

## Challenges of European Union's Energy Policy in the Central Asia and Caspian Region

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### Abstract

There is no serious research denying that EU's energy sector will become increasingly reliant on imports. In particular, Europe's vulnerability in its dependence on Russian gas and oil is obvious. One of the most important energy security challenges facing the EU over the years to come will be its ability to diversify the sources and modes of transit of its energy imports. The EU could try to use the massive potential of the Central Asia and Caspian Region (CACR) as an energy supplier. However, nearly two decades after the collapse of the Soviet Union there are still only a few routes for bringing energy resources from the region to Europe. The Nabucco pipeline is the EU's flagship project with regard to the CACR, but Russia does its best to derail it. Furthermore, the article outlines some other crucial aspects of the energy policy in and around the CACR as well as the possible impacts of shale gas and liquefied natural gas (LNG).

**Key Words:** European Union, Russia, Energy Policy, South Caucasus, Caspian Basin, Frozen Conflicts

## Orta Asya ve Hazar Bölgesinde Avrupa Birliđi'nin Enerji Politikalarına Karşı Ortaya Çıkan Meydan Okumalar

### Özet

Avrupa Birliđi (AB) enerji sektörünün yaptıđı ithalatın güvenilirliđini savunan ciddi bir arařtırma yoktur. Özellikle Avrupa ülkelerinin Rusya'nın dođal gaz ve petrolüne bađımlılıđı aşıkârdır. AB'nin enerji güvenliđine yıllardan beri meydan okuyan en önemli hususlar kaynak çeřitliliđini sağlayabilme kapasitesi ve enerji hatlarının geçiř güzergâhlarıdır. AB Hazar bölgesi ve Orta Asya'nın zengin kaynaklarını yoğun bir şekilde kullanmaya çalışabilir. Yani bu bölgeyi tedarikçi olarak görebilir. Ancak Sovyetler Birliđi'nin dağılmasının ardından 20 yıl geçmesine rağmen hala bu bölgeden Avrupa'ya enerji taşıyabilecek çok az yeni boru hattı güzergâhı yapılabilmifitir. Nabucco boru hattı projesi Hazar ve Orta Asya bölgesinde AB'nin en büyük ve önemli projesidir. Ancak Rusya bu projeyi sabote etmek için elinden geleni yapmaktadır. İřte bu makale Hazar/Orta Asya bölgesinde ve çevresinde izlenen enerji politikasının önemli bazı noktaları ile katı gaz ve sıvılařtırılmıř dođal gazın muhtemel etkilerini ortaya koyacaktır.

**Anahtar Kelimeler:** Avrupa Birliđi, Rusya, Enerji Politikası, Güney Kafkasya, Hazar Havzası, Rafa Kaldırılmıř Çatıřmalar

### 1. Introduction

Energy security, in terms of secure supply and stable prices, is increasingly related to geopolitics and international relations. This has to be taken into consideration by the EU with the world's second largest energy market with 500 million consumers, as crucial players like the Organization of the Petroleum Exporting Countries (OPEC), the United States, Russia, China, India, and others are more or less determined by geopolitical reasons.

The European Commission has addressed energy security in its first Green Paper (adopted in November 2000 and released in 2001), but in the EU's security strategy of 2003, "A Secure Europe in a Better World," only a brief paragraph is devoted to this topic. The energy disputes of early January 2006, when Russia cut off gas supplies to Ukraine<sup>1</sup>

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(which transits around 80 percent of Russia's Europe-bound gas), of early 2007 with Belarus due to a price and transit fee conflict and of January 2009, when Moscow halted gas deliveries to Ukraine and then even shut down the gas pipeline through this country,<sup>2</sup> demonstrated Europe's vulnerability in its dependence on Russian gas to the broader public. These incidents have also illustrated the EU's diminishing power as consumer amid high energy and resource prices and especially its weakness in view of an increasingly assertive Russia. Its role has to be scrutinized in this article for two reasons: Firstly, it is the main actor which the EU has to deal with on the rules of the game in the resource-rich Central Asia and Caspian Region (CACR), which consist of the post-Soviet republics Georgia, Armenia, Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan, Kyrgyzstan, and Tajikistan. And secondly, most of the projections for energy consumption indicate that one of the most important energy security challenges facing the EU over the next two decades will be its ability to diversify the sources and modes of transit of its energy imports.

Although the EU's 27 member states have ceded some national sovereignty (or competency) to EU institutions in a variety of areas, including economic and trade policy, energy policy remains primarily the responsibility of the member states. However, a fragmented and fractured regional energy market is – and will also be in the future – the best playing field for Russia to 'divide and rule' the individual EU member states and their energy companies. As a German energy expert points out, "the still existing lack of coherence of the EU's external energy policy enables Russia to continue the 'bilateralization' of energy partnerships." According to him, Moscow "is in a powerful position to play off individual European states and their national energy companies against each other."<sup>3</sup> Thus, several EU member states have pursued bilateral energy deals which will increase their and EU's dependence on Moscow for many years to come. These states have apparently reconciled themselves to the possibility of a long-term Russian control over their economic well-being and are turning a blind eye to Russia's opaque energy and pipeline deals in order to remain on good terms with the Kremlin. Within this framework it can be mentioned the Nord Stream gas pipeline on the seabed between Russia (Vyborg), and north-east Germany (Sassnitz) (its construction started in April 2010, and Russian Prime Minister Vladimir Putin in September 2011 pressed the start button to open the pipeline) and Eni's important role in the Russian South Stream gas pipeline project (see Chapter 5.3.). Russia's interests are obvious; however, it is incomprehensible why the EU and/or its member countries promote Moscow's goals.

## 2. EU's Present and Future Oil and Gas Import Dependence

### 2.1. Some General Assumptions

EU dependency on energy imports increased from less than 40 percent of gross energy consumption in the 1980s to 45,1 percent in 1999 and 53.9 percent in 2009 (with especially high energy dependency rates recorded for crude oil and for natural gas; see Chapters 2.2. and 2.3.). Since 2004 the EU-27's net imports of energy have been greater than its primary production; in other words: more than a half of the EU gross inland energy

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<sup>1</sup> The reason was that in 2004 the 'wrong' candidate, opposition leader Viktor Yushchenko, was elected President of Ukraine – instead of Kremlin-backed Viktor Yanukovich (who, however, won the elections in 2010).

<sup>2</sup> During this gas crisis the EU initially remained passive on the grounds that the dispute between Ukraine and Russia was 'commercial.'

<sup>3</sup> Frank Umbach, Europe's Energy Dependence in Mid-term Perspective. American Institute for Contemporary German Studies at John Hopkins University, 25 February 2008, <http://www.aicgs.org/documents/advisor/umbach.gmf.pdf> (12 September 2011).

consumption was supplied by net imports. Malta, Luxembourg, Cyprus, Ireland, Italy, Portugal, Spain, and Belgium had especially a high dependency (more than 75 percent); the only net exporter of energy in 2009 was Denmark. And EU's total energy economy will become increasingly reliant on imports. According to 'business as usual'-projections of the International Energy Agency (IEA), this dependence could reach 64 percent in 2020 and 67 percent in 2030.<sup>4</sup> EU Energy Commissioner Guenther Oettinger said in May 2011 that it could even come up to 75 percent until 2030.

