

Interlinked Energy Supply and Security Challenges in the South Caucasus

By Lusine Badalyan, Bremen

Abstract

The article examines the interplay of external powers' energy security interests in the South Caucasus, showing in particular how energy supplies and transportation routes affect and alter regional security dynamics. Pipelines that could have promoted peaceful outcomes are in fact facilitating greater tension.

Introduction

The recent debate on Georgia's plans to sell a minority stake in its segment of the North–South gas pipeline, which supplies Russian natural gas to Armenia, is one piece of a larger energy policy puzzle in the South Caucasus region that sheds light on the importance of energy issues and their close interconnections with security dynamics in the region.

The plan to sell the Georgian segment of the North–South pipeline, which connects Mozdok, Tbilisi, and Yerevan, first arose in early 2006, because the poor condition of the pipeline required private investment for reconstruction. The Russian majority state-owned energy company Gazprom hurried to buy the segment. The deal almost had been concluded when the US offered \$49.5 million to renovate the pipeline. In return for the US investment, the Georgian government agreed to ban the sale of the pipeline for 5 years, a period which expired in April 2011.

In 2010, the issue again returned to the agenda. The Georgian Parliament passed a bill, which removed the pipeline from the list of strategic government-owned facilities and made a sale possible. The US raised no objections to the idea of privatization.

Among the potential companies that are interested in purchasing the North–South gas pipeline are Gazprom and Azerbaijan's state-owned company SOCAR. Russia's desire to buy the segment seems to be driven by its intention to gain additional economic leverage for implementing its foreign policy in the region. In the case of Azerbaijan, acquiring the pipeline would offer a possibility to put economic pressure on Armenia and potentially help in forging a solution to the Nagorno-Karabakh conflict.

Armenia, possessing no major energy resources, is heavily dependent on extensive energy imports from Russia. Thus, the North–South pipeline is of strategic significance for the country. If the pipeline comes under SOCAR's control, Armenia will perceive the transfer as a threat to its energy supply as well as its national security. This development in turn may generate bilateral tensions that risk jeopardizing regional stability.

Export Pipelines

The South Caucasus is one of the subcomplexes of the larger post-Soviet Regional Security Complex, which

is defined as a set of units, whose major process of (de) securitization are so interlinked that “their security problems cannot reasonably be analyzed or resolved apart from one another” (Buzan and Waever 2003: 44). As such, this approach assumes not only that the security concerns of all three South Caucasian states—Armenia, Azerbaijan and Georgia—are significantly interconnected, but also that the region's security architecture per se is largely affected by the strong foreign penetration of regional and global powers. Thus, any change in general power balances, state-to-state interdependencies, and durable patterns of amity and enmity at the regional and global levels may have an essential impact on the security dynamics of the South Caucasus region.

Caspian energy resources and strategic export pipelines traversing through the region have a crucial impact on the complex security framework of the South Caucasus. Russia's, and to a lesser extent Iran's, gas supplies to the region also play a strategically important role. Located in the unique geostrategic area between the EU, Russia, Central Asia and the Middle East, the South Caucasus represents a key transit corridor of energy resources between the landlocked Caspian basin and Western consumer markets.

During the Soviet era, Moscow controlled Caspian energy reserves and the pipeline networks were constructed so as to link all the energy-rich countries to Russia. The Soviet Union's demise opened up the region to external actors allowing foreign companies to invest in exploiting energy reserves and constructing alternative pipeline routes to transport gas and oil from the region to the lucrative international markets.

The proven energy reserves of the Caspian basin are modest compared to the enormous energy volumes in the Middle East, and in fact are also far below the figures suggested in the early 1990s, e.g. by the US State Department. (An overview of reserves and production figures is given in the data section following this article.) What makes Caspian energy resources so significant is that they offer Western buyers the opportunity to diversify energy imports away from the near monopolistic energy supplies of the Middle East and Russia.

