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NEW DIMENSIONS OF THE EUROPEAN UNION'S ENERGY SECURITY AND THE SOUTH CAUCASUS

Introduction

Energy security has emerged as one of the cornerstones of the EU's foreign and security policy in recent years, due to highly growing dependence on imports of oil and gas, the major part of which comes from Russia. Concerns over security of energy supply caused by unprecedented dependence on external imports and exacerbated by uncertainty over the reliability of energy supplies have propelled the EU institutions and member states to put a pronounced emphasis on the diversification of energy supplies. Namely, the Russian-Ukrainian gas crises (2006, 2009) made clear that enhanced energy security can be achieved only by intensive diversification of energy supplies and transit routes with a full account of neighbouring regions providing access to alternative energy.

In this context the South Caucasus region, which is *a key area for achieving the EU's goal of energy diversification*, has gained substantial importance, quickly becoming a priority in the energy security plans of the EU. Although this interest is not new and the EU's policy drivers in the region have always been dictated by its heavy dependence on hydrocarbons the EU has recently speeded up various activities aimed at strengthening its influence and establishing foundations for the southern diversification of energy supplies in wake of overdependence on Russian supplies. Nonetheless the EU's growing engagement in the Caucasus-Caspian region, attainment of Union's goals in the region may be hampered by several economic, (geo)political, commercial factors that prevail in the region, coupled with tensions that obstruct the EU attempts to establish a coherent and common external energy policy among the EU member states.

The present paper investigates the efforts of the EU to create an institutionalised external energy policy vis-à-vis the South Caucasus. It elucidates the drivers and evaluates the effectiveness of the EU's external energy strategy towards the South Caucasus, highlighting the obstacles that may hamper the EU's external energy agenda in the region.

After the EU's 2004 enlargement, the advance of external governance in energy policy increased the degree of institutionalisation between the EU and the region. The EU set ambitious goals in its initiatives (European Neighborhood Policy (ENP), Baku Initiative, Eastern Partnership (EaP), Black Sea Synergy (BSS), aiming to create a "ring of energy cooperation" based on the effective application of the EU's internal rules and the principle of liberal interdependence. Needless to say that the investigation of the relationship between the principles of external governance and priorities of the diversification of energy supplies is of crucial relevance.

Special attention has been devoted to the investigation of the EU's policy coherence and consistency: the coherence between national and the EU policies and the extent to which energy policy is consistent with broader foreign policy objectives within the given geographical framework.

Theoretical framework

Some energy policy experts have utilised dichotomous metaphors – such as 'Markets and Institutions' versus "Regions and Empires" – to examine the EU's external energy policy¹. These metaphors can be located within broader international relations theories (Neo)realism, (Neo)liberalism) to elucidate the main theoretical reflections on the EU's external energy policy.

Traditionally, global energy governance has been an enterprise blind of values and dominated by crude realpolitik concerns hence, much of the literature on the politics of international energy adopts implicitly a realist and geopolitical theoretical approach,.

From the realist perspective geopolitics has become pivotal in the absence of any agreement on the 'basic 'governance structure' of international energy, meaning that "the conflict-laden history of international oil in the 20th century is bound to continue well into the 21st century".²

The realist approach considers the physical security as the central element of energy security, suggesting that external policy goals can be

best attained through bilateral deals among energy producers, transit and consumer countries versus international (regional) energy regimes. This line of thinking assumes that coercive diplomacy and projection of hard (military) power are crucial to securing energy supplies considering prevention, deterrence, containment and crisis management as the main objectives of external energy policy.

Yet the EU's global identity as a soft and normative power is in sharp contrast to these dominating principles of realist approach.

Largely rejecting the geopolitical interpretations of the energy policy European commitments, formal documents and rhetoric contained much that approximated closely to the liberal approach of energy policy putting the main focus on well-functioning markets, and market-based solutions to energy-related issues based on international coordination, international good governance standards and multilateral cooperation. Integral to this approach is the "spillover" of the EU internal market rules into the neighborhood aiming at creating a common regulatory framework between the EU and neighbours, which is the recipe for more stable and transparent exporter–importer relations.

Yet, when it comes to the South Caucasus, the market mechanisms and the EU's modes of governance seem to be dominated by the imperatives of pipeline politics coupled with intense geopolitical struggle **over** control of transit routes. Some authors have employed the terms "battle of domination"³, "New Great Game" to describe the new energy geopolitics in the region. Namely, the concept of a "New Great Game" has been used as a shorthand for the competition for influence, power, hegemony and profits, often referring to the oil and gas industries and reserves in Central Asia and the Caucasus.⁴

The question to be addressed is whether the EU can move beyond the traditional geopolitics of the region and become an important external player relying on its "soft power" and market mechanisms.

Indeed, many doubt that the integrative EU market approach towards energy security in the area is an appropriate strategy given geopolitical competition. In particular, it is generally argued that any engagement in the Caucasus-Caspian region requires the EU to adhere to a realistic posture and in practice it is impossible to be post-modern in the region. As long as the U.S., China, and Russia act this way, so must the EU.⁵ Thus, the EU's quest for diversification does not proscribe all claims to its being soft and normative power.⁶ However a closer look at the developments

in the region offers a more nuanced perspective of the capacity of the EU to achieve its energy goals in the area.

The EU's energy security: Growing concerns and emerging priorities

During the first decade of the 21st century, energy security has emerged as a key issue on the European policy agenda, increasingly perceived by both national governments and European Union institutions as an area of priority concern due to the depletion of intra-EU resources and growing dependence on energy imports. The EU's import dependency reached almost 54% in 2006 and keeps growing. If nothing changes, by 2030 more than 70% of the EU oil and gas will have to be imported.⁷

Moreover, the depletion of oil and gas reserves in the EU member states or quasi-members such as Norway is shifting the distribution of available energy sources further away from Europe. Specifically, the key source of oil is the Middle East and OPEC countries but the largest single oil supplier to the EU is Russia, which is also the largest supplier of natural gas to the EU.

