The South Caucasus region is at the nexus of various economic, political, and energy interests and is currently witnessing some of the world's most complex and dangerous challenges. It features weak states, direct and proxy wars, and a confluence of great power interests. It is also a prism for fundamental challenges to the international system, including separatism, security, energy transit, and infrastructure. Strategically, the South Caucasus sits at the crossroads of global markets: Central Asia and China to the east; Turkey and Europe to the west; Russia to the north; and Iran and the Middle East to the south. However, the lack of regional unity and unresolved frozen and protracted conflicts remain the biggest hurdles to developing a functioning regional security architecture and market. In this volume, authored by a group of international and regional scholars, the following questions are asked: What do recent geopolitical changes in the wider region and the growing activities of other regional powers such as Iran, Russia, and Turkey mean for the South Caucasus? How can the EU undertake a strategic shift to widen its view of the region to include the wider Caucasus, Caspian, and Black Sea region?

The book is essential reading for students and researchers of the wider Black Sea region, the Eastern Partnership, energy and economic policy.

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GEOPOLITICS AND SECURITY

GEOPOLITICS AND SECURITY

A New Strategy for the South Caucasus

Editors:

Kornely Kakachia | Stefan Meister | Benjamin Fricke

GEOPOLITICS AND SECURITY

A NEW STRATEGY FOR THE SOUTH CAUCASUS

Edited by Kornely Kakachia, Stefan Meister, Benjamin Fricke

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INTRODUCTION

Kornely Kakachia, Stefan Meister, Benjamin Fricke

The South Caucasus is a region at the nexus of various economic, political, and energy interests. It is currently witnessing some of the most complex and dangerous events in the world today. It features weak states, direct and proxy wars, and a confluence of great power interests. It is a prism for fundamental challenges to the international system, including separatism, security, energy transit, and infrastructure. Strategically, the South Caucasus sits at the crossroads of vibrant global markets: Central Asia and China to the east; Turkey and Europe to the west; Russia to the north; and Iran and the Middle East to the south. However, the lack of regional unity and unresolved 'frozen conflicts' remain the biggest hurdles to developing a functioning regional security architecture. These conflicts hamper and complicate regional efforts toward independence, economic prosperity, and equal and secure co-existence. The greatest single challenge to regional development and security is the absence of a 'regional identity.' As stated by Peter Semneby, former EU Special Representative for the South Caucasus, 'with its ill-defined borders, weak economic links, absence of realization of the region's potential and lack of the 'us' feeling of a shared identity, the South Caucasus could not yet be called a coherent region' (Sammut 2008). In this sense, the South Cauca-

sus exists as a ‘region’ only for outside players. This fact undermines regional development and security (German 2012).

Moreover, in recent years a new and significant element has been added to the region’s troubled search for equilibrium. As Russia’s economic fortunes improved starting in the late 1990s due to cresting hydrocarbon prices, its policy of reestablishing its sphere of influence grew more assertive, culminating in the formation of the Eurasian Economic Union (EEU) as a counterweight to the European Union (EU). Russia strongly believes the EU is attempting to use its European Neighbourhood Policy (ENP) to spread its norms and values in the region with the aim of expanding its sphere of influence at the expense of Russia. In Moscow’s conception, this is done with an eye toward enlarging the EU and, potentially, NATO. Subsequently, Moscow acts as a spoiler that is determined to prevent the expansion of Western organizations into this part of the world. It assumes that any Western actions in the region should have prior approval from the Kremlin.[1] Furthermore, the Kremlin has demonstrated its willingness to use any means, including military intervention and subjugation, to disrupt the integration of the Eastern Partnership countries into the EU. This interventionist approach is exemplified by military intervention in Ukraine and Georgia and by the halted

[1] ‘Putin explains why Russia worries about NATO enlargement’, TASS, 21 November 2016, available at: https://www.rbth.com/news/2016/11/21/putin-explains-why-russia-worries-about-nato-expansion_649687.

Association Agreement between the EU and Armenia in 2013 and Armenia's subsequent integration into the Eurasian Economic Union.

Despite the fact that the EU and Russia are interdependent as energy consumers and suppliers, respectively, both have different political cultures, mindsets, rules of the game, and tactics for maximizing their regional spheres of influence. For the EU, the South Caucasus represents an alternative to achieve energy diversification vis-à-vis Russian energy supplies. However, it is a tense neighborhood 'region' which needs to be stabilized. Russia strives to maintain control over the South Caucasus countries – which it considers to be under its sphere of influence – and to avoid the strategic presence of the EU and NATO. By asserting a sphere of influence vis-à-vis EU, strategists in Moscow hope to prompt a suitably deferential reaction from the West, including, perhaps, regional withdrawal. Moreover, Russia exploits the existing frozen and protracted conflicts, such as Nagorno – Karabakh and the occupied territories of Georgia. Russia´s negative influence is an important obstacle for the region's Europeanization, hampering the path toward prosperity and further democratization. Consequently, all these conditions impede further regional cooperation and development of a stable regional security architecture.

However, viewing the South Caucasus first and foremost as a geopolitical battleground obscures important layers of a more complex reality. Even as geopolitical and geo-economic conflicts collide in the region, the South

Caucasus remains at the margin of EU policy. While the EU's Eastern Partnership (EaP) supposedly represents an attempt to increase European involvement in domestic developments in the South Caucasus by offering association and free trade agreements with the EU in exchange for reform, democratization, and gradual adoption of the EU's legal framework, the EU has not been able to provide strong incentives for reform. Regional elites have had only limited interest in implementing EU-directed reform, as doing so could challenge their own positions of power. In all these states, the EU can only rely on weak civil societies able to exert only marginal reform pressure from within, pressure that stands in a direct conflict with the vested interests of the ruling elites.

The EaP focuses on political and economic reforms that promote the harmonization of standards and norms and encourage democratization and good governance. It stops short of offering an EU membership perspective but is a meaningful tool of statecraft to encourage domestic development. At the same time, the ENP fails to devote necessary attention to the main challenges to reform in the countries of the region — insecurity and unresolved conflicts. The EU demands reform and, in return, promises benefits such as market access and visa liberalization. As the EaP proves to be a versatile and effective instrument, it also raises expectations the EU could struggle to fulfill. Three of the six participants of the EaP policy, Armenia, Azerbaijan, and Belarus — with some exception in the case of Armenia prior to its shift

toward the EEU – view the EaP as less a political and more a practical platform focused on people-to-people contacts and sectoral and economic cooperation with the EU. By contrast, Georgia, Moldova, and Ukraine are trying to develope more advanced, government structures to manage European integration. These countries view the EaP as an opportunity to establish more comprehensive political and economic ties with the EU with the purpose of attaining a membership perspective.

While the Eastern Partnership takes a single approach toward different countries with different ambitions toward the EU, all the countries of the region face an increasingly-challenging geopolitical environment and EU countries that are reluctant to challenge Russian disinformation and aggression. Security is thus the central challenge facing many of these countries. The three South Caucasus states have divergent relations and goals with regard to the EU and Russia. While Georgia is the frontrunner when it comes to EU-based reforms and principles, Azerbaijan operates a rocking chair policy between Russia and the West and lacks any interest in integration with the EU. From both economic and political perspectives, Armenia is deeply dependent on Russia for energy supplies and security. Due to Russian pressure, Armenia has begun integrating itself into the Russia-dominated Eurasian Economic Union.

As the three South Caucasus states seek to balance Russia and expect the EU to make a clearer geopolitical commitment toward the region with a more geostrategic

and security-oriented policy, the EU is focused on domestic transformation and wants to see the EaP countries reform and develop good governance practices. The goal of the EaP was never to integrate the participating states as full members but to support stabilization and transformation while keeping them at arm's length. The EU and South Caucasian states possess fundamentally different expectations. This not only leads to frustration on both sides, but also yields stagnation and even regression in the reform and rapprochement processes. Though the EU attempted to develop the South Caucasus as a region over the past two decades, that appears to be failing. In the wake of Georgia's Association Agreement with the EU, Armenia's Eurasian Union membership, and Azerbaijan's non-alignment and practical rejection of European integration, the geopolitical landscape of the South Caucasus is shifting considerably.

It appears that since signing the Association Agreement, Georgia has worked to 'escape' from the region and invest more fully in strengthening its strategic ties with Ukraine and Moldova other those with its immediate neighbors. With its sustained reform efforts and ambition to further develop its relations with the EU, Georgia, together with Ukraine and Moldova, has consolidated its position as a key regional and strategic partner for the EU.[2] The latter three states, described by some as 'secu-

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[2] European Commission (2017) 'Association Implementation Report on Georgia', SWD(2017) 371 final, Brussels, 11 February, available at: https://eeas.europa.eu/sites/eeas/files/association_implementation_report_on_georgia.pdf

rity orphans', share many similarities in external affairs. All three must deal with Russian involvement in their territories, economic problems, and association with the EU. These countries' ties and common goals are leading to a re-evaluation of EU policy, focusing on possible ways to launch an efficient co-operation platform as a 'Black Sea trio' (Romandash 2016). As there is no clearly defined end goal from the Brussels perspective, EU needs strongly support irreversible Europeanization and the step-by-step inclusion and close political association of Georgia, Moldova, and Ukraine in the EU and the broader trans-Atlantic community. In short, these self-declared pro-European states need a political compass or clear road map from Brussels on how to move forward without jeopardizing their European aspirations.

While Armenia, Azerbaijan, Georgia, and Turkey all seek greater security, their respective visions of security concerns and threat perceptions differ vastly. Azerbaijan, rich in oil and gas resources, is certainly the most important EaP country in terms of energy security. It has the luxury of straddling the fence, even seeking non-aligned role on the regional level. However, as a reaction to shrinking oil revenues and the Euromaidan revolution in Ukraine, Azerbaijan's elites have increased suppression of opposition and civil society actors, leading the country toward democratic deficit (Mamedov 2017). Consequently, Azerbaijan has developed close relations with Turkey and is increasing its cooperation with Russia. It seems that, at the moment Baku has no interest in

close political dialogue and deep institutionalized relations with the EU since such relations are conditional on democratic reforms – a red line for incumbent government. Though Armenia was once the former frontrunner in the rapprochement process with the EU, Russia has successfully pressured the country into integrating with the EEU. Thus, Armenia's national security is now held hostage to Russia's regional interests (Hayrumyan 2017). Because of its geographic isolation as a result of the closed border with Turkey and the conflict with Azerbaijan over Nagorno-Karabakh, Armenia's options appear limited. However, things may change following Armenia's signature of a new Comprehensive and Enhanced Partnership Agreement with the EU at the Eastern Partnership Summit on 24 November 2017. Though the agreement falls well short of the substantial issues contained in the AA and DCFTA, it still represents a strong declaration of Armenia's links to the EU and may serve as a strong foundation for future integration efforts. This agreement is the first of its kind concluded with a party that is also a member of the Eurasian Economic Union.

Turkey is facing conflicts with nearly all of its neighbors as a result of growing authoritarianism and overstretch of its foreign policy ambitions, which has resulted in the failure of its 'Zero-Problems' policy (Zalewski 2013). By using the pan-Turkism card actively by reviving the Ottoman-kinship soft power strategy, Ankara is sending a powerful message to other Turkic peoples across the post-Soviet space, including within Russia,

that it is now committed to defending pan-Turkish interests. At the same time, following the nuclear agreement with the West and Russia, Iran is playing a greater role in the South Caucasus and wider Caspian geopolitical chessboard. By cultivating new relationships with regional states and striving to regain its once-potent role as a regional power, Tehran has attempted to present itself as a protector of the weaker states in the region and a promoter of anti-hegemonic policies. Moreover, the crises of the Middle East – particularly in Syria, Iran, with the so-called Islamic State (IS) – will have growing impacts on the region and on Europe at large. Though they are of greatly varying natures and scales, these conflicts have drawn thousands of Islamist fighters out of the North Caucasus and elsewhere to join the Islamic State in Syria and triggered enormous outflows of migrants and refugees from Syria to Turkey and beyond. Amid Moscow's direct involvement in Syria and its rapprochement with Iran and Turkey, it has direct and indirect consequences for regional security. Overall, given the instability confronting the South Caucasus on several sides, the region appears to be at a watershed moment with its future trajectory in question.

All these developments change the strategic picture in the South Caucasus and have significant implications for relations with the EU. The EU is an important player but only one of several, and one that is currently facing its own internal crises. In this context, the EU's approach to region building is put under even more pres-

sure. Its transformation policy requires rethinking, not only in terms of differentiation but also in the linking with security elements. The EU must reconsider its ENP and EaP initiatives and move beyond 'stabilocracy' policies. The EU also needs to outline a new, credible political vision as opposed continuing to handle matters in its familiar technocratic manner. Issuing noble statements not backed up with deeds is counterproductive and undermines credibility. In short, the EU has to deal much more with destabilizing factors in its eastern and southern neighborhoods and needs to respond both to shifts and to the limited success of its existing policy in the region. A better understanding of the geopolitical importance of the South Caucasus to the wider region would increase each South Caucasus state's importance vis-à-vis the EU.

Bearing these substantial shifts in mind, this volume authored by a group of international and local scholars offers firsthand accounts of the current regional situation. The book attempts to provide a better understanding of the dynamics and key players in the region, seeking to explain the external and internal determinants of the political processes, including their economic, social, and strategic dimensions. The main goal of this book is to question the EU's traditional regional paradigm in the South Caucasus while focusing its analysis on different country groups such as Georgia-Moldova-Ukraine, Azerbaijan-Georgia-Turkey, and Armenia-Iran-Russia. The following questions are asked: What do the geopolitical

changes in the wider region and the growing activities of other regional powers like Iran, Russia, and Turkey mean for the ENP? How can the EU undertake a strategic shift to widen its view of the region to include the wider Caucasus, Caspian, and Black Sea region? The book also analyzes regional changes in the broader framework of geopolitical shifts, discussing their impacts on the success and direction of the ENP. It also seeks to address not only where the region has been, but also where it is headed in terms of security, intra- and extra-regional relations, and political and economic development.

Tbilisi and Berlin, January 2018

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THE EUROPEAN UNION'S NEW EASTERN PARTNERSHIP POLICY

Licínia Simão[1]

Introduction

In order to understand the rationale behind the European Neighbourhood Policy (ENP), one must first acknowledge the European Union's (EU) developing role as a regional security provider in Europe. Although the EU is not a security organization but rather a political and economic project, the aim of providing peace and stability to the European continent in the post-World War II context was clear from the onset. The fundamental view that peace and security rest on dialogue and cooperation and on prosperity and development has been consolidated in the many EU tools of external action, including the Enlargement policy and the ENP. The EU's enlargement in 2004 to ten new member states led to a fundamental reshaping of the geopolitical balance on the European continent (Hill 2012). Despite the Union's many limitations regarding its ability to be a relevant international actor, it became impossible to ignore the impact on Europe and on the world of the establishment of a Union of twenty-five (now twenty-eight) member states with a half-million people and one of the largest economies in

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the world. The establishment of the ENP in 2003 was a means to translate this capital into a political influence, often perceived by EU policymakers as the 'duty' and 'responsibility' of the Union to 'share the benefits' of its achievements with neighboring societies.[2]

One of the first dilemmas encountered by the ENP was that of striking a balance between coherence and differentiation (Maurer & Simão 2013). Although EU tools and mechanisms work better when streamlined and applied evenly, the many differences among EU neighbors in levels of political and economic development and in terms of aspirations regarding relations with the EU (as well as internal divisions within the EU itself) demanded a flexible policy which could be adapted to these shifting realities. By establishing the Eastern Partnership (EaP) in 2008 as a specific framework for relations with the Eastern neighbors, the EU provided a partial response to this dilemma. Nevertheless, important issues remained, namely regarding the differing aspirations of the six EaP countries[3] towards the EU, the mismatch between democracy promotion and sovereignty and Russia's view of the EaP as a direct challenge to its established interests vis-à-vis these countries (Liik 2015). The EU has had to deal with challenges in all of these dimensions. The U-turns by Armenia and Ukraine on signing Association Agreements (AAs)

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[2] European Commission (2003) 'Wider Europe–Neighbourhood: A New Framework for Relations with Our Eastern and Southern Neighbours', COM(2003) 104 final, Brussels, 11 March.

[3] The six countries participating in the EaP are Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

with the EU demonstrate the divisions between local elites and the wider societies, as well as the pressure applied on these countries by Russia. Georgia's detaching itself from the South Caucasus and proving its commitment to EU integration contrasts with Armenia and Azerbaijan's respective strategies towards the EU. It also illustrates the powerful dilemmas these countries face between democratization and territorial integrity and sovereignty. The 2008 war in Georgia and the ongoing armed conflict in Eastern Ukraine further illustrate these dilemmas, as well as the central role played by Moscow.

This chapter engages with these and other shifting dynamics affecting the South Caucasus countries to analyze the nature of the EaP's policy responses, asking a central question: how have the perceived priorities of the EU and its Eastern neighbors' been reconciled in the EaP? This chapter looks particularly at the EU's responses to the main challenges of the regional and global context surrounding the Eastern neighbors, focusing on those elements which are considered to be of particular relevance for Armenia, Azerbaijan and Georgia. Through analysis of the EaP's strategic documents, instruments and approaches, one can observe in the ENP and EaP a reactive pattern of adaptation to the fast-changing regional environment, with occasional attempts at proactivity hampered by the lack of internal consensus and by external challenges to EaP policies. This chapter is structured according to the main dynamics affecting the configuration of South Caucasus regional cooperation,

with the purpose of understanding how past revisions to the EaP have responded to these evolving challenges. The first dimension deals with energy security, which is a priority both for the EU and for the South Caucasus countries. The second issue addresses the deterioration of relations between the EU and the Russian Federation and its wide-ranging impact on the South Caucasus countries' respective abilities to engage with EaP instruments. The third issue deals with ongoing challenges to the existing liberal world order, concluding that the EU's tailored and differentiated approach to the South Caucasus may be justified by growing regional divisions, but greater coordination and commitment by the EU is necessary to safeguard the rules-based order that sustains the EU's regional security relevance.

Energy Security for All

The energy security of the EU and its partners has been a central concern driving the Union's engagement in the Eastern neighbourhood, especially the South Caucasus. The energy issue has featured in all major ENP documents published since 2003. Energy security is mostly perceived as linked to trans-border cooperation and trade and investment policies aimed at promoting interconnectedness and the gradual integration of the neighbors into the EU energy market.[4] Moreover, Rus-

[4] European Commission (2003); and European Commission (2004) 'European Neighbourhood Policy – Strategy Paper', COM(2004) 373 final, Brussels, 12 May.

sia was initially perceived as a fundamental partner in this process, although energy diversification was clearly identified as a central goal in the context of growing EU dependence on energy imports,[5] and despite the fact Russia's participation in the Energy Community has not been possible. Essentially, the EU viewed the ENP as an opportunity to advance its energy footprint in the Caspian-Black Sea region, moving from technical assistance on oil and gas infrastructure and initial investment under the Interstate Oil and Gas Transportation to Europe (INOGATE) and Transport Corridor Europe-Caucasus-Asia (TRACECA) programs to the gradual integration of energy markets, the latter being achieved through regulatory convergence and the development of new energy projects.[6]

In fact, the inclusion of the South Caucasus in the ENP was driven by the strategic importance of the Southern Energy Corridor bringing gas to Italy from Iraq, Turkmenistan and Azerbaijan via Georgia and Turkey (Hafner, 2015). Access to Caspian energy reserves, which can complement Russian and North African gas, was perceived in Brussels as central to ensuring the EU's economic competitiveness in the years prior to the global financial crisis of 2008. This goal, however, conflicted with Russia's definition of energy security as a sector of

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5 European Commission (2004).

6 For more information, see: Raszewski, S. (2016) 'Dichotomy of Energy Policies in the Caspian: Where Two Strive another Benefits?', in Piet, R. & Simão, L. (eds) Security in Shared Neighbourhoods - Foreign Policy of Russia Turkey, and the EU (London, Palgrave Macmillan).

strategic policy and its resultant politicization of energy (Baev 2012). In fact, both the European Commission and the Council of the EU saw strategic advantages in linking the EU energy market to Central Asia ('the neighbours of the neighbours')[7] and in accelerating efforts to decrease dependence on Russia. The energy crisis in Europe – which resulted from the renegotiation of energy prices between Russia and Ukraine and consequent supply cuts in 2005-2006 and 2008-2009 – made energy diversification the major axis of the EU's energy security strategy (Stern 2006). These energy crises and the Kremlin's widespread politicization of energy in its relations with post-Soviet countries dramatically increased the importance of energy in the EU's relations with its Eastern neighbors.

The EaP, established in 2008 following the Russo-Georgian war, included specific references to energy both at the bilateral and multilateral levels, reflecting the strategic goals the EU had set out for its energy policy. As further analyzed in this volume, conditions on global energy markets had also changed considerably over the previous decade, demanding rapid adaptation by producers, consumers and transit countries. The gradual integration of the EU energy market with those of its Eastern neighbors would serve to consolidate the EU's influence in regional energy policies. Moreover, EU influ-

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[7] European Commission (2006) 'On Strengthening the European Neighbourhood Policy', COM(2006) 726 final, Brussels, 4 December; and Council of the European Union (2007) 'European Union and Central Asia: Strategy for a New Partnership', 10113/07, Brussels, 31 May.

ence in the South Caucasus is often complemented by U.S. policies in the region (most clearly in the energy sphere). Both actors share the goal of diminishing Russian influence and reinforcing the Eastern neighborhood countries' independence vis-à-vis Moscow. For the South Caucasus, these regional and global shifts have presented important strategic opportunities in terms of revenue, economic development, political alignment and security. For Azerbaijan and Georgia, the Baku-Tbilisi-Ceyhan oil pipeline and the Baku-Tbilisi-Erzurum gas pipeline represent direct sources of much-needed revenue and an important source of independence vis-à-vis Moscow's politicization of energy. This has had important implications for the respective foreign policies of both countries, both in terms of strategic alignment with western institutions (in the case of Georgia, particularly) and in terms of Azerbaijan's ability to offset Russian pressure, namely with regards to the Nagorno-Karabakh conflict. The strategic importance of energy and the competition for regional influence give these states added leverage vis-à-vis the EU, which Azerbaijan in particular has used to offset pressures regarding democracy and human rights issues.

Despite EU proactivity on energy, questions remain regarding the ability of the EaP to address the existing challenges to energy security in the wider European context and to shape the sector in general. Under the EaP, four main strategies have been pursued to promote energy security: integration into the EU's energy market;

enhanced network connectivity; diversification of supply sources and routes; and improvement of energy efficiency and use of renewables.[8] The first strategy relies on regulations to create more reliable and transparent governance structures, particularly building upon the role of the Energy Community in 'extending the EU internal energy market to South East Europe and beyond on the basis of a legally binding framework'.[9] Under the EaP, the signing of AAs with partner countries, which include provisions on energy, as well as Memoranda of Understanding (MoUs) on energy issues have been used to establish a common normative and regulatory framework for open, competitive and transparent energy markets. The EU also seeks to diminish the politicization of energy by establishing common frameworks of action for consumers, suppliers and transit countries.[10] The accession of Moldova and Ukraine to the Energy Community in 2010 and 2011, respectively, has reinforced the EU's strategy of regulatory alignment. Georgia attainted observer status in 2007 and became a full member in 2017 (Dusciac, Popescu & Parlicov 2016, p. 264). Armenia has also been an observer since 2011, although

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8 European Commission and the High Representative of the European Union for Foreign Affairs and Security Policy (2012) 'Eastern Partnership: A Roadmap to the autumn 2013 Summit', JOIN(2012) 13 final, Brussels, 15 May.

9 Energy Community (2017) Who We Are (Brussels, Energy Community), available at: https://www.energy-community.org/aboutus/whoweare.html.

10 European Commission (2008) 'Eastern Partnership', COM(2008) 823 final, 3 December; and Council of the European Union (2011) 'Joint declaration of the Eastern Partnership Summit', 14983/11, Warsaw, 30 September.

the Armenian-Russian bilateral gas agreement signed in December 2013 'grants Gazprom a monopoly to operate pipelines in Armenia and prevents the Armenian government from making regulatory changes in this area until 31 December 2043' (Kostanyan & Giragosian 2016, p. 2). Georgia, Moldova and Ukraine have all signed AAs under the EaP which include provisions on energy issues, thus reinforcing this area as a strategic axis of gradual integration of these countries with the EU. Under the EaP's multilateral dimension, specific instruments of financial and technical support have been established to assist partner countries in integrating their energy markets with that of the EU, including the European Neighbourhood and Partnership Instrument (ENPI)-funded INOGATE program and support from the Neighbourhood Investment Fund (NIF) and European Investment Bank (EIB) when relevant.[11] Overall, the EaP's track record in promoting regulatory convergence to advance the EU's energy security strategy appears positive, although the absence of some energy producers and important transit countries – such as Belarus and Turkey – from these cooperative frameworks remains unaddressed.

