



THE 3RD CASPIAN CORRIDOR CONFERENCE
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT
12 MARCH 2015
LONDON

Building a Secure, Diversified Energy & Economic Corridor from Europe to Asia

The Caspian Corridor countries of the Caucasus' and Central Asia's oil and gas exporting markets remain on course for softer but strong 6 percent growth despite the drastic slide in oil prices and weaker growth in trading partners, Russia, China and Turkey. A region in the midst of profound economic transformation and complexities, the energy triangle between Azerbaijan, Kazakhstan and Turkmenistan reveals a confluence of new regional and global investment relationships creating a new economic architecture of energy and infrastructure. Incrementally and collectively, these projects will realise a trade corridor over the next decade that will diversify energy supplies as well as the flow of goods and services between Europe and Asia.

Azerbaijan's \$45 billion Southern Gas Corridor projects broke ground in September with the BP-led consortium to develop the second phase of the Shah Deniz gasfield and construction of the 3,500 km Trans-Anatolian Pipeline (TANAP) and Trans- Adriatic Pipeline (TAP) via Georgia across Turkey to Europe. TANAP and TAP will bring gas to Europe by 2020, where Azerbaijan hopes to meet 20 percent of European energy security as a trusted and reliable partner. Like the Baku-Tbilisi- Ceyhan (BTC) oil pipeline, a decade ago, Azerbaijan has become the fulcrum enabling Turkey to become a global energy hub between Europe and Eurasia, and later the Middle East with Iraq, Iran and Israel. The Baku-Tbilisi-Kars (BTK) railway will connect the Caspian region directly to Europe by commercial rail for the first time in a century later this year, a critical piece of the transport corridor between Europe and Asia. Recently, ICT agreements have accelerated to complete the Trans-Eurasian Information Super Highway (TASIM) fiber optic backbone to connect Frankfurt to Hong Kong, anchored by Azerbaijan.

Kazakhstan's massive oil wealth and regional leadership offer groundbreaking potentially market-making trends for the region. Kazakhstan has launched the region's first major non-oil sector international tender for a \$680 million public-private partnership to unlock urban congestion around major hub Almaty, with the EBRD, World Bank and IFC as advisers. The EBRD believes the transaction, if successful, could set off a wave of PPP infrastructure projects, including light rail in Almaty to operating contracts for the vast western China-Russia highway. Kazakhstan's state railway, KTZ, already plans to spend \$44 billion over the next five years to reduce travel to Europe to ten days. Where maritime shipping to Europe from China requires 60 days, shipments from China to Europe in the first year of the Khorgos line increased 80 percent since 2012 and will nearly double again this year. Carriages no longer return empty but filled with high-end products from Europe, raising revenues and reducing costs. Although profits and international investment have fallen, economic challenges across the region have had the salutary effect of redoubling efforts in innovation, restructuring and global partnerships. Astana has moved boldly into the enormous potential of its mining sector, roadways, rail projects, industry and financial restructurings.

Turkmenistan has already seen the construction of the world's largest gas pipeline, built in a year, to China, its largest market. With the world's fourth largest gas reserves, Turkmenistan is concluding tenders for a Total led consortium to build the innovative Turkmenistan-Afghanistan-Pakistan-India gas pipeline (TAPI) to carry gas, and long awaited financial dividends, to South Asian neighbors. Europe also hopes to benefit from Turkmenistan's gas reserves and economic growth, projected at 12 percent through 2016, and to continue boosting EU business cooperation on energy, power and other sector expansion.

Parallel to energy, a powerful new economic architecture is emerging of transportation and communication infrastructure, ranging from ports, to rail, road, fiber optic cable and satellites that may realistically transform trade and close the distance between Europe and China.

The new backdrop is the visible implementation and powerful incentives of China's New Silk Road economic belt vision to build three overland routes across Central Asia, and Russia, to Europe and the Middle East, to foreshorten maritime routes and provide direct trade access. This vision is taking tangible shape with incremental development of rail and roadways. The \$50 billion Asian Infrastructure Investment Bank (AIIB) in 2014 with 21 Asian nations will boost supporting infrastructure alongside China's major investment and influence in the region.