



Partnership for Social Initiatives

პარტნიორობა სოციალური ინიციატივებისათვის

# South Caucasus Energy Corridor, Prospects in Low Price Conditions and Changing Geopolitical Environment

Liana Jervalidze, Analyst, Senior  
Research Fellow, GFSIS,

VIII Caspian Oil and Trade Conference ,  
Confidence Capital, 9-10 April 2015,  
Four Seasons Hotel, Baku

# Content

- Oil Price collapse, reasons – implications for regional producers and transit country- Georgia
- Oil price collapse – implications on gas price in EU and South East Asia, market trends and developments
- Gas price collapse – implications on Producers in the Caspian region
- Russia /Ukraine crisis – South Stream versus Turkish Stream
- Conclusions

# Oil Price Collapse on International Market

40% price collapse since June 2014, from \$108 per barrel to between \$50-60 per barrel;

Reasons:

- Economic Slow Down in EU and South East Asia;
- Shale oil revolution in US - 1-2 mln barrels per day of oversupply;
- OPEC not ready to reduce production to support the price;

# Oil Price collapse, implications for regional producers and transit country

As a result of oil price reduction by \$1:

- Azerbaijan is loosing \$600 000 per day, by \$40 – about \$2,4 million per day
- Kazakhstan is loosing \$824 000 per day, by \$40 – about \$3,296 million per day
- Russia is loosing \$ 7, 475 million per day, by \$40 – about \$3bln per day

# Oil Price Collapse, Implications for Regional Producers

Oil export dependence of:

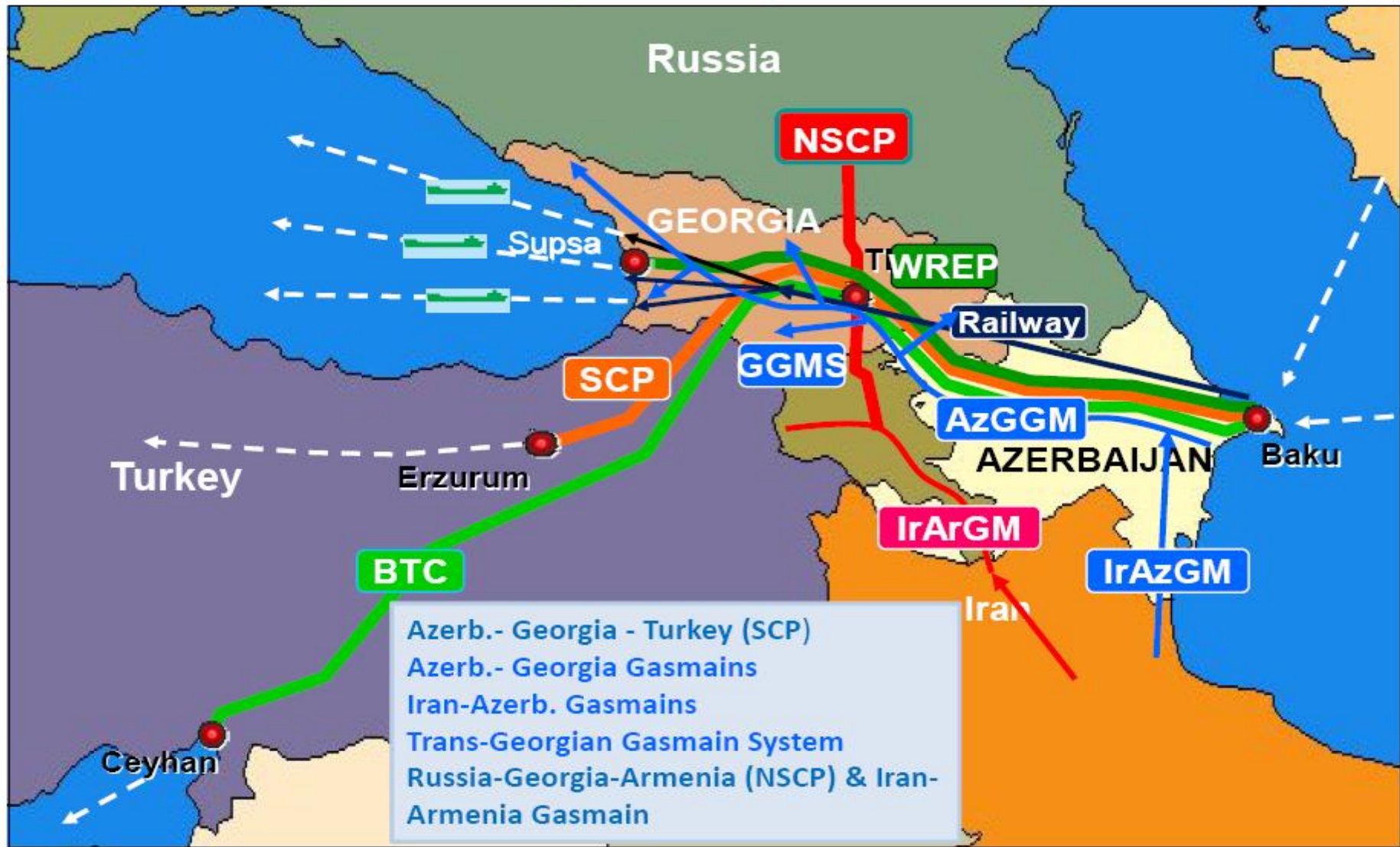
- Azerbaijan- oil 70% of exports, 50% of budget revenues;
- Kazakhstan –oil above 60% of exports, 25% of GDP
- Russia – oil 70% of exports, 50% Of budget revenues, 30% of GDP