The second EU strategy relies on investment and infrastructure. This is a contested dimension, as the mobilization of financial and political resources is crucial for

[11] European Commission and the High Representative of the European Union for Foreign Affairs and Security Policy (2012) 'Eastern Partnership roadmap 2012-2013: The Multilateral Dimension', Joint Staff Working Document accompanying the document 'A Roadmap to the autumn 2013 Summit', SWD(2012) 108 final, Brussels, 15 May.

advancing new energy projects and modernizing infrastructure.[12] The EaP is a fundamental tool to assist the EU in its goal of developing the Southern Gas Corridor. Under the EaP's multilateral platform, the EU has advanced its work on electricity, gas and oil interconnections, setting up a Multi-Donor Trust Fund for Caspian Development Cooperation and mobilizing funding through the EIB and the NIF. Responding to the Nabucco pipeline's failure to materialize[13], in 2014 the EU started working towards a Southern Gas Corridor stretching from Azerbaijan to South-East Europe.[14] Interconnectors linking Romania's gas infrastructure with that of Moldova have also been completed, and new connectors are being developed between Bulgaria and Greece in addition to links to the Western Balkans. Although questions remain regarding these projects' committed energy volumes and the construction of new infrastructure, a strategic vision

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[12] The EU has adopted a list of 195 key energy infrastructure projects labelled 'Projects of Common Interest' (PCIs) with a corresponding budget of €5.35 billion for the period 2014-2020. The Southern Gas Corridor, which comprises various pipelines and other facilities, is expected to mobilize public and private funding of roughly €41 billion.

[13] References to Nabucco have disappeared from all EU official documents, since the Shah Deniz Consortium, exploiting Azerbaijan's 16 billion cubic meters per year gas reserves, preferred to commit its gas to the Trans-Adriatic Pipeline. Accordingly, the EU Southern Gas corridor now relies on the South Caucasus Pipeline, the Trans-Anatolian Pipeline and the Trans-Adriatic Pipeline. Although the end purpose is similar – to get Caspian gas to European energy markets – the control over the pipelines is more scattered, increasing the importance of shared regulatory frameworks for energy security.

[14] European Commission and High Representative of the European Union for Foreign Affairs and Security Policy (2015) 'Implementation of the European Neighbourhood Policy in 2014', JOIN(2015) 9 final, Brussels, 25 March.

has emerged, guided by EU institutions and aimed at diminishing the dependence of the EU and its partners and neighbors on a single energy supplier; namely, Russia.

Overall, the EaP has managed to establish itself as a relevant framework for the development of an integrated approach to energy security, seeking to reconcile the interests of the EU and its neighbors. Despite the divergent perceived interests and needs among EU members and between the EU and its Eastern neighbors, a balanced portfolio on energy has been put forward. This portfolio could make a real contribution to modernizing South Caucasus energy infrastructure, diversifying energy sources and integrating national energy systems at the regional level, thereby enhancing economic opportunities and development. There are nevertheless sources of concern, such as the potential for instability emanating from the armed conflicts in Moldova, Ukraine and the South Caucasus, as acknowledged by the European Commission[15] and by the participants at the EaP summit in Prague.[16] Additionally, problems could be posed by Russia's role in energy development, namely its strategy of bypassing Ukraine as a transit country for gas supplies to Europe and its strategic acquisition of Armenia's national energy system.

As for Turkey, integrating its energy market into that of the EU is the best way to assure the country's

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[15] European Commission (2008).

[16] Council of the European Union (2009) 'Joint Declaration of the Prague Eastern Partnership Summit', 8435/09 (Press 78) Brussels, 7 May.

commitment to shared energy security rather than to pursuing bilateral agreements with key energy suppliers for its own internal market. Turkey's commitment to building the Trans-Anatolian Pipeline by 2018 as well as the section of the Turkish Stream dedicated to supplying the EU market must be regularly monitored by the EU to guarantee its own interests in the process. Instability in South-eastern Turkey, where the state is conducting military operations against Kurdish groups and the Islamic State further raise doubts regarding the potential for Iraqi natural gas to be included in the Southern Energy Corridor any time soon. Iranian gas may prove an interesting addition, considering the removal of sanctions following the signing of the Lausanne Agreement (Maurice 2016). If current U.S. policy is maintained by the Trump Administration – which seems far from guaranteed – renewed interest by European companies to operate and modernize the Iranian energy sector and develop new routes to link Iranian gas into existing projects may become valuable contributions to European energy security.

The Deterioration of EU-Russia Relations

Relations between the EU and Russia have deteriorated continuously at least since 2004, culminating in the tensions over Ukraine in 2013-2014. This happened despite the interregnum of the Medvedev presidency, when the two sides attempted a pragmatic 'Partnership

for Modernisation.' Currently, the EU and its member states are imposing economic and financial sanctions as well as travel restrictions on Russia in response to the 2014 annexation of Crimea. Russia's management of the Syrian war has further aggravated relations with EU institutions and its member states. Reflecting this difficult state of affairs, Russia was singled out in the EU's Global Strategy as the most disruptive element to the European security order.[17] According to the Global Strategy, the state of affairs requires a unified commitment by the EU to international law and the fundamental principles of the European security order.[18] Taking the lead in maintaining a united EU front regarding Russia, EU High Representative Federica Mogherini posed a set of five principles to guide EU action vis-à-vis Russia. Endorsed by the EU Foreign Affairs Council in March 2016, these principles include: 'full implementation of the Minsk agreements; closer ties with Russia's former Soviet neighbours; strengthening EU resilience to Russian threats; selective engagement with Russia on certain issues such as counter-terrorism; and support for people-to-people contacts' (Russel 2016). Pragmatic cooperation based on common interests may still be pursued, although it is

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[17] European Union and NATO (2016) 'Joint declaration by the President of the European Council, the President of the European Commission, and the Secretary General of the North Atlantic Treaty Organization', 8 July.

[18] For more information, see: Freire, M. R. & Simão, L. (2017, forthcoming) 'EU-Russia relations and the unravelling of the European security regime in the context of the Ukrainian crisis', in DeBardeleben, J. & Casier, T. (eds) EU-Russia relations in crisis: understanding diverging perceptions (London, Routledge).

difficult to envision how such cooperation could develop. Despite differing readings of EU-Russia relations among EU member states and EU institutions, a common EU position has been remarkably consistent, involving permanent sanctions and few overtures by member states toward stronger bilateral ties with Russia.

This paints the picture of a committed EU regarding its relations with neighboring countries, even when such relations are perceived negatively by Russia. The EU has clearly abandoned the 'Russia-first' approach it implemented during the 1990s and early 2000s. Instead, Brussels has put a high priority on signature of the AAs, with their economic integration and political association clauses, regardless of Moscow's protestations. This approach has shifted the onus of managing Russia's dissatisfaction to the Eastern neighbors. For the countries of the South Caucasus, this has presented difficult choices but also opportunities to use geopolitical rivalries for domestic political gain (Ademmer 2016, p. 9). Several authors refer to a shift in EU-Russia relations from cooperation to competition and conflict over the shared neighbourhood (Piet and Simão 2016; Casier 2016; Nitoiu, 2016). This chapter asks how this change has affected the security dynamics of the South Caucasus and the respective positions of all three South Caucasus countries vis-à-vis the EaP.

Analyzing the impact on the countries of the Eastern neighbourhood of the growing EU-Russia rivalry is an ongoing process in which the observer must make sense of each country's policy choices in a shifting regional

context. One important fact often neglected is that the agency of these countries – their ability to make sovereign policy choices – is never totally precluded by pressure from external actors. In fact, Ademmer has convincingly argued that local governments in some of the EaP countries have managed to derive benefits from the heightened geopolitical and economic rivalry between the EU and Russia, despite the imposition of negative conditionality (Ademmer 2016). What such research demonstrates is that the EaP's attractiveness depends less on what the EU can offer and more on the perceived ability of local executives to implement policies to the benefit of their domestic power and welfare.[19] The high level of corruption among regional elites also tends to enhance Russia's leverage vis-à-vis the EU.

Nevertheless, current policy options reflect structural patterns of regional interdependence as well as a general commitment to Europeanization anchored in future membership perspectives. Petrova argues that the varying degrees of success in implementing EaP measures among the Eastern neighbors can be explained by their respective levels of commitment to EU principles and goals for future integration (Petrova 2016, p. 152). In fact, this explanation concurs the views of the EU if one considers, according to EaP documents, the importance that EU policymakers attach to the principle of dif-

[19] For more information, see: Sieg, H. M. (2016) Between Geopolitics and Transformation: Challenges and Perspectives for the Eastern Partnership, DGAP Analysis 10 (Berlin, German Council on Foreign Relations).

ferentiation and political association.[20] The EU appears to have learned important lessons from its management of relations with both Russia and the EaP countries. The focus on flexibility and adaptation to the perceived constraints of the neighbours – a principle clearly privileged in the 2015 revision of the ENP[21] – while creating opportunities for defection, especially in areas where conditionality can put unwanted pressures on local elites (e.g., democracy and human rights, transparency and rule of law), has also prevented a total collapse of the ENP while allowing for some surprising successes. This may be a limited success – considering the importance of an EU that is more committed to reforms in the Eastern neighborhood – and may ultimately prove insufficient to ensure exploitation of the EaP's transformational potential.

The EaP remains a clearly inadequate tool for managing EU-Russia bilateral relations, as Russia does not participate in the initiative. Moreover, multilateral dialogue with Russia – under the Black Sea Synergy format or on issues of energy and transportation (EaP multilateral platforms with clear regional dimensions) – has been marginal and now frozen due to the crisis in Ukraine. The lack of dialogue on trade compatibility with Eurasian states has meant the EaP has a limited track record integrating EaP countries into the EU market, and may even have negative effects on regional trade patterns with

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[20] European Commission (2008); and Council of the European Union (2009).

[21] European Commission and HREUFASP (2015) 'Review of the European Neighborhood Policy.'

Russia and in the South Caucasus. For example, Georgia is adopting the EU acquis while Armenia is deepening its economic integration into the Eurasian Economic Union (EEU). Due to Azerbaijan's dependence on energy exports and non-existent relations with Armenia due to the Nagorno-Karabakh conflict, Azerbaijan is less impacted by the EU-Russia trade dispute.

Another area where fraught EU-Russia relations negatively impact the EaP countries is conflict settlement. The permanence of armed conflict affects all EaP countries except Belarus and clearly impacts how these governments perceive their policy options; Russian foreign policy remains committed to using unresolved conflicts as tools of leverage in regional affairs and to prevent regional states from integrating with the EU and NATO. Moreover, for all three South Caucasus countries, the permanence of the conflicts and of perceived external threats has been used for domestic political purposes, instrumentalizing peace talks and subjecting them to domestic political cycles.[22] The EaP has only marginally contributed to improving conflict dynamics in the EaP countries despite the clearly-acknowledged negative impacts that violence and conflict have on economic development; e.g., the disruption of trade patterns, the permanence of closed borders, the insecurity of energy and transportation lines and negative impacts on democ-

[22] For more information, see: Kostanyan, H. & Giragosian, R. (2016) EU-Armenian Relations: Seizing the Second Chance, CEPS Commentary (Brussels, Centre for European Policy Studies).

ratization. This remains one of the EaP's biggest deficits, exerting negative impacts on a broad range of issues. Although the EU has become much more engaged in local conflicts since the early 2000s, its troubled relations with Russia have made progress on conflict resolution much more difficult to attain. Moreover, the EaP does not address relations with the de facto authorities, reinforcing the perception that the EU clearly sides with the metropolitan states on their claims for territorial integrity.

Global and regional instability

Ongoing shifts in the global and regional balance of power and violent conflict and political instability in the EU's vicinity – as well as fragmentation within the Union – have created an atmosphere of crisis that affects the ways in which the EU can and should respond to perceived threats. These dynamics also impact the respective positions of the South Caucasus countries in global and regional affairs. What does the EU represent for the region? How is the EaP prepared to address these challenges and their regional implications for the EU's Eastern neighbors? The perception of crisis includes a structural dimension linked to the failure of western liberal values and of the institutions established by western powers. Ikenberry discusses the crisis and transformation of the American (and liberal) world order in the context of shifting power balances (Ikenberry 2012). In his view, the dilemma posed to the U.S. is one of maintaining the rules-based order which

it has successfully developed and maintained since the end of World War II. This U.S. hegemonic order produced the current security arrangements in Europe through the strong partnership of European states and U.S. support for European integration. These arrangements have also been extended to the post-Soviet space through inclusion of the Baltic States in NATO and the EU as well as through NATO's Partnership for Peace and the EU's ENP initiative, although the latter two initiatives provide no substantive security guarantees. Bilaterally, the U.S. has also actively engaged with Georgia and provided support for the Azerbaijani leadership as a result of its commitment to energy development projects that bypass Russia. U.S. support for conflict settlement initiatives, namely in Nagorno-Karabakh, has at least maintained balanced formats and prevented Russia from dominating the discussions.

The election of President Trump and the announcement of major revisions to U.S. global engagement cause anxiety in the South Caucasus and in Europe alike. The Brexit process also means the EU may lose important political and military capabilities at a time when its presence may be needed more than ever to balance the expected U.S. disengagement. On the other hand, recent EU steps towards providing the Union with the capabilities for a European Security and Defence Policy suggest that Brexit can also be perceived as an opportunity.[23] The effects of the global financial crisis of 2008 have also helped to expose the profound problems affecting the

[23] European Union and NATO (2016).

liberal capitalist system upon which much of the western-led liberal order is based upon. Furthermore, the emergence of right-wing populist and extreme-right fascist political parties and movements across Europe have painfully demonstrated the contradictions of democratic and open societies, especially in times of economic distress. Finally, the permanence of violent conflict and political instability in the regions neighboring the EU, including the Middle East, North Africa and Eastern Europe, indicate the EU's neighborhood policies have failed to function as stabilizing mechanisms.

Considering this balance sheet, the EU and its EaP initiative face important challenges ahead. The EaP is based on the export of EU norms and rules across several sectors of neighboring societies. These norms and rules need to be perceived as legitimate in order for the EU to remain attractive and in order to sustain the political association and economic integration of EaP countries into the EU. Moreover, the EU needs to define, with the input of the countries in the region, the overall aim and scope of its integration agenda, in order to make its promised impacts clearer. Within the South Caucasus countries, support for closer relations with the EU is not homogenous. Whereas Georgia has maintained high levels of support for its strategy of western integration – with more than 72% of Georgians supporting the government's stated goal of joining the EU[24] – Armenians

[24] NDI (2016) Public attitudes in Georgia (Tbilisi, National Democratic Institute), available at https://www.ndi.org/sites/default/files/NDI_November%202016%20poll_Issues_ENG_vf.pdf.

have shifted much of their support from the EEU – 38% and 36% in 2014 and 2015, respectively – towards support for European integration, 41% in 2016.[25] The Armenian government has nonetheless decided to integrate the EEU, demonstrating that popular support matters little when making strategic decisions. Azerbaijan has also been modest in its ambitions towards the EU and has looked elsewhere for its model for development. In such a varied context, the focus on differentiation and flexibility by the EaP's mechanisms for political association and economic integration suggests a pragmatic turn in EU policymaking, one that responds flexibly to global developments.

Regionally, Iran, Russia and Turkey are actively contesting the western liberal order and are now actively engaged in conflict management in the South Caucasus and the Middle East, making them key regional security actors. The further involvement of all three actors in managing the security of the South Caucasus might be a welcome development, increasing the number of stakeholders in regional peace and security. Engagement also forces these states to clearly define their policies on regional conflicts, namely Nagorno-Karabakh, with potentially positive results. Despite Turkey's EU accession process and NATO membership, the transformation of the country's political system and society over the past decade shows that liberal values and policies are under

[25] 'Survey: 41% of Armenian population campaign for European integration', Arminfo, 1 September 2016, available at: http://www.arminfo.info/full_news.php?id=21926&lang=3#sthash.k1BD4loH.dpuf.

pressure. This reduces the EU's ability to rely on Turkey as a supporter and promoter of its influence in the neighborhood. Turkey is nevertheless crucial for energy security and conflict management and thus demands imaginative and balanced approaches by the EU. Russia remains the fundamental challenger to EU objectives in the Eastern neighborhood on political, economic, energy and conflict resolution issues. Little common vision has been attained and dialogue has been made more difficult under the current sanctions regime, at the diplomatic level and at the transnational and trans-governmental levels (Romanova 2016, p. 9). A pragmatic turn in EU-Russia relations is complicated by the lack of viable channels for cooperation and by highly divisive and politicized perceptions on either side.

For the South Caucasus countries, fundamental issues linked to their sovereignty, independence and territorial integrity remain powerful political drivers among elites and societies alike. The EU and NATO's response to ongoing challenges on these issues has raised concerns regarding the ability of western institutions to assure the security of smaller states. Divisions within these societies have further been reinforced by regime changes supported by western democratic rhetoric, the difficult socio-economic conditions of the region, poor management skills and accountability by local economic and political elites and the pressure exerted by Russia and the EU for these countries to align their foreign and domestic policies along one of two incompatible axes. The EaP's

more flexible and tailored approach to the region and its growing differences on many issues may prove to be the right strategy to keep the EU engaged, but it will demand coordinated and committed management of these processes by the EU to avoid further undermining the rules-based order upon which the EU has thrived as a regional security provider.

Recommendations:

- The EU's ability to be a relevant security actor in the South Caucasus depends on it pursuing a dual strategy focusing, on the one hand, on structural reforms and transformative policies, and the provision of security guarantees and engagement in conflict resolution, on the other. Both dimensions are mutually reinforcing and fundamental to EU credibility and should thus be pursued on a more equal footing.
- Managing the existing competition with Russia is fundamental to the success of EU policies in the South Caucasus, in order to prevent disruptive events and diminish local elites' leeway in relation to EU normative conditionality. Important milestones could be achieved regarding economic integration compatibility between the EU and the EEU, security cooperation in the Middle East, counter-terrorism and the spread of weapons of mass destruction, all

with potential benefits for regional relations in the shared neighborhood. Improvement in the bilateral relationship, however, should remain contingent on changes in Russia's policy towards the region.

- Significant improvements could be pursued under the EaP multilateral platform, namely regarding the establishment of frameworks for dialogue with extra-EaP countries such as Russia, Turkey and Iran. This would allow for confidence building and the development of more inclusive formats for regional development.
- The relevance of the EaP for regional actors is directly linked to the EU's ability to deliver on its commitments, especially regarding security and prosperity. A common language needs to be developed with EaP states and societies in order for these concepts to have shared meanings and be useful tools of regional policy. Significant investments need to be made in reinforcing mutual ownership of reform processes and in identifying and developing agents that can act as multipliers and diffusers of EU approaches. A fundamental element in making the EU a relevant regional actor is its capacity to deliver in the security sphere. Thus, a significant investment in confidence building and conflict resolution must be pursued.

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EUROPEAN UNION ENERGY POLICY: THE ROLE OF THE SOUTH CAUCASUS

Brenda Shaffer[1]

Introduction

Over the last two decades, the European Union (EU) has striven to establish unified energy policies, including common rules for the trade of energy inside the EU, while achieving greater security of supply. Among the energy policies promoted have been: removal of barriers to cross-border energy trade within the EU; encouragement of privatization and unbundling of energy companies (the latter to separate energy production, transportation, and distribution); mandated percentages of renewable energy as part of a given country's fuel mix; and the linkage of EU climate policies to the promotion of renewable energy policies. Regarding security of supply policies, the EU has focused mainly on the provision of natural gas. Because the physical characteristics of natural gas make the transportation process expensive and complex, achieving security of supply requires much more policy attention than does the supply of oil and coal. Spurred by the multiple Ukraine-centered gas supply crises occurring during the 2000s, the EU strove for increased diversification of natural gas suppliers and re-

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duction of natural gas imports from Russia.

As part of its gas supply diversification efforts, the EU has focused its policy on the establishment of gas supply routes from the Caspian Sea region to Europe. These efforts, together with Azerbaijan's parallel desire to supply the European market and the commercial interests of various companies seeking to supply Europe's projected increased demand for gas imports, led to the establishment of the Southern Gas Corridor stretching from Azerbaijan to Europe. This project is scheduled to supply Europe starting in 2020, bringing the EU its first new gas supply source in decades (versus other pipeline projects that rerouted existing gas supplies). The project represents a reversal in traditional economic relations between Europe and the South Caucasus: Europe will become the object of foreign direct investment from Azerbaijan through the European segment of the Southern Gas Corridor. It will also create a physical infrastructure link between Europe and the South Caucasus. Establishment of this link between Europe and the South Caucasus offers both opportunities and challenges necessitating the formation of new EU polices toward the South Caucasus region. Energy trade between the South Caucasus and Europe involves two of the region's three states: Azerbaijan, as an oil and gas producer and an investor; and Georgia, as a transit country for Azerbaijan's energy supplies to Europe. Due to the ongoing state of war between Armenia and Azerbaijan, at this stage Yerevan is not party to the energy projects involving the

South Caucasus and Europe.

Despite EU efforts to reduce reliance on Russian supplied gas, the proportion of Russian gas in the EU gas import mix has actually grown over the last decade. Russia's share of EU imports of natural gas declined from 43.6% to 32.1% between 2004 and 2010, but then increased to 37.5% in 2014 (even reaching 41.2% in 2013).[2] Moreover, supplies to states on Europe's periphery have remained largely undiversified. On top of this, European gas imports are projected to grow. This is despite the fact that from 2010 to 2015 Europe's demand for natural gas declined. However, domestic gas production in Europe is abating, thus upping the demand for imports.[3] Moreover, the availability of U.S.-produced liquefied natural gas (LNG) has not eliminated the need for additional pipeline gas resources into Europe. Despite the impact of new American supplies on lower price trends in LNG markets around the globe, LNG still sells in Europe at a higher price than most pipeline supplied options. Many consumers in Europe have found the price of LNG prohibitive. Moreover, many markets that are dependent on a single supply of gas and seek to diversify their gas supplies are landlocked states unable to access LNG supplies directly. Some of these states are not phys-

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[2] Eurostat (2017) Energy production and imports (Brussels, Eurostat), available at: http://ec.europa.eu/eurostat/statistics-explained/index.php/Energy_production_and_imports.

[3] European Commission (2016) 'Quarterly Report Energy on European Gas Markets', 9, 1, available at: https://ec.europa.eu/energy/sites/ener/files/documents/quarterly_report_on_european_gas_markets_q4_2015-q1_2016.pdf.

ically connected to coastal states that possess re-gasification facilities.

Europe's energy policies have contributed to an unintentional result—rising coal consumption in Europe despite coal's detrimental environmental and climatic impacts. Europe's policy tools for reducing climate emissions, first and foremost the Emissions Trading System (ETS), have not by and large been effective in deterring utilities from using coal in electricity production. Europe's power utilities have in many cases turned to coal as a fuel source, which was cheaper than natural gas for much of the 2010s. Moreover, securing supply coal is less complicated than that of gas and is locally produced in several E.U. member states. The arrival of additional gas supplies to Europe, which would increase the liquidity of markets, would enhance the attractiveness of gas as a fuel source and help reverse this trend.

In light of these trends, Europe has sought additional sources of pipeline gas into Europe, including from the South Caucasus and greater Caspian region. In addition to improving Europe's security of supply, the Southern Gas Corridor also addresses the lack of gas interconnectors between European states. The supply of natural gas will be made more secure through the physical interconnection of different markets within Europe. Despite proclamations and allocations of funds through Projects of Common Interest (PCI), vast regions of the EU, especially in Southern and Eastern Europe, are poorly connected or even isolated from other markets in Eu-

rope. The Southern Gas Corridor has incentivized the establishment of interconnectors between several states in Southern Europe such as Italy and Greece and aims to expand the interconnectors between additional markets.

