

EU Energy Diversification Policy and the Case of South Caucasus



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Abstract :

The issue of the European Union's energy security remains at the top of political narratives of EU countries, especially in the light of frequent disturbances in the context of gas delivery from the EU's main supplier, the Russian Federation. The article focuses on the external aspect of the EU energy security – the energy diversification policy and its main concern, pipelines. This will be elucidated using the example of Nabucco – the EU's initiative of a pipeline that could provide gas from Central Asia while omitting the currently existing pipeline system within the territory of the Russian Federation. The paper examines Armenia, Azerbaijan and Georgia as a potential transit route for Central Asian resources with the aim of increasing the reliability of energy supplies to the EU markets.

Key Words: Energy Security, South Caucasus, EU-Russia, Russian gas, EU Security, European Neighbourhood Policy (ENP)

Introduction

Energy diversification policy has been one of the priorities on the political agenda of the European Union (EU) countries ever since the winter 2005/2006 interruptions in deliveries of Russian gas to EU recipients. January 2006 marked the first time that Russian Gazprom decided to cut the flow of gas through the pipeline crossing the territory of Ukraine, leading to significant drops of supplies to Austria, France, Germany, Hungary, Italy, Poland and Slovakia – 7 Member States of the European Union. Although the crisis was solved on 4th of January, with a new Russian – Ukrainian agreement, high EU officials have voiced concerns over the existing system of energy supplies to European recipients. ‘Increasing dependence on imports from unstable regions and suppliers presents a serious risk. Some major producers and consumers have been using energy as a political lever’ remarked Javier Solana (2006), the High Representative (HR) for the EU’s Common Foreign and Security Policy in his paper addressed to the European Council. ‘A secure energy supply requires a combination of internal and external policies’, continued Solana, with the suggestion that ‘the development of a coherent and focused external EU energy policy, drawing on the full range of EU internal and external policies, would enhance the collective external energy security of the Union. It would also help the EU face more effectively possible strategies by major external energy suppliers to adversely influence market fundamentals.’ Among other suggestions, related mainly to the internal EU markets, Solana looked towards the East. One of Solana’s suggestions was to look for resources in Central Asia, especially around the Caspian Sea basin. This article focuses on the potential and prospects of those regions (namely Turkmenistan and Azerbaijan as suppliers, Armenia and Georgia as transit countries) offering an alternative route of gas (and oil) transit to the European Union. These would serve as an alternative to what Solana (2006) explicitly labelled as ‘unstable regions and suppliers’, indirectly referring to both Ukraine and Russia.

Consequently, one could identify four main characteristics of the EU’s energy diversification policy. First, it would involve accessing Central Asian energy

resources; second, it would circumvent the Russian pipeline system. It should lead to a decrease in prices (alternative supply routes, ergo less reliance on one supplier and their prices) and should increase the EU's influence on the former republics of the USSR.

Does the South Caucasus, however, provide a more stable region for an alternative pipeline system, as the HR of the EU imagined in his 2006 paper? Could the realisation of this project result in stabilising the political situation in these conflict-prone regions?

This article focuses on the prospect of South Caucasus as an alternative energy corridor. It examines the historical context of Caucasus as an energy transit route, followed by an analysis of contemporary political dynamics, both internal (of Armenia, Azerbaijan and Georgia) and external (Russia, Iran, Turkmenistan). Contrary to the general belief that pipelines tend to lead to conflicts rather than stabilisation, the article promotes the idea of the Nabucco pipeline as a possible tool of stabilisation of South Caucasus – although it may not be more stable than the currently existing transit routes through Belarus and Ukraine, with a consequent and multidimensional approach of the funding bodies (and the EU in particular), energy transit initiatives can lead to stabilisation of this highly volatile region.

