

## Main Aspects of the Georgia`s Energy Policy and Energy Independence

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### Abstract

In the research, there are analyzed the main political and economic benefits for Georgia from the realization of Southern Corridor - TANAP and TAP projects in the short-term and long-term perspectives, possibilities of the strengthening cooperation between Georgia and Azerbaijan, Georgia and Turkey, also relations between official Tbilisi and countries from the South-East and Southern Europe. Furthermore, there are reviewed the issues related to the situations on the domestic energy market of Georgia and perspectives of the expansion of the energy corridor and South Caucasus pipeline and its impact on the socio-economic and political development of Georgia and Black Sea/Caspian Region.

**Keywords:** gas, oil, pipeline, resources, transportation

### Introduction

The energy factor has come to the world politics with the beginning of an industrial era. Before that people were fighting for territories (pastures and fields), or deposits and control over trade routes and so on. XX century has added to the fight for energy resources carried on by means of all available economic, diplomatic and military ways. Aspiration for the control over energy resources has turned to the major factor of the world history.

After the collapse of USSR, the new geopolitical realities have been created in the global politics and especially in the post-soviet space. Together with the such positive event as disintegration the last totalitarian empire USSR, in the beginning of 1990s of the 20th century, at the same time several political and interethnic conflicts have been emerged in the post-soviet space, first of all in the Black Sea/Caspian Region.

Geopolitical potential of the Black Sea/Caspian Region, located at the crossroads of Europe and Asia, is mainly determined by the fact that important trans-continental communication corridors lie across it, including the territory of Georgia. By this, competition in the Black Sea/Caspian Region grounds on prospect estimations of the Caspian oil and gas scopes. And here it's noteworthy that the states of the Black Sea/Caspian area evaluate noticeable growth of the scopes

of Caspian gas production as serious and promising factor of assurance of their energy security. Black Sea/Caspian states act in the role of energy "bridge" to deliver Caspian hydrocarbons to Europe. To our mind exactly the node Pre-Caspian – Black Sea region is turning into the frame of new international relations, which are in the stage of formation, reserving a possibility of turn the two regions into a separate geopolitical area.

The issue of geopolitical configuration of forces in the Black Sea/Caspian Region, is greatly connected with the trend of foreign powers influencing on the processes, happening within its borders and out of their lines and with the establishment of a new exporting pipelines by-passing Russia in order to minimize the Moscow`s place and role in the region. And this is for purpose as according to industry data, Russia holds the place of the world leader in the issue of explored stocks of natural gas.

The wider Black Sea Region has become a new strategic frontier for Europe, Russia and the United States in terms of energy security, frozen and festering conflicts, trade links, migration, and other key policy areas. Prospects for the Black Sea/Caspian in the 21st century will be shaped by the interaction between major external actors, the ambitions of states

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and peoples in the region and the region's role as a cross-roads of civilizations.

There are three groups of basic interests, represented in the Black Sea/Caspian Region today. First, we have the interests of the West, divided quite explicitly between the US and the positions of the major continental European countries. Both Washington and the EU powers, partially with Turkey pursue strategies for change and transformation of the region around the Black Sea, motivated by different – only partially coinciding - policy agendas.

Second, the interests of post-Soviet Russia, which wants to be the leading power in the Black Sea/Caspian Region.

Third, we observe the interests of the smaller Black Sea countries (Ukraine included, even if its size does not correspond to the definition of a "small country"). Those smaller countries are quite diverse and challenged by different policy agendas. Bulgaria and Romania are NATO and EU members. Ukraine, Georgia and Moldova struggle – each country within its own environment – for independence from Russian neo-imperial grip, for national integration and successful reform and modernization.

Armenia is following its own strategic agenda, dominated by the Nagorno-Karabakh conflict with Azerbaijan and the effective blockade that is imposed by Turkey on the grounds of several disputed bilateral problems, Karabakh included.

Azerbaijan – last but not least - is distantly presented in the Black Sea/Caspian environment, both with intensifying transfer of Azerbaijan's oil across the Caucasus and the Black Sea (the BTC pipeline), and with its integral presence into the South Caucasus strategic balance and in the broader post-Soviet context.

In this regard, it is interesting to consider the foreign policy and national security priorities of Georgia in the context of energy security.

## Georgia's Energy Policy and "Energy Independence issue"

In order to ensure the Georgia's energy security, the further diversification of energy sources and transportation routes represents the priority direction of the energy policy of Georgia. It is considered as an equally important to support the development and modernization of the country's energy systems, as well as their integration into regional energy infrastructure. The further promotion of Georgia's energy capacity will be positively reflected on the strengthening independence, providing state security, socio-economic development and increasing the standard of living of the citizens of Georgia. Strengthening the energy independence is a great necessity for the national security of Georgia. For the implementation of this goal, it is crucial to diversify the sources of energy. (Ministry of Foreign Affairs)

The importance of Georgia, as the transit country with the convenient geopolitical and geographic location has been increased, when in 1994 the "Century Contract" related to the

producing and transportation to Europe the Caspian oil had been signed (Chufrin, 2001. P. 179).

The perspectives of the producing and transportation of the Caspian oil and gas and the possible role of Georgia, as one of the "main player" within the East-West Transport corridor, not only attracted the attention of International Community toward this South Caucasus country, but also created the more opportunities for the activation Georgia's foreign policy.

