VOLUME 3, ISSUE 3 MARCH 2015

Energy International Risk Assessment

An Independent Monthly Review

CONTENTS

Letter From The Editor

The Commission confirmation of March 5th that Gazprom can use the Southern Corridor's Trans Adriatic Pipeline (TAP) to transfer Russian gas to Western Europe did not surprise us. It was hardly a big secret that Brussels was considering this possibility for quite some time, provided Gazprom brings its gas to the Turkish -Greek borders.

This development will accommodate all major players, including Greece and Turkey, to the benefit of both and the possible positive end to the future exploitation of East Mediterranean hydrocarbons.

In this issue we mainly deal with the alternatives that Balkan countries and the rest of Europe are examining in enhancing energy security.

Those seeking more information may consult our website, EIRANEWS.COM.

Yours Sincerely,

George Hatziioannou
Editor

SE Europe Considering Energy Source's Alternatives

In the aftermath of the invalidation of South Stream, cancelled by President Putin in the name of Gazprom, the European Union and the national governments of SE European countries accelerated the debate on the viable alternatives to Russian gas.

Reiterating the 'trump card' argument that the essential remedy amounts to the "diversification" of energy sources, the EU, with full diplomatic support from the US and conditional support on the part of IMF, displayed an assorted menu of options for the energy-poor region. Albeit the indisputable appeal of the solutions proposed to SE Europe, the expediency of the offerings is far from being apparent. The solutions seem to rely more on blind faith than on economic rationale.

Romania looks like the least vulnerable element in this sextet of SE European nations (Hungary, Bulgaria, Serbia, Croatia, and Greece). Only 3.5 bcm out of 15 bcm of natural gas are imported from Russia. The rest is produced from local deposits with more is store due to on-going exploration of the promising off-shore fields. There seems to be only two unsettled issues which relate to the IMF loans to be channeled as investments into the energy sector, and the mounting doubts among foreign energy corporations that the actual (not yet confirmed) shale gas reserves will render a comfortable rate of return.

Talks between the IMF delegation and the team of Prime Minister Victor Ponta ended in fiasco since the Romanian government showed reluctance on the proposed step-by-step liberalization of the domestic gas market which would inevitably entail a sharp increase in energy bills for the households. The negotiations would resume in April with a dubious chances of success given the extremely low purchasing power of the populace.

In early February, Chevron filed a law suit to a court in Bucharest with the demand to close down it subsidiary "Chevron Romania Holdings BV Amsterdam" which was interpreted by local energy analysts as a tacit sign of declining interest. Chevron had concluded test drilling for shale gas in Vaslui County, Northeast Romania in 2014; the analysis of the probes is under way but leaked insider's information hint at preliminary disappointing results. Besides, in the Vaslui County and also in the Constanța County the American company encountered public anger of local residents protesting against fracking technology.

Chevron has two more subsidiaries in Romania, and it does not appear to be heading towards the exit. Unlike the Italian ENEL which announced the sale of its assets. ENEL was involved in power supply and distribution with annual revenues of more than 1 billion euros and a net profit of 289 million euros. Yet, the retreat of ENEL and the partial withdrawal of Chevron send a signal of distress and warning to other international energy majors viewing Romania as an investment target.

Compared to Romania, only the energy market of Hungary looks more or less robust and predictable. It contrasts with the dismal state of affairs in Serbia left on the margins of the number one EU option of energy diversification: the Vertical Gas Corridor which would link Greece, Bulgaria, Romania, and Hungary.

However, Belgrade would find consolation in the assurances by the United States that this Balkan country could eventually receive gas from three sources: first through the interconnector uniting Greece, Bulgaria and Serbia; second, from the LNG terminal to be built in the Croatian Island of Krk and another one functioning in Greece; third, through the TANAP-TAP network of pipelines.

On top of it, there is the possibility for Serbia to fully abandon its present reliance on Russian pipeline gas due to the planned export of American LNG, as stated during the meetings of US Vice President Joe Biden and Serbian Prime Minister Aleksandar Vučić in Munich on 8 February. Although PM Vučić hastily reassured Moscow that it does not amount to a volte-face and implies only the new emphasis on "diversification" in order to spur competition among gas suppliers, Serbian daily newspapers Blic claimed that Belgrade in the wake of the cancellation of South Stream decided to bet on "gas supplies from the USA".

The news was welcomed by Serbian media with a few dissenting voices. Vojislav Vuletic, General Secretary of the Serbia gas association, warned against unfounded euphoria having referred to the balance of supply and demand in the case of TANAP and TAP. So far, only 10 bcm of Azeri gas have been earmarked for delivery to Europe (1 bcm will go to Bulgaria and Greece, and the rest to Southern Italy) compared to the current annual level of consumption in Europe standing at 525 bcm which is due to go up to 700 bcm by 2035.

