Many countries of the world have been engaged in serious rivalry for many years now over access to energy resources and the right to control their transportation routes. The energy industry has become a priority tool in world diplomacy for smoothing out international disputes and paving the way, if not to alliances, at least to reconciliation among neighboring countries. Of course, today no one knows who will be supplying the world with energy thirty years down the road and how this will be done, but experts assure us that the production and consumption of natural gas will increase at rapid rates, on an average of 2.4% a year (followed by oil at 1.6% and coal at 1.4%). And the price of blue fuel will also rise. What is more, there is no doubt that Iran, which currently occupies second place in the world (after Russia) in terms of supplies, will become one of the largest gas exporters to many Eurasian states. Despite resistance and competition from several other countries, this state is already making plans to implement several gas-related projects on an extremely extensive territory in the next few years.

Although Iran is beginning its gas expansion projects in the South Caucasian countries, Tehran intends to put significant pressure on Russia’s Gazprom in Europe as well, which could have a serious impact on the balance of power on this extremely solvent market and affect price formation.

The Critical Gas Triangle: Azerbaijan-Georgia-Armenia

The gas sectors of the South Caucasian republics came to almost complete fruition during the Soviet era, in the aftermath of which, they, like other CIS countries, are faced with the same (and at times common) problems in this sphere. These problems primarily include physical depreciation of equipment and pipelines, shortages of raw material and investments, and so on. But the region’s countries have one particular feature which is not characteristic of the other Commonwealth states. They are unable to organize stable deliveries of blue fuel due to internal and interstate conflicts. These include Nagorny Karabakh, Abkhazia, Ajaria, South Ossetia, etc. Many of these conflicts are accompanied by an economic blockade. The most serious of them, for example in Nagorny Karabakh, make it impossible to use pipelines for delivering natural gas and have entirely changed the system for supplying all three independent South Caucasian states with this commodity. First, Armenia is unable to obtain gas (either Russian, or Central Asian) from Azerbaijan, as it did during the Soviet era, but has to have it delivered via Georgia, whereby these deliveries are unstable (they are systematically reduced, and often even interrupted). There are three reasons for this: Georgia’s chronic debt on the gas it consumes, terrorist attacks on gas infrastructure facilities, and the deterioration in relations between Moscow and Tbilisi. Second, the geographical isolation of the Nakhichevan Autonomous Republic (NAR) of Azerbaijan from the “mainland” is not conducive to providing its economy with regular gas supplies. Third, Armenia’s transportation blockade by Turkey and Azerbaijan makes Russia its only gas exporter (the Iran-Armenia pipeline has not yet been extended). Fourth, neither the Russian Federation (in the Caucasus), nor the South Caucasian states can ensure reliable protection of their gas transportation infrastructure facilities, which are threatened by terrorist acts.

In order to analyze ways to revive normal blue fuel deliveries to the South Caucasian republics and evaluate the losses in this sphere, it is worth taking a look at the utilization ratio of their national gas transportation systems (GTS) compared with other CIS and Baltic countries. Of course, today they differ immensely, mainly due to the depreciation of the linear part of the gas pipelines and pumping equipment, and in certain cases complete destruction of some sections, as well as to the fact that the economies of the region’s countries have still not attained the development level of Soviet times. Although we have no desire to sing the praises of the Soviet Union, we have to admit that the technological expediency and engineering perfection of its integrated gas supply system has now fallen largely by the wayside. Almost all the post-Soviet countries face the same problem, the need to diversify gas supply sources.