Caspian gas will arrive in Europe in 2020. Planning is already underway for the next stage of development: Southern Gas Corridor Phase II. During this next phase of development, Europe's energy security will face a number of new challenges and opportunities: the expiration of many Gazprom gas supply contracts with various European countries; the potential availability of new sources of gas supply options (Iran, Israel, and Turkmenistan); potential disruptions to existing supplies (Algeria and terror attacks on pipelines); conflict and political turmoil in major transit states (Georgia, Turkey, and Ukraine); and the potential for renewed conflict between Armenia and Azerbaijan. These issues will demand new policy attention from Europe in the spheres of energy policy and external action.

Energy trade is emerging as a major dimension of the relationship between Europe and the South Caucasus. This chapter discusses the role of the energy trade with the South Caucasus in the EU's energy policies and energy security. It focuses on the development of Southern Gas Corridor Phase II, including new opportunities and challenges presented by the corridor. It then discusses the implications of energy cooperation between the regions for wider EU policies toward the South Caucasus. The chapter concludes with the implications of Europe's future energy

policies for relations with the South Caucasus.

The Role of the South Caucasus in Europe's Energy Policy

Energy did not play a major role in relations between Europe and the states of the South Caucasus in the first decade- and- a- half following the collapse of the Soviet Union. European policy during this stage focused on trade, expansion of bilateral ties, establishment of transportation projects (such as the Transport Corridor Europe-Caucasus-Asia -TRACECA) to link Europe to Asia via the South Caucasus and Central Asia, and policies related to strengthening the rule of law and democracy in the region. Azerbaijan focused on oil during the first stage of its energy resource development. Its major export project during this period was the Baku-Tbilisi-Ceyhan oil pipeline. European companies were among the major investors in the pipeline and today Azerbaijan supplies about 5% of Europe's oil imports. However, the United States and Turkey played a major role as the external actors promoting this export project.

In contrast, the EU has played a foremost role in the development of gas exports from the South Caucasus to Europe. From the mid-2000s, with the successive Ukraine crises threatening European security of gas supplies, Brussels sought to diversify Europe's gas supplies and launched a policy focus on encouraging export from the greater Caspian region. At the same time, as

Azerbaijan completed its major oil development and new pipeline export project, it turned to increasing its natural gas production and to exploring export options beyond its immediate region. This convergence of European interests in diversifying its gas supplies, and Azerbaijan's move to develop its major gas exports, laid the groundwork for the undertaking of the Southern Gas Corridor. In addition to its gas export goals, Baku also had political goals in mind in seeking exports to Europe. Baku wanted greater European interest in the stability in the South Caucasus, which, it hoped, would strengthen Azerbaijan's independence and increase EU involvement in regional conflict resolution, namely the Nagorno-Karabakh conflict and the secessionist conflicts in Georgia. Washington supported the European efforts, as successive U.S. administrations viewed the reduction of Europe's dependence on gas supplies from Russia (and previously from the Soviet Union) as essential for Europe to maintain foreign policy independence. Various U.S. administrations appointed special ambassadors to promote the supply of Caspian energy to Europe.

The Southern Gas Corridor project was sanctioned by a final investment decision (FID) in December 2013. In 2020, the Southern Gas Corridor project is scheduled to begin major gas deliveries from Azerbaijan to Europe (Greece, Albania, and Italy). In the first stage, the contracted gas to Europe will be 10 billion cubic metres (BCM) annually (in addition to 6 BCM to Turkey). The pipeline has spare capacity of another 14 BCM annually.

The pipeline can be expanded to deliver additional volumes beyond the planned 24 BCM annually.

The Southern Gas Corridor is one of the most complex international gas export projects to date. The project's investors are composed of 11 different companies. In its first stage, it will transit to seven states operating in six different regulatory systems, supplying 12 different gas buyers. The State Oil Company of the Azerbaijan Republic (SOCAR) and British Petroleum (BP) are present along the entire value chain of the project. The project was initially estimated to require $45 billion in investment. However, it has benefitted from the fact that prices for commodities such as steel as well as service company fees were lower than expected during the construction stage (in part due to the low global oil price). Thus, the project will most likely be completed $5 billion below budget.

The Southern Gas Corridor is composed of four different commercial projects: upstream development of the Shah Deniz II gas field; expansion of the South Caucasus gas pipeline; establishment of the Trans-Anatolian Pipeline (TANAP) through Turkey; and establishment of the Trans-Adriatic Pipeline (TAP) running from the Turkish border to Greece, Albania, and Italy. The TAP portion of the project will comply with EU regulations on energy trade. The Southern Gas Corridor constitutes a new model for investment between the EU and its gas suppliers. The supply state, Azerbaijan, and several international energy companies have invested in infrastructure in Europe. In

addition, as part of the FID on the Southern Gas Corridor, Azerbaijan extended the production sharing agreements (PSAs) on the Shah Deniz field to 2048. This will extend the presence in Azerbaijan of a number of major energy companies, many of which are based in Europe.

The Southern Gas Corridor project can also be used to transport natural gas to additional markets in Europe. The establishment of interconnectors would enable gas to reach Bulgaria and other markets in the Balkans. Two specific interconnectors with the most-likely prospects for development are the Interconnector-Greece-Bulgaria (IGB) and the Ionian-Adriatic Pipeline (IAP). The IGB pipeline between Greece and Bulgaria would enable gas supplies from the Southern Gas Corridor as well as LNG supplies via Greece's Revithoussa LNG regasification terminal to reach additional markets in Europe.

Southern Gas Corridor Phase II

The Southern Gas Corridor project reached a major turning point in 2017: with more than 50% of planned construction completed in Georgia and Turkey and construction ongoing in Albania, Greece, and Italy, investors in the Southern Gas Corridor launched the development of the second phase of the Southern Gas Corridor. In this phase, both the quantities of gas to be supplied and the scope of markets in Europe can be expanded. Southern Gas Corridor Phase II can transit new gas production in Azerbaijan as well as supplies from new gas sources

such as Central Asia, Iran, Iraqi Kurdistan, and Israel.

Southern Gas Corridor Phase II could utilize several of Azerbaijan's untapped gas reserves. The national oil company of Azerbaijan, SOCAR, estimates that Azerbaijan's proven gas reserves stand at more than 2.6 trillion cubic meters. Azerbaijan's estimated reserves are an additional 3.45 trillion cubic meters.[4] New gas volumes are planned to be produced through the initiation of new phases of production in the existing producing fields (Shah Deniz III and deep gas in the Azeri-Chirag-Gunashli field complex) and the inauguration of production in new fields. The untapped fields include Babek (400 BCM of gas), Absheron (350 BCM of gas), and Umid (200 BCM of gas).[5] These gas fields also contain extensive condensate reserves. Azerbaijan is engaged in development plans for these resources and aspires to add 15-20 BCM annually by 2030.

Opportunities and Challenges

Developments in the global gas trade, Europe's gas and foreign policies, and geopolitical events on Europe's periphery create both opportunities and challenges for the trade of gas from the South Caucasus to Europe. On the opportunity side, the conclusion of several of Gazprom's contracts with European states offers new opportunities for alternative suppliers as well as for importers

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[4] Author's interviews in Baku, July 2016.
[5] Author's interviews in Baku, July 2016.

to change the conditions governing their supplies from Gazprom. New potential gas sources have also emerged in Iran and Israel, and conditions may become more conducive for other producers, such as Turkmenistan, to initiate export to Europe. Emerging challenges include the growing threat of terrorists targeting energy infrastructure, uncertainty about conflict and the political orientations of several existing producers and gas transit states, and the strong prospects of a renewal of the conflict between Armenia and Azerbaijan.

Opportunities Gazprom Contract Renewals

Several of Gazprom's supply contracts with consumers in Europe will expire between 2017 and 2022. These include contracts with gas buyers in Bulgaria, the Czech Republic, the Netherlands, Poland, and Slovenia. This creates opportunities for all sides to seek new trade conditions and to evaluate whether to renew existing arrangements or seek alternative supply sources or markets.

The expiration of Gazprom supply contracts also presents opportunities for the members of the Southern Gas Corridor consortium to gain access to additional markets. However, it seems the market strategy of the consortium is not to attempt to supplant Gazprom but to bring gas to new markets that previously lacked access to gas (such as Albania) while supplanting coal consumption and adding liquidity to existing gas markets by providing additional supplies. Moreover, the European

portion of the Southern Gas Corridor is open to all gas producers, to utilize its infrastructure for transit to and within Europe in line with EU legislation – underscoring the fact that this infrastructure does not inherently compete with Gazprom projects supplying the European market.

New Gas Sources

As part of the plans for further expansion, the Southern Gas Corridor infrastructure was built to be able to accommodate twice the amount of gas contracted during the first stage. In the second stage of the corridor, Azerbaijan could provide gas from previously-untapped resources and from the expanded development of production in existing fields (Shah Deniz III and Azeri-Chirag-Deepwater Gunashli). In addition, Southern Gas Corridor Phase II may include the transit of new gas sources to Europe, including potentially from Central Asia, Iran, and Israel.

Eastern Mediterranean: Renormalization Between Israel and Turkey

The EU has been promoting gas exports from Israel and Cyprus as a new source for Europe, supporting some aspects of this route through the Projects of Common Interest (PCI) program. While many hurdles to the development of this route still exist, especially on the com-

mercial side, interested parties are discussing the export of Israeli and Cypriot gas to Europe via Turkey or Greece.

Renormalization of diplomatic relations between Israel and Turkey in May 2016 boosted interest and prospects for Eastern Mediterranean energy exports, especially from Israel to Turkey with options to transit or swap supplies to markets in Europe. The greatest impediment is the size of the volumes available for export which, at this time, do not commercially justify development of a major international export pipeline. In addition, a pipeline would need to be laid through the exclusive economic zone (EEZ) of Cyprus. Lack of resolution of the Cyprus conflict creates a significant impediment to establishing a pipeline on this route. However, exploration is continuing in the region and additional discoveries will augment prospects for exporting from the region to Turkey and Europe.

Iran Post-Sanctions

With the removal of European sanctions on Iran related to its nuclear program, expectations have increased that Iran could serve as a future natural gas supplier to Europe. Iran possesses the second-largest natural gas reserves in the world and its physical proximity to Europe gives it the capacity to reach European markets by pipeline. In fact, EU policy documents reflect anticipation of that outcome. In October 2014, the EU's foreign policy arm—the Directorate-General for External Policies—published a study on the EU's natural gas import options in

light of the Ukraine crisis, concluding that "Iran is a credible alternative to Russia" (De Micco 2014).

While the removal of sanctions will indeed facilitate increases in Iran's gas production and export prospects, significant export to Europe is still many years away. The main obstacle slowing Iran's entry into European gas markets is Tehran's need to produce more gas. Iran is a significant natural gas producer, generating 160 billion cubic meters a year, third globally behind only Russia and the United States. Its output is equal to roughly 35% of annual EU gas consumption. However, despite its vast production, Iran is a net gas importer, importing gas from Turkmenistan and transiting gas between regions of Azerbaijan while exporting smaller amounts to Turkey and Armenia. Moreover, Iran's existing gas trade arrangements are not stable. For instance, Iran frequently cuts gas supplies to Turkey in response to domestic shortages. That causes troubling shortages in Turkey, especially during winter.[6] In addition, Ashkhabad cut gas supplies to Iran in January 2017 due to payment disputes with Tehran.

A further impediment to Iranian gas export to Europe is anticipation of Moscow's policy response. Russia would likely take steps to block Tehran's entry into European markets, as it has done in the past. In 2007, when Tehran inaugurated gas supplies to neighbouring Armenia, Russia's Gazprom immediately bought up the

[6] 'Iran halves natural gas flow to Turkey', Reuters, 9 December 2015, available at: http://uk.reuters.com/article/uk-turkey-iran-gas-idUKKBN0TS0MB20151209

pipeline project within Armenia and built it with a small circumference to preclude its future use for transiting gas to European markets. Moscow and Tehran could also find themselves directly competing for gas market share in neighbouring Turkey, further complicating their relationship.

Time for the Intra-Caspian Instead of the Trans-Caspian?

For many decades, European officials have promoted the export of natural gas from Central Asia to Europe. Turkmenistan's volumes are among the largest located on Europe's periphery. However, despite EU efforts and parallel efforts by U.S. officials, no concrete results have been achieved. Exports from Turkmenistan have been impeded by challenging commercial conditions there and by Russia's moves to block Turkmenistan from entering the European gas market.

While prospects are still low, some new conditions have renewed the prospect of exports from Turkmenistan to Europe. With the physical establishment of the Southern Gas Corridor and thus the existence of a concrete option to export the country's gas westward, authorities in Ashkhabad have expressed renewed interest in exploring the prospect. An additional factor conducive to gas export from Turkmenistan is the dual presence of the Malaysian company Petronas, which holds exploration and production licenses in Turkmenistan's Caspian gas fields and is

an investor in Azerbaijan's Shah Deniz field. In addition, with the establishment of the Southern Gas Corridor infrastructure, gas export from Turkmenistan would not require a Trans-Caspian gas pipeline. Rather, it would require just an "Intra-Caspian" pipeline between the Azerbaijani Shah Deniz field and gas fields in Turkmenistan's sector of the Caspian Sea. This would be a much cheaper, smaller, and potentially less geopolitically-sensitive project than a full Trans-Caspian pipeline. At the same time, it should be noted that decades of U.S. and European policy efforts have not resulted in Turkmenistan taking concrete steps toward exporting gas to Europe.

New Challenges to Europe's Security of Supply

Concurrent with the emergence of new gas supply opportunities to Europe, several new developments now threaten the stability of existing gas supplies. These threats include: terrorists targeting energy infrastructure; rising instability in North Africa that could derail supplies from Algeria and Libya; conflict in several of Europe's gas transit states; and the potential renewal of war between Armenia and Azerbaijan.

Energy Infrastructure Targeted by Terrorists

Energy infrastructure has become a favored target of terrorist groups, especially in the Middle East and Turkey. Pipelines crossing Eastern Turkey have been espe-

cially-frequent targets of attack. Attacks on pipelines are generally low-impact because pipelines are constructed to anticipate attacks and quickly return to operation. However, the extension of terrorist attacks to power plants, electricity grids, and oil and LNG terminals as well as cyber-attacks on energy infrastructure operations could have greater impacts on the security of supply to Europe.

North Africa: Just a Matter of Time

North Africa provides significant volumes of natural gas to Europe. Algeria is Europe's third-largest supplier of gas, accounting for 12% of its gas supplies. Libya supplies close to 2% of Europe's gas as its sixth-largest supplier. Algeria and Libya also hold extensive undeveloped potential gas resources and could supplement the volumes currently supplied to Europe. However, the rising power of Islamic militant groups based in North Africa and the breakdown of state institutions in Libya create a large question mark about the future stability of gas supplies from North Africa. Moreover, the dislodging of Islamic State (ISIS) strongholds in Iraq and Syria will likely lead to the relocation of militants to Libya, augmenting the forces there operating to undermine oil and gas exports from Libya and to destabilize Algeria. In recent years, terrorist and militia attacks in both Libya and Algeria have focused on energy infrastructure. That trend is likely to continue. In addition, Algeria's rising

domestic consumption of natural gas may reduce the amount of gas available for export.

Threats to the stability of gas supplies to Europe from North Africa would increase the commercial attractiveness and prospects for European import of Eastern Mediterranean gas, as these supplies would serve markets in Southern Europe.

Disruptions in Transit States

Conflict afflicts all of Europe's major gas transit states, including Georgia, Turkey, and Ukraine, a factor which could affect the stability of gas supplies to Europe. Due to the conflict between Russia and Ukraine the amount of gas transiting to Europe via Ukraine has significantly declined. Consequently, this has led to a delinking of the Ukraine conflict from the stability of gas supplies to Europe. However, Kiev has lost significant revenue and leverage due to the decline in its transit role.

Turkey's domestic security has been under serious threat since 2015. Terrorist attacks have grown in frequency and intensity, attacks on pipelines in Eastern Turkey are commonplace, Turkey experienced a major coup attempt in July 2016. Turkish state institutions have shown incredible durability and resilience in light of these attacks. However, the security challenges are significant.

Georgia's reliability as a cornerstone of the Caspian energy and transportation corridors has also been chal-

lenged. Tbilisi's 2016-2017 negotiations with Gazprom to increase gas supplies from Russia had raised suspicions that Georgia's pro-western foreign policy orientation may be changing and that relations could become rocky between Tbilisi and Baku. This adds an additional challenge to managing the risks to the Southern Gas Corridor.

Re-ignition of the Nagorno-Karabakh Conflict

Armenia and Azerbaijan have been at war since both states gained independence following the collapse of the Soviet Union in December 1991. The conflict has centered on control of the region of Nagorno-Karabakh. Today, Armenia occupies over a fifth of Azerbaijan's territory. Despite the state of war, a number of major energy export projects originating in Azerbaijan have been developed and are operational including the Baku-Tbilisi-Ceyhan Pipeline, which exports up to a million barrels per day of oil, much of it consumed on European markets.

However, the Nagorno-Karabakh conflict between Armenia and Azerbaijan has intensified since 2014. Exchange of fire in the border regions is commonplace and military casualties to both sides have increased. The two sides reached a situation of all-out war in April 2016, commonly referred to in Azerbaijan as the "Four-Day War." Re-ignition of the conflict between Armenia and Azerbaijan could threaten the stability of new gas supplies from Azerbaijan to Europe.

EU-South Caucasus Energy Trade: Implications for EU Policies Toward the Region

This chapter has examined the growing role of the South Caucasus in Europe's energy security policies. In 2020, the first new gas volumes to arrive in Europe in decades will come via the Southern Gas Corridor from Azerbaijan, transiting Georgia. This supply route is poised to expand over the next decade with the establishment of Southern Gas Corridor Phase II. The establishment of the Southern Gas Corridor creates a physical link between the EU and the South Caucasus and will lead to deepened cooperation between the two regions.

Ensuring the stability of this energy trade and the new link between the EU and the South Caucasus requires the development of new EU policies toward the South Caucasus. Such policies should include: better integration of the EU's external action and energy policies toward the South Caucasus and Turkey; policies to promote security in the South Caucasus; examination of the utility of extending EU Energy Community laws to the South Caucasus; and technical and policy assistance to Azerbaijan and Georgia to increase energy efficiency.

Integration of EU External Action and Energy Policies Toward the South Caucasus and Turkey

As part of its Energy Union policy, Brussels has sought greater integration between its energy and exter-

nal action policies and has achieved a degree of success. In Baku, there are expectations that growing cooperation with Europe in the field of energy will translate to closer political relations with the EU. Baku hopes that its status as a major investor in Europe and contributor to Europe's energy security will encourage Brussels and EU member states to take a greater role in the security and stability of the South Caucasus, perhaps leading to the reduction of impediments to trade and travel.

Turkey's role as a major transit state for energy supplies to Europe raised expectations in Ankara that energy cooperation would translate into closer political relations. However, relations between Ankara and Brussels soured dramatically during the period of the establishment of the Southern Gas Corridor for reasons not connected to the energy trade. Deepening ties, reduction in impediments to trade and travel with Azerbaijan and Turkey, and enhancing political relations between the EU and Azerbaijan, Georgia, and Turkey would help enhance the security of energy supply.

Security of the South Caucasus

The security of gas supplies from the South Caucasus would also be improved by EU policy investments in improving regional security and preventing the re-ignition of conflicts. The main unresolved conflicts in the South Caucasus are the Nagorno-Karabakh conflict between Armenia and Azerbaijan and the secessionist Ab-

khazia and South Ossetia conflicts in Georgia.

At the same time, Europe should be careful to avoid attempting to use the energy trade as an incentive for peace. While EU (and U.S. government) officials have promoted "peace pipelines" as means for conflict resolution in the South Caucasus, there is no proven linkage between the establishment of energy trade and the resolution of conflicts. To date, there is not one case where the lure of oil and gas trade served as an incentive for conflict resolution. In fact, evidence points only in the other direction: the discovery of major oil and gas volumes leads to a greater propensity for conflict.[7]

Georgia's Cooperative Role in the Energy Corridor to Europe

Following the breakup of the Soviet Union, strong cooperation between Azerbaijan and Georgia was a cornerstone of the energy and transport corridors that were established from the South Caucasus westward. During the periods when Georgia was led by Eduard Shevardnadze and Mikheil Saakashvili there were almost no substantial disagreements between Baku and Tbilisi on strategic issues, especially with regard to westward energy projects. However, subsequent governments in Georgia have adopted a moderately different policy toward cooperation with Azerbaijan on the energy corridors. While

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[7] For more on the topic of 'peace pipelines' see: Shaffer, B. (2013) 'Natural gas supply stability and foreign policy', Energy Policy, 56, May.

still supporting expansion of the energy corridors to the West, subsequent Georgian governments have attempted to leverage Georgia's transit role to attain greater material benefits. Since 2012, Georgian government representatives have even made several overtures to Gazprom, indicating that Tbilisi was interested in importing a greater portion of gas from Russia. The motivations for these overtures is unclear, but they may have been a bargaining mechanism vis-à-vis Azerbaijan and the Southern Gas Corridor consortium intended to extract higher fees.

While Georgia's relations with Baku and its commitment to the Southern Gas Corridor are still strong, the Georgian overtures to Gazprom have caused uneasiness regarding the stability of their relationship. Europe can leverage its substantial relations with Georgia to reinforce cooperation along the Southern Gas Corridor.

Utility of Extending the EU Energy Community Laws to the South Caucasus

The EU has promoted extension of its core laws governing energy matters to neighboring countries through the EU Energy Community Treaty agreement. Under this policy, states from the former Soviet Union, including the South Caucasus (Georgia as a member and Armenia as an observer), have committed to adopting core EU laws on energy trade and market structure.[8] However,

[8] European Commission (2017) Energy Community (Brussels, European Commission), available at: https://ec.europa.eu/energy/en/topics/international-cooperation/energy-community.

there has been insufficient study of the potential results of extending EU energy laws to these regions bordering the EU. Adoption of these laws and market structures could have unintended consequences for both the energy and national security of the neighboring states. Firstly, the long-term implications of adopting core energy legislation is not yet evident in the EU countries themselves. To date, the application of EU legislation aimed at creating a liberalized internal energy market in the EU has not succeeded in achieving its main energy policy goals, which are: lower energy prices; greater security of supply; and cleaner fuel mixes.[9] However, in places like Moldova, Ukraine and, to a certain degree, Georgia—where economic power is still centralized among a small number of tycoons, the rule of law is weak, corruption is high, and energy infrastructure is insufficient—reducing the government's role in the energy sector is unlikely to promote the public interest and may in fact promote oligopoly in the economy. Lastly, market liberalization can actually hurt security of supply (and national security) by depriving the government of the option to use policy mechanisms to block foreign elements from gaining ownership of energy or supply contracts which have geopolitical importance. Moreover, this set of energy trade rules was designed for energy importing states and ap-

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[9] European Commission (2010) 'Communication from the Commission to the Council and the European Parliament, Report on progress in creating the internal gas and electricity market SEC', COM(2010)/84 Final, 11 March, available at: http://ec.europa.eu/transparency/regdoc/rep/1/2010/EN/1-2010-84-EN-F1-1.Pdf.

plication to energy transit states like Georgia may have negative consequences.

Technical and Policy Assistance to Azerbaijan and Georgia to Increase Energy Efficiency

Like many traditional energy-producing regions, as the South Caucasus's economies and populations grow, so does energy consumption. Energy consumption rates in the region are especially high relative to regional gross domestic product (GDP). This is due to low energy prices, which discourage energy efficiency. Improved energy efficiency policies in the South Caucasus will not only help the region but will contribute to Europe's energy security by ensuring that new supplies are available for future consumption. Europe can help by providing technical assistance to the gas producers and transit states around Europe. European assistance could include sharing methodologies for energy demand assessments and undertaking studies of the impact of low energy prices and subsidies currently in place in the South Caucasus.

Europe's Clear Signal on Natural Gas and Relations with the South Caucasus

The European Union's future decisions on its energy policies will affect the next stage of its relations with the South Caucasus. If natural gas forms a major part of Europe's future fuel mix, this will most likely incentivize the

development of Southern Gas Corridor Phase II, deepening the energy trade and mutual investments between the two regions.

Since the 2000s, EU institutions have assiduously addressed energy security issues and implemented multiple comprehensive policy initiatives. These ambitious policies have not been confined to the Directorate-General of Energy, affecting EU external action policies and those of other EU institutions as well. Subsequently, as pointed out in this chapter, Europe's foreign relations with neighbouring areas such as the South Caucasus have been affected by its energy policies.

