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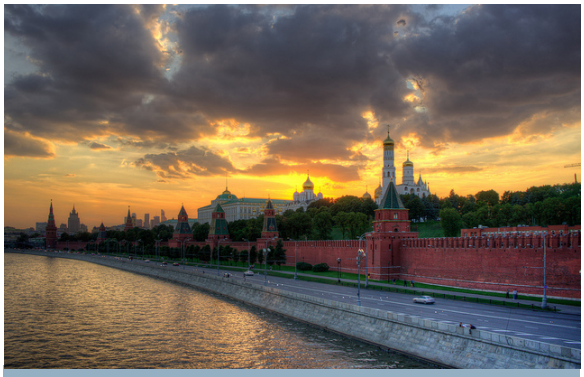

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OPEN FORUM

Letter From The Editor

We have repeatedly assessed in the past that EU member states in need will eventually try to diversify their economic policies in order to fill in the vacuums mostly created by long term flawed European policies.

While strong EU countries are allowed to maintain close economic relations with third countries, the weak ones are constantly threatened to remain within a tight EU austerity framework, in order to pay back the loans they were so abundantly provided for decades and mostly used by corrupt elites.

For example, these days the visit of Greek Prime Minister Alexis Tsipras to Moscow created havoc in Brussels and the USA but nobody complained because peaceful, sunny Greece was until recently the 6th biggest buyer of western military equipment in the world.

The real reasons behind these contradictory policies are related to the EU's unity. However, for the time being, northern Europe is sweeping them under the rug.

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Yours Sincerely,

George Hatziioannou
Editor

Greece As Key Gas Hub In Southern Europe, But Then Russia Is Unavoidable

Greece has a unique window of opportunities to become a very important regional energy hub without having any natural resources of its own.

The situation is due to a conjunction of different factors, mostly geopolitical.

The biggest one is called Ukraine and the Russian desire to bypass that country for its gas export to Europe.

There is also the desire of the European Commission to limit Russian gas in the European energy mix by finding alternatives.

Finally, Turkey looks for ways to turn itself into a main transit route for gas coming from different sources.

The geographic position of Greece transforms the country into a unique entry point to EU energy markets for all pipeline gas coming through Turkey from different zones of production, mainly from Russia, partly from Azerbaijan and potentially, in an indefinite timeframe from the Middle East.

Let's focus on these factors, one by one.

Justified or not, Russia doesn't want to consider Ukraine any more as a reliable transit territory and is preparing alternative routes for Russian natural gas to be delivered to European customers under long term contracts. Partly the problem is solved, due to Nord Stream pipeline on the Baltics' seabed linking Russia to Germany and also to Yamal pipeline bound through Poland to Germany.

The Russian transit contract with Ukraine expires in 2019.

Deliveries to Southern Europe, including Greece were to be secured thanks to South Stream pipeline but Gazprom, in December 2014, scrapped that option. The Russian gas monopoly explained that move by the hostile attitude of the European Commission and by lack of the Bulgarian permission to build the facility on its soil.

Now Russia has reviewed its projects and reached an agreement with Turkey to build another export pipeline on the Black Sea seabed already called Turkish Stream with a 63 bcm capacity (14 bcm of them designated to Turkey). It should go onshore not in Bulgaria, as it was planned for South Stream, but at a certain point to turn to the European part of Turkey.

South Stream's main design was to come onshore in Bulgaria, then go to Serbia, Hungary and Austria, with branches in various directions. The new plan is to cross a small part of European Turkey and arrive at the Greek border. After that gas transportation to clients in South-East, partly Central Europe and Italy has to be provided by the EU countries and European companies.

Gazprom is not saying publicly how its gas will reach the end consumer. But obviously, in that configuration Greece becomes the main transit hub for Russian gas which requires basic infrastructure to be built on the `Greek soil.

Here problems are starting. For political reasons Brussels wants Gazprom to keep gas transit through Ukraine and will not assist in building new gas pipelines to be connected to Turkish Stream. Gazprom doesn't want to build pipelines in the EU countries: the European Third Energy Package (TEP) regulation is not favorable to investments from gas companies and Gazprom would not be able to use the facility at full capacity, even in absence of third party gas. That is the case in Germany, with OPAL pipeline, one of the onshore prolongations of Nord Stream. Due to TEP regulations, OPAL stays half empty with no third part gas available. Russian experience from the preparation of South Stream onshore part has also showed that the European Commission could tolerate if it were in compliance with all TEP limitations but yet would not be welcome.

Simultaneously, European gas companies understand the economic rationale of the new Russian project and some are starting to move

forward in order to find a solution. The most interested seems to be now Austria, Hungary and Italy.

But if new infrastructure must be built, potential partners want, in a way or in another, to have Gazprom on board: no gas, no pipe. In the situation of declining EU domestic gas production and when the production of some other main gas exporters to Europe, namely Algeria and Norway, affected by growing insecurity in the MENA region, Russia seems to be the only credible source of natural gas. The decision to cut consumption of gas as a fuel in Europe may not change the demand for Russian gas in that market. The conclusion is evident: a solution has to be found how to bring gas which would be channeled through the Turkish Stream.

While Moscow is looking for new possibilities to reach its goal to bypass Ukraine, Brussels is pursuing its own agenda: to get rid of Russian gas through limiting gas use as a fuel and finding new gas sources.

