

*Economics, Political Sciences*

## On the Economic and Energy Cooperation in the Caucasus

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**ABSTRACT.** The paper deals with the design of the framework for the economic and energy co-operation opportunities in the Caucasus. Azerbaijan hydrocarbon resources and their transportation routes have from the very beginning generated positive and negative effects for both this country and the entire region. The positive effect is largely associated with the interest of Western countries in having as many alternative sources of oil and gas as possible. The negative effects seem to be coming mainly from the involvement of regional rivals in the production and transportation of oil and gas. The energy resources located beyond Russian territory which, in principle, could be supplied to the West, have been modified by adjectives like “alternative.” The time has come to shift from the paradigm of “alternative pipelines” to an essentially new one; that is, the paradigm of “mutually supplementary pipelines” or “pipelines harmonisation.” In that case, all those pipelines which have hitherto been considered as alternatives to each other will present themselves in quite a different context in which they will be regarded as distinct components of the same organic whole, a system of pipelines serving one common goal, that is, to provide an uninterrupted and consistent supply of energy resources to their customers. ©2011 Bull. Georg. Natl. Acad. Sci.

**Key words:** Economic Cooperation, Energy Cooperation, alternative pipelines, pipelines harmonisation, Caucasus.

The Caucasus has developed into a meeting place for all sorts of geopolitical and economic interests [1-3] whilst the Central Caucasus (generally, we are proponents of such a concept of the Caucasus which embraces the Central Caucasus consisting of Armenia, Azerbaijan and Georgia; the South Caucasus, consisting of northern provinces of Turkey and Iran, dwelt by the Caucasian ethnic groups; and the North Caucasus which is located in the south of Russia and is also dwelt by the Caucasian ethnic groups [4-6]) accumulates the entire range of regional problems [7]. The situation worsened after Russia invaded Georgia in August 2008 [8] and recognised the independence of Abkhazia and South Ossetia.

The problem of instability in the Central Caucasus is also compounded by the fact that the conflict territories themselves are becoming a bastion of terrorism and refuge for criminals engaged in drug trafficking and drug trade as well as zones for money laundering, kidnapping

and human trafficking [9: 57-58]. Thus, the idea of achieving unity in the Central Caucasus (and in the Caucasus as a whole) can be considered an ideal for which the residents of this region should really be striving [10: 92].

Of the Central Caucasian countries, Azerbaijan has a clear comparative advantage. It is rich in hydrocarbon resources [11] and has a convenient geographic location which promotes its use as a transport hub [12, 13]. Because of the special geographic features of the Central Caucasus, the use of Azerbaijan’s transport potential largely depends on other countries in the region; namely, Georgia and Armenia. Georgia’s main comparative advantage is its geographic location on the restored Great Silk Road as the central corridor joining Europe and Asia [14]. Georgia has the potential to become a major transport link between Russia and Armenia and on to Iran. Armenia is also characterised by its potential transport function both in the West-East (Turkey-Armenia-Azerbaijan) and the

North-South directions (Russia-Georgia-Armenia-Iran [15]. The West-South (Georgia-Armenia-Iran) transportation corridor which links the Black Sea with the Persian Gulf is particularly important for Armenia, just as it is for Georgia.

It is not surprising that Azerbaijan's hydrocarbon resources and their transportation routes of immense geostrategic importance have from the very beginning generated positive and negative effects for both this country and the entire region [16]. The positive effect is largely associated with the interest of Western countries in having as many alternative sources of oil and gas as possible. For such reasons, from day one, they have been extremely interested in developing Azerbaijan energy resources and creating alternative pipelines for their transportation. This, in turn, made possible a significant inflow of foreign direct investments into both Azerbaijan and other Caucasian states (Georgia and Turkey) where pipelines run. On the other side, the negative effects seem to be coming mainly from the involvement of regional rivals in the production and transportation of oil and gas. Russia and Iran have tried from the very beginning with all the means at their disposal to take control over the operation and particularly the transportation of Azerbaijan hydrocarbon resources. In other words, the Caspian energy resources cannot only be of benefit to the Central Caucasus but can also create a threat for the countries of this region as a consequence of Russia's concern about growing influence of the West on the region, something which arguably endangers its national security and runs counter to its interests [17].