The EU's energy policies are intended to achieve a wide-ranging number of goals. These include: a dramatic lowering of Europe's production of carbon emissions; the transfer of the majority of power production to renewable energy; renewable energy coming to play a major role in Europe's overall fuel mix; energy prices that allow European manufacturing to be competitive in a global market; a liberalized market structure (with little government intervention or participation); and security of supply for Europe's energy needs. These goals, while important, are not necessarily complementary and some actually inherently conflict. For instance, Europe's goal to establish liberalized energy markets conflicts with its goal to secure its supply, which is better promoted with government involvement, including in the field of foreign relations. In addition, ensuring security of supply can entail blocking ownership of energy infrastructure by

foreign entities attempting to use ownership to achieve geopolitical goals. Such a policy, however, would contradict free market principles in the energy trade.

The EU's linking of climate and renewable energy policies has also created some obstacles to reaching its goals. The fastest and cheapest way to dramatically lower carbon emissions would be through the transfer of a large portion of Europe's power generation from coal to natural gas. Moreover, natural gas is still necessary as a baseload fuel for power generation, given the variability of most renewable energy. However, EU legislation mandates the use of renewable energy. Consequently, despite natural gas's clear benefits in comparison to coal in terms of lower air pollution and carbon emissions production, the role of natural gas in Europe's overall fuel mix has declined over a number of years in the past decade (although imports are growing due to declining domestic European gas production). In many cases, nuclear energy and natural gas has been substituted by coal, an outcome that clearly was not the intention of Europe's climate policies.

Over the past two decades the EU has sent mixed policy signals regarding the role of natural gas in its fuel mix. On the one hand, EU institutions have outlined comprehensive policies to ensure security of gas supply, such as support for the establishment of the Southern Gas Corridor. On the other hand, many policymakers and public organizations seek to reduce the use of gas and all other fossil fuels, replacing them with renewable energy.

The de facto result of these mixed signals is that Europe's gas supply is far from secure, especially in many markets on its periphery, and the growing use of coal has led to rising air pollution and carbon emissions in parts of Europe.

Consequently, the European Union needs to form a clear policy on the desired role of natural gas in its fuel mix. Natural gas producers need clear signals in order to make the type of major, long-term investments that lead to the establishment of projects like the Southern Gas Corridor. Just as consumers need security of supply, producers need security of demand. Europe's next stage of energy policy decisions will affect the scope of its next stage of relations with the South Caucasus.

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RUSSIA'S COOPERATIVE HEGEMONY IN THE SOUTH CAUCASUS: A RETROSPECTIVE ACTUALIZATION OF THE MODEL[1]

Andrey Makarychev[2] & Alexandra Yatsyk[3]

Introduction: Setting the Analytical Scene

The dominant Western perception of Russia's role in its 'near abroad' contains strong neo-imperial connotations. This characterization might be true on a high level of generalization. However, a more nuanced view of Russia's neighborhood policy can be helpful for explaining the greater variety of roles Russia has played in the post-Soviet area, to varying degrees of success.

Three distinct roles can be identified. The first is the role of non-cooperative hegemon. Russia's recognition of the independence of Abkhazia and South Ossetia in 2008, its annexation of Crimea in 2014 and its de-facto refusal to withdraw troops from Transnistria are the most visible examples of this behavioral model. From a practical viewpoint, the basic problem with this confrontational role is that in most cases the costs outweigh the benefits. The costs include the financial burden of

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funding economically weak or insolvent breakaway territories, Western economic sanctions against Russia and Moscow's loss of political leverage over its neighbors (Georgia, Ukraine) that were the victims of Russian annexation or recognition of separatist territories.

The second role is instrumentally cooperative hegemony. This role is exemplified by: the Meseberg memorandum on Transnistria signed by Russia and Germany; the Normandy format and the Minsk agreements; and the EU-Russia-Ukraine trilateral talks that started in 2014 but were abrogated the next year due to a lack of progress. This role does not change Russia's non-cooperative approach by any means, but it gives the Kremlin the image of a responsible player. In all of these cases Russia maintained in contact with its EU partners over policy coordination in the common neighborhood. However, such cooperation had clear limits, mostly due to Russian policies themselves.

Finally, in some cases Russian neighborhood policy can be regarded as cooperative hegemony. Thomas Pedersen defined this model as a strategy of power consolidation and aggregation, essentially at the regional level, which includes sharing power with partners. Cooperative hegemony implies stimulating bandwagoning through various financial incentives and preventing defection or exit from the hegemon's zone of influence (Pedersen 2002). This concept comes close to depicting Russia as a 'benevolent hegemon' in its 'near abroad', shifting its mission from promoting economic integration to provid-

ing security guarantees (Krikovic & Bratersky 2016).

Three examples of cooperative hegemony – Russia's mediation in Adjara, its military withdrawal from Azerbaijan and its permissive attitude towards Armenia's continuing relations with the EU and NATO – appear the most illustrative examples of this model in the South Caucasus, although they might be considered exceptional when compared to the myriad instances of less cooperative and more confrontational behavior. Each of these examples represents a window of opportunity for analysis that has ultimately been closed. However – in spite of the retrospective nature of this analysis – each case can be actualized for analysis of Russian foreign policy in the future.

Therefore, the research puzzle addressed in this chapter is two-fold: why was Russia in certain cases hegemonically cooperative, and what caused the ultimate failure of these cooperative efforts? To tackle these questions, this chapter analyzes three specific cases, each related to one of the three South Caucasus countries. The analysis is based on public narratives and professional discourses; in the case of Georgia, the researchers conducted 20 in-depth interviews with political experts, former and current Georgian diplomats, scholars, journalists and representatives of local NGOs. The interviews were conducted in Tbilisi (n=10) and Batumi (n=10) during summer-autumn 2016.

Adjara: A Failed Political Investment

The first case of cooperative hegemony dates back to 2004 when Russia de facto supported Mikheil Saakashvili's accession to the Georgian presidency. Russia (through Igor Ivanov) played a constructive role by mediating between the conflicting parties and persuading then-incumbent President Eduard Shevardnadze to resign. The hegemonic component of Russia's policy in 2004 reproduced older patterns of Russian hegemony towards Georgia, resembling the role it played in 1992 in dethroning Georgia's first president, Zviad Gamsakhurdia, and paving the way for Shevardnadze. Yet in 2003, due to the legitimacy crisis of Shevardnadze's rule, Russia not only welcomed the changes in Tbilisi, but contributed to those changes: 'People in Moscow thought that since they failed to cope with the "old fox" (former President Eduard Shevardnadze. – A.M., A.Y.), dealing with his young successor could be easier … Indeed, the Kremlin was very enthusiastic about first contacts with Saakashvili who was considered in Moscow as a "star boy."'[4]

In this context, it was not surprising that the Kremlin received indications that Tbilisi was interested in receiving Russian assistance in negotiating with Aslan Abashidze, the pro-Moscow leader of the then-semi-independent maritime region of Adjara. Since Georgia's independence in 1991, Abashidze, acting as the region's

[4] Authors' interview with a former Georgian diplomat, 1, Tbilisi, September 2016.

head, distanced Adjara from the central government in both economic and political terms and developed close relations with the Russian political and military elite. In fact, the semi-independent status of Adjara was practically possible only under the condition of Russian support, something which Moscow reconsidered after Saakashvili came to power with the clear intention to restore Georgia's territorial integrity. In May 2004, the Russia's Security Council Secretary Igor Ivanov was dispatched to Batumi as an envoy and tasked with brokering a deal with Abashidze; as a result of Ivanov's mission, the latter resigned and 'voluntarily' left Adjara for Russia. Immediately after, Georgian troops entered Adjara and Saakashvili proclaimed the first step towards the reunification of Georgia, one of the main planks of his political program.

According to a former Georgian diplomat, 'the resignation of Abashidze, along with non-interference by the Russian troops located in Adjara, could have been a goodwill gesture by Putin who later, a couple of times, alluded to his assistance with removing Abashidze.'[5] According to another former diplomat, 'Russia could have played a negative role, with Abashidze who was ready to appeal for help to Russia, and Russian troops on the ground. Russia nevertheless decided to take a positive stand.'[6] However, Saakashvili never publicly acknowledged Russia's role in deposing Abashidze. In the mean-

[5] Ibid.

[6] Authors' interview with a former Georgian diplomat, 1, Tbilisi, September 2016.

time, the dislodging of Abashidze became a matter of heated political polemics in Russia (Zaiats 2004). In many publications, Moscow was reproached for ignoring Adjara and failing to duly comprehend the importance of its economic and political influence.[7] Russia's intermediary role in removing Abashidze from his stronghold in Batumi was discussed within nationalist circles as an example of Russia's failure to protect its loyal ally and a conciliatory position taken towards Saakashvili due to Russia's diplomatic weakness and indecisiveness. Adjara under Abashidze was dubbed 'Russia's last stronghold in Georgia' (Orlov 2004), where historical enmity to Turkey was viewed as a major driving force behind its leadership's friendliness towards Russia. In Russian patriotic discourse, Ivanov's mission was assessed as a betrayal of Russian interests under Western pressure: allegedly, 'under Abashidze Adjara did not fit in a nascent Georgia–Turkey–Azerbaijan strategic alliance' (Skurlatov 2016).

In summer 2005, Russia made another cooperative yet controversial move – it withdrew its military base from Adjara, something which also became a matter of controversy in Russian security debates. The commander of the Russian military unit in Batumi claimed that 'the local population adores us and prays for our stay here forever' (Tikhonov 2001). Russian soldiers were treated in this narrative as defending Adjara from the banditry and nationalist encroachments of leaders in Tbilisi, while

[7] 'Posledniy bastion Rossii v Gruzii', Sootechestvenniki, 2 August 2002, available at: http://russedina.instantlab.ru/rubriki/kavkaz/posledniy-bastion-rossii-v-gruzii.html.

the reintegration of Adjara into Georgia in 2004 was considered an annexation that became possible due to Russia's permissive policy (Shirokorad 2014).

The Kremlin's cooperative response to Saakashvili's request and the later military withdrawal attests, in the authors' view, to Putin's initial desire to invest in establishing trustworthy relations with the new Georgian leader. This was motivated by the logic of cooperative hegemony and paternalism. This political investment was important not only from the bilateral Moscow-Tbilisi perspective but also in the wider context of Russia's relations with the West.

Yet, as is evident from interviews with Georgian diplomats, that 'investment' was differently interpreted by both sides. It is quite probable that Putin's paternalistic gesture to Saakashvili can be interpreted as a signal of Russia's self-perception as the key arbiter in domestic controversies in neighboring countries. In this specific situation, Putin acted according to the logic of hegemonic cooperation with the West and with Georgia, trying to present Moscow as an approachable and responsible partner in informal negotiations. Yet, in the meantime, Putin acted according to this logic as a pragmatic political dealer sacrificing Russia's position in Adjara in anticipation of gaining influence in Tbilisi through controlling appointments in the Georgian government and de facto patronizing Saakashvili.

To Georgian experts, Moscow's role in removing

[8] Authors' interview with a Georgian policy expert, Tbilisi, August 2016.

Abashidze from power was obviously hegemonic, even imperial. They almost unanimously deem that Russia never accepted Georgia's independence on the international scene: 'it is inacceptable for Russia to leave Georgia out of its sphere of influence … When Moscow (both financially and politically) supported Saakashvili's election as a core element of the Rose Revolution, it actually anticipated more effective cooperation with the new political generation. In reality, Russia's policy has not been changing since 1992 and was still aimed at patronizing Georgia. For Misha [Saakashvili – A.M., A.Y.] this idea was impossible.'[9] A number of interviewees recognized Russia's positive role in the 'Abashidze case' yet admitted the price Putin expected to receive in exchange for his assistance was too high. The interviewees are partly in agreement that Saakashvili intentionally demonstrated his strategic choice of the European Union and NATO instead of adhering to a pro-Kremlin policy, which provoked 'Moscow's pressure on Tbilisi that has been rising proportionally to Georgia's success in approaching to European institutions.'[10]

Therefore, the model of relations Russia attempted to establish in 2004 proved to be unsustainable. Putin did not get what he expected from Saakashvili. Yet, apart from this pragmatic interpretation, there might be a normative understanding of hegemony (Diez 2013). Accord-

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[9] Authors' interview with a Georgian diplomat, 3, Tbilisi, September 2016.

[10] Authors' interview with a current Georgian diplomat, Tbilisi, September 2016.

ing to this logic, Saakashvili refused to publicly corroborate his political loyalty to Russia as the symbolic center of the post-Soviet space. Loyalty in this respect means acceptance of Russia's leadership in the sphere of ideas and norms. Within this interpretation, the most important symbolic gesture was Saakashvili's refusal to attend the Victory Day celebration in Moscow on 9 May 2005[11] and his alternative meeting with then-U.S. President George W. Bush in Tbilisi the same day (Pipiya 2016). It is likely that this was the point at which the Kremlin decided a symbolical red line had been crossed, and that cooperative hegemony was not going to recoup Russia's investment. According to one opinion, 'it was Putin who let Saakashvili know that it is an either-or situation', in the sense that the Georgian president had to make a political choice to strategically team up either with Russia or with the West.[12] This explains why, after 2005, the space for compromise between Moscow and Tbilisi was fast shrinking, leaving no room for Russia to continue to follow the cooperative hegemony model. The August 2008 hostilities between Russia and Georgia were a logical follow-up to the drastic deterioration of bilateral relations to the point of explicitly non-cooperative hegemony, exemplified by the recognition of the two breakaway territories and their gradual integration with Russia.

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[11] 'Mikhail Saakashvili otkazalsa prazdnovat' Den' Pobedy v Moskve', Lenta.ru, 7 May 2005, available at: https://lenta.ru/news/2005/05/07/saaka/.

[12] Authors' interview with a former Georgian diplomat, 4, Tbilisi, September 2016.

Qabala: Abandoning a Useless Asset

The second case study dates back to 2007 when, at a G8 summit, President Putin proposed joint exploitation of the Qabala radar station in Azerbaijan by Russia and the U.S. and NATO. At the NATO-Russia Council meeting, this idea was presented as an alternative to earlier U.S. plans to deploy anti-missile systems in Poland and the Czech Republic. The proposition failed, however, and in 2012 Russia ultimately had to leave Qabala when the government of Azerbaijan drastically raised the rent.[13]

Regardless of the technical feasibility of Putin's proposal – which is a matter of professional debate among military experts – it did become an important element of Russia's attempts to install itself as a cooperative hegemon in the region by finding a common security position with the U.S. and NATO on a global scale, something that would allow Moscow to keep an eye on security-related issues. The failure to do so led to Russia's withdrawal from Qabala a few years later, which was taken with a pinch of salt by numerous Russian critics of the decision, who blamed the Kremlin for intentionally withdrawing its military infrastructure in the South Caucasus and even betraying Russian national interests in the region. As military expert Pavel Baev suggested, after the pullout 'Moscow is left with few instruments for checking or at least monitoring the escalation of a hugely dangerous conflict

[13] 'Otkaz ot RLS v Gabale – poschiochina Putinu?', BBC Russian Service, 11 December 2012, available at http://www.bbc.com/russian/russia/2012/12/121211_gabala_putin.

in its immediate neighborhood' (Baev 2013). There were voices claiming the importance of Qabala for Russia had not declined; on the contrary, it was on the rise due to the prominence of global security factors affecting the entire South Caucasus (Aliev 2007). Leonid Ivashov, vice president of the Academy of Geopolitical Affairs in Moscow, called Russia's pullout a security failure[14]; other patriotically like-minded military commentators echoed that, arguing that this 'defeat' (Yadukha 2012) was part of a wider Western strategy to push Russia out of its sphere of influence in the near abroad (Yaroshinskaya 2007). In this context, there were many predictions of the coming of 'new owners' to Qabala (namely, the American military), which never materialized but added loud alarmist tones to the debate (Zakharov 2013).

The staunch, principled domestic opposition to the Kremlin policy of disengagement makes the Qabala story an even more intricate example of Moscow's avoidance of confrontation even at the expense of abandoning an important security installation and subsequently facing domestic criticism. Moscow did not resort to any of the multiple available options to reciprocate and punish Azerbaijan for making the Russian military leave – for example, recognizing the independence of Nagorno-Karabakh.[15]

Analysis of this complex situation elucidates two

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[14] 'General Ivashov: My proigrali Gabalu', Armeiskiy Vestnik, 2 March 2013, available at: http://army-news.ru/2012/03/general-ivashov-my-proigrali-gabalu/.

[15] 'Nuzhny li Rossii voennye bazy za rubezhom', Radio Svoboda, 24 May 2012, available at: http://www.svoboda.org/a/24592026.html.

structural factors that made possible both Putin's desire to cooperate with the US and Russia's subsequent withdrawal from Qabala. The first was Putin's vision of a prospective security 'joint venture' with the U.S. Russia's intention to receive consent from – and team up with – its trans-Atlantic partners was evident; for example, in the wishful thinking of Konstantin Totsky, Russia's envoy to NATO, who claimed that Moscow's proposal 'was viewed favorably' (Yunusov 2007).

The second factor involved Moscow's space for political maneuvering and bargaining. By proposing the joint exploitation of Qabala with the U.S. and its allies, Moscow de facto (though implicitly and without accepting it publicly) shared the West's concerns about Iran as a major security threat in the region (Blank 2007). The entire proposal was made possible only on condition of Moscow's relative freedom of hand to shape and reshape relations of friendship and enmity. In this specific case, that meant a rapid shift from informally teaming up with Iran on some issues to cooperating with the U.S. against Iranian interests in other situations. It is this flexibility that predetermined Moscow's cooperative hegemony in the Qabala case.

Armenia: From 'Benign Neglect' to the Logic of Piloting

The Eastern Partnership (EaP), which ultimately became an apple of discord between Russia and the EU,

was paradoxically for years not that important to Russia's foreign policy agenda. The Association Agreements (AAs) did not rank highly on the list of Russian priorities in Eastern Europe and the South Caucasus. It was only in 2013 that Russia started paying serious attention to the possible consequences of the EaP. That essentially attests to a lack of overall strategic planning by Russian foreign policymakers and an inability to see the political issues looming large behind what initially appeared to be negotiations about technical matters. For years, Russia remained passive and inattentive to its neighbors' relations with the EU. However, this is not to say that Moscow had neither policies nor roles to play in the EaP countries.

Armenia is an interesting case in this regard, falling into the cooperative hegemony category for two reasons. The first is that Russia did not oppose Yerevan's three-year-long negotiations with the EU prior to 2013. Yet, it ultimately forced Armenia into joining the Eurasian Economic Union (EEU). The EU does not view the AA and DCFTA as a matter of geopolitical orientation and it never pushed Armenia to reduce its relations with Russia, in particularly in the security domain where the EU doesn't have adequate competences.[16] However, in some Armenian policy circles EU policy was perceived as forcing Armenia to take a principled decision on whether to strategically associate with the European normative

[16] 'Sensatsionnoe zayavlenue Fule po povodu assotsiatsii Armenii i ES', Real Armenia, 11 July 2013, available at http://lratvakan.com/news/61106.html.

order or to eventually fall under the Russian sway.[17] In the meantime, some like-minded voices from Moscow started interpreting the Yerevan-Brussels talks through the lens of Armenia's 'civilizational choice' (Zatulin 2013) – a situation that Moscow was eager to avoid, de facto accepting the low cultural traction that Eurasianist doctrine has in Armenia. Therefore, it can be concluded that Moscow didn't pay much attention to the Yerevan-Brussels negotiations when they revolved around technical, administrative and managerial matters.

There is a second reason to apply the cooperative hegemony framework to this case: after Armenia opted for membership in the EEU instead of association with the EU, Russia hasn't appeared to react negatively to the continuation of talks between Yerevan and Brussels. Russia's non-confrontational policy in this respect can be explained by three factors.

First, the EU resumed negotiations with Armenia with due respect to the latter's commitments as a member of the EEU. From a pragmatic viewpoint, Russia does not mind Armenia receiving additional economic and financial resources and benefits from the EU, provided that its commercial regime is de facto controlled by Russia (Cenusa 2015). In Russia's long-term calculation, Armenia could hypothetically become a model for establishing term institutional contacts between the EEU and the

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[17] 'Glava Evropeiskogo Soveta posetit Armeniyu', Asia Business Consulting, 14 July 2015, available at: http://asialive.info/2015/07/glava_evropejskogo_soveta_posetit_armeniu_341368.html.

EU.[18] Such an outcome appears to be one of Moscow's highest foreign policy priorities, especially Russia-EU relations were disrupted as a result of the annexation of Crimea.

Second, Russia has preferred to take a conciliatory position in part due to the relatively high level of anti-Russian sentiment in Armenia. This sentiment is partly fueled by the tragic murder of an Armenian family by Valery Permyakov, a Russian soldier stationed in Armenia (Leiva 2016). Russia's troubles in Armenia also concern widespread irritation with its inaction in the face of escalating tensions with Azerbaijan over Nagorno-Karabakh (Giragosian 2015). The Armenian government has been critical of Russia's security policy, in particular towards Collective Security Treaty Organization (CSTO) (Kirillova 2015), as well as its policy of selling weapons to Azerbaijan. Some Armenian parliamentarians oppose the country's membership in the EEU.[19] Mass-scale demonstrations in Yerevan (dubbed 'Elektromaidan', which in English-language media was usually referred to as 'Electric Yerevan') against the pricing policy of a Russian-owned electricity company added new Russia-skeptic tones to Armenia's public discourse (Minasyan 2015). Despite clear attempts to equate these events with Ukraine's Maidan, Moscow's policy towards Armenia was

[19] 'V parlament Armenii predstavlen proekt o vykhode iz EAES', 14 April 2016, available at: http://www.lragir.am/index.php/rus/0/country/view/48084.

[18] 'MID: Dogovor Armenii i ES ne protivorechit vzaimodeistviyu s Rossiei', RIA-Novosti, 23 October 2015, available at: https://ria.ru/world/20151023/1306967152.html.

much less alarmist (Markov 2015).

Third, Russia's non-confrontational stance can be explained by the fact that Armenia is its key security partner in the South Caucasus. From the Russian perspective, this is a trump card that can be played when needed, making use of Russia's security preponderance and (hypothetical) ability to apply military resources to protecting Armenia against Azerbaijan. This line of thinking allowed Russia to take a relatively relaxed position towards Armenia's talks with the EU. To some extent, this situation suits Armenia's political elite:

Russia is our military security choice, while the DCFTA is our economic choice. This is not a contradiction. In terms of security, Armenia is tied to Russia. We are a member of the CSTO. But we also actively cooperate with NATO. Among the members of CSTO, only Armenia has sent its peacekeeping forces to the NATO peacekeeping missions of different parts of the world (Kocharyan 2013).

In contrast to the Georgian case, there are no 'red lines' in Moscow's rhetoric towards Armenia. This gives it an opportunity to pursue a more balanced policy, albeit one with evidently limited freedom of maneuver.

Lessons Learned

The question looming large at this point is: why was Russia cooperative in the three instances outlined above? The authors of this chapter explain Russia's relatively co-

operative – yet still hegemonic – behavior mainly by rational calculus, namely the Kremlin's deliberate policy of making political investments not only in a Russian sphere of influence in neighboring countries, but also in an eventual system of great power management in wider Europe, including the EU-Russia common neighborhood. In other words, at certain points Russia was eager to develop its role identity in the post-Soviet space as an approachable and open-minded partner both to its neighbors and to the West. In none of these three cases did Russia absolutely exclude the presence of Western powers in its 'near abroad'; Moscow did acknowledge some (though evidently limited and subject to its approval) roles for the EU (in the case of Armenia) and for the U.S. (in the case of Azerbaijan and – indirectly – Georgia). Hypothetically, all three cases could eventually evolve into arenas for either a division of labor between Russia and the Western powers or the co-management of specific projects in the spheres of security or economics. Unfortunately, these windows of opportunity were closed with Putin's return to the presidency in 2012 and the consequent fundamental change in Russia's foreign policy.