Eurostat reported in September 2011 the following figures on the EU-27 primary energy production for 2009. 28.4 percent nuclear energy, solid fuels (largely coal) 20.4 percent, natural gas 18.8 percent, renewable energy sources 18.3 percent, crude oil 12.8 percent, other 13 percent.<sup>5</sup> But due to the environmental obligations of the Kyoto Protocol and the phasing-out nuclear energy programs in several important EU member states (especially after the disaster in the "*Japanese Nuclear Power Plant Fukushima*" in March 2011 it will be in most of the EU member states politically almost impossible to build new plants) the EU will become more dependent on oil and gas imports from outside Europe – mostly from unstable countries in the former Soviet Union, the Middle East, and Africa.

The situation is getting even more complicated since the EU, as the European Commission's first Green Paper put it, has "very limited scope" to influence energy supply conditions.<sup>6</sup> This especially applies to Russia. Notwithstanding official declarations, there is no real 'strategic partnership' between Brussels and Moscow in the sphere of energy politics.<sup>7</sup> De facto the EU is powerless to persuade Russia to bend to treaty-backed disciplines, whereas Moscow considers as detrimental to its national interests. This has been displayed on numerous occasions. One of them is the fate of the Energy Charter Declaration, an initiative intended to promote energy cooperation and diversify Europe's energy supply.<sup>8</sup> Russia has not ratified the Energy Charter Treaty, because it would entail the obligation to implement the principles of freedom of transit without distinction of the origin, destination or ownership of the energy, and of non-discriminatory pricing. Another initiative is the Energy Dialogue between EU and Russia, launched on the occasion of the sixth EU-Russia Summit in October 2000 in Paris. The official goal of this Dialogue is "to enable progress to be made in the definition and arrangements for an EU-Russia Energy Partnership."<sup>9</sup> Russia offers only very restricted access for foreign investors in its energy

<sup>4</sup> IEA Energy Policies Review, The European Union, International Energy Agency. Paris 2008, p 19.

<sup>5</sup> European Commission – Eurostat 2011, Energy production and imports, [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Energy\\_production\\_and\\_imports](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Energy_production_and_imports) (31 May 2012).

<sup>6</sup> Green Paper. Towards a European strategy for the security of energy supply. European Commission, Luxembourg 2001, [http://ec.europa.eu/energy/green-paper-energy-supply/doc/green\\_paper\\_energy\\_supply\\_en.pdf](http://ec.europa.eu/energy/green-paper-energy-supply/doc/green_paper_energy_supply_en.pdf) (11 September 2011), p 11.

<sup>7</sup> Kirsten Westphal, Handlungsbedarf. Die Energiepolitik der Europäischen Union. Osteuropa, no. 9-10, 2004, pp 39-54, here p 48.

<sup>8</sup> The Declaration, launched in 1991, gave way to the 1994 Energy Charter Treaty that entered into legal force in 1998 and established a framework of rules and agreements to promote international energy cooperation. The Treaty seeks to create a level playing field of rules regarding the promotion of foreign energy investments; free trade in energy materials, products and equipment; freedom of energy transit through pipelines and grids; promoting energy efficiency; and providing mechanisms for addressing disputes. – The European Parliament's Foreign Affairs Committee said in a statement on 4 September 2007 that support for Russian accession to the WTO should depend on Moscow's ratification of the Energy Charter Treaty. This condition is reasonable, but will be difficult to implement.

<sup>9</sup> EU – Russia Energy Dialogue. MEMO/09/121. European Union, Brussels, 19 March 2009, <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/09/121&format=HTML&language=en> (9 September 2011).

sector, and this is one of the reasons why the dialogue has so far not produced any tangible results.

## 2.2. Oil Supply

EU's energy dependence rate for oil amounted to 84.3 percent in 2008 (compared with 75.8 percent in 1997) and 22 EU member states presented dependency rate over 90 percent.<sup>10</sup> The EU countries possessed only 0.5 percent of the proved world oil reserves in 2010.<sup>11</sup> This indicates the high dependency on imported oil.<sup>12</sup> As Table 1 shows, Russia is the EU's main oil supplier for many years.

**Table 1:** The origins of crude oil imports of EU countries (in %)

	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Russia</b>	25.5	29.2	31.1	32.2	32.5	33.4	33.2	31.4	33.1
<b>Norway</b>	20.1	19.4	19.2	18.8	16.9	15.5	15.1	15.1	15.2
<b>Libya</b>	8.2	7.5	8.4	8.8	8.8	9.2	9.8	9.9	9.0
<b>Saudi Arabia</b>	10.8	10.1	11.3	11.3	10.6	9.1	7.2	6.9	5.7
<b>Kazakhstan</b>	1.6	2.4	2.7	3.4	4.5	4.6	4.6	4.8	5.4
<b>Iran</b>	5.9	4.9	6.4	6.3	6.1	6.2	6.2	5.4	4.7
<b>Nigeria</b>	4.8	3.5	4.3	2.6	3.2	3.6	2.7	4.0	4.5
<b>Azerbaijan</b>	0.9	1.0	1.0	0.9	3.2	2.2	3.0	3.2	4.0
<b>Iraq</b>	3.8	3.0	1.6	2.2	1.3	2.9	3.4	3.3	3.8
<b>Others</b>	18.3	18.8	14.2	13.4	14.0	13.2	14.7	16.1	14.6

**Source:** European Commission – Eurostat 2011, Energy production and imports, [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Energy\\_production\\_and\\_imports](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Energy_production_and_imports) (31 May 2012).

## 2.3. Gas Supply

Over the past four decades, EU's natural gas consumption has grown much faster than primary energy consumption. The EU-27 energy dependence rate for natural gas was 60.3 percent in 2007, 61.5 percent in 2008 and 63.4 percent in 2009.<sup>13</sup> On the other side EU countries had only 1.3 percent of the proved world natural gas reserves at their disposal in 2010.<sup>14</sup> Between 2000 and 2008 gas imports from Russia increased slightly (12 percent).

<sup>10</sup> Energy, transport and environment indicators. European Commission, Eurostat pocketbooks, Brussels 2010, p. 31.

<sup>11</sup> BP Statistical Review of World Energy. London 2011, [http://www.bp.com/assets/bp\\_internet/globalbp/globalbp\\_uk\\_english/reports\\_and\\_publications/statistical\\_energy\\_review\\_2011/STAGING/local\\_assets/pdf/statistical\\_review\\_of\\_world\\_energy\\_full\\_report\\_2011.pdf](http://www.bp.com/assets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2011/STAGING/local_assets/pdf/statistical_review_of_world_energy_full_report_2011.pdf) (5 September 2011), p 6.

<sup>12</sup> Communication From the Commission to the European Council and the European Parliament: An Energy Policy for Europe. Commission of the European Communities Brussels, 10.1.2007, COM(2007) 1 final, {SEC(2007) 12}, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0001:FIN:EN:PDF> (8 September 2011), p 26.

<sup>13</sup> Keenan, Rita, Statistical aspects of the energy economy in 2009. Eurostat. Statistics in focus, no. 43, 2010, p 4.

<sup>14</sup> BP Statistical Review of World Energy, op. cit., p 20.

