Oil and Gas Developments and South Eastern Europe's Role

Having visited worn-torn Southeast Europe in the mid 1990s, I was thoroughly amazed on a recent visit to the region in which I passed through Belgrade, Skopje and Sarajevo. Without having seen the condition of the region 20 years ago I think it would be hard to imagine how the present-day burgeoning energy transport corridor is the same place. Rather than bringing up saddening events from the past, my words are actually a commendation in recognition of all SEE countries for their ability to rebuild in wake of a series of disastrous political, economic and social events. In the last two decades, the SEE region and its role on the world stage has greatly evolved. Europe in the waning years of the 20th century began to realize the essential role its neighbors to the southeast play. The capital importance that the region has to Western Europe as well as its more eastern neighbors, Russia as well as many Central Asian Republics cannot and should not be underestimated. The crucial role that SEE countries play as a fulcrum of a major energy corridor can clearly be illustrated with an analysis of current energy projects that are being developed in the region. We can see how the relationship between Europe and Southeast Europe has undergone a monumental change.

According to Eurostat, the EU-27 dependency on energy imports increased from less than 40% of gross energy consumption in the 1980s to nearly 55% by 2008. In nearly 25 years, Europe found that its production of primary energy decreased by about 25%. Should this trend continue at the same rate, and not accounting for population growth, Europe's primary energy production would be a nearly zero at the beginning of the next century. This idea, while not entirely feasible due to the developments in renewable energy resources, poses a major problem in the short-term for Western Europe, its population and its economies. Western Europe needs to ensure that in the next 15 to 20 years, that is before the RES market can establish itself, it can solve its energy production and consumption discrepancy.

In an interesting twist of commodities fate, Europe was declining in its production, while many Central Asian Republic as well as Russia were developing their energy sectors. Eurostat mentions once again that in 2008 more than two thirds, 68% of EU-27 imports of natural gas in 2008 came from Russia, Norway or Algeria while 52% of EU-27 crude oil imports came from Russia, Norway and Libya. What Europe needs to be careful of is overreliance on one source and presently is heavily reliant on Russia. Ensuring diversity of energy supplies will make the European market a more stable and security for the future

As the percentage of energy imports have rise, we have also seen the number of proposed pipeline projects rise. The increase in natural gas and oil pipeline projects is SEE's chance to rise on the world stage as an energy transport hub. Traditionally, the difficulty for Western Europe and its suppliers to the east was a stable and reliable transport corridor. Also rise in demand has meant that Europe

needs to look to other regions for resources. While SEE may not have been prepared for its energy transport role in the past, major changes in the region have occurred meaning that the landscape has both physically and ideologically been created. With assistance from the Stability Pact for Southeast Europe many of the region's political and economic challenges have been addressed and a high level of security and reliable has come to be expected in South East Europe.

Major Projects:

I would like to outline some major projects that may help South Eastern Europe to raise its profile as an energy transport corridor. While there is a range of projects, I have divided this talk into currently operational pipelines, projects under construction and proposed projects.

Natural Gas:

As was aforementioned Europe is heavily reliant on a few sources for its natural gas supplies. As this energy source has become more and more common in Europe its demand has likewise gone up. Yet one of the major issues that faces the region is the lack of a cohesive policy that would unite a majority of gas lines. There is some competition but the region would benefit from a more comprehensive policy. One project that was proposed but has basically stalled was the NETS, the New European Transmission System. This project had the goal of uniting South East and Central Europe natural gas transmission networks with the instrument of a common gas transmission system operator (TSO). Because there is a major issue with transport and storage of natural gas, moving gas supplies to where they are needed has been a long-time issue for the region; storage of supplies is also problematic. Unlike Western Europe there is a low level of interconnectivity, which is based on a lack of investment. The lack of natural gas integration means that not only is transmission to Western Europe via the region difficult, the market in SEE is fragmented. This project need a higher profile and more support. Because the region is not yet united due to national and private companies, Europe needs to show a higher priority for a more comprehensive system

One of the leaders in natural gas transport since 2006, the South Caucasus Pipeline is also known as the Baku-Tbilisi-Erzurum Pipeline, BTE pipeline. This natural gas pipeline transports supplies from Azerbaijan to Turkey. The problem is that it stops in Turkey and then gas needs to be transported to the port of Ceyhun in Turkey so as to move it to the Mediterranean and on to Europe. The Nabucco pipeline hopes to solve this issue.

