

# CCEE POLICY BRIEF

March 2015 | No.12



## THE NEW GREEK GOVERNMENT: IMPLICATIONS FOR AZERBAIJAN'S DESFA PURCHASE \*

### Background

The victory of the leftist Syriza party in the recent Greek elections was largely welcomed by Moscow, not because the party's policies are radically pro-Russian, but rather because its leadership has stated its resistance to a number of Brussels-led policies. In this sense there is a similarity to certain other European political parties in the EU member states, such as Jobbik (Hungary), National Front (France), and the National Democratic Party (Germany). The statements by the new Greek government have also destabilized the regional energy matrix. On February 10 2015, the new Energy Minister, Panagiotis Lafazanis, announced that the public companies - Greece's Public Power Corporation (DEH) and Public Gas Corporation (DEPA) - will no longer be privatized. Meanwhile, Syriza's 40-point party manifesto highlighted the "nationalization of ex-public companies" and committed to "increase inspections of requirements for companies making bids for public contracts". Now, the key question is how far the decision on DEPA will impact Greek gas transmission operator DESFA; Azerbaijani SOCAR has signed a deal to purchase 66% of DESFA's shares. In this regard, Lafazanis has stated that Greece is awaiting the final results of the EU's investigation on the purchase of DESFA, though the previous government had given its full support for the sale of shares to SOCAR.

### Analysis

In 2013, SOCAR bid in the tender to purchase the Greece's DESFA, a subsidiary of DEPA. Russian Gazprom also participated in the tender for DEPA, and proposed the highest bid but ultimately the privatization failed because of a lack of formal bids. Being a main shareholder in DEPA would also enable Russia to control DESFA. This posed a serious concern in terms of Russian dominance in Southeast Europe. In light of these geopolitical risks, in early 2013, Washington and Brussels urged Athens not to let DEPA fall into Russian hands. As a result, Gazprom voluntarily withdrew its bid, justifying its action on the grounds of DEPA's financial position. Although Azerbaijan's offer was smaller, SOCAR was in a position to win the tender. At that time, the Shah Deniz consortium was in the midst of final decision process for the selection of either TAP or Nabucco-West as the pipeline of choice. Azerbaijan's SOCAR was able to use selection of TAP as a "negotiation card" in its discussions with Greece in order to persuade the (now former) Greek government to award them the tender.

**Ilgar Gurbanov is an analyst on Russian Foreign Policy and Energy Security of Strategic Outlook from Azerbaijan.**

ISSN 2313-1233

9 772313 123004

After SOCAR signed a deal to purchase 66% of DESFA, the next step should have been approval from the Regulatory Authority for Energy of Greece (RAE). However, the European Commission intervened, and asked the RAE to block SOCAR's purchase, claiming a breach of EU regulations. The EU's Directorate General for Competition officially launched an investigation into the sale of DESFA shares to SOCAR, in order to clarify whether the acquisition of DESFA is compatible with EU merger regulations. According to the EC, SOCAR's involvement in both production and sale of natural gas in Greece may hamper the competition in the upstream market in a discriminatory manner. Specifically, it may: prevent third companies from accessing the Greek gas transmission system; increase domestic gas prices; restrict additional gas flow into Greece while favoring SOCAR's own supply; restrict investment in expansion of import capacity, as well as limit the capacity of Revythoussa LNG terminal and interconnections between DESFA's network and TAP pipeline. The investigation is supposed to last for up to 90 working days.

The purchase of DESFA is very important for SOCAR. Along with TAP, it will boost Azerbaijan's influence in Southeast Europe's energy markets, providing direct access to consumers via Interconnector Greece-Bulgaria, in which SOCAR will be a stakeholder with DESFA's 50%. DESFA also owns the Revithoussa LNG terminal, which is under consideration for the future import of Mediterranean gas, which will enable SOCAR to deliver East Mediterranean gas to Europe via DESFA's pipelines.

Furthermore, Greek Energy Minister Panayiotis Lafazanis stated that, "Greece will support the TAP, but in a way that will maximize Greece's benefits from the project". "Greece's benefits" are clarified in Ekathimerini.com, which wrote Greece seeks to obtain a stake in TAP, revise the transit fees and price discounts for Azerbaijani gas, and sell only 49% of DESFA rather than the previously agreed 66%.



These issues were likely on Lafazanis's agenda during his visit to Baku to attend the meeting of Southern Gas Corridor's Advisory Council on February 12 2015, where he asked for compensatory measures emerging from the construction of TAP. It is clear that Lafazanis came to Baku brandishing the "DESFA card", aiming to set forth the new government's demands. Meanwhile, the Vice-President of SOCAR, Elshad Nasirov, has already clarified Azerbaijan's position on Greece's demands: "SOCAR is ready to sell part of its share in TAP to Greece, but at the present time it is impossible to reduce the price of Azerbaijani gas for Greece. Tariffs increases should be addressed at the EU level."