It has not been the best kept secret that Azerbaijan alone will not be able to ensure a significant surge in gas production, even after the much heralded Shah Deniz II offshore field is put on stream in 2017. Negotiations with Kazakhstan to join in and pump its gas into TANAP have produced no tangible result. Turkmenistan, basically, has been commissioned by China for good (besides, the rather expensive Azeri offshore gas is not well-placed to compete with Turkmen gas). The chances of channeling gas from the Iraqi Kurdistan remain anorexic.

All in all, it places a growth cap on export potential from Azerbaijan and the Caspian region in a wider context. The recent 34% devaluation of the Azeri currency coupled with recession is projected on the revised downward estimates of expected profit from the South Corridor gas supplies. President of Azerbaijan Ilham Aliyev, speaking at the energy security roundtable titled "Diversification strategies" at the 51st Munich Security Conference, sent a shock wave by admitting the problem: "Frankly speaking, with the price of oil now something more than 50 dollars for barrel it will be very difficult to make this project commercially viable".

In December 2013, at the time of the FID (Final Investment Decision), Shah Deniz consortium's partners estimated the ROI for the whole 2020-2045 period of gas contracts in place at about 15.5%. It has now slid down to only 5%, with the prospect of a further deterioration (even to the point when it would enter the "red zone"). Sources close to the developers claim the total cost of the Southern Gas corridor (SD2, Shangachal terminal and SCP expansions, TANAP and TAP) may well exceed $50 billion. Further downsizing of the profit margin would pain to the investors and may even trigger off some desertions.

President Aliyev's statement and abundance of negative rumours undermine not just the image but the viability of Southern Caucasus Pipeline, Trans Anatolian Pipeline, Trans Adriatic Pipeline intended to establish a solid connection between the hydrocarbons rich Caspian basin and the energy markets of Europe.

The Serbian energy expert, Mr. Vuletic also noted that the LNG terminals in the US are not yet ready for processing large export volumes, and even after they become operational, the final product shipped across the Atlantic and regasified in Europe will not be cheap by any count. At least, not for Serbia.

The story of the LNG terminal on the Island of Krk looks like a long and sad tale. Actually, this is only a grand idea. The Feasibility Study has not been initiated yet. By the end of 2014, the government of Croatia managed to receive half of the sum (5 million euros) needed for the due technical and commercial assessment of the enterprise. Nothing is clear about the potential investors who might be interested in pouring money into the regasification facilities, pipelines, compressor stations, and other essential equipment to make the LNG terminal operational and capable of providing gas to external buyers.

This is the key issue, in fact, since the local Croatian market has a limited demand for the product (there is an evident absence of major industrial and residential consumers). The bulwark if not all of the LNG turned once again into a gassy substance must be marketed and sold to other countries of the region.

To make it happen, Zagreb should at least honor its commitment to meet at least 25% of the costs of the construction which amounts to some 1.5-2.0 billion euros. Whether Croatia can come up with such a sum, remains a billion euro question. In any case, with all the prerequisites in place and all conditions met, it would take time to negotiate the allocation (expropriation) of land, conducting climate impact assessment, concluding inter-governmental agreements, etc. The LNG terminal could be put on stream not earlier than 2020, at best.

To add insult to injury, there is another hidden trap. Croatia is the EU member state since July 2014, and has to abide by all the rules and regulations, e.g. the Third Energy Package which commands “third party access” to the pipelines. It covers the LNG terminal on the Island of Krk as well. Now, it is hardly feasible that the US energy majors with an interest to deliver American LNG to Europe would invest into the Croatian project knowing that some day in distant future, in full accordance with the valid EU regulations, they would have to compete with LNG cargoes shipped to the Island of Krk by Qatar or/and Russia.

This might come as a nightmare given the recent precedent: the Klaipeda LNG terminal, as reported by Lithuanian Lietuvos Rytas, will be accepting the product which is 35-40% more expensive than Gazprom’s pipeline gas. No one has calculated yet the hypothetical price of the planned Gazprom’s LNG to be produced on the shores of the Baltic Sea, but given the low base cost of production and a shorter transportation leg, it would represent a real challenge to the US LNG.

It leaves Croatia largely dependent on finding a sound compromise with its neighbors in order find long-term customers and raise investments to build the Krk LNG terminal. However, it cannot be ruled out that it would be a mammoth task. The Baltic States, Lithuania, Latvia and Estonia remained at odds with each other over the issue of setting up a single and serve-all-three LNG terminal. The Balkans has a no less impressive history of mutual envy and local rivalries.

