Energy security, particularly the challenge of transporting energy resources to global markets, has emerged as an issue of great importance in recent decades since countries have become increasingly reliant upon imports of hydrocarbons. Scarcity and uneven distribution of energy resources exacerbated by intense struggle for access to and control over these resources have become the main characteristics of modern international energy relations.

According to the International Energy Agency (IEA), from now until 2030, natural gas is the fossil fuel the consumption of which is expected to grow at the fastest pace globally\(^1\) and the EU member states will contribute significantly to consolidating this trend. The EU’s import dependency reached almost 54% in 2006 and keeps growing. If nothing changes, by 2030 more than 70% of the EU oil and gas will have to be imported.\(^2\) Moreover, the depletion of oil and gas reserves in EU member states or quasi-members such as Norway is shifting the distribution of available energy sources further away from Europe. Specifically, the key source of oil is the Middle East and OPEC countries but the largest single oil supplier to the EU is Russia, which is also the largest supplier of natural gas to the EU.

Diversification of energy supplies and transit routes is thus a key goal for the EU. Unsurprisingly, the quest for southern diversification of energy supplies and transit routes has marked a major shift in the importance the EU attaches to the South Caucasus region, as a key area for achieving its goal of diversification. The present paper investigates the efforts of the EU to create an institutionalised external energy policy vis-à-vis the South Caucasus. It elaborates on the EU’s new take on the region due to its energy promise, elucidating the drivers and evaluating the effectiveness of the EU’s external energy policy towards the South Caucasus.

**Quest for energy diversification: New take on the South Caucasus**

Although the European Commission (2000) started to formulate an external energy policy for the EU in its 2000 Green Paper, it was not until the

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aftermath of the 2006 row over gas prices between Russia and Ukraine that the Council considered consolidation of a common external energy policy as a top priority. The 2006 energy cut-off came as a shock and served as a wake up call, aggravating anxieties that the EU would face energy shortages and other vulnerabilities due to its dependence on a limited number of suppliers and transit routes. The crisis marked a shift in the perception of energy security. As put it the former energy commissioner A. Piebalgs: “Energy security has become an issue of international relations having moved from being a technical issue to becoming an issue constantly on the table of every minister across Europe”.

Since then, and especially since the 2009 row between Ukraine and Russia, the EU has made clear the need to make energy a central component of all external relations. In its official documents European Commission identified the following risks which derive from:
- Increasing dependence on supplies from unstable regions and suppliers.
- Some major producers using energy as a political lever.
- The effects on the EU internal market of external actors not playing by the same market rules.

In view of the fact that Ukraine and Russia were indirectly but explicitly labelled as “unstable region and supplier” respectively, one could identify the main characteristics of the EU’s energy diversification policy, which would involve accessing Caspian energy resources; circumventing the Russian pipeline system, leading to a decrease in prices and stepping up the EU’s efforts in the Caspian-Caucasus region as a key area for achieving its goal of energy diversification.

EU’s institutionalised external energy policy towards the South Caucasus: Main interests and initiatives

The Caspian alternative to increasing dependence on Russia was apparently acknowledged by the EU through the realization of the INOGATE (launched in 1995) project aiming to promote regional integration of the European pipeline systems, to support investments in the energy sector and to facilitate the transport of oil and gas towards the European markets by filling existing gaps in the energy infrastructure and creating new means of transportation.

Unsurprisingly, discussions of east-west transport corridors out of the Caspian region have tended to speak of either a new “Silk Road” or a new “Great

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The “New Great Game” is a conceptualization of modern geopolitics in Central Asia and South Caucasus as a competition for influence, power, hegemony and profits, among which access to Caspian resources and control over transit routes is of vital importance.

A remarkable and complex region that has enormous economic promise (challenge lying in its complexity and the opportunity stemming from its energy promise).

| Economic, technical, humanitarian assistance | Political partnership, association, integration |

The shift in region's perception as a transit corridor and area of vital interests reflected the EU new member states' push for the Southern Caucasus to be included in the European Neighbourhood Policy, with a primary focus on energy. The EU set itself ambitious goals in the ENP, aiming to create a "ring of energy cooperation" based on the ecentrality of EU's internal energy market and the transfer of its own rules in the neighborhood.