The first goal may be achieved through energy efficiency, an extremely useful and promising endeavor, and by limiting the use of gas in some of its applications. European deindustrialization helps to downsize the role of gas in the production sector. But that fuel is also squeezed from electricity generation, where the share of renewable sources and coal are growing gradually. As a result, the EU is the only developed region in the world where we see that trend. The USA or Eastern Asia are not following that path and have maintained a large gas generation sector.

The second goal is the political focus of the EU energy policy. So far, the only alternative to Russia gas source was Azerbaijan. The potential production there is low compared to the EU demand, but still there are some volumes to be delivered to the European markets. This is the only reliable source of non-Russian gas to be fed into the EU's Southern Corridor.

The transportation of Azeri gas is assured by SOCAR and BP (with some other minority stakeholders) companies.

The European Commission is not financing those projects (TANAP, from Azerbaijan to Turkey, and TAP, from Turkey to Greece, Albania and Italy), but giving them political support. TAP received all the exemptions from the TEP, which would never be granted to Gazprom's projects. Greece is trying to have a major stake in that infrastructure (total 16 bcm capacity with 6 bcm earmarked for Turkey), but, anyway, the country will play a central role in TAP, and have new investments, jobs and transit fees. From that perspective, Athens has already made a small but secure gain in the gas transportation game.

Turkish desire to be a transit hub for gas coming to Europe from non-EU countries in that part of the world looks feasible enough. Ankara is receiving gas for its growing domestic consumption from Azerbaijan, Iran and, mainly, from Russia. The EU position helped additional Azeri gas to transit to Europe through Turkish soil and Russians to choose the Turkish transit route for its gas bound to the European South. In case of stabilization of the whole Middle East, lifting of all sanctions from Iran and after huge investments, some amount of natural gas may be available for Europe in a decade or even more from that region too. If transported by pipelines, it will also transit through Turkey.

Where that gas will go after Turkey? Under any option, gas would have to pass through Greece, and that's why the country has a unique window of opportunities.

The most urgent question is how, using whose money and under what political conditions to build a prolongation of Turkish Stream in Greece?

For the Greek economy, a lot is at stake: investments, jobs and transit fees, much higher than from the TAP pipeline. It could be a sip of oxygen for the strained economy. The Greek Government has to find a way to secure Russia's crucial involvement in that project. Russia seems to be ready to support Greece.

A critical role is reserved for the European Commission which has already victimized the South Stream project leaving Bulgaria without direct Russian investments. Now Brussels is complaining about the Russians abandoning South Stream. But what will be the Commission's attitude to any prolongation of the Turkish Stream? So far, its approach seems to be negative and in that situation Russia is also very cautious. Athens and other interested countries should act in order to secure that new infrastructure.

Next question: where may go the pipeline from Greece? At this stage there are some discussions on that topic. Maybe, the volumes of Russian gas on the Turkish-Greek border could be split and run through Greece along different pipelines? Or there should be only one? It's subject to discussions.

Italy is interested to have a branch going to its South, as does TAP. There some Russian gas may be consumed locally, replacing gas from insecure Libya and experiencing production problems Algeria. The gas may also go to the North and to Austria, using the existing Italian gas transportation system. Experts also suggest using directly TAP pipeline. It may be a rational solution: Shah-Deniz offshore field in the Azeri part of the Caspian Sea will not be able to produce gas on a regular basis due to the extremely difficult configuration of the deposits and harsh working conditions.

Another route now being discussed for Turkish Stream is from Greece to Skopje, and then to Serbia, Hungary and up to Austria, more or less along the same route originally planned for South Stream. If the capacity of that pipeline is smaller, the investment and construction costs would be diminished, and some procured pipes used for the purpose. Yet, it's not clear who and how will build and then operate the pipeline.

There are also projects, initially completely disconnected from the Turkish Stream concept. For example, the Slovaks suggested building a North-South connection called Eastring, and now are contemplating the option of inserting into this pipeline gas from the Turkish Stream. The move is justified by calculations: no significant volumes of gas from non-Russian sources will be available in the region in the foreseeable future.

To put it simple, there are opportunities in the gas transportation field in South-East EU countries and the central role would be played by Greece.

Now the Greek Government has to secure Russian support and to push other EU partners to make the correct decision in Brussels: if not for a financial backing, at last, for a benign neglect attitude. It's a challenge but it is a clear win-win situation for the Greek economy.

Last but not least: governments come and go but pipelines, once built, are there to stay for decades.

Uncovered EU Energy Union Meets Mixed Reaction

The European Council summit, gathering of the EU heads of state and government, gave a go-ahead for the creation of an Energy Union. The concept of integration in this particular area was originally spearheaded by former Prime Minister of Poland, Donald Tusk, who is currently President of the European Council. On the outset, it looks like not a bad idea provided, at the end of the day, it serves to augment competition on the market, to ensure affordability of energy for industry and households, and to guarantee predictability and security of supply. This is not yet written, so unconditional enthusiasm is premature.

The Energy Union's theory and model, if taken at face value, looks both multi-faceted and comprehensive. To put it in a nutshell, first of all, the EU seeks a more rigid implementation of the Third Energy Package ("TEP") and shows resolution to enforce existing rules and network codes. Second, there is focus on further coordination across markets and security of supply to be achieved through enhanced interconnection between national markets, diversification of suppliers, and all this against the background of continuous cooperation

and strong solidarity of the EU Member States. Third, the EU spelled out its commitment to come up soon with a new market design for wholesale electricity (the paramount goal would be to ensure sufficient investments in generation capacity as back up to renewables) and with a new more flexible LNG strategy.

