

DOI: 10.19266/1829-4286-2015-02-91-112

## **The EU's Strategic Interests in the South Caucasus: from a Bystander to Perceived Interests**

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*The article discusses the main internal and external reasons of the increased importance of the South Caucasus region in the EU's political agenda in the early 2000s, as well as the primary motives of subsequent acknowledgment by the EU its strategic interests in the South Caucasus after the initial neglect towards the region. While examining the implications of the European energy security issues for the South Caucasus, the role of the region as a potential energy supplier and a transit route in the EU's gas import diversification strategy will be analyzed. This will be elucidated using an example of the "Southern Gas Corridor" project. Aside from the energy interests, following the article the EU's strategic interests in the fields of security, trade and good governance will be discussed.*

### **Keywords**

EU strategic interests, South Caucasus, energy interests, trade and economic interests, security issues, good governance.

### **Introduction**

The dissolution of the Soviet Union shattered the bipolar system, resulting in changing of geopolitical reality in the South Caucasus, invocation of new actors in the region, as well as building new independent relations of the South Caucasian states with regional and extra-regional actors.

Yet, for the first decade after the collapse of the Soviet Union, the South Caucasus region has not occupied an important place in the European Union's perceived interests. Clearly, this lack of political interest of the EU vis-à-vis the region had its internal and external reasons.

In his contribution D. Lynch provides a very good insight into emergence of the EU's policy towards the South Caucasus. The EU's

late-1990s evident neglect vis-à-vis the region author explains with the distant location of the region, which before the last enlargements of the European Union was not seen as part of Europe and was considered outside the geographical scope of the European initiatives, in both security and neighbourhood programmes. *Inter alia*, the lack of knowledge about the region and its identity which resulted in absence of developed strategic thinking towards the region, the complexity of the regional problems, the lack of internal lobbyists within the EU to catalyze greater interest towards the South Caucasus, as well as the overall dominant presence of external actors in the region were outlined by the author as main reasons of the EU's inactivity in that period<sup>1</sup>.

At the same time, substantial internal institutional reforms and economic difficulties within the EU, related to Maastricht Treaty, as well as the absence too much of common European Foreign and Security Policy represented significant obstacle for more active EU policy towards the region<sup>2</sup>. In this regard, N. Popescu argues, that until the appointment of the EU High Representative for Common Foreign and Security Policy (CFSP) in 1999, the EU did not have a coherent institutional framework for foreign policy action<sup>3</sup>.

In addition, L. Simão claims, that in the given period the EU's political relations with the South Caucasus states were hampered by the EU's "Russia first" strategy and the fact that Moscow remained the privileged interlocutor for European leaders while shaping its foreign policy in the post-Soviet space<sup>4</sup>. Among external factors that hindered EU's engagement in the region the Balkan wars and lack of competence

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<sup>1</sup> **Lynch D.**, The EU: Toward A Strategy in *The South Caucasus: A Challenge for the EU*, Chaillot Paper no. 65, EU Institute for Security Studies (Ed. by D. Lynch), Paris, 2003, pp. 171-192.

<sup>2</sup> **Sierra O.**, Life is a dream: EU governance in the Southern Caucasus, *Dynamiques internationales*. 6, 2012, available at <http://dynamiques-internationales.com/wp-content/uploads/2012/02/DI6-Sierra11.pdf> (12.12.2014)

<sup>3</sup> **Popescu N.**, ENP and EaP: relevant for the South Caucasus? in *South Caucasus – 20 Years of Independence*. Friedrich-Ebert-Stiftung, pp. 316-335.

<sup>4</sup> **Simão L.**, EU-South Caucasus Relations: Do Good Governance and Security Go Together?, *Political Perspective*, 5 (2), 2011, 33-57.

to act rapidly and in unison to manage serious crises should be mentioned as well<sup>5</sup>.

However, starting 2003 the South Caucasus has gained increasing attention of the EU, which after a period of passive observing declared its clearly defined interests in the region. D. Lynch explains this shift in the EU's policy – to identify its interests and to develop clear strategy towards the region – with the significant change in the EU's foreign policy (which previously was conditioned with the EU accession/not accession scheme) and with intention to play more active political role in the world and in the region in particular<sup>6</sup>. According to S. Cornell and F. Starr, this change of the EU's thinking towards the South Caucasus has been also linked with the increasing geopolitical importance of the Caucasus in the world affairs after the dissolution of the Soviet Union, which later combined with the eastward expand of the EU, as well as the EU's newly emerged inter-related interests in the Caucasus including governance, energy and security<sup>7</sup>.

The main purpose of the article is to investigate the primary motives as well as the main internal and external reasons of the increased importance of the South Caucasus region in the EU's political agenda and subsequent acknowledgment of its strategic interests in the South Caucasus.

While examining the implications of the European energy security issues for the South Caucasus, the role of the region as a potential energy supplier and a transit route in the EU's gas import diversification strategy will be analyzed. This will be elucidated using an example of the “Southern Gas Corridor” project. Aside from the energy interests, following the article the EU's strategic interests in a field of security, trade and good governance will be discussed.

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<sup>5</sup> **Cornell S. and Starr F.**, *The Caucasus: A challenge for Europe*. Central Asia-Caucasus Institute. Silk Road Program, 2006, p. 11.

<sup>6</sup> **Lynch D.**, *Op. cit.*, pp. 171-192.

<sup>7</sup> **Cornell S. and Starr F.**, *Op. cit.*, pp. 11-15.