Table 1. *Energy dependency rate, EU-27, 2000-2010 (% of net imports in gross inland consumption and bunkers, based on tonnes of oil equivalent).png⁸*

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
All products	47.8	48.6	48.8	50.2	51.6	53.9	55.2	54.5	56.3	55.2	54.1
Solid fuels	30.5	33.7	33.1	34.9	38.1	39.3	41.0	41.3	44.7	41.1	39.4
Crude oil	75.6	77.7	76.4	78.7	80.9	82.4	84.0	83.5	85.0	84.2	85.2
Natural gas	48.9	47.2	51.1	52.4	54.0	57.7	60.8	60.3	62.3	64.3	62.4

As the European Council noted:

the 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 limited coordination between energy players while large investments are required in energy infrastructure.⁹

Paradoxically, even though the whole integration process of Europe started with cooperation in the field on energy, with the 1952 European Coal and Steel Community (ECSC) and the European Atomic Energy Community (EURATOM) of the 1957 Treaty of Rome, the European energy policy ultimately proved to be an unsuccessful example of integration. As the assemblage of member states and institutions evolved to become the EU, energy policies and industries tended to divergent national models. The EU and the Commission lack formal authority and legitimacy over energy security issues. As a result, the EU consists of 27 member states with independent interests and varying agendas in energy matters since common energy policy and “single voice” in external energy relations are currently unattainable. Some authors argue that European energy policy originated in the need to respond more capably and efficiently to international energy supply crises.¹⁰

The issues of energy security gained steady relevance in the Post-Cold War period due to the growing dependence on external energy supplies. Three green papers on energy were launched by the European Commission that partially referred to a need for a common energy policy highlighting main aspects of the issue: the diversification of energy supplies, competitiveness, sustainability, establishment of integrated internal market. The European Commission’s 2000 Green paper – “Towards a European Strategy for the Security of Energy Supply” – became one of the most significant of this series, placing a pronounced emphasis on the security and diversification of energy supplies: “Security of supply does not seek to maximise energy self-sufficiency or to minimise dependence, but aims to reduce the risks linked to such dependence. Among the objectives to be pursued are those balancing between and diversifying the various sources of supply (by product and by geographical region)”.¹¹

However, until the mid 2000s, the EU was strongly relying on market mechanisms, believing that “well-functioning world markets are the guarantees for secure and affordable energy supplies” and putting energy security issues apart from common foreign and security policy priorities. Meanwhile, the exponential growth of energy demand in the emerging

economies of China and India, coupled with quintuple rise of oil prices since 2002/3, made clear the incrementing politicization of energy-related issues and the fact that emerging challenges cannot be handled by the markets alone.

In this regard the Russian -Ukrainian gas conflict of 2006 served as an unpleasant reminder to member states that they had theretofore largely ignored supply security at their own peril. This “wake-up call”¹² in 2006 revealed that the EU needs to make energy a central component of all external relations, and pursue new measures to ensure energy security, which go far beyond pure market mechanisms and the principles of liberal interdependence.

Clearly, the crisis propelled the European Commission to reassess energy security on the EU’s foreign and security policy agenda. Namely, at the end of 2006, Commission president José Manuel Barroso declared that energy had been until recently a forgotten subject in the European agenda stressing up the importance of adequate and pan-european response to Europe’s rapidly changing energy landscape.¹³ In his turn the EU’s High Representative for Common Foreign and Security Policy J. Solana warned that

The days of easy energy are over. Global demand is rising rapidly while supply is maturing. .. We will increasingly be competing with others for energy. Overall world energy consumption is set to increase by well over 50 percent over the next 25 years...¹⁴

In March 2006, the European Commission published the Green Paper, A European Strategy for Sustainable, Competitive and Secure Energy, which identified the main objectives of energy policy to be pursued at the EU level: competitiveness and integrated internal market; diversification of energy supplies; sustainability, innovation and technology; solidarity and integrated approach to the management of energy crises; Common EU external energy policy through the development of new partnerships with other main producer and consumer states.¹⁵

In the follow-up documents the Commission identified the following risks which derive from:

- Increasing dependence on supplies from unstable regions and suppliers.
- Some major producers using energy as a political lever.

- The effects on the EU internal market of external actors not playing by the same market rules.¹⁶

In short, as a response to growing demand and uncertainty over energy relations three main principles were put forward as the building blocks of the EU's energy security, which are security of supply, competitiveness and diversification of energy supplies, sustainability.

Certainly, the new priorities of energy security marked a major shift in the external dimension of the EU's energy policy. It should be noted that the EU's Member States have often regarded energy policy as a domestic, not European issue. In wake of 2006 crisis several statements and documents suggested that energy must become a central part of all external EU relations and that it is vital for the EU to develop an external energy policy that is coherent, strategic (widely recognizing the geopolitical dimensions of energy security issues) and consistent with the EU's broader foreign policy objectives, such as conflict resolution and human rights promotion.¹⁷

Furthermore, External-relations commissioner Benita Ferrero-Waldner suggested to put all the external and internal policy instruments of the EU at the service of its energy security, revealing that the aim to bolster the foreign-policy dimensions of energy policy was the key driving force behind the European Neighbourhood Policy. At the first high-level European Neighbourhood Policy conference held on 3 September 2007, Ferrero-Waldner listed energy as a top priority putting forward the idea of a new "neighbourhood energy agreement".¹⁸

Among other suggestions related EU's external energy policy priorities, the European Commission and Council emphasized the vital importance of Caspian basin resources and the need to intensify the EU's relations with Caspian and the Black Sea regions, with the view of further diversification of energy supplies and transit routes: "There are a number of new gas projects ... If completed, they could create new energy corridors and new import capacity amounting to a significant share of the EU's current gas consumption".¹⁹

The statements were followed by EC's proactive efforts in establishing foundations for a shift in the southern dimension of the EU's external energy policy dramatically intensifying efforts in southern diversification of energy supplies and routes. Namely, in November 2010 the Commission published its energy strategy towards 2020 (accompanied by a €200 billion plan laying out the EU's infrastructure priorities for the next decade), which put a pronounced emphasis on the diversification both in terms of new

sources, as well as routes of gas imports.²⁰ In this respect, the projects of the Southern Gas Corridor are of crucial relevance since they fit well with the priorities of diversification policy.