The list can be expanded further. Basically, the drive for enhanced energy security boils down to "The Energy Union in fifteen action points".

Within the framework of the 'diversification' philosophy and practice, the Energy Union will push forward an assertive engagement policy to establish a beneficial modus operandi with purveyors of pipeline natural gas other than Russia. Among the most likely alternatives are Central Asian countries which would be brought into the European orbit by attracting and linking them to the Southern Gas Corridor pipeline network. The EU is confident it will be successful playing on several chess boards and establishing strategic energy partnerships with Azerbaijan and Turkmenistan, Algeria and Turkey, as well as suppliers from the Middle East and Africa, not counting out other options like getting on board hydrocarbon-rich Iran.

Despite the apparent desirability of supply diversification policy, some dissidents voiced their scepticism. Energy expert Martin Mikeska was quoted in Czech Denik as saying that "curing dependence on Russian gas by building new pipelines to Central Asia is about as useful as when a drug addict, instead of treatment and abstinence, finds a new dealer." Since the iconoclast did not specify what he meant by "treatment and abstinence" when it comes to supplies of natural gas to European markets, the irony, which otherwise could be seen as witty, fell flat.

The most ambitious, albeit controversial, remains the thinly veiled push by the European Commission to assume additional administrative authority. What looks like a certainty is the move to empower the Agency for the Cooperation of Energy Regulators (ACER) to as a supreme pan-European supervisor. Less likely is that the EC would finally be granted by Member States more oversight on "all agreements with external suppliers that may affect EU energy security."

The term "oversight" remained vague but critics argued that it implied a veto power over inter-governmental agreements (IGA) and commercial contracts. Prior to the announcement of the Energy Union's guidelines, a lot of debate took place around the idea of introducing "a single buyer mechanism for gas" which would effectively turn the European Commission into the Super-Ministry of energy.

Should this happen, it is highly probable that Brussels' bureaucracy will be in a strong position to twist the arms of Gazprom and other Russian energy majors, demanding preferential treatment, low prices and favorable terms of supplies. Fundamentally, it would institutionalize the "market of the buyer" and tilt the balance of power in favour of the consumers on the receiving end.

The trading horses period, preceding the final wording of the EU's Energy Union strategy, revealed a striking absence of unanimity on the crucial issue of the proposed transparency measures for IGAs and commercial contracts, as well as the common gas purchasing mechanism.

Germany and Hungary declared opposition to the excessive transparency of business demanding that confidentiality of commercially sensitive information must be safeguarded. Austria found the move by the EU too hard to swallow just like the Netherlands which emphasized the importance of preserving the pillar of classical free market. Unsurprisingly, Greece was the most disagreeable claiming the "single buyer mechanism was "suffocating" national sovereignty.

Russia was apprehensive too, and for good reasons. Aleksei Grivach, Deputy Director of Moscow-based National Energy Security Fund, commented on the Energy Union's strategy: "The European Commission wants to acquire yet another tool to regulate the market. This time it wants to assume the prerogative to designate gas supply sources.

For gas suppliers it amounts to additional risks. Let me emphasize, risks emerge for all suppliers, not only for Russia. In fact, this is a risky gamble for the European Union too. There are a limited number of reliable gas suppliers. The overregulation zeal of the EU authorities will remarkably reduce the attractiveness of the European market and weaken the EU overall energy security."

Actually, the European energy stakeholders showed the same reservation about the idea. For instance, Eurogas urged that any "reform of … IGAs also requires more discussion and debate. Similar consideration applies for commercial contracts for which confidentiality of sensitive information must always be ensured." Roland Festor of the International Oil and Gas Producers (IOGP) warned "against common gas purchasing mechanisms, but we encourage the EU to instead consider gas release programmes and promote price liberalization…"

It all led to confusion and a peculiar development. Maroš Šefčovič, Vice-President for the Energy Union, who argued for a greater transparency of the price, volume and delivery conditions of long term contracts pledged to honor commercial confidentiality. It looks odd enough since it is clear that price, volume and delivery terms are the three most commercially sensitive parts of any gas contract.

Finally, a somewhat awkward compromise was reached and worded. The document now reads: "The Commission will assess options for voluntary demand aggregation mechanisms for collective purchasing of gas during a crisis and where Member States are dependent on a single supplier. This would need to be fully compliant with WTO rules and EU competition rules."

The key word is "voluntary" which means the EU national government and local energy businesses have preserved, for the time being, the right to determine the external energy suppliers as well as terms and conditions of the commercial contracts. For the moment, it looks like the implementation of the Energy Union grand project will go on at a rather moderate pace since most of the stakeholders in the EU and the energy business believe that over-regulation is bad for stability, predictability, capital gains and cash flow, which is especially true for gas industry which is based on long-term commitments.

Yemen. A Dangerous Proxy War

One of the poorest Arab countries, Yemen, has turned into the most dangerous flashpoint in the world.

Every war always brings death, destruction and unhappiness to people. Civil wars are even more cruel and bloody. Some conflicts add destabilizing factors to other regions and create additional or exacerbate the existing problems. Yemen's war is of that kind. Some elements push to appreciate it as the most dangerous one for world stability than even the Ukrainian civil war, because it's threatening the main oil producing area of the world and some of the main oil transportation routes.