# Oil Price Collapse, Short and Medium Term Implications for Transit country -Georgia

Georgia is a net importer of energy and a transit country. With oil price collapse in short and medium term:

- Oil transit volumes expected to decline and so do direct revenues from volume based transit;
- Investments in upstream in oil producer Caspian countries expected to decline;
- The transit position of Georgia expected to decline;

# Existing Oil & Gas Transportation Systems: Southern Transit Corridor



Gas Infrastructure World Caspian 2009, page 4.



# Transit Projects

- BTC- loaded at 600 thousand -650 thousand barrels per day, never reached it designed maximum load – 1 barrels per day;
- SCP- loaded at maximum 4.7-5 bcm per annum, never reached its maximum 6,6 bcm per annum
- AGRI- Azerbaijan, Georgia, Romania Interconnector- stalled at early stage

Georgia's income is volume based- per barrel/day, per thousand m3 per annum: Georgia is loosing expected transit revenues;



# Oil Price Collapse, Short Term Implications for Georgia a Net Importer

Oil price collapse is accompanied with strengthening the Dollar and devaluation of local national currencies including Georgian Lari;

- Georgia cannot take full advantage of oil price collapse; its imports (as a result of currency devaluation) have become more expensive;

# Short Term Trends on EU Gas Market

About 40% of gas contracts in EU are still oil indexed, oil price collapse leads to collapse of oil indexed gas prices; price – at \$10 per mln

About 60% of gas contracts in EU are hub priced; as a result of strengthening the nuclear in South Korea and economic slow down in China, LNG cargoes under flexible contracts came back to EU market leading to collapse of hub price on gas; price - \$7-8 per million BTU

**Both Oil and hub indexed gas prices come down**

# Medium and Long Term Trends on EU Gas Market

- Slow economic recovery, weak demand for gas
- Competition from cheap coal;
- Competition from LNG (mostly Qatar and west Africa)
- Competition between historical (Russia, Norway, Algeria) and new (Caspian, East Mediterranean and US LNG) suppliers;
- Competition from US Shale LNG

# Competition among New Suppliers to EU Market

- US LNG
- East Mediterranean LNG, North Iraqi gas
- Turkmen and/or Iranian pipeline gas

Azerbaijani gas from Shakh Deniz field delivered through Southern gas corridor is ahead of others, recent ground breaking ceremony of TANAP project;

# US Shale LNG

- Shale gas production in US in 2013 – 272 bln m<sup>3</sup>, 30% of domestic consumption standing at 737 bln m<sup>3</sup>.
- Imports -78 blm m<sup>3</sup> pipeline gas from Canada, 2 mln tons of LNG(2,76 bln m<sup>3</sup>)
- US imported about 80 bln m<sup>3</sup> of gas

# US Self-sufficient in Natural Gas?

Between 2020-30 US may become self sufficient in Natural Gas

- Need to produce additional 100 bcm of natural gas to substitute imports standing at about 80 bcm in 2013

# US Shale LNG Exporter from 2016

- By 2020 57 bln m3 of shale LNG , by 2029-100 bln m3 of shale LNG
- 40 bln m3 exports approved
- 23 bln m3 LNG facilities under construction
- US shale LNG exports under flexible contracts taking destination to EU or South East Asia
- PANAMA canal upgrade by January 2016 to allow large LNG tankers taking journey to South East Asia



# US Shale LNG on EU Market

- Price – \$9-10 per mln BTU US shale LNG to set a benchmark on EU gas market whereby competitors should orient to a price between 320 and 340;

US Shale LNG setting terms of gas trade on the market both in EU and South East Asia

**Can US become a Swing Producer of Gas the Role SA Has Been Playing for Oil market ?**

## Competition from Historical Suppliers –Russia, South Stream or Turkish Stream

If admitted that South Stream or Turkish Stream is a deviation from Ukraine, with no new resources but the same resources delivered through new route

Then South /Turkish Stream is not competitive to Southern gas corridor;

However it can hinder negotiations with Turkmenistan on Trans Caspian and with Iran on potential delivery of its gas to EU

# Conclusions

- Oil price collapse creates short and medium term security challenges for oil and gas producers in the Caspian region;
- Oil price collapse means slow down of upstream E&D both in the Caspian and Black sea regions;
- Oil price collapse means reduction of transit volumes(both pipeline, railway and ports), direct income, threatens transit position of Georgia;

# Conclusions

- Oil indexed and hub based gas price collapse means better competitive position of gas to coal (for base load power generation);
- In the medium and long term low gas prices means increased demand for gas on EU market;
- Low gas price environment on EU market creates good conditions for the Development of Southern gas corridor and Caspian gas in the long term;

Thank You for Attention