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The Caspian Basin: Legal, political and security concerns, pipeline diplomacy and implications for EU energy security

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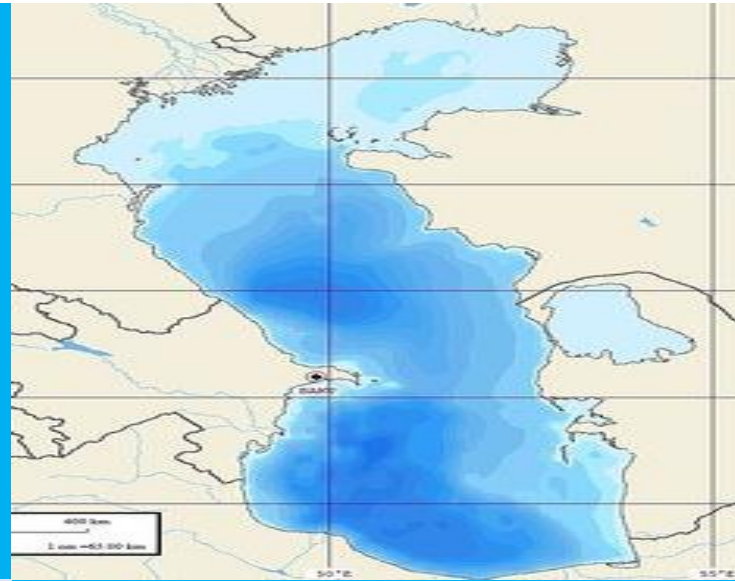
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**The Caspian Basin: Legal,
Political and Security
Concerns, Pipeline
Diplomacy and
Implications for EU Energy
Security**



Anis H. Bajrektarevic

ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

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The Caspian Basin: Legal, Political and Security Concerns, Pipeline Diplomacy and Implications for EU Energy Security

Anis H. Bajrektarevic*

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Abstract

Regions, rich in energy resources, continue to be of crucial interest for our carbon-powered world. There are numerous things at stake to begin with, from international legal status, ownership rights, energy routes, transit corridors, state and corporate interests, environmental hazards and the overall puzzle of energy diplomacy.

Additionally, Caspian is troubled with its own specific set of complexities that are listed in this work. They range from the undefined legal status, territorial disputes, ethnic instabilities and vicinity to other hot spots, such as the turmoil Middle East and the more recently sparked conflict in Ukraine. Besides the current and ongoing political, legal and security concerns, another layer of complexity represents the recent economic crisis and the steep fall in global energy prices. Caspian is already experiencing the negative effects of these trends, not to forget the implications of the crisis in the Russian Federation's economic and currency sectors and the overall decline of investments in the region over the past two years. In addition to recouping the losses from energy trade, important consequence will therefore be a much tougher competition to attract investments in the future, inevitably resulting in greater concessions made on the invested side which is likely to impact regional stability.

Because of its geographical setting, the Caspian is also of central interest for the European energy security, although the supply chain from the region has been traditionally kept under Russian Federation control. However, for the past decade or so, the EU is becoming increasingly ambitious in planning Caspian pipelines that exclude Russian Federation's territory and the Nabucco Pipeline project was in the centre of these strategic efforts for a considerable amount of time. The Caspian is therefore also at a crossroads between grand and conflicting energy interests of Russian Federation and the Western Europe.

JEL Classification: K32, Q4

Keywords: Caspian water plateau, geo-economic passions and imperatives, riparian states, hydrocarbons, energy security

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1. Introduction

Just as the rapid melting of the Polar caps has unexpectedly turned distanced and dim economic possibilities into viable geo-economic and geopolitical probabilities, so it was with the unexpected and fast meltdown of Russian Federation's historic empire – the Soviet Union. Once considered as the Soviet Union's inner lake, the Caspian has presented itself as an open/high sea of opportunities literally overnight – not only for the (new, increased number of) riparian states, but also for the belt of (new and old) neighbouring, and other interested (overseas) states.

Interest of external players ranges from the symbolic or rather rhetorical, to the global geopolitical, from an antagonizing political conditionality and constrain to the pragmatic trade-off between political influence and gains in energy supply. We can identify the three most important categories of interest in the Caspian. The first are energy-related economic and political interests. These refer to the exploitation of gas and oil resources hidden in the Caspian. The second are non-energy related economic interests such as extensive fishing options and the costly and luxurious caviar of the Caspian Sea. The third is the Caspian's strategic position. Its location is not only part of numerous European-Asian-Middle Eastern crossroads, but also offers different avenues for setting future pipeline routes that are part of larger geostrategic and geo-economic considerations political influence and energy supply gain (Zeinolabedin, Yahyaour and Shirzad, 2009, p.116).

In this interest driven and conflicting mixture we cannot neglect the power and influence of largest transnational corporations along with new non- state players, which are influencing the regional stability, equilibrium of interests and policy making process. Additionally, let us not disregard big consumers like China, India or the European Union (EU) that are driven by their own energy imperative: to improve their energy security (including the reduction of external dependencies) as well as to diversify their supplies, modes and forms in the long run. This energy imperative and strive for energy security is, relative to the demand, also of utmost importance when it comes to geopolitics of energy in the Caspian.

On a promise of these allegedly vast oil and natural gas resources (most of which untapped), the Caspian is witnessing the "New Grand Game" – struggle for the domination and influence over the region and its resources as well as transportation routes. Notably, the Caspian is a large landlocked water plateau without any connection with the outer water systems. Moreover, 3 out of 5 riparian states are land-locking Caspian, but are themselves landlocked too. Azerbaijan, Kazakhstan and Turkmenistan have no direct access to any international

waters. That means that pipelines remain the only mode of transportation and delivery of carbonic fuels, thus creating yet another segment for competition, and source of regional tension as the 3 riparian states do depend on their neighbours for export routes.

Finally, due to both the unsolved legal status of the Basin as well as the number of political and territorial disputes in Caucasus and on the Caspian, numerous new pipeline constructions and expansion projects have been proposed, but so far not realized. For the EU, the most important was the Nabucco pipeline, which although not fully guaranteed, served as the hope for reduced dependence on Russian Federation. As of now this goal is currently becoming more and more relevant because of the added complexity to this pending energy issue. Hereby we are referring to the ongoing crisis in Ukraine and the accompanying process of western alienation from Russian Federation in general. This strategic reorientation might not be risk-free for the EU, especially if we consider that the Union, in the terms of energy supply, has no alternative option at present state. One might wonder how successfully can the “new great game” translate into the “new cold war” between Russian Federation’s Eurasia and Western Europe- America, especially considering the geopolitical realities, which are by no means as unilayered and absolute as they were between 1945 and 1991.

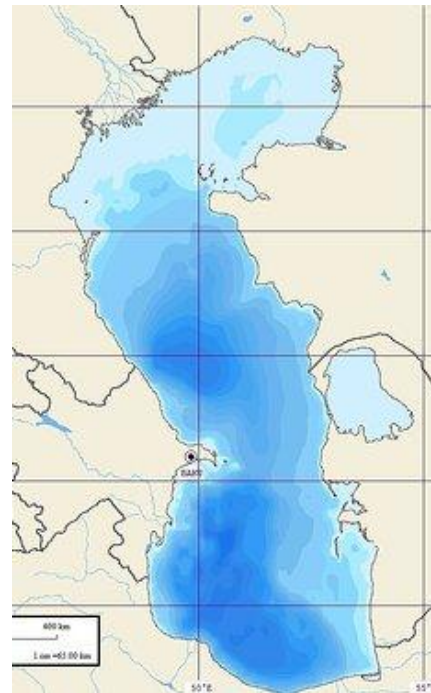
The following lines will therefore consider the geopolitical, legal and economic (including the energy security for the final end-user, supplier and transiting countries) features of the Caspian theatre, complex interplays and possible future outlook.