The problem with Yemen is not Yemen, although it's based on local sectarian and religious confrontation.

The country was always backward, albeit in ancient times that land is supposed to be the famous and prosperous *Arabia Felix*. Yemen was not a very stable state and was even more destabilized by the Arab Spring paroxysms. Consequently, the Arab Spring produced many political changes (see also:"Yemen as Saudi Arabia's soft belly. Now more than ever", EIRA, Volume 2, Issue 10, October 2014) and simultaneously reawakened frozen frictions and resentments.

Local elites found themselves split, including the administration and the army.

Separatism as an ideological driving force reappeared in the South: that part of the country was for decades an independent state with Aden as the capital city.

Tribes started a tug of war.

Religious differences between the Shiites and Sunnites turned violent.

Once instability settled in, radical Islam found it a fertile ground for proselytism, and the local branch of al-Qaeda became most efficient vehicle of the zeal to convert those not sufficiently pure. Recently, the supremacy of al-Qaeda was challenged by the followers of the Islamic State which is using the same kind of extreme ideology but has a different approach and goals. In that anthill the US security forces were conducting antiterrorist actions, mainly focused on drone killings, with the support of the local military.

Now the situation has exploded and we witness a full-blown civil war with Houthi (a branch of Shiite Islam) tribal forces having the military lead. Different fractions are also positioning themselves on the scene. Sunnite Saudi Arabia, sustained by its allies from the Gulf petro monarchies and also by Egypt and Pakistan, is waging an air campaign against the Houthis. The US is backing those operations. Iran is supposed to help their Shiite brothers, although Iranians are denying it. The intensity of air flights between Iran and the Houthi controlled part of Yemen suggests one should be careful with those denials.

The military side of the standoff is constantly evolving. That is not the topic of this particular analysis. We should focus on risks of the Yemen war to the world stability and oil supply.

Some elements should be taken into consideration.

1. The conflict could be directly linked to the ongoing negotiations about the Iranian nuclear program and the international sanctions against Teheran. Many regional actors, including Saudi Arabia (and Israel!) were unhappy about the perspective to see the end of Iran's isolation. They tried to complicate that diplomatic game which is not finalized so far.

2. Iran is unhappy with the Saudi's action against its Shiite allies in the Middle East, in particular with the civil war launched in Syria against the local Alawite (a branch of Shiism) regime. Yemen looks like a kind of revenge which amounts to stirring big trouble on the Southern border of Saudi Arabia.

3. The conflict in Yemen may be a prelude to a larger one between the Shiites and Sunnites for the control of territories and resources. So far it is limited to proxy's hostilities but at a certain stage it might go up to direct confrontation. Noteworthy, Saudi Arabia asked for Pakistani support. In that way Iran may perceive a danger also on the Eastern borders from a nuclear power, Pakistan. In case of a large and direct regional military conflict the consequences for oil supply and for the world economy are more than gloomy.

4. The economic background of that Saudi-Iranian confrontation is oil prices. It is supposed that one of the reasons of the Saudi desire to let drop the prices is their will to harm the Iranian economy which cannot sustain too low revenues from its export oil sales. The uprising of the Houthis in Yemen and the possible spill-over of the regional Shiite unrest is threatening the Saudi oil production. The main Saudi oil fields are located in the Eastern part of the country with a restive Shiite minority. So far, the Saudi managed to control them but the situation may explode.

5. It's interesting to note that the oil prices for months and even years are delinked from geopolitical developments. They are evolving by their own, ignoring wars and tensions, even in the oil rich Iraq and Libya. When the events in Yemen turned bloody, the market reacted. For the first time in months a geopolitical problem in the region had an influence on pricing. Business showed some concern because Saudi Arabia, the only oil producer able to rapidly increase its output, was directly involved. But there was no panic around future prices for a long term perspective, only for a short term.

6. The risks are linked not only to the Saudi production side, but also to the

transportation side. Iran is, to a certain extent, in control of the Ormuz Strait, the exit for the Persian Gulf oil. If Houthis are able to control, even partially, the Bab-el-Mandeb Strait, the route from the Red Sea, the navigation would be at risk. It's enough to hit and drown only one small oil tanker, even accidentally, to provoke a global panic.

The evolution of the Yemeni war is to be followed very closely.

Cyprus At A Crossroad

The Republic of Cyprus is facing a tough choice. More than a decade after joining the European Union the tiny Mediterranean country is discovering that the strategic goals it hoped to achieve inside the mighty grouping were regrettably not reached. Moreover, the EU partners have inflicted damage to island's economy and finances during the banking crisis.

The biggest problem for Cyprus is called "Turkey" which is occupying the northern part of the island where it has created a proto-state not recognized internationally. The EU affiliation has not allowed Cyprus, so far, to progress toward the reunification of the country and the normalization of relations with its powerful neighbour, Turkey.

The accession of Turkey to EU, in terms of formal procedure, has practically stalled, due also to the outstanding Cyprus' division problem. Brussels failed to help Nicosia in that perspective. Maybe, the EU made a mistake accepting Cyprus with its burden of territorial disputes, which is usually an insurmountable barrier for aspiring nations? Anyway, what is done is done.

The actual President, Nikos Anastasiades, went even further. In 2013, he proposed to abandon the neutral status and join NATO's Partnership for Peace program. Finally, Cyprus could become a bona fide member of the Atlantic Alliance and in that capacity a formal ally of the disagreeable neighbour, Turkey.