In Georgia, authorities, political parties of the different orientation and majority of the public opinion, during the consideration the future perspectives of Georgia, very often connects them with the producing the energy reserves of the Caspian Region and plans of their transportation via territory of Georgia. This issue is considered as an guarantee of the economic development, attraction of the foreign investments, creation of the job places and increasing the budgetary incomes, which in general will give the stimulus for the increasing the role of Georgia in the International economic relations.

Energy transit and Eurasian Corridor is one of the main factors for the increasing the interests toward the Caucasus Region by the West. At the first years of the restoration of the independence of Georgia, the Europeans considered the issue – is Georgia a part of Europe? But at the modern times, due to the several economic, geopolitical etc. including energy factors, Georgia is one of the active members of the EU "Eastern Partnership" Program. (Ministry of Foreign Affairs)

Taking into account the convenient geographic location, Georgia can get the economic and political benefits from the transit of the Caspian oil and gas. Furthermore, the projects related to the Caspian energy reserves can become one of the key factors for the restoration of the territorial integrity of Georgia.

Georgia's territory, which borders in the north with Russia, in the east with Azerbaijan and in the south with Armenia and Turkey that share as South-Eastern portion of its border with Iran makes Georgia as an attractive geopolitical-economic region, particularly since it is a country through which runs the Baku-Tbilisi-Ceyhan oil pipeline that flows from the Caspian Sea to Europe. Georgia also has easy access to the Black Sea ports. However, it is Georgia's military strategic importance which brings Georgia into greater focus and attraction geopolitically than its neighbors.

As it was mentioned above, in order to ensure sustainable energy security for Georgia, it is important to create a favorable investment environment to strengthen international cooperation, and to further develop the existing energy infrastructure. Also, great importance is attached to the diversification of energy resources and suppliers, as well as to participation in international and regional energy projects. In this regard, Georgia welcomes the implementation of new projects in the framework of the South Energy Corridor including those projects that will supply oil and natural gas from the Caspian and Central Asian regions through Georgia to Europe.

Georgia is a part of important energy corridors. Georgia is aware of its role in supplying the rest of the world with energy resources from the Caspian Sea and Central Asian regions via alternative routes. Georgia's Black Sea ports, the

Baku-Supsa and Baku-Tbilisi-Ceyhan oil pipelines, and the Baku-Tbilisi-Erzurum gas pipeline are already active and strategically important projects. Georgia is determined to ensure the effective functioning of these existing projects and to develop prospective new ones (first of all TANAP project).

Among the main priorities of Georgia's energy policy are the development of energy infrastructure, the more efficient use of hydropower, and research into other clean-energy resources. Georgia actively cooperates with foreign investors on developing renewable energy resources.

The construction of new electricity transmission lines and power plants, and the rehabilitation of old hydropower stations contributes to the reduction of Georgia's dependency on imported energy sources and consequently, to the improvement of Georgia's energy security. Georgia's goal is to become an important regional exporter of electricity. Therefore, in addition to increased energy production, new transmission lines must be constructed between Georgia and other countries.

#### **Benefits of realization of Southern Corridor - TANAP and TAP (economic and political benefits to Georgia for now and next five, ten years)**

First of all, we must realize results of Soviet Union's collapse, which, itself resulted cardinal changes in the world order. Georgia's geographical location is very perspective Transit Function carrier, but existing heritage was in need of reorganization.

Economic and political analysts discussed that the Euro-Asia corridor has more of a security than an economic function. After the collapse of the Soviet system Georgia could have either stayed in Russia's orbit as a satellite or taken a Western orientation and an independent stance. It chose the second option, not only leaving Russia's sphere of influence but competing with it as an east to west energy supplier, while Russia claimed it had the sole right to fulfill this function.

#### **Importance of the TANAP Project**

The Trans-Anatolian gas pipeline (TANAP) is a proposed natural gas pipeline from Azerbaijan through Turkey to Europe. In case of construction via pipeline would be possible the transportation of gas from the second stage of the Shah Deniz gas field.

Discussion about the project was included to the agenda on 17 November 2011 at the Third Black Sea Energy and Economic Forum, which was held in Istanbul. About one month later, Turkey and Azerbaijan signed a memorandum of understanding, related to the foundation a consortium to construct and operate the pipeline (Socor, V. 2012). The construction was planned to start in 2014 and to be completed by 2018.

With regard to capacity of this gas pipeline, according to the experts it would contain about 16 billion cubic meters of natural gas per year with the perspective of the gas volume increasing up to 23 billion cubic meters by 2023, 31 billion cubic meters by 2026, and at the final stage 60 billion cubic meters with the possibilities the transportation of the addi-

tional volume of gas supplies from Azerbaijan (in case of the number of compressor stations are increased) and in long-term perspectives if Trans-Caspian Gas Pipeline enters into exploitation from Turkmenistan. (Hafizoglu R. 2014) According to the project, the pipeline will start from Georgian-Turkish border and cross the territory of Turkey till Turkish European border. Despite the fact, that the exact route of the pipeline has not been finally determined, it had been declared that one branch from Turkey would be directed toward Greece and the other to Bulgaria. It is expected the pipeline to be connected with Nabucco-West or Trans Adriatic Pipeline, in case of construction of pipelines within those projects.