Hence, a range of energy initiatives, directed at the facilitation of the accords on southern diversification, was gradually established. Namely, in September 2011 the EU Foreign Affairs Council authorised the EC to facilitate a bilateral agreement between Azerbaijan and Turkmenistan for the construction of a Trans-Caspian gas pipeline (TCP), which was followed by the signature (January 2011) of Joint Declaration on the Southern Gas Corridor (SGC) with Azerbaijani President Ilham Aliyev. According to the deal, Azerbaijan will deliver 10 bcm of gas per year to the EU markets, thus giving a new lease of life to the projects of the Southern Gas Corridor.

Apparently the quest for energy diversification was the key driver force behind the EU's growing involvement in the South Caucasus region.

The quest for energy diversification and the South Caucasus

The slowly but clearly growing understanding of the strategic importance of the South Caucasus in the EU became a major political factor for regional development. In addition to some high level statements from EU officials, various EU policy documents on energy state 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 supplies²¹." It follows that diversification of energy supplies and transit routes assume increased attention to the South Caucasus constituting a vital land bridge between Asia and Europe and physically linking the Caspian Sea region and Central Asia with the Black Sea and Western Europe. The geopolitical importance of the South Caucasus region is also based on the presence of valuable energy resources, especially in Azerbaijan, the Caspian Sea and the Central Asian states.

Table 2: *Caspian and Central Asian proved oil reserves (2011)*²²

Country	Global ranking	Barrels
Kazakhstan	11	30,000,000,000
Azerbaijan	19	7,000,000,000
Turkmenistan	44	600,000,000
Uzbekistan	47	594,000,000

Table 3: *Caspian and Central Asian proved gas reserves (2011)*²³

Country	Global ranking	Cubic meters
Turkmenistan	6	7,504,000,000,000
Kazakhstan	14	2,407,000,000,000
Uzbekistan	19	1,841,000,000,000
Azerbaijan	27	849,500,000,000

In itself the Caucasian share of global oil and gas reserves is not considerable. However, in view of the growing dependence on Russian resources and the uncertainty over reliable energy partnership, the transportation of Caspian and Central Asian energy supplies to the EU via the South Caucasus has gained vital importance.

EU's take on the South Caucasus

Although, the EU's main interest in the region has always been dictated by its heavy dependence on hydrocarbons, its approaches (perception) to the region have undergone drastic changes since the disintegration of Soviet Union which can be reduced to the following:

- *“European Caucasus approach”*, emphasizing the European nature of the region, which provides a fertile ground for the rapprochement with the EU. The EU's official documents and statements have on numerous occasions emphasized the need to develop a regional policy for the South Caucasus, where the practice of “sharing values would be central”.²⁴
- *“Post-soviet Caucasus approach”* underlining the turbulence and uncertainty the region has gone through since the breakup of USSR, and offering economic, technical assistance in order to make the processes of transition relatively smooth and swift. Estimates suggest that the EU was the major donor in the region allocating over a billion euro to Azerbaijan, Georgia and Armenia from 1991 to 2000.²⁵
- *“Trans-Caucasus approach”* considering the region a “zone of Russia's traditional influence” and thus recognizing the “Russia-first” approach.
- *“Middle Eastern” and “Balkan Caucasus approach”*, focusing on the major sources of instability in the region and calling for the EU's

active engagement in its securitisation. In this regard the European security strategy (ESS) referred to the importance of the control and management of security threats to the European continent, including unresolved regional conflicts, and terrorism stating that “Neighbours who are engaged in violent conflict, weak states where organised crime flourishes, dysfunctional societies...all pose problems for Europe’.²⁶

- “*Third World Caucasus approach*” regarding the region as a challenge for the EU due to a number of socio-economic complex problems, and ill-functioning political systems. In this vein ESS underlines: “We need to extend the benefits of economic and political cooperation to our neighbours in the East while tackling political problems there. We should now take a stronger and more active interest in the problems of the Southern Caucasus, which will in due course also be neighbouring region”.²⁷
- “*Caspian Caucasus approach*” , focusing on the geographic importance of the region as a hub between Asia and Europe, transit corridor to the Caspian energy resources expected to meet the EU’s growing demand of energy supplies.