The idea was to guarantee in that way national security. But that approach was not welcomed by Cypriots and was tacitly abandoned.

Well, what to do now?

Apparently, being in a difficult situation Nicosia is keen to try all the options in order to combine their possibilities. The island has few competitive advantages, so it has to optimize whatever she's got.

On the energy side, it tries to attract foreign investors to prospect for off-shore natural. Border disputes with Turkey are complicating that task, with the Turks threatening to block access to their lucrative market to those foreign energy companies who would dare to partner with Cyprus. Italian Eni had experienced such a backlash. Russian energy majors are also careful: they are closely working with Turkey, especially Gazprom, and are keen to avoid any conflict.

Nevertheless, the off-shore testing works are in progress. Cyprus is playing the geographical card being nearer to the Middle East than to Europe. The country tries to closely collaborate with Israel. Recently, Nicosia signed agreements with Egypt and Jordan as well. Creating a regional gas production and distribution zone might be positively impact efficient growth for all countries in Eastern Mediterranean.

Cyprus also is attempting to position itself once again on the financial market as a hub. It can be noted that during the recent bank crisis the country performed better than imagined and was able to preserve the bulwark of its foreign investors. The crisis did not destroy the financial sector and the island is still seen as the "right place" in the Eurozone to deposit money. An estimated 400 billion euro fled to other financial heavens, mainly to Austria and the Baltic states but still the banking system is well alive, while the imposed drastic cure provoked a lesser recession than expected (-5.4% instead of 9% in 2013, -2/8% instead of -4% in 2014). Nicosia is back on the bond market, its financial rating (Moody's) is B3, and the only worry is the unemployment which is too high (16%).

Besides, many reforms demanded by the unbending "troika" of lenders were not carried out.

Obviously, events in Greece and the change of political course in Athens with the new SYRIZA Government have its influence on Cyprus. The growing demand for an anti-austerity political choice has supporters in Nicosia, but during the first crucial session of EU finance ministers in Brussels the Greek minister, Yanis Varoufakis, received a tough ultimatum from his Eurozone colleagues, including the one coming from Cyprus. This is a sign that the country is looking for new ways to tackle crisis but, so far, doesn't want to break the EU rules. However, Cypriots may align to the Greek approach amid intellectual turmoil in Europe in the search for sound and feasible solutions to the seemingly endless crisis.

True, the banking crisis in Cyprus has done damage to the EU reputation and to its perception by locals. *The New York Times* newspaper recently quoted some country's inhabitants saying that EU "instead of helping us, acted like they didn't know us" or that the bail-out procedure used for the first time to solve a financial crisis "was an experiment". "If worst comes to worst, Cyprus will collapse." As an opposite approach to the islands ills, the article tells the story of an important American investor, Wilbur L. Ross Jr., who is betting on Cyprus good economic performance.

Finally, Cyprus also is exploring the possibility to reestablish some privileged relation with Russia, an old partner of the island. The President Anastasiades visited Moscow at the end of February and signed a dozen bilateral accords, including a military one regarding the possibility for the Russian navy to enter Limassol port, and another one easing the terms of repaying the Russian loan. Moscow is also studying the possibility of easing for Cyprus its embargo targeting the EU exports of agricultural products.

The message seems clear. While Brussels is behaving as a stepmother, old friends from Moscow are providing help despite being themselves in a difficult economic situation. But right now it's difficult to understand the extent of the attempt to recover some independence within the EU or to influence the EU from inside in order to push forward substantial changes in its policies and goal setting. Yet, maybe this tentative (and limited to Cyprus' possibilities) all azimuth geopolitical approach is simply a bargaining position and not a sign of a disenchantment with the political choice it made a decade ago of joining the EU?

Volume Up For Trans-Caspian Pipeline's Battle Cry

The EU quest for additional natural gas suppliers has intensified in recent months in view of the collapsed South Stream pipeline project and the bogged down civil war in Ukraine, threatening transit from Siberia to Europe, as well as misty perspectives of upping deliveries from traditional North African energy providers.

With an even more limited scope of alternatives, Vice-President of the European Commission for Energy Union Maroš Šefčovič decided to sally forth to bring on board the second (or third) world largest gas producer, Turkmenistan. It came to pass that during his scheduled visit to this Central Asian nation VP Šefčovič plans to raise the still controversial issue of constructing the Trans-Caspian gas pipeline to pump gas westward and thus reach out to the European end-users.

With upbeat statements voiced in Ashgabat, there is a fair share of probability that the politically-laden project may eventually materialize. Turkmenistan has recently reiterated its intention to finalize an internal pipeline named "East — West" by the end of 2015. The new infrastructure would allow Turkmen producers to aggregate in the coastal area of its sovereign part of the Caspian Sea, vis-a-vis Azerbaijan, some 30 bcma derived from both onshore and offshore fields.

Coincidentally, the much-talked about Trans-Caspian gas pipeline is projected exactly at 30 bcma capacity. As reported, the EU takes a flexible approach, regarding these volumes as a desirable maximum but ready to be satisfied for the time being with the supply of 10 bcma of Turkmen gas which is comparable to the amount of Azeri gas earmarked to be channeled from the Shah Deniz II field to Europe along the TANAP network starting from 2019.

Yet, the untapping of Turkmen energy Eldorado is not guaranteed. The problems the government in Ashgabat faces on its way to Europe are numerous and complex. From the technical point of view, the main stumbling block is the absence of either underground gas storage facilities on the Turkmen side of the Caspian coast or the pipeline to deliver gas across the watery plain.