#### **The Role of TAP Project for the Black Sea/Caspian and South-East Europe Regions**

The Trans Adriatic Pipeline (TAP) will transport Caspian natural gas to Europe.

It is planned the connection of the Trans Anatolian Pipeline (TANAP) with the new pipeline at the Greek-Turkish border, from where TAP will be constructed on the territories of Northern Greece, Albania, the marine space of the Adriatic Sea before coming ashore in Southern Italy, where it will be connected with the Italian natural gas network.

At this stage, the project is in its implementation phase and now there are going on the preparation activities for the pipeline construction, which is planned to begin in 2016.

The project in the framework of Southern Gas Corridor will contain a 3500-kilometre long gas value chain stretching from the Caspian Sea to Europe.

TAP's initial capacity will be 10 billion cubic meters of gas per year. (Trans Adriatic Pipeline)

#### **The possible scenarios of the events development in the framework of the TANAP and TAP implementation process:**

##### *Pessimistic scenario*

- Due to the political shantage from the Russian side, the potential investors will abstain to implement investments in the energy sector of Georgia. Particularly, the foreign investors will consider that Russia can fulfill the second aggression against Georgia;

- Russia will do its best to implement the diversion acts on the energy objects of Georgia – electricity lines and in the worse situation on the pipelines. The terroristic acts on the energy infrastructure of Georgia will decrease the status of Georgia – as a transit country.

##### *Optimistic scenario:*

- Starting the working over the TANAP and other energy projects will increase the interests of Europe toward Georgia, due to it, EU will be more interested in the stabilization in Georgia for the further continuation of the projects, with the EU (and appropriate energy companies) participation;

- The import of the natural gas via territory of Georgia, also other alternative to Russia projects, will decrease the energy dependence on Russia by Europe and will weaken the Russia from political and economic point of view;

- Georgia will continue to get an additional volume of natural gas from the pipeline by which Russia exports gas to Armenia (about 10% of the whole volume);

- In case, if in the future projects (similar to "Nabucco") implementation process together with Azerbaijan will be involved Turkmenistan and Kazakstan accordingly, it will increase the volume of the natural gas transit via Georgia, particularly thought the gas pipeline Baku-Tbilisi-Erzurum. It will increase the status of Georgia, as a transit country and will bring the additional transit income for the country;

- In case of not involvement the Central Asian states in the projects with participation of Georgia, it will be possible the involvement in the gas projects such states as Egypt, Iraq and in long-term perspectives even Iran (Transportation of natural gas to Turkey). Despite the fact that Georgia will not be able to participate at those projects as a transit country the implementation of the alternative to Russian projects meet with the National Interests of Georgia, because Russian influence at the energy market will be decreased;

- In case of the activation of EU Peacekeeping Mission in Georgia (today according to the agreement – EU Monitoring Mission – EUMM is functioning near the occupied territories of Georgia) more stable security environment will be established and it will simplify the investments in the energy sector of Georgia;

- The construction of the additional hydro power stations and exploitation the water resources will give an opportunity to Georgia to increase the electroenergy export to the neighbour states – including Russia. According to the specialists, the potential of the hydro (water) resources of Georgia prevails 159,4 Billion Kilovatt/hours, but at this stage, it is exploited only 15% of this potential (Tatashidze, Z. 2003. Pp. 91-92). Producing the additional volume of hydro energy can decrease the consumption of gas inside the country (for example, the share of the fuel energy station which works on the gas in the electricity consumption will be decreased) and it will create the convenient base for the transit the additional volume of natural gas via territory of Georgia;

- At this stage, it is increasing the oil producing in Kazakstan. Due to it, this Central Asian country will need the alternative routes for the crude oil transit. Accordingly, it is expected, that Kazakstan will implement the oil export from its port Aktay to Azerbaijan, with the purpose of the "black gold" re-export by Baku-Tbilisi-Ceyhan oil pipeline. It will raise the oil transit via territory of Georgia;

- Kazakstan will need the oil export by railway. Due to it, it is possible, that Astana will activate the transportation of oil to Georgian port Batumi. There will be some possibilities, that Kazakstan will have the desire to put investments in the construction of the Batumi oil refinery factory;

- Kulevi oil terminal, at the Black Sea coast of Georgia will need to produce the additional volume of the crude oil, and it

will increase the need to increase the volume of oil transportation first of all by the pipeline Baku-Supsa;

- There are some possibilities, to include to the agenda the implementation of the project similar to the "White Stream". In this case, probably will be considered the issue of the construction the additional pipeline on the territory of Georgia toward the Black Sea coast.