However, the lessons Russia learned from these – however limited – experiences of cooperative hegemony were far from optimistic. Moscow concluded that unilateral cooperative behavior doesn't work, and equal partnership – as it is understood in the Kremlin – with the West in post-Soviet countries is close to impossible. Following those realizations, Russia took another step in

claiming that problems related to Russia's policies towards Georgia in 2008 and Ukraine since 2014 are systemic (i.e., due to an overall crisis of European security institutions), an argument meant to exempt Russia from responsibility for its actions projecting military force and stimulating secession. Within this general geopolitical framework, Moscow's policies towards post-Soviet countries remain case-specific: Russia is intransigent on the annexation of Crimea and the recognition of Abkhazia and South Ossetia as independent states, yet it seems to be more flexible in other regional separatist conflicts. For example, Russia accepts the territorial integrity of Moldova and has no intentions to recognize Transnistria as an independent state, instead advocating a federalization of Moldova that may also be an appealing model for Russia with regards to the Donbas. The variety of policies attempted by the Kremlin suggests that Russia doesn't stick to one single model in dealing with conflicts in which it has direct interest. Moreover, Moscow is willing to pragmatically exchange its influence in secessionist territories (especially in Transnistria and the Donbas) for federalist arrangements in which it would have decisive impacts on governments in Chisinau and Kyiv, respectively.

Conclusions

Comparative analysis of the three cases allows for identifying conditions under which Russia has, in the

past, made efforts to play the role of a regional cooperative hegemon.

In all three cases, Russian attempts to implement cooperative hegemony were grounded in resources under Moscow's control that it wished to convert into concrete policy advantages. In Georgia this resource was Abashidze's heavy dependence on Russia; in Azerbaijan it was the Qabala station that Putin proposed transforming into a joint military venture; and for Armenia Russia's resource was its role as the country's key security provider in a situation of continual confrontation with Azerbaijan.

In two cases (Georgia and Armenia), Russia's cooperative hegemony developed into instrumentalization of these countries' vulnerabilities and dependence on Russian power resources. By the same token, in Georgia and Azerbaijan, Russia was ready to sacrifice close political relationships (with the Abashidze regime in Adjara and with Iran, respectively) in exchange for the opportunity to foster more cooperative relationships with the West and its loyalists (Saakashvili). In this sense, Moscow was not averse to acknowledging certain regional roles for 'extra-regional' powers: Putin directly invited the U.S. to share security data in the case of the Qabala proposal, and de facto supported Saakashvili – known for his original pro-Western sympathies – in the conflict with Abashidze. In Armenia, Russia didn't mind the EU negotiating with Yerevan prior to the 2013 Vilnius summit, and seemed to take a non-confrontational stance

towards the continuation of those negotiations at a later time, though in a different format and with a different agenda.

In two cases Russia's cooperatively hegemonic policy was grounded in the predominance of technical logic over political considerations. Russia's permissive attitude towards Yerevan's lengthy talks with the EU can be explained by the Kremlin's interpretation of the negotiation process as essentially non-political bargaining over managerial, economic, financial and legal issues. In the case of Azerbaijan, Moscow's relatively easy withdrawal from Qabala – especially when the station lost its previous political significance after the U.S. rejected Russia's proposal for cooperation – can be explicated by a rational cost-benefit calculus. However, in the case of Adjara, Moscow's logic from the very beginning was explicitly political, and it faced equally political reasoning from the part of Mikheil Saakashvili, which motivated Russia's shift from cooperation to warmongering.

Extrapolating these conclusions to future events is not easy, since each of the cases analyzed above is a sui generis example not reproducible in other circumstances. The major question is how the three South Caucasus countries can structure their future relations with Russia, given its inevitably hegemonic role in the region. All three countries were eager to explore the slim chances that opened due to Russia's temporal alignment with the West. Nowadays, however, all have to face a changed political environment with lesser chances for a cooperate

policy from Russia.

Georgia, as seen from the analysis provided in this chapter, faces a choice between non-cooperation with Russia and cooperation under certain conditions. Yet making deals with Moscow should not prevent Tbilisi from conducting political dialogue with the EU and NATO on issues of utmost national interest, which is the preferred option for a significant part of Georgia's foreign policy establishment. For Azerbaijan, the major issue is how to take advantage of Russia's relative disinterest in improving relations with Baku and its focus on security commitments to Armenia. Against this backdrop, Azerbaijan is the only EaP country equally disinterested in institutional relations with the EEU and the EU. As far as Armenia is concerned, it might expect some freedom of action under the condition of continuing to accept Russian hegemony in the military and economic spheres.

In conclusion, the authors draw attention to the ambivalence characterizing all three countries analyzed in this chapter. On the one hand, all are objects of the policies and influences of external actors, including cooperative and non-cooperative forms of Russian hegemony. On the other hand, all can – at least potentially – be viewed as playgrounds for limited experimentation with innovative policy approaches grounded in the search for compromises and adjustments to the policies of hegemonic powers. This is particularly the case for Armenia, which was forced to discontinue association negotiations with the EU but, in the meantime, was able to maintain

cooperative relations with Brussels in spheres not regulated by membership in the EEU. All three cases demonstrate that in the South Caucasus, some form of cooperation between Russia and the West was possible at certain times. Though momentum for cooperation is lost in Georgia and appears weak in Azerbaijan, it continues to exist in Armenia, being subject to Russian hegemonic control.

This analysis has several implications for the EU in its wider policies towards post-Soviet countries. First, within the EaP framework and beyond, Brussels must formulate its strategy predominantly in technical terms and avoid the type of vocabulary that is unacceptable to Moscow; e.g., terms such as 'civilizational choice' and 'political decision.' The EU-Kazakhstan Agreement on Enhanced Partnership and Cooperation signed in 2015 might serve as a good model in this respect.

Second, the EU should support those policies of EaP governments that potentially drive them closer to the West even when they don't imply institutional commitments (measures short of association, for example). In Azerbaijan such steps towards Europe might take cultural forms (e.g., hosting the 2012 Eurovision song contest and the 2015 European Games). In the case of Belarus, the EU might find it useful to support Minsk's attempts to mediate between Russia and Ukraine, contributing to general European security.

Third, the EU must invest more academic and research resources to studying and explaining the past ex-

periences of EU-Russia collaborative endeavors, even if those endeavors failed, as in the case of trilateral negotiations between the EU, Russia and Ukraine. Enhanced policy expertise in this domain will lead to a more intense professional and public debate on the variety of roles played by Russia in the post-Soviet space, making possible the projection of previous experiences into new situations in which a balance of interests can be attained between the EU and Russia.

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IN SEARCH OF THE EUROPEAN PERSPECTIVE: GEORGIA AFTER THE ASSOCIATION AGREEMENT

Kakha Gogolashvili[1]

Introduction

The Association Agreement (AA) between EU and Georgia was signed on 27 July 2014 after three years of negotiations. The September 2014 part of AA covering trade and trade related matters (Title IV) as well as numerous annexes have become provisionally applied; that is, entered into force before ratification of the agreement by the parliaments of all EU member states and the European Parliament.[2] The AA in full entered into force on 1 July 1 2016. Taking into consideration the fact that consultations on establishing the Deep and Comprehensive Free Trade Area (DCFTA) between the two parties started in late 2008 as a result of the September 2008 EU extraordinary summit, the entire process took roughly six years. Prior to 2008 there were no direct indications that Georgia would begin negotiating the AA. There were no grounds for expecting the EU to consider entering into talks with Georgia on an individual basis due to the country's ambitious European aspirations.

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[2] The procedure of provisional application of international agreements/ provisions falling under EU's exclusive competence is stipulated in Art. 218.5 of the Treaty on Functioning of the European Union.

The EU Eastern Partnership (EaP), proposed by Sweden and Poland in 2007 as a format for closer cooperation with six Eastern European states, contains the prospect of signing AAs as an instrument for fostering bilateral relations with partner countries. Despite the bilateral nature of AAs, the association of certain Eastern European states with the EU was made possible by the EUs regional policy. That is to say, EU has deployed bilateral instruments of closer cooperation and even integration with individual countries as a result of its interest in the entire region. Also, worth noting is that it took nearly a decade from the moment the practical possibility was born (in 2007) for Georgia, Ukraine and Moldova to achieve fully operational AAs with the EU (in 2016).

That 10-year cycle appears symptomatic when looking at similar processes in other countries. For example, the EU's fifth enlargement took roughly 10 years to prepare the countries of Central and Eastern Europe (CEE) for eventual membership. The AAs with the 10 countries in question were concluded between 1991 and 1998 and the accession treaties were signed on 2003. A similar trend can be observed in the Western Balkan states, which started signing Stabilization and Association Agreements (SAAs) in the early 2000s. For the majority of countries in the Western Balkans, the next phase of integration (candidate status) became realistic approximately 10 years later. Montenegro took less time to become a candidate country (in 2010), but negotiations on accession started only in 2012. Albania's

SAA entered into force in 2006 and the country received candidate status in 2014. Serbia's accession negotiations started in 2015, while the SAA was signed in 2007. The SAA for Bosnia and Herzegovina (BiH) entered into force in 2015 (it was signed in 2007) and the country formally applied for membership in 2016. The case of Macedonia paints a pessimistic picture. It received candidate status in 2004 and the European Commission's positive opinion on starting accession negotiations in 2009. However, since then no progress has been made regarding accession negotiations – they are precluded by the dispute about the country's name. The biggest success story has been Croatia, which acceded to the EU in 2013 (a treaty of accession was signed in 2011). Even Croatia had to wait a decade for that outcome, as the SAA was signed in 2001.

The two groups of cases – the CEE during the 1990s and the Western Balkans during the 2000s – demonstrate that speedy accession to the EU is not possible. From the beginning of the process (recognition of the membership perspective) until full realization, at least seven years passed in each case. The other peculiarity noted above is that the EU grants the membership perspective on a regional basis rather than for individual countries. For example, it was in Copenhagen in 1993 where the European Council decided to consider CEE countries as candidate states upon their signing AAs with the EU. For the Western Balkans, it was European Council in Santa Maria de Feira in 2000, which confirmed that 'all the countries

concerned (Western Balkan) are potential candidates for EU membership'.[3] This regional 'opening' of the Membership perspective may represent problems for any country seeking to pursue EU integration on an individual basis. Indeed, the case of Slovenia, the former Yugoslav republic which signed an Association Agreement in 1996 and acceded to the European Union in 2004 along with seven other CEE states, shows that the country can be taken from one regional context and attached to another when the following factors are present: the EU has an interest in absorbing the relevant state, the state is prepared to join, and the state is in geographical proximity to the EU. The size of a country may also play a role (smaller is better). Neither Malta nor Cyprus constituted part of the CEE; their respective attachments to the fifth enlargement wave was purely practical. The small size of both Mediterranean 'mini states' played a positive role in the EU deciding favorably on their accession.

The Importance of Falling under the EU's Ambitions for Enlargement

Consider the process of integration from the EU's perspective. The accession of any new country may be met with reluctance by certain members but interest by others. Any new accession brings considerable costs to all member states – short-term costs in the form of ne-

[3] Council of the European Union (2000) 'Conclusions of the Presidency at Santa Maria da Feira European Council', 20 June, available at: http://aei.pitt.edu/43325/1/Feira_Council.pdf.

gotiation resources, increased assistance for preparing the country in question and administrative resources for conducting bureaucratic processes in all member states and EU institutions. Any decision on enlargement can be taken in accordance with already-agreed priorities. These priorities were set out in the European Council's conclusions of the 15 December 2006 and have been invoked several times since. The European Council agreed '...that the enlargement strategy based on consolidation, conditionality and communication, combined with the EU's capacity to integrate new members, forms the basis for a renewed consensus on enlargement'.[4] The novelty introduced by this approach was formalization of the so-called 'absorption capacity' – criteria which further complicate the accession of new members to the Union.[5]

EU documents on enlargement issued during the term of the current European Parliament and European Commission (since 2014) call for and assure respect for ongoing negotiations with the already-engaged countries. Additionally, the documents indirectly indicate an unwillingness to accept new applications during the present term.[6]

It is obvious that the acceptance of new member states is gradually becoming a matter of long-term strategic planning for the EU. The 'ad hoc' accessions (as

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4 Council of the European Union (2006) 'Presidency Conclusions of Brussels European Council', 12 February, available at: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/92202.pdf.

5 Ibid.

6 Ibid.

happened with Ireland and Denmark in 1973 and Austria in 1995) have become less possible.

It is questionable whether Croatia's accession in 2013 was a continuation of the fifth wave of EU enlargement or the beginning of a new stage. Despite this question's importance there has been no formal answer. If EU institutions accept that the fifth wave of enlargement ended in 2007, they should also admit that the accession of Croatia marked the beginning of a sixth wave – enlargement into South-eastern Europe (SEE). The process is ongoing as four Western Balkan states are recognized as candidate countries (Albania, Macedonia, Montenegro and Serbia) with negotiations being carried out in two of them. Two other countries – BiH and Kosovo – enjoy the status of potential candidates (their respective applications are pending). Another candidate country, Turkey, while not representing the Western Balkans, can still be considered an SEE state. All EU enlargement efforts in the current context are directed toward this region. Also, notable is that not all states in this region meet the general criteria for EU membership. It can be said with high probability that, if not for the regional context, some Western Balkan countries would not be considered potential candidates at all. Individually, Kosovo, and even BiH, cannot be considered better prepared for candidacy than any of the three newly-associated countries (Georgia, Moldova and Ukraine). Georgia is more advanced than any Western Balkan country in terms of protecting human rights and fighting corruption, including those

with EU candidate country status.[7] If Georgia or Moldova had been part of that wider region, they would already have been granted the Membership perspective. Regrettably, the ambitions of the EU have not yet reached a stage where it can envision further enlargement in Eastern Europe.

Individual Cases

The potential cases of individual accession still possible with some European countries – Iceland, Norway and Switzerland – are not derived from the EU's enlargement ambitions. The mentioned European states, even if they have rejected EU membership through referendums, can join the Union at any time if they so choose. The mentioned countries are functionally integrated with the EU and it is understood that full membership would have very little impact on the Union.

Evolving Eastern Europe

In early the 1990s the European Community developed a set of unified approaches for long-term external engagement. Three levels of ambition were developed toward the neighboring states, forming three differing circles of engagement around the Union:

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[7] Transparency International (2016) Corruption Perceptions Index, available at: http://www.ey.com/Publication/vwLUAssets/EY-Transparency-International-Corruption-Perceptions-Index-2016/$FILE/EY-Transparency-International-Corruption-Perceptions-Index-2016.pdf.

Enlargement: Coverage of the CEE region with powerful transformation policies and instruments. Europeanization and rapid economic and social development with the region's subsequent absorption into the Union;

Intensive engagement: Intervention in the countries of South-eastern Europe bringing peace, stabilization and state building efforts with subsequent Europeanization and (at the first stage) functional integration with the Union;

Moderate engagement: Democratization and development of the market economy in former Soviet republics, bringing them closer to the international standards as regards to protection of human rights, governance, rule of law, economic and social justice and development. Involvement of the countries in global and regional organizations. The same rate of engagement with slightly more ambitious economic cooperation objectives was applied to the Mediterranean region (AAs, Barcelona Process) and (PCAs and later AAs) former Soviet republics.

All three approaches have been outlined in numerous EU strategies, communications and agreements. During 1990s, the above-mentioned models were put into practice and as a result the CEE became ready for institutional integration by the end of the millennia. The Western Balkans became relatively stable and countries in the region began to engage in Stabilization and Association Agreements with the EU. Turkey became a candidate country in 1999. The 'third circle' of states formed

by the EU's Eastern and Southern neighbors has been covered by numerous bilateral agreements such as the Partnership and Cooperation Agreement (PCA) and Euro-Mediterranean AAs.

None of the three models for regional cooperation and integration were developed smoothly or without problems. The fifth wave of enlargement was criticized for the premature accession of Bulgaria and Romania. The Balkans have struggled with unresolved conflicts and painful, difficult and slow transformations (save for Croatia and, later, Montenegro). The Eastern Neighborhood has gradually been divided into Europeanizing countries and those resisting the transformation into European states.

Is this a New Chapter with a New Subtitle?

Notable in EU policy planning is the permanent attempt to shape regional policies according to established realities. From the other side, being a normative power, The EU intends to positively alter reality in the target region. Having selected normative transformation as the goal of the ENP, the EU has attempted to consolidate all its efforts under properly-fitted frameworks of cooperation. The enlargement practice of the 1990s provided an opportunity for the EU bureaucracy to apply developed knowledge and methodology to the practical transformation of its neighborhood. The ENP communication proposed by the European External Action Service

and adopted by the EU Council in 2003 explicitly indicated that it was not a policy for new enlargement but for 'closer economic integration with the countries that '...do not currently have the perspective of membership of the EU'.[8] The communication further says the 'EU should act to reinforce and unite its existing neighborhood policy towards these regions around two overarching objectives for the next decade or longer...(1) to reduce poverty and create an area of shared prosperity and values based on deeper economic integration, intensified political and cultural relations...(2) to anchor the EU's offer of concrete benefits and preferential relations within a differentiated framework which responds to progress made by the partner countries in political and economic reform'.[9] The communication sets out a decade-long engagement plan that should have led to the establishment of new relations with the EU's partners, including the possibility of new institutional arrangements; i.e., Neighborhood Agreements. In fact, the outlined strategy was fulfilled in slightly more than 10 years. The qualitative changes in relations with part of the neighboring countries have already been achieved through the association agreements.

Georgia and other two South Caucasian states, Armenia and Azerbaijan, were included in the ENP later, in

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[8] European Commission (2003) 'Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours', COM(2003) 104 final, Brussels, 11 March, available at: http://eeas.europa.eu/archives/docs/enp/pdf/pdf/com03_104_en.pdf.

[9] Ibid.

2004. The introduction of joint action plans and annual progress reports set the transformation process for the EU neighborhood on a path similar to the accession process. Placing the enlargement policy and the neighborhood policy under one Directorate General following the fifth wave of enlargement may have also signaled that the EU did not distinguish technically normative efforts for preparing candidate states from those of transformation of the wider neighborhood.

The ENP is not aimed at the institutional integration of partner states. However, it does not exclude such a possibility. The ENP establishes differentiation as one of its principles, which allows for speedy progress in EU integration for countries demonstrating higher levels of ambition and dedication. As numerous ENP action plans have been tailored practically in such a way to follow the 'Copenhagen Criteria' for accession, their fulfillment has closely replicated the processes for preparing a country for accession to the EU. That being said, the similarity of approaches has not entailed the same intensity of agenda or width of themes covered.

Eastern Partnership – Precision of the Regional Format

Soon after introduction of the ENP it became apparent the EU needed to develop separate approaches to deal with growing differences in the Eastern and Southern neighborhoods. Several new initiatives: the ENP

Plus (2006) developed by the German Presidency of the Council, to which was given the mandate to develop the ideas about the ENP plus and to present a report to the European Council in June 2007 (Kurpas & Rieck 2007); Black Sea Synergy[10]; and the Eastern Partnership (EaP) all attempted to introduce a special format of enhanced cooperation for the states of the Eastern neighborhood—'In contrast to the concept of the European Commission, which covers all of the neighbouring states of Eastern Europe as well as the countries of the Mediterranean, the Foreign Office's concept (ENP Plus) concentrates on Moldova, Ukraine and – under the premise of a future democratic transformation – Belarus, as well as on the states of the southern Caucasus, Georgia, Armenia and Azerbaijan' (Kempe 2007).

The Eastern Partnership, which practically emerged from within the ENP, enforced an existing regional cooperation mechanism between Eastern European states and the EU. This marked a strengthening regional approach from the EU, an attempt to engage the entire Eastern European region (save Russia) in a closer intraregional buildup while, at the same time, serving the aims of their collective Europeanization. From the other side, the bilateral track of the Eastern Partnership has increased possibilities for individual states to deepen their relations with the EU not depending on the general regional speed

[10] European Commission (2007) 'Black Sea Synergy - A New Regional Cooperation Initiative', COM(2007) 160 final, Brussels, 11 April, available at: http://eeas.europa.eu/archives/docs/enp/pdf/pdf/com07_160_en.pdf.

of Europeanization. AAs and Visa Liberalisation Dialogues are the most powerful instruments of bilateral cooperation and have been effectively applied in nearly all EaP states. Indeed, not all six countries effectively used the offered instruments and only three of them – Georgia, Moldova and Ukraine – succeeded in signing AAs and attaining visa liberalization in the Schengen Area.

The multilateral track materialized through cooperation within thematic platforms, flagship initiatives and thematic panels as well as annual ministerials and biannual summits. However, it provides much less substance than the bilateral track in terms of EaP countries' closer integration with the EU. Does the EaP still matter for Georgia, Moldova and Ukraine if they receive more support and a more advanced perspective under the bilateral track? This is an important question. Despite bilateral aspects such as the AA, visa liberalization and other sectoral cooperation agreements and formats, Georgia may be attractive to the EU as a part of wider area – Eastern Europe (which includes the South Caucasus). The multilateral track is crucial for transforming, Europeanizing and homogenizing the entire Eastern Europe region and to engage its countries in cooperation under EU leadership. One can observe that the recent reform of the ENP has not altered the EaP format. The six EaP states remain equal participants in all existing thematic platforms, panels and flagship initiatives. No new formats or sub-formats have been created to address issues specifically relevant to the three newly-associated states. This

approach resembles the situation in the Western Balkans characterized by distinct levels of progress towards fulfilling the criteria for accession to the EU. The EU maintains the regional approach as its core policy towards the Western Balkans while dealing with each country individually regarding their respective integration with the EU.

Within the multilateral track of the EaP, the EU attempts to socialize all six countries and avoid creating a sense of division in the region. Division has occurred anyway as three of the six countries completely lack European aspirations, and two of them (Armenia and Belarus) participate in an economic union that precludes economic integration with EU, an explicit aim of the EaP. Most likely, the 'EaP 6' format does not serve as a catalyst for the further advancement of newly-associated countries on their way to eventual membership, as it attaches Georgia to a regional cooperation format which includes countries that per se cannot have a membership perspective at this historical stage. The AAs with Georgia, Moldova and Ukraine contain much stronger free trade provisions than those included in the so-called Europe Agreements signed with the CEE countries in 1990s and the SAAs with the Western Balkan countries. The same is true regarding cooperation on security and defense and the rate of legal approximation, which is almost as high as that of the European Economic Area (EEA). Despite such a deep agenda for integration and political association, the EU rejected the Georgian government's demand to include recognition of the country's

membership perspective in the preamble of the AA. By contrast, Macedonia was offered the European Perspective in 2001, when its level of preparation was much lower than that of Georgia when the AA was signed in 2014. Each Western Balkan county received the status of potential candidate through a political decision made by the EU Council in 1999 to initiate the Stabilization and Association process with Western Balkan states.[11] The status of potential candidate includes the membership perspective and emerged out of the EU's commitment to the region. This commitment had a major effect even before the signing of bilateral SAA treaties with particular countries.

In contrast to the Western Balkans, the EU has never considered Eastern Europe as an area for enlargement. It has even hesitated to recognize Georgia as a 'European Country.' Instead, the preamble of the AA says that Georgia is an 'Eastern European state', which makes it vague in reference to Article 49 of the TEU which states that any 'European' country may become a member of the Union. It is apparently not a simple issue to grant the membership perspective to a country which represents a region that is not considered an area of possible enlargement.

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[11] European Commission (1999) Stability Pact for South-Eastern Europe (Brussels, European Commission), available at: https://ec.europa.eu/neighbourhood-enlargement/policy/glossary/terms/stability-pact_en.

Importance of the 'EaP-3' Format

Analysis of the historical process of EU enlargement demonstrates that countries can become candidate states by leapfrogging formal recognition of their membership perspective. That outcome occurred in certain CEE countries. While the first four phases of enlargement occurred without even the notion of an 'EU candidate state' – which was introduced only for the fifth wave of enlargement – the next wave of enlargement involving South-eastern Europe established an additional threshold for membership in the form of 'potential candidate' status.

Georgia, which aspires to EU membership, still lacks potential candidate status and there have been even promises of such consideration by the EU. It is probable that Georgia will continue to: implement reforms to bringing its legal and institutional environment closer to the EU; continue efforts to integrate as much as possible with EU programs and agencies; and deepen its functional integration using the possibilities provided by the AA/DCFTA. These efforts will strengthen Georgia's advancement toward European integration. However, the non-recognition of its membership perspective will remain a dilemma, and one closely related to the regional context. There is a low probability that any individual EaP country – a region including six countries, three of them showing very little European aspiration and two of them participating in the Russian-led Eurasian Union

which is incompatible with further EU integration – can be regarded as a potential candidate for EU membership. Even if the EU leadership and bureaucracy appreciates Georgia's efforts and recognizes its progress, it would be difficult to explain to the wider public in EU member states why it granted the membership perspective to Georgia on an individual basis.