The technicalities of the new route of gas delivery are not limited to these two issues. In theory, the flow of Turkmen gas could be sent through part of the Trans-Anatolian Natural Gas Pipeline (TANAP), the centerpiece of the EU-propelled Southern Gas Corridor, which would serve for the transportation of gas from Shah Deniz field from the Georgian-Turkish border to the western frontier of Turkey.

But, as Shakespeare would have put it, "there is the rub", for the design, throughput capacity, caliber of pipes, construction blueprints and investments are all subordinate to the original agreement and arrangement to delivery only 16 bcm per annum, and not as cubic meter in excess of this fixed amount.

No doubt, the EU would entertain the idea of laying another formidable trunk pipeline in parallel with TANAP, since the geological and other technical feasibility studies are already conducted and approved. The new pipeline would demand quite extensive financial commitments by investors. They could emerge, once again in theory, provided the EU offers lucrative incentives and preferential treatment. Turkey would be eager to welcome foreign investments as well given its apparent ambition to gradually evolve into a key regional energy hub.

Ankara is happy with the current Ashgabat's policy of selling its gas at the border which leaves the wholesale buyer that is Turkey with the opportunity to act as a major seller and distributor. Yet, this is not given because the EU heads of state and governments have repeatedly hinted they were somewhat apprehensive of having to deal with a more assertive Ankara in control of major energy streams.

On top of that, the feasibility of the Trans-Caspian gas pipeline largely depends on any temporary compromise to be reached between the five littoral states which remain at odds with each other over the legal status of the sea (or lake). Such a compromise is nowhere to be seen for the moment, despite the resolute political backing by the European Union which declared that the construction of the Trans-Caspian gas pipeline is the sole sovereign prerogative of any of the five seashore countries whichever decide to build it, and no objections are applicable or valid.

If this is not a classical case of geopolitics affecting geo-economics, what is? However, market fundamentals should not be underestimated. The politicians in Baku wholeheartedly support the concept of the South Gas Corridor to get access to the European customers, but would not be happy to allow the Turkmens with their cheaper gas compete with the Azeri gas and possibly beat them hands down.

It is no big secret that the complicated geology of the Azeri oil and gas offshore fields require sophisticated technology and highly-qualified personnel, and it adds up to the final costs and drives sales' prices up.

Were it not for the EU insistence, it is all too probable that Baku would have silently blocked any attempts of Ashgabat to gain a foothold on the European energy market. There should be no illusions: there are no geopolitical considerations behind the thinly veiled jealousy, only business. It is only about the natural competition between Azerbaijan and Turkmenistan for European market access, long-term capital gains and short-term yet thick cash flows.

Then again, the local rivalries should be projected on the "grand game" around energy involving major international players, like China. Beijing has a signed long-term contract with Turkmenistan to import 65 bcma once the fourth branch pipeline is put online, and Ashgabat has made a commitment to supply around 80 bcma to China by 2020. The energy-hungry China is expected to face gas consumption of 300-400 bcma by 2020 with the necessity to import 110-140 bcma.

In principles, experts believe Turkmenistan could up its gas production to 100 bcma by 2030 but with one prerequisite: there would be no shortage of investments, and foreign partners would be eager to supply top notch equipment. The latter is a must since Turkmen raw natural gas contains excessive percentage of hydrogen sulfide (or carbon dioxide), a colorless substance with a rotten-egg odor. A lot of effort should be put into the technological process of removing those impurities to acceptable levels.

This is not a cheap enterprise; it would be reflected in the wholesale price. Basically, it would put pressure on the contractual bond between Turkmenistan and China based on a moderate pricing formula favoring the number world economy. The formula was hammered out by the reputedly ingenious Chinese negotiators who were acting with the blessing of the supreme political leadership in Beijing known for their flexibility and rigidity too.

It all makes the task of Vice-President of the European Commission for Energy Union Maroš Šefčovič to strike a deal with the rulers of Ashgabat a mission almost impossible. In any case, the first battle cries over the Trans-Caspian gas pipeline have sounded the alarm for a number of both local and extra-regional actors.

De-Sanctioned Iran Will Not Rock The Oil Markets

The tentative agreement resulting from an 18-months negotiations' marathon in Switzerland and signed by Iran and six world powers (P5+1) has raised chances of taking out the issue of Iran joining the nuclear club from the global agenda.

Yet, licensed sceptics, and many they are, wrap it up in prudent comments like "celebration would be premature", "understandings reached these days in Lausanne… are fragile", "caution is the order of the day", "uncertain promise of a better future", etc. Despite reasonable reservations about the achieved consensus and whether it will produce the final settlement to be signed and sealed at the fixed date 30 June, there is no denying it is a major diplomatic breakthrough.

It does not look like a wishful thinking that the US president Obama declared that Western allies had "reached a historic understanding with Iran". While the Iranian Foreign Minister Mohammad Javad Zarif called it a "win-win outcome".

Iran's commitments to ensure the peaceful nature of its atom appear to be comprehensive or at least sufficient to allay worries of a Shiite atomic bomb. Iran pledged to cut the number of centrifuges from 19,000 to 6,104 and reduce its painfully accumulated portfolio of enriched uranium from 10 tonnes to 300kg.

