

UDC 327

Geopolitics

**NORMATIVE AND GEOPOLITICAL DIMENSIONS OF EU'S ENERGY POLICY:
THE CASE OF SOUTH CAUCASUS***A. Terzyan*

During the first decade of the 21st Century, energy security has emerged as a key issue on the European policy agenda. The security of energy supplies is increasingly perceived by both national governments and European Union (EU) institutions as an area of priority concern due to the depletion of intra-EU resources and growing dependence on energy imports.

According to the European Commission estimates, the EU relies on external sources for 50% of its fossil fuel. On current trends this dependency will continue to rise. Making the continent more vulnerable still, the sources from which oil and gas are procured are becoming increasingly concentrated (Russia and North Africa currently provide 48% of the EU's imported oil and no less than 70% of its natural gas)¹.

As noted European Council: "EU is faced with the ongoing difficult situation on the oil and gas markets, the increasing import dependency and limited diversification achieved so far, high and volatile energy prices, growing global energy demand, security risks affecting producing and transit countries as well as transport routes, the growing threats of climate change, slow progress in energy efficiency and the use of renewables, the need for increased transparency on energy markets and further integration and interconnection of national energy markets with the energy market liberalisation nearing completion, the limited coordination between energy players while large investments are required in energy infrastructure."²

Although energy has been a feature of the European integration project since its inception, only relatively recently has there been an attempt to develop a definitive, concerted response to intensifying challenges. Strategy papers and recommendations, wherein efficiency, diversification, climate change and technology are prominent themes, now appear frequently.

The energy (external) policy has been renewed and pursued more energetically since March 2006, when the EU hastily reacted to the Russian-

¹ *Green Paper :A European Strategy for Sustainable, Competitive and Secure Energy*, COM(2006) 105 final of 08.03.2006, (SEC(2006) 317), http://ec.europa.eu/energy/greenpaper-energy/doc/2006_03_08_gpdocument_en.pdf:

² *Presidency Conclusions, Document 7775/1/06 REV 1, Brussels, European Council 23/24 March 2006*, http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/89013.pdf.

Ukrainian gas dispute with a new Green Paper on energy policy and then in January 2007 produced a whole package of far-reaching proposals that had been worked out on the basis of the discussion about the Green Paper.

The problem is that after the Russia-Ukraine and Russia-Belarus crises, the EU recognized that there were important risks in securing reliable flows of affordable and environmentally sustainable energy supplies. It was agreed in the European Council's Presidency conclusions of March 2007 that "...as regards to security of supply the European Council stresses the importance of making full use of instruments available to improve bilateral cooperation of the EU with all suppliers and ensure reliable energy flows into the Union. It develops clear orientations for an effective European international energy policy speaking with a common voice¹."

The risks identified by the European Commission were the following:

- Increasing dependence on imports from unstable regions and suppliers.
- Some major producers and consumers using energy as a political lever.
- The effects on the EU internal market of external actors not playing by the same market rules because of not being subject to the same competitive pressures domestically².

Diversification of energy resources and geographical origin turned into a building block of energy security, which in turn dramatically increased the importance of the South Caucasus region constituting a vital land bridge between Asia and Europe, physically linking the Caspian Sea region and Central Asia with the Black Sea and Western Europe.

In addition to some high level statements from EU officials, various EU policy documents on energy say that Caspian oil and gas will be important for the EU's security of energy supply "by increasing the geographical diversification of the EU's external energy supplies³."

The geopolitical assets of the region as well as all the challenges and opportunities that emanate from the area has motivated the EU to identify its interests in the South Caucasus and to develop its strategies for achieving these interests.

¹ *Presidency Conclusions, Document 7224/1/07REV 1, Brussels, Council of The European Union 8/9 March 2007, <http://register.consilium.europa.eu/pdf/en/07/st07/st07224-re01.en07.pdf>.*

² *Antonio Marquina, "The Southeast-Southwest European Energy Corridor"/" Energy Security: Visions from Asia and Europe", Edited by Antonio Marquina, PALGRAVE MACMILLAN, 2008, p.55.*

³ *Green Paper :A European Strategy for Sustainable, Competitive and Secure Energy, COM(2006) 105 final of 08.03.2006, (SEC(2006) 317), http://ec.europa.eu/energy/greenpaper-energy/doc/2006_03_08_gpdocument_en.pdf:*

With regard to EU's growing attention to the region several questions emerged:

1. Is EU's energy policy consistent with its broader regional policy objectives such as democracy promotion and conflict resolution ?

2. To what extent can EU's "soft power" and mechanisms of "external europeanization" serve its energy interests particularly in the South Caucasus region?

3. Does EU's growing interest in and engagement with Azerbaijan involve a serious commitment to promote democracy and human rights?