Azerbaijan is willing to make concessions on Greece's potential share in TAP, but not in relation to gas prices and tariffs.



Interestingly, Belgian natural gas operator Fluxys, which holds 16% shares in the TAP Consortium, was planning to join the tender for DESFA in 2012. According to sources, Fluxys is monitoring the sale of the 66% DESFA shares to SOCAR, which indicates that Fluxys is still interested in buying a stake in DESFA in the event that the EU blocks the transaction.

The new Greek government also supports transporting Russian gas from the Turkish-Greece border onward via Interconnector-Turkey-Greece-Italy (ITGI), as an extension of the Turkish Stream through Greece to Europe. It is also possible to deliver Russian gas via the Interconnector Greece-Bulgaria to Bulgaria and onwards. DESFA, meanwhile, is also a stakeholder in the IGB pipeline, which will pump Azerbaijani gas from TAP.

The key question now is how Greece will come up with the financing for ITGI, given its economic situation and ongoing debt talks with the EU. ITGI, which was phased out by the Shah Deniz consortium in favor of TAP, failed because of financial problems on the part of Italy and Greece and its effect over Edison-DEPA venture and DESFA, even though most of the pipeline was operational and able to carry out reverse flow. The re-implementation of ITGI requires new talks and money. In the meantime, Russia may book a spot in TAP as well due to the EU Commission's Regulation, which granted "Third Party Access" exemption to 50% of TAP, while left another 50% for Third Party Access. This could enable Russia to request TPA to transport its gas via TAP (as a supplier, not an owner), or the construction of additional entry/exit points along the Turkish-Greek border for sale of its gas. This would put Russian gas in competition with Azerbaijani gas along the same routes and pipelines.

## Conclusion

To sum up, the statements of the Syriza government in Greece has raised questions about the fate of the Southern Gas Corridor. Meanwhile, the so-called Turkish Stream has emerged as potential challenger to Azerbaijani gas exports to Southeast Europe. By transporting Russian gas via ITGI and Azerbaijani gas via TAP, Greece wants to pursue a balanced energy policy, playing to both Russia and Azerbaijan. Nevertheless, the realization of ITGI remains doubtful given its previous failure due to financial problems.

On the other hand, the new demands by the Greek government regarding TAP in addition to the ongoing acquisition process of DESFA represent further challenges to Azerbaijan's energy policy. Greece's requests to increase tariffs and decrease gas prices are linked to its huge debts and the national economic crisis. Those demands stand to jeopardize the Southern Gas Corridor. Being a major shareholder in DESFA will position Azerbaijan as a major actor in the Southern Gas Corridor gas chain.

Meanwhile, the EU investigation into the legality of SOCAR's purchase of DESFA is based on the principle that an energy company cannot simultaneously own the pipeline, produce the gas, and sell the gas. Therefore, in his speech at the Munich Security Conference 2015, President of Azerbaijan Ilham Aliyev referred to the need for efficient coordination, greater flexibility and trust, strong support and a strategic approach on the part of the EU, in order to avoid wasting time through bureaucratic procedures. President Aliyev also stated, "I think there should be a special approach to this particular project - maybe to separate it from the general rules and procedures that sometimes take a great deal of time." This was a clear reference to the EU's investigation of DESFA. In fact, SOCAR's acquisition of the majority shares in DESFA will enable the modernization and liberalization of energy markets, rather than limiting competition or causing prices in Greece to rise.

Caspian Center for Energy and Environment of ADA University welcomes submission of policy briefs by researchers and practitioners working on Caspian energy and environment issues. Policy Briefs are relatively short analytical papers (usually not exceeding 1400 words) focusing on causes and implications of energy and environment related trends in the wider Caspian region. Research should cover one of the hot topics on energy sector, mainly on the major technological, economic, social, political and regulatory trends influencing the energy and environmental issues in the Caspian basin and address a clear question with the pragmatic focus on current developments and prospects of the issue. Policy briefs are expected to provide well-explained and evidence-based arguments. Researcher should stay focus on the problem, and its important dimensions, and offer viable recommendations together with justifications.

By sticking to its primary goal on generating research-based information in the field of energy and environment, CCEE expects policy briefs to contribute to the process of advancing the understanding of readers in the field. Ethical and objective approach of the researcher is highly appreciated by CCEE.



**Caspian Center for Energy and Environment**

ADA University  
11 Ahmadbey Aghaoglu Street  
Baku, Azerbaijan, AZ1008

**Tel** : [+994 12] 437 3235 ext 307

**Fax** : [+994 12] 437 3236

**E-mail** : [ccee@ada.edu.az](mailto:ccee@ada.edu.az)

**Web** : [www.ccee.ada.edu.az](http://www.ccee.ada.edu.az)  
[www.ada.edu.az](http://www.ada.edu.az)