### **Based on the pessimistic and optimistic scenarios, the perspectives of the events development in short-term and long-term perspectives**

Most possible scenarios of the events development in the short-term (2 years) perspectives. 2015-2017:

- European Union and several states from the South-East Europe will carry out some steps for the decreasing the dependence on the Russian energy resources, which will be reflected on the increasing the producing of the alternative sources of energy and activation of the negotiation with the governments of Azerbaijan, Georgia, Turkey related to the TANAP and TAP projects;

- EU will try to increase the import of oil and gas from North Africa and the Middle East;

- From its turn, Russia will try to hamper the realization of the TANAP project, also possible projects (analogy of "Nabucco") with the involvement of the Central Asian states. For this purpose, official Moscow will conduct the negotiations with Azerbaijan, Turkmenistan and Kazakstan – related to the increasing the import of oil and gas from that states, which will decrease the gas volume for the implementation of the TANAP or other projects;

- Russia will continue the negotiations with Turkey, related to the implementation project Blue- Stream – 2 (capacity-63 Billion Cubic Meters of Natural gas); (News.Ge 2014)

- The ideas about implementation "White Stream Project" with the participation of Russia will not be introduced in practice, due to the positions of Bulgaria;

- In the short-term perspectives the negotiation process related to the implementation the different projects will be continued but due to the financial problems and absence of the appropriate contracts, most probably, the starting of the pipelines construction is not expected;

- The functioning of the railway: Baku-Tbilisi-Akhalkalaki-Kars will be started and the transportation of oil products by this route will be possible.

### **Possible scenarios in the midterm period (4-5 years). Period: 2017-2019**

- In the midterm perspectives, together with the increasing the oil and gas production in Azerbaijan, the transit of oil and gas on the territory of Georgia via oil pipelines Baku-Supsa and Baku-Tbilisi-Ceyhan and gas pipeline Baku-Tbilisi-Erzurum

will be increased;

- It is not expected any compromises from the European side toward Russia related to the gas projects where the gas exporter will be Russia ("Blue Stream-2" and "White Stream" projects). Europe will prefer the alternative sources for the gas import including the possible export of the shell gas from USA to Europe;

- The same policy will conduct Turkey which will prefer the construction of pipeline on its territory for the implementation TANAP project to negotiate with Russia about the project "Blue Stream - 2";

- The transit of Kazakstan oil via territory of Georgia will be implemented;

- The transanatolian pipeline will be constructed;

- The railway Baku-Tbilisi-Akhalkalaki-Kars will increase its capacity and it will be possible to transport about 20 million tones of oil products via this railway (Chitadze, N. 2011. P. 641).

### **Possible scenarios of the events development for the long-term perspectives (10 years and more)**

- The transanatolian pipeline will increase its capacity for approximately 30 billion cubic meters of gas per year;

- The main exporter of the natural gas (Shell Gas) to Europe will be USA. Taking into account, in 2009, the volume of the gas production in USA prevailed over the volume of gas production in Russia, furthermore, taking into account the plans for the shell gas transportation from the USA to Europe, it can be expected the increasing Transatlantic Trade and Investment Partnership (TTIP). According to experts, within the 21 Century the half of the World Economy will come on the share of TTIP. This project will additionally bring about 100-100 Billion US dollars for the each side from the both coasts of the Atlantic Region.

- There will be possible more involvement in the energy projects such states as Egypt, Iraq and probably Iran. This countries will export gas via territory of Turkey which will increase the role of gas distributor of Turkey.

### **Georgia's energy independence issue and how it could help/or could be an additional value factor (realization of TANAP and TAP) for Tbilisi's relationship with Azerbaijan, Turkey, and South-East European countries**

It should be mentioned that the implementation of the energy projects will be positively reflected on the relationship of Georgia with Azerbaijan, Turkey and South-East European countries. The successful implementation of the joint projects, particularly construction of the new pipelines within the TANAP and TAP projects, also increasing the capacity of the Baku-Tbilisi-Ceyhan oil pipeline and Baku-Tbilisi-Erzurum Gas pipeline starting the functioning of the railway Baku-Tbilisi-Akhalkalaki-Kars etc. will create the convenient base for the strong support of Turkey and countries from South-East Europe to promote further integration of Georgia to the

Euro-Atlantic Structures, gradual increasing the volume of the trade further cooperation in the different fields, which itself will strengthen the friendship relationships between the different nations from the Black Sea/Caspian and Balkan Regions.

Before the review the future aspects of cooperation between Georgia and countries from the Black Sea and Balkan Regions, it is important to consider the main priorities of cooperation based on the energy projects and other key areas of interstate relations between Georgia and Turkey, Georgia and Azerbaijan.

### **Georgia-Turkey Cooperation as an Example of the Interstate Relations in the Black Sea Region**

To overcome the deep socio-economic crisis, which Georgia had in the beginning of 90th of the last Century, country needed the assistance from the leading states in the Black Sea Region, Western countries and from various financial institutions. In this regard it is necessary to point out that Turkey was one of the first state, which recognized the independence of Georgia in December of 1991 and established diplomatic relations in May 21 of 1992. (Ministry of Foreign Affairs) So, within the nineties of the last century, Georgia was trying to strengthen the cooperation with the different states and especially with neighbors. All this coincided with the activity of the West and Turkey primarily in the post-Soviet space especially in the South Caucasus and the Caspian Sea region which was related to the fact that, as it was mentioned, on 20 September, 1994, the Azerbaijani government has signed the "Contract of the Century" with the Western leading oil companies, which has taken into consideration the producing and transportation of oil and gas resources from the Caspian Region. In this regard, to the role of Georgian territory as a transit country was given a great importance. Naturally, from the second half of nineties there were certain activities from the Turkey and West, which were connected with the pipeline construction via territory of Georgia.