To put it more precise, from the EU’s perspective the region can be perceived as a “neighbor”, a “conflict zone” and a “transit corridor”.²⁸ Thus, South Caucasus is widely viewed as a region which offers both *opportunities* by providing access to alternative energy resources and creates challenges due to unresolved conflicts and internal sources of instability. Clearly, the region’s functional importance as a “transit corridor” played the key role in identifying the EU’s interests in the South Caucasus making the region more present in the EU’s political thinking. Unsurprisingly, in the first document reflecting the EU’s strategy towards South Caucasus issued in 1995, the EU underlined its interests in the region finding its presence important “in order to promote its interests in energy sector”.²⁹

EU governance of external energy policy in the South Caucasus region: Main interests and initiatives

The Caspian alternative to increasing dependence on Russia was apparently acknowledged by the EU through the realization of the INOGATE (launched in 1995) project aiming to promote regional integration of the European pipeline systems, to support investments in the energy sector and to facilitate the transport of oil and gas towards the European markets by addressing existing gaps in the energy infrastructure and creating new means of transportation.³⁰

Unsurprisingly, discussions of east-west transport corridors out of the Caspian region have tended to speak of either a new “Silk Road” or a new “Great Game”^{*} referring to Western growing involvement in the geopolitics of the South Caucasus. However until the mid-1990s the EU was reluctant to become involved in a “Great Game” for several reasons. One reason was the exaggerated perception of a “Great Game” and the overloading of the South Caucasus region and its conflicts with geopolitical significance. This had a deterrent effect on the EU, which was unwilling to get involved in a geopolitical power struggle, perceiving the South Caucasus as a part of the Russian “Near Abroad”. Another reason for the EU’s relative lack of interest particularly in the energy sector was the considerable divisions between the different actors and institutions at the EU level.³² Moreover, there was no consensus on the external policy toward the South Caucasus due to the anxiety that direct competition with Russia in this region would have a negative impact on EU–Russian energy relations.

Clearly, for the decade following the collapse of the Soviet Union, the EU activities were predominantly concentrated on technical and humanitarian assistance and development in the South Caucasus region due to its perception as a region of little importance both from political and economic point of view.

However, in the mid-2000s, the situation began to change as a result of the rise in European gas demand and the increasing imports from Russia to meet it. Clearly, energy security issues became instrumental in enhancing awareness of the region’s strategic importance. An important shift can already be traced in the official discourse reflecting the EU’s new take on the region, previously perceived as a “Russian space” and now turning into an “area of overlapping concern”.³³

Table 4: *South Caucasus: From challenges to opportunities*

The main discourse of the 1990s	The main discourse since the mid-2000s
Transcaucasus, "Third world" Caucasus, Post-Soviet Caucasus,	South Caucasus, European Caucasus Neighbor,
Russia's "Near Abroad", "space of Russia's influence", where "a greater involvement of the European Union is bound to rebalance the traditional relations of spheres of influence in the region". "no men's land", "terra incognita"	Area of overlapping concern Remarkable region due to its functional role as a transit corridor
Complex region, challenge for the EU (region containing a number of potential trouble spots, and also abutting on politically unstable areas)	A remarkable and complex region that has enormous economic promise (challenge lying in its complexity and the opportunity stemming from its energy promise)
Economic, technical, humanitarian assistance	Political partnership, association, integration

The shift in region's perception as a transit corridor and area of vital interests reflected the EU new member states' push for the Southern Caucasus to be included in the European Neighbourhood Policy, with a primary focus on energy. The EU set itself ambitious goals in the ENP, aiming to create a "ring of energy cooperation" based on the ecentrality of the EU's internal energy market and the transfer of its own rules in the neighborhood.

These policy efforts towards the South Caucasus enhanced in wake of Russian-Ukrainian disputes over gas (2006 and 2009), which were decisive in the EU's search for alternative suppliers. In this context, the South Caucasus gained substantial importance for the Union due to Azerbaijan's reserves and the whole region's role as a transit area for the transportation of Caspian energy resources to Europe. Namely, European Commissioner for External Relations and European Neighbourhood Policy B.F. Waldner stated that the policy (European Neighbourhood Policy) takes

full account of the vital role that the EU's neighbours play in the EU's energy security either as supplier or transit countries... "The Commission is now looking to strengthening this policy. There will be a clearer focus on energy issues, both at a bilateral and regional level. ...We are committed to bringing Azerbaijan energy resources, in particular natural gas to the EU market, through the Nabucco pipeline and the Turkey- Greece – Italy gas interconnector.³⁴

Under the new approach the neighboring region (South Caucasus) has an important role to play in the step-by-step creation of a pan-European energy community. Of particular importance for the EU's approach to the region is the Baku Initiative³⁵ (launched in November 2004) which is exclusively energy-focused. This multilateral mechanism covers the Caspian Sea region, the Black Sea region, and the neighboring countries. This initiative builds upon a timetable for the convergence of energy markets, enhanced energy security through supply diversification, a sustainable energy policy, and investment issues. In 2006, at the Energy Ministerial Conference held in Astana, the Baku Initiative was made more concrete through the development of a road map putting a special emphasis on the creation of integrated regional energy markets and their gradual integration with the EU internal energy market. The priority areas for action are defined as promoting the development of the energy sector based on the principles of security of supply, competitiveness and sustainability and the establishment of a stable, sustainable energy policy framework in all beneficiary countries.³⁶ Some authors argue that even though the Baku Initiative will not produce significant results in terms of the pattern of energy production and trade between the EU countries and their Caspian partners, it holds the potential to facilitate the energy relationship between the EU and Caspian energy producers thus establishing foundations for market-based dialogue expected to boost new supplies from the Caspian basin to Europe³⁷. The recipe is simple; the promotion of European investment in Caspian Sea/Central Asian States in return for their cooperation in supplying energy to the EU.³⁸

Declaring that the internal market has been the key to the EU's strength in world affairs, the EU top officials suggested that external energy policy goals can be best attained through market mechanisms and accompanying institutional structures: "Energy security can be achieved by the EU extending its internal energy market to include its neighbours within a common regulatory area with shared trade, transit and environmental rules'... We need to convince non-EU consumer countries that world

energy markets can work for them".³⁹ This is the idea behind the EU's initiatives (ECT, Baku Initiative, ENP) based on the principles of liberal interdependence, and market-based solutions to energy-related problems.