### Table 1

Load Dynamics of the Gas Transportation Systems of the CIS and Baltic Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Load Throughput Capacity of the GTS (bil. cubic m)</th>
<th>Actual Utilization of the GTS (bil. cubic m)</th>
<th>Actual Utilization Coefficient of the GTS (%)</th>
<th>Load Throughput Capacity of the GTS (bil. cubic m)</th>
<th>Actual Utilization of the GTS (bil. cubic m)</th>
<th>Actual Utilization Coefficient of the GTS (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ukraine</td>
<td>290.0</td>
<td>265.6</td>
<td>88</td>
<td>242.0</td>
<td>206.3</td>
<td>72</td>
</tr>
<tr>
<td>Moldova</td>
<td>36.0</td>
<td>22.3</td>
<td>62</td>
<td>21.4</td>
<td>21.1</td>
<td>59</td>
</tr>
<tr>
<td>Belarus</td>
<td>57.3</td>
<td>42.9</td>
<td>75</td>
<td>33.8</td>
<td>40.8</td>
<td>71</td>
</tr>
<tr>
<td>South Caucasian Region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Armenia</td>
<td>10.0</td>
<td>4.8</td>
<td>48</td>
<td>1.4</td>
<td>1.3</td>
<td>13</td>
</tr>
<tr>
<td>Georgia</td>
<td>16.0</td>
<td>10.2</td>
<td>64</td>
<td>2.4</td>
<td>2.6</td>
<td>16</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>22.0</td>
<td>16.6</td>
<td>75</td>
<td>6.6</td>
<td>5.2</td>
<td>24</td>
</tr>
<tr>
<td>Central Asian Region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>98.2</td>
<td>84.4</td>
<td>86</td>
<td>25.0</td>
<td>33.5</td>
<td>34</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>77.6</td>
<td>77.6</td>
<td>100</td>
<td>24.3</td>
<td>33.8</td>
<td>43</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>86.6</td>
<td>76.7</td>
<td>89</td>
<td>20.5</td>
<td>28.0</td>
<td>32</td>
</tr>
<tr>
<td>Baltic Region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lithuania</td>
<td>10.6</td>
<td>6.8</td>
<td>68</td>
<td>2.9</td>
<td>3.0</td>
<td>30</td>
</tr>
<tr>
<td>Latvia</td>
<td>7.8</td>
<td>5.3</td>
<td>68</td>
<td>3.2</td>
<td>3.9</td>
<td>50</td>
</tr>
<tr>
<td>Estonia</td>
<td>3.2</td>
<td>1.8</td>
<td>47</td>
<td>0.7</td>
<td>0.6</td>
<td>26</td>
</tr>
</tbody>
</table>


A comparison of the utilization dynamics of their gas transportation systems (see Table 1) makes it possible to draw the following conclusions.

First, in 1990, before the Soviet Union collapsed, the average utilization ratio of its GTS was 92% (in the Baltic Region and in the Union republics of the Southern Caucasus it was 62%, and in Uzbekistan 100%). This was both due to the decrease in gas consumption initiated by a partial drop in production, and to the decrease in throughput capacity of this system envisaged in the project.

Second, in the mid-1990s, all the CIS and Baltic countries significantly reduced the utilization ratio of their GTS, on average to 36%, due to the decrease in gas consumption.
Second, in the mid-1990s, all the CIS and Baltic countries significantly reduced the utilization ratio of their GTS, on average to 36%, due to the decrease in gas consumption caused mainly by the overall economic crisis and abrupt increase in the price of gas. A relatively favorable situation developed in the countries of the Western Region (utilization amounted to 67%), which is explained by the transit nature of most of their GTS, enabling export to Europe to continue. The most unfavorable situation was in the Southern Caucasus, mainly due to internal and interstate conflicts. According to some data, there were several dozen terrorist attacks on Georgian gas pipelines which transport blue fuel to Armenia.

Third, at the beginning of the 21st century, most CIS countries significantly raised the utilization ratio of their gas transportation systems, which was largely promoted by the economic upswing. But it continued to drop in the South Caucasian states to the lowest indices ever for the Commonwealth. This was initiated not only by the unresolved conflicts in the region, but also by the systematic decrease in gas deliveries to Georgia (which also means to Armenia, where it is transited through Georgia), primarily due to Tbilisi's debt to Moscow for these deliveries and the deterioration in relations between these two countries.

But the main thing is that at the current stage of production increase in the South Caucasian states (see Table 2), albeit at different rates (now stabilization of the level of blue fuel consumption, now its increase is observed), the conflicts in the region and complicated political relations are making it difficult to supply their economies with natural gas. Gazprom, meaning the Russian Federation, cannot provide the necessary deliveries (including due to its inability to ensure protection of the pipelines on Russian territory contiguous to the region).