On top of all the perceived and true troubles comes the nagging suspicion that despite the EU commitment to enhance cooperation and bonds within the community, build vertical and horizontal interconnectors and diversify the geography of energy purveyors, the choices remain limited. The list of alternatives looks good on paper but the devil hiding in details turns the drive towards energy security of SE Europe into a bumpy road, rough and hardly comfortable.

Balkans: Sniffing The Air For Smell Of Gas

The cancellation by Russian Gazprom of the South Stream pipeline project combined with its decision to stop gas transit through Ukraine after 2019, claimed to be an unsecure route, places the Balkan countries, and not only them, in a rather delicate position. Now they are forced to look for options on how to secure energy supplies in less than five years.

So far, Russian gas is being delivered to the Balkans through Ukraine. The previous project, supported by a dozen of European energy companies, was to build an alternative route, South Stream. The pipeline capacity was supposed to reach 63 bcm/year. It was planned to start near Anapa, on the Russian coast of the Black Sea, cross the Black Sea underwater, come out on the shores of Bulgaria near Varna, thus entering the EU energy market space. The on-shore part had to cross Bulgaria, which would be transformed in an important gas hub, then go to Serbia, Hungary and finish in Baumgarten (Austria), where a huge underground gas storage facility is located. From Austria gas could have been delivered to almost everywhere in Europe, especially to Eastern and Central Europe, and to Italy as well. Additional embranchments were previewed to go to some other destinations in the Balkans.

The US and the European Commission didn’t welcome the project for different reasons, interpreting it as an indication and threat of a growing dependence on gas deliveries from Russia. They pushed forward alternative ideas and projects but they were not able to secure reliable gas sources for them. Absence of gas made defunct the EU pipeline projects like Nabucco and its successor, Nabucco West. The only positive result of Brussels' insistence of diversifying energy providers was the TANAP/TAP pipeline project which will bring gas from Azerbaijan to Turkey (6 bcm) and to Greece, to Albania and primary to Southern Italy (10 bcm).

Finally, Bulgaria didn't give the permission to build South Stream. Russians cancelled the project probably in fear of additional regulatory obstacles from EU once the expensive infrastructure is put on stream.

When the South Stream project was scrapped by the Russians, and a new project to build a pipeline from Russia to Turkey announced, Brussels didn't took that perspective seriously.

"Mr. Putin assertion that the Russians gas monopoly would instead build a pipeline to Turkey that could also deliver gas to the EU border was seen as a face-saving bluster, wrights *The Financial Times*. Two months later, the plans to build an alternative supply route via Turkey look entirely serious."

The Balkan countries and their energy companies found themselves in a delicate situation. They faced the perspective of not only having to renegotiate the existing long term contracts with Gazprom but to find the new delivery point: the Russians stated that they would bring gas to the border between Turkey and Greece, and the issue of the new infrastructure needed for transit through EU territory must be tackled by the Europeans.

For the moment, the Balkan region has no adequate pipelines for these gas volumes, no concrete plans for putting in place a new infrastructure, no political will and no money to build it. It looks like a dead-end.

From an official perspective, the European Commission is pushing for alternative solutions (see SE Europe considering energy sources' alternatives, EIRA, Volume 3, Issue 3, March 2015).). The problem is that all those plans have political support but do not have gas resources. Azerbaijan will put all gas it has into TANAP/TAP project, with hardly any extra export potential. Gas from Iran or the Middle East is not secured due to the current geopolitical and military realities. Potential local shale gas or traditional gas production in Bulgaria and Romania will not be able even to cover their domestic demand. In a significant move the American energy major, Chevron, is starting to leave Romania due to unsatisfactory results of drilling and prospecting in some concessions in that country. Chevron, just as in Poland some time ago, is the last company from the West to leave that kind of projects. If that Chevron hoists a white flag, it means that *les jeux sont faits*, using the casino vocabulary.

Anyway, the Balkan countries have started to look for some tangible solutions.

Greece finds itself in a good bargaining position and tries to receive advantages from both, TAP consortium (and Azerbaijan) and from Gazprom.

From an industrial perspective, Austria is the most advanced strategic planner. Vienna feels that only Russian gas may guarantee Baumgarten top preserve and enhance its central stage position in regional gas business: gas from other sources are either located too far, or cannot come in sufficient quantities.

Prime Minister of Hungary, Victor Orban, is so far the most active. He deploys all his political skills to secure natural gas for his country. He started from contacts with Azerbaijan and received promises from the President of that country, Ilham Aliev: Azeri gas will come to Hungary. Afterwards, Mr. Orban should have been duly informed by reliable sources that Azerbaijan had no extra gas to meet the Hungarian demand, and it left him with no alternative but to turn to Russia.