However, despite the EU's reliance on soft power and adherence to liberal principles, several factors, among which China's growing interest in Caspian energy resources and Russia's negative approach to the ratification of Energy Charter Treaty (ECT) drove the need to reinforce the bilateral partnership with energy producers and the geopolitical dimension of external energy policy. Namely, bilateral energy-partnership agreements signed with Azerbaijan and Kazakhstan in 2006 manifested that a more political approach and presence was required as the importance of gas increased relative to oil –the former being linked to long-term contracts over fixed pipeline routes, very different to the dynamics of oil supplies to international markets.⁴⁰

Certainly, the question of the compatibility between bilateral partnership and multilateral cooperation remained open to doubt. In this regard, Black Sea Synergy initiative (launched in 2007) came as a special platform aimed at complementing the bilateral partnership with regional multilateral cooperation, emphasizing the need for an enhanced policy in the Wider Black Sea region with a special focus on energy. Namely, the Commission's communication underlining the purpose and strategies of the new initiative mentioned the "trans-Caspian trans-Black Sea energy corridor" for gas exports from Central Asia to the EU as an important component of the EU's energy security strategy.⁴¹

However, the BSS gives no further detail as to how this objective will be achieved, nor how the Black Sea Synergy will create a deeper connection among the other initiatives that it claims to be coordinating (Baku Initiative).

Obviously, the EU's 2007 enlargement marked a major shift in its foreign and security policy towards the South Caucasus dictated both by the imperatives of geographical proximity and the need for southern diversification of energy supplies. The perception of "Caspian Caucasus" as part of Wider Black Sea region became dominant and the significant potential for energy supply diversification helped to reassess the region's prominence. It should be noted that to certain extent Black Sea Synergy is rather the manifestation of the EU's new member-states' push for a deeper engagement in the region than a result of consistent and clear-cut Caucasian policy at the Union level. Namely, the top officials of Central and Eastern EU countries have on numerous occasions called for

a more strategic vision of the region based on its functional role in the southern diversification of energy supplies and transit routes.⁴² It came as no surprise, that Southern gas corridor was promoted during Czech EU presidency, pursuing southern diversification of supplies. However, despite the EU's reliance on the Southern Corridor, and high hopes for the southern diversification August 2008 Russian-Georgian war cast doubts on the reliability of the "Caucasian corridor" showing how delicate the energy security in the region is, as both the Baku-Tbilisi-Ceyhan and the Baku-Supsa pipelines running across Georgia's territory had been shut down due to the conflict. The crisis prompted the EU into action in the words of J. Solana serving as a "wake-up call": After the EU's rapid response to the August crisis and our strong engagement on the ground in Georgia, there should be no doubt about the importance we attach to the South Caucasus region. The proposal for an "Eastern Partnership" is further evidence of this.⁴³

Obviously, the Eastern Partnership (launched in 2008) represents an important step towards a change in the EU's relations particularly with South Caucasus countries, contributing to the substantial upgrading of the level of political engagement, including enhanced energy security arrangements. In terms of energy security the EaP proposes to:

- Establish mutual energy support and security mechanisms, including early warning systems and joint security actions;
- Accelerate the harmonisation of partners' energy policies and legislation with the EU practice;
- Create a mutually beneficial interconnected and diversified energy market between the EU and partners;
- Diversify supply and transit routes, in part through the EaP contributing towards the ongoing strengthening of the Baku Process as a genuine energy partnership, and including through the development of the Southern corridor the Transcaspien.⁴⁴

Moreover, the Southern Corridor summit, which took place the next day after Eastern Partnership summit (May 8, 2009) came to prove the importance that is placed on the initiative in terms of energy security. "Our strategic priority in the EU is to enhance energy security in particular by diversifying the EU's energy sources and energy routes... The Eastern Partnership is indeed historic."⁴⁵ It was no surprise that Russia's foreign minister Sergei Lavrov expressed concerns about Eastern Partnership, often perceived as an EU attempt to expand its "sphere of influence" in

the quest for hydrocarbons.⁴⁶ In view of the EU's growing efforts in the realization of the Southern Gas Corridor projects and Russia's counter-efforts in keeping control over the energy supplies and transit routes in the Caspian region, the geopolitical struggle and "race for diversification" seem to be inevitable.

Although the history of Southern Gas Corridor dates back to the 1990s, when the European Commission identified South Caucasus and Central Asia as the main targets for the diversification of its energy supplies and transit routes, it acquired a greater degree of emphasis with regard to the construction of the original backbones of the corridor Baku-Tbilisi-Ceyhan (BTC) and Baku-Tbilisi-Erzurum (BTE) pipelines which are the most vivid manifestation of the growing connections between the South Caucasus region and Europe, though fraught with geopolitical significance.⁴⁷ Largely a US initiative, the BTC pipeline became an important element in expanding oil production in the Caspian basin, significantly altering the system of energy supplies transportation in the region. Even though the BTC only transports around 1 per cent of total global oil supplies, and is probably one of the most controversial and politicized energy pipeline of modern times from the EU's perspective it established foundations for direct access to Caspian energy resources. Namely BTE, the twin gas pipeline of the BTC became a foundation for Nabucco, largely considered as the flagship of the Southern Gas Corridor.

Nabucco was a considerably more ambitious project than its competitors (TAP, ITGI), expected to transport much larger volumes of gas to Europe. As a matter of fact Nabucco was endorsed as a priority project by the European Commission. Although the EU's European Investment Bank (EIB) involvement in the project and contribution (in the amount of €200 million), to the feasibility studies of the pipeline generated high hopes regarding the successful realization of the project and its subsequent positive outcomes for the EU's energy security, over time it became clear that the European Commission has evidently downplayed a number of geographical, commercial and political obstacles that have been hampering the realization of Nabucco. The weakness of the original Nabucco proposal could never be overcome: there was no source for the natural gas that the pipeline was supposed to carry. Despite intensified negotiations with Azerbaijan and Turkmenistan, 10bcm of gas per year agreed with Azerbaijan could hardly meet the EC's expectations pertained to Nabucco. Hence, the European Commission came up with the idea that since the construction of large pipelines is not currently attainable,

the realization of small projects providing access to Azerbaijan's Shah Deniz II gas field may establish foundations for more ambitious projects.