Energy diversification and South Caucasus

The South Caucasus as an energy transit hub is an old concept, reaching back to 1883, when a railroad connection between Baku and Batumi, financed by the Rotschild family, was completed (Yergin, 2008: 44). This railroad introduced Caspian oil to the West. Caspian resources were of interest to both the Bolsheviks and Nazi Germany in the first half of the 20th century (Yergin, 2008: 221-5; 317-25). In the post-Soviet era, two transit initiatives – the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and Baku-Tbilisi-Erzurum (BTE) gas pipeline 'opened' the Southern Caucasus as a potential energy corridor for resources coming from the Caspian Basin, bypassing not only the Russian Federation,

but also Iran. The ongoing exploration of both these pipelines encouraged the EU's leaders to pursue the never-ending (as it seemed) ambition of Nabucco – a pipeline that could directly link European consumers with former Soviet suppliers, starting with Azerbaijani resources and potentially ending with gas and oil coming from Turkmenistan and Kazakhstan, respectively. Although the Nabucco initiative did have a certain degree of success – Benita Ferrero-Waldner, the EU External Relations Commissioner supposedly secured a deal with Turkmenistan over gas supplies (BBC, 2008) – a question over how this gas would be transferred to the yet nonexistent Nabucco is a serious setback, especially in the light of continuous opposition of both Russia and Iran towards any pipeline link running under the Caspian Sea.

Nabucco itself dates back to the agreement signed in June 2002, when Austrian OMV, Hungarian MOL, Bulgarian Bulgargaz, Romanian Transgaz and Turkish Botas agreed to create a pipeline link stretching from Erzurum in Turkey to Austria. In 2008 an agreement was signed with Azerbaijan, stating that it will supply a part of the gas for the pipeline, whereas, as already noted, the rest was supposed to come from Turkmenistan. The actual agreement, on the intergovernmental level, was signed in July 2009 in Turkey (BBC, 2009). Interestingly enough, almost immediately afterwards, Turkey signed a similar agreement with Russia over the South Stream – a project which is a potential rival to the EU-sponsored Nabucco (RT, 2009).

The reasoning behind the Nabucco project, however, just as with the earlier BTC and BTE initiatives, is not purely profit-oriented. Energy resources (especially those coming from the Caspian Basin) are a highly politicised issue (De Waal, 2010: 187) Not only is Nabucco supposed to project a certain 'message' to Moscow – a message similar to the one which BTE and BTC were supposed to send – that Russia is not the only player in the great game of energy of the Caspian Basin. Nabucco also subscribes to the European Neighbourhood Policy (ENP). Consequently, trans-Caucasian pipelines aim not only at securing additional supply of resources – they are also aimed at intensifying cooperation with countries of the former Soviet Union. With one of the main objectives of ENP being the stabilisation of the nearest EU

neighbourhood (Varwick, Lang, 2007), Nabucco holds the potential for the formation of a physical linkage between these former USSR republics with the EU. It offers benefits such as gas itself (a certain percentage of the gas transferred should remain at the disposal of the transit country), as well as investments (i.e. in infrastructure), and theoretically provides security (the EU should be interested in security of its investment). On the other hand, it also requires a certain level of stability and reliability from the transit states, which would lead to engagement of a 'stick and carrot' strategy. In a way European integration required the same from Central and Eastern European States throughout the 1990s until the 2004/2007 EU enlargements. In other words, the potential pipeline could lead to the stabilisation of a region tarnished by internal (Abkhazia, South Ossetia, Nagorno-Karabakh) and external (Russian intervention in Georgia in August 2008) conflicts.

South Caucasus as a Transit Route

Why the South Caucasus then? The answer is short – there is no other way. The Caspian Basin holds approximately, according to estimates, between 203 – 233 billion barrels of oil, though this data remains unverified (Stulberg, 2007: 134). Some estimates show that it amounts to about 5 percent of the world's proven oil reserves (De Waal, 2010: 176). A majority of these fall under the jurisdiction of Azerbaijan and Kazakhstan (Stulberg, 2007: 134). Taking geography into account, Central Asian resources can be transported to Europe, while bypassing Russia, only through the South Caucasus. The only alternative would point to Iran, but it is highly doubtful that at the current stage of affairs, with Teheran continuing its nuclear programme, the EU would realistically seek cooperation within such a vital field as energy. This seems to be confirmed by the shareholders of Nabucco dismissing the idea of purchasing gas from Iran (SETimes, 2010). Not to mention the potential discontent of the US with any energy deal involving Iran (De Waal, 2010: 180). Consequently, any political and economic initiative aiming to gain access to Caspian Basin resources requires cooperation of Azerbaijan and Georgia. Armenia is limited in this aspect (due to closed borders with

Azerbaijan and Turkey), though its geographical location offers the shortest potential route for transit.