Table 2

<table>
<thead>
<tr>
<th>Country</th>
<th>Territory (thou. sq. km)</th>
<th>Population Size (mill. people)</th>
<th>Gross Domestic Product (bill. dollars)</th>
<th>Increase in Gross Domestic Product (%)</th>
<th>Per capita Gross Domestic Product (dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azerbaijan</td>
<td>84.6</td>
<td>8.3</td>
<td>8.2</td>
<td>9.2</td>
<td>908</td>
</tr>
<tr>
<td>Armenia</td>
<td>28.8</td>
<td>3.2</td>
<td>3.7</td>
<td>9.8</td>
<td>1,071</td>
</tr>
<tr>
<td>Georgia</td>
<td>65.7</td>
<td>4.3</td>
<td>5.0</td>
<td>9.1</td>
<td>993</td>
</tr>
<tr>
<td>Iran</td>
<td>1,643.2</td>
<td>69.0</td>
<td>127.0</td>
<td>4.4</td>
<td>No data</td>
</tr>
</tbody>
</table>

Source: Global Insight

The strategy of exchanging cheap Russian gas for political cooperation or at least loyalty is not working. And the projects sponsored by the U.S. will not provide the region's countries with the necessary amounts of blue fuel. Adequate supplies of hydrocarbons are needed to develop the economy no matter what the political difficulties. On the other hand, the desire to raise the level of energy security and prevent politics from having an impact on gas imports is prompting a search for and the implementation of measures aimed at diversifying its supply sources. In this way, objective conditions have been created in the South Caucasian countries for the appearance on the traditionally Russian gas market of a new player—the Islamic Republic of Iran (IRI).

Azerbaijan's Gas Sector

Despite the significant deposits of blue fuel (up to 2 trillion cubic meters) and the possibility of obtaining associated gas during oil production, the republic's gas industry is underdeveloped. The domination of oil-and-gas over gas fields, as well as the technical problems related to the use of associated gas, primarily on the shelf, are impeding rapid growth of gas production.

During the Soviet era, Azerbaijan received gas from the Central Asian republics and Iran, but after the collapse of the Soviet Union, these deliveries stopped. For a long time, the International Itera Company supplied Azerbaijan with gas (primarily Turkmenian). After the change in strategy in the CIS, Gazprom returned to this country as well.

In 2004, Azerbaijan's own production amounted to 5 billion cubic meters, 0.2 billion cubic meters less than in 2003 (with a consumption rate of 11-12 billion cubic meters). The reduction in production was caused primarily by the depletion of old fields and the lack of interest by Western companies in increasing the consumption volumes of associated gas, since significant investments were needed to carry out these tasks. The gas shortage is compensated for by the Russian-Kazakh KazRosGaz Joint Venture (4 billion cubic meters of Kazakhstan gas and 1 billion cubic meters of Turkmenian gas) and its subsidiary, the Russian-Azerbaijan joint venture Baku-Tbilisi-Erzrum (BTE), which is pumped via the Shirvanovka-Mozdok-Kazi-Magomed pipeline, but it requires modernization and partial restoration for it to operate normally. For example, between 21 and 23 April, 2004, KazRosGaz entirely ceased these deliveries due to urgent repair of the main pipe.

What is more, terrorist acts undermine delivery stability (in 2004 alone there were three explosions, the last occurring on 7 December in Dagestan, as a result of which gas could not be delivered to Azerbaijan for several days). On the whole, accidents and terrorist acts in the North Caucasian section brought the gas pipeline to a standstill for a total of 50 days in 2004. Only the existence of two underground gas reservoirs in the country helped it to alleviate these problems.

Today, up to 40% of the gas produced in the country is obtained on the shelf oil and gas field of Bakhar, which is located to the south of the Apsheron Peninsula. But its supplies are already running out (there are plans to develop the Bakhar-2 field). Additional volumes can mainly be obtained at old fields (by means of associated gas produced at oil fields) and at several new ones. But this requires creating a corresponding infrastructure, in particular, a comprehensive gas preparation installation must be built by expanding the Sangachal oil terminal (the development of offshore oil deposits of the Azeri-Chirag-Gunashli project), since associated gas is still being burned at production units in flares. (The plan envisages drilling up to 20 gas wells in the shallow part of the Gunashli field.)

Despite the increase in the price of gas in November 2004 (for the population it increased from 7.2 to 16.5 dollars per 1,000 cubic meters and for other consumers to 48.1 dollars), its sale on the domestic market is unprofitable, since the country imports blue fuel at 52 dollars per 1,000 cubic meters. In 2005, the Azerbaijani closed joint-stock company will no longer receive subsidies from the state budget, which will inevitably lead to a further increase in domestic prices.

