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Normative and Political Dimensions of the European Union's Energy Policy: The Case of the South Caucasus

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During the first decade of the 21st century energy diversification has emerged as a key issue on the European Union's (EU) external energy policy agenda. Of the challenges that the European Union faces, ensuring a secure, competitive and sustainable energy supply is one of the more complex. Unsurprisingly the EU's quest for diversification of energy supplies and transit routes has marked a major shift in the importance the EU attaches to the South Caucasus region as a vital corridor to Caspian energy resources, holding the potential to underpin EU energy security. In view of the EU's growing interest in the energy "potential" of the South Caucasus and the acceleration of efforts towards its utilisation, a number of research questions regarding the main drivers, peculiarities, and normative and political dimensions of the EU's energy policy within the given geographical framework have arisen. The article attempts to analyse the interplay between the normative and political dimensions of the EU's external energy policy towards the South Caucasus, assessing the problems and prospects of their "reconciliation".

Key words

European Union, energy policy, South Caucasus, security, Caspian resources

During the first decade of the 21st century, energy security has emerged as a key issue on European foreign and security policy agenda, increasingly perceived by both national governments and European Union (EU) institutions as an area of priority concern due to the depletion of intra-EU resources and growing dependence on energy imports. The EU's import dependency reached almost 54% in 2006 and continues growing. At current projections, by 2030 more than 70% of the EU oil and gas will have to be imported.¹ Moreover, the depletion of oil and gas reserves in EU member

¹ EU Energy Policy, European Council, 04.02.2011, Available at http://www.european-council.europa.eu/media/171257/ec04.02.2011-factsheet-energy-pol_finaldg.en.pdf.

states 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. In this complex scenario, diversification of energy supplies and transit routes has become an increasingly significant requirement for EU member states. 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 supplies"². Needless to say that the shift in the southern dimension of the EU's energy security dramatically increases the importance of the South Caucasus region constituting a vital land bridge between Asia and Europe, physically linking the Caspian Sea region and Central Asia with the Black Sea and Western Europe.

All the scenarios of the southern diversification of the EU's energy supplies and transit routes significantly bolster the role of Azerbaijan as a transit country and key energy producer in the South Caucasus region. Hence, the realisation of all projects of the Southern Gas Corridor hinges on a smooth EU- Azerbaijan energy partnership.

Table 1. Azerbaijan's oil and gas proved reserves (2013)

Oil (billion barrels)	Share of total reserves	Natural gas (trillion cubic metres)	Share of total reserves
7.0	0.4%	1.3	0.7%

Table 2. Oil and gas production in Azerbaijan (2002-2012 years)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Oil (mil. tons)	15.3	15.4	15.5	22.2	32.3	42.6	44.5	50.4	50.8	45.6	43.4
Gas (bcm)	4.7	4.6	4.5	5.2	6.1	9.8	14.8	14.8	15.1	14.8	15.6

Source: BP Statistical Review of World Energy 2013, Available at http://www.bp.com/content/dam/bp/pdf/statistical-review/statistical_review_of_world_energy_2013.pdf.

² Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy, COM(2006) 105 final, 08.03.2006, Available at http://europa.eu/documents/comm/green_papers/pdf/com2006_105_en.pdf.

Although the history of Southern Gas Corridor dates back to 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 following the construction of the original backbones of the corridor; Baku-Tbilisi-Ceyhan (BTC) and Baku-Tbilisi-Erzurum (BTE) pipelines. These pipelines, fraught with geopolitical significance, are the most vivid manifestation of the growing connections between the South Caucasus region and Europe. 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 percent of total global oil supplies, and is probably one of the most controversial and politicized energy pipelines 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 (31 billion cubic metres per year, project) was a considerably more ambitious project than its competitors (TAP, ITGI); expected to transport much larger volumes of gas to Europe, Nabucco was endorsed as a priority project by the European Commission (EC). Although the EU's European Investment Bank (EIB) involvement in the project and contribution 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 EC had evidently underestimated a number of geographical, commercial and political obstacles 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 pertaining to Nabucco. Hence, the EC adopted the idea that 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 EC 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.³

In this vein, a 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). Underlining TANAP's importance, 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".⁴ In this regard the Shah Deniz Consortium's decision on June 28, 2013 regarding the selection of TAP apparently prompts a new round in the southern dimension of the EU's energy policy.