Furthermore, in May 2012, the European Commission stated that it does not consider Nabucco to be the priority option in importing Caspian gas to Europe and supports all pipelines that are being developed for this purpose equally and is neutral in the choice of the pipeline.⁴⁸

In this vein, new package of agreements signed between Turkey and Azerbaijan on October 26, 2011, establishing rules for the transit, volumes and prices of gas, triggered new developments and established foundations for the start of the southern gas corridor projects. Under the new agreement, Turkey is to transit 10 bcm/year of gas from Azerbaijan to the borders with Greece and Bulgaria through the recently agreed Trans-Anatolian Gas Pipeline (TANAP), which would then send gas to Europe via Nabucco West, Trans-Adriatic Pipeline (TAP) or South East Europe Pipeline (SEEP).

Underlining TANAP's importance, the EU Energy Commissioner Günther Oettinger stated that: "Europe is now a step closer to its aim to get gas directly from Azerbaijan and the other countries in the Caspian region".⁴⁹

Apparently, discussions over the Southern Gas Corridor became decisive in stepping up the EU's engagement in the region and after 2006 and 2009 gas crises the EU's regional policy has been particularly formed out of Union's desire to diversify its energy sources and transit routes. However, many uncertainties remain with respect to achieving this aim and in particular two interrelated questions emerge. The first question relates to the EU as an international actor in external energy policy, that is, to the existence of a coherent policy at the EU level. The second question relates more particularly to the consistent with the EU's broader foreign policy objectives (democracy and good governance promotion etc.) energy policy, the ability of the EU to succeed in diversifying its energy supply, yet not drifting away from its Common foreign and security policy principles.

The issue of coherent energy policy

It is widely recognized that the ability of the EU to promote its norms successfully depends on the level of coherence between the EU policy and that of the member states. The issue of coherent external energy policy gained increased relevance after Russian-Ukrainian gas disputes. Namely, Green Paper and follow-up documents asserted that:

The energy challenges facing Europe need a coherent external policy to enable Europe to play a more effective international role in tackling common problems with energy partners worldwide. A coherent external policy is essential to deliver sustainable, competitive and secure energy.⁵⁰

Moreover, B. F. Valdner and other top officials argued that energy is a perfect example of common sense driving integration and

it is illusory to think that Member States can deal with today's energy challenges on their own... common voice - is absolutely essential if the EU is to rise to the challenges of oil and gas geopolitics.⁵¹

The European Commission suggests that coherent energy policy would cover several key goals and instruments, such as coherent policy on securing and diversifying energy supplies, energy partnerships with energy producers and transit countries, developing a pan-European Energy Community, responding more effectively to external challenges, integrating energy into Common foreign and security policy etc.⁵² However, despite the release of many directives, statements, reviews and action plans, certain challenges continue to hinder a common European Energy Policy and energy security remains mainly a national issue, as member states- extremely heterogeneous in terms of resources, energy mix, level of demand, and structure of supply, are wary to yield sovereignty in this strategic policy area.

Differences in energy security risks between the member states were reaffirmed by the EU member states' approaches to the projects of the Southern Gas Corridor. While "old" member states have been diversifying away from the Persian Gulf for years in favor of Russia, post-communist countries such as Poland and the Baltic states, seek to reduce overdependence on Russia and consider the rising assertiveness of Russia in the international arena as a considerable threat.⁵³ As Pierre Noël put it: "

When it comes to gas, the Iron Curtain still seems to cut Europe in two – in the Western EU, the markets are large but diversified, in the East the markets are smaller but much more dependent on Russia.⁵⁴

For instance, countries that have developed a widely diversified import strategy, like Italy, Spain and France, have different perceptions, needs and interests from the EU's eastern members, such as Slovakia or Hungary,

which depend almost entirely on Russian supplies. Germany's high-profile relations with Russia on energy has been an exemplar of energy policy bilateralism in Europe, but others, such as France, Italy, Austria, the Netherlands and Bulgaria, have also fallen into the temptation to pursue their own separate agreements with Gazprom.⁵⁵

Unsurprisingly, under such circumstances, the EU27 member states, often with vastly divergent energy profiles and policy preferences, have tended to rely on bilateral energy partnerships making clear energy governance takes place in a field of tension between governance based on market and institutions on the one hand, and state-centered, power-based geopolitics on the other.⁵⁶ Although the EU was actively involved in addressing energy security challenges, in its working paper the European Commission admitted, "the scale of the gas supply disruptions required an adequate response at the EU level, however, a clear strategy as well as concrete instruments were lacking".⁵⁷

Thus, it is rather complicated to find common ground among all 27 member countries. Obviously state-centred approach, lack of agreement and coordination reduces the EU's role in international energy relations limiting the EU's foreign policy options, and thus damaging the EU's overall energy security.

Needless to say that more often than not, the EU and its Member States do not form a coherent whole with respect to their energy and other initiatives and actions vis-à-vis Caucasus-Caspian region, meanwhile pursuing individual barter deals makes the instruments of the EU's external governance inapplicable.

The issue of consistent energy policy towards the South Caucasus: Energy and broader foreign policy objectives

It is widely recognized that a prominent feature of the EU's self-definition is the affirmation of its internal adherence to and external promotion of particular (liberal) norms and values.