Talks on the price of Russian gas for 2005 held on 10 December, 2004 between Gazexport General Director A. Medvedev and Azerbaijani Vice Prime Minister la. Eiyubov did not yield the desirable results. The Russian company wanted to raise the price from 52 dollars per 1,000 cubic meters to 70-80 dollars, which the Azerbaijani side could not agree on. And after 1 January, 2005, Gazexport stopped delivering gas to Azerbaijan, not resuming its delivery until the evening of 10 January. According to some sources, an agreement on the price increase was not reached, while others said it would be increased to 60 dollars for 1,000 cubic meters. Nevertheless, forty regions of the country were without fuel for ten days, which created serious problems for the population and industry. According to the official Russian version, the halt in deliveries was due to shutdowns on the pipelines running across Turkmenistan and Uzbekistan to Russia.

The second country to continue the "gas price parade" at the end of 2004 was Turkmenistan. It wanted to raise the price of gas delivered to Russia and Ukraine from 44 to 60 dollars for 1,000 cubic meters (according to the plan for 2005, 7 billion cubic meters are to be delivered to Russia alone). Ashghabad stopped pumping gas on 31 December, 2004 (at 10:00 Moscow time), motivating this by the need to carry out repairs and restoration on the Central Asia-Center pipeline. Nevertheless, A. Medvedev mentioned above stated that this would not interfere with Gazprom carrying out its obligations to consumers in Russia and abroad.

Nevertheless, Gazexport's reference to Turkmenistan's problems while delivering Russian and Kazakhstan gas indicates elementary pressure by this Russian gas monopolist on Azerbaijan.

The Shahk Deniz gas condensate field is one of the most important in the republic. This promising structure, which is located on the Caspian shelf, was discovered as early as 1976. But since there were giant fields in Western Siberia, its exploration and development were considered inexpedient. Not until 1996, after signing a contract with a consortium of foreign companies, did in-depth exploration of these fields begin. On the whole, the project is being implemented separately from other undertakings in the republic's gas industry due to its export orientation toward Turkey and Greece and possibly other European countries, primarily Italy (as part of the EU Nabucco project). Baku, Tbilisi, and Ankara reached an agreement on the delivery of 178 billion cubic meters of gas from Shahk Deniz (at the first stage). Production will begin in mid-2006 (it was originally intended to begin in 2004), 8.1 billion cubic meters at the first stage, and up to 16 billion in the future.

The consortium of international companies under the supervision of the Statoil Company (at the first stage of the project) plans to pump 6.3 billion cubic meters of gas to Turkey, 0.8 to Georgia, and 1.5 to Azerbaijan. On 21 October, 2004, the BP Company announced that construction of the South Caucasian pipeline (better known as Baku-Tbilisi-Erzrenm
The shortest path for Russian gas to Turkey is through Georgia. But at present it passes through Ukraine and other European countries, as well as along the bed of the Black Sea, Itera stopped delivering gas to this country after Gazprom reappeared on the Georgian scene. In October 2004, Tbilgaz and Gazexport signed a contract on gas deliveries in 2005 (at the former price of 60 dollars for 1,000 cubic meters). Debts on Russian gas consumed and the Russian Federation are taking a nosedive. For example, during the June events of 2004 in Southern Ossetia, deliveries to Tbilisi were halved.

Due to the accumulated debts for blue fuel, Gazprom (like Itera at one time) regularly lowers the delivery volumes. The main reason for the accumulated debt is the low level of Gazprom's deliveries. Gazprom, mainly for the purpose of stabilizing its market position, often enters into agreements with foreign companies about the supply of gas to Tbilisi. This, in turn, leads to a decrease in the level of deliveries to Tbilisi and a corresponding increase in prices. Gazprom has a strong position in the market and is able to dictate terms to its customers, including Tbilisi. This is evident from the fact that Gazprom has the ability to raise prices and decrease delivery volumes, which in turn leads to an increase in the debt of Tbilisi to Gazprom.