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## European Energy Issues: Import Diversification and Energy Security Strategy

Energy issues have been a key factor from the very creation of the European Community. Since the agreements on European Coal and Steel Community (ECSC) and Euratom by Germany, France, Italy and the Benelux countries in 1957 the energy security issues have still remained crucial for EU economic, political and security agenda, both on the global and regional levels.

At the same time, most EU Member States and the European Union as a whole do not have significant oil, natural gas and coal deposits in their territories to meet growing economy needs.

The limited domestic energy resource base in Europe causes substantial dependence of the EU on external energy supplies. The EU is currently one of the biggest importers of gas and oil, where the main supplies are from Russia, Norway, the Gulf region, and North Africa<sup>8</sup>. Over 50% of the EU-28's fossil fuel comes from countries outside the EU and this proportion has fairly growing tendency. Data shows that the EU's energy import dependency increased after the last enlargements from less than 40% of gross energy consumption in the 1980s to reach 53.2 % by 2013<sup>9</sup>. According to European Commission in 2015 the EU imports 53% of the energy it consumes<sup>10</sup>. Despite the EU's commitment to ensure that by 2030 the EU will share less than 10% of global energy consumption due to introduction of New European energy policy, the reality today shows the quite opposite trend. By some estimates, the demand for energy in the EU could rise by another 35-40% over 20 years. As per the European Commission, "with "business as usual" the EU's energy import dependence will jump from current 50% of total EU energy consumption to 65% in 2030. As EU local energy production

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<sup>8</sup> **Jimenez A.**, Statistical aspects of the natural gas economy in 2009. (Eurostat Data in focus 20/2010), available at [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-QA-10-00/EN/KS-QA-10-020-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-QA-10-00/EN/KS-QA-10-020-EN.PDF), p. 1 (02.12.2014).

<sup>9</sup> Energy production and imports, available at [http://ec.europa.eu/eurostat/statistics-explained/index.php/Energy\\_production\\_and\\_imports](http://ec.europa.eu/eurostat/statistics-explained/index.php/Energy_production_and_imports) (12.01.2015)

<sup>10</sup> European Commission. Energy Union Factsheet. Brussels, 25 February 2015, available at [http://europa.eu/rapid/press-release\\_MEMO-15-4485\\_en.htm](http://europa.eu/rapid/press-release_MEMO-15-4485_en.htm) (28.02.2015)

continues to decline, the percentage of gas imports is expected to increase from current 57% to 84% by 2030 and oil from 82% to 93% respectively<sup>11</sup>. Hence, in the predictable future the EU will still be significantly dependent on energy imports, market conditions, geopolitical factors and political stability in transit and producer countries.

As it was mentioned, Russia is one of the EU's largest suppliers of crude oil, natural gas and solid fuels. According to Eurostat data, in 2013 Russia's share of EU-28 energy supply accounted for 28,8% of solid fuels, 33,5% of crude oil and 39,3% of natural gas imports<sup>12</sup>. Along with this, the European dependence on Russian gas supplies has a tendency to deepen even further. Experts claim that with a speedy growth in demand, overall European gas imports from Russia are expected to increase up to 60% by 2020<sup>13</sup>.

Certainly, such high proportion of fossil fuel imports concentrated among few partners may threaten the security of the EU's energy supplies, particularly given the fact that six Member States depend on a single external supplier for their total gas imports which makes them especially vulnerable to supply disruptions<sup>14</sup>. Therefore diversification of energy supplies has become an increasingly significant requirement for the EU.

Concerns about the security of supply from Russia have emerged especially since the winter 2005/2006 interruptions in deliveries of

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<sup>11</sup> European Commission. An Energy Policy for Europe, available at [http://ec.europa.eu/energy/energy\\_policy/doc/01\\_energy\\_policy\\_for\\_europe\\_en.pdf](http://ec.europa.eu/energy/energy_policy/doc/01_energy_policy_for_europe_en.pdf) (23.12.2014)

<sup>12</sup> Energy production and imports, available at [http://ec.europa.eu/eurostat/statistics-explained/index.php/Energy\\_production\\_and\\_imports#Imports](http://ec.europa.eu/eurostat/statistics-explained/index.php/Energy_production_and_imports#Imports) (07.01.2015)

<sup>13</sup> **Paillard C.-A.**, Rethinking Russia: Russia and Europe's Mutual Energy Dependence, *Journal of International Affairs*, **63**, 2, 2010, available at <http://jia.sipa.columbia.edu/russia-and-europe%E2%80%99s-mutual-energy-dependence> (11.02.2015)

<sup>14</sup> Energy Union Package. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank. Brussels, 25.2.2015 COM(2015) 80 final, available at [http://eur-lex.europa.eu/resource.html?uri=cellar:1bd46c90-bdd4-11e4-bbe1-01aa75ed71a1.0001.03/DOC\\_1&format=PDF](http://eur-lex.europa.eu/resource.html?uri=cellar:1bd46c90-bdd4-11e4-bbe1-01aa75ed71a1.0001.03/DOC_1&format=PDF) (28.02.2015)

Russian gas to EU recipients because of Russia – Ukraine gas disputes<sup>15</sup>. And even though the gas crisis was solved in the very beginning of January, with a new Russian – Ukrainian agreement, the EU officials have doubted the reliance of the existing system of energy supplies from Russia to Europe.

