

Geopolitics of Natural Gas: the Caspian Basin Case

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Geopolitics of Natural Gas

While energy resources, namely fossil fuels are the one of the crucial inputs of production, the geographical location of them over the world is the main determinant in terms of accessibility. These two factors together form the geopolitical dimension of fossil resources.

Geopolitics of Natural Gas

Natural gas is rapidly gaining importance in global energy markets. Prized for its relatively clean and efficient combustion, gas is becoming the fuel of choice for a wide array of uses, notably the generation of electric power. Natural gas is projected to be the fastest-growing major source of primary energy over the coming decades, with global consumption increasing nearly two-fold by 2030.

Geopolitics of Natural Gas

In the next few years, gas will surpass coal to become the world's second most important energy source; by 2050 gas could surpass oil to occupy the number one slot. Recent price increases do not fundamentally challenge the economic viability of this robust gas future.

Geopolitics of Natural Gas

Growth in natural gas demand is led by industry and the power sector.

The use of gas in industry accelerates, while the growth of gas in the power sector slows (RES factor).

Geopolitics of Natural Gas

The increased industrial demand for gas is largely driven by developing economies as they continue to industrialize, especially in regions with large gas resources (Middle East, Africa). Coal-to-gas switching, especially in China, also supports gas demand in industry.

Geopolitics of Natural Gas

One thing is certain: natural gas will play a critical role in meeting the world's energy needs. A series of important economic, political, and technological factors:

- the growing global demand for energy,
- the ongoing deregulation of gas and electrical markets,
- a preference for gas as the cleanest of the hydrocarbons,
- declines in the cost of producing and transporting liquefied natural gas (LNG)

have laid the groundwork for an expanded role for natural gas in the world economy.

Geopolitics of Natural Gas

But there are a host of obstacles to seizing the full potential of natural gas. While increased trade in LNG opens up the possibility of a truly global market for gas, the pace and ultimate scope of this historic development remains very much in doubt.

The Caspian Basin Case

Caspian Sea is surrounded by five states, namely Russia, Iran, Azerbaijan, Kazakhstan and Turkmenistan.

It is estimated that the Caspian contains 8.7 trillion cubic meters of gas in proven reserves.

Despite the fact that the basin does not have large share in the global energy supply, %3.4 of total world oil supply and %5.9 of total world natural gas supply in 2017 (BP, 2017), an importance of the Caspian region as a source of global energy production is increasing due to current geopolitical developments.

The Caspian Basin Case

Russia has an estimated 35 trillion cubic meter of proven natural gas reserves and it is in the 1st rank due to richest natural gas reserves.

Iran is also rich in natural gas deposits, ranks in 2nd place, with 33.2 tcm of proven reserves at the end of 2016.

Uzbekistan – no any coast to Caspian Sea – has an estimated 1.2 tcm of natural gas reserves.