On top of it, the almost complete nuclear reactor at Arak will be redesigned, while works on enrichment at the Fordow facility will be frozen for 15 years. The terms and conditions of the framework agreement imply Iran's partial denuclearization, and it amounts to rolling back decades of its painstaking build-up of nuclear power generation to achieve energy self-sufficiency.

In return, conditional on the International Atomic Energy Agency confirming Iran's compliance, the US and EU promised to suspend the sanction regime with the exception of punitive measures related to security (terrorism), ballistic missiles, and human rights abuses in Iran.

The cancellation of economic sanctions would allow for an unhindered upgrade of oil exports, the main source of Iran's revenues.

If taken at face value, lifting the constraints on Iranian oil exports would enhance the Saudi Arabia's original drive to push down prices. On the outset, it did happen: in the first 15 minutes after the news of the deal struck in Lausanne jingled through the wires, Brent crude price fell 4.6% to $54,23.

It is a known fact that Iran has some 30 million barrels on board supertankers ready to deliver it to the highest bidder. In theory, Tehran could add to global oil exports 1 million of crude per day during a month. But what might be the commercial rationale of such a move? Euphoria from escaping the sanctions is counted out.

Iran has been vehemently complaining about the low prices established almost arbitrarily by the dominant OPEC member, Saudi Arabia, its archrival and the informal leader of the alliances of the Sunni states now clinched in mortal combat with the Shiite rebels in Yemen. An additional million of crude would enhance the oil glut, tighten the bear hug over the prices, and prolong the shift of power in favour of the consumer nations. It hardly fits into Iran's long-term interest.

For the moment, Iran produces some 2,85 million bpd, exporting one million, predominantly to Asian countries with China as the number one buyer. The strategic reserve of 30 million barrels, if infused into global supply, would have a limited impact on the markets and, consequently, would not push down prices.

Actually, a new trend gains momentum. It has been reported on 6 April that demand is picking up in Asia. Saudi Aramco reacted immediately by raising sales prices for the month of May. The markets responded accordingly: Brent climbed 1,6% while WTI went up by 2,3%. This development is most beneficial for Iran as well since after the introduction of Western sanctions it had re-oriented its oil export flows from Europe to Asia. Now the wind would blow into its sails too.

It is not something that would please Saudi Arabia since its bearish policy on oil prices was intended to damage Iranian revenues from hydrocarbon exports.

However, the second victim, or rather the first one, of Riyadh's heavy-handed administration of the oil markets will continue to feel the heat. Saudi's crude will be even cheaper in May than in April for clients in Western Europe (price cut by 20 cents per barrel) and the US (down by 10 cents).

Riyadh's two-track policy reveals its secret destination. Cheap Saudi crude has already taken its toll: since October, the number of operating oil wells in the United States was halved, as reported by AFP. Saudi Arabia's manipulation with oil prices seems to be bearing fruit suffocating the American marginal shale oil producers, and setting the stage for the return to a tight global market.

However, should this happen, meaning, should the bull's trend take the upper hoofs, it will replenish the coffers of Iran with extra petrodollars to the annoyance and distress of Saudi Arabia. But this is the way the interdependent energy market functions: the more there is of mine, the more there is of yours. Just like Javad Zarif has phrased it: a "win-win outcome", albeit the warring kingdom would have preferred it to be more of the traditional zero sum game.

In any case, Iran set free to re-enter the Western domains of global energy market does not have neither the resources nor the political will to jump at this opportunity. A least, Iran will not rock the oil markets with extra supplies, although it would be foolish not to capitalize on the revitalized demand in Asia. The state-owned National Iranian Oil has announced on 6 April it was upping forward prices in May for its "black gold" destined for Asian clients. In April, Iranian Light was traded with a 70 cents discount to prices of Oman and Dubai, while in May the spread will be narrowed to 40 cents.

There are grounds for a conclusion: Iran adjusts fast enough to the new realities. Why? The local managers in charge of the economy, despite the subordination to the spiritual chieftains, must have learned on the job. At least partly, they owe their newly acquired agility to the pressure of the Western sanctions.

Open Forum

A Xinhua News Agency Interview About Greek Prime Minister Alex Tsipras' Visit to Moscow

XINHUA: What can Greece expect from the forthcoming visit of PM Tsipras to Moscow? Is there prospect of Russian financial aid to debt laden Greece in the short future in any form?

G.HATZIIOANNOU: Simply adding new sources of money lending would be another meaningless move. These policies have already made Greece's debt impossible to be serviced without turning the country into an almost seventeen century style colony. What Greece needs in order to meet its financial obligations, is to create a healthy economic environment through mutually beneficial cooperation programs with friendly countries like Russia and China and not by getting new loans which will only service part of the ever increasing interest we are forced to pay. To that effect, I believe Mr Tsipras will try in Moscow to attract Russian investors and get them involved in major energy, infrastructure, trade, tourist and other programs in Greece.

It would be a worthy contribution stimulating the production sector of the Greek economy and not adding to the portfolio investments which are generating paper money for the few.

XINHUA: Do the EU and West in general have reasons to fear an upgrade of Greece-Russia ties? Are Alexis Tsipras and his government pro-Russian or Athens is just using the strengthening of bilateral cooperation as a negotiating tool in ongoing talks with international creditors over the Greek debt crisis?