What makes the EU believe that Nabucco can be working effectively is a lesson drawn from the American-sponsored initiatives: BTC and BTE, projects which involved two American administrations – Clinton's and George W. Bush's, and created the first system of transferring gas and oil from the Caspian Basin independently of Russian and Iranian hubs. In addition to that, the EU could have been encouraged by the American presence in the region. It was the USA that, since the collapse of the Soviet Union, has been highly interested in the Caspian's resources (i.e. Chevron has been in Kazakhstan since 1993 (Klare, 2008: 116)). This region has been on the front-line of USA – Russia energy competition, with Russia taking advantage over American initiatives through subtle manipulation of the governments of Kazakhstan, Turkmenistan and Uzbekistan (Stulberg, 2007: 93-132). BTC and BTE have turned out to be the only successful US initiatives in the region (Stulberg, 133).

Plans for Nabucco are directly linked to BTE – the currently drafted version of the agreement suggests a connection between Baumgarten in Austria and Erzurum in Turkey, where Nabucco is due to receive gas coming through the BTE. Still, Azerbaijan remains the only country that signed the deal guaranteeing supplies, with others (including Turkmenistan) refusing to join in.

While political advantages of the BTC and BTE pipelines appeared encouraging for some leaders of the EU (i.e. within the European Commission), one major obstacle has caused delays in the Nabucco project - funding. The overall cost of Nabucco, according to its proponents, is estimated at 7.9 billion EUR. At the same time the Russian- (and German-) promoted Nord Stream (due to run across the Baltic Sea) is estimated at 5-8 billion EUR. The South Stream, another Russian initiative, is officially calculated at 19-24 billion EUR. Nord Stream would offer around 55 bcm per year, Nabucco – about 31 bcm/y, while South Stream – up to 63 bcm/y. Yet, the EU has committed to only a fraction of the estimated expenses. The

same, however, applies to the Russian initiatives, especially in the light of the recent economic recession, which resulted in Gazprom experiencing a significant financial downfall. Interestingly enough, according to Euro Gas, the EU used approximately 484 bcm in 2009. Consequently the envisaged supply from the North Stream would cover approx. 11 percent of the EU's 2009 consumption, South Stream approx. 13 percent, while Nabucco only about 6.4 percent. This poses an obvious question: to what extent all of these initiatives are to improve EU's energy security (and lower prices), and to what extent are they political tools?

The first question – costs of alternative pipelines – already raises a number of doubts. Not only are the actual costs unknown, but also only limited resources have been committed to Nabucco. Secondly, with a supply of only about 6 percent of the consumption (in 2009), how can it improve EU energy security of supply? Before addressing these questions, it is important to take a closer look at South Caucasus and implications of it being a transit corridor for Caspian gas.

Crossing South Caucasus – Internal and External Factors

What are, therefore, the internal and external implications of the South Caucasus being a potential transit route for Nabucco? Does the region actually meet Javier Solana's requirements of being more stable and reliable than currently existing pipelines?

Internal Factors

Separatism: Abkhazia, South Ossetia, and Nagorno-Karabakh – all of these were sites of both ethnic conflicts, and attempts to resolve territorial irredentism from the times of the Soviet Union. Nagorno-Karabakh, given to the Azeri in 1923, was an example of Stalin's management of ethnic divisions in the new Soviet society. One of them was resettlement (as in the case of Chechens sent to Kazakhstan); the other was weakening particular national groups by shifting the borders of the republics. According to the 1979 census,

75.9 percent of people living in the Nagorno-Karabakh Autonomous Region of the Soviet Socialist Republic of Azerbaijan were Armenians (Shirokorad, 2005: 230). As the collapse of the Soviet Union continued, conflicts frozen for 60 years started to resurface. The war in Nagorno-Karabakh ceased again in 1992, giving Armenia control of about 14 percent of the territory of Azerbaijan.