2. A profile of the Caspian Basin

2.1. The Caspian water plateau

The Caspian (Azerbaijani: *Xəzər dənizi*, Persian: دریای خزر or دریای مازندران, Russian: Каспийское море, Kazakh: Каспий теңізі, Turkmen: Hazar deňzi) is the world’s largest enclosed or landlocked body of (salty) water – approximately of the size of Germany and the Netherlands combined. Geographical literature refers to this water plateau as the sea, or world’s largest lake that covers an area of 386,400 km² (a total length of 1,200 km from north to south, and a width ranging from a minimum of 196 km to a maximum of 435 km), with the mean depth of about 170 meters (maximum southern depth is at 1025 m). At present, the Caspian water line is some 28 meters below sea level (median measure of the first decade of 21st century). The total Caspian coastline measures to nearly 7,000 km, being shared by five riparian (or littoral) states.

Figure 1: The Caspian Sea and its hydrogeology



Source: World Atlas (n.d.a.), n.p.a.; EVS, 2007, n.p.a

The very legal status of this unique body of water is still not solved as to whether the Caspian is a sea or lake. As international law defers lakes from seas, the Caspian should be referred to as the water plateau or the Caspian basin. Interestingly enough, the Caspian is indeed both sea and lake: northern portions of the Caspian display characteristics of a freshwater lake, due to influx of the Volga river, the Ural River and other relatively smaller river systems from northern Russian Federation.

2.2. The inner circle

The so-called “Inner Circle” of the Caspian Basin consists of the five littoral (riparian) states, namely Russian Federation, Islamic Republic of Iran, Azerbaijan, Kazakhstan, and Turkmenistan, sharing the common coastline. They are of asymmetric constellation and could be roughly divided on the old/traditional two (Russian Federation and Iran), and the three newcomers (Azerbaijan, Kazakhstan and Turkmenistan). This division also corresponds with the following characteristic: only Iran and Russian Federation have open access to sea.

2.2.1. Russian Federation

Russian Federation controls the north- western shore of the Caspian Sea and only a negligible part of its extensive energy reserves appear to be located in the Caspian Basin. Therefore, Russian Federation has rather adopted a strategy of involvement in the energy business of the other, better-endowed riparian states by means of joint resource development (production revenues) and granting access to the Russian Federation's oil and gas pipeline system (transport revenues). The main players in this field are the state-owned companies Gazprom, Rosneft, and Transneft as well as numerous large private energy enterprises like Lukoil, Sibneft or Yukos (Crandall, 2006, pp. 120-3).

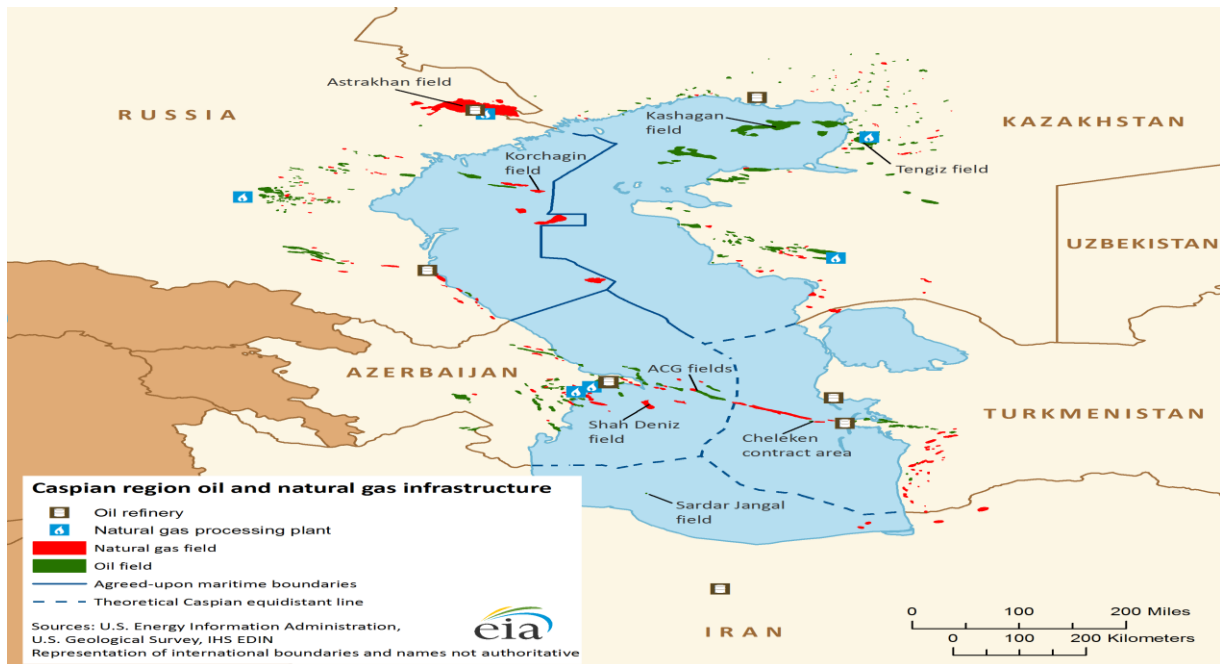
In the light of the loss of economic influence in the Caspian after the dissolution of the Soviet Union, due to the overwhelming preoccupation with preserving the strategic influence in the region, following the sort of "Monroeski doctrine" (Kubicek, 2013, n.p.a.), Russian Federation's views dramatically shifted in the 2000s from politico- security aspirations to also largely economical. To this end, Russian Federation turned to bilateral and plurilateral agreements with Caspian littoral countries to secure its economic interests in the basin. With its unique policy, called "common waters, divided bottom", it moved closer to the stances of Kazakhstan and Azerbaijan, following the principle of dividing the seabed into proportional national sectors (therefore, following the UNCLOS principle), while maintaining the common management of the surface water, preserving free navigation and common ecological standards for all littoral states (thus, partly following the lake principle by excluding the international community).

Due to these efforts Russian Federation agreed upon the division of the Northern part of the Caspian with Azerbaijan and Kazakhstan, while still strongly affirming that the five-party consensus continues to be the only way to the final decision on the legal status of the Caspian (Zimnitskaya and Von Geldern, 2010, p. 10).

Although this agreement presents a good sign for the future, its major downside is that it is completely dependent on the good relations between littoral states and therefore dependant on the current geopolitical realities of the Caspian. Also, we must consider the defiance of Islamic Republic of Iran in the solution, since it diminishes its political and economic role in the basin¹, for it leaves the country with the smallest share and deepest waters. For now, with the successful agreement in the North, the division looks like displayed in figure 2.

¹ With this division, Russian Federation would receive 18,5% of the Caspian seabed, while Kazakhstan would get 29%, Azerbaijan and Turkmenistan approximately 19% and Iran would be left with 14%.

Figure 2: The proposed and already effective division of the Caspian Basin



Source: EIA (2013a)

Regarding intra-regional relations in general, Russian Federation concerns about the influence of the EU and the US² in the Caspian Basin have increased in the recent past due to the eagerness to regain its role as a major power. As for Iran, the historically adverse relations have improved in some areas as the two powers still share a number of mutual interests in the Caspian Basin, for instance the opposition to growing Western interference in regional affairs or the proposed construction of a trans-Caspian pipeline (Dekmejian/Simonian, 2003, pp. 75-9 and 83-9).