These policy efforts towards the South Caucasus enhanced in wake of Russian-Ukrainian disputes over gas (2006 and 2009), which were decisive in the EU's search for alternative suppliers. In this context, the South Caucasus gained substantial importance for the Union due to Azerbaijan's reserves and the whole region's role as a transit area for the transportation of Caspian energy resources to Europe. Namely, European Commissioner for External Relations and European Neighbourhood Policy B.F. Waldner stated that the policy (European Neighbourhood Policy) takes full account of the vital role that the EU's neighbours play in the EU's energy security either as supplier or transit countries... "The Commission is now looking to strengthening this policy. There will be a clearer focus on energy issues, both at a bilateral and regional level. ...We are committed to bringing Azerbaijan energy resources, in particular natural gas to the EU market, through the Nabucco pipeline and the Turkey-Greece–Italy gas interconnector.  

Under the new approach the neighboring region (South Caucasus) has an important role to play in the step-by-step creation of a pan-European energy community. Of particular importance for the EU's approach to the region is the Baku Initiative (launched in November 2004) which is exclusively energy-focused. This multilateral mechanism covers the Caspian Sea region, the Black Sea region, and the neighboring countries. This initiative builds upon a timetable for the convergence of energy markets, enhanced energy security through supply diversification, a sustainable energy policy, and investment issues. In 2006, at the Energy Ministerial Conference held in Astana, the Baku Initiative was made more concrete through the development of a road map putting a special emphasis on the creation of integrated regional energy markets and their gradual

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8 Partner countries: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Ukraine, Uzbekistan, Tajikistan, Turkey, Turkmenistan, Russia with observer status.
integration with the EU internal energy market. The priority areas for action are defined as promoting the development of the energy sector based on the principles of security of supply, competitiveness and sustainability and the establishment of a stable, sustainable energy policy framework in all beneficiary countries. Some authors argue that even though the Baku Initiative will not produce significant results in terms of the pattern of energy production and trade between the EU countries and their Caspian partners, it holds the potential to facilitate the energy relationship between the EU and Caspian energy producers thus establishing foundations for market-based dialogue expected to boost new supplies from the Caspian basin to Europe. The recipe is simple; the promotion of European investment in Caspian Sea/Central Asian States in return for their cooperation in supplying energy to the EU. Declaring that the internal market has been the key to EU's strength in world affairs, EU top officials suggested that external energy policy goals can be best attained through market mechanisms and accompanying institutional structures: "Energy security can be achieved by the EU extending its internal energy market to include its neighbours within a common regulatory area with shared trade, transit and environmental rules... We need to convince non-EU consumer countries that world energy markets can work for them." This is the idea behind EU's initiatives (ECT, Baku Initiative, ENP) based on the principles of liberal interdependence, and market–based solutions to energy-related problems. However, despite the EU’s reliance on soft power and adherence to liberal principles the market approach has not induced greater diversification of energy supplies or greater openness and transparency in neighbouring countries.

Such a situation drove the need to reinforce the bilateral partnership with energy producers and the geopolitical dimension of external energy policy. Namely, bilateral energy-partnership agreements signed with Azerbaijan and Kazakhstan in 2006 manifested that a more political approach and presence was required as the importance of gas increased relative to oil—the former being linked to long-term contracts over fixed pipeline routes, very different to the dynamics of oil supplies to international markets.

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The main challenge that the EU faced in the sector was how to make the external governance approach attractive to neighbours in order to create a relatively integrated and reliable energy market. Certainly, the question of the compatibility between bilateral partnership and multilateral cooperation remained open to doubt. In this regard, *Black Sea Synergy* initiative (launched in 2007) came as a special platform aimed at complementing the bilateral partnership with regional multilateral cooperation, emphasizing the need for an enhanced policy in the Wider Black Sea region with a special focus on energy. Namely, the Commission’s communication underlining the purpose and strategies of the new initiative mentioned the “trans-Caspian trans-Black Sea energy corridor” for gas exports from Central Asia to the EU as an important component of the EU’s energy security strategy. However, the BSS gives no further detail as to how this objective will be achieved, nor how the Black Sea Synergy will create a deeper connection among the other initiatives that it claims to be coordinating (Baku Initiative).

Obviously, the EU’s 2007 enlargement marked a major shift in its foreign and security policy towards the South Caucasus dictated both by the imperatives of geographical proximity and the need for southern diversification of energy supplies. The perception of "Caspian Caucasus" as part of Wider Black Sea region became dominant and the significant potential for energy supply diversification helped to reassess the region’s prominence. It should be noted that to certain extent Black Sea Synergy is rather the manifestation of the EU’s new member-states’ push for a deeper engagement in the region than a result of consistent and clear-cut Caucasian policy at the Union level. Namely, the top officials of Central and Eastern EU countries have on numerous occasions called for a more strategic vision of the region based on its functional role in the southern diversification of energy supplies and transit routes. It came as no surprise, that Southern gas corridor was promoted during Czech EU presidency, pursuing southern diversification of supplies.