A similar pattern was observed in Abkhazia and South Ossetia. In the first case, the Abkhaz minority feared that they would lose their autonomy granted by Stalin in 1931 (the Abkhaz Autonomous Soviet Socialist Republic). This resulted in a bloody conflict stopped in 1994, which caused the displacement of over 250,000 people (Johnson, 2007: 170) (currently holding the status of Internally Displaced People, or IDP's, in Georgia). An analogous ethnic conflict occurred in South Ossetia which was determined, at the end of 1980s, to become united with North Ossetia, which constituted a Russian Federative Socialist Republic and currently is a member of the Russian Federation. Russia's threat to intervene militarily in 1992 stopped the conflict. Both Abkhazian and South Ossetian clashes remained frozen until August 2008.

All of these conflicts were mainly due to nationalistic inclinations, resulting from old, unsolved conflicts. Year 2008 nevertheless showed that, although frozen, all of these could erupt again further destabilising the region. Some reports claimed that Russian troops were purposely targeting BTC during the 2008 war in Georgia, leaving in doubt the potential security of Nabucco or other EU-led energy projects in the Caucasus (De Waal, 2010: 180).

Russian military presence: A new agreement negotiated between the presidents of Armenia and Russia in August 2010 concluded that Russian military forces would remain present in the country until 2044, in exchange for security guarantees and supplies of weaponry (Sinderlar, 2010). The Russian presence in the country amounts to about 5,000 troops (with the biggest base situated in Gyumri, on the Armenian – Turkish border) as well as MIG-29 jets and S-300 air defence missiles. The agreement further underlines the Russian military presence in the region, adding additional uncertainties. The text of the mutual agreement states that Russian forces will intervene in case

of an attack on Armenia. An open question remains, whether they will intervene in case of any attack on Nagorno-Karabakh, not formally a part of the Republic of Armenia (Armenia did not officially recognise Nagorno-Karabakh's independence) but de facto being controlled by Armenia (with the example of previous and current presidents of the Republic of Armenia, Robert Kocharian and Serzh Sargsyan, both of whom were leaders of the independent movement of Karabakh in the late 1980s). Russian troops are also present, from August 2008, both in Abkhazia and South Ossetia, despite the peace agreement negotiated by Nicolas Sarkozy during the French Presidency of the EU that all forces be withdrawn to positions from before the conflict.

Democratic transfer of power: No Southern Caucasus country has a tradition (or even precedent) of democratic transition of power. In Azerbaijan, the first two presidents lost their positions during the Nagorno-Karabakh conflict. The first president, Ayaz Mütallibov was forced to resign over the massacre in Khojaly; his successor, Abülfaz Elçibay lost his seat to Heydar Aliyev, former KGB officer and leader of the Azerbaijan SSR before 1991. Following Aliyev's death in 2003 his son, İlham Aliyev, replaced him. Armenia's first president since regaining its independence in 1991, Levon Ter-Petrossian, was forced to resign in 1998 by the opposition led by his eventual successor, Robert Kocharian, following a dispute over negotiations on the status of Nagorno-Karabakh. Kocharian's power was subsequently passed on to Sargsyan, his close ally.

In the case of Georgia, the first president, Zviad Gamsakhurdia, left after an armed confrontation, while his successor Eduard Shevardnadze was removed by the 2003 Rose Revolution. Mihail Saakashvili's second term should expire in 2012. An interesting issue remains whether he will withdraw from politics and follow the pattern set among post-communist countries by Vaclav Havel or Aleksander Kwasniewski, or if he will choose the 'Putin's scenario': becoming a Prime Minister and installing an obedient figurehead as the new president. There is also the 'Armenian scenario', which involves promoting a close ally to take over the power. Saakashvili's decision will considerably

influence Georgia's reforms and its future. Still, Georgia remains the most democratic country in the South Caucasus. Mitchell (2010) argues that the Rose Revolution and Saakashvili's rule had one serious flaw – they were built on an assumption that state building and democracy building are two separate processes. Only a strong state can provide space for a democratic regime, with Saakashvili building his vision on two other 20th century state builders – authoritarian Kemal Ataturk and David Ben-Gurion (Mitchell, 2010: 79-92). The 2008 conflict unearthed its limitations and caused Saakashvili to lose support in the West.