However, despite the EU's reliance on the Southern Gas Corridor and high hopes for the southern diversification, obstacles to the construction of the Trans-Caspian gas pipeline, prevent direct access to the energy resources of Central Asia, and therefore significantly limit the importance of the Southern Gas Corridor. 10bcm of gas per year agreed with Azerbaijan does not hold the potential to significantly reduce the EU's growing dependence on Russia's energy supplies. The situation is aggravated by Russia's intensive endeavours towards the construction of the South Stream gas pipeline - the main rival to the projects of the Southern Gas Corridor, capable of hampering the EU's agenda of southern energy diversification.⁵ Unsurprisingly, speaking in the European Parliament on December 04, 2013, Klaus-Dieter Borchardt, director for energy markets at the EC, said that the bilateral agreements for the construction of the Gazprom- favoured South Stream gas pipeline – concluded between Russia, Bulgaria, Serbia, Hungary, Greece, Slovenia, Croatia and Austria – are all in breach of EU

³ "Nabucco Classic/ Nabucco West Natural Gas Pipeline Project", Global Gas Transport: Information and analysis on global gas transport and storage, 1.02.2013, Available at <http://www.globalgastransport.info/archive.php?id=885> .

⁴ Commissioner Oettinger welcomes TANAP gas pipeline agreements, 26.06.2012, Available at http://europa.eu/rapid/press-release_IP-12-721_en.htm .

⁵ **Proedrou F.**, EU Energy Security in the Gas Sector: Evolving Dynamics, Policy Dilemmas and Prospects, Ashgate, 2013, pp.79-91.

law and need to be renegotiated⁶. In response to this statement Gazprom's director-general for export Alexander Medvedev stressed that "nothing could prevent the construction of South Stream"⁷. Nonetheless, the EU's efforts towards the materialization of the Southern Gas Corridor have marked remarkable transformations in its foreign and security policy towards the South Caucasus. Hence, a closer look at the EU's energy policy in the region offers a more nuanced perspective of its various dimensions.

The EU's energy policy towards the South Caucasus: Normative power or power politics?

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 norms and values. Apparently energy represents a 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. Like the United States of America, the Republic of India or the People's Republic of China, the European Union faces an underlying growth in its dependence on third countries for its energy needs.

Largely rejecting the geopolitical approaches to energy policy, senior EU 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: "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".⁸

In this regard, the EU set itself ambitious goals in the European Neighborhood Policy (ENP) and Eastern Partnership (EAP), aiming to create

⁶ South Stream bilateral deals breach EU law, Commission says, 04.12.2013, Available at <http://www.euractiv.com/energy/commission-south-stream-agreement-news-532120>.

⁷ Ibid.

⁸ **Youngs R.**, *Energy Security: Europe's New Foreign Policy Challenge*, Routledge, 2009, p. 45.

a "ring of energy cooperation" based on the centrality of the EU's own rules, liberal principles and their transfer 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 Southern Caucasus and the Caspian basin. It is no exaggeration to suggest that EU's ability to protect its energy interests whilst 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.⁹

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"¹⁰.

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, to "reconcile energy with democracy".

When Azerbaijan was included in the ENP, Commissioner Benita Ferrero-Waldner declared that this offer reflected the country's "geo-

⁹ European Parliament resolution of 17 January 2008 on a more effective EU policy for the South Caucasus: from promises to actions (2007/2076(INI)), point 1, Available at <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P6-TA-2008-0016&language=EN>.

¹⁰ European Parliament Resolution of 20 May 2010 on the Need for an EU Strategy for the South Caucasus, 20.05.2010, Available at <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2010-0193+0+DOC+XML+V0//EN>.

strategic location and energy resources”. For this reason it was included in the ENP.¹¹ 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 was allocated for “institutional, legal and administrative reform”.¹² 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 EC 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”.¹³

However, despite the EU’s reliance on “soft power” and adherence to external governance, several factors, among which China’s growing interest in Caspian energy resources and Russia’s negative approach to the ratification of the Energy Charter Treaty, drove the need to reinforce the bilateral partnership with energy producers and emphasised the geopolitical dimension of the EU’s external energy policy. Namely, bilateral energy-partnership agreements signed with Azerbaijan and Kazakhstan in 2006 evidenced an increasingly geopolitical approach, 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

¹¹ **Ferrero-Waldner B.**, “Azerbaijan”, European Commission - SPEECH/05/649, European Parliament Plenary Strasbourg, 27.10.2005, available at http://europa.eu/rapid/press-release_SPEECH-05-649_en.htm.