The Caspian Basin Case

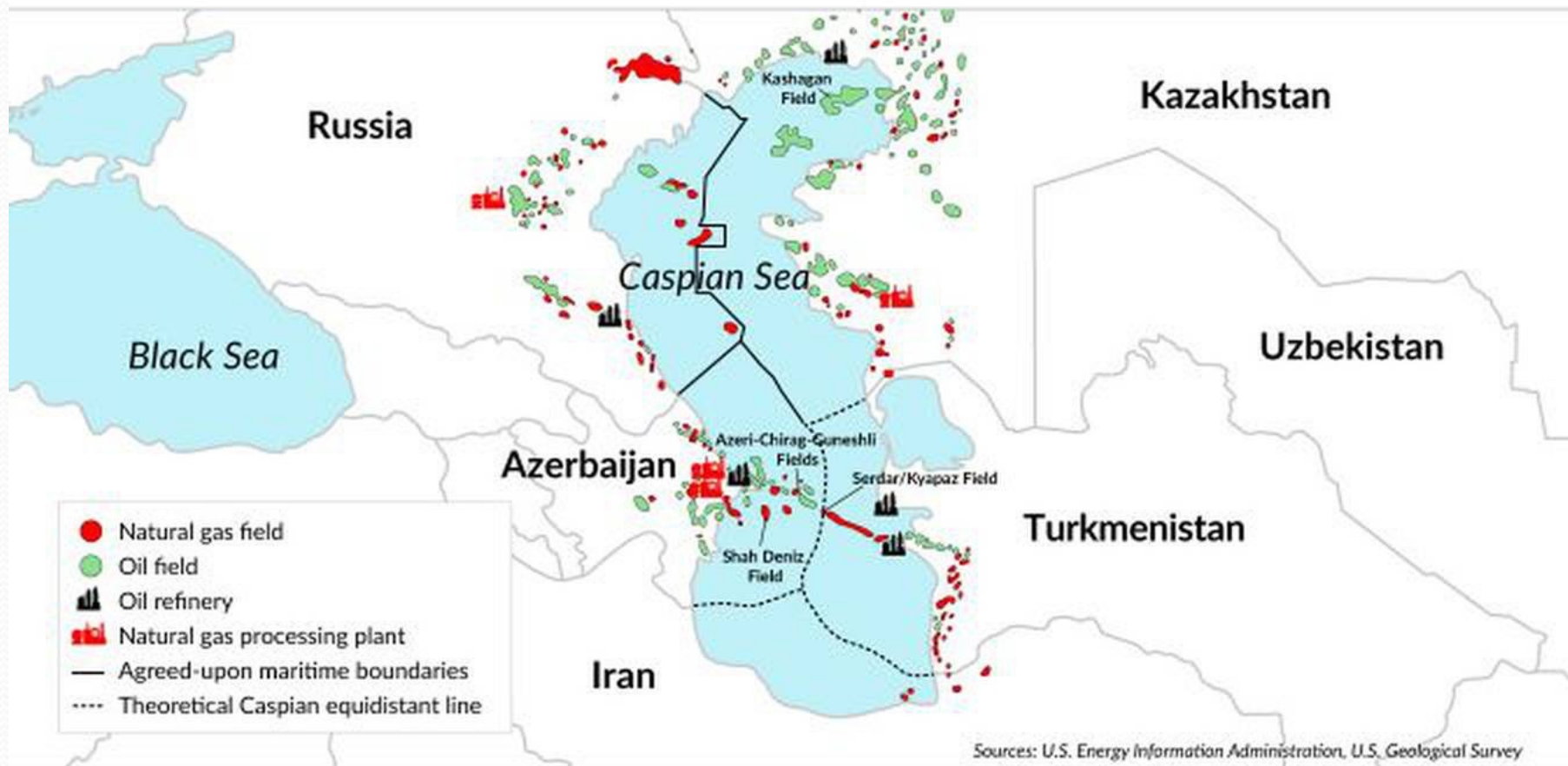
Azerbaijan has an estimated 1.3 trillion cubic meter of proven natural gas reserves and the Shah Deniz gas field is one of the world's largest at more than 1 000 billion cubic metres.

Kazakhstan is also rich in natural gas deposits, with 1.1 tcm of proven reserves at the end of 2016.

Turkmenistan – the world's 4th natural gas richer – has an estimated 19.5 tcm of natural gas reserves.

The Caspian Basin Energy Map

Caspian riches



The Caspian Basin Case

While Russia and Iran are the major energy producers of the world, these countries do not have substantial oil and gas production in the Caspian region.

It can be said that energy incomes of the Caspian region are not attractive for both states' economies as they need significant amount of financial and technical investments for exploration and production of energy resources here.

The Caspian Basin Case

However, oil and natural gas revenues as a result of exporting energy resources play a vital role for the economies of Azerbaijan, Kazakhstan and Turkmenistan as well as Uzbekistan (other 4's).

The Caspian Basin Case

Internal dimension of Caspian basin natural gas

The Russian and Iranian factors:

- Landlocked position of other 4's
- Pipeline dependence (other 4's)
- Cheaper import – expensive export via own pipelines
- Legal status of the Caspian Sea
- Supplier dependence (EU countries)
- Strong desire to conserve the pre-independence position both within and outside of the region

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Internal dimension of Caspian basin natural gas

- Azerbaijan – Turkmenistan relations
 - * disputed reserves in the Caspian Sea
- Azerbaijan – Iran relations
 - * supply of Azerbaijanian gas to Iranian Astara province in return for supply of Iranian natural gas to isolated Nakhchivan region
- Iran – Turkmenistan relations
 - * supply of Turkmen gas to the Northern Iran
- Russia-Turkmenistan gas trade

The Caspian Basin Case

External dimension of Caspian basin natural gas

The European (+Turkish) and Asian (mainly Chinese) factor:

- Diversification of suppliers
- Instability in the Middle East
- Growing demand (China)
- To decrease other4's dependence to Russia (EU)
- To support independence other 4's (preventing political, economic and social conflicts around borders)

The Caspian Basin Case

The USA factor:

- Not active in the region as in 1990s and early 2000s (direct support for BTC pipeline, early stage of the Southern Gas pipeline)
- Focused on the realization of the Eastern Mediterranean gas pipeline

But indirectly supports:

- Diversification of pipelines
- Decreasing Russian influence in the region
- To support independence other 4's (avoiding involving in conflicts here)

But blind-eye to Russian-Turkmen natural gas trade against China's influence in the region