All three countries of this region – Armenia, Azerbaijan, and Georgia – are hardly democratic. In all three cases presidential and parliamentary elections were either disputed (Armenia, Georgia) or de facto non-existent (Azerbaijan). All three have unstable borders; all three are involved in frozen conflicts with breakaway, separatist regions.

External factors

Turkey and Azerbaijan: Azerbaijan remains to be the only country, until this day, which officially committed to supply the Nabucco pipeline with gas. It is projected that the Shah Deniz II, an offshore field, would supply Nabucco with 8 million cubic metres of gas. Already this is causing controversy over the amount of gas that, according to the Nabucco agreement, would stay in Turkey (and at what price). Currently Turkey is being supplied with about 6 million cubic metres of gas from Shah Deniz I, and selling it further (to Greece) at a higher price, causing discontent in Baku (Barysch 2010). Questions are also being raised over the reliability of Azerbaijan's resource data, mainly due to their insufficient transparency. While it ambitiously joins a number of international energy initiatives (BTE, a separate agreement with Romania over LNG and Nabucco), Azerbaijan also signed an agreement with Gazprom over Shah Deniz II gas (Euractiv, 2009), putting a big question mark over Azerbaijan's reliability to deliver the promised 8 million cubic metres to Nabucco.

The disagreement with Turkey and the deal with Russia should be interpreted within a wider context of Azerbaijani – Turkish relations, and a plan to normalise Turkish – Armenian affairs. Azerbaijan, whose contemporary identity is being built mainly on the martyrdom of the Nagorno-Karabakh conflict, is not supportive of opening the Armenian – Turkish border, closed by the latter in the 1990s, as an aftermath of the Armenian – Azerbaijani conflict. It can be safely assumed, however, that both countries will reach an agreement – Azerbaijan is interested in direct access to European markets, for the same reason as Russia (EU customers pay more than any other recipient), while Turkey is interested in intensifying its role in the region and making the EU more dependent on itself.

Turkey and Armenia: The Armenian – Turkish relations, already in the shadow of the events of 1915, seen by Armenians as genocide, further deteriorated during the early 1990s and the Armenian – Azerbaijani conflict. The Turkish involvement in the Nagorno-Karabakh region had its practical implications – it was in Turkish interest to make Azerbaijan its proxy and remove it from the direct influence of Moscow (Cornell, 1999: 32). Following the UN Security Council resolution 822 (affirming Nagorno-Karabakh as the integral part of Azerbaijan) Turkey imposed an economic embargo on Armenia, and closed its borders. The Turkish President, Abdullah Gul, following his visit to Yerevan in September 2008 for a football game between Armenia and Turkey, gave some hope for a potential agreement (hence these actions were labelled ‘football diplomacy’), which sparked parliamentary negotiations in both countries. Although this dialogue between Ankara and Yerevan initiated at the end of the first decade of 2000s brought hope for a re-opening of the border and normalisation of relations between both countries, the dispute remains unsolved, with the agreement not ratified (mainly due to Turkish Prime Minister’s insistence of including the issue of Nagorno-Karabakh into the final agreement).

Any changes in the complex relations between Ankara and Yerevan can significantly change the dynamics within the region. Even the possibility of an

agreement between the two countries caused discontent in Baku leading to resource-related disputes over supplies from Shah Deniz I and II.

Turkey and Georgia: Turkey is not only the biggest direct investor in Georgia; it also hosts the largest number of ethnic Abkhazians outside of Abkhazia. According to various estimates, this number ranges between 150,000 and one million people (Owen, 2009). It also leads to a question about Georgian – Turkish relations if Turkish investments in Abkhazia intensify, and a direct transport link between Turkey and Sukhumi is established (Georgia Times, 2009). As this has already led to a number of naval incidents, including the case of a Turkish captain of a ship transporting fuel from Turkey to Abkhazia who was apprehended by the Georgian authorities and sentenced for 24 years in prison (Zeynalov, 2009). The incident caused high-level negotiations between Georgian and Turkish authorities (the sailors were eventually released), and remained one of the main media themes in Russia, who perceived it as a possible crack in Georgian – Turkish relations. It also raised Russian expectations of Turkey recognising Abkhazia's independence, which remains highly unlikely.