2.2.2. Islamic Republic of Iran

Despite ranking among the world's leading oil producers and the second largest producer of natural gas, Islamic Republic of Iran's share of the local oil and gas reserves is negligible, just as in the case of Russian Federation. Moreover, FDI in the energy sector has been hampered due to the continuous conflicts with West over the nuclear issue (Crandall, 2006, pp. 120-3). But because of its status as a regional power as well as its unique geographic position between the Caspian basin and the Persian Gulf, Islamic Republic of Iran remains an attractive transit country. That also grants him power and wide range of possibilities for gaining influence as a Caspian littoral state on the one hand, but also means great exposure when considering other geopolitical gaming in and around the Caspian, the most influential

² Previously, there were also concerns over the role of Turkey and China, but due to new geopolitical realities, China has become a major energy trading partner and Turkey a viable option for pipeline routes, bypassing the turmoil Eastern Europe.

being the US grand interests in the Persian gulf.³

Foreign policy priorities have been affected by its past dominance as well as the religious ties with the Republics of Azerbaijan, Kazakhstan and Turkmenistan. However, these newly independent states (NIS) see Islamic Republic of Iran's potential in cheap transit routes for oil and gas. Of the most concern are Islamic Republic of Iran's relations with Azerbaijan, hampered due to Azerbaijan's westward cooperation on energy matters (Dekmejian et al., 2003, pp. 79-83) and the contradicting positions on defining the legal status of the Caspian.⁴ Additionally, the ethnic Azeri minority makes up to nearly quarter of Islamic Republic of Iran's population.⁵ An economically strong and independent Azerbaijan, gaining acknowledgement on the international political stage, could potentially incite the Azeri population in Islamic Republic of Iran to its own nationalistic movement and threaten its territorial integrity. To prevent Azerbaijan to rise any further as a global oil player might as well be seen as an Islamic Republic of Iran's strategic goal (Croissant and Aras, 1999, p.29). Nevertheless, Islamic Republic of Iran does not generally promote discrimination of the Azeri minority, because their intellectual and economic elite is very well integrated in the Iranian society. The textbook example for this is that the father of Ajatolla Khomeini is an Azeri (Pivariu, 2014, p. 163).

³ (i) to support the friendly local regimes with their present socio-political and ideological setups; (ii) to get, in return, their continued approval for the massive physical US military presence and their affirmative vote in international fora; (iii) to maintain its decisive force in the region, securing unhindered oil flows from the Gulf; (iv) to remain as the principal security guarantor and tranquilizer, preventing any hostile takeover – be it of one petrol-exporting state by another or of internal, domestic political and tribe/clan workings; (v) to closely monitor the crude-output levels and money flow within the Gulf and to recycle huge petro-dollar revenues, usually through lucrative arms sales and other security deals with the GCC regimes; (vi) will not enhance, but might permit (calls for) gradual change of the domestic socio-economic and politico-ideological frames in the particular Gulf state, as long as it does not compromise the US objectives in the region as stated above, from (i) to (v) (Bajrektarevic, 2012).

⁴ At the beginning, Iran was strongly asserting that Azerbaijan is, along with other former republics of Soviet Union, a successor to all the treaties, signed between Iran (or Persia) and the Soviet Union. Later on, although never fully deviating from this position, Iran was also a strong supporter of the condominium solution, along with Russian Federation. But when it lost Russian Federation as an ally on this matter (because of Russian Federation's efforts to form a closer bond with neighbouring Azerbaijan), it opted for the lake solution of the Caspian, which is what the official position of the country remains to this day. Azerbaijan, on the other hand, has strongly denied all these positions and is lobbying for the Caspian to become subject to the UNCLOS treaty. This would give way for a diminished role of Iran in the Caspian, along with the realistic threat of bringing foreign military vessels into the Caspian, therefore, on Iranian borders

⁵ Although, hundreds of years of separation and living under very different state systems (Tsarist Russia and the Soviet Union vs. Persia and the Shiite Iran) makes it difficult to determine whether or not what unites the Azerbaijanis and the ethnic Azeri in Iran is stronger than what makes them different or vice versa (Pivariu, 2014, p. 163).

2.2.3. Azerbaijan

Controlling the western side of the Caspian Sea, Azerbaijan holds a crucial position between Central Asia and Europe. Heavily dependent on the oil sector, the State Oil Company of Azerbaijan Republic (SOCAR) was created to efficiently benefit from the abundance of hydrocarbon resources in the respective sector of the Caspian Sea. Subsequently, the foreign- SOCAR partnerships have attracted considerable FDI to the region (INOATE, 2004, p. 20). By 2010, after signing the so called “Contract of the century” with 13 leading world oil companies⁶ in 1994, an amount of 8 billion dollars has already been invested in exploration and development operations in the sectors of the Caspian that “belongs” to Azerbaijan according to the UNCLOS provisions and additional 100 billion are expected to be invested in the forthcoming 25-30 years (Zimnitskaya and Von Geldern, 2010, p. 10).

When it comes to the Caspian, Azerbaijan has been very vocal on pronouncing the Caspian as sea, therefore subject to international law. This stance can be easily understood, if we consider that Azerbaijan would benefit greatly with this ruling. And since economic stability has been a way for Azerbaijan to deter its powerful neighbours Russian Federation and Islamic Republic of Iran (for reasons including the division of the Azeri territory after the Russo- Persian war in 1828 and the more contemporary conflict over the Nagorno Karabakh region) and sustain sovereignty as well as keep alliances, the continuous lobbying for this solution is not at all hard to perceive (Zimnitskaya and Von Geldern, 2010, p. 7).

Concerning foreign policy, Azerbaijan’s goal has been to balance between Russian Federation and West. Most worrisome are however the above mentioned unresolved conflicts with Armenia over the statues of Nagorno Karabakh province and fragile relations, mostly due to pipeline disputes, with Turkmenistan (Dekmejian et al., 2003, pp. 74 and 92-5).

2.2.4. Kazakhstan

Controlling the northern and north-eastern shores of the Caspian Sea, Kazakhstan reluctantly declared independence from Soviet Union in 1991. Holding the greatest share of Caspian oil in its national sector, Kazakhstan’s foreign policy is influenced by its dependence on Russian Federation as a primary energy transit route. Additionally, the growing inflow of FDI from China signals the rising importance of cooperation with east. Due to these vast energy resources in possession, Kazakhstan’s decision on energy export routes is highly important for the (in) stability of the current power game in the Caspian. The country has three options for exporting its energy reserves. The first is expanding the existing route

⁶ AMOCO, BP, UNOCAL, SOCAR, LUKOIL, McDermott, Statoil, Exxon, Turkish Petrol, Pensoil, Itochu, Remco, Delta.

through Russian Federation to the Black Sea coast. The second is transporting additional oil into the Western Balkan- Tbilisi- Ceyhan (BTC) through the Aktau- Baku subsea pipeline (Marketos, 2009, p.4). The third option is raising the importance of the energy flow to the East through the Kazakshtan - China pipeline (EIA).

2.2.5. Turkmenistan

Recent developments have marked a new era with respect to Turkmenistan's position in the energy game, with newly inaugurated China and Islamic Republic of Iran pipelines and pledges to supply the Nabucco pipeline, the country has not only diversified its supply routes, but also offered the central Asian countries the opportunity to lessen their dependence on Russian Federation as a major energy supplier. Turkmenistan was also the first country in the Caucasus to secure an energy contract which was completely bypassing Russian Federation. This was done through Korpezhe - Kurt Kui pipeline, supplying Turkmeni gas to Islamic Republic of Iran's market.⁷ In the aftermath of the Korpezhe - Kurt Kui project, Turkmenistan has become extremely ambitious when it comes to constructing new energy routes:

- the proposed East-West pipeline, envisioned to connect south-eastern Turkmeni gas fields with the Caspian (also creating a gate-way for Turkmenistan to European markets),

- the proposed Trans-Caspian pipeline, envisioned to transfer Turkmeni gas to Azerbaijan via the Caspian sea, where it could easily connect to the pipelines heading for Europe. These plans also effectively bypass both Russian Federation and Islamic Republic of Iran, but their major downfalls are the bad relations between Turkmenistan and Azerbaijan over the demarcation of the Caspian basin;

- Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline, envisioned to meet new Asian energy markets in Pakistan and India. But the project has very dim prospects of succeeding in the near future due to the complex security and logistical issues (EIA).

2.3. The outer circle and other external actors

Other players from the international community have been able to enter the Caspian game rather successfully following the collapse of the Soviet Union. The three former Soviet Republics were in desperate need of technology and capital to exploit the hidden Caspian resources; the outside involvement was therefore seen as crucial for developing drilling and exporting capabilities and also distancing Azerbaijan, Turkmenistan, and Kazakhstan from

⁷ There is a second similar pipeline project, named Dauletabad-Khangiran, inaugurated in 2010. It is planned to begin with construction in the near future.

the Russian Federation. The Caspian basin being landlocked is dependent upon pipelines and shipping through neighbouring states to reach consumer markets. Upgrading old Soviet pipelines and constructing others became pivotal for the economic stability of the region and it also gave way to major strategic planning of these new pipeline routes. The three post-Soviet Caspian littoral states were not very powerful in regional, let alone global, terms. Newly independent, with weak militaries, barely functioning economies, and great prospects for domestic and external conflict, they were easy targets for other interested parties looking to exploit these circumstances (Kubicek, 2013, n.p.a.).