Relations with the Turkey have been especially strengthened after the "Rose Revolution" period, when two countries agreed on the establishment non-visa and free trade regime and Turkish leading companies have implemented serious investments in the development of infrastructure of the strategic objects (for example: Tbilisi and Batumi Airports) on the territory of Georgia. During the last 7-8 years period, Turkey has been the first foreign-trade partner of Georgia. (Economy. ge, 2014)

The war in August 2008 changed the political situation in Georgia dramatically. Taking into account, that 20% of the territory of Georgia is occupied by Russia and main purpose of official Moscow is weakening the Georgian statehood, official Tbilisi needs the support and strengthening relations with the closest partners. One of such reliable partner of course, is Turkey.

At the same time, Turkey faces even more formidable external constraints and policy dilemmas in Georgia and South Caucasus Region. First, Russia's political objectives and mili-

tary presence in the occupied regions of Georgia and deployment of military bases in Armenia often clash with Turkey's interests in the Region. Russia is Turkey's major economic partner and its most energy supplier. Russian-Turkish trade is worth more than 35 billion dollars (2013) and includes natural gas (imports from Russia account for close to 70 percent of Turkish gas consumption), construction and tourism. (Today's Zaman. 2013) The Blue Stream gas pipeline was built according to a 1997 agreement between Turkey and Russia that was in direct competition with the East-West energy corridor from the Caspian to the Mediterranean (Rumer, B. Simon, J. 2004. P. 9). Taking into account the current geopolitical realities, it should be mentioned that Ankara will try to have balanced policy toward Georgia and Russia. It was pointed out about the inter-ests of cooperation between Moscow and Ankara, but at the same time Turkey has important interest toward cooperation with Georgia. Particularly, it is inter-related with the future energy projects: TANAP and TAP and current spheres of cooperation in the field of energy: Baku-Tbilisi-Ceyhan oil pipeline and Baku-Tbilisi-Erzurum gas pipeline, also the involvement of both states in the consideration and construction of Baku-Tbilisi-Akhalkalaki-Kars railway project. It is expected to connect two countries railway system through this project and to finish the construction of this transport system in 2015.

Furthermore, Turkey is number one foreign-trade partner of Georgia. As to 2013, on the share of Turkey was coming about 14-15% of the foreign-trade operations of Georgia. (Nation's Encyclopedia)

It is necessary to point out that the territory of Georgia gives the possibility to Turkey to establish contacts with Azerbaijan, the closest partner of Ankara.

In response to the Abkhaz and South Ossetia separatism started in the 1990s, Turkey has been pursuing a policy in support of the preservation of Georgia's territorial integrity and finding a peaceful solution to these conflicts within the internationally recognized borders of Georgia. On the other hand, the autonomous status of Adjara Autonomous Republic was defined by 1921 Moscow and Kars Agreements.

A consequence of the geographical proximity between Turkey and Georgia is the closeness among the peoples. Muslim Meskhetians constitute yet another cultural bridge between the two countries. Turkey attaches great importance to the return to Georgia of the Muslim Meskhetians, deported from their homelands in Georgia to Central Asia during Soviet period in 1944, and supports the efforts being carried out by Georgia to this end.

The relations between Georgia and Turkey have developed so much in all fields, especially concerning political, military and economic affairs; it is setting an example of the bilateral relations.

The two countries, which have taken joint steps in political matters until now are voicing their intention to do the same for regional security and peace at every opportunity. Georgia, which saw Turkey playing a positive role during very hard times defines itself as a trusted and peace-loving strategic partner, while Turkey wants to see Georgia as a strong, stable force for regional peace. In other words, a strong Georgia in the unstable Caucasus is seen as a security for peace by Turkey.

It should be mentioned that cooperation between two states has great perspectives for the future. The successful implementation of the joint projects, resulted to the construction of Baku-Tbilisi-Ceyhan oil pipeline and Baku-Tbilisi-Erzurum Gas pipeline, also railway Baku-Tbilisi-Akhalkalaki-Kars, future energy project – TANAP strong support of Turkey to promote further integration of Georgia to the Euro-Atlantic Structures, gradual increasing the volume of the trade, cultural and education programs etc. create convenient base for the further cooperation in the different fields, which from themselves will strengthen the friendship relationships between two nations.

### **Georgia - Azerbaijan Relations**

Georgia's relationship with Azerbaijan has developed into a stage of strategic partnership. Joint energy, transportation and communications projects significantly contribute to the stability and prosperity for the two countries. Two major regional energy projects - the Baku-Tbilisi-Ceyhan oil pipeline and the Baku-Tbilisi-Erzurum gas pipeline – have not only economic importance, but also play a stabilizing role in the Region. Once new projects (TANAP, AGRI) also become operational, alternative energy resources will be delivered to the world market. For this purpose, Georgia maintains close cooperation with Azerbaijan in the field of pipeline security.

Georgia cooperates closely with Azerbaijan in the political and security spheres, as well as in the process of Euro-Atlantic integration. Partnership of Georgia and Azerbaijan in GUAM and participation in the EU "Eastern Partnership Program" and NATO's PfP program contribute to the harmonization of the security interests and elaboration of common positions on various strategic issues.