In response to continuing concerns about the EU's dependency on fossil fuel imports in March 2006 the European Commission issued a report enclosing a strong warning about the European increasing dependence on energy import. It suggested a clear and consistent policy on securing and diversifying energy supplies by building new pipelines. According to the European Commission, "the EU's energy security can be enhanced by diversifying energy sources and geographical origin as well as transit routes. The EU should facilitate the maintenance and upgrade of existing energy infrastructure in neighbouring countries of key importance to the EU as well as the development of new infrastructure"<sup>16</sup>. "Increasing dependence on imports from unstable regions and suppliers presents a serious risk. Some major producers and consumers have been using energy as a political lever" remarked Javier Solana, the High Representative for the EU's Common Foreign and Security Policy in his paper addressed to the European Council. Among other suggestions, Solana looked towards the resources in Central Asia, especially around the Caspian Sea basin<sup>17</sup>.

Consequently, in 2008 the European Commission initiated to open the fourth energy corridor namely "The Southern Gas Corridor"<sup>18</sup>, which would have three major pipelines including Nabucco, Turkey-Greece-Italy Interconnector (ITGI) and Trans-Adriatic Pipeline (TAP). Aiming at linking Caspian Basin and potentially Middle East energy supplies to Europe, The Southern Corridor has been highlighted by

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<sup>15</sup> In January 2006 Russian Gazprom decided to cut the flow of natural gas through the Ukraine territory, leading to significant drops of gas supplies to a number of European countries (Austria, Hungary, Germany, France, Italy, Slovakia and Poland).

<sup>16</sup> An External Policy to Serve Europe's Energy Interests, available at [http://ec.europa.eu/dgs/energy\\_transport/international/doc/paper\\_solana\\_sg\\_energy\\_en.pdf](http://ec.europa.eu/dgs/energy_transport/international/doc/paper_solana_sg_energy_en.pdf) (14.01.2015)

<sup>17</sup> An External ..., Op. cit.

<sup>18</sup> This political project was devised in 2003 and officially named Southern Gas Corridor in 2008, according to the Second Strategic Energy Review.

European officials as “one of the EU’s highest energy security priorities”<sup>19</sup>. In this respect, Nabucco gas pipeline has been seen as a new flagship project of the diversification of the energy supplies. Strongly supported by the USA, once in operation, this pipeline would connect the Caspian and Middle Eastern energy resources with Europe through Turkey, omitting Russian involvement.

The barest necessity of the EU’s energy import diversification has been further heightened since 2014 by the events in Ukraine and the ongoing Crimea crisis, and enlarging scope of Western sanctions against Russia, which, according to some opinions, might include an embargo on Russian natural gas imports at some point<sup>20</sup>. Moreover, in response to the EU’s intention to diversify away from Russian energy imports, Moscow is moving forward its own energy export diversification strategy towards the rapidly growing Asian markets.

Speaking of European energy supply security, it should also be taken into consideration that replacing fossil fuel supplies from Russia with alternative sources of energy, be that liquefied natural gas (LNG) or shale gas from the U.S., will require huge investments and time, as an infrastructure will have to be built for receiving LNG. Along with this, due to American energy business and market peculiarities the price of American fuel supplies will be much higher than Russian energy imports. Another possible alternative – developing domestic shale gas production – will also require significant investments. Moreover, it is prohibited for environmental reasons in many European countries, and most likely will not meet the needs of European consumers. Hence, the EU will profit much more from the import of energy recourses and the use of renewable sources.

This is why the most optimal response to current energy issues for the EU is to reduce European dependence on Russian energy imports and to secure its gas supply through diversified sources.

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<sup>19</sup> European Commission. An EU energy security and solidarity action plan. Brussels, 13.11.2008. COM (2008) 781 final, available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0781:FIN:EN:PDF> (13.02.2015)

<sup>20</sup> **Holland A.**, Europe Should Embargo Imports of Russian Natural Gas, available at <http://www.energytrendsinsider.com/2014/03/03/europe-should-embargo-imports-of-russian-natural-gas/> (15.02.2015)

To address present-day issues and long-term energy security challenges, as well as to secure stable and abundant supply of energy in May 2014 the European Commission released its Energy Security Strategy<sup>21</sup>. Subsequently, in February 2015 the Commission adopted a new strategy for a European Energy Union aimed to ensure “secure, sustainable, competitive and affordable energy” delivery for European consumers and to speak with one voice in external energy policy<sup>22</sup>.

Among the main objectives, the modernization and increasing of domestic energy production in the EU, the reducing of the EU’s dependency on particular fossil fuels, energy suppliers and routes by diversifying supplier countries and routes were underscored<sup>23</sup>. The new strategy also emphasizes the importance to establish new energy relationships and strategic energy partnerships with increasingly important producing and transit countries or regions. According to the European Commission, “To ensure the diversification in gas supplies, work on the Southern Gas Corridor must be intensified to enable Central Asian countries to export their gas to Europe”<sup>24</sup>. In this respect, the New energy strategy of the EU substantially increases the importance of the South Caucasus, as a vital corridor to Caspian energy resources, and specifically the role of Azerbaijan, as a main energy producer in the region and a key actor in realisation of a number of ongoing projects to develop gas pipelines between Europe and its eastern neighbors, particularly in frames of the Southern Gas Corridor.