The visit of Russian President, Vladimir Putin, to Budapest, in February was marked with assurances that Hungary will have gas from Russia at a competitive price. The two leaders also discussed possibilities in collaboration in expanding underground gas storages' business in

Hungary and how to build a new pipeline facility to bring that gas to the regional market from the proposed Turkish Stream pipeline. The details of the discussions are not yet known but it was leaked that the concept of a new infrastructure was put on the table. The cooperation on gas business between Hungary and Russia could develop at a fast pace given the special interest of the third party, Austria.

The European Commission, as it was initially with South Stream, is not happy with Mr. Orban's geopolitical game on the energy chessboard, and he's widely criticized for his collaboration with Russia. Brussels is also not welcoming plans to build a Russian designed and financed nuclear power plant in Pacs, 130 km from Budapest. The Commission intends to veto that project. But no viable alternatives are proposed, as it was previously in Bulgaria where under EU and US pressure years ago the government of Boiko Borisov abandoned a deal with Russia to build an NPP in Belene.

Serbia also is concerned by all the negative developments. Belgrade is still shocked by the cancellation of South Stream. That frustration in Belgrade prompted the US to step in. The US Vice-President, Joe Biden, met Serbian Prime Minister, Aleksandar Vučić, and proposed to replace Gazprom deliveries by gas from 3 sources: from the planned LNG terminal at Krk (Croatia), from an LNG terminal in Greece and by pipeline gas through an interconnector with Bulgaria between Niš and Dmitrovgrad. Gas would be sourced from the TAP pipeline.

Those proposals, which are widely discussed in the Serbian media, remain in an embryonic stage. It has been reported that gas, especially LNG, will be more expensive than Russian pipeline gas. A reputed expert, the president of the Serbian Gas Association, Vojislav Vuletić, explained that such proposals are misleading Serbs because of lack of necessary volumes and competitive prices for alternative gas.

Anyway, it seems that the energy industry strategists in the region are weighing the possibility of creating a new infrastructure designed to bring Russian gas to the Balkans after it reaches the Greek-Turkish border. However, the shape of Turkish Stream is totally unclear so far, as well as the guidance expected from the EU.

Supposedly, it comes to fruition. Then the most rational route will be Greece – FYROM – Serbia – Hungary – Austria. An alternative route, from Greece to Southern Italy and then, using the existing Italian pipelines, to Austria, has not been examined. It may be partly explained by the undecided position taken by the Italian Government and also by the high costs of that gas for the Balkans: the price would have to include transportation fees due to a longer distance.

The Caliphate Is Doomed To Extinction

The jihadists' drive to build a statehood in various parts of the world have been futile so far with the explicit exception of the Islamic State (IS) which remains a serious factor in the wider Mesopotamia region. Attempts to copy-paste that coup in the Muslim world are doomed to remain a marginal phenomenon (see Nigeria: IS' model is proliferating, EIRA, Volume 3, Issue 2, February 2015).

Not only in Nigeria Muslim radicals from Boko Haram movement are trying to place a large territory under their control and administration, where Shariah law and brutal fanatics determine the agenda of everyday life. The geography of that phenomenon is much wider.

Boko Haram is establishing its grip of power over the poorest, isolated region of the oil rich Nigeria, in the Sahel zone.

The shabab control a part of a failed state, Somalia with no particular strategic interest, although they are behind the surge of modern piracy in that critical aquatoria with key transportation sea-lanes. However, the combined international navy has gained experience to counter that threat quite efficiently.

Al-Qaeda of Arab Peninsula is squeezed into the mountains of South Yemen and has lost momentum to flare up the Shiite insurgency. It has claimed to be eager and ready to undertake limited operations, but nothing more exuberant.

Al-Qaeda in Maghreb finds itself in the capacity of a small-time illicit goods' trafficker in the desert and semi-desert of Sahara-Sahel region; it is confined to this area.

Even the Taliban, when in power in Afghanistan, reigned only in the Pashtun populated part of the country, which lost its strategic role after the Silk Route was abandoned. Now, once Western troops leave the Afghan soil, Taliban will be most certainly reinstalled in power, one way or another, and they will re-establish control over this shaky state which remains a focus point of global politics.

All these developments, nevertheless, are marginal. IS is a completely different story. The radical Islamists from IS have a historical and religious basis (the declaration of the re-instated Caliphate) and are marching towards highly sensitive strategic regions. It forms a part of the Fertile Crescent of the Ancient times, of former Mesopotamia (to be precise, 2/3 of the first Babylonian empire, 2000-1500 BC), one of the few starting points of human civilization.

Let's have a look at geography and economy. The IS Caliphate now has under its governance, roughly, one third of the original territory of Iraq and Syria. It amounts to 200,000 square km. Most of it is sheer desert, and only one really big city, Mosul, but the IS fighters have at their disposal crucial water resources (part of Tigre and Euphrates rivers and some of their tributaries), some fertile valleys with important irrigation infrastructure. According to Iraqi government's estimates, Caliphate is now controlling 40% of the agricultural potential of the country.