Currently the region relies on two major pipelines. The BTC pipeline running from Baku (Azerbaijan) via

Tbilisi (Georgia) to Ceyhan (Turkey) is the main oil export pipeline and the BTE running from Baku via Tbilisi to Erzurum (Turkey) is the main gas export pipeline. The other important export pipelines run from Baku to Novorossiisk (Russia) and to Supsa (Georgia); both were constructed for Azerbaijani “early” oil production and have only a small capacity. In addition there are two import pipelines which deliver gas to the South Caucasus region, namely the North–South pipeline, which originates in Russia, and the Iran–Armenia pipeline.

The Baku–Novorossiisk and Baku–Supsa Pipelines

In 1994 the Azerbaijani state oil company (SOCAR) signed a \$7.4 billion 30-year production contract with a consortium of major international oil companies called the Azerbaijan International Operating Company (AIOC) which became known as the “Deal of the Century”. This much-publicized contract made Azerbaijan a global supplier of energy and opened the Azeri energy sector to major international oil companies which made multibillion investments. The prospect of oil wealth and foreign investment that resulted from this deal became an important stabilizing factor contributing to the cease-fire and freezing of the Nagorno-Karabakh conflict.

From the outset the contract prompted extensive discussions around the possible pipeline options for the transportation of Azerbaijani oil and gas and became a controversial issue for the global as well as regional and interregional actors of the Caucasus.

During the Soviet period large oil projects were undertaken in the Azerbaijani energy fields and they could utilize pipelines traversing Russia which already existed. From the commercial perspective, relying on the existing pipelines for the new projects would have been more feasible, since small modifications or the construction of new parts would have cost less than to build a totally new pipeline. However, the AIOC consortium was reluctant to opt only for the existing cheap option. It pursued a “multiple pipelines” approach, aimed at reducing Russia’s position as a transit country of Caspian energy supplies and diversifying Azerbaijani energy export options. Ultimately, it was decided to pump the “early” oil of Azerbaijan in two directions, namely via northern and western route export pipelines.

In 1996 Azerbaijan signed an intergovernmental agreement with Russia to build up the Baku–Novorossiisk pipeline to transport Azerbaijani “early” oil from Baku to the Russian Black Sea port of Novorossiisk which hosts a huge oil terminal. The pipeline, 1,347 km long, began operations in December 1997 with a total capacity of 100,000 barrels of oil per day. Notwithstanding the pipeline’s commercial viability, the north-

ern route, was not an reliable option, as it passes through the North Caucasus, where the Chechen war started in 1994 and where military and terrorist activities have continued ever since.

The need for an alternative line to export Azerbaijani “early” oil was critical. Despite Russia’s various pressures to make the northern pipeline the single route for transporting Azerbaijani oil, in 1995 the AIOC announced its intention to utilize a second pipeline route, the Baku–Supsa pipeline. Capable of carrying 120,000 barrels of oil per day, the pipeline (917 km long) runs from Baku to Georgia’s Black sea coast of Supsa. The pipeline began operations in 1999, exactly at the same time when Russia closed the Baku–Novorossiisk line because of active military operations in Chechnya.

In the new geopolitical environment of the Caucasian subcomplex in the 1990s Russia emerged neither strong enough politically nor sufficiently economically robust to impose its will and to be able to force Azerbaijan to export its energy supplies exclusively through the Russian pipeline system. What is more, both global and interregional actors started to become actively engaged in the Caspian energy utilization process and balanced Russia’s efforts to control the export routes.

The Baku–Supsa pipeline marked the beginning of reorienting Azerbaijani energy exports away from Russia and created the first alternative route bypassing Russian territory for Caspian energy exports. However, with its small capacity, the pipeline, which had been designed to carry only “early” oil, could not bring any substantial shift in power and security dimensions in the region.