### **The Southern Gas Corridor: Implications for the South Caucasus**

The South Caucasus as an energy resource provider and a transit route is an old concept. The region was assimilated into a sphere of western energy interests as early as 1883 when the Baku-Poti railroad

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<sup>21</sup> European Energy Security Strategy. Communication from the Commission to the European Parliament and the Council. Brussels, 28.5.2014 COM(2014) 330 final, available at <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014DC0330&from=EN> (11.11.2014)

<sup>22</sup> Energy Union..., Op. cit.

<sup>23</sup> Energy Union..., Op. cit.

<sup>24</sup> Energy Union..., Op. cit.

financed by the Rothschild family was constructed to transport Caspian oil to the international market<sup>25</sup>.

For known reasons during the Soviet era the West was denied access to the region. After the collapse of the Soviet Union the region gained increased attention of regional and extra-regional actors due to the available water and energy recourses and its transit potential. In the middle of 1990s the transport corridor (Europe-Caucasus-Asia) – TRACECA and INOGATE (Interstate Oil and Gas Transport to Europe) programs were launched by Brussels as main components of TACIS (Technical Assistance to the Commonwealth of Independent States) program “to diversify the traditional centralized trade and transport flows and open new (alternative) trade routes to the Western countries”<sup>26</sup>, as well as to encourage the development of energy infrastructure of the countries concerned. However, it should be mentioned, that holding a significant potential to change the geopolitical situation in the region and to support European energy security interests, primarily the both projects were designed to provide mainly technical assistance which significantly reduced their influence.

It is only in 1994, after subscription of first international oil agreement – the so-called “contract of the century” – by the Azeri government with a consortium of global oil companies and realization under USA supervision of two big transit initiatives – the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and Baku-Tbilisi-Erzurum (BTE) gas pipeline, that the South Caucasus started to be considered by Europe as a feasible potential energy corridor for resources coming from the Caspian Basin, omitting not only Russia, but also Iran. This view is supported by S. Cornell and F. Starr claiming that “the completion of the BTC and South Caucasus pipelines is an important milestone for European energy security, by diversifying supply and simultaneously bolstering a new partner region to the EU in energy security”<sup>27</sup>.

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<sup>25</sup> **Wisniewski J.**, EU Energy Diversification Policy and the Case of South Caucasus, *Political Perspectives*, 5 (2), 2011, 58-79.

<sup>26</sup> TRACECA program official website. <http://www.traceca-org/ru/traseka/istorija-traseka> (10.10.2014)

<sup>27</sup> **Cornell S. and Starr F.**, Op. cit., p. 82.

Certainly, it is the successful realization of these two projects that encouraged EU leaders to pursue in early 2000s the Nabucco project – a pipeline that could directly link European energy consumers with alternative suppliers completely avoiding any Russian involvement.

The original Nabucco project itself dated back to the protocol signed in June 2002, when Austrian OMV, Hungarian MOL, Bulgarian Bulgargaz, Romanian Transgaz and Turkish Botas agreed to create a pipeline link stretching from Erzurum in Turkey to Austria<sup>28</sup>. Without going into details about the origins and development of the project it is worth mentioning that after the completion of the pipeline the full discharge capacity of 31 bcm per year was expected to be reached in 2020 at the earliest. Azerbaijan was one of the key players in the Nabucco pipeline project as it remained to be the only country, which officially committed to supply the pipeline with gas. In this vein, in July 2008 the Memorandum of Understanding on a strategic partnership between the European Union and the Republic of Azerbaijan in the Field of Energy was signed to ensure the enhancement of the safety and security of energy supply and transit systems from Azerbaijan and Caspian Basin to the EU<sup>29</sup>.

However, over time it became clear that the implementation of this ambitious project have encountered a number of commercial, geopolitical and geographical issues.

One of the main weaknesses of the Nabucco project was lack of guaranteed raw material base. Due to political instability Middle East became substantially inaccessible. Gas deliveries from Iran were halted as a result of international sanctions. At the same time, access to Central Asian gas continued to be blocked by unresolved legal status of the Caspian Sea and continuous opposition of both Russia and Iran towards any pipeline connection running under the Caspian Sea.

Along with this, despite it was projected that the Shah Deniz II, an offshore field, would supply Nabucco with 8 bcm of gas, obviously, Azerbaijan's gas resources were not enough to make the project reliable,

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<sup>28</sup> Wisniewski J., Op. cit.

<sup>29</sup> Memorandum of Understanding on a strategic partnership between the European Union and the Republic of Azerbaijan in the Field of Energy. [http://ec.europa.eu/energy/international/doc/mou\\_azerbaijan\\_en.pdf](http://ec.europa.eu/energy/international/doc/mou_azerbaijan_en.pdf) (22.02.2015)

as the pipeline needed around 30 bcm/year to be commercially viable<sup>30</sup>. Besides, while Azerbaijan ambitiously joined a number of international energy initiatives (BTE, a separate agreement with Romania over LNG and Nabucco), it also signed an agreement with Gazprom over Shah Deniz II gas, putting a big question mark over Azerbaijan's reliability to deliver the promised 8 billion cubic metres to Nabucco<sup>31</sup>.

The availability of gas supply from the potential suppliers became more uncertain also in light of the opening of the Central Asia-China gas pipeline and the engagement of Azerbaijan and Central Asian states to participate in the Southern Stream pipeline – another pipeline project favoured by Moscow, which would stretch to Bulgaria under the Black Sea and further to other European countries<sup>32</sup>.