With regards to the transshipment of hydrocarbon to the international market, the importance of the interests and the state of political environment in countries such as Georgia, Armenia, Turkey, Uzbekistan, Afghanistan, India and Pakistan, commonly referred to as the Outer Circle, needs to be remembered.

At the beginning of the energy hype around the Caspian, Turkey felt they can exploit their culture (considering that the Azeris, Turkmen, Kazakhs, and Uzbeks are all Turkish peoples) and its status as a modern, successful state to gain major influence in the region. Unfortunately, this perception proved to be by far a too optimistic one; although Turkish construction firms seem to do well in securing businesses in the region, when it comes to investment and major energy projects, all Caspian states seem to prefer Russian Federation, American or European investors. An important aspect for Turks is the BTC pipeline, which connects Turkey directly to the Caspian region, although most of the country's energy needs are still met through pipelines coming from Russian Federation, most notably the Blue Stream. But, as it always is with the unpredictable strategic gaming in the Caspian, with the suspension of the Nabucco (Nabucco- West) and recently, the South Stream Project, it has become evident that Turkey could play a much more crucial role in the future of pipeline diplomacy. For now, both the EU and Russian Federation are entertaining themselves with a dream of a gas route through Turkey: EU sans Russian Federation, with a starting point in Azerbaijan and Russian Federation with a stream of gas flowing from Russian Federation fields, through Greece and Turkey. We have yet to witness which Southern Corridor strategy will be implemented. What is clear, though is that Turkey gained greatly in her starting position because of the zero-sum gaming process between Russian Federation and the EU, so her expectations of being an important (pivotal) transit country can become a reality in the near future.

Figure 3: Post South - Stream possibilities



Source: Stratfor (2014)

Also very important for the gaming in the Caspian are India and Pakistan and their growing energy needs. They both backed the proposed TAPI pipeline, although the prospects for this pipeline seem dim at the moment. Other than that, India has a vivid cooperation with Islamic Republic of Iran⁸ in the field of gas supply (Kubicek, 2013, n.p.a.).

Additionally, with regards to the global players such as United States, the European Union, China and Japan, the interest into the Caspian region can not only be limited to promoting general political stability and seeking access to Caspian oil and gas resources, but extending to see Caspian states as the new potential market for western products and FDI.

The United States, although lacking the advantages of historical linkage and geographic vicinity that favours Russian Federation⁹, managed to gradually insert themselves into the region. Initial involvement predominantly included investments made by major American corporations, that gained substantial percentages in large- scale projects mainly in Azerbaijan and Kazakhstan. Empowered by this great outset of events, the US slowly became more ambitious. In accordance with their struggle to keep the vision of the unipolar world alive and relevant, they introduced a new important strategic goal for the Caspian: drawing pipeline ways that would completely bypass Russian Federation and therefore diminish her influence in the region. But the “Events have not transpired as those in

⁸ Iran undoubtedly represents a critical area of interests for India regarding her energy security, for it provides the country with shortest supply routes without major choke- points in between. The invigorated India- Iran strategic partnership from 2003, that was diminished due to the US meddling, would also be beneficial not just for India’s energy and Iran’s economic security but also for the strategic balance and the security enhancement of the whole region, since both India and Iran are similarly concerned when it comes to issues like Afghanistan, Pakistan and the most recent, ISIS.

⁹Or, in the words of the former president of Kyrgyzstan Akayev, “God and geography gave us Russian Federation” (Kubicek, 2013, n.p.a.).

Washington hoped or those in Moscow feared” (Kubicek, 2013, n.p.a.): Russian Federation’s strategic influence did not dissipate and besides Azerbaijan, the US has no other major ally among the Caspian littoral states. Although, when it comes to strategic alliances in the countries, surrounding the Caspian riparian states, on the contrary is true.

China has moved from the somewhat silent presence immediately after the collapse of the Soviet Union to the more active involvement in the recent years. Much like in Africa or in the Middle East, this involvement is predominantly powered by the grand energy needs of the country. And much like in Africa and the Middle East, China has great prospects for success because it seems like a less threatening partner than Russian Federation or the US, not to mention the absence of historically denoted relations. It has first managed to enter the region through the Shanghai Cooperation Organization (SCO), which has stretched from having predominantly security- oriented goals into also energy- concerned forum, thus effectively introducing China into the energy politics of the region.¹⁰ Central Asia and with it, the Caspian Basin, is also part of the China’s new policy of the “New Silk Road,¹¹” stretching from China all the way to Rotterdam, Netherlands. At the moment, though, China is mostly present in the Kazakhstani oil sector and the Turkmenistan gas sector. Also, we must consider the collision of Chinese energy security needs and Islamic Republic of Iran’s search for new energy partners after the harshening of western sanctions due to the Islamic Republic of Iran’s nuclear programme. Both China and Islamic Republic of Iran have gained greatly with this enhanced cooperation; China with securing more energy supply deals and Islamic Republic of Iran, in return, preserving its state of economic development and stability.

Also very active in the region have been the EU, European states and European firms. Among companies, the most active presence has been displayed from BP, Royal Dutch Shell, British gas, Total, Agip and Eni. Mostly, the European governments handed their great support for private investments in the region, which basically meant they were in line with the Washington’s goal of diversification of the energy market and with it, bypassing Russian Federation and Islamic Republic of Iran as much as possible. Although they have been more inclined to acknowledging the possible environmental issues for certain pipeline routes, the main focus (in a true European style) nevertheless remains diminishing the

¹⁰ This new agenda is forcing Russian Federation into ever more delicately fine- tuning the process of balancing China’s power in the SCO, preventing her from becoming the dominating force within the organization. The equality of China and Russian Federation in SCO in one of the foundations for its membership, because the Central Asian countries, parties to the SCO, depend on Russian Federation to keep the ever stronger China and her influence balanced in their backyard.

¹¹ The concept of a New Silk Road is, much like the ancient one, envisioned to be an economic belt, an area of economic cooperation, a vision of China for the interdependent economic and political community spanning from the shores of Pacific to the murky waters of the Western Europe.

dependence on Russian Federation for energy supply (Kubicek, 2013, n.p.a.). With the failure of the Nabucco project, this goal seems very unlikely (for the time being).

3. Territorial disputes

3.1. Post-Soviet border issues between Caspian littoral states

Following the dissolution of the Soviet Union, the Caspian littoral states have been involved in various negotiations on the border issues, however, most of them have been solved without major security issues.

Regarding the sea borders, the preeminent issue is the division of offshore oil and gas fields, mainly between Azerbaijan and Turkmenistan and this issue has pitted the countries against each- other since the 1990s. It reached a very hostile stage in 2001, when the rhetoric on both sides implied gestures aiming at military threats. They were accusing each other of illegal exploration, development and/or operation on the disputed oil fields, and violation of territorial waters with military and non- military vessels. Situation worsened with Baku purchasing two American military boats, which was viewed as a provocation on the Turkmeni side and ignited the arms race between the countries. Luckily, in 2003 and 2004 the situation shifted towards efforts for the diplomatic solution, but the countries have yet to find a satisfactory long-term answer to these pending issues (Peimani, 2009, p.186).

3.2. Nagorno-Karabakh conflict

The roots of this Armenian – populated enclave, *de jure* situated in the territory of Azerbaijan, *de facto* independent republic situated southwest of Azerbaijan, date back to the early 20th century, when the “*divide et impera*” principle was executed in order to ensure dependence of the Soviet Union central government via conscious creation of divisions in the region. For the purpose of settling the long-term conflict, officially mandated by UN, the Minsk Group was established in the OSCE framework. However, till present, claiming more than 25 000 deaths and 1 million refugees, the main issue remains unsolved. There are still frequent incidents in the contact area between the Azeri and Armenian troops that claim about 20 lives each year (Pivariu, 2014, p. 149).