Under jihadists' control are some dams and power generation facilities, although they failed to capture the biggest one, located near Mosul. In the region they administer, IS had set up units for water treatment to produce drinking water.

They also have a grip on some hydrocarbon fields and production units: in Hassake province, near Deir ez-Zor (60% of Syrian production) and Akkas, Hassaybah, Ajeel, Hamrin and Baiji (10-20% of Iraqi production). In the Iraqi part of the Caliphate, these zones are considered to belong to Kurds, and Kurds are fighting for these resources, since the generated revenues would serve as the foundation of their possible future independence.

The Caliphate is quite an enclaved territory but it controls large parts of vital borderline, especially with straddling Turkey, which is genuinely afraid of the Kurds declaring and setting up an independence state of their own. Control over borders enables IS to purport illicit traffic which contributes to financing jihadist activity.

The population there is not dense. Most of it is composed of Sunnite Arabs, the key religious and ethnic component in both countries. They were ruling Iraq up to 2003, when the US ousted the Saddam Hussein regime. In Syria, they lost their position in 1970 after the Alawite Shiite sect, represented by el-Assad dynasty, established the control over the country.

It's impossible to assess the composition of the population now under the Caliphate rule. Many, including Sunnite Arabs, have fled, some stayed, being in favor or neutral toward the new rulers who are exploiting the persistence of traditional tribal links in absence of state regulation. These solidarity links are guaranteeing personal security, even means of subsistence and a kind of social life. Some influential tribes, Dulaymi, Djarba, Shammar, Sharabia, Shammar al-Djarba and some others, are supporting the Caliphate. Some are resisting: the logic of any tribe's policy and behaviour is the survival of the group and, subsequently, support varies depending on the changing situation. There were reports of tribal clashes and executions of some rebellious chiefs. Hundreds of al-Sheitaat tribe members in Syria were allegedly massacred by jihadists in August 2014.

The Caliphate, proclaimed on 29 June 2014, tries to create a kind of statehood and to organize the everyday life of the remained population. The success is not very convincing, so far: jihadists are experiencing the lack of engineers, doctors, oil technicians, etc. They have problems with electricity and hydrocarbon production, repairs and other life-supporting activities. That's why they are attempting to attract qualified specialists, of Sunnite creed, in particular from Europe: in fact, their proselytism is targeting not only foreign fighters.

Anyway, that case of IS is unprecedented since it is based on a different, theoretically viable geographic and economic model, compared to their predecessors and imitators. That's the first point.

The second point is linked to history and religion. IS appeals to the "collective memory" of the Sunnite Arabs, rekindling memories of their last empire. It was precisely the Caliphate of the Abbasside dynasty.

The Sunnite theology defines the Caliph as the substitute of the Supreme Legislator (the Prophet himself) and he is in charge of religious and governmental affairs on Earth. The first to wear that title was Abu Bakr, who took up the reins after Mahomet death.

The Caliphate ended in 1258 with the conquest of Bagdad by Mongols. In the aftermath of these conquerors' regime change, the Ottoman Empire was established but never again Sunnite Arabs were able to reunite the Ummah, the community of the true Faithfuls.

It's important to remember that every member of the Ummah has to swear allegiance to the Caliph and any divergence is considered as a mutiny against the Allah's State. The Caliph has to protect the established religion (no deviation accepted), the territory and fight to convert non-Sunnites. That's precisely what the rulers of the current Caliphate are proclaiming and doing. Their approach is impressive, in some way, and appeals to many Sunnite Arabs. It is presented as a kind of revenge on the part of a humiliated, frustrated and oppressed population.

The actual Caliph was known under his combat name, Abu Bakr al-Baghdadi. His real name is Ibrahim Awad Ibrahim Ali al-Badri. Now he calls himself simply Caliph Ibrahim, and this is highly symbolic. The Prophet Ibrahim is not only part of Judaic and Christian tradition (Prophet Abraham), Muslims consider him as a sample of a true believer, completely obedient to Allah.

Al-Baghdadi is also exploiting another important tradition of the Caliphate: the Caliph may be only a descendent of Mahomet. He affirms to have links with Quraysh tribe, the Prophet's one. It's hard to check at present stage the genealogy, but Al-Baghdadi's posture strongly supports his position. He wears a thick beard, a turban and a black cape, supposed to be of the same model worn by the Prophet. Black color is also important: it's the preferred color of the Abbasids.