After the EU’s rapid response to the August crisis and our strong engagement on the ground in Georgia, there should be no doubt about the importance we attach to the South Caucasus region. The proposal for an “Eastern Partnership” is further evidence of this.

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Obviously **Eastern Partnership** (launched in 2008) represents an important step towards a change in the EU’s relations particularly with South Caucasus countries, contributing to the substantial upgrading of the level of political engagement, including enhanced energy security arrangements. In terms of energy security the EaP proposes to:

- Establish mutual energy support and security mechanisms, including early warning systems and joint security actions;
- Accelerate the harmonisation of partners’ energy policies and legislation with EU practice;
- Create a mutually beneficial interconnected and diversified energy market between the EU and partners;
- Diversify supply and transit routes, in part through the EaP contributing towards the ongoing strengthening of the Baku Process as a genuine energy partnership, and including through the development of the Southern corridor the Transcaspian.\(^{17}\)

Moreover, the **Southern Corridor** summit, which took place the next day after Eastern Partnership summit (May 8, 2009) came to prove the importance that is placed on the initiative in terms of energy security. “Our strategic priority in the EU is to enhance energy security in particular by diversifying EU’s energy sources and energy routes... The Eastern Partnership is indeed historic.”\(^{18}\) It was no surprise that Russia’s foreign minister Sergei Lavrov expressed concerns about Eastern Partnership, often perceived as an EU attempt to expand its “sphere of influence” in the quest for hydrocarbons.\(^{19}\) In view of the EU’s growing efforts in the realization of the Southern Gas Corridor project and Russia’s counter-efforts in keeping control over the energy supplies and transit routes in the Caspian region, the geopolitical struggle and “race for diversification” seem to be inevitable.

Although the history of Southern Gas Corridor dates back to 1990s, when European Commission identified South Caucasus and Central Asia as the main targets for the diversification of its energy supplies and transit routes, it acquired a greater degree of emphasis with regard to the construction of the original backbones of the corridor Baku-Tbilisi-Ceyhan (BTC) and Baku-Tbilisi-Erzurum (BTE) pipelines which are the most vivid manifestation of the growing connections between the South Caucasus region and Europe, though fraught with

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http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52008DC0823:EN:NOT

\(^{18}\) J.M. Durão Barroso, President of the European Commission, Statement following the Southern Corridor Summit, Prague, Czech Republic, 08.05.2009.

geopolitical significance. Largely a US initiative, the BTC pipeline became an important element in expanding oil production in the Caspian basin, significantly altering the system of energy supplies transportation in the region. Even though the BTC only transports around 1 per cent of total global oil supplies, and is probably one of the most controversial and politicized energy pipeline of modern times from the EU's perspective it established foundations for direct access to Caspian energy resources. Namely BTE, the twin gas pipeline of the BTC became a foundation for Nabucco, largely considered as the flagship of the Southern Gas Corridor.

Nabucco was a considerably more ambitious project than its competitors (TAP, ITGI), expected to transport much larger volumes of gas to Europe. Unsurprisingly Nabucco was endorsed as a priority project by the European Commission. Although EU’s European Investment Bank (EIB) involvement in the project and contribution (in the amount of €200 million), to the feasibility studies of the pipeline generated high hopes regarding the successful realization of the project and its subsequent positive outcomes for the EU’s energy security, over time it became clear that European Commission has evidently downplayed a number of geographical, commercial and political obstacles that have been hampering the realization of Nabucco. The weakness of the original Nabucco proposal could never be overcome: there was no source for the natural gas that the pipeline was supposed to carry. Despite intensified negotiations with Azerbaijan and Turkmenistan, 10 bcm of gas per year agreed with Azerbaijan could hardly meet the EC's expectations pertained to Nabucco. Hence, the European Commission came up with the idea that since the construction of large pipelines is not currently attainable, the realization of small projects providing access to Azerbaijan’s Shah Deniz II gas field may establish foundations for more ambitious projects. Furthermore, in May 2012, the European Commission stated that it does not consider Nabucco to be the priority option in importing Caspian gas to Europe and supports all pipelines that are being developed for this purpose equally and is neutral in the choice of the pipeline.