In the beginning of the XXI century, between Georgia and Azerbaijan existed more than 80 interstate agreements. Among of them, 5 in the field gas and oil resources consumption, electro-energy and pipeline reconstruction. Especially should be pointed out about the joint declaration of March 8, 1996, when it was signed declaration on "peace, security and cooperation in Caucasus Region," when the agreement, on the transportation Azerbaijan's oil through the territory of Georgia was signed. In February 20, 1998, the new declaration on "Further promotion of the strategic partnership between Georgia and Azerbaijan Republic", also about "cooperation in the field of oil and gas industry" were signed (Chitadze, N. 2011. P. 608).

The friendship relations between two states are and will be very actual for Georgia. The future projects, related to the producing and transportation of the Caspian energy reserves determined and will determine in the future the fact, that Azerbaijan will be one of the most strategic partner of Georgia. It will be expected the increasing of the investments from Azerbaijan side in the different, first of all energy sector of Georgia.

If we take into consideration, that the volume of the total Azerbaijani investments in Georgia prevails 3 billion US Dollars (Shiriyev, Z. 2013. P.165).

The continuation of the energy projects implementation process will increase the trade volume between two states. According to 2013, on the share of Azerbaijan was coming 12,5% of the trade volume of Georgia, (Economy.ge Foreign Trade) by this data Azerbaijan had the second place. If the TANAP or AGRI projects are implemented, Azerbaijan can become the first foreign trade partner of Georgia. Furthermore, promotion the cooperation in the field of energy by two states, will determine the coincidence of the positions between two countries in such important issues, as conflict resolution, restoration of the territorial integrity, activation of the Euro-Asia transport corridor etc.

### ***Importance of the cooperation of Georgia with the countries of South-East Europe***

Implementation of the Caspian energy projects through the territory of Georgia has increased the geopolitical and geo-economic importance of Georgia.

Location on the Black Sea, directly connects Georgia not only with Black Sea Coast countries, but also opens suitable way to the world markets.

Taking into account the above-mentioned fact, TANAP and TAP projects implementation process will promote the cooperation of the Georgia with the countries from South-East Europe. In this regard it should be pointed out the following:

- TAP project, as represents the continuation of the TANAP projects, and takes into consideration the construction of the gas pipeline via territory of Northern Greece, Adriatic Sea, Albania and Italy. In this regard, this project can be considered as an alternative to "South Stream Project", and official Moscow will be refused to the construction of pipeline from the territory of Russia, and this country will not be able to become the main natural gas exporter to South-East Europe Region. In this case the national interests of Georgia and countries (because of decreasing the energy dependence on Russia) from the Southern and South-East Region will coincide with each other;

- Implementation of the TAP project will promote the further integration of Georgia to the European and Euro-Atlantic structures. As it is known, during the Bucharest Summit of NATO, April 2008, neither Greece nor Italy supported the granting for Georgia Membership Action Plan (MAP), this factor was partly explained (not officially) by the energy dependence of those states to Russia. In case of the TANAP and TAP projects realization, European states, first of all countries from South-East Europe will be more interested in the stability in Georgia, as a transit country in the gas transportation process, so they will be more interested in the NATO membership of Georgia.

### **Georgia's Domestic Energy Market and How Southern Corridor's Realization (Expansion of South Caucasus Pipeline, Kulevi and etc) Effect to Domestic Market**

Georgia represents the part of important energy corridors. Taking into consideration the strategic location of the country, Georgia is able to increase its role in the supplying the rest of the world with the energy resources from the Caspian Sea

Georgia represents the part of important energy corridors. Taking into consideration the strategic location of the country, Georgia is able to increase its role in the supplying the rest of the world with the energy resources from the Caspian Sea and Central Asian regions via alternative routes. Georgia's Black Sea ports, the Baku-Supsa and Baku-Tbilisi-Ceyhan oil pipelines and the Baku-Tbilisi-Erzurum gas pipeline are already active and strategically important projects. Georgia is determined to ensure the effective functioning of these existing projects and to develop prospective new ones.

Among the main priorities of Georgia's energy policy are the development of energy infrastructure, the more efficient use of hydropower, and research into other clean-energy resources. Georgia actively cooperates with foreign investors on the developing renewable energy resources.

The majority of the Georgian electricity energy sector is privatized (Telasi the Tbilisi electric power distribution company and Mtkvari Energy belong to Inter-RAO, a foreign trade branch of huge Russian electricity distribution RAO UES and Itera - Georgian - Russian business group supply the regions with gas, Ros/Gruz Energo is responsible for high - voltage power lines). 70% of the electricity is produced on Georgian hydro-electric power stations (Jervalidze, L. 2008).

The approved reserves of coal on the territory of Georgia are estimated in 432 Million tones, potential – 700 Million tones (Neidze, V. 2003. P. 89).

Georgia's potential oil resources are estimated as 2 billion tones but annual production is not more than 100 000 tones (Chitadze, N. 2011. P. 627).

The potential reserves of gas in Georgia are estimated by 130 Billion cubic meter of Gas, but from the prognosis reserves, as for beginning of the XXI century only 2%, accordingly 2,3 Billion cubic meters were produced (Neidze, V. 2003. P. 91).

