

GEORGIA EXTRICATING FROM GAZPROM'S BEAR HUG

by Vladimir Socor

The winter now ending was probably the last one during which Georgia had to face Gazprom's commercial blackmail and supply cutoffs. Within the coming months, Georgia will begin receiving Azerbaijani gas through the Shah Deniz-Baku-Tbilisi-Erzurum (Turkey) transit pipeline and will also have an opportunity to receive small volumes of Iranian gas. This new situation should finally end Georgia's dependence on Gazprom and constant risk of losing the country's gas transport and distribution systems to the Russian state monopoly.

Deliveries from Azerbaijan's offshore Shah Deniz gas field are scheduled to begin in September 2006, reaching up to 20 billion cubic meters annually to several consumer countries by 2010 and thereafter. That figure, almost double the initial projection, rests on revised estimates of the field's recoverable reserves, which turned out to be far richer than initially estimated. The consortium for extraction and transport consists of: British Petroleum as technical operator and Norway's Statoil as commercial operator, with stakes of 25.5% each; Azerbaijan's State Oil Company, Total of France, and the National Iranian Oil Company (NIOC), with 10% each; a partnership of Russia's Lukoil and Italy's Agip with 10% between them, and Turkish Petroleum with 9%.

Georgia is to receive 300 million cubic meters of gas annually through that pipeline in compensation for the transit service. Additionally, Georgia shall purchase 500 million cubic meters annually for a deeply discounted price fixed at \$55 per one thousand cubic meters. The aggregate volume of 800 million cubic meters represents 60% of Georgia's current annual requirement of gas. Significantly and properly, the arrangement whereby the consortium pays Georgia with gas, instead of cash, for the transit service is deemed entirely compatible with market economics. A similar arrangement, whereby Ukraine was receiving underpriced Russian gas in lieu of cash for the transit service until January 1, was denounced as "anti-market" by Gazprom and the Kremlin and provided an excuse for their predatory move against Ukraine.

The Georgian government now seeks to increase Georgia's guaranteed annual intake of Shah Deniz gas, so as to cover at least part of the remaining 40% of the country's current requirement. Moreover, the requirement will increase as Georgia's economic growth accelerates. With Gazprom a risky option for meeting that requirement, Georgia is looking at the possibility of importing small volumes of gas from Iran. Georgia began such imports in late January, following the never-explained bomb blasts in Russia's North Caucasus that sabotaged two Russian gas pipelines, interrupting the supply to Georgia and Armenia.

The national gas companies of Georgia and Iran signed an agreement at that point whereby Georgia would receive 2 million cubic meters of gas per day from Iran, priced at \$120 per one thousand cubic meters. That gas reached Georgia via Azerbaijan, through the rehabilitated small-capacity pipeline Astara-Gazi Mahomed-Gazakh. That emergency arrangement opened the way to exploratory discussions with Iran toward a more stable

agreement to help meet Georgia's annual requirements. Meanwhile, 10% of the Shah Deniz gas to reach Georgia will count as "Iranian" (NIOC's share in that project).

On March 20, Georgia's Ambassador to Armenia, Revaz Gachechiladze, declared Georgia's interest in receiving Iranian gas via Armenia. Both Armenia and Georgia could benefit by enlarging the diameter of the Iran-Armenia pipeline currently under construction, Gachechiladze remarked (Armenian Radio, March 20). The pipeline's diameter of 700 millimeters is barely adequate to meet Armenia's own needs. It was initially projected at 1,420 millimeters with an eye to markets beyond Armenia, primarily Georgia; but Moscow prevailed on Yerevan to reduce the scope of the project so as to maintain Gazprom's dominance. Under a 2005 bilateral agreement, Iran shall supply Armenia with 36 billion cubic meters of gas over a 20-year period, with an option to extend the contract period to 25 years and the volume of supplies to 47 billion cubic meters.

Any gas reaching Armenia and Georgia from Iran is almost certainly not "Iranian," but rather originating in Turkmenistan and re-exported via northern Iran. Turkmenistan is supplying northern Iran's market as well, using the Korpeje-Kurt Kui pipeline -- the sole non-Russian line out of Turkmenistan. Under an agreement signed last month, Iran will import 14 billion cubic meters of Turkmen gas in 2006, up from 9 billion cubic meters in 2005. The deliveries in 2006 will for the first time fill that pipeline to capacity. Part of the additional volume is almost certainly intended for re-export by Iran to Armenia, Azerbaijan, and possibly Georgia. This year, Turkmen gas costs \$65 per one thousand cubic meters at Iran's border, up from \$44 previously.

Gazprom may well retain some market share in Georgia beyond 2007, but without the leverage to force Georgia to hand over its worn-out trunk pipeline or distribution systems. At the moment, Gazprom persists with the offer to supply Georgia with gas at a still "favorable" rate of \$110 per one thousand cubic meters (up from \$60), if Georgia locks itself into permanent dependence by selling the trunk pipeline to Gazprom and throws the main gas distribution systems into the deal. Some Georgian government officials seriously considered such a sale for a deceptively tempting \$250 million. However, three factors have recently doomed it: Gazprom's unreliability as demonstrated by the January-February supply crisis, Georgia's receipt of U.S. Millennium Challenge Account funds (partly earmarked for the trunk pipeline's rehabilitation), and the Shah Deniz-Erzurum pipeline about to come on stream.

Gazprom was also unsuccessful in targeting Tbilgazi, Georgia's largest gas distribution company by far, for takeover. Insolvent and heavily indebted, the municipally owned Tbilgazi is being restructured under the just-appointed General Director Bidzina Chkonia, hitherto the Millennium Challenge Account's Georgia coordinator for energy. Tbilisi is negotiating with Kazakhstan's gas transport company, KazTransGaz, to privatize and overhaul Tbilgazi.

(Rustavi-2 Television, March 16, 20; Kavkas-Press, March 15; Interfax, March 14 – 17, 20; Imedi TV, March 6; see *EDM*, January 23, 25, March 20)