**Table 2:** The origins of natural gas imports of EU countries (in % )

	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Russia</b>	47.7	45.0	45.1	43.8	40.6	39.3	38.4	37.6	34.2
<b>Norway</b>	22.8	26.2	25.5	25.0	24.4	25.5	28.2	28.9	30.7
<b>Algeria</b>	21.2	21.2	20.0	18.2	18.0	16.4	15.4	14.7	14.1
<b>Qatar</b>	0.3	0.9	0.7	1.4	1.6	1.8	2.2	2.2	4.6
<b>Libya</b>	0.4	0.3	0.3	0.4	1.7	2.5	3.0	2.9	2.9
<b>Nigeria</b>	2.3	2.2	3.1	3.7	3.5	4.3	4.7	4.0	2.4
<b>Trinidad/ Tobago</b>	0.3	0.2	0	0	0.2	1.3	0.8	1.6	2.2
<b>Egypt</b>	0	0	0	0	1.6	2.5	1.8	1.7	2.1
<b>Oman</b>	0.4	0.4	0.2	0.5	0.6	0.3	0.1	0.1	0.4
<b>Others</b>	4.6	3.7	5.1	7.0	7.8	6.1	5.4	5.3	6.4

**Source:** European Commission – Eurostat 2011, Energy production and imports, [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Energy\\_production\\_and\\_imports](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Energy_production_and_imports) (31 May 2012).

In the Western part of EU, markets are large, but diversified, whilst in the Eastern parts of the union, they are smaller, but much more dependent on Russia. The EU-15 accounted for about 85 percent of EU's gas consumption. EU's reliance on gas imports could increase to 84 percent by 2030,<sup>15</sup> and the European Commission estimated in 2008 that the Russian share will climb to 60 percent of total import.<sup>16</sup>

### 3. Foundations of Russia's 'Energy Foreign Policy'

In the 1990s Russia generally emphasized its intention not to deteriorate to the level of a "raw material appendage to the West". Then, however – and especially in President Putin's second term in office (2004–2008) – Russia has begun to make a virtue of necessity.<sup>17</sup> According to the will of the leadership in Moscow, Russia's claims of being a superpower and global player should not only rely on ostentatiously drawing attention to the military (and especially nuclear) potential, but also on the – unofficial – concept of an "energy superpower:" Russia wants to make as many nations as possible its customers from the countries of Common Wealth. CIS republics, rich in natural resources, such as Azerbaijan, Turkmenistan, Kazakhstan, and Uzbekistan should, according to Moscow's wishes, export their energy exclusively via pipelines running through Russian territory. This entails transit charges and makes both supplier as well as importing countries dependent on the Kremlin, which could easily cut off these pipelines (or at least threaten to do so) whenever required.

Another important fact is that Russia wants to minimize its dependence from 'unreliable' transit countries. Thus, Gazprom's former Deputy CEO Alexander Ryazanov said about the Nord Stream gas pipeline project: "It is a rather expensive undertaking, because it is political. But of course, we need this pipeline in order to exert pressure on

<sup>15</sup> Communication From the Commission to the European Council and the European Parliament, op. cit., p 26.

<sup>16</sup> Erixon, Fredrik, Europe's energy dependency and Russia's commercial assertiveness. European Centre for International Political Economy, ECIPE Policy Briefs, no. 7, 2008, p 4.

<sup>17</sup> Schewzowa, Lilia, Putins Vermächtnis. Wie die russische Elite die Modernisierung des Landes blockiert. Internationale Politik, vol. 61, no. 7, 2006, pp 38-46, here p 41.

Belorussia and Ukraine.<sup>18</sup> And Viktor Baranov, president of the Russian Union of Independent Gas Producers, took the same line, noting that “even if [the Russians] have to build the thing running across the sky at an even higher cost, they would go for it.”<sup>19</sup>

All these measures are designed to make as many countries as possible dependent on Russian energy suppliers, which under particular conditions could be (or already have) turned into political dependencies. Russian and Western politicians think that Moscow is an ‘extremely reliable supplier of energy’ are debateable due to other reasons as well. Thus, according to the Defence Research Agency in Stockholm, there have been at least 55 cases (cut-offs, explicit threats, coercive price policy, and certain take-overs), when Moscow actively used the ‘energy tool’ against other states, between 1991 and 2006. Only eleven occurred without any political underpinning.<sup>20</sup>

In its 2003 Energy Strategy Russia leaves no doubt that it intends to exploit its energy policy for security-related ends.<sup>21</sup> The document furthermore lists “securing Russia’s global-political interests” by using its oil companies and “securing Russia’s political interests in Europe and the bordering states as well as in the Asian region” with regard to natural gas as “strategic goals.”<sup>22</sup> As mentioned above, Russia’s strategic goals in the sphere of energy policy are also geopolitically motivated. Prime Minister Putin stated that “the role of the country on international energy markets determines in many ways its geopolitical influence.”<sup>23</sup> At the opening ceremony of the oil export terminal in Kozmino in December 2009 Putin stressed that the new East Siberia–Pacifica Ocean (ESPO) pipeline<sup>24</sup> “is not just a pipe line project,” but rather “a geopolitical project.”<sup>25</sup> Well-known Moscow-based expert Lilia Shevtsova, senior associate at the Carnegie Endowment for International Peace, spoke about Russian “energy geopolitics”.<sup>26</sup> Foreign Minister Sergei Lavrov drew a connection between Russia’s energy policy and the creation of a ‘multipolar world:’ “The emergence of new, global centres of influence and growth and a more even distribution of resources for the development and control of natural resources form the material basis for a multipolar world order.”<sup>27</sup> A publication of the Russian Foreign Ministry’s Diplomatic Academy considered the Russian oil companies as a “further

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<sup>18</sup> As quoted in Panjuschkin, *Waleri, Sygar, Michail, Gazprom. Das Geschäft mit der Macht, Drömer, München* 2008, p 245.

<sup>19</sup> As quoted in RFE/RL, Newsline, Vol. 12, No. 25, Part I, 6 February 2008, <http://www.rferl.org/content/article/1144046.html> (13 May 2012).

<sup>20</sup> Larsson, Robert L., Nord Stream, Sweden and Baltic Sea Security. Defence Research Agency, Stockholm 2007, pp 80-81.

<sup>21</sup> Leijonhielm, Jan, Larsson, Robert L., Russia’s Strategic Commodities: Energy and Metals as Security Levers. Swedish Defence Research Agency. Stockholm, 2004, p 11.

<sup>22</sup> Energeticheskaya strategiya Rossii na period do 2020 goda. Utverzhdena rasporyazheniem Pravitelstva Rossiyskoy Federacii ot 28 avgustya 2003. Minpromtorg Rossii, <http://www.minprom.gov.ru/docs/strateg/1/print> (8 September 2011).

<sup>23</sup> As quoted Kupchinsky, Roman, LNG – Russia’s New Energy Blackmail Tool. Eurasia Daily Monitor (The Jamestown Foundation), Volume 6, Issue 77, 2009.

<sup>24</sup> Construction of this pipeline started in April 2006. On 1 January 2011, Russia said it had begun scheduled oil shipments to China via this pipeline, with the plan to increase the rate up to 300.000 barrels per day in 2011.

<sup>25</sup> As quoted in Henderson, Creelea, Reorientation: ESPO points away from the West. Institute for the Study of Conflict, Ideology, and Policy. The ISCIP Analyst (Russia), Volume XVI, no. 7, 2010.

<sup>26</sup> Ševcova, Liliya, Russlands Wille zur Weltmacht. Autokratie, Energie, Ideologie. Osteuropa, no. 4, 2007, pp 33-52, here p 37.