Not only did the Russian side not want to develop a transportation corridor through Georgia or build pipelines in its territory, it was willing to go to great lengths to prevent the implementation of such projects [17, 18]. This evaluation of the Russian position with respect to the transportation of Caspian energy resources through Georgia was confirmed during the Russian-Georgian war in August 2008. Russian aviation bombed the pipelines which pass through Georgia located far from South Ossetia, the protection of which was supposedly the reason for the invasion. This cast doubt not only upon the security of the transportation corridor through which pipelines pass through Georgian territory [19] but also increased the danger of Azerbaijan losing its economic independence [20: 312]. Fortunately, it did not take long to restore confidence in transporting energy resources through Georgia [21].

Another initiative to intensify economic partnership between Azerbaijan and Georgia as a "Caucasian tandem" [22] as well as draw Turkey into this process is putting

the Kars-Akhalkalaki-Tbilisi-Baku rail system into operation [22].

Of particular importance is the relationship between Azerbaijan and Turkey. Its ethnic, cultural, and linguistic kinship with Turkey has generated unity in many international issues. Naturally, this had also a role to play in determining the oil and gas transportation routes. Despite the fact that the shortest route linking Azerbaijan to Turkey passes through Armenia and is potentially the best transportation route from the economic viewpoint, the strained relations between these countries and Armenia led to the rejection of that option. Azerbaijan negative attitude toward use of Armenian territory as a transportation corridor reflects unequivocally the effects of three main events: the Armenian-Azerbaijan conflict over Nagorno-Karabakh, the occupation by Armenian armed forces of Azerbaijan territories beyond this conflict zone and the disruption of Azerbaijan rail communication with its autonomous exclave, Nakhichevan. Turkey, in turn, supported Azerbaijan by joining the embargo of the transportation routes to Armenia.

Armenia also has its complaints against Turkey with respect to the latter's refusal to recognise the massacres of Armenians in the Ottoman Empire as 'genocide.' Moreover, since Armenians frequently identify Azerbaijanians with Turks, Armenians also believe that Azerbaijanians were involved in this alleged genocide [24]. This is a graphic example of how the conflict relations that have developed between Armenia and these two countries have prevented Armenia from using its comparative advantage as the shortest route linking Azerbaijan to Turkey [25].

In the summer of 2008, after Russia launched its military attack on Georgia, Turkey revived its efforts to devise and implement the Caucasus Stability Pact, also known as the Caucasus Alliance, the Caucasus Stability Forum or the Caucasus Stability and Cooperation Platform. This idea was born in as early as 2000 although it was not duly approved at that time. It is still debatable as a platform since it presumes drawing Russia (but not the West) into the processes aimed at ensuring stability in the Caucasus. Such a vision can hardly be evaluated as productive after the war against Georgia, Moscow's unilateral recognition of the independence of Abkhazia and South Ossetia and the Kremlin's plans for Abkhazia and South Ossetia's possible integration with Russia [26].

At this point, Turkey and Russia continue to pursue different goals in the region. Ankara is interested in strengthening its role in the region whilst Moscow is trying its best to use ever newer ways of putting pressure on Georgia [27]. Still, the differences between Turkey and Russia with respect to the Caspian energy resource trans-

portation projects through Georgia and Turkey are substantial. Not only the differences are great but also the interests of the other regional countries and the world powers are not very conducive. In this context, Turkish initiative to implement the Caucasus Stability and Cooperation Platform for now looks very utopian [28].

That said, Turkish-Russian cooperation in establishing and maintaining stability in the Caucasus may help Armenia join the regional transportation corridor projects it has been isolated from. The question is what price Armenia would have to pay for such involvement. Yerevan would have to stop supporting the existing regime in Nagorno-Karabakh, withdraw its genocide recognition policy toward Turkey and renounce its territorial claims on Turkey. With such cost, it appears very doubtful that Armenia would have any chance of joining the regional transportation projects in the near future [29]. That is why the agreement to establish diplomatic relations and open the borders, signed by the presidents of Turkey and Armenia in the beginning of October 2009, is unfortunately far from optimism [30].