The Nabucco pipeline also known as the Turkey–Austria gas is presently under construction and will be one of the major arteries for natural gas transport from Iraq and possible Turkmenistan to Europe when it is completed in 2017. Nabucco is a major project because has the potential to transport 31 billion cubic meters of natural gas per year. The pipeline passes through Turkey, Bulgaria, Romania,

and Hungary on its way to Austria. The major aim of Nabucco is to lesson Europe's reliance on Russian sources by diversifying natural gas suppliers and delivery routes. It has the potential to alleviate many of the energy woes that Europe is feeling by connecting the BTE supplies to Europe in a more efficient and quicker fashion.

The Trans-Adriatic (TAP) is another proposed pipeline project that will transport approximately 20 billion cubic meters of natural gas from Greece via Albania and the Adriatic Sea to Italy and further to Western Europe. Its estimate completion date is 2017 or 2018 and will be an essential part of the "Gas Corridor" for southwest Europe that has been proposed. It's link with South Stream will allow Caspian Sea and Iraqi supplies flow to Albania, Greece and Italy without having to go north through Austria first.

The Transcaspian Pipeline is an additional proposed pipeline that has entered the negotiations stage. Like Nabucco, the projected capacity of the pipeline is close to 30 billion cubic meters of natural gas per year with an estimated cost of US$5 billion. In Baku, it would link to the BTE pipeline and then go on to link with Nabucco. The advantage of this pipeline is that it would mean that Europe was greatly expanding its energy resource suppliers by including Kazakhstan and Turkmenistan because this pipeline is sub-marine rather than over land and would not use existing networks. As aforementioned Europe is heavily reliant on 2-3 major suppliers and this pipeline would allow mean Europe would have energy supply solutions other than Iran and Russia. If there was some disruption from any supplier it might cripple Europe. Diversity of supply is one strategy to ensure energy security for the future.

South Stream is also a proposed natural gas pipeline but it relies on traditional Russian natural gas from the Black Sea to Bulgaria and onto Greece, Italy and Austria. The project is seen as rival to the planned Nabucco pipeline and is scheduled to be completed by 2015; two years earlier than Nabucco.

Oil Pipelines

While it seems that there are a great deal of natural gas pipelines to be established there are fewer oil pipeline projects.

A major pipeline that has been instrumental in transporting oil to Europe is the BTC, Baku–Tbilisi–Ceyhan pipeline. Completed in 2006, this pipeline transports Caspian Sea supplies via Baku to the Mediterranean and has a 1 million barrels per day discharge. While this pipeline does not run through the SEE region, its supplies leave the final port of Ceyhun destined for Europe. It also once again bypasses both Russia and the Middle East in term of suppliers adding to the European strategy to diversify its energy sources.

Yet one of the major projects under construction is the AMBO project, the Albanian-Macedonian-Bulgarian Oil Corporation which plans to transport oil from

the Caspian to the Mediterranean, via Bulgaria, Macedonia and Albania; The pipeline once again is significant because it bypasses the Bosporus Strait and saves significant time in delivery. When completed AMBO has the potential to transport 750,000 barrels per day. The project will see Russian oil being transported to the Omisalj terminal on the Croatian coast. Once again underline the significance to route through the SEE region

In conclusion we can see that Europe is starting to realize the significance of its neighbors to the southeast. While many of the projects are to be completed in the next 5-6 years, it is clear that Europe has finally recognized the need for its diversity of supplies of both oil and natural gas. This need for reliable and steady supplies of energy resources underlines the support that it needs to demonstrate for major projects such as Nabucco, TAP and BTC. These projects are all of great significance to the SEE region and will assist the region with its opportunity to become a major hub for the reliable transport of energy supplies.