The EaP format is a multilateral cooperation mechanism that includes a powerful bilateral track able to offer particular benefits to individual countries. Still, it places each member country within a region that will not be considered for enlargement for quite some time, if ever. At the same time, attachment to a regional format is necessary for a country to fall under the EU's enlargement ambitions.

The next area for EU enlargement should be a regional grouping of several states which demonstrate the progress, ambition and geographical continuity necessary to justify the enlargement process. Ukraine and Moldova have already fulfilled all three criteria. Georgia, however, may lack the requisite geographical proximity to the EU's enlargement area. Regrettably, Turkey has lowered its ambition and speed of advancement on the path toward European integration, otherwise Georgia could be considered in the context of continuation of the Turkish (and South Eastern European) enlargement process. Georgia still has the chance to be considered in a new Black Sea regional context with Ukraine and Moldova. Important factors demonstrating similarity and

potential to form a sub-regional group are the respective AAs and visa-free arrangements with the EU. Creation of a separate group of newly-associated states (Georgia, Moldova and Ukraine) within the EaP would gradually help to increase the self-identification of these countries as a sub-region. That could enable the intensification and deepening of multilateral cooperation between the EU and all three states. Finally, the EU could recognize the possibility of further enlargement towards the Black Sea area, involving Georgia, Moldova and Ukraine. At this stage, the 'EaP 3'[12] format appears to be the only possibility for Georgia, Moldova and Ukraine to acquire the European Perspective. This is a fact that should be explored in detail. One possible instrument for bringing the three countries together is the creation of a multilateral free trade area including all three countries as well as the EU. Such a possibility was first proposed in a European Parliament resolution from 2007 in which the Parliament '... reiterates its earlier proposal to develop with those countries (EaP) clearly identifiable as European the deep free trade agreements in the context of a possible "European Economic Area Plus"'.[13] Even earlier, the European Commission in its 2003 communication establishing the ENP stated that [the long term goal of the initiatives ...

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[12] Format for considering close multilateral cooperation with EU by all three newly-associated states.

[13] European Parliament (2007) 'European Parliament Resolution on Strengthening the European Neighbourhood Policy', Strasbourg, 26 October, available at: http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+REPORT+A6-2007-0414+0+DOC+XML+V0//EN.

is to move towards an arrangement whereby the Union's relations with the neighboring countries ultimately resemble the close political and economic links currently enjoyed with the European Economic Area'.[14] Many other documents later modified these concepts, including a European Commission communication from May 2011 that expressed the long-term vision of creating '... an economic community emerging between the EU and its ENP partners'.[15] The creation of an Economic Area including the EU and the three newly-associated states would be logical – established bilateral trade arrangements already exist, as do ENP and EaP development visions in the official documents of EU institutions. Whatever it's called, an Economic Area on the model of the EEA would create opportunities and prospects for future EU enlargement towards the participating states.

Effects of the AA / DCFTA on Prospects for Georgia's Eventual EU Integration

The previous sections made three main arguments:

- The membership perspective is granted in accordance with the EU's enlargement ambitions;
- Those enlargement ambitions, as a rule, ex-

[14] European Commission 2003.

[15] European Commission (2011) 'A new response to a changing Neighbourhood', COM(2011) 303 final, Brussels, 25 May, available at: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX-:52011DC0303&from=EN.

tend towards entire regions rather than individual countries; and

- A region should be homogenous and united in its European aspirations to attract EU interest for future enlargement.

The existence of a favorable regional context is a minimal condition for a country to be considered a potential candidate or to receive a membership perspective. One can hypothesize that Georgia, Moldova and Ukraine form a new regional grouping and aspire to EU integration together. That would, unfortunately, be an insufficient criterion. Firstly, the 'favorable regional context' does not yet exist and all three countries must still prove their worthiness to become targets of the next enlargement. This is not as easily achievable as it was with the Western Balkans. Geographical proximity and the Western Balkans' historical links with the Union served as strong determinants of EU attitudes towards the region. The three newly-associated states have no such privileged location, being caught between Eastern Europe and Russia. Moreover, they have never been subjected to major European influence in recent centuries. Georgia's position is weakest in this respect. Despite its serious European aspirations, Georgia cannot be certain about being 'heard' in Brussels.

Therefore, the European Perspective needs to be 'worked out' rather than granted. Georgia, Moldova and Ukraine should work to raise interest in the EU and prove their compatibility with EU enlargement tools. To reach

such a level of interest from the EU, these countries should work individually to implement the provisions and objectives of the AA/DCFTA. Fulfillment of the provisions related to the rule of law, governance and human rights, freedom of speech and media are essential to demonstrate adherence to European values. Cooperation on Common Foreign and Security Policy (CFSP) and Common Security and Defense Policy (CSDP) matters entails strengthening ties with the EU, developing a sense of alliance and loyalty. Further approximation of European education and scientific standards through participation in relevant EU programs and reforming the mentioned sectors increases the possibilities for Georgian academia and scientists to adopt advanced European research and teaching methodologies in their practice. At this moment, all three countries have practically passed the initial stage of implementation of the AA/DCFTA.

On April 6, 2017. Georgian Minister of Foreign Affairs Mikheil Janelidze met representatives of the Georgian expert community to present his vision regarding further steps towards EU integration.[16] According to Minister Janelidze, Georgia must focus on six objectives in the coming years:

1. Association Agreement implementation;
2. Legal approximation;
3. Cooperation in defense and security;
4. Participation in EU programs and agencies;
5. Sectoral cooperation – energy, transport, en-

[16] The author of this paper took part in the mentioned meeting.

vironment; and

6. Cooperation with EU financial institutions – European Investment Bank (EIB) and European Bank for Reconstruction and Development (EBRD).

The Minister excluded the possibility of applying for membership prior to expiration of the mandate of the current European Parliament and European Commission, as enlargement is currently not a priority for the EU. According to the Minister, the application for EU membership should be submitted no earlier than 2020, by which time Georgia will also be better prepared.

All of the areas of cooperation highlighted by the Minister represent opportunities for functional integration with the EU. The reform agenda established the by AA is more than sufficient to bring Georgia to a qualitatively new level of institutional development. Moreover, legal approximation will create a favorable environment for Georgian exports to the EU while augmenting the country's competitiveness as a destination for EU investments. It may further encourage the export of Georgian services to the EU, including the establishment and operation of Georgian professionals on the EU market for services. Defense and security cooperation is an important element for developing mutual trust between the EU and Georgia, allowing the country to contribute to international peace and security initiatives in partnership with the EU. Participation in EU agencies and programs is an efficient way to improve the quality of work of Georgian

institutions, allowing citizens to participate in scientific, educational, cultural cooperation and exchange activities. Membership in the European Energy Community and the associated approximation of EU energy regulations is crucial for Georgia's integration into the EU energy market. The intensification of direct flights to EU capitals, the opening of the railway connection via Turkey, further improvement of maritime transport connections to other Black Sea states and construction of high-speed highways traversing Georgia are also essential for improving physical connectivity with Europe. Membership in EU standardization bodies (CENN, CENELEC, EUA) will expand Georgian exporters' access to EU markets. With the help of the respective EU agencies, Georgia has the opportunity to improve its performance on environmental protection, food safety, competition and agricultural policy. Closer cooperation with EU financial institutions will help the country develop better connectivity within the region and with the EU.

All the above-mentioned directions will contribute to improving Georgia's compatibility with the EU while raising its attractiveness as a candidate for accession.

EU integration requires fulfillment of the Copenhagen Criteria defined by the European Council in 1993. The criteria were established for integrating the CEE countries but are still applied to enlargement in the Western Balkans. Implementation of the Association Agreement and progress on all the above-mentioned priorities will effectively contribute to Georgia's advancement towards

fulfilling the Copenhagen Criteria. The AA advances the country towards establishing sound and democratic institutions and adequately protecting human rights and the rule of law. At the same time, Georgia is becoming a close security partner for the EU and will gradually share common responsibility for regional stability. The legal approximation stipulated by the DCFTA-related provisions of the AA will help Georgia establish a legal and regulatory framework compatible with the EU's internal market. Apart from this, the AA can stimulate economic growth and poverty reduction through effective industrial, agricultural, employment and labor policies, small and medium enterprise (SME) support programs and financial reform to improve the investment climate and generate sustainable growth. In parallel, AA implementation stimulates trade and economic relations with the EU and creates conditions for Georgian companies to participate in the EU's internal market.

To summarize, by treating the AA as an operational tool for fulfilling the Copenhagen Criteria, Georgia can become technically ready for EU membership within one decade. Ten years is a rough assumption based on the level of preparation of the CEE and Western Balkan candidate states when they began the EU integration process.

Conclusion

Georgia exhibits strong European aspirations in the absence of an adequate response from the side of the EU.

Georgia's AA does not include a membership perspective and there have been no promises of further integration with the EU. The membership Perspective is granted only to countries which fall under the EU's enlargement ambitions. Even for a country that performs well but is not within the 'enlargement area', it is practically impossible at this stage to expect EU candidate or even potential candidate status.

When Turkey was actively negotiating EU membership, Georgia had a chance of being recognized as a geographical continuation of the same region (South-eastern Europe). Unfortunately, Turkey stopped its advancement on the integration path and its membership perspective has a contested future.

At this stage, Georgia has another opportunity to fall under the EU's future enlargement area, if the Union decides to enlarge towards the Black Sea section of Eastern Europe. To seize that potential opportunity, Georgia, Moldova and Ukraine need to develop a stronger format for regional cooperation – to prove that they represent a sub-region with practical similarities. The creation of an 'EaP3' format, 'European Economic Area Plus' or 'Neighborhood Economic Community' with the EU would certainly contribute to the establishment of Georgia, Moldova and Ukraine as a sub-regional grouping of states aspiring to EU membership. If successful, such a grouping could attract EU interest and potentially receive the membership perspective.

The Georgian government and all other relevant in-

stitutions and actors should work on promoting ties with Ukraine and Moldova, to influence when necessary the other countries toward stronger dedication to European values and European integration. Consolidation of all political forces and the wider society around EU integration objectives is essential. There should be a high-level consensus in the country and readiness from the government, parliament, political class and non-state actors, including the private sector, to contribute to the process. The Georgian government should actively strive to establish all possible formats of multilateral cooperation and integration with Moldova and Ukraine and with the EU. Further distancing from Moldova and Ukraine would leave Georgia without prospects to be considered within a common regional context and therefore diminish its chances of receiving the membership perspective.

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AZERBAIJAN'S POLICY TOWARD EU INTEGRATION: UNRECOGNIZED STRATEGIC PARTNER

Anar Valiyev[1]

Introduction

The history of relations between Azerbaijan and the European Union dates back to 1999 when both sides worked together to sign a number of important political documents including the EU-Azerbaijan Partnership and Cooperation Agreement. That agreement envisioned strengthening cooperation in trade, investment, economy, legislation and culture. (EU, 1999) By 2009, the country joined the EU-led European Neighborhood Policy (ENP) and became a member of the Eastern Partnership Initiative. For this period, both sides worked closely on a number of issues, trying to solve issues ranging from trade to visa facilitation. However, by 2017—when Ukraine, Moldova and Georgia had all signed Association Agreements and established visa-free regimes—Azerbaijan had decided to take a time out from its EU integration. (Valache 2015). Baku and Brussels look at each other with hope, and understands the immense potential of cooperation. However, several issues have complicated the relationship. For the EU, Azerbaijan's strategic location and Europe's dependency on external supplies

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of gas and oil make it a valuable partner. For its part, Azerbaijan looks to the EU as a market for its resources, hopes that EU can provide a counterbalance for Russia and Iran in the region, as well as assist in resolution of Karabakh conflict. Nevertheless, the EU did not take a decisive position on Karabakh as it did in the cases of Crimea, Abkhazia, and South Ossetia. Moreover, separating Karabakh conflict from other post-Soviet conflicts, could not be explained other than "application of double standards". Nevertheless, EU assistance has been critical to Azerbaijan in the past; since 1991, the EU has provided more than 500 million euros to Azerbaijan in technical, humanitarian, emergency and food assistance (EU, 2016). For Azerbaijan, there are many benefits to deeper cooperation with the EU via association. EU investments in non-oil sectors may also be critical to Azerbaijan's efforts to diversify its economy. The government continues to negotiate a large-scale partnership agreement with the EU that envisions various aspects of cooperation, including trade and political partnership (Gurbanov, 2017).

For the last two years, both sides were involved into intense discussions trying to come up with document on cooperation that satisfy both sides. On December 20, 2017 Federica Mogherini, High Representative of the European Union for Foreign Affairs and Security Policy & Vice-President of the European Commission stated that EU and Azerbaijan are making good progress in negotiations for a new agreement. "Since the European Union

and Azerbaijan signed our last bilateral agreement - the Partnership and Cooperation Agreement – in 1996, a lot has changed," she said. Mogherini stressed that together the sides "will look for more opportunities for young people to meet and to travel, possibilities for businesses to grow, to protect human rights and to facilitate energy relations, bringing real benefits to our respective citizens." (APA, 2017) Both sides, meanwhile, hope that the comprehensive agreement will be signed during 2018 marking the new era in relations between Azerbaijan and European Union.

The following chapter discusses the priorities and agenda of Azerbaijan toward integration with the European Union. It tries to explain the reasoning behind Baku's strategy for cooperating with Brussels. The current understanding of Azerbaijani establishment intentions is based on the paradigm that Azerbaijan positions itself as an independent actor providing Europe with energy security as well as a trustworthy partner, Baku views the EU as the major power that can counterbalance growing Russian influence in the region. Nevertheless, the EU is reluctant to take Azerbaijan's side in assisting the country in solving its problems. This chapter is structured around the main aspects of the cooperation. It starts with issues of political cooperation as well as perception of EU in Azerbaijan. Furthermore, it describes the challenges faced by Azerbaijan with growing Russian militarization of the region. Next, the chapter goes over the economic priorities of both sides stressing importance

of turning Azerbaijan into the transportation and logistic hub. Following economic priorities, chapters discuss the issues of identity and how the country tries hard to prove and maintain European identity. Finally, the chapter finishes with sub-section on Azerbaijan's needs and wishes from this cooperation and provides recommendations to EU policymakers for strengthening ties with Azerbaijan.

Political Cooperation

From the EU perspective, the main objective of cooperation between Brussels and Baku is to establish an increasingly close relationship that can stretch beyond economic integration and deeper political cooperation. The ENP offered a major opportunity for Azerbaijan to get closer to the EU. The EU's main priorities for Azerbaijan include: democratic development and good governance; socio-economic reform (with an emphasis on regulatory approximation with the EU); combatting poverty and building administrative capacity; and supporting legislative and economic reforms in the transport, energy and environmental sectors (EC, 2017).

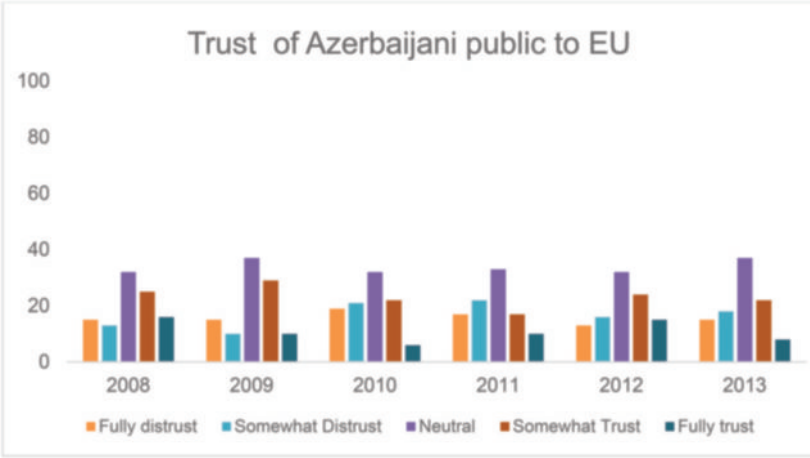
However, the unexpected results of the United Kingdom (UK) 'Brexit' referendum in 2016 significantly impacted the perception of Azerbaijan's public and political elite regarding future cooperation with the EU. The UK is a major investor in Azerbaijan and has championed its cause within the EU. London has been the leading promoter in the EU of Baku initiatives such as the Ba-

ku-Ceyhan gas pipeline to Turkey and Europe, among others. The UK's energy interests in Azerbaijan have allowed Baku, in turn, to more strongly promote its interests in the EU at large. The UK's decision to leave does not mean that Baku will stop cooperating with the EU. However, London's absence as a major player and supporter will make it difficult for Azerbaijan to receive the same level of EU support on a range of projects.

Moreover, Baku fears that EU countries' growing skepticism toward cooperation with non-EU members such as Belarus, Georgia, Moldova, and Ukraine will endanger future cooperation. It is reasonable to expect the EU to concentrate more on its own problems rather than expand its influence in the Eastern Partnership countries. This is especially alarming for Baku, especially considering the recent improvement in relations between Baku and Brussels on many issues. Moreover, the Eastern Partnership countries, Azerbaijan in particular, have expressed skepticism toward EU institutions and their inability to cope with the Union's internal problems. Analyzing eight years of the Eastern Partnership initiative and its impact on Azerbaijan raises some points of controversy. Azerbaijan was able to get EU support for the Trans-Anatolian (TANAP) and Trans-Adriatic (TAP) gas pipelines that will transport Azerbaijani gas to Europe. Baku was also successful in negotiating visa facilitation and readmission agreements making it easier for Azerbaijani citizens to acquire Schengen visa. These were the only successes of the program, however. At the 2013 Vilnius Summit it

became clear that Baku is not interested in signing an Association Agreement; rather, it prefers to sign a separate Strategic Modernization Partnership Agreement.. There are several reasons for this. Russian pressure applied on Armenia and Moscow's intervention in Ukraine amidst the signing of the agreement sent alarming signals across the ENP countries. Baku has seen no significant benefit in signing such an agreement while negative factors could overshadow any success.

On the public level, the EU enjoys comparatively high levels of support and many citizens see the benefits of cooperation. For several years, the Caucasus Research Resource Center has conducted public opinion surveys to measure levels of trust and mistrust toward the EU. While trust toward the EU was highest in 2008, the Russian-Georgian war and the EU's inability to protect Georgia from Russian aggression negatively impacted the perception of Azerbaijanis toward the EU. Despite subsequent increases, by 2013 the levels of 'trust' and 'somewhat trust' were roughly 8 percent and 22 percent, respectively, while the most commonly expressed attitude was neutrality—37 percent (CRRC, 2013).



Source: Caucasus Barometer, Caucasus Research Resource Center (CRRC) (2013), available at: http://caucasusbarometer.org/en/datasets/.

During the last year for which public opinion is available (2013) a record number of people supported doing business with Europeans—80 percent. This indicates a high level of willingness to cooperate with the EU on the part of the Azerbaijani public.

Source: "Caucasus Barometer", Caucasus Research Resource Center (CRRC) (2013), available at: http://caucasusbarometer.org/en/datasets/.

Currently, political relations between the EU and Azerbaijan depend not only on willingness by Baku, but also on the seriousness of Brussels to engage in the region and recognize that Azerbaijan is part of Europe. Moreover, with Brexit now underway, Brussels will need to increase engagement with Azerbaijan (and in the region at large) on a range of issues; otherwise, further erosion of trust will occur. A positive sign is the European Council's adoption in November 2016 of a mandate for the European Commission and the High Representative for Foreign Affairs and Security Policy to negotiate a comprehensive agreement with Azerbaijan on behalf of the EU and its member states (EC, 2016). The new agreement will replace the 1996 Partnership and Cooperation agreement and should better address shared EU-Azerbaijani objectives and challenges. By fully engaging with Azerbaijan, the EU will be able to swiftly

neutralize the regional effects of Brexit and Russian political interference. If Brussels vacillates, Azerbaijan may easily fall prey to the growing pro-Russian Eurasian Economic Union (EEU), wiping out decades of trust-building efforts by European policymakers.

Meanwhile, Russian influence has gradually increased with the weakening of EU power in the South Caucasus, especially in Azerbaijan. Russia began to gradually reengage with the region during the mid-2000s, aiming to attract Baku to its new model of integration. Baku consistently ignored Russian initiatives, first the Customs Union and later the EEU. Pursuing its own agenda of becoming an energy hub and critical provider of European energy security, Baku looked at the Russian projects as obstacles in its path to developing an independent foreign policy. In addition, the economic benefits offered by Russia weren't sufficiently attractive. However, with increased Russian presence in the South Caucasus and a new wave of confrontation between the West and Russia, Baku has begun to rethink its attitude toward the EEU during the two years—in a climate of deteriorating relations with the EU, diminished oil prices, and Russia's stance on resolving the Karabakh conflict.

The Kremlin is actively and deftly instrumentalizing Azerbaijan's main problems—such as the Karabakh conflict—to push its agenda forward. Russia simultaneously sells weapons to Azerbaijan and to Armenia, instigating the arms race in the South Caucasus. Thus, Russia's recent delivery of an Iskander mobile short-range ballistic

missile system to Azerbaijan sparked concern in Azerbaijan. The Iskander system's very presence in the South Caucasus sparked a new arms race in the region, forcing Azerbaijan to purchase additional weapons either from Russia or Pakistan (Valiyev 2016b). It is highly unlikely Iskander missiles will actually be used by Armenia to strike Azerbaijani cities. Still, their presence on Armenian territory puts Baku in an uncomfortable security situation.

Moreover, Russia clearly manipulates both Armenian and Azerbaijani societies by 'mediating' the peace negotiations and meanwhile selling weapons to both adversaries. Russia's meddling does not allow any other regional or global power to intervene in the conflict, as Moscow has masterfully neutralized the influence of the U.S. and EU. At the same time, the recent election of an Armenian representative as chair of the Collective Security Treaty Organization (CSTO) sent another signal to Azerbaijan about Russia's stance on the Karabakh conflict. It also served as a soft warning to the Azerbaijani establishment about further cooperation with the EU and NATO. On 30 November 2016, the Armenian and Russian defense ministries signed an agreement to establish a Russian-Armenian Military Joint Task Force (MJTF), which complimented a previous agreement on establishing a joint regional air security system designed to protect Russia's southern borders and its allies. The treaty allowed Armenia to rely on Russia's anti-aircraft system and military satellites to defend its airspace (Valiyev 2017).

Amid of all these processes, Baku needs EU political support comparable to that enjoyed by Ukraine or Georgia. So far, the EU has been unable to provide security guarantees or political support to Azerbaijan, especially in resolution of its Karabakh conflict.

Economic Cooperation

The EU remains Azerbaijan's main economic partner. From 2011–2016, between 47 and 55 percent of Azerbaijan's exports went to the EU, compared to between 26 and 32 percent of its imports. The EU is also the largest investor in Azerbaijan (Azernews, 2017), with the UK, Germany and France topping the list. In 2013, total EU Foreign Direct Investment (FDI) into Azerbaijan amounted to €4.7 billion. By 2017 EU investments in Azerbaijan's fixed capital amounted to about $20 billion or 46 percent of the total volume of investments. Meanwhile, EU countries invested $3 billion in the non-oil sector of Azerbaijan's economy, which accounts for 35 percent of total investment volume in this sector (Azernews, 2017). The EU is also a strong supporter of Azerbaijan's integration with the WTO and other organizations. However, the EU's most significant contribution to economic cooperation was, and will continue to be, the EU-sponsored transportation projects intended to connect it to East Asia, especially China.

Azerbaijan is located at the crossroads of major Eurasian land and air transportation corridors. Since

gaining independence, the Azerbaijani government has actively attempted to develop the country into a bridge between Europe and Asia. Since the early 1990s, the EU has initiated projects to re-connect post-Soviet states with markets in the EU and Asia. At a conference in Brussels in May 1993, the EU launched the Transport Corridor Europe-Caucasus-Asia (TRACECA) program as a means to spur intermodal transport initiatives. The program got a second wind at a summit in Baku in 1998, when TRACECA member states established the Baku-based Intergovernmental Commission and Permanent Secretariat. Since then, the EU has invested roughly $800 million in new capital investments and projects to renovate ports, railroads, and roads along the TRACECA corridor. Member states have also taken steps to integrate their infrastructure, tariff regimes, and logistical chains. By 2007, trade among TRACECA members surpassed $40 billion, while their combined trade with the EU reached $290 billion (Ziyadov 2012). Seventy percent of that trade was accounted for by oil, with most of it transiting along the Azerbaijani-Georgian segment of the corridor. Azerbaijan and Georgia are the two biggest beneficiaries of TRACECA.