The division in this case is twofold: ethnic (Armenians-Azerbaijani) and religious (Catholic-Muslim) and the conflict itself consists of three interconnected components. The first is the issues of refugees that is, according to the experts, most likely to conclude in the near future. The second is the process of drawing the borders on disputed territories, solvable through negotiations. The last and most important is the status of Nagorno-Karabakh and

the OSCE Minsk group has suggested solving the issue on the basis of three different principles: non-use of force or threats of force, territorial integrity and the peoples` right to self- determination (Pivariu, 2014, p.202).

3.3. Separatism in Georgia

Georgia, declaring its independence from Soviet Union in 1991, has witnessed several unrests and wars due to the breakaway regions of South Ossetia, Ajaria and Abkhazia.

Unlike the above mentioned conflict regions, the breakaway region Ajaria was successfully re-integrated into the Republic of Georgia in 2004. Known as a strategic region, its capital, Batumi, hosts the key port linked to the oil rich regions of Azerbaijan and Kazakhstan.

3.4. Conflict zones in the North Caucasus

North Caucasus, remarking another important route for westward transportation of oil and gas, is highly affected by instability and separatism in the region. The roots of these conflicts can be traced to Soviet era, where ethnic groups were both artificially united or separated over different territories. Up to present, the conflicts have remained unsolved, destabilising the region excessively (IRSN, 2006, pp. 7-9; Baev, 2004, p. 100).

One of the most devastated regions of North Caucasus is namely Chechnya, occupied by separatist forces that have led to countless terrorist attacks and violent actions both in and outside the region. Initiated in 2007 by President Ramzan Kadyrov, the radical stance on peacekeeping has somewhat ameliorated the situation within the region. However, recent terrorist attacks by rebellious Chechen groups signal the imminent threat that still surrounds the region.

The semi-autonomous region of Dagestan, located strategically on the shore of Caspian Sea, has recently developed into the new trouble spot of North Caucasus. The diversity within Dagestan paves forth a complex situation, which could outplay in similar scale of gravity with that of Chechnya (Galeotti, 2014, p. 10-11).

Additionally to Dagestan, the wide-spread violent attacks have recently escalated in the autonomous republics of Ingushetia and North Ossetia. Overall, conflicts are to be accounted with in remaining republics of North Caucasus (ibid).

4. Other security concerns

Besides territorial conflicts, there are three other major security concerns in the respective area of the Caspian and Central Asia. One is terrorism activity and the proliferation of weapons of mass destruction (WMS). The other is the problem with drug trafficking in the Central Asia and the last one is not that commonly mentioned problem of environmental security that is understandably in contrast to the much more powerful energy industry and exploitation. Alongside with border disputes of different means and origins, these issues, too, can be of great concern for the overall economic development of the Caspian, which can be maximized only in a stable in secure environment.

4.1. Terrorism and the proliferation of WMD

The Caspian states see terrorism as one of the major foreign and domestic threats, not just in political sense for threatening the pivotal state institutions but also in economic terms, since terrorist actions can target major pipeline infrastructure in the process of gaining their goals or widespread attention. Ever since 9/11, all of them (with the exception of Islamic Republic of Iran) have tightened their security measures in response to this threat. These measures include the adoption and ratification of related legal documents, prosecution of individuals, suspected to be a part of a terrorism network or activity, the conduct of various law- enforcement activities, increase in training programs for security personnel and the establishment of counter- terrorism centres (Shadrina, 2006, p.3).

In the case of countering terrorism and proliferation of WMS, the US recognized a superb opportunity to insert themselves in the region through offering a helping hand to former Soviet republics, surrounding the Caspian. They have introduced the Second line of defence program and the Caspian Sea Maritime Interdiction, among others. Both programs are mainly focused on uncovering possible illicit trafficking of radioactive material, with the Maritime Interdiction program being focused on the Caspian basin maritime border between Azerbaijan and Kazakhstan (Al- Rodham, 2007, p.32).

Also active on the field of anti- terrorism is the SCO, whose initial purpose was precisely the combating of terrorism in Russian Federation and China alike. In Russian Federation, the issue is especially serious due to the already outlined conflicts in Chechnya and the Republic of Dagestan. All other Caspian littoral states, that still have a vivid memory on the support some of their citizens displayed for the Taliban in Afghanistan, are now witnessing a rise in support for the ISIS movement in the Middle East, especially in Kazakhstan and Turkmenistan.

Combating the threat of terrorism has also resulted in the militarization of the area surrounding the Caspian basin. This can be considered as a dangerous development, since the accessible weaponry and military force makes it all the more easier to shift from diplomatic measures to military one in a region that is already battered by many other serious security considerations.

4.2. Drug trafficking

The region has witnessed a substantial increase of illicit drug trafficking and to address this issue, there has been a vivid cooperation among all the Caspian littoral countries. A major step forward was the decision of the Caspian littoral and other Central Asian states, to establish a Central Asia Regional Information and Coordination centre in the city of Almaty, Kazakhstan. The centre is also supported by the UN Office on Drugs and Crime (Shadrina, 2006, p.5).

4.3. Environmental security

In any region in the world, rich in natural resources, environmental concern is of secondary meaning and the same goes for the Caspian basin. The mere process of exploitation and the amount of profit that is channelling from every possible aspect of this industry are making it practically impossible to generate any significant difference when it comes to preserving the environment. The pollution of the Caspian waters and the imbalances in the ecosystem are already visible, but for the foreseeable future it is hard to expect things to be divergent in any aspect.

Unfortunately, the world has yet to witness the proper balancing between exploitation of natural resources and preserving the surrounding natural environment. And along with the world, so does the Caspian.

5. Status-related disputes

5.1. Historical developments prior to 1991

The year 1991 does not only represent a key date in world history, but it also left a deep imprint on the Caspian Basin. After all, the number of riparian states increased from two to five, virtually overnight, following the disappearance of the Soviet Union as a single subject of international law.

The first sources addressing the legal status of the Caspian Sea date back to the 18th and 19th century, when first treaties between Russia and Persia were concluded, *de facto* establishing the beginning on Russian geopolitical supremacy in the Caspian region (Raczka, 2000, pp. 201-2).

With the creation of the Soviet Union, a new legal framework, the Treaty of Friendship was negotiated in 1921, declaring all previous agreements void (Mehdiyoun, 2000, n.p.a.). Following Treaties of Establishment, Commerce and Navigation (1935) on the one hand, the Treaty of Commerce and Navigation (1940), the Treaty on border regime (1957) and the subsequent Aerial Agreement, the initial obligations of 1921 treaty were further reiterated, additionally, establishing consensus over matters previously not covered.

However, with the collapse of Soviet Union, the legal validity of the existing legal framework prior to 1991 became seriously challenged and to great extent even obsolete, no longer reflecting the realities within the region¹². That being said, the Caspian basin has become the stage of a unique multinational mixture of economic, political, energy and environmental concerns, where the division in any way has, for now, proven to not balance properly between the areal (the sole share of the Caspian) and utility (economic) claims of the parties in conflict (Zimnitskaya and Von Geldern, 2010, p. 2).

5.2. Present legal options and their implications

Following the increase in number of Caspian littoral states, calls for the alternative legal options were made, most importantly either determining the legal status of Caspian Sea or insisting on the condominium approach.