Elements of the Southern Gas Corridor

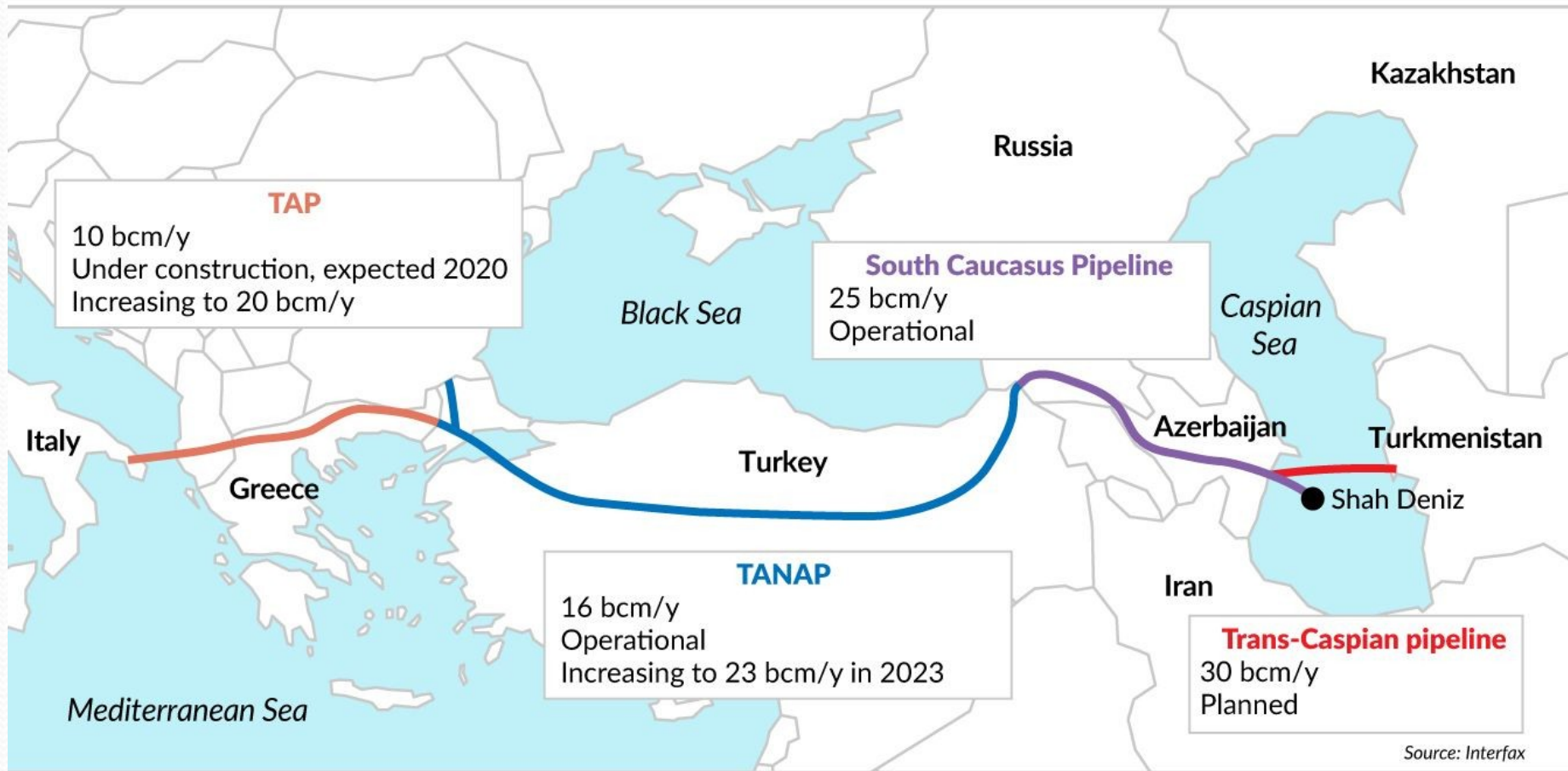


Figure 3. Key oil and natural gas infrastructure in Azerbaijan



The Caspian Basin Case

Legal Status of the Caspian Sea

- Damaged images of Russia and Iran
- Sanctions against Russia and Iran
- Economic situation in both countries



**Convention on the Legal Status of the
Caspian Sea of August 2018**

The Caspian Basin Case

Convention on the Legal Status of the Caspian Sea of August 2018 revived hopes for the construction of the long-proposed Trans-Caspian pipeline.

However 1 year late – August 2019 during the Caspian Economic Forum in Turkmenistan, Russia and Iran expressed their discontent regarding the TCP because of ecological issues: «All major Caspian Sea projects should undergo an impartial environmental review”.

The Caspian Basin Case

Conclusion:

- rapidly changing geopolitical dynamics in the world
- complex geopolitics of the Caspian natural gas
- continuing Russian and Iranian influence in the region
- increasing demand for natural gas as a determinant of the geopolitics of the Caspian natural gas
- overlapping interests of natural gas demanders (the EU, China, Turkey...) and natural gas suppliers (Azerbaijan, Turkmenistan, Kazakhstan, Uzbekistan).



***THANK YOU FOR
ATTENTION!***