In this state of affairs, it is particularly important to stress that Moscow is not simply interested in isolating Armenia from the regional transportation projects [31: 9]. Moreover, it is promoting in every way possible the "Kaliningradisation" of Armenia [31: 13]; that is, implementing the State Under Siege concept [31: 18]. With a glance of situation, when mostly all large scale enterprises are under control of Russian capital, the attempts to create the necessary economic foundations for Armenia to break free of Moscow can basically be described as virtual [32]. The Armenian economy has essentially been entirely absorbed by Russian Liberal Empire [31: 9].

The absence of official, including economic, relations between Armenia and Azerbaijan in no way exclude the existence of illegal trade relations (although in relatively small amounts). They are carried out via transit through Georgia. Despite the demands of the Azerbaijan side to prohibit the shipment of goods from Azerbaijan to Armenia through Georgia, the Georgian side, referring to the fact that Georgia and Armenia are members of the WTO, does not always fulfill these demands. This is also creating certain difficulties in Azerbaijan-Georgian relations.

It should be pointed out that Russia not only took Armenia's side in the Armenian-Azerbaijan conflict from the very beginning but also rendered it military assistance [33: 110]. Due to its direct and open support for the separatist movements in Abkhazia and South Ossetia, not to mention the direct war, Russia also set itself against Georgia. On this account, it is normal that one of the vectors of Moscow subversive activity in the post-Soviet expanse

points to putting pressure on Georgia and Azerbaijan in order to destabilise the situation in these countries [34: 62].

Since Russia obviously has the advantage in bilateral relations, Armenia is gradually being downgraded from partner to vassal [31: 4, 6]. This stands to reason, too, if we keep in mind that Moscow sees only vassals or enemies at its borders [35].

The exclusion of the Armenian oil and gas transportation route from Azerbaijan to the West helped increase the expediency of using the Georgian route which was, in fact, the one implemented. Geopolitically, Georgia occupies a key position in the Central Caucasus, especially considering the conflict between Armenia and Azerbaijan. Georgia has to perform the function of the region's link in the form of a regional hub in the Caucasus [36: 3-8].

Both Russian [10: 432, 434-439] and Iranian [37] experts emphasise that some of Russia's and Iran's interests in the region coincide considerably [38: 85-88], especially with respect to the Caspian's energy resources, amongst other things. On top of that, Russian experts think Russia is waging an energy war against several of the former Soviet republics; specifically, Georgia and Azerbaijan being cases in point [39: 80].

The growth of the EU's dependence upon Russian energy resources has been exploited by the Russian leadership as an effective tool for putting political pressure not only upon EU members but also upon the countries whose territories are traversed by the energy transportation routes such as Belarus and Ukraine.

In this context, searching for and the development of all potential (i.e. not only Russian) sources of oil and natural gas and ways for their supply to EU countries has become an issue of particular importance [40]. One of the most significant deposits of hydrocarbons are those located in the Caspian region and in countries such as Azerbaijan, Kazakhstan and Turkmenistan. It is important to note that any energy resources located beyond the Russian territory, which in principle could be supplied to the West, have been modified by adjectives like "alternative." This kind of language, consciously or unconsciously, presents a reflection of confrontation between Russia and the rest of the world in energy-related issues. This very controversy became a starting point for the emergence of "*pipeline confrontation*" or, even, a "*pipeline cold war*" between different countries of the EU and Russia and even between different countries of the EU.

By means of stereotypical mentality, this very idea of alternativeness has also been extended to the pipelines. In relation to the Russian pipelines of the western direction, the label of "alternative pipelines" has been attached to those which cross the territories of Azerbaijan, Georgia

and Turkey; these are, the pipelines Baku-Tbilisi-Supsa (BTS), Baku-Tbilisi-Ceyhan (BTC) and the South Caucasian Pipeline (SCP). The accuracy of such an evaluation, however, becomes questionable if one takes into account the fact that the quantity of oil transported through those pipelines does not make up more than ten percent of the oil exports from Russia. With respect to the natural gas transported through the SCP, the situation is even worse. Its capacity accounts for just two percent of the Russian natural gas exports. Consequently, neither the BTS and the BTC pipelines nor the SCP could be regarded as a good alternative to the Russian pipelines.

