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BLACK SEA REGIONS AND CENTRAL ASIA IN ENERGY FIELD: LESSONS
FROM THE PAST, UPDATED SITUATION AND NEW CHALLENGES

Abstract

The article is devoted to review the issue of transportation the oil and gas in the Caspian region through Georgia and Turkey, to analysis of the benefits for Caspian, western and transit countries. Risks and challenges in energy cooperation around the Caspian region are investigated.

Keywords: *energy, Caspian region, energy cooperation, security, risks.*

Аңдатпа

Мақалада Каспий аймағының мұнайы мен газын Грузия мен Түркия арқылы тасымалдау сұрақтары, сонымен қатар Каспий маңындағы, батыс және транзиттік мемлекеттерге алып келетін пайдалары қарастырылады. Каспий аймағы маңындағы энергетикалық әріптестіктегі қауіп-қатерлер зерттеледі.

Тірек сөздер: *энергия, Каспий аймағы, қауіпсіздік, қауіп-қатерлер.*

Аннотация

Статья посвящена рассмотрению вопроса транспортировки нефти и газа Каспийского региона через Грузию и Турцию, анализу выгод для прикаспийских, западных и транзитных стран. Исследуются риски и вызовы в энергетическом сотрудничестве вокруг Каспийского региона.

Ключевые слова: *энергия, Каспийский регион, энергетическое сотрудничество, безопасность, риски.*

Some lessons from East-West cooperation on energy issues in the Caspian basin region between 90 s and updated situation.

- New model of partnership of Western Community with newly born sovereign states on strengthening of their independence, fostering democratic reforms and economic stability through economic security dimension. One of the first East-West cooperation experiences in post-soviet space in this respect.

- Based on the mentioned model, promotion of energy sector in modern international economic relations and diplomacy as one of the key elements in enhancement of global and regional security. Establishment of such direction in the world diplomacy as „energy diplomacy“.

- The Energy Cooperation Agenda gave a chance to Georgia and other regional partners to determine and strengthen their international function as transit and producing countries.

- Oil and natural gas pipelines crossing through South Caucasus, in particular, the first one Baku-Supsa (Black Sea coast), proved the fact, that despite conflicts, the region had sent a positive example of reliable and effective partnership. These results also demonstrate enormous opportunities of the region, that pretends to repeat the story of economic prosperity of Canadian Quebec, or Estonia (which economy recently has been based on administrative-command system), if conflicts disappear in South Caucasus.

- Introduction of a new East-West model of full-fledged cooperation with the involvement of all levels of players on energy market: producers, providers (transit partners) and consumers including huge investments from state and private sectors of Western Community

- Political will, new vision and exclusive responsibility for far reaching strategic decisions of the leaders of the region in promoting large interregional projects, in particular a special role of Presidents of Kazakhstan and Azerbaijan in this respect.

- International Energy Diplomacy of 90 s contributed to real integration of South Caucasus into European Community, accompanied later by a number of important agreements in the fields of infrastructure development, trade, investments, visa regime and etc. Thanks to this, the basic component part of the Eastern European Partnership Program is linked with energy issues.

1. Benefits for Georgia.

Brings more stability to provide large scale economic reforms, development of infrastructure, improvement of macroeconomic environment, full-fledged entering the European and other markets, thus enhancing the international function of the country, more chances for promotion of foreign investments, positive example (as well as for separatist regions) as a reliable partner and successful country.

Thanks to Azerbaijan, Georgia started the receipt of stabile energy supply (gas supply contracts with Azerbaijan for 10 years and with Shah Deniz field for 20 years). Georgia has been the only one, lack of sufficient own energy resources country in the region, that had not been effected by energy crisis in January 2009. Moreover, the country increased the export of electricity to its neighbors, including Turkey, Russia and others (currently net electricity exporter to all four neighboring countries). First time since the gaining of independence Georgia enjoyed an opportunity of having permanent electricity and heat supply. The industrial complex also started the full-fledged functioning. The Azeri investments help the country to provide the irreversibility of economic reforms.