Classifying the Caspian Sea as “sea”, would bring forth the application of the 1982 United Nation Convention on the Law of the Sea (UNCLOS). Following this action, the Caspian Sea would be divided in respective corridors, determining the applicable rights and obligations both for littoral states and the third parties (Janis, 2003, pp. 220-2). That would in effect mean the division of the Caspian into territorial waters, stretching 12 nautical miles from the shore; between 200-350 nautical miles of continental shelf, depending on the configuration

¹² Iran has repeatedly rejected the view that with the dissolution of the Soviet Union, the legal vacuum has been created in the Caspian. Instead, it has emphasized on more than one occasion that the newly independent states are subject to the old Soviet treaties according to the Vienna Convention on Succession of States in respect to Treaties. This view has been strongly denied by Azerbaijan, Kazakhstan and Turkmenistan. Iran has later on, in accordance to the old Soviet- Iran treaties` substance (rights, given to then Persia, were undeniably greater than what Iran has today: Caspian was closed to all vessels but Soviet and Iranian and the latter countries exercised full sovereignty on their half of the basin), strictly followed the imperative that Caspian is a lake; mainly because that gives him much more sovereign power over the Caspian resources and also eliminates the danger of American vessels in the Caspian, that could gain rights for presence with the application of UNCLOS.

of the continental margin; and exclusive economic zones that extend from the edge of the territorial sea waters up to no more than 200 nautical miles into the open sea¹³. This division, considering the fact that the Caspian width does not extend 435 miles, would necessarily mean the overlap of different state economic zones and continental shelves, giving way to inter-state bargaining. Even according to UNCLOS, in this case, the “delimitation of the continental shelf...shall be effected by an agreement on the basis of international law...in order to achieve an equitable solution” (Croissant and Aras, 1999, p.25). And in this process, the most powerful states in the area would have the biggest upper-hand in the bargaining. Nevertheless, considering that UNCLOS has been accepted and ratified¹⁴ only by Russian Federation,¹⁵ the complexity of defining the status of Don-Volga system and the incompleteness of the solution in UNCLOS offered for Caspian, the UNCLOS rather serves as a point for guidance.

On the opposite, classification of the Caspian Sea as “lake” is complicated both by the absence of international convention on the issue and the lack of international practise, even if covered by customary law (Dekmejian et al., 2001, p. 22). We can add that the most common practise on the matter is the division of the water plateau into equal areal portions, inside which states exercise full sovereignty; in the sovereignty sense, drawing a border on an inner water surface is similar to drawing land borders. In comparison to the solution under the provisions of UNCLOS, that means the division of national sectors under this principle would grant the states greater degree of control than those applied under UNCLOS (ibid) and therefore no room for political bargaining. This also leaves the door closed for the international community, and with that foreign trade and military presence, along with large petroleum companies.

Last discussed option, the condominium status, which is defined as conjoint ownership over a territory, is usually seen to be of temporary nature and as a last resort, when other forms of negotiating a border agreement fail. This solution for the Caspian was initially urged by

¹³ Within this area, the coastal state has exclusive exploitation rights over all natural resources. While territorial waters grant full state sovereignty, the exclusive economic zones grant sovereign rights to exploit resources to a certain state, but not the sovereignty over the waters of the EEC.

¹⁴ The UNCLOS provisions are also strongly supported by Azerbaijan; the division of the water and seabed into national sectors, roughly proportional to each state's entitled coastline, would grant Azerbaijan with the 20, 7% of the Caspian.

¹⁵ At this point, we have to add that Russian Federation did not accept »the procedures...entailing binding decisions with respect to disputes....relating to sea boundary delimitations, or those involving historic bays or titles; disputes concerning military activities by government vessels and aircrafts, and disputes concerning law- enforcement activities in regard to the exercise of sovereign rights or jurisdiction...« This was done to prevent any international judicial or arbitrational jurisdiction over territorial disputes and to preserve their sovereign power to create admiralty law, either via domestic legislation or bi- and multilateral treaties with other Caspian countries. Iran has expressed similar impediments upon signing the treaty (the treaty has not yet been ratified since).

Russian Federation and Islamic Republic of Iran, which was not adequate enough to be the final solution for the division of the Basin, as the establishment of such practice would require explicit consent of all littoral states (Raczka,2000, pp. 209-10). The newcomers to the Caspian club, Azerbaijan, Turkmenistan and Kazakhstan, which all have relatively long Caspian coastal lines and are heavily dependent on the Caspian energy resources, have been advocating strongly against the idea¹⁶ and today, the condominium option seems least plausible of all.

5.3. Present and future outlook

As of the new millennium, the already mentioned important shift took place in the legal division of the Caspian Basin. The northern part of the seabed was *de facto* divided between Russian Federation, Azerbaijan and Kazakhstan in 2003; however it is unclear whether Islamic Republic of Iran and Turkmenistan will compromise on the issue. Considering the frequent border disputes, namely between Azerbaijan and Islamic Republic of Iran in the recent past and the absence of *de jure* division of the Basin, the situation needs unanimous settlement in order to avoid future conflicts and to attract foreign investment.

One of the most publicized trans-Caspian initiatives, the 23rd meeting of the Special Working Group on the Caspian Sea in 2008 and the “Caspian 5” Summit in 2010, both held in Baku, have in contrary to public expectations not yet delivered a feasible solution. On the occasion of the November 2010 summit, an agreement on the security issues was signed however, the issue of legal status of the Caspian was once again postponed for a decision in the future. The 2010 Baku summit reflected the current status quo – rather focusing on the pipeline developments such as Nabucco, Trans-Caspian initiatives and the future possible revenues, the 5 littoral states have left the issue of unsolved status and resource issues of Caspian out of scope (Amineh and Guang, 2012, p.58).

Despite previous failures, by the end of September, 2014, a very important agreement was reached between all five littoral states. Islamic Republic of Iran and Russian Federation have successfully lobbied to reach an unanimous agreement about the inadmissibility of a foreign military presence in the Caspian, therefore ruling out any possible future deployment of NATO forces (Dettoni, 2014, n.p.a.). This signals an aspiration of all parties involved into finding common grounds on the matter of the final delimitation of the Caspian. Although the agreement on this has not yet been reached, it seems evident now that no NATO flag will be flying above the Caspian waters, which is an important geostrategic victory for Russian

¹⁶ The defiance is reasonable, since Russian Federation and Iran would gain the most with this solution considering that both already have vast natural resources elsewhere in addition to Iran exercises sovereignty only on a fairly small portion of the Caspian coastline.

Federation and Islamic Republic of Iran. The decision comes at a fragile time for both countries in question; the civil war in Ukraine has severely damaged Russian Federation`s relations with the west, and Islamic Republic of Iran is still in the midst of very harsh sanctions due to the nuclear programme. It also brings forth the question of the UNCLOS and division of the Caspian as a sea, if the water plateau is now closed for foreign military vessels. The compliance of other three littoral states, former Soviet republics, could mean that some land delimitations had also been reached behind closed doors, and it would make sense that Azerbaijan, Kazakhstan and Turkmenistan gained in these talks. Although nothing has been said on the matter, the logic of silver lining to this agreement is hard to miss.

6. EU- Caspian relations and energy security

6.1. Energy reserves and transportation

The Caspian energy reserves, concentrated primarily in Azerbaijan, Kazakhstan and Turkmenistan can contrary to earlier beliefs merely act as a diversification in the world market. In 2012, relative to the world, the Caspian share constituted 3.4% of global oil production and 20% of total world gas production (tables 3 and 4). However with the increase of Azeri and Kazakh oil production and Azeri gas production, the latter two will increase their importance in the export markets.

Table 1: Proven Caspian oil reserves (in billion barrels)

Littoral State	At the end 1999	At the end 2012
Azerbaijan	1,2	8,5
Turkmenistan	0,5	1,9
Kazakhstan	25,0	31,2
Total	26,7 bnb	41,6 bnb
Total World	1085,6	1650,1
% of the world reserves	2,45%	2,52%

Source: EIA

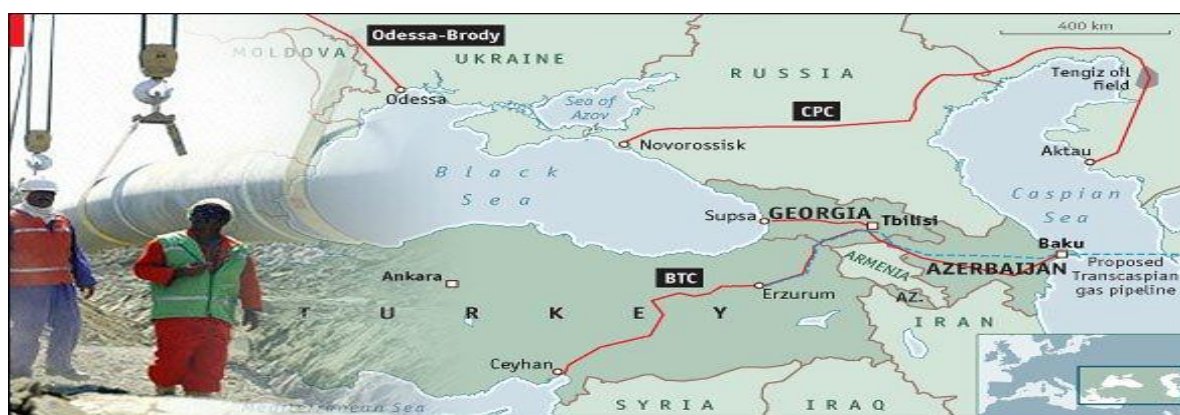
Table 2: Proven Caspian natural gas reserves (in trillion cubic meters)