The Nabucco project was also criticized for being unprofitable, especially taking into consideration its high cost (around 13 billion dollars) and the fact that the pipeline would supply only a limited number of countries in South-East and Central Europe<sup>33</sup>.

Aside from the Southern Stream project itself, some other Russian actions contributed to succumbing of the Nabucco project and frustrating European efforts at diversification, particularly Moscow's efforts to sign long-term gas deals with Azerbaijan and Central Asian states, mainly Kazakhstan and Turkmenistan, to lock up supplies to the EU as well as intentions to coordinate natural gas export policies with other leading producers such as Qatar and Iran<sup>34</sup>. Eventually, at the beginning of December 2013 the European Commission claimed that the bilateral agreements for the construction of the Southern Stream gas pipeline concluded between Russia and the concerned EU members are

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<sup>30</sup> The other 20 bcm of gas could be supplied from Kazakhstan, Turkmenistan and northern Iraq.

<sup>31</sup> **Wisniewski J.**, Op. cit.

<sup>32</sup> **Ramsay W.**, Doubts about Nabucco Don't Originate in China - Look to Europe, available at <http://www.ifri.org/?page=detail-contribution&id=5779> (23.01.2015)

<sup>33</sup> **Wisniewski J.**, Op. cit.

<sup>34</sup> **Пашковская И.**, Европейский Союз: энергетическая политика в отношении новых независимых государств. МГИМО, Центр евро-атлантической безопасности. 1 (22), Июль 2009, 51-52

all in breach of EU law and need to be renegotiated<sup>35</sup>. As a result, “Bulgaria (through territory of which the starting part of the European segment of the Southern Stream should have passed) declared that it was leaving the project. It seemed that Russia found itself in a desperate situation. However, at the end of the year, during his visit to Ankara, Russian president announced that Moscow would stop the construction of the Southern Stream pipeline and start the realization of another project – the Turkish Stream. Certainly, this new project is merely a modified version of the Southern Stream, as it foresees deliveries of the same volume of gas via pipelines built under the Black Sea (estimated to cost approximately 3.3 billion euros) to be sold to Turkey. Ankara aims to sell the gas to Europe via single pipeline which should pass through territories of Greece, Macedonia, Serbia and Hungary. The response was fast”<sup>36</sup>. According to the Minister of Productive Reconstruction, Environment and Energy of Greece, Lafazanis, during the negotiations the US special envoy for energy affairs A. Hochstein announced that the U.S. did not favour the realization of the Turkish Stream and advised to concentrate on the completion of the TAP<sup>37</sup> rather than devote efforts towards the extension of the planned Turkish Stream pipeline<sup>38</sup>. In response, the Greek government declared, that it would continue to back the Turkish Stream because it believed the project would be beneficial for Greece<sup>39</sup>. In this vein, the strategy of the Greek government to use the Turkish Stream as a leverage in the negotiations with Greece’s international creditors and the approximation of policies between

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<sup>35</sup> South Stream bilateral deals breach EU law, Commission says. 04.12.2013. <http://www.euractive.com/energy/commission-south-stream-agreement-news-532120>

<sup>36</sup> **Torosyan T., Arshakyan G.**, Turkey’s Modern Foreign Policy: New Challenges and New Opportunities, *Aemenian Journal of Political Science*, 1, 2015, 73-90.

<sup>37</sup> TAP - is an 870 km-long projected gas pipeline designed to provide the missing link for gas transportation from the border of Turkey and Greece to Italy, through Albania and the Adriatic Sea. The initial capacity of the pipeline will be about 10 bcm/year to be nearly doubled in the future as additional energy supplies will come into operation in the wider Caspian region.

<sup>38</sup> US urges Athens to focus on TAP, not Turkish Stream, available at <http://www.infobalkans.com/2015/05/08/us-urges-athens-focus-tap-not-turkish-stream>, (14.04.2015)

<sup>39</sup> США прямо заявили, что не хотят участия Греции в «Турецком потоке», доступно на [www.regnum.ru/news/1923051.html](http://www.regnum.ru/news/1923051.html) (12.03.2015)

Moscow and Athens undoubtedly add fuel into the EU-Russia energy security dispute<sup>40</sup>.

Unsurprisingly, the Nabucco pipeline project progressively lost its credibility. Hence, Brussels opted for the realisation of small projects providing access to Caspian (mainly Azerbaijan's Shah Deniz II) gas fields. The original Nabucco was divided into two parts – Trans-Anatolian gas pipeline (TANAP<sup>41</sup>) to transit gas from Azerbaijan to the borders with Greece and Bulgaria, and the modified Nabucco-West to stretch from the borders of Turkey to Bulgaria and Austria. Subsequently, the Nabucco-West was abandoned by the companies involved when in June 28, 2013 the Azerbaijani consortium of Shah Deniz II selected the less ambitious TANAP-TAP system (10-20 bcm/year) as its gas export route to European market, which certainly triggered new developments in the southern dimension of the EU's energy policy.

On the whole, it can be inferred that the Southern Gas Corridor project has been a major step in drawing the South Caucasian countries in the area of the EU's energy interests, an important milestone in extending the European energy interests in eastern dimension and developing cooperation in the spheres of energy between the EU and its Eastern neighbours. Nevertheless, the Southern Gas Corridor which currently encompasses the TANAP-TAP system will be far less relevant than initially imagined as an instrument for the EU's gas import diversification. Although, the recent developments regarding the Iran nuclear deal between the Islamic Republic of Iran and a group of world powers seem to suggest that the Southern Gas Corridor still remains a story to be largely written.