Iran–Armenia pipeline

The Iran–Armenia gas pipeline, which primarily sought to serve as an alternative energy source for Armenia and to reduce its dependence on Russian gas supply, in fact started to operate under the control of Russia’s gas company Gazprom. The agreement on the pipeline construction, which had been signed in early 1992, was put into practice only 12 years later. In 2007 the first section of the pipeline opened, running from the Iranian city of Tabriz via the Iran–Armenian border town Meghri to Kajaran in Armenia. It is only 142 km long with a small capacity of 2.3 bcm of gas per year. According to the agreement, most Iranian gas is used to fire the Hrazdan power station and the electricity produced by the Armenian power station is exported back to Iran.

Initially, planners wanted to build a pipeline with double the capacity of the existing pipeline. As a result the pipeline would have made Iran not only an important energy supplier for the Caucasian region, but would have also allowed it to carry gas to the European markets, thereby competing with Russia’s energy supply monop-

oly. It has, therefore, been alleged that it was pressure from Gazprom that kept the pipeline small.

Thus, from the very beginning, Russia became actively involved in the project and controlled the competitor's supply. For the construction of the pipeline, Gazprom invested \$200 million in the project and afterwards also purchased the section of the pipeline that runs through Armenian territory via the ArmRosGaz company (owned by 45% by Gazprom, 10% by Itera and the remainder by the Armenian energy ministry).

As a result, the only plausible alternative to Russian energy supplies for Armenia came under Gazprom's control. It is potentially important and strategic for Moscow's foreign policy to continue to control pipelines and the distribution network in Armenia as well as to prevent any possible challenge to its existing energy supplies. Thus, Iran's potential attempt to transit its energy resources to western markets and to become a prominent player in the South Caucasus was blocked not only by the US sanctions regime but by Russia's strategic economic interests.

BTC and BTE Pipelines

The construction of the Baku–Tbilisi–Ceyhan (BTC) and the Baku–Tbilisi–Erzurum (BTE) pipelines introduced significant changes to the South Caucasus status quo by changing the relationship among the external actors.

The BTC is probably one of the most controversial and politicized energy pipelines of modern times. It is the second longest (1,768 km, following only Russia's approximately 4,000 km Druzhba pipeline) and one of the most expensive pipelines in the world, costing \$4.6 billion. The pipeline began operations in July 2006 and its capacity is 1 million barrels of oil per day. It starts from the Azerbaijani Azeri-Chirag-Guneshli oil field and connects to the Turkish Mediterranean port of Ceyhan via Tbilisi bypassing the overloaded Turkish Straits. In 2006 Kazakhstan made a pledge to provide the BTC an additional 53 million barrels of oil each year.

Parallel to the BTC is the BTE natural gas pipeline (also known as the South Caucasus Pipeline) which carries natural gas from the Shah Deniz field in Azerbaijan through Tbilisi and links to the Turkish national gas pipeline network in Erzurum. The BTE became operational in December 2006 and has a total capacity of 6 bcm per year. Most of the gas is exported to Turkey, and only a small amount is sent to Europe via a transit pipeline through Greece.

Western leaders called the BTC and BTE pipelines one of the most important projects of the 21st century. In the case of the EU, the pipelines serve as an important factor for the preservation of its energy security. Diversified energy supplies and alternative delivery routes to EU

markets in a safe, timely and economically sound manner represent key EU policy priorities. The BTC and the BTE projects can help the EU to avoid its strategic dependence on Russian energy supplies and delivery routes.

The US government's strong support for the pipeline projects goes beyond merely assuring energy security. The pipelines are viewed as strategic projects that are critical to US national security interests. This perspective is connected with the evolving geo-strategic and geo-economic location of the South Caucasus. It represents a crossing point between the EU, Russia, Central Asia and Middle East. Moreover, it is a unique corridor connecting the Caspian basin with the Black Sea, and serves as a key transportation route for Caspian energy supplies (bypassing Russia and Iran) to western markets. Additionally, the region provides direct access for allied operation forces in the Greater Middle East and Central Asia. In this respect, the pipeline projects opened new prospects for expanded US involvement in the region while NATO became the principle guarantor of the pipelines' security.