G. HATZIIOANNOU: Any fear coming from the West about the possibility of upgrading the Greek-Russian relations is misplaced, because it was exactly what Western companies did when they rushed to do big business with Russia, while offering perks and peanuts to corrupted officials during the Yeltsin period, immediately after the collapse of Communism. What the West really fears today is that the economically weak European countries, apart from Greece, might choose a model of development not controlled by Brussels' bureaucracy. The EU should not be in position to forbid Greece to sell its small quantities of agricultural products abroad, while at the same time the stronger EU members and the USA are free to enjoy the benefits of doing huge business with any foreign country they wish.

A few years ago a short tour to any Russian commercial street would be more than enough to prove that Russia was flooded with Western products. Those fearing Turkish Stream coming to Greece with Russian gas should be aware that Athens is pursuing a balanced foreign policy, rendering full support, for instance, to the TAP project as part of the EU-sponsored and US-blessed South Corridor. Those who are warning against a possible upgrade of Greek-Russian business ties, should be reminded that the almost bankrupt Athens signed some days ago a 500 million defense procurement program stipulating the purchase of obsolete military jets made in USA and nobody in the European Union objected to that.

XINHUA: Could such a bid backfire and lead Athens to isolation in Europe or could Athens gain by playing the geopolitical card and holding the productive role of a mediator between Moscow and Brussels regarding the Ukrainian crisis for example?

G.HATZIIOANNOU: In a democratic Europe, all EU member states should be free to promote their interests in order to upgrade their economic and social situation. Greece is not running the danger of being isolated, mainly due to its geopolitical importance. This geopolitical importance, along with tourism, agricultural

products and the technologically upgraded services she is able to offer, substitute for the lack of heavy industry and other profitable assets enjoyed by other western European countries.

The intention of the government of Alexis Tsipras to pursue a wise, balanced and peaceful policy will play a decisive role in escaping from the financial trap. Thus, Greece acting as a benevolent mediator, bringing together the European Union with foreign powers like Russia, China, USA etc., to the benefit of all, is a policy worth pursuing.

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A Suggestion To The Government Of Greece: Take 'Recessionary' (In Other Words 'Development') Measures Immediately

The assurance provided by Greek government officials that, regardless of the budgetary and funding gap of the Greek economy, no 'recessionary' measure will be taken, strikes fear in the minds of every reasonable citizen. This is the case since, even if the measures pertaining to the containment of the public expenditure or the reduction of the budget deficit actually had recessionary effect (which under the current conditions of the Greek economy it is certain that they will not), there would still be no alternative and more favourable option than these.

The alternative scenario is simply the bankruptcy and collapse of the Greek economy. One ponders whether it is less 'recessionary' for the Greek State to go bankrupt, for the credit system to collapse, for transactions to freeze and potentially for us to need to introduce a new currency with thousands of new unemployed and others struggling to survive than it is to adopt measures which will either stabilise public expenditure in order to eliminate a fatally threatening - given the current politico-financial and diplomatic circumstances - financial gap of 2, 5 or 10 billion euros.

With all due respect to the titles and prestige of the wise men of the government - their alleged Keynesian-originated argument that the 'austerity' of the Memorandum led to the collapse of the GDP which they call 'recession', requires a paradoxical fundamental premise which does not seem particularly Keynesian: this is that Greece should steadily and consistently receive ex gratia benefits of 40-50 billion from its partners on a yearly basis in order for its GDP not to collapse!

The 200 billion euro increase in the public debt during the period of 2000-2010, which in turn resulted in a cumulative decline in GDP of 60 billion euro is not compatible with any version of the Keynesian theory. The crisis was triggered in this period through a dual process. The first was that Greek society, completely misguided, considered that the 20 to 30 billion euros which as state and private sector loans were received every year amounted to real income. In light of this, Greek society formed the respective 'luxury' structures: the proportionately largest construction sector in Europe, the proportionately largest retail sector in Europe in which one could find all the goods at prices higher than those in Geneva etc. The second process was that the flooding of public loans was also used to further expand the already beneficial funds to the client state which was founded in 1949 and later upgraded after 1981.

The crisis completely eliminated the first part of the 'irregularity' of the first Greek decade in the euro that in other words which related to the private sector, thereby leading a million people to unemployment.

However, for the past five years, the struggle has been endured for the second part. Different governments, each with its own different arguments, are refusing to demolish the clientelist state with the vain illusion that they can overcome the crisis, thereby further exploiting the private sector. This is of course a sham. Even if the country goes bankrupt, introduces the drachma or yen, relieves itself of all of its debt or discovers oil, nothing will change unless the clientelist state is demolished. In other words, the following must

be abolished: the 20-year premature retirements, the public salaries, which are, double those of the same job in the private sector and the pensions of the 'rich' which are financed by the community and are double the amount of those of ordinary mortals! This, moreover, is not only an immediate need but also an imperative of social justice.

Fortunately or unfortunately, there exist a series of immediate efficiency measures which can reduce public expenditure and increase public revenue, thereby eradicating the fiscal gap. Such measures are not only not 'recessionary' but are, to the contrary, developmental. The economic policy which runs counter to parasitism and helps maintain the balance between the income level and the productive potential of the country cannot be 'recessionary'. Neither would any measure which prevented the creeping panic which prevails in society and built confidence and instilled a sense of security among agents of production economy.

What is more important is this: even if we lived in the imaginary world of Doctor Pangloss and the required measures were truly 'recessionary', they would still need to be adopted and implemented because there is no greater 'recession' than bankruptcy and the demise of the national economy.

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