The difficulty for the European Union is essentially how to preserve its political and economic status in a changing energy world with the bargaining power shifting to energy producers and exporters. Like the United States of America, the Republic of India or the People's Republic of China, the European Union faces an underlying growth in its dependence on third countries for its energy needs. According to the European Commission, it is vital for Europe to develop an external energy policy that is coherent (backed up by all Union policies, the Member States and industry), strategic and focused (geared towards initiatives where Union-level action can have a clear impact in furthering its interests). It must also be consistent with the EU's broader foreign policy objectives such as conflict prevention and resolution, non-proliferation and promoting human rights¹.

When Azerbaijan was included in the ENP, Commissioner Benita Ferrero-Waldner declared that this offer reflected the country's "geo-strategic location and energy resources. For this reason" it was included in the ENP². EU commenced initiatives to deepen energy cooperation with Azerbaijan in recognition of the latter's importance as a transit route into the EU and Baku's influence in Caspian region. European officials insisted that energy interests warranted a priority focus on governance reforms. Out of the 30 million euro Commission aid commitment for 2004–6, 17 million was allocated for "institutional, legal and administrative reform". The Commission aid programme concluded under the Neighbourhood strategy listed democratic and energy reforms as two priority areas of support. In 2006 the EU and Azerbaijan signed a strategic partnership on energy that was predicated on the aim of Azeri

¹ Commission of the European Communities. 2006a. "An External Policy to Serve Europe's Energy Interests". Paper from the Commission/SG/HR for the European Council. Brussels: European Commission,

http://ec.europa.eu/dgs/energy_transport/international/doc/paper_solana_sg_energy_en.pdf

² B. Ferrero-Waldner, "Azerbaijan", speech to the European Parliament, Strasbourg, 26 October 2005.

convergence with EU internal market and transit provisions – and in respect of the latter also mentioned the prospect of European protection for the BTC pipeline. José Manuel Barroso declared that, “This is not just about energy ... what we are doing is exactly the way to promote democracy and the rule of law¹.” Plans agreed under the memorandum of understanding signed with Azerbaijan proposed the integration of energy markets and a host of concrete institutional reform commitments on Azerbaijan’s part, under which the latter would adopt, for example, an independent energy regulatory authority and independent transmission system operators along the lines of European models. Officials insisted that the most crucial challenge was to press Azerbaijan through this agreement towards “a more democratic way of doing things”².

However the reality is shaping up differently, as when it comes to the debate on energy interests versus democracy promotion, it seems almost as if these issues are irreconcilable.

EU has balanced between a market-based strategy and a geopolitical strategy for some time. Enshrining liberal approaches in its various documents, in practice the EU has shifted its posture from a pure market-based approach in favor of a geopolitical strategy.

Some authors argue that EU’s “post-modern” and market-based approach works quite well vis-à-vis its traditional suppliers, such as Norway, but any engagement in the Caspian region requires the EU to adhere to a realistic posture. Hence, the EU’s acknowledgement of geopolitical realities is an advantage – it is impossible to be post-modern in the Caspian region. As long as the U.S., China, and Russia act this way, so must the EU³.

The impression created is that the EU favours stability and economic-and energy-interests over reform, to the detriment of Europe’s soft or normative power and “the strong state first” approach to the South Caucasus region seems to have taken over policy circles in Brussels and Washington, in particular after the failure of Yeltsin’s democratisation efforts in Russia. All this, along with the interest in alternative energy resources and diversified transport routes, has meant that stability at any expense has been preferred over other scenarios leading to change.

As Javier Solana argued that, “... We have to take our energy from where we find it. ... Thus, our energy needs may well limit our ability to push wider

¹ Cited by Richard Youngs, “Energy Security: Europe’s new foreign policy challenge”, Routledge 2009, p.114.

² Ibid, p. 114.

³ S. E. Cornell, A. Jonsson, N. Nilsson, P. Haggström” *The Wider Black Sea Region: An Emerging Hub in European Security. Central Asia-Caucasus*, pp. 83-91.

foreign policy objectives, not least in the area of conflict resolution, human rights and good governance ... The scramble for energy risks being pretty unprincipled¹.”