<sup>27</sup> Lavrov, Sergei, Vneshnepoliticheskaya samostoyatel’nost Rossii – bezuslovnyy imperativ. *Moskovskie novosti*, no. 1, 19 January 2007, <http://www.mn.ru/issue.php?2007-1-56> (19 January 2007).

geopolitical weapon” of the Kremlin.<sup>28</sup> The Gazprom, one of the world's largest energy company and among the major parties competing for resources in the CACR, plays a key role in Russia's “new energy foreign policy,”<sup>29</sup> even beyond the borders of the former USSR. Some Western observers of Russian affairs came to the conclusion that Gazprom's highest business goal was “not profit, but political clout,”<sup>30</sup> as the company policy maintained in close coordination with the Kremlin.

Gazprom holds about 25 percent of the global gas reserves and produces 94 percent of Russia's gas and 16 percent of the global output. Production from the three ‘super-giant’ west Siberian gas fields (Urengoy, Yamburg, and Medvezhe) in the Nadym-Pur-Taz region, which account for the bulk of Gazprom's output. The company's ability to maintain gas production in the upcoming decades depends on the development of a new generation of the fields on Yamal Peninsula in northwest Siberia and/or the Shtokman field in the central part of the Russian sector of the Barents Sea. High prices for crude oil and natural gas not only help the Russian budget, which according to the Ministry of Finance in 2006, got 52.2 percent of its revenues from export of these two energy sources,<sup>31</sup> but also those pro-Kremlin business elites, which produce and sell them. The well-known Russian foreign policy commentator Andrei Piontkovskiy stated that Russia is *de facto* ruled by a circle of ten to fifteen persons, who have personal interests in the oil business and are, therefore, interested in keeping oil prices as high as possible.<sup>32</sup> Even the traditionally rather cautious BBC reported that Moscow was interested in an unstable Middle East, as this would likely keep oil and gas prices high.<sup>33</sup> It should be pointed out in this context that Russian arms exports are focused on energy-rich regions in Africa and the Middle East.<sup>34</sup> Russia was and/or is one of the most important arms supplier to Muammar al-Gaddafi's Libya, Saddam Hussein's Iraq and Bashar al-Asads's Syria and Iran for instance.

#### 4. European and Russian Interests in Energy Corridors and Pipeline Routes

##### 4.1. General ‘Clashes of Interests’ between the EU and Russia

Not only former German Federal Chancellor Gerhard Schroeder, but also many other influential voices in Western Europe turned against even cautious criticism by European politicians as well as European media of Putin's increasingly nationalistic rule or his war in the North Caucasian republic Chechnya (since 1999), as this would be counter-productive, given the necessity of being supplied with Russian energy sources. At the same time – and occasionally the same voices – deny any ‘unilateral dependence’ of the EU on Russia and claim ‘mutual dependence,’ as Moscow is said to depend on its revenues from exports to the EU and rerouting the oil and gas flow to East Asia would be impossible at short notice,

<sup>28</sup> Matyash, V. N., *Rossiia – SShA: Neft i geopolitika (Politologicheskii analiz)*. Diplomaticheskaya Akademiya MID Rossii / Institut aktualnykh mezhdunarodnykh problem. Moskva, 2004, p 111.

<sup>29</sup> Lindner, Rainer, *Blockaden der “Freundschaft”*. Stiftung Wissenschaft und Politik, Berlin, SWP-Aktuell, no. 3, 2007, p 1.

<sup>30</sup> Reitschuster, Boris, *Putins Demokratur. Wie der Kreml den Westen das Fürchten lehrt*. Econ, Berlin 2006, p 262.

<sup>31</sup> Metodologiya formirovaniya neftegazovogo byudzheta Rossii. Ministerstvo finansov Rossiyskoy Federatsii, 2007, [http://www1.minfin.ru/off\\_inf/1895.htm](http://www1.minfin.ru/off_inf/1895.htm) (1 April 2007).

<sup>32</sup> Piontkovskiy, Andrei, *Chuma na oba nashi doma*. Grani.ru, 31 August 2006, [www.grani.ru/politics/world/p.110722.html](http://www.grani.ru/politics/world/p.110722.html) (7 May 2012).

<sup>33</sup> Eggert, Konstantin, *Vozvrashchenie ili turpoezdka?* BBC Russian Service, 4 August 2006, [http://news.bbc.co.uk/go/pr/fr/-/hi/russian/russia/newsid\\_5244000/5244282.stm](http://news.bbc.co.uk/go/pr/fr/-/hi/russian/russia/newsid_5244000/5244282.stm) (28 April 2012).

<sup>34</sup> Vatanka, Alex, Weitz, Richard, *Russian roulette. Moscow seeks influence through arms exports*. *Jane's Intelligence Weekly*, no. 1, 2007, pp 37–41.

due to insufficient pipeline capacities. But this does not answer the question why the Kremlin's self-confidence seemed to be steadily rising with the gas prices, while the EU heads of states and governments – also and especially at meetings with Putin – gave the impression of being undecided, intimidated or, at any rate, divided. The truth is that there is no symmetric 'mutual dependence' between the EU and Russia: The EU is, of course, an important customer for Moscow (60 percent of Gazprom's export is delivered to the EU-27), but "while Russia could easily shut down its pipelines to Europe for a few days, [...] Europe cannot do without Russian energy even in the very short-run."<sup>35</sup>

In an angry and often sarcastic speech to top German industry chiefs at a business forum in Berlin, Prime Minister Putin in November 2010 lambasted the EU that Brussels should consult Moscow over planned energy legislation and reminded the EU about its dependence from Russia. At one stage, he mocked the Europeans, saying if they did not want gas or nuclear energy, then they would have to rely on Russian firewood. "How will you heat your houses?" he asked. "You do not want gas, you do not want to develop nuclear energy. Where will you get your heat from then? From firewood? Even for firewood you will need to go to Siberia. You do not even have wood."<sup>36</sup>

Dependence on Russian energy resources it would not be a problem if Moscow acted according to the same rules as other players on the energy markets. What some foreign ministries of EU countries are striving for, namely a 'rapprochement through entwinement' ('Annäherung durch Verflechtung,' as the German Foreign Ministry put it especially under Minister Frank-Walter Steinmeier from 2005 to 2009), also particularly with regard to energy, implies a logic which is far removed from the present behaviour and mentality of Russia's elite and, furthermore, ignores the principle question about the desirability of an 'entwinement' of a union of democratic states (as the EU claims to be) and Russia, a country ruled by an authoritarian regime whose economy is listed in international ratings as highly corrupt.

A report of the European Council on Foreign Relations warned: "While EU leaders believe that peace and stability are built through interdependence, Russia's leaders are working to create a situation where the EU needs Russia more than Russia needs the EU, particularly in the energy sector."<sup>37</sup> Russia speaks with one voice, whereas the EU with its 27 members (which have very diverse relations with Moscow as well as interests in the realm of energy policy) faces huge difficulties to find a common course in energy policy. The Kremlin, using its instrument Gazprom, has skilfully exploited divisions among EU member states by striking bilateral deals that undermine Brussels' efforts to forge a common energy policy. Russia is picking off individual EU member states and signing long-term deals which undermine the core principles of the union's common strategy. Karel Schwarzenberg, Foreign Minister of the Czech Republic, was one of the few EU politicians who saw through Russia's strategy an international energy policy. Moscow, he stated, plays the EU states off against each other.<sup>38</sup>

<sup>35</sup> Erixon, Europe's energy dependency, op. cit., p 8.

<sup>36</sup> As quoted in Dempsey, Judy, Putin Chides E.U. Over Energy Policies. *The New York Times*, 26 November 2010, <http://www.nytimes.com/2010/11/27/world/europe/27iht-putin.html> (8 May 2012).