¹² European Neighbourhood and Partnership Instrument, Azerbaijan Country Strategy Paper, available at 2007-2013, http://ec.europa.eu/world/enp/pdf/country/enpi_csp_azerbaijan_en.pdf.

¹³ President Barroso and The President of Azerbaijan Sign a Memorandum of Understanding on Energy Partnership, 07.11.2006, available at <http://www.europeanlawmonitor.org/latest-eu-news/barroso-and-the-president-of-azerbaijan-sign-a-memorandum-of-understanding-on-energy-partnership.html>.

international markets.¹⁴ Several officials suggest the tougher international energy panorama requires the EU to abandon the rhetoric that energy policies are to be based on liberal interdependence.¹⁵ Moreover, some authors argue that the EU has failed to "reconcile energy and democracy", as engagement in the Caspian region requires the EU to adhere to a realistic posture, and hence, it is impossible to be post-modern in the South Caucasus and Central Asia, arguing that as long as the U.S., China, and Russia act this way, so must the EU.¹⁶ While these "normal" actors are pragmatic and materialist in their aims and policy orientations, the "normative" EU cannot pursue only normative values 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.¹⁷

In the words of the EU's former High Representative for Common Foreign and Security Policy Javier Solana:

We may have to deal increasingly with governments whose interests are different from our own and who do not necessarily share our values. Sitting on huge reserves of oil and gas gives some difficult regimes a trump card. They can use energy revenues for purposes which we may find problematic. And it shields them from external pressure. Thus, 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.¹⁸

¹⁴ **Youngs R.**, *Energy Security: Europe's New Foreign Policy Challenge*, Routledge, 2009, p.106.

¹⁵ **Youngs R.**, *Foreign Policy and Energy Security: Markets, Pipelines, and Politics, Toward a Common European Union Energy Policy: Problems, Progress, and Prospects*, Edited by Vicki L. Birchfield and John S. Duffield, Palgrave Macmillan, 2011, pp. 41-54.

¹⁶ **Cornell S. E., Jonsson A., Nilsson N., Haggström P.**, *The Wider Black Sea Region: An Emerging Hub in European Security*. Central Asia-Caucasus Institute & Silk Road Studies Program, 2006, pp. 83-91.

¹⁷ **Wood S.**, *The European Union: A Normative or Normal Power?* *European Foreign Affairs Review*, 2009, 14, 113-128.

¹⁸ **Solana J.**, Address to the EU External Energy Policy Conference, Brussels, 20.11.2006, available at

http://ceas.europa.eu/energy/events/energy_conference_2006/final_brochure_en.pdf

Within the corpus of literature on 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 democratisation and human rights but little on how the EU will provide balance between its energy policy and other policy areas (particularly democracy and good governance promotion) in relation to energy producing countries. This is especially significant when the goal of energy diversification exacerbated by harsh geopolitical struggle appears incompatible with external multilateral governance and democracy promotion. The case of Azerbaijan is illustrative: the political elite has no interest in democratic reforms, a situation which no degree of economic incentives is likely to change. 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.¹⁹ Although the EU has the possibility to apply negative conditionality through suspending funding, it is unlikely to impress Azerbaijan. Opinions differ over whether the EU has any leverage over Azerbaijan and if so, if it is willing to use it through conditionality. Those who argue that Brussels is broken-winged in influencing Azerbaijan to make progress on democracy and human rights reform argue that energy revenues and Europe's thirst for oil and gas make leverage non-existent.²⁰ The Azerbaijan government concluded the Action Plan as an expression of good relations in building further economic ties and political co-operation. ENP budget support to Azerbaijan that will amount to roughly 15 million euros a year is no incentive in view of the rising state budget; this amount of aid is equivalent to the revenues of around one afternoon of pumping oil through the BTC oil pipeline²¹. Moreover, the EU is lacking the carrot of

¹⁹ Commission of the European Communities, Implementation of the European Neighbourhood Policy in 2007: Progress Report on Azerbaijan, COM(2008) 164, Brussels, 03.04.2008, pp. 6–7, available at http://ec.europa.eu/world/enp/pdf/progress2008/sec08_391_en.pdf; ENP Country Progress Report 2011 – Azerbaijan, MEMO/12/XXX, Brussels, 15.05.2012.

²⁰ **Boonstra J.**, How serious is the EU about supporting democracy and human rights in Azerbaijan? Working Paper, 29.05.2008, available at <http://www.fride.org/publication/432/how-serious-is-the-eu-about-supporting-democracy-and-human-rights-in-azerbaijan?>

²¹ Ibid.