Not surprisingly, Russia denounced the pipelines and viewed the projects not as a purely economic venture but as a political project directed against its security, political and economic interests. Since Putin's presidency, Russia has emphasized a greater strategic interest in maintaining its influence in what it calls the "near abroad". Clearly, redirecting Caspian energy exports away from the Russian transit system challenged not only Russia's dominant role as a key channel for Caspian energy supplies to Europe but also its traditional strategic interests in the Caucasus.

Conclusion

The South Caucasus, after the demise of the Soviet Union, emerged at the crossroads of strategic energy supply routes, making the region increasingly important for global as well as regional actors. This role has been particularly enhanced with the construction of new energy export pipelines, particularly the BTC and the BTE, that connect landlocked Azerbaijani energy resources with international markets. These pipelines altered the status quo of power relations in the region. They marked the end of Russia's monopolistic control over the energy transportation routes from the Caspian region and helped both Azerbaijan and Georgia move away from the Russian sphere of influence. The pipelines helped to strengthen their political and economic autonomy, enabling them to choose their own foreign policy and security orientation. As a result they became significant regional actors.

While the BTC and the BTE projects clearly met the US and the EU strategic interests, for the Caucasus

region per se the projects cannot be described as “peace pipelines” promoting security and stability in the region. The new role of Azerbaijan and Georgia has increased tensions in the region, most obviously in Georgia’s relations with Russia. However, while Georgia after the Rose revolution has made steps towards the establishment of democratic institutions and standards, Azerbaijan has made no such gains. Its political system is based on a strong centralized authoritarian regime where the independence of the country implies the survival of its elite and their policies rather than legitimate democratic governance. Azerbaijan’s authoritarian political elite uses energy revenues to modernize its military capacity and build-up the army. Since 2003 the country’s defence spending has grown dramatically. This year military outlays amounted to one fifth of overall state budget expenditures, equal to \$3.12 billion. At the same time, this sum is more than the entire Armenian state budget. (More detailed figures are given in the data section following this article.)

Although it is unlikely that another war will break out over Nagorno-Karabakh and Azerbaijan’s military build-up might simply be an effort to increase its prestige, in the volatile security structure of the region it creates a potentially destabilizing environment. In this respect, it can lead to an unplanned escalation of tensions and pre-emptive actions by one side or the other, inevitably affecting the existing precarious stability in the region.

Azerbaijan’s efforts to isolate Armenia from the regional pipelines projects, thus weakening the country economically, fit into this context. Armenia, mostly as a consequence of the unresolved Nagorno-Karabakh conflict, was left out of these major regional energy proj-

ects. In its energy consumption it is highly dependent on Russian gas supplies while the only “diversified” energy export route, the Iran–Armenia gas pipeline operates under Gazprom’s control. As with the North–South pipeline discussed in the introduction, Azerbaijan might aim to employ its economic capacity at the negotiating table over Nagorno–Karabakh. However, in Armenia the energy export routes are not viewed as tied to the resolution of the Nagorno-Karabakh conflict.

As has been demonstrated, the energy supplies and the choices of energy export routes are closely interlinked with the security dimensions in the South Caucasus. While the main export pipelines could have served as strategic “peace” projects for the sake of which the regional actors cooperate, they instead have the potential to create dividing lines and disharmony between the participating states and thus exacerbate the existing regional insecurities.

It is essential for regional security that energy reserves and supply routes are used appropriately. At the same time, the core imperatives of regional security are domestic political in nature and depend highly on the establishment of democratic institutions, legitimate governance and the rule of law.

Moreover, it is important to promote cooperation between foreign as well as regional actors by not excluding anyone but creating a win-win situation from which all relevant actors profit. Achieving this goal requires an understanding of the South Caucasus as a single region, where the economic needs and security issues of the regional entities are so closely interlinked that they cannot be successfully resolved without a holistic approach.

About the Author

Lusine Badalyan is a PhD student at the Research Centre for East European Studies at the University of Bremen. Her research is funded by a grant from the Volkswagen Foundation as part of a research project on domestic discourses and foreign policy-making in the Caspian region.

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