<sup>37</sup> Leonard, Mark, Popescu, Nicu, A Power Audit of EU-Russia Relations. European Council on Foreign Relations, 2007, p 1.

<sup>38</sup> Bota, Alice, Nass, Matthias, „Russland beunruhigt mich“ (Interview with Schwarzenberg). *Die Zeit*, 6 March 2008, <http://www.zeit.de/2008/11/Interview-Schwarzenberg> (12 May 2012).

#### 4.2. EU's Interests in the CACR

80 percent of world natural gas supplies are located within a radius of 4,500 kilometres from Central Europe. The CACR's massive potential as an energy supplier is mirrored by the document "The EU and Central Asia: Strategy for a New Partnership," adopted in 2007 as follows: "The development of resources in oil and gas has significantly increased the role of Central Asian states as energy producers and transit countries. Increasing oil and gas exploitation will contribute to better world market supplies and will be conducive to diversification. Gas deliveries from the region are of special importance to the EU."<sup>39</sup> However, nearly two decades after the collapse of the Soviet Union there are still only a few routes for the transit of energy resources from the region to Europe. EU documents point to the fact that, "due to the landlocked nature of the Caspian region, its reserves are not easily accessible and transportation of crude to the international market will require construction of new oil pipeline(s) as the Turkish straits and the Baku–Tbilisi–Ceyhan pipeline [see Chapter 5.1.] will not be able to transit the future additional oil. If such pipelines are not built, Caspian oil producing countries will look for alternative oil routes for example towards eastern markets."<sup>40</sup>

In November 2008 the European Commission unveiled a long-term, multidimensional program for energy security, which includes the "development of a Southern Gas Corridor for supply from Caspian and Middle Eastern sources and possibly other countries in the longer term, improving security of supply."<sup>41</sup> In April 2010 the Foreign Affairs Committee of the European Parliament recognized the importance of the South Caucasus for the EU's energy security and supply. It expressed support for the strengthening of EU-South Caucasus cooperation in energy projects, "in particular for the successful realization of the Nabucco pipeline"<sup>42</sup> (see Chapter 5.3.).

#### 4.3. Russian Interests in the CACR

Numerous statements by Russian officials as well as Moscow's actions do not leave any doubt that it aspires to expand its political, economic, and military<sup>43</sup> presence in the strategically vital CACR. One of the most important objectives of the Kremlin in the CACR is the exclusion of the US, NATO, and EU to the highest possible extent. Russia tried to capitalize on the (now 'frozen') conflicts in the southern periphery of the former USSR, especially in Moldova (Dnestr Region), Georgia (Abkhazia, South Ossetia),

<sup>39</sup> The EU and Central Asia: Strategy for a New Partnership. Council of the European Union, Brussels, 31 May 2007, <http://register.consilium.europa.eu/pdf/en/07/st10/st10113.en07.pdf> (26 June 2010). This document does not mention Russia at all, let alone a critical analysis of Moscow's efforts to bar EU from access to the resources of the CACR without Russian influence and interference.

<sup>40</sup> Commission Staff Working Document, accompanying the Green Paper, towards a secure, sustainable and competitive European energy network. Oil infrastructures. An assessment of the existing and planned oil infrastructures within and towards the EU. COM(2008) 782 final, Commission of the European Communities, Brussels, 13.11.2008, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SEC:2008:2869:FIN:EN:PDF> (12 September 2011), p 15.

<sup>41</sup> EU Energy Security and Solidarity Action Plan: 2nd Strategic Energy Review. European Commission, Brussels, 13 November 2008, [http://www.europa-eu-un.org/articles/en/article\\_8300\\_en.htm](http://www.europa-eu-un.org/articles/en/article_8300_en.htm) (26 June 2010).

<sup>42</sup> European Parliament – Foreign Affairs Committee, South Caucasus: EU must play greater role in stabilising the region, say MEPs. 8 April 2010, [http://www.europarl.europa.eu/news/expert/infopress\\_page/030-72203-096-04-15-903-20100406IPR72190-06-04-2010-2010-false/default\\_en.htm](http://www.europarl.europa.eu/news/expert/infopress_page/030-72203-096-04-15-903-20100406IPR72190-06-04-2010-2010-false/default_en.htm) (19 May 2012).

<sup>43</sup> Moscow still maintains troops and bases in Georgia (against the will of its government, in particular in the breakaway provinces Abkhazia and South Ossetia; see Chapter 6.2.), Armenia, Azerbaijan (Gabala radar station), Tajikistan, Kyrgyzstan, and Kazakhstan (space launch facility Baikonur).

Azerbaijan (Nagorno-Karabakh), and Tajikistan (civil war 1992-97) in order to retain its influence.<sup>44</sup> While the post-Soviet Central Asian states were mostly underpaid for their gas, Europe is forced to pay a price far above what would be the case if energy was imported directly from the region. For instance, in the early 2000s Russia bought gas from Turkmenistan at the price of 57 Dollar per thousand cubic meters. This gas was then consumed domestically while Russian gas was exported to Europe at a price of 250 Dollar per thousand cubic meters. Therefore “it is no wonder that Russia uses all necessary means to block Europe from engaging directly with the Central Asian states, primarily Kazakhstan and Turkmenistan.”<sup>45</sup>

## 5. Pipelines and Transport Corridors Bypassing Russia

### 5.1. The BTC Pipeline

The 1,760-kilometer-long Baku–Tbilisi–Ceyhan (BTC) oil pipeline, built since 2002 for 3.9 billion dollars, starts at the Sangachal Terminal near Baku in Azerbaijan, passes through Georgia and ends at the Ceyhan oil terminal on the Turkish Mediterranean coast. It avoids Russian as well as Iranian territory and the congestion in the Bosphorus and therefore provides greater and easier access to world energy markets. The first tanker left the port on 4 June 2006 with about 600,000 barrels of crude oil. This marked the start of export of Azerbaijan’s oil via the BTC pipeline.

The BTC pipeline would never have completed without strong US support, because the EU did not actively lobby it – obviously, in order not to ‘offend’ Russia.<sup>46</sup> Moscow has tried for several years to thwart the construction of BTC, anticipating that it would lead to a loss of its monopoly on the transportation of West Caspian oil to Europe. But the BTC runs close by the Russian-controlled Georgian provinces Abkhazia and South Ossetia and the Azeri-Armenian ceasefire line around the separatist region Nagorno-Karabakh as well as through the politically insecure Kurdish areas of eastern Turkey. For that reason, the defence of the pipeline even in peace times is one of the greatest security policy challenges facing those countries with an interest in it (see Chapter 6.3.).

### 5.2. Trans-Caspian Pipelines?

The EU would benefit in a threefold way from a direct pipeline link to Central Asian gas exporters. First, it would be able to buy gas at a lower price than the level currently set by Russia. Gas could be brought through new pipelines from either Kazakhstan or Turkmenistan across the Caspian Sea along the seabed to Azerbaijan, where it would be pumped into pipelines leading to the Nabucco pipeline (see Chapter 7.3.), at a lower cost than new Russian fields in Siberia or in the Arctic. Secondly, by diversifying its sources and transit routes, the EU would reduce its dependence on Russian energy. And finally, the Union “would break the neo-colonial dependency situation to Gazprom that Central Asian producers are locked into.”<sup>47</sup>

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<sup>44</sup> Malek, Martin, The European Union and the “frozen conflicts” in the South Caucasus. *Diplomatiya Alemi / World of Diplomacy*, no. 18-19, 2008, pp 72-80.