The case of Azerbaijan is illustrative: the existing regime has no interest at all in promoting democratic reforms, a situation which no degree of economic carrots is likely to change. Unsurprisingly Azerbaijan’s progress under the ENP is slow. The Commission’s review in March 2008 as well as subsequent reports admitted that in Azerbaijan no progress had been made on democracy and human rights; corruption had worsened; the “non-oil sector” had shrunk; and inflation had risen². In view of the fact that the objectives of democratization and stability seem to be difficult to reconcile. Of course the EU has the possibility to apply negative conditionality through suspending funding. Although this might have effect in some ENP countries, it is unlikely to impress Azerbaijan. Opinions differ over whether the EU has any leverage over Azerbaijan and if so, if it is willing to use it through conditionality. Those who argue that Brussels is broken-winged in influencing Azerbaijan to move on the democracy and human rights reform front argue that energy revenues and Europe’s thirst for oil and gas make leverage non-existent³. The Azerbaijan government concluded the Action Plan as an expression of good relations in building further economic ties and political co-operation. ENP budget support to Azerbaijan that will amount to roughly 15 million euros a year is no incentive taking the rising state budget into account; this amount of aid is equivalent to the revenues of about one afternoon of pumping oil through the BTC oil pipeline. Also the EU is lacking the carrot of membership of the European Union. Not only because Brussels is unable to offer a concrete membership perspective to Caucasus countries but also because Azerbaijan has no designs beyond the ENP.

As the president of the Republic of Armenia S. Sargsyan put it: “Our immediate neighbor (Azerbaijan) misunderstood the European path, considering the European region as a suitable oil and gas market only.

¹ J. Solana *EU High Representative for the Common Foreign and Security Policy, Secretary General of the Council of the European Union, “Towards an EU External Energy Policy”, The 2006 Brussels Conference, 20 th and 21st November*

2006, http://ec.europa.eu/comm/external_relations/library/publications/28_towards_energy_policy.pdf.

² *Commission of the European Communities, Implementation of the European Neighbourhood Policy in 2007: Progress Report on Azerbaijan, COM(2008) 164, Brussels: European Commission, 3 April 2008, pp. 6–7. http://ec.europa.eu/world/enp/pdf/progress2008/sec08_391_en.pdfhttp://ec.europa.eu/world/enp/pdf/progress2008/sec08_391_en.pdf.*

³ *Jos Boonstra, “How serious is the EU about supporting democracy and human rights in Azerbaijan?”*

Working Paper, 29/05/2008, <http://www.fride.org/publication/432/how-serious-is-the-eu-about-supporting-democracy-and-human-rights-in-azerbaijan?>

Undoubtedly, it is ridiculous that our neighbor that has adopted a European path, threatens to shoot down Armenian civil aircrafts, maintains propaganda on daily basis and threatens to solve the Karabakh conflict with war,”¹

Boosted by its unique position both as a transit and energy producer country, Azerbaijan has managed to transcend the agenda of bilateral relations effectively using its energy “card” and thus making clear that Baku is not devoid of options and EU is in no position to put conditions on energy-or other relationships. Azerbaijan’s unique position has vastly increased the negotiating leverage of Azerbaijan vis-à-vis EU, reducing the inherent asymmetry of a strictly bilateral setting of negotiations. The recent (12.09.2011) “unprecedented commitment” of the European Commission to elevate the status of diplomatic engagement with Azerbaijan and Turkmenistan to a bilateral Treaty – committing all parties to the construction of a Trans Caspian pipeline system – emboldens Aliiev’s regime even more for two reasons:

-First, because it increases the centrality of Azerbaijan for the European natural gas market, that is, a fuel that is increasingly important since the nuclear disaster in Fukushima and Germany’s commitment to a nuclear phase-out by 2022.

-Second, the fulfillment of all projects of the “Southern gas corridor” hinges on smooth cooperation with Azerbaijan, which has allowed Azerbaijan to position itself as an important country for Europe’s energy security, serving as a strategic link between Europe and Central Asia.

Due to its growing importance Azerbaijan has become increasingly assertive in the region. On the domestic level, the rise of energy prices and rapid expansion of Azerbaijan’s oil industry, rapid economic growth all led Azerbaijan to believe that it is in a favourable strategic position vis-a’-vis Armenia. Azerbaijan also became increasingly resentful of regional trends. The Turkish-Armenian rapproachment partly fuelled this. From an Azeri perspective the opening of the Turkish-Armenian border would be a “stab in the back” by its closest ally-Turkey².

Needless to say that this rhetoric puts serious constraints on EU’s more constructive engagement in conflict resolution and deepens Armenia’s isolation, which faces a blockade to the east, where there is a tense cease-fire line, along which some 80% of Azerbaijan’s armed forces are deployed. These blockades, and the related avoidance of Armenian territory in the construction of energy pipelines from Azerbaijan limit Armenia’s economic development, adding a

¹ “Azerbaijan, Turkey misunderstand European values” 13.04.11, <http://www.tert.am/en/news/2011/04/13/sargsyan-azerbaijan-turkey/>.