With regard to the gas consumption, nowadays almost whole volume of gas is imported. In August of 2008, by the decision of the Georgian authorities, the deregulation of the gas market was held, that means that private companies have rights, to purchase the sell the gas by those prices, which would be more convenient for them. Today, there are several companies at the deregulated gas market of Georgia: Oil and Gas Corporation of Georgia, International Energy Corporation, Energy Invest, SOCAR – State Energy Company of Azerbaijan, which provides by gas the most of the Regions of Georgia.

Let's now consider the pipelines which cross the territory of Georgia and their role and potential.

### ***Existed Energy Projects***

#### ***Baku-Supsa Pipeline***

The Baku-Supsa Pipeline (also known as the Western Route

Export Pipeline and Western Early Oil Pipeline) is an 833-kilometre long oil pipeline, which runs from the Sangachal Terminal near Baku to the Supsa terminal in Georgia.

The pipeline was completed in 1998. On 17 April 1999, the inauguration ceremony of the Supsa Oil Terminal took place. The pipeline is operated by BP and owned by Azerbaijan International Oil Consortium.

The pipeline has a capacity of pumping 155,000 barrels per day (bpd) (SOCAR, 2012).

Taking into account, that the proposed upgrades are between 300,000 to 600,000 barrels per day (Hydrocarbons Technology, 2008), it will be possible to increase the income of Georgia for transit fees for about 15-20 million US Dollars. Furthermore, taking into account, that it is planned to increase the capacity of the Kulevi oil terminal (which is located near Supsa Port) to 20 Million Tones of crude oil per year, it will cause the development of the energy sector of Georgia.

### *Baku-Tbilisi-Ceyhan Oil Pipeline*

The Baku–Tbilisi–Ceyhan (BTC) pipeline is a 1,768 kilometers long crude oil pipeline from the Azeri-Chirag-Guneshli oil field in the Caspian Sea to the Mediterranean Sea. (BP Global) It starts near Baku, crosses the territory of Georgia and final destination is Ceyhan, a port on the south-eastern Mediterranean coast of Turkey. The first oil that was pumped from the Baku end of the pipeline on 10 May 2005 reached Ceyhan on 28 May 2006. (Azerb.com)

The pipeline has a projected lifespan of 40 years, and at normal capacity it transports 1 million barrels per day. It needs 10 million barrels of oil to fill the pipeline (Operations of the BTC pipeline, 2007).

In case of the pipeline's functioning with its maximal capacity, within the 40 year agreement period, Georgia can receive about 2,1 Billion US Dollars, which means, that per year will be possible to receive 62,5 Million dollars (Chitadze, N. 2004. P. 128).

Furthermore, if from the Kazakstan oil field Tengiz, via port Aktay the pipeline receives additional volume of oil, the transportation of more than 80 million tones of oil through this pipeline will be possible (Chitadze, N. 2004. P. 128), which will provide the additional incomes for the Georgian budget for about 30-35 million US Dollars.

The building of the Baku-Tbilisi-Ceyhan pipeline constitutes a strategic milestone in post-Soviet Eurasia. In the first place, the pipeline's construction will have major implications for the South Caucasus, especially as regards its role in European and World Politics. For everyone involved, within as well as in every direction from the South Caucasus, the building of the BTC pipeline reconfigures the mental map with which political observers and decision-makers look at the world. Azerbaijan and Georgia will see their futures in more direct relation to Europe through the umbilical cord that BTC constitutes.

### *Baku-Tbilisi-Erzurum Gas Pipeline*

South Caucasus Pipeline (also known as: Baku–Tbilisi–Erzurum Pipeline, BTE pipeline, or Shah Deniz Pipeline) is a natural gas pipeline from the Shah Deniz gas field in the Azerbaijan sector of the Caspian Sea via territory of Georgia to Turkey. It is constructed in parallel to the Baku–Tbilisi–Ceyhan pipeline.

On 21 May 2006, the commissioning gas was pumped to the pipeline from the Sangachal Terminal. First deliveries through the pipeline commenced on 30 September 2006. Deliveries of gas from Shah Deniz gas field started on 15 December 2006 (Oil Voice, 2006).

During the military aggression of Russia against Georgia in August 2008, the pipeline operator BP closed the pipeline for the several days for the safety reasons (NHST Media Group, 2008).

As it was mentioned above, the 42-inch (1,070 mm) diameter gas pipeline runs in the same corridor as the Baku–Tbilisi–Ceyhan pipeline. It is 692 kilometers (430 mi) long, of which 442 kilometers (275 mi) is laid in Azerbaijan and 248 kilometers (154 mi) in Georgia (BP, 2006).

The initial capacity of the pipeline is 8.8 billion cubic meters (310 billion cubic feet) of gas per year, but some experts and government officials consider, that its capacity could be increased to 25 billion cubic meters (880 billion cubic feet) per year (V. Socor, 2014). It is being considered the issue, related to the possibilities of the connection of the pipeline to Turkmen and Kazakh producers through the planned Trans-Caspian Gas Pipeline. Azerbaijan presented the position about expansion of the pipeline's capacity up to 60 billion cubic meters (2.1 trillion cubic feet), which will be possible by the construction a second line of the pipeline (Upstream Online, 2006).

From this project, Georgia as a transit state annually receives 5% from the whole volume of gas (about 0.5 billion cubic meters).