<sup>45</sup> Norling, Nicklas, Gazprom’s Monopoly and Nabucco’s Potentials: Strategic Decisions for Europe. Central Asia-Caucasus Institute and Silk Road Studies Program, 2007, p 10.

<sup>46</sup> Meyer, Sebastian, *Die Europäische Union im Südkaukasus. Interessen und Institutionen in der Auswärtigen Politikgestaltung. Nomos, Baden-Baden* 2006, pp 133, 193, 237.

<sup>47</sup> Cornell, Svante, Jonsson, Anna, Nilsson, Niklas, Haggström, Per 2006, The Wider Black Sea Region: An Emerging Hub in European Security. Central Asian-Caucasus Institute, Silk Road Studies Program, Silk Road Paper, 2006, pp 21-22.

However, due to fierce Russian (and Iranian) resistance and disputes between Azerbaijan and Turkmenistan over the ownership of gas fields, Trans-Caspian pipelines are still far from being built. Russian President Putin, whose trip to Tehran in 2007 was the first by a Kremlin leader since World War II, warned that energy pipeline projects crossing the Caspian could only be implemented if all five nations that border the Caspian sea support them (-knowing, obviously, that this will not be the case in the near future). This statement underlined Moscow's strong opposition to efforts to build pipelines to deliver hydrocarbons to the West bypassing Russia.<sup>48</sup>

### 5.3. Russia's Fight Against Nabucco

The Nabucco pipeline is the EU's flagship project with regard to the CACR. It could bring gas from the Georgian/Turkish and/or Iraqi/Turkish border respectively to the Austrian gas hub in the tiny village "Baumgarten an der March" (close to the Slovak border), without passing through Russia. Austrian oil and gas company OMV leads this project; the other partners are the Bulgarian Energy Holding, Turkey's BOTAŞ, Germany's RWE, Hungary's FGSZ (a 100% subsidiary of the oil and gas group MOL), and Romania's Transgaz. As initially assumed, it would cost an estimated 8 billion Euro; and 3,300 kilometers of pipeline should have become operational by 2013 and reach a capacity of 31 billion cubic metres of gas (which would be 10 percent of EU-27 gas imports in 2005) a year by 2020. Then, the initiators of the project hoped to start Nabucco's construction in 2013, so that the first gas could flow in 2017.<sup>49</sup> So the supposed amount of Nabucco project has been revised up to 12-15 billion Euro.<sup>50</sup>

Moscow is against the construction of Nabucco and tries to derail it. An important initiative in this context is the South Stream pipeline, intended to transport gas from the CACR to Central Europe. This pipeline with a capacity of 63 billion cubic metres of gas per year is proposed to run from Southern Russia under the Black Sea to Bulgaria, then branch off to the south and to the north. Moscow managed to persuade several Southeast European countries to join the project, and Russian news agency RIA Novosti wrote about a victory for Russia and a major blow to Nabucco, when Austria participated in this project in April 2010.<sup>51</sup> In the same month, Putin labelled Nabucco as "risky" and "dangerous." "What will that pipeline be filled with? Can they show even one supply contract? I cannot see any country willing supplier there."<sup>52</sup> Putin, however, failed to explain why Moscow has neither concluded supply contracts to feed South Stream nor identified willing suppliers for this project. It is however difficult to understand why many politicians and gas industry managers of the EU consider Nabucco and South Stream as 'complementary,'

<sup>48</sup> Isachenkov, Vladimir, Putin Visits Iran, Sends Warnings to US. *AP*, 16 October 2007, via: Johnson's Russia List, 2007-#216, 16 October 2007.

<sup>49</sup> Reinhard Mitschek: „We are confident that the Nabucco construction will start in 2013 and the first gas will flow in 2017“. *Energy, Ecology, Economy* 2011, 9 August 2011, <http://3e-news.net/en/energetika/item/reinhard-mitschek-we-are-confident-that-the-nabucco-construction-will-start-in-2013-and-the-first.html> (11 August 2011).

<sup>50</sup> Coskun, Orhan, Nabucco investment seen at 12-15 bln euros-sources. *Reuters*, 5 May 2011, <http://www.reuters.com/article/2011/05/05/nabucco-turkey-idUSIST00770920110505> (11 May 2012).

<sup>51</sup> Fedyashin, Andrei, Vladimir Putin goes to the land of Strauss and schnitzel. *RIA Novosti*, 23 April 2010, <http://en.rian.ru/analysis/20100423/158716228.html> (5 June 2010).

<sup>52</sup> As quoted in Socor, Vladimir, Austria Joins Gazprom's South Stream Project. *Eurasia Daily Monitor* (The Jamestown Foundation), Volume 7, Issue 84, 30 April 2010.

but not ‘alternative’ projects. “This seems to be a political-diplomatic response rather than based on economic realities (i.e. new forecasts of the EU’s future gas demand).”<sup>53</sup>

The Europeans desperately need supplies from the CACR to make the Nabucco pipeline viable and the Russians try to thwart this project. One key battleground is Azerbaijan. Senior Russian politicians as well as Gazprom officials have stated on many occasions that they are willing to purchase all of Azerbaijan’s gas, which would then be exported via Gazprom pipelines to Europe. This, however, would deprive the EU of any possibility to receive gas from Azerbaijan without using Russian transportation routes. During President Dmitri Medvedev’s<sup>54</sup> visit to Baku in June 2009 Gazprom and the State Oil Company of Republic of Azerbaijan (SOCAR) signed an agreement giving the Russian company privileged rights to buy Azeri gas that was previously reserved for Nabucco. According to this agreement Gazprom obliged to buy 500 million cubic meters of gas from SOCAR in 2010. Baku considered this contract as profitable. Because it sold per 1,000 cubic meters of gas for 350 dollar. The volume in question was too small to be a fatal blow by depriving Nabucco of a reliable and vital source, but the Kremlin made clear that it was ready to pay an unprecedented price in order to (as a Moscow-based newspaper stresses) “make Nabucco senseless.”<sup>55</sup>

Azerbaijan’s gas reserves, even if supplemented by the ongoing expansion of the Shah Deniz field, will not be sufficient to keep Nabucco in work. Other countries in the region must supply Nabucco with gas. Iranian gas has been regarded as a possible option to fill Nabucco next to Azerbaijan, but Tehran currently has only little export capacity as a result of high domestic consumption; and over two-thirds of Iranian natural gas reserves are located in non-associated fields and have not been developed. This will change in the future, especially due to the exploitation of the giant South Pars field. Therefore Moscow was very glad about the signing of a 25-year agreement in May 2009 according which Iran is obliged to export some 110 million cubic meters of gas to Pakistan per day. This will take the Iranian gas away from the European market. Afterwards Gazprom declared immediately its readiness to join the project.<sup>56</sup>

Owing to its enormous export potential, Turkmenistan is another candidate for the supply of Nabucco, but this country has to decide yet whether to invest in a Trans-Caspian pipeline linking it to Azerbaijan (see Chapter 5.2.). Moscow wants to assure that Turkmenistan’s gas should be delivered via Russia and South Stream and not via Nabucco to Europe. At the beginning of 2009 Gazprom bought Turkmen gas at the exorbitant price of 375 dollar per 1,000 cubic meters, that was selling gas to Europe at 280 dollar at that time. Gazprom offered Turkmenistan a high price in a desperate attempt to divert its gas from Nabucco.<sup>57</sup> Later, however, Gazprom was compelled to stop the unprofitable acquisitions.