The basic ideology of the Caliphate is simple: one religion, one rule, the sharia, the divine law. Non-divine rules are rejected, even internationally recognized. IS does not fight for independence and its own juridical recognition. Its declared goals transgress all boundaries; it aims at the triumph of Sunnite Muslims in the primordial version throughout the world, under the auspices of a global Caliphate. Al-Baghdadi breaks the regional frontiers, established in San Remo, in 1920, and uses all the instruments of a State: security, justice, and money. The Caliphate wants to re-establish metallic coins circulation in controlled area and has announced launching the production of golden, silver and copper Dinars, Dirhams and Fills.

Said that, one question arises: how really viable is that model? The question is not whether the Caliphate could conquer the world, but could it establish itself as a "new normalcy" in the Middle East in the medium or even long-term perspective?

Maybe, the correct answer is: No. That will depend on external geopolitical and military factors. The key issue is the role of Iran. The more Iranians will be military involved in the fight against the Caliphate (we should never forget that IS' goal is, first of all, to wipe out all the Shiites as apostates) and the ongoing gradual normalization of relations between the US and Iran. Another point could be a possible tacit arrangement between the Syrian regime and some elements of the non-jihadist Syrian opposition, a concordat apparently being worked out at present by Iran and Russia. All these factors, or rather their relevance to the eradication of the IS threat hinge on Iran and, if put into play in sync, could roll back the recent gains of the Caliphate. The jihadist's temporary triumph could expire, but it would not effectively prevent IS from continuing covert subversion actions and terror acts throughout the world.

That perspective could turn even worse from the security point of view.

Proxy Wars In Yemen Are Gearing Up

Yemen, a poor state stranded in a forgotten corner of the Arab Peninsula, has turned to be the center stage of a tug of war between two regional superpowers, Iran and Saudi Arabia. Different groups with warring sponsors have launched a merciless struggle in that arid zone. The country has been turned into a symbol of everything that is going wrong in the Arab world as a repercussion of the Arab Spring.

The main protagonist is a Houthis movement. The Houthis are followers of a moderate branch of Shiite Islam, called Zaydi, and they constitute 30% of Yemeni population, with their stronghold located in the North of the country. In September 2014, they launched an attack on central power; in January-February 2015 seized control of the capital city, Sanaa, and ousted the President and his Government.

The Houthis movement's origins are going back to 1991. It originated with the mission to protect Zaydis from the assertiveness of local Sunnites. Ten years later, after the 9/11 attacks on the USA they have contested the decision of the Yemeni Government to collaborate with the Americans in their war against terror. In 2004-2010, the movement was implicated in six local wars against the central authorities in Sanaa and even had recorded some clashes with Saudi Arabia. However, it never went out of its stronghold area.

Everything changed in 2011. Yemen ended up as one of theaters of war amidst the Arab Spring. Mass manifestations took place in Sanaa, government institutions were paralyzed. Then the Houthi movement acquired an extra military capability, while the Sunni tribes started to seek new alliances against the arch enemies. In the Marib region, at the center of the country, the Sunnis found allies to combat the Houthis.

That region is the one where oil and gas are produced; export of these two products generates the main income of the Yemeni State.

The Arab Spring in Yemen culminated in 2012 with the ousting of the President, Ali Abdullah Saleh. He's currently living in a heavily guarded compound and is allegedly still exercising an influence over the developments. *The Washington Post* has recently interviewed him and concludes that he did not abandon power. Now he is supposedly collaborating with the Houtis, his ancient foes. Why? One of the answers: He is a Shiite.

Mr. Saleh was replaced by the US-backed President, Abed Rabbo Mansour Hadi who turned out to be a weak leader and now is under some kind of house arrest after the Houtis took over in Sanaa.

There are also other actors on the national stage, and all of them are having their own agenda.

First, it should be mentioned, there is the local branch of al-Qaeda, the al-Qaeda of Arab Peninsula, or AQAP. In remains one of the most efficient structures of the jihadist nebula of that origin. Even the latest jihadists' attacks in Paris, targeting Charlie Ebdo magazine were supposedly planned in Yemen, although there is no clear evidence to support these allegations.

Second, from 2007 onward, in the Southern part of Yemen there is a secessionist movement. The Sunni population of that part of the country feels marginalized after the reunification of Yemen, in 1994: the Northerners have taken the control of all the power leverages.

Third, the army is not participating in the stand-off. The military are keen to collaborate with the US, but their present passive stance leaves the floor to AQAP whom they were supposed to fight.

Since 2010, the US is conducting a campaign of drone killings of the supposed AQAP operatives and supporters in Yemen. There are also civilian victims termed, as usual, "collateral damage".