Littoral State	At the end 1999	At the end 2012
Azerbaijan	1,23	1,31
Turkmenistan	2,59	10
Kazakhstan	1,78	1,95
Total	5,6	13,26
Total World	148,55	201,079
% of the world reserves	3,77%	6,59%

Source: OPEC

Due to the landlocked nature of the Caspian Basin, the NISs are dependent on at least one adjacent country in order to be able to export oil and gas. Traditionally, the infrastructure has been dominated by Russian Federation state-owned pipeline monopolist however this was contradicting the needs of the NIS, who seek independence for implementing their energy deals (Goldwin/Kalicki, 2005, pp. 150-1). The figure 4 demonstrates pipelines not controlled by Russian Federation, the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the parallel gas counterpart South Caucasus Pipeline (SCP, also known as BTE- Baku-Tbilisi- Erzurum), are of great importance.

Figure 4: Caspian pipelines not under Russian Federation control



Source: Economist (2005), n.p.a.

Upon opening the BTC pipeline, it was regarded as the largest exporting pipeline in the world, spanning over 1040 miles of terrain. The building trajectory represents the more environmentally harmful and construction-wise more difficult terrain, for it had to avoid Russian Federation territory altogether. But consequently, the infrastructure itself is regarded as unique for the connection of the land-locked Caspian with the Mediterranean waters, hence of utmost importance for Europe's desire to diversify the energy supply; not to forget that with the BTC¹⁷, Europe gained access to the very heart of Central Eurasia. This strategic economic cooperation also explains why partnership with NATO and EU is one of highest priorities for Azerbaijan, Kazakhstan and Turkmenistan on the one hand, and also for the North-Atlantic alliance and the EU itself on the other (Zimnitskaya and Von Geldern, 2010, p.11) Not surprising, when regarding the future, the plans for westward extension of SCP to Central Europe¹⁸ and construction of trans-Caspian oil and/or gas pipeline, transporting the Kazakh and/or Turkmen reserves via the BTC and SCP are of great interest for the West, mostly the EU (Crandall, 2006, pp. 39-40).

Last, due to the heavy reliance on oil and gas sector in the respective economies of five Caspian states, prudent administration is of utmost importance. Especially in the case of Azerbaijan and Kazakhstan, there is high risk for falling to Dutch Disease¹⁹. Stabilisation oil funds, set in those countries, were introduced in order to help save the profit and for proper use of gained income²⁰. However, due to complexity and varying political will, these funds often fail to achieve their goal (Crandall, 2006, p. 53).

One must also bear in mind that when it comes to these large, super-projects, the issue tends to lie with the absence of proper regulations over these constructions. There are two ways for managing such regulations: Inter-Governmental Agreement between the countries directly involved or a series of Host Government Agreements between the states in question and the corporations-led consortium (originally meant for reducing the risks of investing into unstable regions and avoiding the incompetency, inefficiency or corruption of local governments). Both solutions have been liable to waves of criticism; the IGA due to the above mentioned lack of prudent administration and corrupt governments, and the HGA because of tendency to taking precedence over domestic legislation, thus allowing the oil interests surpassing standard legislative regimes on oil and gas exploitation and

¹⁷ Although, all this elaborate energy planning on the western side may quickly turn sour, since Azerbaijan and Russian Federation are discussing the option of pumping Russian Federation oil into the pipeline.

¹⁸ Which were already shattered with the death of the Nabucco pipeline project in 2014.

¹⁹ Dutch disease is an over dependence on natural resources, consequently resulting in failure to effectively develop other sectors of the state economy.

²⁰ In Azerbaijan, the visible effect of these stabilization funds was witnessed in 2012, when growth in the non-oil sector surpassed the growth in the oil sector for the first time (Pivariu, 2014, p. 177).

environmental protection. HGAs are part of international investments agreements under international law, usually of extremely volatile nature; it is standard procedure to include a clause, stating that the agreed upon standards are not static but will evolve over time. This essentially allows oil interests to surpass standard legislative regimes on oil and gas exploitation and environmental protection issues. Additionally, the host governments are not allowed to challenge the decisions made in the name of “evolving conditions” due to the possible damaging “effects on the economic equilibrium” of the project, therefore representing a clear danger to national sovereignty (Zimnitskaya and Von Geldern (2010), p. 11).

With the intention to match the current energy policy priorities, the EU has identified the cooperation with Caspian region as one of the means to reach these targets. The general legal framework, except in the case of Islamic Republic of Iran, governing the political, legal and trade relationships is the Partnership and Cooperation Agreements (PCA). With the main aim of stronger presence within the region, the EU has initiated several collaboration platforms: The Transport Corridor Europe-Caucasus Asia (TRACECA) in 1993, The Interstate Oil and Gas Transport to Europe (INOGATE) in 1995, the Energy Charter Treaty in 1997 and The Baku Initiative in 2004.

However, despite the strong efforts of EU in the region, taking into account the full capacity of the Caspian States to produce energy, the importance of the Caspian reserves should not be overestimated. Even though the export volumes are not at its peak and the strong interests from the NIS states to cooperate with the west are seen as positive, the potential access to the reserves should be seen rather as a step towards greater diversification.

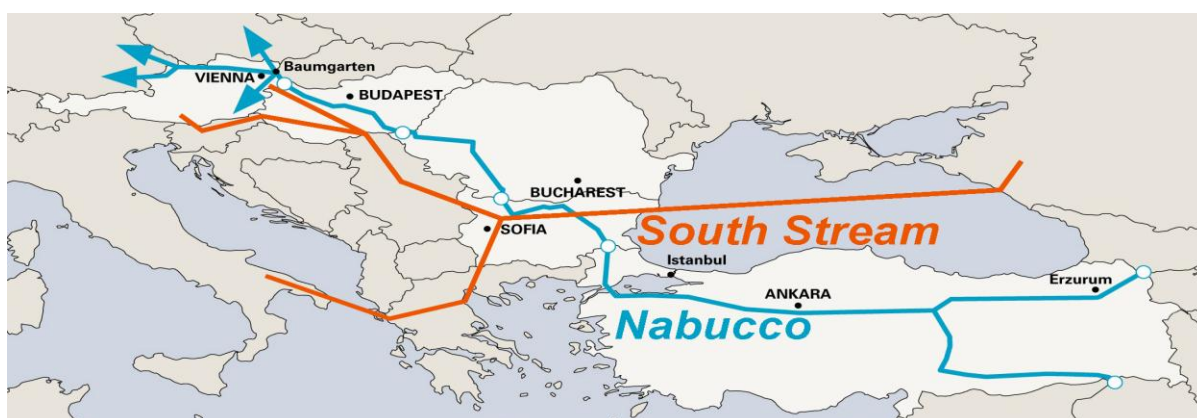
7. Case study: death of the Nabucco pipeline and the lessons learnt

Nabucco was the natural gas pipeline project, envisioned to connect the Caspian resources with the European market and has, in the context of previously stated goals, enjoyed full support by the EU as official means of diversification of energy supply. Stretching from Turkey to Austria, crossing Romania, Bulgaria and Hungary, the initial plan saw provision of natural gas mainly from Azerbaijan, but also Turkmenistan, Islamic Republic of Iran, Iraq and Egypt. The Nabucco project was therefore, in accordance to the European aspiration, set to transport natural gas to Europe from just about everywhere, except for Russian Federation. As demonstrated on the figure 5 below, the construction phase was supposed to start at 2012 and the estimated start of operations was expected to be due earliest in 2015. Given the maximum capacity of Nabucco, 31 bcm, the project could thus contribute some 4.4% of the total required gas supply.

