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EU Southern Corridor — The ‘New Silk Road’

Law360, New York (June 05, 2009) -- After four years of intensive dialogue with participants of the energy sector in Central Asia, the Southern Caucasus and the Middle East, the European Union is moving forward with concrete commitments to make the planned energy supply route from the Caspian region, through Turkey, and into Europe (known as the Southern Corridor) a reality.

The EU Southern Corridor Summit (the Summit) was held in Prague on May 8, 2009. The Summit aimed to establish a common strategy of seeking alternative energy supplies and transportation routes, in order to reduce the European Union’s energy dependency on Russia.

A joint declaration (the Declaration) was signed by the European Union, Azerbaijan, Georgia, Turkey and Egypt. These participants either are key suppliers of natural gas or crucial transit countries, or both.

However, gas-rich countries such as Kazakhstan, Turkmenistan and Uzbekistan did not sign the Declaration. Russia, Ukraine and the United States were invited to attend the Summit as observers, as were members of various international financial institutions such as the European Investment Bank, the European Bank for Reconstruction and Development and the World Bank.

New Silk Road

The Declaration envisages a "New Silk Road" to Asia, creating common prosperity, as well as stability and security to all participants involved. It offers an ambitious outline of how the Southern Corridor of pipelines is to be extended, connected or upgraded.

The Declaration enables the European Union to move forward on the construction of three pipelines in the region, which will bring gas supplies from the Caspian Basin and the Middle East into Europe.

The three pipelines along the Southern Corridor are Nabucco, which runs from the eastern border of Turkey to Austria; White Stream, which runs from Georgia under the Black Sea to Romania; and the Interconnector between Turkey, Greece and Italy (ITGI).

All three pipelines combined could supply up to 60 billion cubic meters, or 10 percent of the European Union's total gas demand by 2020. Currently, Russia provides the European Union with approximately 150 billion cubic meters annually, and that figure is not expected to rise significantly.

Joint Declaration

The Declaration commits the European Union, as a consumer, to providing producer countries with reliable commitments on aggregate demand.

The Declaration also commits producer countries to identifying additional volumes of gas and oil that have not already been commercially committed, and which can be dedicated specifically to the European Union.

In addition, the Declaration recognises explicitly the need for commitments from transit countries to a long-term, predictable and stable regulatory regime. The key elements of the Declaration included the following:

- Offering the necessary political, technical and financial assistance to the construction of the Southern Corridor, in order to support the diversification of energy sources, markets and transport routes;
- Providing transparency, competitiveness, long-term predictability and stable regulatory conditions in order to underpin the realization of concrete infrastructure projects in the framework of the Southern Corridor;
- Devoting public and private financial resources necessary for the realization of the Southern Corridor, including encouraging the market-based participation of public and private companies;
- Attaining energy security for all participants, including the European Union and transit countries, on the basis of commercial agreements that are in line with the participants' international commitments;
- Promoting maximum energy efficiency and use of renewable energy as an important element for successful cooperation in the field of energy;
- Sharing technologies, knowledge and know-how for the development of energy resources, their transportation and technical upgrading within the Southern Corridor;

Implementing a transparent, cost-based, stable and nondiscriminatory transportation regime for gas or oil across the territories of the Southern Corridor;

- Extending the European oil and gas transport networks to Turkey, the Southern Caucasus and Central Asia along the Southern Corridor, including connections to the Middle East;
- Harmonising customs and excise procedures and cross-border barriers, in order to ensure fluid movement of all kinds of goods as a basic condition for the deepening of trade among the involved countries.

Implementation

With respect to implementation of the Declaration, the European Union and the signatory countries will develop an action plan seeking to achieve the following milestones:

- For the EU Member States concerned and Turkey to finalise the negotiations of the intergovernmental agreement on Nabucco by the end of June 2009;
- For the European Union and the relevant countries to conclude a feasibility study on the Caspian Development Corporation initiative by the end of 2009;
- For the EU Member States concerned and the relevant countries to progress further on the timely realisation of the ITGI project;
- For the European Union and Iraq to sign a Memorandum of Understanding as soon as possible.

Conclusion

The Russia-Ukraine gas disputes during the past two winters have made it imperative for the European Union to seek alternative supplies from the Middle East and the Caspian Sea. The Southern Corridor is one of the European Union's highest energy security priorities to develop energy supplies which is not contingent on Russia.

It is envisaged that the success of the Southern Corridor will benefit all sides. For energy suppliers, new pipeline projects will provide business opportunities to access new markets in the European Union. For transit countries, new pipeline projects will enhance their own energy security, while benefitting from reasonable revenues from their energy transportation businesses.

Finally, for the European Union, new pipeline projects will play an important role as a major energy infrastructure initiative contributing to diversification of energy sources, and routes for supplies.

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