In that chaotic showdown Iran and Saudi Arabia were sponsoring proxies fighting for control of Yemen. Iran is said to be arming and financing the Houthis despite the significant theological differences. The Saudis' game was even more complicated, taking into account that al-Qaeda and AQAP are a real threat to the kingdom and the royal dynasty. It should be noted that Riyadh has guaranteed the financial aid to the Yemeni State, or else it would collapse. At the moment, the problem is exacerbated by the downfall of oil prices and the crunch of the Yemeni revenues from the export of hydrocarbons (63% of public revenues) which has led to a deficit of $3.2 billion in 2014.

Now the Houtis have seized the control of Sanaa and of the government institutions. It generated harsh reaction from Saudi Arabia and the six-nation Gulf Cooperation Council (GCC). "In case of failure to reach an agreement, read its statement, the GCC member States will take measures which enable them to maintain their vital interests in the security and stability of Yemen." Saudis are said to be arming the Sunnite tribes in Marib. The Egyptians, allies of Saudi Arabia, announced putting together a force to intervene if the Houthis take control over the strategic zones along the Red Sea. The UN Security Council also voted a relevant resolution, but the Houthis refused to follow it. The US and some other Western countries temporary closed their embassies in Yemen. Basically, the collaboration between the Americans and Yemenis who are fighting AQAP is put on hold with CIA operatives evacuated from the country.

The stage is ready for a regional clash.

Finally, on 20/02 a UN mediator, Djamal Benomar, achieved a compromise between different Yemeni tribes and factions which amounted to an agreement to form a People's Transitional Council. It does not settle the crisis for good but creates the basis for an internal political dialogue. Meanwhile, AQAP informed that it had broken the allegiance to al-Qaeda leadership and was now re-oriented toward the Islamic State movement in Iraq and Syria.

The most conspiracy-laden observation relates to the timing of the revolutionary shake-up in Yemen. The Houthis offensive started on September 2014, when the oil prices started to fall at a doubled speed. Taking into considerations that Saudi Arabia is supposed to be supporting the oil prices fall mainly to inflict damage on Iran, that coincidence may appear strange. Or maybe not.

Could it be a kind of Iranian asymmetrical pressure on Saudi Arabia to make it feel insecure on its Southern border?

Egypt Risks Running Out Of Indigenous Energy By 2027

The distressing monotonous blackouts in Egypt hitting hard both industry and households highlighted the growing energy deficit the country of 87 million has encountered last year. Experts qualify it as the worst energy crunch in decades. By the end of 2014, Egypt has accumulated a 5 megawatt deficit which is comparable to consumption of a medium-size European nation.

Egypt used to be energy self-sufficient by 95%. The latest verified data (2009) showed the largest country of the Arab world had 18.2 billion barrels of crude oil and about 2 trillion cubic meters of natural gas in reserves.

The growing domestic demand negatively affected exports. Since August 2013, gas exports have declined in value by 86% and amount to a mere $26.1 million. In the same time span (until August 2014), gas production has also went down from 3.5 to 3.04 thousands of tons. With the main buyers being Israel and Jordan, the export trunk pipelines were subject to terrorist attacks by the unruly nomad tribes in the Sinai desert, raising shipment risks and insurance premium.

The energy sector is entering into dire straits. Local experts predict that by 2027 Egypt may run out of energy resources. The core reasons are the steadily expanding population, the rather stable growth rate of consumption at around 6.5%, and the worn-out infrastructure. This is not all doom and gloom. The government in Cairo has been preparing a soft landing long ago.

Last December, Egypt has entered an agreement with Algeria for the shipment of six cargoes of 145,000 cubic metres of LNG each. Earlier, Egypt concluded a deal with Norway for a floating storage and regasification unit that will allow importing LNG. Then, Egyptian Natural Gas Holding Company (EGAS) bought seven LNG shipments with the Texas-based Noble Energy. Following suit came purchase contracts with Dutch company Trafigura for thirty-three LNG cargoes and Russia's Gazprom for another seven.

In February this year, Egypt continued to compile its import portfolio by signing a contract with the Swiss-based company Vitol on the shipments of nine LNG cargoes. The first delivery is due in June, and the remaining volumes to be supplied during the following two-year period.

Despite the higher cost of LNG compared to pipeline gas, Egypt is ready to pay in order to ease a chronic energy shortage. Actually, this is the only ready available option since there are few other alternatives. Basically, this is a dramatic role model change: Egypt will lose its self-sufficiency and exporter's status and become a net-importer of energy resources. In the overall energy balance in the MENA region it will amount to the emergence of a new energy-hungry consumer.

Will Turkish Stream Hit A Dead End At Greek Border?

European energy experts view the gearing up of Gazprom-driven Turkish Stream (the strange descendent of the collapsed South Stream) with a pinch of salt. They back up their doubts citing a multitude of commercial, technical and bureaucratic hurdles which could easily derail the project.