State and Oil Gas Company of Azerbaijani Republic presented in Georgia by its subsidiary entity SOCAR-GEORGIA is considered as one of the largest contributors to the energy security of Georgia. The Company s activity includes trading of oil products, import of natural gas and fuel, construction of the refineries and patrol stations. From the very beginning of its operation the SOCAR-GEORGIA has taken the leading position in energy sector of Georgia.

„ Participation of Azerbaijan in such projects, like Baku-Tbilisi-Ceyhan and other projects, that form the East-West energy corridor, has given Azerbaijan and his international partners important trade, economic and strategic dividends,, (from Statement of the US President Barak Obama addressed to participants of the International Exhibition on Oil and Gas held in Baku, June 5–7, 2011).

Kazakhstan successfully develops economic cooperation with Georgia covering management and shipment of energy resources on local market and its role in stability enhancement for the whole region will be even more crucial in future.

2. Benefits for the Caspian region.

Major benefit – strengthening of the state independence of the countries and fostering of the market-oriented economic reforms. I think we have to agree with the remarks of Mr. Evan A. Feigenbaum, Deputy Assistant Secretary of State , South and Central Asian Affairs in his speech before the audience of the Central Asian Caucasus Institute, Nitze School of Advanced International Studies, John Hopkins University made in 2007, February 6th: „ Our focus is to support Central Asian sovereignty. And quite logically more options in more directions, from the steppes to the sea, mean more opportunities, and thus more independence „ Among other advantages – availability of alternate options for the transit network, in fact solely dependent on Russian infrastructure, better access to the nearest European and other markets, multidimensional opportunities of energy resources delivery and, thus better overall stability for Caspian basin. Revenues from energy oil and natural gas extraction and, in some cases from transit of these commodities, created a fundamental basis for economic stability and even prosperity for majority of countries of South Caucasus and Central Asia within last 15 years. Significant financial flows permit the Governments of some countries, like Azerbaijan, Kazakhstan, Georgia and others, to support financially the national educational programs and send their talented young people abroad to be trained on international standards, that is paramount for better integration into the world science and business community and successful completion of the reforms inside. It is important, that the leaders of the mentioned countries realize that only highly educated generation could bring positive changes for the countries in transition.

3. Benefits for Western markets and global security.

More secure environment via alternate supply opportunities, investments not only of economic origin, but investments into democratic development for the countries of the region. The role of the Caspian region is increasing in the context of global financial crisis of 2008 and situation in the Middle East, as a region, unlike current European vulnerable economic and financial environment, that demonstrates the ability to retain more or less stabile macroeconomic climate and preconditions for further growth.

The other important aspect. Currently, in our opinion, the East-West corridor with its infrastructure identified itself as one of the most securest and shortest supply route to provide peace, security and economic growth for Afghanistan, as an example, and wider area. The new proposal of Kazakhstan to modernize the Silk Road corridor based on an introduction of the „New Silk Road,, Project covering the area from China till Western marketplaces might be a huge contribution to global security and economic stability.

4. Benefits for Turkey in terms of strengthening of its traditional interest and cooperation with this important region for the country where it considers itself as a key player. Emerging market of the region assumes a huge portfolio of Turkish investments and requires high volumes of commodities and services. And the Caspian region gives this chance. Rapidly growing economy of Turkey needs stable and traditionally close and reliable business partnership with the countries of South Caucasus and Central Asia, particularly in energy supply direction. The countries of the region can also draw the lessons of Turkey how to conduct the economic reforms effectively despite global risks. Large scale and progressive cooperation of Turkey with its regional neighbors on economic issues promotes a positive image of the country in the context of its European Integration. At the same time uncertainties in terms of prospects of joining of Turkey the European Union has forced this country to catalyze the integration into newly established Euro Asian economic alliances.