Russia has done a great deal to incite the “Pipeline Cold War” and its motivation is more than apparent. Russia has been trying to maintain and strengthen its monopolistic position in a number of directions and, most of all, in relationships with EU countries [41].

The time has come to shift from the paradigm of “alternative pipelines” to an essentially new one; that is, the paradigm of “mutually supplementary pipelines” or “pipelines harmonisation” [42- 43]. In that case, all those pipelines which have hitherto been considered as alternatives to each other will present themselves in quite a different context in which they will be regarded as distinct components of the same organic whole, a system of pipelines serving one common goal, that is, to provide an

uninterrupted and consistent supply of energy resources to their customers.

The purpose of the “pipelines harmonisation” is to develop a partnership mechanism to facilitate and harmonise energy suppliers’ support in response to countries’ identified needs. The harmonisation of routes is about resolving alternative plans through respectful dialogue. It is about taking into account each country’s concerns and coming up with plans and solutions which deal fairly with all those concerns. It is about reaching a consensus for multiple pipelines.

Within the framework of this new paradigm of “pipelines harmonisation,” the issue of the transportation of the Caspian energy resources to the West could also be reconsidered in a new context. Specifically, the BTC and SCP could play an important role in the harmonisation of oil and natural gas supplies to the EU countries in addition to the Russian pipelines.

The issue of the harmonisation of gas supply to Europe requires the EU to take all possible efforts for the realisation of the Trans-Caspian and the Nabucco projects which, together with the other existing and potential gas pipelines, will lead to the substantial mitigation (if not removal) of the problem of the monopolistic gas supplier and also ensure a stable and balanced flow of natural gas to EU countries.

*ეკონომიკა, პოლიტიკური მეცნიერებანი*

## ეკონომიკური და ენერგეტიკული თანამშრომლობის შესახებ კავკასიაში

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სტატიის მიზანია, გამოინახოს ისეთი მიდგომა, რომლის საფუძველზეც შესაძლებელი გახდება კავკასიაში ეკონომიკური და ენერგეტიკული თანამშრომლობის გაღრმავება. აზერბაიჯანის ენერგეტიკულმა რესურსებმა და მათი ტრანსპორტირების გზებმა ამ ქვეყნისათვის და მთელი რეგიონისთვისაც თავიდანვე შექმნა როგორც დადებითი, ისე უარყოფითი ეფექტები. დადებითი ეფექტები უშუალოდ დასავლეთის ქვეყნებთანაა ასოცირებული, რომლებიც დაინტერესებულნი არიან, ჰქონდეთ რაც შეიძლება მეტი ალტერნატიული წყარო ნავთობისა და

გაზის რესურსების მისაღებად. უარყოფითი ეფექტები კი ნავთობისა და გაზის მომპოვებელ რეგიონულ კონკურენტ ქვეყნებთანაა უშუალო კავშირში. ის ენერგეტიკული რესურსები, რომლებიც რუსეთის ტერიტორიაზე არ არის და მიწოდება ან პრინციპულად შესაძლებელია მიწოდოს დასავლეთის ქვეყნებს, შეფასებულია როგორც “ალტერნატიულები”. დადგა დრო, რომ შეიცვალოს “ალტერნატიული მილსადენების” პარადიგმა ახლით – “ურთიერთშემავსებელი მილსადენების”, ანუ “მილსადენების ჰარმონიზაციის” პარადიგმით. ამ შემთხვევაში, ყველა ეს მილსადენი, რომლებიც დღეს ერთმანეთისადმი ალტერნატიულებად განიხილება, სულ სხვა ჭრილში, როგორც იმ ორგანული მთელის ცალკეული კომპონენტები იქნება წარმოდგენილი, რომელიც როგორც სისტემა ერთ მიზანს ემსახურება: შეფერხებების გარეშე მიწოდოს მომხმარებლებს ენერგეტიკული რესურსები.

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Received January, 2011