In this vein, new package of agreements signed between Turkey and Azerbaijan on October 26, 2011, establishing rules for the transit, volumes and prices of gas, triggered new developments and established foundations for the start of the southern gas corridor projects. Under the new agreement, Turkey is to transit 10 bcm/year of gas from Azerbaijan to the borders with Greece and Bulgaria through the recently agreed Trans-Anatolian Gas Pipeline (TANAP), which

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would then send gas to Europe via Nabucco West, Trans-Adriatic Pipeline (TAP) or South East Europe Pipeline (SEEP). Underlining TANAP’s importance EU Energy Commissioner Günther Oettinger stated that "Europe is now a step closer to its aim to get gas directly from Azerbaijan and the other countries in the Caspian region".  

Apparently discussions over the southern corridor became decisive in stepping up EU’s engagement in the region and after 2006 and 2009 gas crises EU’s regional policy has been particularly formed out of Union’s desire to reduce its dependency on Russian natural gas and diversify its energy sources and transit routes. However, many uncertainties remain with respect to achieving this aim and in particular three main factors can be identified that impinge upon the effectiveness of the EU’s approach towards energy security in the region: EU institutional coherence; regional geopolitical competition; and domestic conditions.

**The issue of coherent external energy policy**

It is widely recognized that the ability of the EU to promote its norms successfully depends on the level of coherence between EU policy and that of the member states. The issue of coherent external energy policy gained increased relevance after Russian-Ukrainian gas disputes. Namely, Green Paper and follow-up documents asserted that: “The energy challenges facing Europe need a coherent external policy to enable Europe to play a more effective international role in tackling common problems with energy partners worldwide. A coherent external policy is essential to deliver sustainable, competitive and secure energy”. Moreover, B. F. Valdner and other top officials argued that energy is a perfect example of common sense driving integration and "it is illusory to think that Member States can deal with today’s energy challenges on their own... common voice - is absolutely essential if the EU is to rise to the challenges of oil and gas geopolitics". 

European Commission suggests that coherent energy policy would cover several key goals and instruments, such as coherent policy on securing and diversifying energy supplies, energy partnerships with energy producers and transit countries, developing a pan-European Energy Community, responding more effectively to external challenges, integrating energy into Common foreign and security policy

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etc. However, despite the release of many directives, statements, reviews and action plans, certain challenges continue to hinder a common European Energy Policy and energy security remains mainly a national issue, as member states—extremely heterogeneous in terms of resources, energy mix, level of demand, and structure of supply—are wary to yield sovereignty in this strategic policy area. Differences in energy security risks between the member states were reaffirmed by the EU member states' approaches to the projects of the Southern Gas Corridor. While "old" member states have been diversifying away from the Persian Gulf for years in favor of Russia, post-communist countries such as Poland and the Baltic states, seek to reduce overdependence on Russia and consider the rising assertiveness of Russia in the international arena as a considerable threat. As put it Pierre Noél: "When it comes to gas, the Iron Curtain still seems to cut Europe in two—in the Western EU, the markets are large but diversified, in the East the markets are smaller but much more dependent on Russia".

For instance countries that have developed a widely diversified import strategy, like Italy, Spain and France, have different perceptions, needs and interests from the EU's eastern members, such as Slovakia or Hungary, which depend almost entirely on Russian supplies. Germany's high-profile relations with Russia on energy has been an exemplar of energy policy bilateralism in Europe, but others, such as France, Italy, Austria, the Netherlands and Bulgaria, have also fallen into the temptation to pursue their own separate agreements with Gazprom.

Unsurprisingly under such circumstances EU 27 member states, often with vastly divergent energy profiles and policy preferences, have tended to rely on bilateral energy partnerships making clear energy governance takes place in a field of tension between governance based on market and institutions on the one hand, and state-centered, power-based geopolitics on the other. Although the EU was actively involved in addressing energy security challenges, in its working paper European Commission admitted, "the scale of the gas supply disruptions

required an adequate response at the EU level, however, a clear strategy as well as concrete instruments were lacking”. ³⁰

Thus it is rather complicated to find common ground among all 27 member countries which leads to a shift in bilateral energy agreements.

Table: 2 EU’s energy policy: Rhetoric and State-of-the-art

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<th>State-of-the-art</th>
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 Needless to say that more often than not, the EU and its member states do not form a coherent whole with respect to their energy and other initiatives and actions vis-à-vis the South Caucasus (Caucasus-Caspian region), meanwhile pursuing individual barter deals makes the instruments of the EU’s external governance inapplicable. Such a situation inadvertently results in a widening gap between multilateral cooperation and bilateral energy partnership and limits the EU’s ability to push its external policy agenda towards the region.