5. Benefits for the USA are based on new opportunities in bringing the region to international markets through enhancement the energy security and trade in and out of the Caspian basin,, Central Asia is a landlocked region for major maritime trading routes. But it ones was a crossroads of global trade, and it can once again be an important part of that trade,, (Central Asian Economic Integration: An American Perspective, Publications of the Central Asian Caucasus Institute of the John Hopkins University, February 7, 2009). The multidimensional strategy of the US Government (initiated in mid 90s) despite concerns of some countries of the region, contributed to the development of market oriented transformations and economic stability and (even its growth) that has been proved during global financial crisis of 2008. („The one success of this policy is the opening of new pipelines linking Azerbaijan (through Georgia) with Turkey s Mediterranean coast through the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the Baku-Tbilisi-Erzurum (BTE). These are of great benefit to Azerbaijan and provide transit income to Georgia,, A New Direction for US Policy in the Caspian Basin,, by Martha Brill Olcott, Senior Associate, Carnegie Endowment for International Peace, February 2009, p.3). Current Turkish-Azeri-Georgian effective partnership in economic, including energy field is one of the outputs. In addition the US, as a player on global energy market naturally, is interested in appearance of new business opportunities since it has direct impact on world oil prices. In geopolitical and geo economic terms, thanks to this strategy, some important players were forced to abstain from monopolistic domination on the market, nevertheless, the Western presence in the region had always been and still is a matter of their special concern. Thus, more dimensions, more opportunities and more benefits to all remains the central element of the US strategy. We think no one can argue with it.

6. Benefits for the European Union

No geopolitical, but primarily economic interests. Promotion of technical and legal assistance aimed at modernizing of the infrastructure of energy and transport sectors through encouragement of private investments and finally exploring new alternate opportunities for oil and gas supply to the European marketplaces. These measures, alongside with the help in democratic transformations of the countries in transition, mainly are linked with the strategic goal – to minimize the risk of high interdependence on Russia on energy resources. In general, the European Alliance is convenient partner to all the countries of the region and is considered more or less as a balancing factor in relations with the largest neighbor here. This circumstance increases the European overall importance, including its economic, security system, saves the funds for other fields of activity. The strengthening of the EU cooperation with South Caucasus and Central Asia is mutually beneficial since majority of the countries of this region support the idea of closer partnership with Brussels. Finally, demand for energy in Europe is on rise and extra supplies from Caspian basin will be in line with this trend. On top, the vulnerable situation in Middle East and wider region increases the chances of the European involvement in the NABUCCO project.

Some New Risks and Challenges

1. Russia tries to retain its leading positions within the region (some experts admit that regional, but not global leadership is current national priority for this country) and they reached more or less balanced relations in the region, mainly focusing on bilateral dimension of collaboration, comparing with the situation during 1995–2010. Under these circumstances and with other factors in mind, Russia's „energy diplomacy,, as a means of influence on European and neighboring countries still is in the Agenda.

2. In our view the, weakening role of the US in regional cooperation in the field of energy, particularly vulnerable for Georgia due to its current limited financial resources and variety of different threats.,, Every American president since 1992 has claimed that engaging the Caspian States is a strategic priority for the United States. The region is home to vast unexploited oil and gas reserves and is an important staging area for the US also in terms of security enforcement in the region. Yet Washington influence in the region is at its lowest ebb in many years.,, by Martha Brill Olcott „A New Direction for US Policy in the Caspian region,, Carnegie Endowment for International Peace, February 2009, p.1.

At the same time, the recent trends in Obama Administration policy indicate coming back to energy cooperation projects in Caspian Basin. In parallel, if NABUCCO will be commercially not reliable, other versions are to be considered – small volume pipelines which later might be extended up to larger capacity when new reserves of energy appear (ITGI, TAP and other projects)

3. Cautious policy of the European Union towards cooperation with the region in energy due to well known reservations, caused by willingness of Russia to continue energy domination on foreign markets, lack of consensus among the Alliance members on the long term energy strategy with Russia. Additional argument – hopes of the EU to finalize the Energy Charter Agreement with the Russian side, although there are substantial obstacles on this way. The multidimensional approach of the EU to energy projects (NABUCCO and South Stream) is likely to be hard to implement in time since Russia opposes the new strategy of Brussels towards joint exploitation of the pipelines crossing the European marketplaces. On top new Russia's approach – to avoid deals with transit countries at the expense of new direct routes of transportation of oil and gas creates additional obstacles.

