trans-Caspian Gas Pipeline Gains Further Momentum" NATO Association of Canada, May 22, 2019. <<http://natoassociation.ca/trans-caspian-gas-pipeline-gains-further-momentum/>> (accessed July 21, 2019).

⁴⁶ Convention on the Legal Status of the Caspian Sea. August 12, 2018. <<http://en.kremlin.ru/supplement/5328>> (accessed July 21, 2019).

legal and political factors, it is necessary to highlight the economic aspects of the planned pipeline project, too.

According to the calculations provided by Simon Pirani, Senior Research Fellow at the Oxford Institute for Energy Studies, the delivery of Turkmen gas to Europe through a future Trans-Caspian Pipeline would cost more than buying it through Russia for instance, which raises the question of commercial viability.⁴⁷ He adds that the infrastructure already exists for the latter option, unlike in the case of any other options for potential Central Asia – EU gas flows.⁴⁸ It also adds up to the picture that Russia has just resumed the import of some Turkmen gas, and these volumes might increase over time. In case Russia would be willing to re-export these gas volumes, it might offer the gas for European customers at competitive prices.

In order to provide a more comprehensive picture, it is also necessary to mention what other possibilities can be considered for westward exports of Turkmen gas apart from the Trans-Caspian Pipeline. As mentioned above, using Russia as a transit country cannot be ruled out for the future, given the fact that it could be a commercially attractive option for European customers, notwithstanding that this option would be less adequate, if the overall European political purpose is to decrease the interactions with Russia in terms of energy security.⁴⁹ As an alternative to the full-fledged Trans-Caspian Pipeline, experts mention the possibility of constructing an undersea interconnector between the Turkmen and Azerbaijani offshore gas fields, which could be an important first step in creating gas connectivity between the two shores of the Caspian Sea.⁵⁰ In theory, another option could be to upgrade existing swap deals between Turkmenistan and Iran in favour of Azerbaijan. Thus, larger volumes of Turkmen gas could be swapped via Iran and could either be potentially fed into the Southern Gas Corridor in Azerbaijan and transported towards Europe or be consumed domestically in Azerbaijan.⁵¹ Yet another option could be the extension of swap deals to Turkey. In this scenario, Turkmen natural gas could be swapped in the same structure, meaning the equivalent of Turkmen gas pumped into Iran on its Eastern borders, could be fed into the Turkish grid on Iran's Western borders, and it could be further fed into the Southern Gas Corridor. This option, however, is highly unlikely to materialise, provided that Turkey is a major market for Iranian gas – Turkey imported 9.3 bcm Iranian gas in 2017,⁵² – and Iran is not interested in competing with Turkmenistan on its own export market.⁵³

⁴⁷ Simon Pirani, "Let's not exaggerate: Southern Gas Corridor prospects to 2030," OIES Paper 235. (2018). <<https://www.oxfordenergy.org/wpcms/wp-content/uploads/2018/07/Lets-not-exaggerate-Southern-Gas-Corridor-prospects-to-2030-NG-135.pdf>> (accessed July 21, 2019), 14-18.

⁴⁸ Pirani, "Let's not exaggerate: Southern Gas Corridor prospects to 2030," 18.

⁴⁹ Ibid.

⁵⁰ Luke Coffey, "A Trans-Caspian Gas Pipeline: Start Small but Aim Big," The Heritage Foundation, May 20, 2019. <<https://www.heritage.org/global-politics/commentary/trans-caspian-gas-pipeline-start-small-aim-big>> (accessed July 21, 2019).

⁵¹ Ilgar Gurbanov, "The Perspective of Trans-Caspian Gas Flow to Europe," CACI Analyst, October 25, 2018. <<https://www.cacianalyst.org/publications/analytical-articles/item/13538-the-perspective-of-trans-caspian-gas-flow-to-europe.html>> (accessed July 21, 2019).

⁵² T.C. Enerji Piyasasi Düzenleme Kurumu, "Doğalgaz Piyasası 2017 Yılı Sektör Raporu," (2018). <<https://www.epdk.org.tr/Detay/DownloadDocument?id=nEv8WXcSskU=>> (accessed July 21, 2019), 7.

⁵³ Bruce Pannier, "Iran Rejects Turkmen Proposal For Gas Shipments To Turkey," Radio Free Europe – Radio Liberty, October 30, 2017. <<https://www.rferl.org/a/iran-rejects-turkmenistan-proposal-gas-shipments-turkey/28824118.html>> (accessed July 21, 2019).