At the same time, it is logical to assume that the reasoning behind the EU energy projects in the South Caucasus is not purely profit-oriented. As per expert opinion “the proven gas reserves of Azerbaijan as

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<sup>40</sup> **Pourzitakis S.** The Energy Security Dilemma of Turkish Stream, available at <http://carnegieeurope.eu/strategieurope/?fa=60861>

<sup>41</sup> On October 26, 2011 a new package of agreements between Azerbaijan and Turkey was signed, according to which Turkey is to transfer 10 bcm/year of gas from Azerbaijan to the borders with Greece and Bulgaria through the Trans Anatolian Natural Gas Pipeline (TANAP) (7-10 billion dollars). The projected 2000 km-long gas pipeline with a capacity of 16 bcm/year, has been designed to supply 6 bcm/year to Turkey by 2018 and 10 bcm/year to Europe by 2019.

of 2014 are estimated by international authorities at around 1 tcm and the local market absorbs 9 bcm of it with an average 2% increase on a steady long-term course. By taking the numbers down and factoring in Turkey's needs of approximately 50 bcm per year with additional amounts of 70 bcm for Italy and another 45 bcm for Greece, Bulgaria, Serbia, Croatia, Hungary and Austria – then the bigger picture that emerges is simply Azeri fields cannot make a substantial diversification difference even in the mid-term of around 10-20 years ahead<sup>42</sup>. This is the very reason why the Europeans are in no rush to make vast investments in these projects and intend to implement ones using Azeri funds.

Therefore the importance of the Southern Gas Corridor project is not mainly the amount of natural gas to be supplied to Europe but the fact that it is opening an alternative gas corridor for Europe. In other words, it is supposed to be a message to Kremlin that Russia is not the only player in the great game of energy of the Caspian Basin. At the same time, being subscribed to the European Neighbourhood Policy and greater TRACECA, the Southern Gas Corridor project mainly supports geopolitical interests of the EU. Clearly, all western-support trans-Eurasian pipeline projects aim not only to secure extra supply of resources but also to strengthen cooperation with countries of the former Soviet Union to ensure their independence, provide stability and prosperity, as well as, to some extent, to secure western oriented policy of the post-Soviet states.

### **Trade and Economic Interests**

Aside from energy recourses and transit potential, the South Caucasus region holds significant importance for the EU also in broader economic terms.

Although the South Caucasus itself doesn't represent a significant market for the EU, mainly due to its insignificant size, the strategically important geographical location of the region potentially makes it an important crossroad of the world trade and the EU in particular. At

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<sup>42</sup> Nabucco Redux?, available at <http://www.naturalgaseurope.com/southern-gas-corridor-iran-nabucco>

present the South Caucasus region has serious perspectives to become an important centre of integrated transcontinental transport systems along the line of South-North and East-West. The region plays an essential strategic role in the regeneration of the “Great Silk Way”<sup>43</sup>.

Being one of the key participants of the ancient Silk Road, the South Caucasus has for the past two decades been viewed as a major opportunity to create an East-West transportation route connecting Europe to Central Asia, China and India. The significant importance of this transportation corridor was recognized in the middle of 1990s by the EU’s TRACECA program. This includes not only economic gains from collaboration in energy and transit sector, but also has much larger significance. Together with already existed railway connection between Azerbaijan, Georgia and Turkey (Baku-Tbilisi-Akalkalaki), the construction of a railroad connecting Kars (Turkey) and Akhalkalaki (Tbilisi) will connect Turkey to Caspian Sea. Along with the building of rail lines linking Kazakhstan (Central Asia) to China this will make it possible to strikingly increase the flow of goods across Asia and will give a potential to link Europe with China, which represents a huge market for the EU taking into consideration the large size of the population<sup>44</sup>.

Once in operation, the South Caucasus will become a key part of a fully integrated transport system, the “New Silk Road” that will include oil and gas pipelines, railways, fibre-optic cables and power transmission grids linking Europe with Asia<sup>45</sup>. At the same time, obviously, it will provide the South Caucasus states an alternative access to European and Asian markets, will support them economically and politically to strengthen their independence and will serve as a catalyst for the engagement of international financial institute’s funds into economies of these states.

Georgia and Azerbaijan are the key bridge countries in this regard<sup>46</sup>. However, another regional state – Armenia’s isolation, the result of the unresolved Nagorno-Karabakh conflict and policy of

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<sup>43</sup> **Sen. Sam Brownback (R-Kan.)**, Silk Road Strategy Act of 1999: S. 579 (106<sup>th</sup>)

<sup>44</sup> **Cornell S. and Starr F.**, Op. cit., p. 19.

<sup>45</sup> **German T.**, Corridor of Power: The Caucasus and Energy Security, *Caucasian Review of International Affairs*, **2(2)**, Spring 2008, pp. 64-72.

<sup>46</sup> **Cornell S. and Starr F.**, Op. cit., p. 19.

blockade, imposed by Turkey and Azerbaijan, means that it will not benefit at all from this initiative. Moreover, in all likelihood, the realization of the project will increase the country's isolation, creating additional security issues. This obviously creates some obstacles for the EU's fully engagement and investment in the project.

Apart from the transnational trade potentials, the EU's socio-economic priorities in the South Caucasus region include further development of market economy and creation of attractive business climate for European investments<sup>47</sup>.