At this stage, it is being considered the project Shah Deniz Stage 2, is a giant project, within of which the additional pipeline will be constructed and that will add a further 16 billion cubic meters per year (bcma) of gas production to the approximately 9 bcma produced by Shah Deniz Stage 1.

In case of the second phase project implementation, it is expected, that Georgia will receive about 400-700 million US Dollars investments. (Civil.ge)

At the same time, it is necessary to point out, that according to the official brochure of the Shah Deniz Stage 2, as a result of the project implementation, the volume of the direct foreign investments in Georgia would be about 2 Billion US Dollars and 20% of the capital expenditures will be spent on the goods and services, which would be supplied by Georgian companies. At the peak of the construction process, about 2000, and during the period of exploitation about 130 job places in the country will be created. The delivering of the pipes and construction materials will be carried out by the using Poti Port and Georgian Railway. Georgian government declared, that country will be able to purchase by lower prices 5% of Natural gas within this project.

According to Euro commissioner on the energy issues – Guinter Ottinger, by the expansion of the Southern Gas Corridor, EU will have an opportunity in long term perspectives to satisfy its needs on the gas for the 20%. (Civil.ge)

### *Kulevi Oil Terminal*

The decision about Kulevi Oil Terminal construction was adopted on September 8, 1999. One year later, the construction activities were started. Final stage of the construction was implemented by the final owner of the terminal - State Oil Company of Azerbaijan (SOCAR).

The terminal was completed by November 2007 and was officially opened on 16 May 2008.

The terminal has its own railway station, where 180 oil tank cars can be placed for discharging. The trestles make possible the simultaneous discharge of 168 oil tank cars, through four railway branches.

The terminal has annual processing capacity of 10 million tones of crude oil and refined products. As it was mentioned above - SOCAR plans to increase the capacity of the terminal to 20 million tones per year. That would transfer Kulevi the biggest oil terminal in South Caucasus (Port news. 2008).

The increasing the role of the Kulevi terminal will create the convenient base for the increasing the transit potential of Georgia. For example, it will be an additional motivation for the construction pumping stations for the Baku-Supsa pipeline and increasing the oil transportation. Furthermore, it can increase the volume of re-export of oil from Kazakhstan. Accordingly, together with the increasing the capacity of oil terminal, the capacity of Georgian railway and Baku-Tbilisi oil pipeline will also be increased.

### **Prospective Energy Projects**

#### *Azerbaijan-Georgia-Romania Interconnector*

Within the framework of the Southern Corridor Project, governmental structures of Azerbaijan, Georgia and Romania conducted the negotiations for the establishment a new gas transportation routes. Government officials from of the three countries have discussed the concept of a new project within the 2009-2010. Finally, it was reached an agreement on the implementation of the Azerbaijan-Georgia-Romania Interconnector project (AGRI), according to which the liquefied natural gas transportation to European market should be held via the Black Sea.

On September 2011, the Presidents of Georgia, Azerbaijan, Romania and the Prime Minister of Hungary signed a project support declaration. On the same occasion Georgian Oil and Gas Corporation (GOGC), the State Oil Company of Azerbaijan Republic (SOCAR) together with Romgaz signed a Memorandum of Understanding and the Incorporation Act (SC AFRI LNG Project Company SRL) to implement the Azerbaijan-Georgia-Romania Interconnector project. (Georgian

Oil and Gas Corporation)

By the Azerbaijan-Georgia-Romania Interconnector (AGRI) will be implemented the transportation of gas, produced on the territory of Azerbaijani to the Georgian Black Sea coast, where it is planned the gas transferring to the liquefied natural gas, and then sea tankers will transport the gas to the Romanian city of Constanta. Re-gasified natural gas

from Constanta will be distributed to Romania, Hungary and other southeast European countries.

Capacity of the interconnector is expected to be 7 billion cubic meters (250 billion cubic feet) of natural gas per year, 2 billion cubic meters (71 billion cubic feet) will be consumed in Romania (News. Az. 2010) The project is expected to cost €4–6 billion (Trend News Agency. 2010).

The project will increase the transit potential of Georgia and promote the attraction investments for the construction of the liquefied natural gas factory.

### **Conclusion**

The income from the producing and transit of the oil and gas will bring the profit to the energy producer and transit states, but, at the same time, countries, which already are and will be involved in the energy projects, should not be depended only on the energy sector and should construct diversified economy, because dependence only on the energy sector represents the danger strategy, taking into account, that oil and gas are exhaustible resources and according to the experts, the oil reserves will be exhausted in 55-60 years and natural gas in 70-80 years period (Neidze, V. 2004. P. 28). At the same time, for example with regard to the oil, the incomes from the energy export will be depended on the global oil prices, which during the last period are changing.

Despite the above-mentioned facts, the development of the energy sector will be motivation power for the increasing the prosperity of Azerbaijan, Georgia, Turkey and countries of the South-East Europe and Black Sea Region. The strengthening of the integration processes with the western democratic states, giving the maximal opportunities to their energy companies in the energy projects involvement process, will cause the increasing investments, job places and budget incomes of the countries from Black Sea/Caspian and South – East European Region, providing regional security and development of the other sectors of economy, also, in the long-term perspectives the resolution of the problems of territorial integrity (Georgia, Azerbaijan) by the peaceful means.

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