

## Geopolitics of Oil and Gas in South Caucasia

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### Abstract

The South Caucasus states are known to serve as a transit or energy “bridge” that delivers Caspian hydrocarbons to Europe, making the region of vital imperativeness and a point of attraction to all western powers. The issue of geopolitical configuration of forces in the Caucasus region is greatly connected with the trend of foreign powers influencing its processes, events happening within its borders and out of their lines, and with the establishment of new exporting pipelines by-passing Russia in order to minimize its place and role in the region. The paper sets out to analytically x-ray the influence, impact and position geopolitics assumes in matters of oil and gas in the south Caucasia. The paper implores the use of content analysis and review of relevant literatures in sum to attempt a comparative analysis of the subject under stud, imploring variables such as the; geostrategic, geo-economic interest of the distinctive leading geopolitical players and examining the attitude of these players in the South Caucasia region in terms of oil and gas.

**Keywords:** energy security, geopolitics, oil and gas, South Caucasia



Source: Blomberg T., Trans-Caspian Gas Pipeline, 2015

### Introduction

As a result of natural population growth; mankind's unstable needs, economic and technological developments has increased the demand for energy. The importance of Oil and gas from the early 20<sup>th</sup> century cannot be overemphasized, as it has established to be one of the most important economic cum political power, hence the longing and quest for it, which incidentally will remain so in the nearest future; more than 44 percent of the 75 percent of the increase in energy demand, is from China, India, and Brazil, and more countries are likely to follow rapidly on this path in future.

After the collapse of USSR the new geopolitical realities have been created especially in the post-soviet space. In the beginning of the 1990s several opinionated and interethnic conflicts ensued in the post-soviet space; the Caucasus region. The Caucasus region is located at the crossroads of Europe and Asia, and its strategic geographical location and substance is mostly determined by the fact that important trans-continental communication corridors lie across it. The intensive competition and clamor for a stake in the region grounds on tremendous mineral

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resources in the Caspian region, particularly its huge oil and gas reserves. The South Caucasus states act in the role of energy “bridge” to deliver Caspian hydrocarbons to Europe. The issue of geopolitical configuration of forces in the Caucasus region, is greatly connected with the trend of foreign powers influencing in the region, and with the establishment of new exporting pipelines by-passing Russia in order to minimize its place and role in the region.

## South Caucasus Region

The South Caucasus has become a new strategic frontier for Europe, Russia and the United States in terms of energy security, unresolved conflicts, trade links, migration, and key policy areas. Prospects for the South Caucasus in the 21st century will be shaped by the interaction between major external actors, the ambitions of states and peoples in the region, and the region’s role as a crossroads of hydrocarbon routes. Regional tensions, natural resources and geopolitical rivalries make the Black Sea Region a strategic but sensitive area. In the absence of cooperative structures able to contain conflict, security threats ranging from interstate conflicts to illegal trafficking have emerged. At the end of the Cold War, the states around the Black Sea regained their sovereignty. This historical event not only marked the start of a move towards independence, democracy and market economy, but also unleashed hitherto suppressed ethnic, national and territorial conflicts, and even terrorism. Analysis of the US presence in the South Caucasus region demonstrates concern of the country not only with the issue of energy safety and possibility of energy being transited through it, but the regions ability to maintain the status of being an influential player in all key geographic points of the planet, including the Black Sea.

## Existing and Prospective Projects

At the moment, the region is pre-occupied with extending and expanding its energy carriers supply ways, new exporting pipelines are being constructed. In other words, effort is in place to establish more pipelines. And this was informed by the recent struggle of the Caucasus states for the control over the ways of delivery of hydrocarbons to foreign energy markets which has intensified significantly. The Baku-Supsa pipeline is one of many such projects that have sprung up in the region since the fall of Communism, when the massive natural resources of the Caspian region were opened to foreign investment for the first time. The proposed western route, a refurbished Soviet-era line, passing through Russia has faced opposition and antagonism from Turkey because it requires tankers for crossing the Black Sea, which are forced to transit the Bosphorus. Turkey sees this as a potential ecological hazard. This was a significant threat because Turkey is in control of the only route from Georgia to the west. Therefore, the pipeline was designed to go through Turkish straits for shipping to global markets.

The Baku–Tbilisi–Ceyhan (BTC) pipelines construction will have major implications for the South Caucasus, espe-

cially as regards its role in European and World Politics. For everyone involved, within as well as in every direction from the South Caucasus, the building of the BTC pipeline reconfigures the mental map with which political observers and decision-makers look at the world. Azerbaijan and Georgia will see their futures in more direct relation to Europe through the umbilical cord that BTC constitutes.