Azerbaijan. And the main thing, which is more realistic, Azerbaijan will be forced to concentrate on meeting the country's domestic gas needs. The situation in Georgia

Georgia produces a minor amount of gas, only 0.02 billion cubic meters in 2003. At the beginning of the 1990s, it purchased additional amounts it needed in Turkmenistan, but due to the fact that these amounts were not large, it had to purchase gas from other countries. In the mid-1990s, the Ttera Company became the major gas supplier. It has been the major supplier since then. The company has entered into contracts with Gazprom, which has provided it with gas for delivery to Tbilisi. However, the company has experienced difficulties in delivering gas to Tbilisi, and as a result, it has been unable to meet the contractual obligations.

The situation in Georgia

At the end of the 1990s, Georgia began talks with Gazprom on the creation of the Guroz-Gazprom Joint-Stock Company. But in 2002, they were interrupted on the initiative of official Tbilisi, which at that time decided that this joint-stock company would have a negative effect on the country's energy security. In July 2003, director of Gazprom A. Miller signed a 25-year agreement with Georgian Fuel and Energy Minister D. Mirtskhulava at the behest of the country's president, Eduard Shevardnadze on strategic cooperation in the gas industry. It envisaged not only deliveries of blue fuel, but also reconstruction of the country's gas transportation system. The Georgian opposition, including Z. Zhvania, called this agreement "a betrayal of the state's national interests."

After Ttera was ousted from all the CIS countries, Gazexport made its appearance in Georgia on 1 October, 2003, but the price of blue fuel did not change. (Although Tbilisi was in favor of having two suppliers, Gazprom would not allow Ttera to stay.) It was rumored that the United States not only objected to Georgia creating a joint venture with Gazprom, it also proved the inexpediency of delivering blue fuel via the Vladikavkaz-Tbilisi-Erevan main pipeline. Steven Mann, U.S. Secretary of State's Special Advisor for the Caspian issues, talked about this in June 2003: "The interests of the BTE project should not be infringed upon; cooperation with Gazprom, primarily reconstruction of the main gas pipeline, is lowering the cost market of the BTE project, during the implementation of which Georgia will be granted significant preferences, including in gas supply."

The last statement is well-founded, since Georgia will be able to obtain 0.3 billion cubic meters of gas (until 2015) in exchange for transit services via BTE and purchase another 0.5 billion cubic meters atspot rates. But at one time Steven Mann warned official Tbilisi: "If the country's main gas pipelines are sold to Gazprom, ... in two years, and the two countries will no longer have importers. But their optimism arouses skepticism. First, Burk will not be able to independently take charge of Shah Deniz gas, since the republic's share in the consortium is only 10%. What is more, it will have to export contracted amounts via the BTE pipeline. Second, there are certain technical problems involved in producing and using the associated gas obtained on the shelf, and there is little prospect of producing blue fuel at other fields. It should be noted that the "weak link" of Azerbaijan gas could be its price—offshore production is usually much more expensive than dry land. What is more, at Shah Deniz, the depth necessary for drilling wells is more than 6.5 km. As a result, the budget for the first stage of this project has already been increased from 2.7 billion dollars to 3.2 billion (including the cost of building the pipeline). In December 2004, Toby Odone, BP's press secretary, said that the spending on the Shah Deniz project could increase by 25%. In this way, if the initial cost of the work, 3.2 billion dollars, (of which are to be spent on gas production and another 0.9 billion on building a pipeline 1,000 km in length and with a capacity of 15-20 billion cubic meters of gas a year), will increase to 4 billion dollars. And there is no reason to doubt that this will be the last hike.

The field's long distance from Europe and complex geological structure are dramatically increasing the final cost of Azerbaijani gas. At the Turkish border, it will reach 100 dollars per 1,000 cubic meters. This will be tougher competition with Iranian gas, the price of which is lower at the Turkish border. Still, Ankara considers Iranian gas too expensive and is asking Tehran to lower its price. Of course, prices in Europe are much higher than in the Southern Caucasus. But the long length of the gas pipeline to Europe is making the final price of Azerbaijani gas too high even for Turkey. What is more, political support of this project both from the United States and the European Union (the EU is supporting the project financially as well, by means of the energy dimension of the Beq-Caspian-Europe Recovery and Development Fund) will be crucial in ensuring its implementation by coming to terms on mutual claims. On 14 December, 2004, the EBRD allotted Azerbaijan 170 million dollars to implement gas projects, 110 million dollars of which are being spent on developing the Shah Deniz field (the total cost of the work is evaluated at 4.3 billion dollars) and 60 million dollars on building the BTE pipeline (estimated cost—1 billion dollars).