In the first phase of the project, Azerbaijan agreed to feed the pipeline with 8bcm of gas (but later on, the government did not increase production in the Shah Deniz gas fields in time to meet the requirements); the second phase was planned to introduce gas from other Central Asian countries, while in the third phase the pipeline would get steady gas inflows from Islamic Republic of Iran, Iraq, possibly even Egypt.

Nevertheless, this over-optimism represented only one layer of the overall issue with the Nabucco pipeline. Others included the strategic rivalry in Russian Federation's proposed South Stream, because the two pipelines targeted same markets and follow extremely similar routes (three out of five countries, envisioned to be along the Nabucco pipeline, are also part of the South Stream proposed pipeline). Additionally, the whole project has been facing criticism from several angles. Considered as unique means for diversifying from Russian Federation market, the project was often cited as being politically motivated (and therefore pushing the commercial value of the project on the side in comparison). In fact, signalling the importance of the project to the EU, Nabucco was given an official exemption from the EU competition rules in 2008. The financing of the two projects also merits examination because we have to consider that since the Nabucco pipeline was supposed to be privately financed, it had to show commercial value, while Gazprom has never had a problem financing any alternative pipeline in accord with Moscow's strategic goals (Marketos,2009, p.16-17).

Figure 5: Planned South Stream and Nabucco gas pipelines



Source: Flores (2014)

Disregarded in the South Stream planning, though was strategic (energy) gaming of the EU. This political bargaining halted the South Stream project and pronounced it dead in late 2014. The pragmatic reasons for this decision were the continuous obstructions, posed by the Bulgarian government (which many believe were orchestrated and supported from

Brussels). Henceforth Russian Federation declared her withdrawal from the South Stream pipeline and immediately started focusing on Chinese markets and securing new deals with Turkey. If EU thought to gain with this move, these recent events show it might be a grand miscalculation. Not surprisingly, the Northern leg of the Russian Federation project, North Stream, which is covering energy needs of Germany and bypassing Ukraine, Poland and the Baltic states, is fully operational. The latter clearly demonstrates the political wisdom of those leaders, who can still afford to exercise it in the powerplay²¹ taking place inside the EU.

And as it so happens, the Nabucco pipeline, energy fantasy for many western energy strategists, was also at the mercy of geopolitical pipeline diplomacy. It received the first damaging blow in 2012, when the proposed pipeline route was reduced for more than half, from the original 3900 miles to 1300 miles, due to the substantial and previously uncalculated for financial costs and shifting governmental support in host countries. This meant that the Eastern section of the pipeline was terminated, making way for the Turkey-Azerbaijani financed Trans- Anatolian pipeline (TANAP). The remaining part was afterwards known as the Nabucco-West. But even this reduction could not save the project that received a lethal blow in June, 2013, when the Azeri Shah Deniz Consortium chose the competing Trans- Adriatic pipeline (TAP) instead (Fandrich, 2013, n.p.a.).

Figure 6: Proposed pipelines in the Southern corridor



Source: Fandrich (2013)

²¹ Powerplay is an expression for the eponymous theory on international relations, elaborating the construction of asymmetric alliances, designed to exert maximum control over the smaller and weaker ally states and their actions (Cha, 2010, p.158).

After the decision was made public, the chief executive of the Austrian energy company OMV told the media that the Nabucco pipeline was over for them, effectively ending the rumours that the pipeline is nevertheless still going to be built and ending the dream of many high-level politicians in the EU energy sector. A decade of planning was therefore finished, with very slim chance of ever starting up the project again. We could say that the Nabucco pipeline ended in a very public divorce between money and strategic convenience.

This course of events and the final decision point out at the unique processes, taking place in the Caspian energy field. It is very hard to argue that the decision to choose TAP (and as a result effectively terminating the Nabucco pipeline), was not strategic and (geo) political. The behind the scenes events taking place were largely connected to the beneficiaries to the fruits of the project, the economic reconsideration and the strategic rapprochement of Russian Federation and Azerbaijan. We have to be clear on the fact that the decision to terminate Nabucco was taken in Baku. Reasons for that are many-fold, mainly:

- The Nabucco pipeline was a joint EU project, while Azerbaijan and Turkey are behind the TAP (and the important midway junction TANAP),

- The route is 500 km shorter than the Nabucco-West and therefore more economical,

- As clearly demonstrated in the figure 7, the pipeline infrastructure will mainly go through Greece (therefore, eliminating the risk of interruptions in the supply chain to practically one country only),

- As a result of the EU austerity measures in Greece, the country was forced to privatise the state owned energy company DEPA and the state gas provider DESFA. Azerbaijani state company SOCAR was the buyer of the Greek DESFA (the strategic implications of the decision for the TAP project are now ever more clear),

- Azerbaijani decision to not sour the relations with Russian Federation,

- The goal of Azerbaijan and Turkey to enhance their role as pivotal energy suppliers for the European markets (Weiss, 2013, n.p.a.). (And the irony in this is unmistakable; in the efforts of trying to eliminate the influence of Russian Federation,²² the EU got tackled by other Caspian states).

²² Although the TANAP and TAP will to some extent eliminate the dependence on Russian supply for Europe, this effect will not be as substantial as the EU planners envisioned it to be. The capacity of the pipeline of 10 billion cubic meters a year represents a very modest 1% of the total annual European energy demand.

8. Conclusion

As witnessed, the Caspian Basin has re-emerged to the centre of global attention. This conversion is referred to as the “New Great Game”, implying that a new form of race has started for the access of Caspian resources. Along with the increased competition, the position of newly independent Caspian littoral states, Kazakhstan, Azerbaijan and Turkmenistan has dramatically changed. Possessing the influential power over their respective reserves now, the three states also have to compromise with various external parties for the access to energy transit routes, know-how and capital. Additionally, we must not neglect the impacts of the current Ukrainian crises, giving way for wave of instability right on the borders of the Caspian region.

With regards to regional disputes, the implications of elaborated issues are manifold. Momentarily, the biggest cause of worry is the above mentioned situation in Ukraine. It is unclear to which point can the hostilities further deteriorate and henceforth impact the stability of the already sporadically turmoil Caspian. Additionally, other itemized ethnic and territorial disputes also have adverse impact on both the energy supply potential and the business environment in general. Complex conflicts between various ethnic groups within the region and numerous secessionist movements might lead to chain reaction or domino effect. Not to forget the Northern Caucasus and Nagorno-Karabakh regions, recently rated as dangerous conflict areas, where circumstances might unfold to carry devastating regional consequences. Moreover, the disputes over the legal status of the Basin (although recently not that common) danger the stability; therefore the *sui generis* legal status is the only viable approach present, and it needs to be capitalized.

Finally, as identified earlier, Caspian Basin has also emerged as key area of European interest, with clear focus on energy supplies and ultimate goal of diversifying the supply chain. With regards to these goals however, the EU approach could be criticized for being too fragmented. Unable to often speak with a common voice on energy related issues this global player, in terms of increased cooperation initiatives, stays far behind from the successful actions of Russian Federation. And even with politically heavily supported projects like the elaborated Nabucco, EU has recently failed again in achieving the desired goals because it over-estimated its influence in the region. In the lessons learnt from this experience it should be evident that, although trying to escape Russian Federation`s strategic grip, other Caspian littoral states are also striving for their own economic power and independence. They might not want to stumble from one strategic umbrella to another, but instead make a solid position for their own voice in the future of energy matters in the Caspian.

To conclude, it is likely that political motivations in the regional pipeline diplomacy will become ever more crucial due to the deteriorating relations between the two important players in the Caspian, Russian Federation and EU. With the introduced highly explosive mixture of political and energy factors, we might see new life springing in the process of alliance making and geopolitical bargaining. In this cluster of interests, optimistic at heart can hope that careful fine-tuning is going to be the main strategic focus for all the players involved. But for realists, it might be of concern that balancing numerous grand interests can raise the stakes incredibly high, especially when they are intersecting on such a limited space.

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