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 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 emphasising that Baku is not devoid of options, whilst conversely the EU is in no position to put conditions on energy-or other relationships. The recent (September 12, 2011) "unprecedented commitment" of the EC 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) – further embolden the political elite of Azerbaijan for two reasons:

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

-Secondly, the realisation of all projects of the Southern Gas corridor depends on smooth cooperation with Azerbaijan, which has allowed Azerbaijan to pursue horizontal and symmetric partnership with the EU due to its "geostrategic importance".

Moreover, the EU's inability to balance energy interests with its "transformative capacity" particularly towards Azerbaijan puts serious constraints on its policies regarding democracy promotion and conflict settlement. Due to its growing importance, Azerbaijan has become increasingly assertive in the region. On the domestic level, the rise of energy prices, the rapid expansion of the nation's oil industry and subsequent rapid economic growth all led Azerbaijan to consider its strategic position favourable vis-à-vis Armenia. Azerbaijan also became increasingly resentful of regional trends. The Turkish-Armenian rapprochement partly fuelled this. From an Azeri perspective the opening of the Turkish-Armenian border would be a "stab in the back" by its closest ally-Turkey.²²

²² **Popescu N.**, *EU Foreign Policy and Post-Soviet Conflicts: Stealth Intervention*, Routledge, 2011 pp. 112-114.

Moreover, some authors argue that: "The more Azerbaijan-West oil partnership deepens, the further regional stability weakens"²³ as the rapidly growing defense spending linked to the huge revenues from energy flows create further instability in the region; meanwhile the EU's "soft power" has little to do with these trends.

As stated the president of Armenia S. Sargsyan:

We, of course, respect and understand the EU's desire to ensure energy security and diversity of energy sources. However, we also anticipate that the very same EU countries will be considerate about our country's security and issues of stability in our region. We all want the EU to implement programs in our region because the regional cooperation component of these programs can play a positive role in establishing stability. And these programs should also provide for the even development of the regional countries. The end results of these programs should promote peace and not war. These programs should be implemented in a manner that, God forbid, they don't become a new war nourishing source...²⁴

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 that "the strong state first" approach to the South Caucasus region has taken over policy circles in Brussels²⁵. Thus the interest in alternative energy resources and diversified transport routes has been prioritised over other scenarios leading to change.

Apparently when it comes to the diversification of energy supplies, the EU demonstrates a rhetoric-behaviour gap, which in the longer term will certainly lead to reassessment of the EU as a "normative power" and reform promoter, and instead modifying its image to that of status-quo actor in the eyes of public opinion. Although theoretically a successful EU regional

²³ **Manvelyan A.**, The EU Energy Policy in the Caucasus-Caspian Region: Implications of Regional Security, Available at

[http://www.psaam/hosting/file/PDF-s/Manvelyan-%20EOo13%20p66-68\(1\).pdf](http://www.psaam/hosting/file/PDF-s/Manvelyan-%20EOo13%20p66-68(1).pdf)

²⁴ "President Serzh Sargsyan responds to the raised by a journalist at the Press conference with the president of France Nicolas Sarkozy", 07.10.2011, Available at <http://www.president.am/en/interviews-and-press-conferences/item/2011/10/07/news-73/>.

²⁵ **Alieva L.**, Azerbaijan: Power in the Petro-State, *Plight of Democracy's Plight in the European Neighborhood: Struggling Transitions and Proliferating Dynasties*, edited by Emerson M. and Youngs R., Centre for European Policy Studies, Brussels, 2008, p. 117.

policy should not be confined to energy, but should also embrace a broader parallel promotion of its interests in the governance and security sectors, in practice the quest for energy limits the EU's ability to push wider foreign policy objectives, increasing disharmony between energy and other policies of the EU in the South Caucasus region.

Conclusion

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 in the South Caucasus region, 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 South Caucasus 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 partnerships, thereby marking a shift in the geopolitical dimension of the EU's external energy policy towards the region. Namely, a number of bilateral EU-Azerbaijan energy agreements have started to accelerate since 2006. Needless to say that the incoherent and inconsistent external energy policy widens the gap between multilateral governance and bilateral energy partnerships, thus limiting the EU's ability to push broader foreign policy objectives in the region. Nonetheless, a series of factors, along with the limited energy capacity of Azerbaijan and other obstacles pertaining to the EU's direct access to Central Asian energy resources, may yet trigger significant changes in the EU's policy towards the South Caucasus.