4. Limited opportunities of the US and EU caused by internal economic and financial problems directly linked with the consequences of 2008 global crisis (continuing problems in the US Economy and financial crisis in Greece, Spain and other risks)

5. Lack of consensus among the EU members on energy security policy relating to South Caucasus and Caspian Basin (lack of common platform even on new energy supply projects within the Alliance, case with nuclear plant construction project in Baltic States and etc.). Regrettably this happens at a time, when even leading experts on EU policy admit: „The European Union will increasingly rely on sources of primary energy located outside its borders. Efficient energy use, the development of alternative energy sources, and the geographic diversification of sources of supply can ensure long-run energy security „by Stephen Martin and Ali El-Agraa „The European Union: Economics and Policies ,, Eight Edition, Cambridge University Press, 2007, p.319.

6. Natural disaster in Japan, happened in April 2011, forced International Community to reconsider its present strategy towards nuclear energy sector development that will take not only time and energy, but, primarily significant resources, (even for conservation of infrastructure). Germany has started this process. So, it is likely the attention towards further cooperation in energy field with Caspian basin will be somehow lessened at least for a while. From other point of view, in short run, the chances for new projects might be better.

7. Potential decline by 2025 of the US Dollar and Euro on global capital markets and further rise of the Chinese national currency alongside with the Asian economy as a whole will obviously have an impact on the development of the world and regional energy markets.

8. Internal risks for Georgia (alongside with positive reforms – fragile economic situation, dependence on foreign financial assistance, high level of unemployment, inflation, decrease of FDI, low level of competitiveness and other risks still need exclusive attention).

9. Due to global financial problems, the international banking sector is more sensitive to finance large projects, including the energy sector (with combination of political impact, this factor also explains the announcement about delay with scheduled start of NABUCCO project),, Construction was postponed to 2013 and first supplies to 2017,, announced by Reintard Mitschek, Nabucco Gas Pipeline International (NGPT) CEO „Nabucco Consortium postpones project start – Central Asia-Caucasus Institute Analyst, John Hopkins University, News Digest May 11th 2011,, and the main reason is lack of investments. At present, the International Financial Institutions are also occupied

with the resolution of budgetary problems for some European countries, as well as with their own problems.

10. As a result of 2008 global financial crisis – the changing of the partnership between state and private sectors in the world's leading economies towards worse, mainly due to non effective management at all levels of activities, to our opinion, made a stoppage with new investments in energy sector of Caspian basin.

11. Unlike the recent past, now days we witness the domination of bilateral or trilateral cooperation in energy sector (cases of Georgia-Azerbaijan, Georgia – Turkey relations and so on) and decline of multilateral partnership on regional energy market. The recent example – the signing of an Agreement between Azerbaijan and Turkey on the price and quantity of natural gas supply from Shah Deniz field with the volume of 210 billion cubic meters per year. At the same time some of this volume is likely to be delivered to European marketplaces. This trend, we think, will be nurtured and promoted in the nearest run.

12. In the context of full scale regional cooperation in energy the clarity in legal status of the Caspian Sea remains as one of the most crucial one.

13. Existing differences in foreign policy priorities for the countries of the region still have an impact on the progress in economic cooperation. At present the countries of the region participate in the following major regional schemes:

- * Georgia – EU, NATO, BSEC, GUAM, other structures
- * Azerbaijan – balanced policy oriented at full-fledged relations with the East and the West, EU, BSEC, GUAM, CIS, non alignment movement and other dimensions
- * Kazakhstan – balanced policy of promotion the relations with the East and the West, CIS, other regional and sub regional structures
- * Uzbekistan, Kyrgyzstan, Tajikistan – CIS and other structures
- * Turkmenistan – neutral status and attempts to promote this policy

14. Desperate need of changing the competitive environment in order to introduce the real marketing terms and conditions for beneficiaries: producers, providers and consumers is still in the agenda. „ The introduction of market-based pricing for producers, consumers and transit states alike is the best way to achieve energy security for US allies in Europe and the long-term guarantee that the Caspian states will be fairly treated in the global market,„ („ A New Direction for US Policy in the Caspian Region,„ by Martha Brill Olcott, Senior Associate, Carnegie Endowment for International Relations, Publications, February 2009, p.5).

15. The effectiveness of international regulatory mechanisms and structures in energy cooperation is still low, despite the accumulation of best intellectual and financial resources, as well as experience within them (Energy Charter, EU, UN and other structures).

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