Baku-Tbilisi-Erzurum Gas Pipeline (also known as: South Caucasus Pipeline) is improving the gas supply of Georgia and Turkey. These two countries which are mostly reliant on the imported gas from Russia and particularly from Iran will have an opportunity to receive alternative source of gas. Besides, it will create the convenient base for the further transportation of gas toward the other states of the Black Sea region. (Chitadze, 2009)

The Nabucco-West pipeline (also referred to as the Turkey–Austria gas pipeline) is conceived as an alternative gas carrier to South Stream that would be delivering Caspian gas to the European Union along a route bypassing Russia’s territory and thereby impeding its influence. Many in the political and economic quarters of the EU were saying outright that Nabucco’s main aim was to reduce the share of gas supplies from Russia. However, no fundamental progress in implementing the project has been achieved yet. Generally speaking, Nabucco is not so much an economic project as a political one. The European Commission had hoped to use it to ease the influence of Russia as the main source of fuel for Europe. The Trans-Anatolian gas pipeline (TANAP) is a proposed natural gas pipeline from Azerbaijan through Turkey to Europe. TANAP to reach the European market in terms of the independent Azerbaijani gas from Russia is of paramount importance. Natural resources have created the desire to have reliable means of transportation of Azerbaijan repeatedly brought to the West. For this reason, TANAP Baku offers new opportunities for the diversification of energy policies. From the perspective of Turkey, however, this project cannot meet all the needs of the project of natural gas. South Stream is seen as a rival to the projected Nabucco pipeline. Some experts claim that the South Stream pipeline is a political project to counter Nabucco and to expand Russian presence in the region. South Stream is of considerable political importance. As it will undermine the monopoly position of Ukraine as a transit country for gas supplies and ensure that Europe continues to receive a large proportion of its gas from Russia.

## Geopolitical Interest of Main Players

There are three groups of basic interests, represented in the region of today;

1. US and major continental European countries
2. Post Soviet Russia, Turkey and Iran
3. Black Sea countries

Due to the convenient geopolitical location, the South Caucasus region is one of the most important locations in the world and plays an extremely important role in the modern

global security affairs.

## United States of America

For the US the South Caucasia is a strategic corridor, serving three basic and interrelated strategic purposes; first, the region connects Europe with Central Asia through the Caucasus, with Central Asia being the focus, the seat of the geo-strategic balance between China and the West for the 21st century. Second, the region represents a gateway to the larger Middle East. The opportunity to shape and control the agenda of the Black Sea and the Caucasus provides the US with the potential to fully integrate both regional powers – Russia and Turkey – into the Western Alliance. Third, the region is an important commercial route and energy corridor, which could provide Europe with alternative oil and gas resources. The U.S. has a significant interest in expanding oil and gas pipelines networks to bolster competition, diversify suppliers, and facilitate the production of energy to deal with surging global demand. It is concerned about Russian assertiveness in gas markets, including its use of gas as a political instrument, and is keenly aware of Turkey's own strategic role and growing stake in Mediterranean-Black-Sea-Caspian energy networks.

## European Union

The EU has increasingly become a geopolitical player in the region, with growing abilities to protect its interests in its South-Eastern neighborhood. EU policies toward the regional states have included some strategies: enlargement with Romania and Bulgaria with prospects for the eventual inclusion of Turkey, the EU's strategic partnership with Russia, and the European Neighborhood Policy (ENP) including Ukraine, Moldova and the three South Caucasian states. The specific areas examined are energy diversification and conflict resolution. So far, energy diversification is the field where the EU has most clearly realized this conflict of interest, while it has been reluctant to challenge Russian interests regarding the unresolved conflicts, Transnistria being a partial exception. (Star, Cornell, 2005) These are key areas of EU involvement, which are also closely tied to the EU's abilities of pursuing its deeper objectives in the region, regarding the development of a stable, secure, and democratic European neighbor.

Europe's future growth in gas supplies is likely to be met not mainly by growing Russian gas production but by gas supplies from the energy-rich states of the Caspian region: primarily Azerbaijan, Kazakhstan and Turkmenistan. In recent history, the export of Caspian oil and gas to the EU would have seemed utopian. Yet important developments since have made this prospect utterly realistic. This is in great part due to the completion of the Baku-Tbilisi-Ceyhan pipeline. This pipeline effectively connects the West Caspian shore with European markets, providing top-of-the line infrastructure for oil and a parallel gas pipeline. This also makes the prospect of East Caspian resources reaching Europe more realistic than ever, as the infrastructure is now in use just across the Caspian.