## Security Issues

Due to the fact that the South Caucasus has become a significant component in the EU's energy security agenda, consequently the security and stability of the region gained solid importance for Europe.

However, the increased security interest of the EU vis-à-vis the region has also another explanation.

Being a frontier of European Security area, currently the South Caucasus region has been considered as a specific buffer zone along the line of the XXI century global issues, such as extremism, terrorism, proliferation of weapons of mass distraction, drug trafficking, uncontrollable migration, human trafficking, etc. This is even more essential after the EU's last rounds of enlargements, given the increased proximity of the South Caucasus to the EU, when Georgia shares a Black sea border with the EU. Therefore, the EU is strongly interested in a modernized, stable, and secure South Caucasus as a part of the European neighbourhood, as the adverse effects of the instability and crisis in the region can have spill-over effect on Europe itself, including migration flows, humanitarian crisis, spread of organized crime, growth of Islamic radicalism, etc.

As S. Cornell and F. Starr claim, after September 11 events, given the complications in using Iranian and Russian airspaces, the South Caucasus appeared indispensable for western military operations and the

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<sup>47</sup> **Кудряшова Ю.**, Государства Южного Кавказа в Европейской Политике Соседства. Аналитические записки, МГИМО(У) МИД России, Выпуск 6, 2008, с. 1.

provision of peacekeeping in the heart of Asia. At the same time the uncertain international situation in the Middle East put the South Caucasus in the most prominent position regarding the critical security issues of the day<sup>48</sup>.

Undoubtedly, these circumstances make the regional states an important partner in searching common solution ways against the new security issues, especially taking into consideration the growing terroristic threat coming from the Islamic State<sup>49</sup>.

In general, the lack of security in the South Caucasus is determined by:

First of all, unresolved regional conflicts – Nagorno-Karabakh, South Ossetia and Abkhazia – which represent the most complex regional security issue, as they may have implications not only for stability in the South Caucasus region itself, but also for wider international community and Europe in particular. Undoubtedly, the peaceful resolution of the Nagorno-Karabakh conflict remains one of the most important issues in the region as the absence of any significant progress in the negotiations for peaceful settlement of the conflict increases the tension and the danger of resumption of active hostilities. In this regard, the yearly increasing ceasefire violations, the unprecedented arms buildup and the manifold expansion of the military budget by Azerbaijan leading to dangerous military disbalance in the region should be underscored as main threats to the regional security.

Furthermore, as T. German argues, along with threatening the regional security “the conflicts undermine efforts to boost regional cooperation, hampering economic development and further destabilizing the region”<sup>50</sup>. This makes perfect sense, as continued instability and possible escalation of the regional conflicts could have a negative impact on energy production in the Caspian Basin and supplies to the European market, as well as deter future investments. At the same time, given that the unresolved conflicts eliminate any attempt of the EU to create fully integrated regional networks among the three countries, undoubtedly,

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<sup>48</sup> **Cornell S. and Starr F.**, *Op. cit.*, pp. 21-22.

<sup>49</sup> Also known as the Islamic State of Iraq and the Levant, the Islamic State of Iraq and Syria or the Islamic State of Iraq and ash-Sham - ISIL or ISIS.

<sup>50</sup> **German T.**, *Op. cit.*

peaceful settlement of the regional conflicts could help to strengthen regional security and stability, improve energy security and eventually enable comprehensive regional cooperation, which is of great importance for the European Union.

The importance of urgent resolution of the regional conflicts was recognized by the EU in the European Security Strategy, where unresolved regional conflicts are considered as a great threat not only to the South Caucasus' stability but Europe itself<sup>51</sup>. This shift in the EU's politics and importance to take stronger and more active interest in the problems of the South Caucasus was highlighted also in a Communication from the European Commission to the Council and the European Parliament the necessity for the EU to play more active role in peaceful resolution of regional conflicts, given the risks of "producing major spillovers for the EU, such as illegal immigration, unreliable energy supplies, environmental degradation and terrorism"<sup>52</sup>.

Secondly, transnational criminal activity – because of its strategic location on a crossroad of East and West the South Caucasus can easily become a transit route of spreading the new century transnational threats. A number of factors contributing to the growth of organized crime in the region include economic decrease and political instability in the region, weakness of state structures, failure to safeguard border control, geographical aspects.

Among the above-mentioned transnational criminal activities, terrorism has been identified as one of the major threats facing Europe<sup>53</sup>. September 11 events resulted in a redefinition of the strategic importance of the wider Black Sea region, and the South Caucasus accordingly. Serving as a buffer zone and hindering the penetration of terrorist threats to Europe, the region starts to play even more significant role in the European security agenda. In this context an increasing role of ISIS as well as Islamic organizations in some parts of the North Caucasus should also be underscored.

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<sup>51</sup> A Secure Europe in a better world. European Security Strategy. Brussels, 12 December 2003, p. 3

<sup>52</sup> Communication from the Commission to the Council and the European Parliament on strengthening the European Neighbourhood Policy, COM (2006) 726 Final, 4 December 2006.

<sup>53</sup> A Secure ..., Op. cit., p. 3.

Thirdly, geopolitical competition of the Great Powers and neighbouring states in the region – it is common knowledge that the clash of interests between Russia, USA, the EU, Turkey and Iran in the South Caucasus, accompanied with tense relations of the three South Caucasian states within themselves and their direct neighbours increasingly hampers stability and security of the region.