Especially since the fall of 2011, prospects for Nabucco appeared to be dwindling due to several reasons. Thus, the amount of non-Russian gas needed to fill Nabucco has not yet materialized. However the risk within the Nabucco is that the pipeline could remain

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<sup>53</sup> Umbach, Frank, “The Black Sea Region and the Great Energy Game in Eurasia”, Balcer, Adam (Ed.), *The Eastern Partnership in the Black Sea Region: towards a New Strategy*, Demos Europa, Centre for European Strategy, Warsaw, 2011, pp 55-88, here p 68.

<sup>54</sup> He is, as former Chairman of Gazprom’s Board of Directors, a gas business insider.

<sup>55</sup> Solovyev, Vladimir, Shiroko kachaet Azerbaydzhan. Ego gaz poydet v Rossiyu po rekordno vysokoy tsene. *Kommersant*, 30 June 2009, p 1.

<sup>56</sup> Grib, Natalya, Gabuev, Aleksandr, Rossiya vyvodit iranskiy gaz iz ES v Yuzhnyu Aziyu. *Kommersant*, 27 May 2009, p 7.

<sup>57</sup> As quoted in Babich, Dmitry, Russia, rivals vying for Turkmen gas supplies. *RIA Novosti*, 15 December 2009, <http://en.rian.ru/analysis/20091215/157249622.html> (14 May 2012).

unfilled for years. Moreover, several alternative projects are in considerations: These are the Interconnection Turkey–Greece–Italy (ITGI), the Statoil-led Trans–Adriatic Pipeline (TAP), the Azerbaijan–Georgia–Romania Interconnector (AGRI), Azerbaijani-Turkish Trans-Anatolia Gas Pipeline (TANAP).

#### **5.4. The Potential Impact of the Turkmenistan-China Pipeline**

Gazprom has had a nearly monopoly on Turkmenistan's gas since 1991 relying on a mixture of Soviet era pipeline infrastructures, preferential tariffs, political pressure, and economic support. In December 2009, the 1,833 kilometer-long Turkmenistan-China gas pipeline, which will carry up to 40 billion cubic metres of gas, also traversing Kazakhstan and Uzbekistan before linking into China's network in Xinjiang, was opened. Now Russia can no longer rely on the legacy of the USSR to keep Turkmenistan in its sphere of influence. The Turkmenistan-China pipeline deprived Moscow of its strategic control over large-scale Turkmen gas supplies. With Russia's own gas production stagnant, the loss of Turkmen volumes can translate into a net loss of Moscow's economic and political leverage in Europe. Without a massive intake of Turkmen and other Central Asian gas, Russia can no longer sustain the geopolitical and business model of its gas trade with European countries. That model enabled Russia to absorb as much as 70 to 80 billions cubic metres per year of Central Asian gas (some two thirds of it from Turkmenistan), creating an aggregate pool under Russia's physical and political control.

### **6. The Impact of South Caucasian 'Frozen Conflicts' and 'Hot Spots' on Energy Policy in CACR**

#### **6.1. Separatism**

South Ossetia has already seceded violently from Georgia in 1989–92 was followed by Abkhazia in 1992–93. Since a ceasefire in the fighting over Nagorno-Karabakh in 1994, the Armenians control some 13,6 percent of the territory of the Republic of Azerbaijan. Negotiations have been going on for many years, but nothing indicates that solution is in sight. Abkhazia and South Ossetia insist upon their independence, as well as Karabakh.

Long before the events of August 2008 (see Chapter 6.3.), Georgia has accused Moscow of abusing its role as peacekeeper and of obstructing a political conflict solution in a bid to preserve its influence in the South Caucasus. Specifically, Georgian officials have blamed Russia for channelling financial and military aid to South Ossetia and Abkhazia and of abetting large-scale smuggling that helps to keep this breakaway provinces afloat. The refugee problem remains unsolved. In 1993 some 250,000 Georgians (i.e. almost half the population) were expelled from Abkhazia or had to flee, some 800,000 Azerbaijanis (from Armenia, Karabakh and other Armenian occupied territories of Azerbaijan) became refugees in Azerbaijan. The rulers of Abkhazia, South Ossetia, and Karabakh will probably never agree to a complete return of the refugees, because they consider the Georgians and Azerbaijanis respectively as a threat to their claims to secede. From the point of view of Baku and Tbilisi, it seems to be unlikely to solve the refugee problem before Azerbaijani respectively Georgian jurisdiction has been established over Karabakh or Abkhazia. This, however, can be ruled out in the near future.

#### **6.2. Russia's Policy in the Region**

Moscow considers the greater Caspian region as its 'area of strategic interest' and

has always denounced all proposals to demilitarize the region. In August 2002, the Russian armed forces – and especially the Caspian Flotilla – conducted one of the biggest exercise in post-Soviet times in which 60 vessels, some 10,000 servicemen and 30 aircraft participated, allegedly devoted to the ‘antiterrorist struggle,’ although so far nothing has been heard about terrorists who tried to highjack oil rigs in the Caspian Sea. Other Russian military followed drills in the region. Therefore it is quite clear that the issue was not about ‘terrorism’ but about Russian power projection and geopolitics.

Without military support from Moscow, Abkhazia and South Ossetia (Karabakh relied mainly on Armenia) would hardly have been able to tear free from their central government. Moscow rendered political support and made massive deliveries of arms. The Russian army has openly intervened in Abkhazia already in 1992–93. Furthermore, it is a well-known fact that so-called Russian ‘volunteers’ and Cossacks fought for the South Caucasian separatists. Russia obviously uses double standards in handling separatist movements. On the one hand, Moscow has repeatedly warned Tbilisi against a new war against Abkhazia and/or South Ossetia. On the other hand, Russian politicians ‘solved’ its own problem with separatism in Chechnya by solely military means, i.e. to ‘exterminate,’ ‘erase’ or ‘crush’ – to use the most popular terms – the rebels there (officially referred to only as ‘bandits’ and ‘terrorists’).<sup>58</sup>

The Russian ‘peacekeeping operations’ in South Ossetia and Abkhazia never had an UN mandate. One of the reasons for this was that they were clearly not in line with the approved principles of UN missions. Thus, the ‘peacekeeping unit’ in South Ossetia had Russian, Georgian, and Ossetian contingents, which ignores the traditional non-inclusion of soldiers from the (former) warring parties. This force was based solely on a bilateral agreement (‘Sochi agreement’) signed in June 1992 between Eduard Shevardnadze and Boris Yeltsin. In the framework of the ‘peacekeeping mission’ in the Georgian-Abkhaz conflict zone on the Inguri river Russia mustered all the troops (which would be unthinkable in an UN mission). After the war with Georgia in August 2008, Russia terminated these ‘peacekeeping missions’ and established full-fledged military bases in Abkhazia and South Ossetia. They are located in proximity to the BTC and the South Caucasus Pipeline (SCP), a pipeline to transport gas from Shah Deniz field from the Caspian Sea to Turkey, which became operational in 2006.