The corridor has also been beneficial to the hydrocarbon-exporting states Kazakhstan and Turkmenistan. Overall, the limited non-energy export base of most of the members, coupled with obstacles related to border delays and controls, custom offices, and corruption, have limited TRACECA's potential to emerge as a ma-

jor trade corridor. Nonetheless, with decreasing oil prices and shrinking profits from the oil sector, Azerbaijan has intensified efforts to diversify its economy and revive TRACECA and, especially, strengthen transportation links with Central Asian states. In January 2015, the working group of the Coordination Committee of the Trans-Caspian International Transport Route (TITR) met in Baku and reached an agreement to intensify container service on its China-Kazakhstan-Azerbaijan-Georgia-Turkey route (Grey 2015). Azerbaijani authorities believe that by 2020 between 300-400,000 containers could be transported on the route, which would create billions of dollars for its participants.

At the start of August 2015, the first container to travel via the TITR arrived from China at the newly-constructed Baku International Sea Trade Port. The container reached Baku from China in a record six days, having traveled more than 4,000 kilometers. The event appeared to signal a new era in regional transportation cooperation and a revival of the TRACECA concept. This time, however, the countries of the region have been the main implementers of the initiative, with the EU not being actively involved. Moreover, over the last decade, Azerbaijan has invested billions of dollars in commercial infrastructure and transportation projects. It is finalizing construction of the largest port on the Caspian Sea (in Alyat, 60 kilometers south of Baku), has helped construct the Baku-Akhalkalaki-Kars railroad, and is developing the Baku airport into a modern hub. Billions have

been invested into the national road system, significantly decreasing travel times between the Caspian Sea and the Azerbaijani-Georgian border, 550 kilometers west of Baku. The main idea of these projects is to position Azerbaijan as a hub between Asia, Central Asia, the South Caucasus and Europe. Baku understands the importance of implementing diversification strategies in anticipation of the depletion of the country's hydrocarbon reserves (Valiyev, 2016a). Baku expects that becoming both a major energy supplier to the EU and a major transportation hub will contribute to making Azerbaijan a regional political heavyweight, enabling it to strengthen its position in future negotiations with the EU on trade and political issues, and potentially even EU membership.

Meanwhile, Azerbaijan is considered a key geographical space for many regional integration projects. Today, Azerbaijan is at the nexus of three major integration initiatives – the European Union, the Eurasian Economic Union and recently-established Belt and Road initiative (OBOR) initiative championed by China. All three initiatives target Azerbaijan to varying degrees. However, official Baku has put a lot of hope in the East-West corridor as the way to get closer to EU. Starting from 2014, Azerbaijan began to experience some economic difficulties. After devaluations in February and December 2015, the government turned its attention to efforts to mitigate the crisis and alleviate the situation by stimulating business activity (Koch and Valiyev 2016). Dozens of license requirements for entrepreneurial activities were

eliminated and the tax and custom authorities were rendered more transparent. The government also eliminated some duties and taxes for import-export operations. Moreover, the government began to support the tourism sector's long-standing priority of facilitating international travel by further liberalizing the country's visa regime.

From this perspective, Azerbaijan needs much economic support from the EU, especially investments into the non-oil sector. Such investments would allow Baku to successfully diversify its economy in the face of volatile oil prices. Moreover, the EU's help in promoting Azerbaijan's export to EU countries could be crucial in assisting Azerbaijan solving its economic issues.

Azerbaijan and a European Identity

Unfortunately, debates – either within or outside of country – about the European identity of Azerbaijanis are scarce. Although the Azerbaijanis declare their European identity, the question of being part of Europe has never been settled. Just as it did hundreds of years ago, Azerbaijanis are still struggling with questions of European identity.

Since independence, Azerbaijan has been unable to identify itself with any particular part of the world. Identification with the Islamic world was denied from the beginning because of widespread Azerbaijani perceptions of its backwardness. Exemplified by regimes such as Iran and Saudi Arabia, Islamic ideals have not appealed to

most Azerbaijanis.

Meanwhile, the EU's successful regional policy during the 1990s and 2000s, along with its economic power, made Europe more attractive. Despite halt on integration, the cultural image of Europe in Azerbaijan remains largely positive. Many students choose Europe as their destination for study and many Azerbaijanis are frequent travelers to the EU, especially after implementation of the visa facilitation agreement.

Azerbaijan's hosting of the Eurovision Song Contest in 2012 was the apex of the pro-European drive of Azerbaijan. That event marked the first time Azerbaijan was able to send a message to the whole of Europe, demonstrating an inclination to culturally associate itself with the 'European identity.' Beyond visibility, Eurovision had a certain impact on the identity of the Azerbaijani population. Azerbaijan's population was able to obtain a first-time opportunity to 'live' within a European cultural milieu. For many people, it was fundamental to re-appraise the roots of belonging to Europe while maintaining national traditions and values (Ismayilov 2012). The song contest's opening and closing ceremonies featured motifs from Azerbaijan's national culture, while the rest of the show represented traditions from elsewhere in Europe. Thus, according to an independent NGO, Internet Forum of Azerbaijan, searches for Azerbaijan in Google increased eight-fold during the month following the 2011 song competition victory, while searches for Baku as a destination doubled. Meanwhile, interest in Azerbaijan

grew by over 40 times on TripAdvisor. Finally, Baku hosting Eurovision in May 2012 put queries for Azerbaijan in the group of the ten most popular searches during that month (Ismayilov, 2012).

Furthermore, three years later Azerbaijan was able to fulfill its goal of image making and branding. The country was able to bring attention of Europe and to bring part of Europe to Baku. The European Games were successful for Baku since they presented evidence of Azerbaijan's modernity and its rise to international prominence. Officials claimed that the games were a promotional opportunity for Azerbaijan, a nation that few people knew much about. The rights for showing the games were sold to European, U.S., and Canadian companies. They also secured transmission of the games to the Middle East and North Africa. Four hundred and forty-seven million households in China were also able to watch through CCTV, compared to 56 million households in Japan and 30 million households in India.

What does Azerbaijan Want and Need?

It is difficult to imagine Azerbaijan abandoning its European vector of development. Most of Azerbaijan's strategic projects are primarily connected to Europe. The Baku-Tbilisi-Ceyhan oil pipeline, the Tran-Anatolian oil pipeline, the transport corridor running from Central Asia to Europe and many other projects require European involvement. Despite the challenges accompanying Azer-

baijan's plans to become a regional transportation hub, there is still a chance of success. Today's fast-growing economies such as China and India have strong export potential and growing trade ties with Europe. With recent turmoil in Yemen, piracy around the Horn of Africa and other complications, maritime transportation may not always be the best (or only) option for trade between Asia and Europe. If Azerbaijan can catch a small share of the trade from China, India and the ASEAN states – as well as from Central Asia – it could still see a return on its investments. That outcome, however, depends largely on the EU's willingness to actively support Eurasian transportation routes that avoid dependence on Russia. Today, Baku needs the EU to sustain its longstanding vision of supporting the creation of alternative regional transportation networks, continuing the legacy of their support for TRACECA, the Baku-Tbilisi-Ceyhan oil pipeline and other such transportation projects. Baku seeks firm support for its transportation projects (Valiyev 2015).

Additionally, Baku has actively worked to bring the EU to the South Caucasus region to help both Azerbaijan and Georgia balance against Russia and pro-Kremlin Armenia. With growing Russian ambitions in the region, it is difficult for Azerbaijan to sustain its pro-European vector, fearing the fate of Ukraine and resumption of the Russian-inspired Karabakh conflict. Baku requires a firm EU presence in the region that would allow Azerbaijan to openly rely on the EU in possible future confrontations with Russia over the Association Agreement, transporta-

tion projects and even membership in Brussels-led projects.

Conclusion

Azerbaijan today understands that the country's future lies with greater integration with the EU. Sooner or later, both sides will go for deeper cooperation. For now, however, the cost to the country is too great. The Moscow-led EEU is at the door in the region. In this situation, Baku does not wish to openly ignore Moscow's interests. Baku positively views Moscow's initiatives on economic cooperation and transportation projects. While Baku is interested in the Belt and Road initiative connecting China with Europe, Azerbaijan does not reject the idea of a North–South corridor running between Russia and Iran. Azerbaijan was in favor of this project, but both Russia and Iran lacked sufficient interest in pushing it forward. However, economic crisis, sanctions against Russia, and the opening of Iranian markets may provide an opportunity to revitalize the project. On 7 April 2016, the foreign ministers of Azerbaijan, Iran, and Russia met in Baku to discuss the North–South Transport Corridor (MFA, 2016). On 20 April, 2016, Azerbaijan and Iran started construction of an 8km-long railway linking the borders of Iran and Azerbaijan, which is due to be completed by the end of 2017. Meanwhile, the Iranians have accelerated construction of the Rasht–Astara railway to link the rail systems of Azerbaijan, Iran, and Russia to allow Russian

goods to more quickly reach the Persian Gulf. Baku has already provided Iran with a $500 million loan to implement the project (ABC News, 2016).

The situation may change following implementation of the twin TANAP and TAP gas pipeline projects running across Turkey and Southeastern Europe. Azerbaijan will then become a vital partner for the EU and a major provider of energy security. This may lead Baku to expect greater economic and security guarantees for the country, dampening concerns about the consequences of closer integration with the EU. Until that time, Azerbaijan is walking a thin line between the EU and the EEU, as the EU focuses its integration efforts elsewhere and Russia attentively watches Baku's every step.

Meanwhile, the Russian decision to establish joint military forces with Armenia and supply the country with Iskander missiles have taken regional hostility and tensions to another level, raising concerns in Baku that ballistic missiles could be used against Azerbaijan's critical infrastructure. Baku has already begun to explore opportunities to buy armaments from Pakistan and other countries. Moscow's recent actions have contributed to the increased militarization of the region. The creation of Russian-Armenian joint forces is intended to integrate Armenia's military deeper into the Russian military machine, which could be a step toward revitalizing the Transcaucasian military district that existed during Soviet times—and which, in Russia's vision, may include Azerbaijan and Georgia as well. Moscow can be expected

to continue to strengthen its position in the Caucasus. With the complete disengagement of the U.S., the EU's preoccupation with internal problems, and Russia's military success in Syria, Moscow is encouraged to take even bolder actions in order to bring the region under its heel. Baku is slowly losing leverage vis-à-vis Russia as no major power remains sufficiently engaged in the region to counterbalance the country's growing influence.

When attempting to project Azerbaijan's future relations with the EU, one must take several factors into consideration: the EU's active policy in Azerbaijan; EU-Turkish relations; and EU-Russian relations. The recent granting of visa-free regimes to Georgia and Ukraine was encouraging for the Azerbaijani public. The average citizen was able to see the benefits of cooperation with EU, especially considering there is a significant ethnic Azerbaijani minority in Georgia (who are the Georgian citizens) now able to travel to the Schengen area without visas. At the same time, the public was discouraged that such an agreement was not reached with Azerbaijan. If, in the future, the EU seeks to appeal to the Azerbaijani public and extend its soft power in the country, it should work with the Azerbaijani government on different issues separately rather than in a single package. For example, a visa-free agreement could be negotiated independently from other issues that raise troubling questions for the Azerbaijani government. Next, the deterioration of Turkish-EU relations may also affect Azerbaijani perceptions of the Union, as Turkey had been a model for the

Azerbaijani elite as well as a long-term partner. Finally, the continued ‘cold war’ between Russia and the West, and the Russian perception of the South Caucasus as a frontier of the struggle between the Russian world and the West, will continue to present an obstacle for Azerbaijan’s integration with the EU. Azerbaijan will hardly be able to overcome these obstacles without an active EU policy towards the region. Otherwise, Azerbaijan will continue to stay in limbo, vulnerable to both external and domestic shocks.

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INFRASTRUCTURE COOPERATION: AZERBAIJAN-GEORGIA–TURKEY

Gulmira Rzayeva[1]

Introduction

Energy infrastructure projects are generally known for vulnerability to strategic and geopolitical risks. They are also capital intensive, have long gestation periods and large sizes, and are asset-specific with assets with long life spans (Bhattacharyya 2011). All of these factors particularly characterize gas pipeline projects. In most gas infrastructure projects, political relationships between two or more participating countries are key alongside other financial, economic and investment concerns. This is even more pronounced in geopolitically-complex regions such as the South Caucasus, where the interests and objectives of major regional powers overlap particularly when it comes to issues of energy resource development, transportation and export.

The only resource-rich country in the South Caucasus – Azerbaijan – is in the process of initiating and realizing a number of energy projects through its national oil company, the State Oil Company of Azerbaijan (SOCAR). SOCAR is entering into consortia consisting of international oil companies (IOCs). These projects target

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world markets, in the case of oil, and regional markets such as the European Union (EU) and Turkey, in the case of natural gas. These endeavors align perfectly with EU interests. In particular, it meets the objective of diversifying certain member states' supply sources to prevent over-reliance on a single major supplier, namely Russia. The reliance on a single supplier not only puts contractual pressure on buyers with supplier-friendly pricing and conditions, but for some countries, political pressure. This stems from the lack of diversification in supply sources and transportation routes. However, a strategy of diversification of supply stands in conflict with the economic and strategic interests of the region's most politically-influential power, Russia. Russian companies will lose not only market share (in Turkey – almost 50% of Gazprom market share, in Greece, Bulgaria and Italy– around 40%) but the state will lose political influence over certain countries in the EU and its neighborhood.

Demonstrating independent energy policies, Azerbaijan (an oil and gas producer and exporter) and Georgia (a transit country) – have, despite complex geopolitical circumstances and the conflicting interests of the major powers, invested politically and financially in realizing major oil and gas projects. Both countries hope that these projects improve their respective security situations, even if they come at a high political price. Georgia still suffers from Russia's occupation of its territories of Abkhazia and South Ossetia, and for nearly three decades Azerbaijan has been unable to reclaim its

territories occupied by Armenian military forces, including Nagorno-Karabakh and seven adjacent regions.

The third country in the region – Armenia – is deprived of an independent foreign policy and independent domestic economic[2] and political policies. Thus, it has refrained from joining a possible regional triangle for the implementation of international energy projects, choosing instead to be part of the Russian-led Eurasian Economic Union (EEU). This strategic position is also a product of Armenia's policy of occupation of its neighbor, Azerbaijan.

Turkey is another significant transit country that forms an important component of triangular cooperation in gas transmission. Turkey is involved in regional oil and gas projects as a significant market for natural gas produced in Azerbaijan and as a participant in pipeline projects involving Azerbaijan, the EU, Russia and Black Sea countries such as Greece and Ukraine.

Center stage in the region's geopolitical drama is the Southern Gas Corridor (SGC) connecting all three countries – Azerbaijan, Georgia and Turkey – physically through pipelines but also through economic and political ties. Despite the current low-price environment and un-

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[2] Major energy and non-energy infrastructures are owned by Russian companies. Armenia does not have any control over its gas transmission system, preventing it from expanding its import capacity. Gazprom's subsidiary Gazprom Armenia (formerly ArmRosGazprom) owns 100% of the Armenian gas transmission system. For more information, see: 'Gazprom increasing its stake in ArmRosgazprom to 100 percent', Gazprom, Press Release, 16 January 2014, available at: http://www.gazprom.com/press/news/2014/january/article182633/.

certainty in both the Turkish and EU markets about supply/demand dynamics and oil and gas pricing and competition, it appears current economic challenges are no impediment to realization of the project (Rzayeva 2017). Construction of all segments, including the Trans-Anatolian Gas Pipeline (TANAP) and the Trans-Adriatic Pipeline (TAP) as well as expansion of the South Caucasus Pipeline (SCP), is moving ahead in schedule.

The SCP runs approximately 690 km from its Entry Point at the Sangachal Terminal in Azerbaijan across Georgia to Turkey's eastern border. The TANAP will be primarily a 56" pipeline extending 1,783 km from a single-Entry Point at the SCP's intersection at the Georgia–Turkey border to the furthest Exit Point at the intersection with TAP at the Turkey–Greece border. Additional Exit Points are planned in Turkey at Eskişehir (roughly 190 km southeast of Istanbul) and Thrace. The Shah Deniz consortium will, through its gas sales vehicle AGSC,[3] be an Initial Shipper in TANAP (for 10.5 bcm/year at plateau), as will the Turkish gas transportation company BOTAŞ (Boru Hatları ile Petrol Taşıma Şirleti) (6 bcm/year) and SOCAR. The pipeline's total capacity will be roughly 31 bcm/year. The TAP forms the last part of the transportation chain, taking gas from the Greece–Turkey border to the intersection of the Snam transmission system in Italy and onward to the Punto Scambio Virtuale (PSV),[4] the delivery point for most EU gas sale

[3] Azerbaijan Gas Supply Company.

[4] Punto Scambio Virtuale (PSV) is the Italian gas hub and virtual balancing point.

agreements.

The TAP passes through the territories of Greece, Albania and Italy and is therefore subject to EU regulation. It has an exemption from certain aspects of the EU regime for a period of 25 years from the start of commercial operations. The exemption was granted by a Commission Decision from 2013 on the exemption of the Trans Adriatic Pipeline from the requirements of third party access, tariff regulation and ownership unbundling set out in the third package of EU gas regulation.[5] The TAP has an initial capacity of 10 bcm/year, expandable to 20 bcm/year through additional compression. The TAP exemption applies only to initial capacity, meaning that the first 10 bcm/year of capacity is exclusively reserved for Shah Deniz gas but any capacity above 10 bcm/year will be subject to the full range of EU regulations on third party access, tariff regulation, etc., and will be available to third parties.

This paper focuses on the effects of the pipeline and infrastructure projects constituting the SGC. It includes analysis of the project's impact on regional gas markets as well as the cooperation of the triangle (Azerbaijan–Georgia–Turkey) in realizing individual segments of the project, along with general geopolitical implications and

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[5] European Commission (2013) 'Commission Decision of 16.5.2013 on the exemption of the Trans Adriatic Pipeline from the requirements on third party access, tariff regulation and ownership unbundling laid down in Articles 9, 32, 41(6), 41(8) and 41(10) of Directive 2009/73/EC', C(2013) 2949 final, 16 May, Brussels, available at: https://ec.europa.eu/energy/sites/ener/files/documents/2013_tap_decision_en.pdf.

prospects for the future of political relations between the three countries discussed here.

The SGC in the Geopolitics of Natural Gas: the Azerbaijan–Georgia–Turkey Triangle

Energy and geopolitics are closely linked in both contemporary and historical conceptualizations of foreign policy. Countries have developed and continue to develop energy strategies to meet economic needs and reach global markets. The implications of those strategies shape relations with other countries, influencing bilateral, regional and global affairs. Russia-EU energy relations are one notable example. The size and location of energy resources, their accessibility and cost, who controls them, the presence of alternative transportation routes, the balance between regional and global energy markets, market mechanisms and regulations, political decisions and energy prices in general are all important factors, as they determine energy security in general and bilateral and multilateral political relations in particular. Furthermore, as national and international approaches to policymaking become more intertwined, the state is no longer the only actor shaping political outcomes. A given country's geopolitical role is influenced by the scale and scope of its dependence on other actors (states, private actors) (Austvik & Rzayeva 2017).

New trade routes to bring gas supplies to European markets are necessary to reduce the EU's dependence on

Russia and thereby increase its energy security. Besides trade in liquefied natural gas (LNG), the bulk of alternative (non-Russian) gas bound for the European market is located in the Middle East and Caspian Sea regions. Much of it will potentially be transported through Turkey (Austvik and Rzayeva 2017). According to the EU's primary energy security objectives, each European country should have access to at least three new sources of supply, a principle which envisages not only gas deliveries from new country sources but also through new transportation routes.[6] The SCG fully addresses this objective, as the gas to be exported to Greece, Bulgaria and Italy will be from a new source (Azerbaijan) and via new and standalone infrastructure (SGC) (Rzayeva 2016).

The role of Azerbaijan in this context is as a guarantor of implementation of the projects along with the main legal agreements that underpin the Shah Deniz: i.e. the production sharing agreement (PSA) the value chain from the granting of production rights to the Shah Deniz consortium within PSA; and sale to the downstream EU and Turkish buyers. Azerbaijan, as an initiator of the Shah Deniz Phase 2 gas project as well as construction of its transportation infrastructure, has been involved in several important related political decisions. By participating in Europe's energy security en-

[6] European Commission (2014) 'In-depth study of European Energy Security Accompanying the document Communication from the Commission to the Council and the European Parliament: European energy security strategy', COM(2014) 330 final, 2 July, Brussels, available at: https://ec.europa.eu/energy/sites/ener/files/documents/20140528_energy_security_study.pdf.

deavors, Azerbaijan has indirectly become part of the Euro-Atlantic energy security community. This stands in conflict with Russia's energy policy and interests, which include: preserving natural gas market share in Turkey and Europe; maintaining price controls in those European states that are almost entirely dependent on Gazprom; and, where possible, exerting transportation route control either by building new pipelines and infrastructure (Nord Stream, TurkStream) or by obtaining shares in existing ones (Trans-Balkan pipeline) (Vassilev 2016). As such, the construction of TurkStream and Gazprom's announcement that it will potentially use the TAP to transport gas to Europe through Turkey can be viewed as attempts to preserve market share and control transportation routes.[7] These efforts are in combination with Nord Stream 2 and its objective of eliminating Ukraine as a transit country for gas to the EU.

The one-string capacity of TurkStream, which will bring Russian gas to the Turkish market by re-routing the Trans-Balkan[8] pipeline flow, is 15.75 bcm/year – exceeding the latter's capacity of roughly 18 bcm/year by more than 13 bcm. For Turkey increasing gas supply capacity is consistent with its long-term policy of increasing the daily entry point capacities of the Botaş gas transmission system in all directions. For Russia, building extra capacity to supply a Turkish market where demand has

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[7] 'Gazprom eyes TAP for Russian gas', Natural Gas World, 24 January 2017, available at http://www.naturalgasworld.com/gazprom-eyes-tap-for-russian-gas-35548.

[8] In Turkey, the name of the pipeline is Western Line.

declined for three years running looks more like an attempt to increase market share vis-à-vis its competitors. This objective of Gazprom was explicitly demonstrated during negotiations on gas price discounts with the Turkish state monopoly Botaş and with Turkish private companies that import gas directly from Russia. As a precondition, before Turkey would sign off on construction of TurkStream, Gazprom agreed to grant a 10.25% discount to both private and public gas buyers in Turkey.[9] However, Gazprom later announced that the discount would be implemented only if Botaş and private companies increased their offtake of contractual volumes.[10] Thus, Gazprom is keen to preserve and even increase its market share in Turkey. That is even more important now, when Turkey's demand for gas is declining due to the government's policy of reducing the share of imported energy and replacing it with domestically-produced energy resources (hydropower, coal, lignite, wind and solar energy) in the country's energy mix, particularly in the power generation sector.[11]

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9 'Gazprom agrees on discount for Turkish natural gas importers', Daily Sabah, 16 April 2016, available at https://www.dailysabah.com/energy/2016/04/16/gazprom-agrees-on-discount-for-turkish-natural-gas-importers.

10 'Gazprom agrees on discount for Turkish natural gas importers'.

11 For more details about the gas demand decline in Turkey, see: Rzayeva, G. (2017) Turkey's gas demand decline: reasons and consequences, Energy Insight 11 (Oxford, Oxford Institute for Energy Studies), available at: https://www.oxfordenergy.org/publications/turkeys-gas-demand-decline-reasons-consequences/.

The Roles and Strategies of Participating States

Turkey is attempting to maneuver between Russia, Azerbaijan, Ukraine, Greece and the Eastern Mediterranean (EastMed) countries of Israel and Cyprus, which may soon become gas producers. Turkey's objective is to improve its position both as a transit country and an importer of natural gas. For Europe, EastMed gas represents additional volumes from new sources via new routes. This could strengthen the hands of some European buyers in negotiations with traditional suppliers. Turkey's reconciliation with Israel and ongoing negotiations on the reunification of Cyprus create opportunities for the country to import gas from the EastMed. Once the Cyprus reunification issue is resolved, a combined 10–20 bcm/year of gas could potentially be exported from Israel and Cyprus to Turkey through subsea pipelines. However, this outcome seems unlikely, given the polarized positions on either side of the Cyprus issue. Access to a large and growing market with responsive prices can make development of the Israeli Leviathan field and its 500 bcm of estimated gas reserves commercially viable, justifying construction of a subsea pipeline to Turkey through Cyprus's exclusive economic zone (EEZ). Such a development would put Turkey at the center of an EastMed regional geopolitical and energy network. Russia, acknowledging Turkey as its second-largest market, would prefer that Israeli gas not enter the Turkish market, either for consumption or transit to the European

market (Austvik and Rzayeva 2016).