Russia and Armenia: The issue of the Armenian – Russian relations incorporates two main components: Armenian energy dependence (even in the case of the Armenian – Iranian gas pipeline, it is Russian Gazprom that controls it), as well as its security dependence on the Russian Federation.

Russia and Azerbaijan: Relations between Baku and Moscow are best described by a title of a commentary by Fuller (2008) – 'Azerbaijani-Russian relations hostage to pragmatism'. Azerbaijan pursues its policy of playing West and Russia against each other (signing simultaneous gas export deals with Gazprom and Nabucco, to give one example), with one additional 'advantage': Russia is not asking Azerbaijan questions regarding democracy or human rights protection while concluding deals, contrary to the West. Additionally, due to its influence on Armenia, Russia remains the only partner for Azerbaijan with whom to discuss the resolution of Nagorno-Karabakh conflict.

Russia and Georgia: Mitchell quotes the 2007 public opinion research, according to which 80 percent of Georgians thought their country should join NATO. After the 2008 war this number rose to 86 percent (Mitchell, 2010: 90). In addition, in 2008 over 79 percent of surveyed were hoping for Georgia's membership in the EU, while over 90 percent of respondents blamed Russia for the 2008 war (Sumbardze, 2010: 102). On the other hand, Georgia is heavily influenced by Russian popular culture with Russian language remaining the second unofficial state language.

Separatist movements and instability affect not only South Caucasus. Just north of the Georgian-Russian and Azerbaijani-Russian border are the Russian republics of Chechnya, Dagestan, Kabardino-Balkaria, where regional conflicts are ongoing ever since the 1990s and the first Chechen war. It is estimated that in two Chechen wars about 80,000 civilians lost their lives (Johnson, 2007: 165), with about 70 percent of the war veterans suffering from a post-traumatic stress syndrome (the 'Chechen syndrome') (Johnson, 166). A spill-over of North Caucasus tensions to Georgia and Azerbaijan could lead to further destabilisation.

Russia and Iran: Despite common religious background (Azerbaijan is the only Muslim country in the South Caucasus); relations with Iran have remained tense ever since Azerbaijan's independence in the early 1990s. They can be classified into two main groups – the issue of minorities, and the issue of the Caspian Basin. Azerbaijanis constitute the largest minority in Iran, estimated between 15 and 20 million people (Emery, 2008). Although Ayatollah Khomeini was of Azeri descent, Azerbaijanis in Iran remain a minority whose rights are limited, especially with regards to their language and culture (Abbasov, 2009). While the border between both countries is open, relations between Azerbaijanis and other ethnic groups in Iran remain tense (Atabaki, 2000). The issue of the Caspian Basin focuses on access to its resources – division of the shoreline (and, consequently, of underwater resources) remain disputable between both states.

The other question relates to the Iranian programme of uranium enrichment, and potential American/Israeli response. Due to geographical proximity (Iran shares a border with Armenia and Azerbaijan, and hosts large groups of Armenian and Azerbaijani minorities); the South Caucasus will be directly affected by any action against the regime in Teheran. Some scenarios assume that any conflict in Iran will lead to re-opening of the Nagorno-Karabakh issue, as Azerbaijan, in exchange for any assistance given to American forces, may request Nagorno-Karabakh back (Shirokorad, 2005: 243).