In a recent interview with INYT, Professor Alan Riley of the City University London pointed out that the offspring (Turkish Stream) could be even more problematic for Russia than its predecessor (South Stream). As proof, Professor Riley referred to the possibility that Russian gas, which would be coming through Turkey to Greece, could well be channeled further on to Ukraine.

Noteworthy, the European Commission has repeatedly voiced its negative estimation of the very concept of Turkish Stream while the EU Energy Union VP Maroš Šefčovič stated once and again that this project was "legally and economically unviable." Brussels sent an unequivocal message to potential end-buyers in South East Europe that the best option to ensure energy security was the development and prospective "expansion of the Southern Corridor."

Mr. Šefčovič strongly argued in favor of untapping the Caspian Sea hydrocarbon potential. In his view, lower global oil price gives the EU a golden opportunity to create the Energy Union and decrease dependence on Gazprom.

The skeptical assessment of the joint venture by VP Maroš Šefčovič did not go down well with Ankara. Turkish Energy Minister Taner Yıldız rebutted the criticism by saying that a project of such scale (and consequences) always draws some kind of denigration. "The reaction is normal. We know this from TANAP", impassionedly remarked the Turkish minister.

Meanwhile, the main protagonists seem to have come to a tentative compromise on the shape and furnishing of Turkish Stream. It has been specified that the pipeline will dive into the Black Sea at a place called Anapa on the Russian coast, follow 660km on the seabed along the original route of the abandoned South Stream, and then take a new route for the remaining 250km towards the European part of Turkey, and then surface near the village of Kıyıköy.

The first train of the pipeline out of four will deliver 15.75bcm per annum (with the total capacity of 63bcma). This amount is earmarked solely for the Turkish market. The remaining 47bcm are planned to be channeled to Ipsala, the exit area at the Turkish-Greek border. Strangely enough, both Ankara and Moscow count on SE European countries to build up an infrastructure for the off-take of gas at this delivery point. Turkish Stream, reportedly, is expected to come on-stream in 2016.

For now, however, that seems a distant prospect. First, the flirtationship between Ankara and Moscow is not a *fait accompli* given the strong bargaining position of Turkey. Besides, the opportunistic policies pursued by the heirs of the Ottoman Empire leave space for maneuver and re-alignment of temporary alliances.

Lately, the EU Commissioner for Climate Action and Energy Miguel Arias Cañete made a symbolic overture to Ankara by declaring the expedience of fostering a new strategic energy alliance between the European Union and Turkey.

Taking into account Turkey's declared strategic goal to improve energy security and diversify energy sourcing, it would be tempting for Ankara to examine what Europe has to offer. And then accept this offer, or, at least, play Europe against Russia to squeeze out the best possible deal.

Second, the Turks have long advocated and insisted on a "bundled" or "packaged" agreements which would link the implementation of the Turkish Stream with gas imports from Russia. By the beginning of March, Turkish energy major BOTAŞ had already secured a 10.25% price reduction for Gazprom's gas.

Yet, since the adjusted price formula cannot counterweight the devaluation of national currency, Turkish Lira, and the positive impact of the concession by the Russian would be blurred. The new price will hardly allow to make up for prior losses and debt payments. It is not all about money. "Turkey has green areas, wetlands in the region. All those must be taken into consideration", Energy Minister Yıldız said in relation to the proposed hub.

All these considerations will inevitably bring both parties back to the bargaining table, and since the issues of gas exports and the construction of Turkish Stream are intertwined, a comprehensive compromise in not ascertained.

Third, there is a thick smog hanging over the crucial question: how would the 47bcm of gas be delivered to customers in Greece, Serbia, Hungary, etc? Who would take the risk of making huge investments into the infrastructure which is still lacking on the other side of the Turkish border?

The problem was correctly defined by Vojislav Vuletic, General Secretary of the Serbia gas association: "It turned out that they (Gazprom) are offering only energy, and Serbia will have to pay for everything else. On the financial side, South Stream was the best option for us."

Neither Serbia, nor Greece in its present dismal state of chronic indebtedness and even Hungary can allocate sufficient investments to build the necessary pipeline network on the receiving end, meaning on the opposite side of the border, right across the proposed gas hub on the territory of Turkey.

It is hardly likely that the European Commission would in the long run change its mind and, surprisingly, will embrace the Turkish Stream as Project of Common Interest. It would leave Russia and Turkey out in the cold with Turkish Stream on their hands as a still-born enterprise following Nabucco's inglorious fiasco.

CONTACT US

GEORGE HATZIIOANNOU
Editor

A former diplomat, he has served as Press and Communications Officer at the Greek Embassies of the USA, the UK, the Russian Federation and the Czech Republic.

For all enquiries contact him at eiraeditor@gmail.com