### **6.3. Russia’s Military Intervention in Georgia in 2008**

Georgia lacks any significant petroleum reserves, but it became a relevant transit route for Central Asian oil and gas – a ‘friendly corridor’ between Russia to the North and Iran to the South. BTC and SCP give Tbilisi a certain role to play in energy markets, but they also served as a lightning rod for Russia’s military campaign in August 2008 which led to the occupation of parts of Georgia’s territory. Many analysts suspect that a key Russian motive for invading Georgia was to expose the region’s instability and to forestall any new pipeline projects there. The Russians fired several times at the BTC, but missed it. So, Moscow’s intervention did not inflict major or long-term damage to the transport corridor for Caspian oil through Georgia.

### **6.4. Possible Consequences of a New War in Karabakh**

Armenia has proposed to build a section of the BTC pipeline across its territory, but it was, of course, an illusion to expect that Azerbaijan would accept such a dependence from its archenemy. Nevertheless, the Armenians benefit from the pipeline. The

<sup>58</sup> Malek, Martin, Russia’s Asymmetric Wars in Chechnya since 1994. *Connections*, no. 4, 2009, pp 81-97.

Azerbaijani armed forces are still too inadequately equipped and trained to be able to successfully mount an assault on Karabakh, but in the theoretical case of a new war for the breakaway region it would quite easy for the Armenians to halt the gas transit from Baku, because the pipeline runs only several kilometres from the Armenian-controlled territories of Azerbaijan. In other words the BTC has turned out to be a crucial factor ensuring the current status quo between Azerbaijan and Armenia. Russia on the other hand as the main ally of Armenia makes use of this state of affairs.

In Armenia and Russia, as well as in Western capitals, fears are expressed that Azerbaijan at least could use its oil revenues to arm its military in order to enforce a violent solution of the Karabakh problem. However, this overlooks the fact that the Armenians could use their ballistic missiles against Azerbaijani oil fields, pipelines and/or refineries, an action that would undoubtedly result in an inferno. Of course, in case of a war, Western corporations would immediately withdraw their investments from the Azerbaijani petroleum industry. Baku is well aware of this fact. For this reason, the current de facto 'independent' status of Karabakh becomes safer with every dollar invested in the Azerbaijani oil industry by Western companies.

## 7. The Possible Impact of Shale Gas

US production of shale gas took off in the mid to late 2000s. Advances in technology – horizontal drilling and hydraulic fracturing in particular – and an elevated secular price for natural gas are the principal factors that have made complex shale gas drilling operations possible and economical. In 2006, Gazprom announced its intention to supply ten percent of US gas needs by 2010 – an ambition that failed to materialize. Instead, in 2009, the US overtook Russia to become the world's leading gas producer. The US, counting its conventional gas production, is now effectively self-sufficient in natural gas. This has scuppered any prospects that North America would be export the Liquefied Natural Gas (LNG).

Russian media has reported that Gazprom is deeply worried about the emergence of shale gas, which has been called a 'game-changer' by BP boss Tony Hayward. At the same time, Moscow does its best to downplay the significance of shale gas,<sup>59</sup> which has already an impact on the international gas trade despite its 'quiet arrival.' Gazprom has attacked the idea that huge new US reserves of shale gas will harm its dominance as the world's biggest producer, warning the energy source is environmentally unsound. Alexander Medvedev, Gazprom's head of exports, said he thought it is "unimaginable" that Europe would allow shale gas to be developed; the US Environmental Protection Agency would raise concerns about its potential contamination of drinking water.<sup>60</sup> This was, of course, astonishing, because Russia usually is not very concerned with environmental issues. The argument, obviously, was raised with the intention to restrain the West from the extraction of shale gas, which could harm Gazprom's business plans and the Kremlin's political agenda.

One tantalizing possibility raised by the advent of shale gas is the promise of energy independence for Poland, which presently gets over 70 percent of its gas supplies from

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<sup>59</sup> Melnikova, Svetlana, Geller, Yevgeniya, Slantsevaya revolyutsiya pod voprosom. *Nezavizimaya gazeta – NG Energiya*, 13 April 2010, p. 14; Dokuchaev, Dmitri, Krylov, Dmitri, Velikiy slantsevyy perevorot. Kak izmenilsya mirovoy rynek topliva. *The New Times (Novoe vremja)*, 19 April 2010, <http://newtimes.ru/articles/detail/20017/> (28 May 2012).

<sup>60</sup> Mason, Rowena, Gazprom scorns shale gas as 'danger to drinking water.' *Telegraph.co.uk*, 9 February 2010, <http://www.telegraph.co.uk/finance/newsbysector/energy/oilandgas/7199259/Gazprom-scorns-shale-gas-as-danger-to-drinking-water.html> (30 May 2012).

Gazprom. In spring 2010, US energy companies began exploratory drilling in Poland's shale beds, where they hope to confirm that Polish shale gas reserves are at three trillion cubic meters, an amount equal to 200 years of domestic supply.

## 8. Conclusions

The EU should make use of all feasible options of diversification of energy sources with special emphasis on an increase in the share of renewable energy (hydro, wind, solar, and bio-mass). But without a significant technology breakthrough, electricity generation will be heavily dependent on gas, and oil will continue to dominate transport even in 2030. Therefore, security of supply of these fuels will continue to be paramount to EU's economy. The union and its member states have to take this into account on several levels. As an EU document put it: "Energy must become a central part of all external EU relations; it is crucial to geopolitical security, economic stability, social development and international efforts to combat climate change."<sup>61</sup>

More than half of the EU's energy originates from countries outside the Union – and this proportion is rising. Much of this energy comes from Russia, whose disputes with transit countries have disrupted supplies in recent years. The soaring prices of gas and oil have made Russia more powerful, less cooperative and more intransigent. The 'Russia first' policy, pursued by the EU for many years, was obviously not sufficient and very likely even counterproductive for its energy security. As the EU became Russia's energy sectors big client, Moscow and not Brussels sets the rules of the game. The EU's barriers against Russia using the 'energy weapon' are – especially in the short run – low or even nonexistent.

Since 1999 (accidentally the year of Putin's unexpected rise to power in Russia), the oil and gas prices rose steady until mid-2008. So Russia acquired a strong position to dictate many conditions to its European consumers, not only in terms of price issue for natural gas, as well as in terms of distribution networks and downstream assets. Moscow's main company Gazprom aspires to dominate natural gas supply and distribution networks in Europe. By obtaining control over the infrastructure in transit countries, Russia limits access to markets for other potential suppliers. Without resolute action, the EU could find sooner or later its energy security largely under Russian control, which would give Moscow an undue and possibly dangerous amount of political influence over European decision-making. A 'de-politicization' of the EU-Russian gas relationship is as desirable as, at least in the foreseeable future, unlikely.

Pipelines now under construction will be still operational several decades from now yet, and they will affect the (geo-) political balance in the Eurasian region. Moscow's behaviour especially since 1999 leaves no doubt that the more pipelines connect the EU and Russia, the more insecure is Europe's oil and gas supply. The Kremlin has shown no willingness to agree to multilaterally binding treaties and agreements. Instead, it prefers a strongly self-interest based energy policy oriented to penetrate and dominate the wider European, Black Sea and CACR energy markets. But the reserves held by the CACR might offer the EU an opportunity to move away from increased dependence on Russian energy sources. Development of CACR's oil and gas reserves via Georgia and the Black Sea, bypassing Russia and Iran, would enhance EU's energy security. However, it casts the capabilities of the EU in the realm of energy policy in a bad light that it was in more than a decade not able to agree upon the construction of a pipeline (Nabucco).

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<sup>61</sup> Communication From the Commission to the European Council and the European Parliament, op. cit., p 18.

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