Russia and Turkmenistan: Turkmenistan has been mentioned on numerous occasions as a potential supplier of larger quantities of gas. During an opening ceremony of the new East-West pipeline, allowing to transport gas from fields located close to the Turkmen – Afghani border to its coast, Turkmenistan's president remarked: 'we have set high aims before ourselves and we firmly believe we will achieve them' (...) the new pipeline is a part of a strategy that is about significantly increasing natural gas exports to various states and regions of the world' (cited in Watkins, 2010: 40). He has not further specified whether he meant Nabucco or Russia, the two potential recipients of gas from Turkmenistan's coast. With Turkmenistan playing its own pipeline politics, there is still an issue of how gas could be transported from Turkmenistan to Azerbaijan, as due to the unregulated status of the Caspian Sea, and with the opposition of Russia and Iran, building any trans-Caspian pipeline on the bottom of the sea remains illusory. The arguments against the trans-Caspian pipeline range from environmental (citing high seismic sensitivity of the region) (Ria Novosti, 2007), to legal (Russia demands any decision of a pipeline crossing the Caspian to be made in agreement between all five states around the sea) (Blagov, 2006). Some experts claim that a bilateral agreement between Azerbaijan and Turkmenistan only would solve the problem (De Waal, 2010: 186), but with the continuous Russian opposition to the project, its future remains unclear.

BTC/BTE scenario: BTC and BTE – two existing energy pipelines in Southern Caucasus are examples of Georgia's transit history that, by some, is dated

back to 16th century (Transparency International Georgia, 2008). In tsarist Russia, entrepreneurs took advantage of the short distance between the Caspian and Black Sea to transport the Baku oil to the port of Batumi, with Nobel brothers and Rothschilds among them. According to the estimates, 60 percent of all oil produced in Baku in 1901 was transferred via the Transcaucasia railway to Batumi and then onwards (Transparency International Georgia, 2008). Transit status, for geopolitical reasons suspended during the Soviet Union, was re-launched in the 1990s, culminating in two American-led initiatives, BTC and BTE.

Lack of agreement between EU member states: Not all EU Member States agree to the Nabucco initiative. The South Stream, a Russian alternative to Nabucco, already attracted a number of European countries, such as Italy, Serbia and Greece. It also attracted Bulgaria and Turkey – signatories and stakeholders in the Nabucco project. One issue remains – which of the two options will be chosen in the end, as supporting both is economically unviable.

Polarising the region?: While the cooperation between Azerbaijan, Georgia and Turkey (supported by the West) has been enhanced with the BTE and BTC pipelines, Armenia strengthened its links with Russia (via the military bases) and Iran (via the Armenian – Iranian gas pipeline, completed in 2006). How stable are these blocs, especially in the light of Turkish foreign policy under Davutoglu? With Turkey seeking stable affairs between its neighbours, particularly in the context of the Armenian – Turkish negotiations, any generalisations over regional coalitions remain misleading.

Not only negatives result from a possible EU investment in the South Caucasus. There are a number of potential scenarios that could positively influence the stabilisation and development of countries of this region.

Nabucco Stabilising the Region?

European Union Employing the ‘Stick and Carrot’ Strategy?

The biggest political tool the EU can apply to its neighbouring countries is the prospect of becoming its member (in the longer perspective) and benefiting from the EU's market (in the shorter one), with less significant tools (i.e. visa liberalisation) being somewhere in between. The 'stick and carrot' strategy (with the carrot being a promise of the EU membership), arguably successful before the 2004/2007 EU enlargements, is currently being applied to the countries of the former Yugoslavia (and Albania), being the closest 'next members' of the EU. However, political will and investments are necessary for the strategy to be employed, both of which are limited in the post-Lisbon, post-credit crunch Europe. Political will not only for the next enlargement (which, in the case of South Caucasus, is not even taken into consideration), but will to include South Caucasus into the EU's sphere of influence. This could consequently lead to clashes with Russia. Investment, in short, relates to money, which is now limited, with the EU Member States focusing on cutting their budgets rather than expanding them. While it is easy to argue why this strategy would work in South Caucasus, it is difficult to imagine the EU actually implementing it.

Consequences of Armenian-Turkish Agreement

Turkish insistence on including the issue of Nagorno-Karabakh into the Armenian – Turkish agreement made its completion questionable. Taking into consideration, however, the overall Turkish foreign policy towards its neighbours (liberalised visa regime, close commercial ties, dialogue with old foes – e.g. Syria) points to possible positive outcomes of the Armenian – Turkish dialogue. It is, however, more likely that the agreement will not be ratified, at least in the foreseeable future. Consequently, no radical improvements in bilateral relations between these countries are likely to take place.