Apparently, energy represents a more serious and genuine test of the EU's capacity and commitment as a "normative power". 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. Largely rejecting the geopolitical approaches to the energy policy the EU top officials declared

that energy policy must be compatible with its broader foreign policy objectives, based on the commitment to the promotion of economic liberalization, democracy and good governance in energy producer states. Hence “external governance” – is the overarching EU approach to energy relations with the region and “the EU will not pursue energy interests in isolation from its Common foreign and security policy principles... relying on its soft power and believing that good governance and human rights contribute to Europe’s energy security”.⁵⁸

In this regard, the EU set itself ambitious goals in its initiatives (ENP, BI, BSS, EaP) aiming to create a “ring of energy cooperation” based on the promotion of the EU’s own rules in the neighborhood. Clearly, enhancing energy security and deeper cooperation with neighbours in the sector is a challenge for the EU’s external governance. In the case of the South Caucasus, the situation is aggravated by intense geopolitical competition in the region. It is no exaggeration to suggest that the EU’s ability of standing up for its interests and staying true to its values is being tested in the South Caucasus region, where the EU has positioned itself as a special actor, the interests of which are not confined to energy:

Whereas the significance of the region for the positive involvement of the EU is not only linked to its geographical position as a transit area for energy supplies from Central Asia to Europe but is also based on the mutual interest, shared by all concerned, in the development of the region with a view to enhancing democracy, prosperity and the rule of law and thus creating a viable framework for regional and inter-regional development and cooperation in the South Caucasus area.⁵⁹

Moreover, the EU differentiated itself from other actors, which can be seen in the following statement:

Highlights... the growing interest of other economic powers, such as Russia, the United States and China, in this area; considers it of the utmost importance, therefore, that cooperation with the South Caucasus be given the highest priority, not least in matters relating to energy.⁶⁰

In this regard, the case of Azerbaijan, which is the key energy producer in the region, represents a serious test of the EU’s ability to provide balance between bilateral energy partnership and multilateral external governance, “reconcile energy with democracy”.

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 ENP.⁶¹ The 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. Namely, out of the 30 million euro Commission aid commitment for 2004–6, 17 million were allocated for "institutional, legal and administrative reform".⁶² The Commission aid programme, concluded under the Neighbourhood strategy, listed democratic and energy reforms as two priority areas of support. With regard to the bilateral energy agreement (Memorandum of Understanding on a Strategic Partnership between the European Union and the Republic of Azerbaijan in the Field of Energy) with Azerbaijan the president of the European Commission José Manuel Barroso declared:

This is not just about energy ... Our relations are also about pursuing shared European values of democracy, good governance, fundamental freedoms and the protection of human rights. We will continue to work with Azerbaijan in all of these political and economic areas.⁶³

However, despite this liberal rhetoric over time it became clear that when it comes to the diversification of energy supplies, The EU's "soft power" has little to do: democracy and energy go in opposite directions and energy policy is not consistent with the EU's broader foreign policy objectives. This argument can be amplified by ENP progress reports reflecting the growing gaps between bilateral energy partnership and democracy promotion in the EU's neighborhood.⁶⁴

In view of underlying tension between the geopolitical realities of the region and the EU's modes of governance some officials suggest that the tougher international energy panorama requires the EU to drop the pretence that energy policies are to be based on liberal interdependence.⁶⁵ Moreover, some authors argue that the EU has failed to "reconcile energy and democracy", as any engagement in the Caspian region requires the EU to adhere to a realistic posture. Hence, it is impossible to be post-modern in the South Caucasus and Central Asia. As long as the U.S., China, and Russia act this way, so must the EU.⁶⁶ While these "normal" actors are pragmatic and materialist in their aims and policy orientations, the "normative" EU cannot pursue only normative goals setting aside its

energy interests. Thus, the EU's quest to ensure the reliable supply of energy resources does not proscribe all claims to its being a normative power and it makes the EU appear more normal than some have presented.⁶⁷

As J. Solana declared:

We may have to deal increasingly with governments whose interests are different from our own and who do not necessarily share our values... Our energy needs may well limit our ability to push wider foreign policy objectives, not least in the area of conflict resolution, human rights and good governance... The scramble for territory of the past maybe replaced by a scramble for energy. We have to take our energy from where we find it.⁶⁸

Within the corpus of literature on the EU relations with states that are oil and gas producers, for example in the context of the European Neighbourhood Policy and Eastern Partnership, there are many references to goals of democratization and human rights but little on how the EU will provide balance between energy and other policies (particularly democracy and good governance promotion) towards energy producers countries since the quest for diversification exacerbated by harsh geopolitical struggle seems to be incompatible with external governance and democracy promotion. The case of Azerbaijan, suffering from unsatisfactory fulfillment of democratic reforms is illustrative: 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 risen.⁶⁹ Some authors argue that the EU is broken-winged in influencing Azerbaijan to move on the democracy and human rights reform front since energy revenues and Europe's thirst for oil and gas make the leverage non-existent. Although the EU has the possibility to apply negative conditionality through suspending funding, it is unlikely to impress Azerbaijan. ENP budget support to Azerbaijan that amounts to approximately 15 million euro a year is no incentive in view of the rising state budget; this amount of aid is equivalent to the revenues of about one afternoon of pumping oil through the BTC oil pipeline.⁷⁰ Moreover, the EU is lacking the carrot of membership of the European Union, meanwhile there is no precedent of promoting EU rules (the *acquis communautaire*) as a template for development and modernisation without a formal membership perspective on the table.