## Russia

24 years have passed since the fall of the Soviet Union, but, as any British national will tell you, this is too short a time for the mentality of the ruling elite to adjust to a post-imperial way of looking at the world. Russia's global strategic framework is reflected into two basic strategic dimensions: passive dimension of resistance, and active dimension of powerful geopolitical return through the policies of energy. The South Caucasia has the value of a strategic corridor, connecting Europe to the Caucasus, to the Caspian and to Central Asia, the most important thing is to cork, to plug up this corridor, to turn it into a dead end, an impasse for the Western security and developmental infrastructure. Jeopardizing politically Ukraine's and Georgia's application for NATO membership is one possible instrument to pursue this aim. Causing and maintaining low intensity conflicts in the "bottlenecks" of the Black Sea region – like the South Caucasus - is another instrument, used by Russia. The ethno-communal contests effectively fragment the fragile national structures of post-Soviet republics, putting into jeopardy the key prerequisite for those countries to join the Western Alliance – institutional stability, transparency and rule of law. (Socor V., 2006) Russia has had a clear and discernible policy regarding energy resources as relates to both Europe and the wider region. This policy has consisted of a number of facets, all of which have sought to capitalize on energy as the main vehicle for strengthening Russia's influence over its neighboring regions. The strategy has had several main aspects: state control over the production of gas for export; keeping a monopoly on acquiring Central Asian gas at cheap prices; achieving increasing dominance over the European consumer markets; and utilizing dominance over both the import from and export to CIS countries (Commonwealth of Independent States) of gas for political purposes.

Moscow is increasingly capitalizing on energy – and particularly the less fungible commodity that is natural gas – as a tool to boost its influence and might vis-à-vis Europe. The picture is clear: Moscow is aiming to dominate Eurasian energy, and has repeatedly shown its readiness to use this domination for political purposes. Political use of energy has been blatant in regard to former Soviet states, including EU members.

## Turkey

After the break-up of the Soviet Union, Turkey became the largest littoral state on the Black Sea. There are series and sequences of challenges and conflicts being anticipated to be faced, with no immediate or easy solution in sight. Turkey possess huge mineral deposits and a very advantageous geography, because Turkey's neighbors, the Middle Eastern countries, Europe, Russia and the Central Asian republics have nearly 73 percent of global oil and natural gas reserves; therefore, for the Turkish policymakers Turkey is a natural energy hub, an energy bridge between energy consuming countries of Europe and energy producing countries of Middle East, Russia and Central Asia and it also portends the quality of ensuring energy security through diversification of routes. Based upon the Turkey's needs and geostrategic

position, fundamental priorities of the Turkey's energy policy are to secure, stabilize and diversify energy transportation routes. In favor of that mentality, the Turkish policymakers have given priority to long-distance, cross-border energy pipelines that will assure the energy security for both Turkey and energy consuming countries of the Western world. Meanwhile, its energy strategy is to complete the East-West energy corridor and thus it aims to transport energy resources in the Caspian Sea to the Western countries, bypassing the Russian route. Turkey had planned to become a new, important and effective actor in the world energy sector, and by completion of the international projects, nearly 6 to 7 percent of global oil supply has been transiting through the Turkish territory from as far back as 2012 and thus naturally Ceyhan city has become a major energy hub and oil outlet terminal in the Eastern Mediterranean.

### Azerbaijan

Azerbaijan is the most important country in the region especially for Russia, whose position in the entire Caucasus largely depends on its influence in this particular state. This is due to the strategic location of Azerbaijan at the intersection between Southern Caucasus (the border with Georgia and Armenia), Central Asia (the maritime border with Kazakhstan and Turkmenistan) and the Middle East (the border with Iran). Azerbaijan is also the largest and most populous country in the region and has large oil and natural gas reserves, especially on the Caspian shelf. Other important aspects that is of importance to Russia's security interest include Azerbaijan's close border tie with the unstable Russian Northern Caucasus, and Baku's close co-operation with Washington, Ankara and NATO, which Russia perceives as a threat. In relation to Azerbaijan, Russia has much fewer instruments of influence than with Georgia, a country with no energy resource of its own. The policy of Russia during the Karabakh conflict is a serious problem in its relations with Azerbaijan. Freezing the conflict, i.e. making sure that the quasi-independent state of Karabakh Armenians continues to exist and that the Armenians separatist community continues to occupy Azerbaijan accounting for about 15-16 % of the country's territory is in the interest of Russia as it enables it to exert influence on both Azerbaijan and Armenia.