2014 Olympic Games in Sochi

Stabilisation of the region should be a Russian priority, especially with the forthcoming Winter Olympics in 2014. Sochi is located approximately 140 km from Sukhumi, the capital city of Abkhazia, and in the vicinity of the Northern Caucasus republics of Karachay-Cherkessia, Kabardino-Balkaria, and

Chechnya – all experiencing violent ethnic conflicts. Security and safety will be one of the main priorities of the organisers; hence a solution (at least temporary) over Abkhazia should be reached prior to the Olympics.

Georgia & Abkhazia + Ossetia = Serbia & Kosovo?

The separation of Serbia and Kosovo, furthered by Kosovo's independence proclaimed in 2008 and the 2010 verdict of the International Court of Justice, is in place since the 1999 NATO bombings. Still, although Serbia does not recognise Kosovo's independence, indirect cooperation assisted by the United Nations Mission in Kosovo (UNMIK) and EU-sponsored EULEX exists, with the border remaining open, undisturbed trade and freedom of mobility between both. While the formal status of Kosovo is likely to remain unsettled (as it is unforeseeable in the nearest future that Belgrade will recognise Prishtina's autonomy), the 'Kosovo-Serbia' scenario is the closest pattern of stabilisation which Tbilisi – Sukhumi relations could emulate.

Conclusion – South Caucasus as a Reliable Transit Route?

One of the main objectives of Nabucco was finding a way of diversifying gas supplies to the European Union, which would not only bypass Russia, but also prove more reliable than the system crossing Belarus and Ukraine. Was South Caucasus, however, a more reliable route? This paper addressed only selected number of factors showing the complexity of the region and relations between the neighbouring countries. While a proper and deep analysis would require extensive examination of a number of historical factors, ethnic divisions, migration patterns, and the involvement of outside parties ranging from the Imperial Russia, Persia, through the Ottoman Empire, Turkey, Soviet Union and Iran (among other factors), by focusing on several contemporary features it attempted to show the complexity of the region seen as an ideal corridor for EU's energy diversification. Is therefore South Caucasus more stable than the Russia-Belarus-Ukraine triangle? The answer is not that obvious and is directly linked by the next question – could Nabucco be a tool

of stabilisation? There were earlier proposals for a 'peace pipeline' that would cross Nagorno-Karabakh, none of them materialised (De Waal, 2010: 178), how could Nabucco (or in fact any other pipeline) be a tool of stabilisation rather than polarisation? Several factors could point to its positive influence on the region – the strategy of 'sticks and carrots' used by the EU during negotiations that ended with the 2004/2007 enlargements have arguably proved to be the most successful tool of EU's external policy – countries seeing integration as the final goal complied with the strict rules of the club they wanted to join. It is also arguable that a similar strategy is working in the Western Balkans – a vision of EU membership is facilitating conflict resolution, with a vivid example of the EU convincing Serbia to drop its UN resolution on Kosovo apparently in exchange for the promise of passing Serbia's request for membership to the European Commission, a promise duly kept. A similar strategy could be adapted to the South Caucasus, while setting the membership issue aside (or putting it in the distant future), a number of 'carrots' (investments; liberalisation of the visa regime, etc.) could improve the stability of South Caucasian countries, complying with the ENP's ambition of stabilising the EU's nearest neighbourhood. Is therefore the South Caucasus more stable than Belarus-Ukraine? No, not more stable. But it could become stable, should the Nabucco initiative be followed by other actions (or 'carrots'), as it is happening in the former Yugoslavia.

Nabucco's contribution to the EU's gas market adds an interesting dimension to the question of stability and reliability of South Caucasus as a transit route. The continuous dynamics of the energy sector (the rise of importance of LNG; yet unforeseen results of the shale gas extraction in Poland; an open question of Iraq gas joining Nabucco; the question of the source of gas which Russia would sell through South Stream) give a number of possible scenarios, all of them open as long as the still-virtual pipelines (North Stream, South Stream, Nabucco) materialise. All of those scenarios/variables would significantly influence both the EU's energy diversification plans as well as the South Caucasus' political dynamics.

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