Apparently, Azerbaijan’s unique position in the EU’s energy initiatives has vastly increased the negotiating leverage of the state vis-à-vis the EU, reducing the inherent asymmetry of a strictly bilateral setting of negotiations and making clear that Baku is not devoid of options and the EU is in no position to put conditions on energy-or other relationships. 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, and the Joint Declaration on the Southern Gas Corridor (13.01.2011) –embolden the political elite of Azerbaijan even more for two reasons:

- First, because they increase the centrality of Azerbaijan for the European natural gas market, a fuel that is vitally important for EU’s energy security .
- Second, the realization of all projects of the Southern Gas Corridor depends on smooth cooperation with Azerbaijan, which has allowed the latter to pursue horizontal and symmetric partnership with the EU due to its “geostrategic importance”. Obviously the EU’s inability to provide balance between energy interests and its “transformative capacity” puts serious constraints on its broader foreign policy objectives. Moreover, some authors argue that driven by the desire of diversification 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 has taken over policy circles in Brussels.⁷¹ Thus, “normative” goals and the scenarios leading to change (reform) are currently dominated by the interest in alternative energy resources and diversified transport routes.

Table 5: *The EU’s energy policy: Rhetoric and State-of-the-art*

<i>Rhetoric</i>	<i>State-of-the-art</i>
Coherent, common external energy policy	Lack of coherence, bilateral deals
Energy policy, which is consistent with broader foreign policy objectives	Growing gap between energy and other policies, “normative” goals dominated by security interests
Market-based solutions to energy-related issues	Structural weakness of market mechanisms

Although theoretically a successful EU's regional policy should not be confined to energy embracing a broader approach, but also dealing with the parallel promotion of its interests in the governance and security sectors, in practice the quest for energy currently limits the EU's ability to push wider foreign policy objectives, widening gap between energy and other policies of the EU in the South Caucasus region.

Conclusion

The growing dependence on external energy imports coupled with uncertainty over the reliability of energy supplies has significantly bolstered the foreign-policy dimensions of the EU's energy security. The quest for diversification of energy supplies and transit routes has become instrumental in stepping up the EU's engagement in the South Caucasus region especially since the 2006 and 2009 Russian-Ukrainian gas disputes. Starting from these key assumptions this analysis highlights the following points:

- Although the European Commission started to formulate external energy policy for the EU in its 2000 Green Paper, it was not until the aftermath of the 2006 row over gas prices between Russia and Ukraine that energy security became a priority issue on the European foreign and security policy agenda. The 2006 energy cut-off served as “wake-up call” making clear that the EU needs to make energy a central component of all external relations, and pursue diversification of energy supplies and transit routes. The follow-up EU energy policy documents put a pronounced emphasis on the southern dimension of the EU's energy policy asserting that Caspian oil and gas will be important for the EU's security of energy supply by increasing the geographical diversification of external energy supplies. This marked a shift in the importance the EU attaches to the South Caucasus region due to its functional role as a transit corridor to Caspian energy resources .
- Although the Caspian alternative to increasing dependence on Russia was apparently acknowledged by the EU through the realization of the INOGATE programme, for the decade following the collapse of the Soviet Union EU activities were predominantly concentrated on technical and humanitarian assistance and development with a relative lack of interest in the energy sector. Due to region's perception as a part of Russia's “near abroad” and a space of Russia's influence, the EU was avoiding direct geopolitical

competition with Russia. The policy efforts towards the South Caucasus enhanced in wake of Russian-Ukrainian disputes over gas (2006 and 2009), which were instrumental in the EU's search for alternative suppliers. A range of initiatives and the pipeline projects of the Southern Gas Corridor came to redefine the EU's actorness in the region with a special emphasis on the energy sector.

- The main rationale of the EU's initiatives was to promote the development of the energy sector based on the principles of security of supply, competitiveness and sustainability leading to the establishment of a common regulatory area. Namely, it was suggested that energy security can be best achieved by the EU extending its own energy market to include its neighbours within a common regulatory area with shared trade, transit and environmental rules'. Integral to this approach is the conviction that institutionalized energy policy based on the principles of multilateral cooperation transparent and stable regional energy market is key to achieving the EU's goal of diversification.

However, despite the EU's reliance on its "soft power" and adherence to the principle of liberal interdependence over time it became clear that market-based liberal initiatives do not have much room to grow, coming to prove the structural weakness of market mechanisms and the underlying tensions between the priorities of diversification (pipeline politics) and the governance modes of the EU.

In general, three main factors hampering the EU's external energy agenda in the region may be identified: lack of coherence in external energy policy; geopolitical realities of the region characterized by the domination of power politics; irrelevance of the EU's conditionality due to lack of membership perspective. Such a situation has driven the need to reinforce bilateral energy partnership marking a shift in the geopolitical dimension of the EU's external energy policy towards the region. Namely, a number of bilateral energy agreements have started to pick up speed since 2006. Needless to say that the incoherent and inconsistent external energy policy widens gap between multilateral governance and bilateral energy partnership, thus limiting the EU's ability to push broader foreign policy objectives in the region.

However, the Southern Gas Corridor and the processes of different degrees of energy integration are not yet finished. Therefore, further research could provide a more nuanced perspective of the setbacks and accomplishments of the EU's external energy strategy towards the South Caucasus region.

LIST OF ABBREVIATIONS

BI - Baku Initiative
BSS - Black Sea Synergy
BTC - Baku-Tbilisi-Ceyhan
BTE - Baku-Tbilisi-Erzrum
EaP - Eastern Partnership
EURATOM - European Atomic Energy Community
EC - European Commission
ECT - European Charter Treaty
EIB - European Investment Bank
ENP - European Neighbourhood Policy
ESS - European Security Strategy
ECSC - European Coal and Steel Community
EU - European Union
IEA - International Energy Agency
INOGATE - Interstate Oil and Gas Transportation to Europe
ITGI - Interconnector Turkey-Greece-Italy Pipeline
SEEP - South East Europe Pipeline
SGC - Southern Gas Corridor
TANAP - Trans-Anatolian Gas Pipeline
TAP - Trans Adriatic Pipeline
TCP - Trans-Caspian pipeline

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