Azerbaijan, as a natural gas and oil supplier as well as a developing country, has handled the issue of energy in terms of its implications for Azerbaijan's economic growth and security with keen interest. However, the consideration of Azerbaijan alone is albeit insufficient in explaining the phenomenon of energy security within the context of Azerbaijan, in that the wider Caspian Sea region, in the post-Cold War era, has become highly crucial for the global energy regime.

### Georgia

After the short period of "strategic idealism" that characterized the early days of independent, Georgia began to develop and increasingly realistic foreign policy, which has been less motivated by the fear of Russia and not solely driven by the short term survival agenda.

Georgia is following a pro-Western course, aiming to enter Western institutions and has a clear intention to join NATO and the EU. When looking at Georgian energy security, the question could be raised whether the country has put its stakes too high. Explosions in Russia's North Caucasus region, which cut off Georgian energy supplies in January 2006, clearly demonstrated the country's dependence on Russian energy supplies. Already having doubled the price of gas, Russian consequences in the case of a Georgian withdrawal from the CIS could have proven most severe.

In addition to energy dependence, Russia was Georgia's largest trading partner in 2005. However, the re-routing of energy supplies from Azerbaijan, Iran and Turkey, makes it clear that Georgia is trying to reduce future energy dependence on Russia. Moreover, Georgia has recently become a main energy transport corridor for Europe because of the BTC oil-pipeline and the BTE gas-pipeline. Thus, the transit fees for energy transports paid to Georgia are a potentially substantial asset to the nation's economy.

### Armenia

As a consequence of the disintegration of the USSR, Armenia gained independence in the early nineties. This young republic was heavily burdened by the war over Nagorno-Karabakh in neighboring Azerbaijan, which started in 1989. The important factor that limited its development was the blockades with Turkey and Azerbaijan. Nevertheless, Armenia is showing structural economic growth through Western and Russian economic support. The Armenian Diaspora, which according to some sources consists of 10 million people, constitutes a source of powerful support for Armenia's interests and provides for considerable financial support. Armenia maintains strong military and economic ties with Russia and is considered to be Russia's last loyal ally in the South-Caucasus. On the other hand Armenia's willingness to implement economic and democratic reforms has resulted in considerable development assistance from the West. Armenia is Russia's only loyal ally in the South Caucasus. By announcing the year 2006 as 'the year of Russia', Armenia has demonstrated that it attaches great value to its relationship with Moscow. Nevertheless relations have suffered some pressure as of late when Russia's natural gas producing firm Gazprom announced prices would be raised. This has led to severe criticism from the side of the opposition in Armenia. As the country is totally dependent on energy from Russia, there have been calls for investigating alternative energy sources to minimize dependence on Russian gas. (Chatlamadzhan, 2005)

### Conclusion

Conclusively therefore, it can be said that the South Caucasus region stands out as one of the most attractive geographical locations in the world, and reasons for this could be advanced thus;

- i) Huge Energy and Mineral deposits

ii) Rivalry main geopolitical players such as United States of America, Europe, Russia, Turkey and Iran and there are several sources of conflicts in this region.

The region is increasingly becoming a critical strategic crossroads in 21st century geopolitics. It links Europe with the energy rich countries in the Caspian region, and as a result it is a nexus of multiple oil and gas pipelines and pipeline projects. If the EU is serious about the diversification of its energy supplies and improving its long term (beyond 2025) energy security, the region must become a priority for the EU, because its oil and especially gas options will heavily depend on it. Furthermore, development and promotional cooperation in the region is limited at bilateral and trilateral level instead of being advanced to multilateral levels, whereby countries of the world could be involved in the developmental project of the region. Hence, it faces certain limitations in terms of harnessing cooperation and assistance from other parts of the world.

In furtherance to the above, the following key areas must be addressed succinctly, and they inter alia;

i) Western countries especially US, EU and Turkey should have an increased interest in the Black Sea Caspian region in terms of energy security and will be able to provide energy security and decrease to dependence of import oil and gas from the Russia Federation and Middle East.

ii) South Caucasia countries should determinate position related to the energy security.

iii) The primary responsibility for articulating rational vision of what the Black Sea region should look like ten years from now it is significant to mention that clarify implementation existed projects and at the same time consideration of prospective projects.

iv) The Black Sea region countries displays a high degree of diversity in terms of the size and physical power of the countries involved, levels of socio-economic development, systems of governance, maturity of democratic institutions, business culture and financial structures, and human development indicators. We can say that the individual economic performance of most of the Black Sea countries except Armenia, over the past decade was impressive.

v) The stability of the wider region will depend very much on cooperation energy, we may understand the urgent need for an Energy Security Strategy in the Black Sea region.

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