² Nicu Popescu, “EU Foreign Policy and Post-Soviet Conflicts”, Routledge 2011, pp. 112-114.

serious economic dimension to the major strategic military threat the conflict poses to Armenia. The impact that Azerbaijan has on the region is lopsided – the wealth created in the region by Azerbaijan’s growing energy wealth will benefit Georgia but not Armenia, unless the conflict is resolved. Such economic imbalance will foster political instability¹. As put it armenian researcher A. Manvelyan: “The more Azerbaijan-West oil partnership deepens, the further regional stability weakens”².

It’s obvious that Azerbaijan’s increasing assertiveness and rapidly growing defence spending linked to the huge revenues from energy flows have created a dangerous situation for Nagorno-Karabakh. As stated S. Sargsyan: “*We, of course, respect and understand the EU’s desire to ensure energy security and diversity of energy sources. However, we also anticipate that the very same EU countries will be considerate about our country’s security and issues of stability in our region. We all want the EU to implement programs in our region because the regional cooperation component of these programs can play a positive role in establishing stability. And these programs should also provide for the even development of the regional countries. The end results of these programs should promote peace and not war. These programs should be implemented in a manner that, God forbid, they don’t become a new war nourishing source. This is our position and, I believe, it’s a fair position, and on the other hand it is also considerate*”³.

Clearly, a successful EU’s regional policy should not focus solely on the role of the region for the delivery and the transit of oil and natural gas but should embrace a broader approach also dealing with the development of democracy, good governance and conflict management. Moreover, interests in security or energy should not be allowed to stifle the agenda of democratic and institutional reform in the region . It is in the EU’s interest to advance these three sets of issues in parallel, not allowing one to take precedence over the other. Only by the parallel promotion of its interests in the governance, energy and security sectors can the EU succeed in striking a balance among them and contribute to its own security and development, as well as to that of the

¹ Andrew Monaghan, “Azerbaijan’s key role in the South Caucasus”, NATO Research Paper, March 2007, p. 4.

² Armen Manvelyan, “The EU Energy Policy in the Caucasus-Caspian Region: Implications of Regional Security”, available at [http://www.psaa.am/hosting/file/PDF-s/Manvelyan-%20EOo13%20p66-68\(1\).pdf](http://www.psaa.am/hosting/file/PDF-s/Manvelyan-%20EOo13%20p66-68(1).pdf).

³ “President Serzh Sargsyan responds to theq raised by a journalist at the Press conference with the president of France Nicolas Sarkozy”, 07.10.2011, <http://www.president.am/en/interviews-and-press-conferences/item/2011/10/07/news-73/>.

countries of the Caucasus¹. All of these areas are closely interlinked: safe transit routes for energy raw materials require a long-term solution to the complex problems in the region. If the EU continues to limit its activities in the region to the selective development of energy relations, it will not achieve a successful policy in any of the areas.

ԵՄ էներգետիկ քաղաքական տարածաշրջանային և նորմատիվ կերպարանքներ: Հարավային Կովկասի դեպքը
Ա. Թերզյան

Ամփոփում

Աշխատանքը նվիրված է Եվրոպական Միության(ԵՄ) արտաքին էներգետիկ քաղաքականության կարևոր լսնդիրների ուսումնասիրությանը, որոնք գիտավերլուծական շրջանակներում ներկայումս ձեռք են բերել մեծ կարևորություն՝ պայմանավորված ԵՄ արտաքին և անվտանգության քաղաքականությունում և մասնավորապես դրա հարավկովկասյան քաղաքականության էներգետիկ անվտանգության գործոնի դերի էական աճով:

Քաղաքագիտական վերլուծության ենթարկելով ԵՄ արտաքին էներգետիկ քաղաքականությունում Հարավային Կովկասի հարաճուն կարևորությունը՝ հետազոտվել են ԵՄ տարածաշրջանային քաղաքականության »էներգետիկ փոխակերպումները«, ԵՄ-Ադրբեյջան էներգետիկ գործակցության առանձնահատկություններն ու մասնավորապես Հայաստանի Հանրապետության վրա դրանց առկա և հնարավոր ազդեցության հիմնահարցերը:

Нормативные и геополитические измерения
энергетической политики ЕС: случай Южного Кавказа

А.Терзян

Резюме

Статья посвящена анализу вопросов энергетической политики Европейского Союза (ЕС) в южнокавказском регионе, с акцентом на геополитические и нормативные аспекты процесса. С этой точки зрения южнокавказский регион имеет исключительное значение, обеспечивая доступ к запасам энергоресурсов в Каспийском. Выявлены основные закономерности энергетической политики ЕС в южнокавказском регионе, вопросы энергетической «трансформации» региональной политики ЕС, а также рассмотрены проблемы и перспективы энергетического партнерство с Азербайджаном с точки зрения национальных интересов Армении.

¹ S. E. Cornell, S. F. Starr, "The Caucasus: A Challenge for Europe", Silk Road Paper 2006, pp. 23-26.