Despite the Russian Federation's formal participation in the project (its Lukoil Company is a member of the consortium), the appearance of a new rival on the EU gas market is not to Moscow's liking, which is demonstrated by the regular criticism of the Azerbaijani project in the Russian mass media. Incidentally, time will show precisely which measures Gazprom intends to undertake regarding export of gas to Azerbaijan. And it has a variety of measures at its disposal, from dramatically increasing the price of gas (which is already happening) to restricting delivery volumes.

In this way, Baku is trying to find a gas niche for itself on the Turkish market in terms of medium-term gas import demands and has its sights set on the European market for the future. Such a vulnerable situation, which is additionally complicated by the high price of its own gas, is making Azerbaijan a hostage of the gas price policy of its main rivals, Russia and Iran. All of these problems are creating grounds for another disruption in the schedule for implementing the Shah Deniz project.
In October 2004, Tbiligaz and GazeXport signed a contract on gas deliveries in 2005 (at the former price of 60 dollars for 1,000 cubic meters). Debts on Russian gas consumed since December 2003 reach almost 8 million dollars and will be settled in stages. The question of Georgia's solvency will remain open in the near future—its debt to 13 creditor countries tops 600 million dollars. What is more, the country's economy has been suffering for many years from systemic corruption, debts, and ethnic conflicts, and is unlikely to recover any time soon without significant international financial aid.

New Friends

The Iranian-Georgian talks on gas deliveries which began in the mid-1990s have not been crowned with success. The main reason for this is the high cost of Iranian gas. After the Rose Revolution, official Tbilisi brought this topic up again, which was caused by unstable operation of the country’s fuel and energy complex and a deterioration in Georgia’s relations with Russia. Now there are two main delivery alternatives: via Azerbaijan and through Armenia, but the local gas pipelines are extremely worn out and in need of repair. In so doing, the Armenian direction is more economically profitable, but Georgia preferred transit through Azerbaijan.

During Georgian President Mikheil Saakashvili’s official visit to Tehran in July 2004, agreements were reached on the delivery of Iranian gas. At the beginning of January 2005, Georgia finished repairing the gas pipeline in this direction (the cost of the work amounted to 0.5 million dollars), and Iran has created a corresponding infrastructure on its territory, on which it spent 180,000 dollars. The pumping of blue fuel (up to 4 billion cubic meters) can begin very soon.

Official representatives of the Georgian Ministry of Energy state that Iranian gas will only be delivered in emergencies, if the pumping of Russian gas is halted or entirely ceased. The main reason for the temporary nature of import is the higher price of Iranian gas. Of course, these measures are related to the problem of ensuring the country's energy security and are not in line with the deterioration in Russian-Georgian relations. Incidentally, any agreement in terms of Iranian gas deliveries in the future might turn temporary import of Iranian gas to Georgia into permanent, at least for a limited period. And all plans to expand economic contacts between Moscow and Tbilisi, primarily regarding privatization, as well as renting enterprises of the Georgian fuel and energy complex to Russians, are acquiring a political hue and may not turn out to be of practical importance.

Nevertheless, the arrival of Iranian blue fuel and the modernization and expansion of the Aboviyan underground gas storage reservoir (costing 27 million dollars) will help to carry out the way, the project talked about for many years in Tehran, Erevan, Tbilisi, and Kiev (the Ukrainian Design Institute even drew up its feasibility report, including laying of the underwater part of the pipeline to Armenia). It should be noted that the small pipe diameter stipulated by the project does not permit Iranian gas to be pumped via this route to Georgia, Ukraine, and on to the EU countries. In this connection, the project has still not been completed.

In October 2004, Tbiligaz and GazeXport signed a contract on gas deliveries in 2005 (at the former price of 60 dollars for 1,000 cubic meters). Debts on Russian gas consumed since December 2003 reach almost 8 million dollars and will be settled in stages. The question of Georgia's solvency will remain open in the near future—its debt to 13 creditor countries tops 600 million dollars. What is more, the country's economy has been suffering for many years from systemic corruption, debts, and ethnic conflicts, and is unlikely to recover any time soon without significant international financial aid.