Conclusion

Although the EU has maintained its strategic interest in Central Asian natural gas, it has not gained direct access to it so far, and its success was limited only to the operation of some assistance programmes and the facilitation of an active policy dialogue. This paper departed from the fact that a number of strategic events have taken place recently on both the regional gas market, and in Turkmenistan which might – in theory at least – give momentum to EU–Turkmenistan gas relations. Still, after considering several factors, it seems that in the short to medium term, no major progress is to be expected in their relations, because both geopolitical realities and economic constraints limit the EU’s room for manoeuvre in Turkmenistan in the field of energy. At the same time, it should be clearly stated that in the eyes of the EU, Turkmenistan has become the most significant player among Central Asian countries in terms of natural gas: Turkmenistan’s natural gas export diversification strategy well meets the EU’s interest in import diversification. Accordingly, Turkmen natural gas has become a permanent element in the EU’s energy security and diversification discourse. It is vital that by signing the Convention on the Caspian Sea’s Legal Status in August 2018, a more favourable legal environment has been created for a potential Trans-Caspian Pipeline, which has long been a central element of EU interest in the region. However, it is equally important to underline that the political and commercial questionability of the project seems to remain unchanged. Moreover, there is little chance that Turkmenistan’s restrictive approach towards foreign energy companies’ participation in the Turkmen energy market would considerably change in the foreseeable future, and this will continue to discourage European companies from engaging in energy business with Turkmenistan, unless more flexible terms of cooperation would be offered by Ashgabat. Finally, regarding the chances of Turkmenistan–EU gas connectivity, the following short conclusion can be drawn: the geopolitical interest of the EU that revolves around the importance of establishing gas links to Turkmenistan is only one side of the coin. Even if Ashgabat would offer better conditions for cooperation in the field of natural gas, a set of commercial questions would still arise, e.g. whether the Turkmen gas would be offered at prices attractive enough; who would actually buy the Turkmen gas in the EU; what volumes would be agreed on, especially in light of the past experience; and who would finance the necessary infrastructure project for gas transportation. At least until these four questions remain unanswered, there is certainly less chance for establishing direct connectivity between the EU and Turkmenistan in terms of natural gas.

Recommendations

- Although the diversification of energy imports is a strategic objective of the EU's energy policy, and the inclusion of Turkmen gas in EU imports has long been considered as a pivotal goal, from time to time, the EU needs to scrutinise and reconsider the overall geopolitical and commercial realities when it comes to assessing the question of the potential introduction of Turkmen gas into EU supplies. Given the constantly changing regional energy security landscape, the emergence of new players on the supply side, as well as the current/expected gas pricing realities, Brussels has to conduct regular cost-benefit analyses in order to determine whether Turkmen gas can still remain a potentially beneficial option for Europe.
- With regard to the Trans-Caspian Pipeline, it is of vital importance that the EU should remain open to engage in dialogue with all the parties involved. Despite the difficulties encountered throughout this project, the EU should not only be ready to continue talks with Turkmenistan, but also to keep up its role as a facilitator in trilateral meetings among itself, Turkmenistan, and Azerbaijan, as well as in other multilateral formats.
- Furthermore, the EU should continue the dialogue with both state and private sector actors from the European energy industry. On the one hand, this is inevitable for engaging in an inclusive energy dialogue with Turkmenistan, but on the other hand, it is also essential for being able to jointly draw the lessons from previously unsuccessful attempts to import Turkmen gas to Europe, such as the Caspian Development Corporation was.
- Although the EU's interest in energy supply diversification meets with Turkmenistan's necessity for export diversification, geopolitical and commercial realities have prevented the parties from realising the Trans-Caspian Pipeline project, which could establish a gas link between Turkmenistan and the EU via the Southern Gas Corridor. In order to reach progress in this regard, a substantial realignment would be required in Turkmenistan's approach. First, it should revise its restrictive stance towards foreign investments in its energy sector, second, it should consider signing further production sharing agreements with foreign energy companies. Third, when it comes potentially to discussing the volume of gas to be transported through an envisaged Trans-Caspian Pipeline, Turkmenistan should show more flexibility during the negotiations.
- Finally, speaking from a more general perspective, it is essential that the EU continues its efforts to deepen relations with Turkmenistan. EU High Representative for Foreign Affairs and Security Policy/Vice-President of the European Commission Federica Mogherini's July 2019 visit to Ashgabat resulted in signing the Establishment Agreement of a full-fledged EU Delegation to Turkmenistan, which is an important step for strengthening ties between Brussels and Ashgabat. This particular step can create greater ground for improving dialogue between the two parties on strategically important issues, such as energy policy.

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