In addition, the diversity of security orientations and mechanisms to guarantee stability of the South Caucasian states and the region as a whole also deepens insecurity and dividing lines in the region. In this regard, Armenia, expecting threat from Turkey and Azerbaijan, mainly counts on Russia; Azerbaijan expecting threat from Iran and Armenia mainly relies on Turkey's military assistance; Georgia, regarding Russia as a main source of threat, counts on America's and the EU's support.

And finally, civil and political conflicts – particularly, weak sovereignty, bad governance, immaturity of civil society and democracy institutions, inefficient border control, as well as imperfect legal field can cause a real threat to regional security.

Concluding, it is getting obvious that security issues within the South Caucasus can no longer be regarded as extraneous to the security of the EU. Unsolved security issues in the South Caucasus has a direct negative influence on the EU's security interests, as far as they may produce spillovers for the European security such as terrorism, illegal migration, impede the EU's access to energy reserves, threaten the security of energy resources supply, as well as risk the successful implementation of EU integration programmes in the region. Therefore, the EU got extremely interested in stability and security in the South Caucasus.

### **Sovereignty, Good Governance and Democracy**

Being defined as a “civilian power<sup>54</sup>” and “normative power<sup>55</sup>”, the international role of the EU implies, among other things, promotion

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<sup>54</sup> **Duchêne F.**, Europe's Role in World Peace, *Europe Tomorrow: Sixteen Europeans Look Ahead*. (Ed. by R. Mayne) 1972. Fontana. London, pp. 32–47.

<sup>55</sup> **Manners I.**, Normative Power Europe: A Contradiction in Terms?, available at [http://rudar.ruc.dk/bitstream/1800/8930/1/Ian\\_Manners\\_Normative\\_Power\\_Europe\\_A\\_Contradiction\\_in\\_Terms\\_COPRI\\_38\\_2000.pdf](http://rudar.ruc.dk/bitstream/1800/8930/1/Ian_Manners_Normative_Power_Europe_A_Contradiction_in_Terms_COPRI_38_2000.pdf) (13.04.2015)

and development of the norms and principles of peace, liberty, democracy, rule of law and respect for human rights and fundamental freedoms. In words of F. Duchêne, “The European Community must be a force for the international diffusion of civilian and democratic standards or it will itself be more or less the victim of power politics run by powers stronger and more cohesive than itself”<sup>56</sup>.

The promotion of democracy also matches with the “normative power” perspective according to which the EU develops its fundamental norms and principles globally.

Consequently, according to this approaches, the promotion of democracy, human rights and the rule of law are declared as the fundamental values that shape the EU’s external policy in its neighbourhood. Hence, to strengthen its own democratic credentials it is an important European interest to support and promote sovereignty, rule of law and democratic institutions in the South Caucasus.

Given the complex character of regional developments in the South Caucasus and basically the failure to build strong sovereignty in the states of the region, S. Cornell and F. Starr emphasize the interrelationship between the three concepts of sovereignty, governance and democracy in the region. According to the authors, the defection to develop strong sovereignty in the regional states is directly connected with the failing of governments to ensure good governance and with the lack of their democratic credentials. Bad governance makes true democracy impossible; moreover, it increases the risk of social conflict and clearly prevents the resolution of regional conflicts<sup>57</sup>.

After the last EU enlargements the regional state’s sovereignty issues may have direct impact on Europe. Therefore, the EU is strongly interested in supporting the state-building, the promotion of good governance and the constitutional liberal infrastructure, as well as consolidation and fostering democratic institutions in the South Caucasus, as failing to achieve these goals will result in continuance of socio-economic regress and security issues, as well as overall instability

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<sup>56</sup> **Duchêne F.**, *The European Community and the Uncertainties of Interdependence, A Nation Writ Large? Foreign Policy Problems before the European Community.* (Ed. by M. Kohnstamm and W. Hager) Macmillan.1973, p. 20.

<sup>57</sup> **Cornell S. and Starr F.**, *Op. cit.*, p. 17.

in the region. Strong sovereignty, progress in institutional democracy and good governance in the South Caucasus are important to the EU also as a means to promote economic development and free markets.

## **Conclusion**

Summing up it can be inferred that

1. Despite a period of profound neglect, starting 2000s the EU has recognized its strategic interests in the South Caucasus region.
2. Because of the EU's increased energy demand and growing dependence on imported energy the South Caucasus region has gained enhanced interest in the EU's energy import diversification and energy security agenda.
3. Aside from energy recourses and transit potential the South Caucasus holds significant importance for the EU also in broader economic terms, as strategically important geographical location of the region potentially makes it an important crossroad of the world trade, in particular, linking Europe with Asia, which represents a huge market for the EU.
4. Unsurprisingly, due to the fact that the South Caucasus has become a significant component in the EU's energy security agenda, the security and stability of the region gained increased importance for Europe. In this respect, the EU has been highly interested in urgent peaceful resolution of the regional conflicts to strengthen regional security and stability, to improve energy security and eventually to enable comprehensive regional cooperation which is of great importance for the EU.
5. Along with these, the EU has been strongly interested in supporting the state-building, the promotion of good governance, as well as consolidation and fostering of democratic institutions in the South Caucasus, aimed not only to strengthen its own democratic credentials, but also to promote stability, economic development and free markets.

For all these reasons beginning early 2000s Brussels started taking more active steps in developing an integral strategy towards the region,

institutionalized in the European Neighbourhood Policy and later the Eastern Partnership.