The Armenian Gas Sector

Armenia does not produce either gas or oil, since it does not have any supplies. In 1959, it was incorporated into the U.S.S.R. Integrated Gas Supply System, and until the collapse of the U.S.S.R. the Armecon was the main supplier of gas to the republic. Iran was the second largest supplier, but in 2004, its niche was entirely filled by Gazprom, which planned to increase deliveries to 1.4 billion cubic meters in the near future.

The history of the Iran-Armenia gas pipeline is both simple and complicated. As we have already noted, after the collapse of the U.S.S.R., Russian and Turkmenian gas were pumped to the republic via Georgia. Frequent accidents and a decrease in the supply of blue fuel due to its irregular payment by consumers in Georgia led to systematic interruptions in deliveries. The only prospect for Armenia was the Iran-Armenia (Abo-vian) gas pipeline which was built in the early 1990s. However, in 1995, Tehran and Erevan entered an intergovernmental agreement-plan of intention on building a pipeline, but could not come to terms on the gas price. They did not sign a more specific memorandum on building this route until the end of 2001.

As for Gazprom, recently its stance regarding this construction project has radically changed. Instead of putting up severe resistance due to possible loss of part of the Armenian market, it has come to understand the need to implement this project. For example, one of the Gazprom directors, A. Ria-zanov, who came to Erevan in July 2004 on business, noted: “We understand that for Armenia, this project is strategic and related to gas supply and energy security... since the pipeline on Georgian territory is in a poor state and needs major repairs.” But Gazprom did not give a straight answer regarding its participation in this construction project (the first stage began without it). On the other hand, participation in the laying of the (Kajaran-Ararat) has still not been decided.

In 2004, the second transmission line of the electricity network between Iran and Armenia went into operation (it ensures export of Armenian electricity to pay for Iranian gas). And Iran began laying the first 10 km of the gas pipeline through its territory in June 2004. What is more, the country’s diversification of blue fuel import is conducive to lowering its price by freeing it from its dependence on monopoly deliveries from the Russian Federation.

Armenia does not produce either gas or oil, since it does not have any supplies. In 1959, it was incorporated into the U.S.S.R. Integrated Gas Supply System, and until the collapse of the U.S.S.R. the Armecon was the main supplier of gas to the republic. Iran was the second largest supplier, but in 2004, its niche was entirely filled by Gazprom, which planned to increase deliveries to 1.4 billion cubic meters in the near future.

The history of the Iran-Armenia gas pipeline is both simple and complicated. As we have already noted, after the collapse of the U.S.S.R., Russian and Turkmenian gas were pumped to the republic via Georgia. Frequent accidents and a decrease in the supply of blue fuel due to its irregular payment by consumers in Georgia led to systematic interruptions in deliveries. The only prospect for Armenia was the Iran-Armenia (Abo-vian) gas pipeline which was built in the early 1990s. However, in 1995, Tehran and Erevan entered an intergovernmental agreement-plan of intention on building a pipeline, but could not come to terms on the gas price. They did not sign a more specific memorandum on building this route until the end of 2001.

As for Gazprom, recently its stance regarding this construction project has radically changed. Instead of putting up severe resistance due to possible loss of part of the Armenian market, it has come to understand the need to implement this project. For example, one of the Gazprom directors, A. Ria-zanov, who came to Erevan in July 2004 on business, noted: “We understand that for Armenia, this project is strategic and related to gas supply and energy security... since the pipeline on Georgian territory is in a poor state and needs major repairs.” But Gazprom did not give a straight answer regarding its participation in this construction project (the first stage began without it). On the other hand, participation in the laying of the (Kajaran-Ararat) has still not been decided.
Despite the fact that in the future Iran hopes to export most of its gas to the European Union, deliveries of blue fuel will begin precisely to the South Caucasian countries. And the appearance of such a serious rival on the Eurasian gas market will force Gazprom to reconsider its strategy and priorities, thus having an impact on most of the countries which consume blue fuel in this extensive area.

1 This question is highlighted in more detail in V. Saprykin's article entitled "Iz zhizni gazoprovodov: Iuzhny Kavkaz idet ot Rossii k Iranu?" Zerkalo nedeli, No. 2, 22-28 January, 2005, pp. 1,10.

Contact the expert  Contact the web-site editor

If you notice a mistake, you may notify us by highlighting it and hitting Ctrl-Enter.