Turkey is reluctant to transmit large volumes of Russian gas to Europe, even if it could gain from the transit role. Helping Russia to eliminate Ukraine as a transit country (together with Nord Stream 2) would strain political relations not only with Ukraine but also with the EU and the US. This is one reason why Turkey agreed to construction of only one string of TurkStream in the initial stage. Turkey's long-term goal of becoming a regional natural gas hub via the SGC would be challenged by increased transit of Russian gas. Having a delivery point on non-EU territory would allow Gazprom to avoid complying with EU legislation. Russia would thus be able put the responsibility for gas transportation from Turkey to the European market onto purchasers, who would need to request transportation through the TAP.

Moreover, for Turkey, transmitting large volumes of Russian gas to Europe allows almost no spare capacity for the expansion of domestic infrastructure, leaving the country more dependent on Russian gas for a potentially long period of time. It would reduce or at least challenge Turkey's chances of becoming a transit hub at the crossroads of Europe, the Middle East and the Caspian Sea. On the other hand, the desire for gas supply security is one reason for Turkey to enter into TurkStream. As demand in Western Turkey continues to grow slowly due to population growth and economic development, albeit at a slower pace because of decrease of gas usage in power sector, interruptions in the Trans-Balkan line

could create serious supply shortages, especially in the Istanbul area with its 14 million inhabitants. Renewed Turkish–Russian relations reflect a broader geopolitical shift in which regional integration and bilateral relations may become more important. The economic interdependence that would follow realization of the TurkStream project may coexist alongside Turkish-Russian geopolitical rivalries in Syria, Ukraine and elsewhere (Austvik and Rzayeva 2016).

Georgia was able to cease importing gas from Russia in 2006 thanks to new supplies received from Shah Deniz Stage 1. Georgia also became an important transit country, forming part of the SGC. The SGC is an energy corridor that transmits Shah Deniz Stage 1 gas to Turkey and will transmit an additional 16 bcm from Shah Deniz Stage 2 to Turkey and onward to Europe via the expanded South Caucasus pipeline passing through Azerbaijani and Georgian territory. Georgia receives a 5% transit fee for transmitting Shah Deniz gas (Rzayeva 2015).

This South Caucasus country was previously less involved in the regional geopolitics of natural gas. It became more engaged in late 2015 when it opened negotiations on gas purchases from Gazprom and Iran, followed by a gas price review with SOCAR. Georgia is thus attempting to maneuver between Azerbaijan, Russia and Iran.[12] According to Georgia, the reason behind its con-

[12] 'Georgian Energy Minister Meets Gazprom CEO in Brussels', Civil.ge, 16 September 2015, available at: http://www.civil.ge/eng/article.php?id=28599.

sidering gas purchases from Gazprom is that domestic demand is growing year-by-year while SOCAR is unable to export additional gas.[13] By starting negotiations with Gazprom on possible supply, Georgia strengthened its hand in gas price negotiations with SOCAR and managed to get a significant discount on commercial gas imported from Azerbaijan. Georgia never actually imported gas from Gazprom, halting negotiations once it reached agreement with SOCAR on the gas price discount and on the export of increased volumes during peak demand season.[14] SOCAR has been able to export additional gas to Georgia since it began swapping 3 mn m³/day of Turkmen gas with Iran in 2016.[15]

As a result of strong trilateral cooperation between Azerbaijan, Georgia and Turkey on the political and economic levels, it is possible to implement a large and complex project such as the SGC and all its segments without any major problems. However, each country has its own interests and acts according to national and commercial interests when it comes to matters of contractual terms, including gas prices. This is natural given the complex nature of large gas transportation projects that,

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[13] 'Georgian Energy Minister Speaks of Need to Buy Russian Gas', Civil.ge, 20 October 2015, available at: http://www.civil.ge/eng/article.php?id=28674.

[14] 'SOCAR President: "Azerbaijan will have no problem in supplying Georgia with natural gas till 2030"', Report.az, 4 March 2016, available at: https://report.az/en/energy/socar-president-azerbaijan-will-have-no-problem-in-supplying-georgia-with-natural-gas-till-2030/.

[15] 'Iran, Turkmenistan sign Azeri swap deal', Natural Gas World, 19 October 2016, available at: https://www.naturalgasworld.com/iran-turkmenistan-sign-azeri-swap-deal-34039.

in addition to providing energy security can also provide strategic, geopolitical and commercial benefits to participating countries. Turkey's deteriorating political relations with the EU are unlikely to affect the SGC's materialization, as gas transmission from the Caspian to Europe by way of Turkey is a project that serves the overlapping interests of all sides, including the EU and Turkey.

Economics of the projects

Natural gas markets based on pipelines differ from oil and LNG markets because of the large and irreversible investments required by gas transportation infrastructure. This makes gas transporters natural monopolies in the markets in which they operate. Capital investment in transmission, storage capacity and distribution are sunk costs that constitute the bulk of the total investment. Operating costs are relatively low in comparison. A high or low degree of utilization ('load factor') directly affects costs per transported unit but does not significantly affect the total cost of transportation. Accordingly, large-scale operations are important for realizing investments that bring gas to the market. The advantages wrought by large-scale operation and vertical integration mean that any gas market has room for just a handful of companies operating as gas transporters (Austvik and Rzayeva 2016).

This is one reason why natural gas produced in the second phase of development of the Shah Deniz field is

principally sold under long-term sales contracts, leading to more predictable margins. Moreover, transportation tariffs are set on a long-term basis. As a result, the revenue base structure of the SGC consortia – an expanded South Caucasus Pipeline through Azerbaijan and Georgia, the Trans-Anatolian Pipeline through Turkey and the Trans-Adriatic Pipeline through Greece, Albania and Italy – reduces exposure to price fluctuations in international markets for condensate (oil) and natural gas.

In an unprecedented move, the companies comprising the Azerbaijan Gas Supply Company (AGSC) that will sell the Shah Deniz gas have signed long-term (up to 25 years) gas sale and purchase agreements (GSPAs) with European customers. This contrasts with the standard market preference for short- and mid-term contracts that ensure flexibility and freedom to diversify supply sources. As a result, AGSC has secured a more-than-two-decade stake in the Greek, Bulgarian and Italian markets amid rising competition from traditional pipeline suppliers to Europe and the emerging LNG sector.

Gas prices in the European and Turkish markets are slowly recovering. In the last quarter of 2016, the average price of imported gas in Turkey was roughly $170/1,000 cbm, whereas in the first quarter of 2017 the average price was around $200/1,000 cbm, in line with higher oil prices.[16] In Europe, the average gas price is slightly lower, currently at $180–190/1,000 cbm.

For the costly SGC transportation artery, function-

[16] 'Argus Turkey Energy Markets', Argus Media, March 2017.

ing at full capacity will enhance commercial viability and possibly reduce the payback period for operating the pipelines. This is even more important for the TANAP, which will operate at around half capacity, transporting 16 bcm/year of gas from Shah Deniz 2. The owners of this infrastructure must ensure the availability of additional volumes of gas in the mid- to long-term to enhance the project's commercial viability. The additional gas may come from relatively new gas fields in Azerbaijan which are at different stages of development (the Absheron field, Umid, Azeri-Chiraq-Guneshli non-associated gas, etc.).[17] Furthermore, Turkmen gas could be transported through the SGC by connecting the two countries' offshore fields to the pipeline extending to the Turkish and European markets. Given current low prices, however, it seems this option is not attractive to potential investors and purchasers at the moment.

Project financing

Azerbaijan is providing some $12.8 billion of financing for the SGC, of which roughly $6.5 billion had been invested as of December 2016. Despite the low-price environment and uncertainties in both the Turkish and European markets (regarding supply/demand dynamics as

[17] For more details on non-SD gas exports see: Rzayeva, G. (2015) The Outlook for Azerbaijani Gas Suppliers to Europe: Challenges and Perspectives, OIES Paper NG97 (Oxford, The Oxford Institute for Energy Studies), available at: https://www.oxfordenergy.org/wpcms/wp-content/uploads/2015/06/NG-97.pdf.

well as price volatility, pricing mechanisms, competition, etc.) it appears that securing long-term credit and loans for the various aspects of the project's value chain has not been a problem. The Southern Gas Corridor Company – created by the Azerbaijani government to manage, consolidate and finance SOCAR's share of the funding – successfully issued an inaugural Eurobond to the value of $1 billion in March 2016, with an interest rate of 7%. More recently, in March 2017 the company issued another $1 billion Eurobond, this time with an interest rate of 5.75%.[18] The issuances were successful not only because of the SGC's expected profitability. The Azerbaijani Ministry of Finance is underwriting the debt financing by providing an explicit sovereign guarantee.

The SGC initiative has secured financing from a mix of investors including governments, international finance institutions (IFIs), commercial banks and debt capital markets. By the end of 2016 three main vehicles had provided financing for the project: the issuance of $2.5 billion worth of bonds by the SGCC to the State Oil Fund of Azerbaijan (SOFAZ); equity injections from the Ministry of Economy and SOCAR to the value of $2.4 billion; and the issuance of Eurobonds. By the end of 2016 SOCAR had also secured $0.6 billion in revenue from its 2015 sale of shares in the TANAP (42%). The remaining amount to be invested by SOCAR – some $5.5 billion of

[18] The Southern Gas Corridor Company's representative presentation at the Third Ministerial Advisory Council Meeting in Baku, 24 February 2017.

debt – is expected to be raised by 2019 through long-term loans.[19] BP, an operator of the projects, is financing the segments based on its own resources.

The Role of the EU

The politicization of energy markets largely stems from imperfect market structures and concerns about energy security. EU concerns about natural gas imports from Russia are often framed by the problem of Gazprom's monopoly power. The more imperfect a market is, the more important is the behavior of political, regulatory and commercial participants. As dependency on imports and exports is the normal state of affairs in a modern society, political concerns arise when dependencies cause short- or long-term problems because of significant changes in price, supply or market access. A country can lie somewhere on the continuum of neutrality, sensitivity and vulnerability to such changes due to its level of dependency on the commodity in question (Austvik 2016).

One aim of EU policy is to eliminate or reduce (potential) sensitivity and vulnerability caused by dependency. Thus, the EU supports the SGC at the highest levels not only politically but through its regulatory agencies. The EU has demonstrated enormous support for the SGC since the project was initiated. The EU identified it as one of four priority gas corridors in Regulation (EU) No

[19] Ibid.

1316/2013 (Dec 11, 2013). One of its components, the Trans-Adriatic Pipeline, has also been included in the European Commission's list of 33 priority energy security projects of common interest. Under the current conditions of a changing market landscape in terms of prices and supply/demand dynamics in Europe and elsewhere, it is vital for the EU to create a competitive gas market with affordable gas prices across all member states and sustainable and reliable deliveries. Securing new sources is a key part of achieving this goal.[20]

While the planned supply of 10 bcm/year of Shah Deniz 2 gas via the SGC is a drop in the ocean compared to Europe's total demand of 447 bcm in 2016 (a 6% increase from 2015), it will help decrease the region's dependence on major suppliers such as Russia. It constitutes a new source, diversifying and ensuring security of supply to Bulgaria, Greece and Italy. In the long term it may be able to achieve the same for larger regional markets in the Balkans and Southeastern Europe. To put this in context, in 2016 Gazprom supplied 21 bcm of gas to Italy. Once the SCG is commissioned, Italy will import 8 bcm/year of Shah Deniz 2 gas – 38% of what Gazprom is currently providing – helping to diversify its market. Meanwhile, Greece, which imported 2.5 bcm of gas from Gazprom in 2016, has signed a contract to receive 1 bcm/year of Shah Deniz 2 gas – equivalent to 40% of Gazprom's share. In Bulgaria, the amount of gas to be imported from Shah Deniz 2 is 36% of what Gazprom

[20] European Commission 2014.

currently provides. Moreover, the long-term GSP agreement between Gazprom and Bulgargaz expires in 2022, and its GSP with DEPA (Greece's public natural gas supply corporation) in 2026 (Rzayeva 2017). If these companies are able to match political will with the presence of an alternative gas supply source, they too may seek to reduce dependence on Gazprom.

Conclusion

Due to undeveloped market conditions and infrastructure, long-term contracts (LTCs) are required to realize investments in the transit routes in question. Therefore, the parties involved in the production, transmission and consumption of gas must become interdependent over a long period. Accordingly, these parties 'place the security of their energy systems partly in the hands of others, which in turn gives both suppliers and users of gas a stake in the internal political stability of one another' (Jaffe and O'Sullivan 2012). The character and stability of this interdependence determines how governments, investors and other key actors enter into long-term investments and political relations. The kind of interdependence existing among Azerbaijan, Georgia and Turkey since completion of the Baku–Tbilisi–Ceyhan oil pipeline in 2005 will continue with the construction of the SGC. It will likely continue several decades into the future as oil and gas continue to flow through the territories of all three countries. Such interdependence has

already influenced political relations, which have been significantly affected by multi-billion-dollar investments in energy projects in all three countries. Moreover, the signed LTCs have guaranteed the payback of long-term investments and secured markets in Turkey and Europe for the next 15 and 25 years, respectively, in a climate of increasing competition.

From the perspective of future gas transportation from new sources, the most valuable asset in the value chain is the built infrastructure itself. Notably, not only is the EU interested in the SGC, but so are resource-rich Central Asian states that see the corridor as a unique opportunity to acquire access to the European market without having to make multi-billion-dollar investments in infrastructure. The resource-rich countries of the Middle East along with Iran and the EastMed countries are interested in the SGC for the same reason: access to strategic infrastructure. The SGC is designed as scalable infrastructure for transporting substantial additional volumes of gas, a feature which augments the pipelines' economic viability.

The triangle of Azerbaijan, Georgia and Turkey has contributed greatly to realizing all segments of the value chain. This has resulted in closer political relations. As a result of the political support of each country's head of state as well as favorable legal regimes it was possible to attract multi-billion-dollar investments and long-term credit and loans for realization of the SGC. Due to these efforts, the project, once it comes online and

attracts more gas transporters with extra volumes and buyers, can alter the gas supply balance in the region, strengthening security of supply and easing contractual pressures on countries and companies that are currently dependent on a single supplier.

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PROMISE AND PERIL:
THE ARMENIA-RUSSIA-IRAN AXIS

Richard Giragosian[1]

Introduction

For the South Caucasus region, geopolitics, geo-economics and security have long represented both obstacles and opportunities. Each of the three countries of the region, Armenia, Azerbaijan and Georgia, has faced a challenging set of obstacles to statehood and survival. Geography has been the element underlying this vulnerability, as the region has historically been at the center of clashes and competition for power between much larger and more powerful neighbors, including Russia, Iran and Turkey. Against this backdrop, the South Caucasus has become less a region and more a set of three diverging states with an increasingly scant degree of potential reintegration and cooperation. Facing a renewed period of instability and strategic uncertainty, the contemporary outlook for security and stability remains hostage to a much deeper process of profound change. The region is especially vulnerable to global shifts in both geopolitics and geo-economics, each of which poses a new degree of uncertainty and risk, reflected most notably in a pronounced vulnerability to the broader confrontation

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between Russia and the West and exacerbated by escalating tension and deepening conflict.

Yet this very same feature of geography has not always been negative. At times, it has offered opportunities for the region to exploit and enhance its role as a crossroads of trade and commerce. For Armenia, there is a new degree of opportunity inherent in the nature of the new configuration of geopolitical trends and geo-economic triggers. Most notably, this strategic opportunity, which offers Armenia a welcome response to the threats of isolation and insecurity, is comprised of several factors, including: dynamic changes to Armenia's relations with both Russia and Europe; the country's position as a platform for the return of Iran as a regional actor; and the dividends from 'normalizing' relations with Turkey.

However, despite the rather belated realization that Armenia's mounting over-dependence on Russia now poses a clear threat, the real challenge rests with the country's capacity to overcome the constraints of its earlier strategic choices. This challenge raises new questions: whether Armenia's recent moves to counter its dangerous over-dependence on Russia are 'too little, too late'; and whether engagement with the European Union offers a credible alternative for Armenia to reassert its independence and defend its sovereignty.

Diverging trajectories

The South Caucasus quickly divided along diverging trajectories as each of its three states chose different policy responses to the early challenges of independent statehood. For Georgia, the strategic orientation was firmly directed toward the West, making determined efforts to align with Euro-Atlantic security structures in a bid to escape Russia's orbit. While this entailed a difficult, long-term quest for membership in both the European Union and the NATO alliance, such a strategic alignment helped bolster Western-inspired domestic reform. Under the early leadership of its impulsive but inspiring president, Mikhail Saakashvili, Georgia made impressive gains opening up its economy, rooting out entrenched corruption and restoring central state authority and governance. These reforms aggravated tensions with Russia, however, contributing to a deepening crisis that culminated in an outright invasion of Georgian territory by Russia in 2008 and the subsequent Russian-backed severing of two separatist regions within Georgia, Abkhazia and South Ossetia.[2] Nearly a decade after the 2008 Russian invasion, the inherent tension between Russia and Georgia remains a real concern.[3]

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[2] For more, see: Giragosian, R. (2008) 'Georgian Planning Flaws Led to Campaign Failure,' Jane's Defence Weekly, 20 August.

[3] 'Russian Foreign Minister's Planned Visit to Abkhazia Angers Tbilisi,' Radio Free Europe/Radio Liberty (RFE/RL), 18 April 2017, available at: www.rferl.org/a/russia-lavrov-visit-abkhazia-angers-georgia/28436730.html.

For Armenia, there was a clear absence of strategic options from the outset of independence. As the outbreak of war with Azerbaijan over the majority ethnic-Armenian enclave of Nagorno-Karabakh came in February 1988, just prior to the sudden and unexpected collapse of the Soviet Union, Armenia was largely unprepared for the urgency of such a threat to its survival. The threat only grew as the Karabakh conflict intensified, leading to an expanded war that disrupted trade, transport and energy supply routes and triggered a near total blockade of the country by neighboring Azerbaijan and Turkey. In fact, the eruption of that conflict, well before the onset of independence, defined the essential threat to Armenia's survival in the early 1990s. Moreover, given the demands of the Karabakh war, the conflict also served to distort both democratization and economic development from the very beginning of Armenia's post-Soviet statehood.

Alliance with Russia was widely seen as Armenia's sole strategic option, reflecting the necessity of security. While this security guarantee was subsequently proven to be far weaker than expected, the driving factor that pressured Armenia to willingly seek a place within the Russian orbit was the immediate need for a security guarantee due to the demands of the war with Azerbaijan over Nagorno-Karabakh. Over time, this strategic choice pushed Armenia to join the Russian-dominated Collective Security Treaty Organization (CSTO) and to accede to a Russian military base being established in the country. While membership in the CSTO offered

Armenia a chance to procure weapons at a sizable discount, the Russian military presence did more to serve Russian plans for power projection than to meet Armenian security needs. The Russian base in Armenia later became the last and only Russian military presence in the region until the Russian-Georgian war of 2008 allowed the Russian military to gain a foothold in Georgia's two breakaway regions of Abkhazia and South Ossetia.

Although this strategic choice would have enormous repercussions for the future of Armenian sovereignty and even independence, at the time there was little consideration and even less opposition. For its part, Armenia has tried to cope, seeking to maximize its strategic options by pursuing a foreign policy of balancing, or 'complementarity,' aimed at bridging the inherent contradiction of its 'strategic partnership' with Russia and its pro-Western aspirations. Somewhat ironically, this balancing act later became most evident in the area of defense reform, wherein Armenia was able to significantly deepen ties with the West through bilateral agreements with a wide range of countries (France, Germany, Greece and the United States, among others) and via institutional cooperation within the NATO Partnership for Peace (PfP) program.

In contrast to rival Armenia, Azerbaijan's strategic choice was more complicated and, seemingly, more successful. With a deep sense of mistrust and insecurity over Russian policies in the region and as a response to Armenia's alliance with Russia, Azerbaijan opted to

deepen its ties to Turkey. The shift toward Turkey was natural given the historical legacy of pan-Turkic unity and affiliation and due to the energy partnership between the two countries. Moreover, the energy factor only underscored Azerbaijan's enhanced strategic significance as a key pillar of the successful Western-backed project to export Caspian Sea energy resources westward. This energy linkage deepened considerably in the mid-1990s with the construction of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline. For Azerbaijan, development of the energy sector not only helped to withstand and surmount Russian pressure and influence, but also offered an important alternative to regional reliance on the Russian pipeline network.

The Foundation of the Armenia-Russia-Iran Axis

From this broader strategic perspective, Armenia was both isolated and insignificant. It was also weakened by a daunting degree of internal weakness stemming from a lack of resilient and democratic institutions, economic mismanagement and entrenched corruption. It was this sense of marginalization and isolation that drove Armenia to embrace Russia and engage Iran, constituting the foundation of the new Armenia-Russia-Iran axis. For Armenia's geopolitical calculus, the defensive reaction of forging ties with Russia and Iran was also driven by Georgia's decision to forge its own security alliance with Azerbaijan and Turkey and by Azerbaijan's

energy-based strategy to link to Turkey and leverage Western support.

For Armenia and for the region more broadly, forming an axis with Russia and Iran was a policy response to a shifting geopolitical environment that has been both rapid and robust, with an unprecedented intensity in terms of scale and scope. And the formation of this axis was driven by those geopolitical shifts. From the Armenian perspective, three particular shifts in the security environment cemented this axis.

First, Russia was viewed as holding a well-entrenched position in the region following its steady reassertion of power and influence under Russian President Vladimir Putin. Following the incoherence of the Yeltsin period, the Russian strategy under Putin has been based on a concerted attempt to regain Russia's traditional influence over its southern periphery. That has been largely accomplished through the application of sophisticated strategy of exerting influence by using energy as leverage. The nurturing of economic dependence has constituted a new 'soft power' to compliment the more traditional Russian 'hard power' emphasis on blunt military force and localized, low-intensity conflict. Moreover, and most notable for Armenia, there was no viable security alternative to Moscow.

The second trend related to Turkey, whose unpredictable and unprecedented degree of internal transformation raised new concerns in Armenia. A development arguably as profound as the growing pains of the modern

Turkish state after 1923, Turkey is engaged in a heated battle with itself, redefining itself and its identity. It is struggling to come to terms with three burdens: its legacy, including the obligation to recognize the Armenian genocide of 1915; its more recent history, including its 1974 invasion and continued occupation of the Republic of Cyprus; and its present, demonstrated by its difficult and damaging counter-terrorism campaign against its Kurdish minority. The course Turkey's transition will take is particularly important for the region, as it threatens to reject outright Turkey's traditional strategic orientation toward the West. Moreover, with the deepening of domestic division and political polarization following the July 2016 coup attempt, there is a new threat of an insecure and authoritarian Turkey returning to an aggressive, eastward vision of pan-Turkic power projection.

The third trend contributing to the emergence of this Armenia-Russia-Iran axis is diverging trajectories in the South Caucasus, as Georgia draws closer to Europe and, bolstered by the gravitational pull of Ukraine, aspires to join the EU and NATO; and Azerbaijan increasingly withdraws from the region, moves closer in terms of energy and politics to Central Asia and embarks on a new relationship with Moscow, which is most evident in Russia's emergence as its primary supplier of weapons. Both elements of this trajectory threaten to leave tiny, landlocked Armenia a prisoner to the region and increasingly a hostage to its over-reliance on Russia.

Armenia's Imperative to Regain Balance

In a broader sense, Armenia has had little opportunity for long-term strategic vision or planning. After more than two decades of independence, however, there is now an obvious imperative for Armenian leaders to recognize and respond to the need for greater strategic flexibility. Moreover, despite the burdens of unresolved conflict, insufficient democratic institutions and incomplete economic reform, Armenia is endowed with a significantly wider range of strategic options than before and greater flexibility than previously thought in overcoming its isolation. These opportunities are neither immediate nor easy to exploit and all require political will, vision and statesmanship. But in light of the country's geographic, economic and geopolitical isolation, the Armenian government no longer has the luxury of failing to recognize the changing regional environment and adopt dynamic policy initiatives.

Challenges and Limits

The effort to regain a degree of strategic balance through a unique foreign policy concept is limited by several challenges, however. First, and most recently, the war in Ukraine has implications for the Armenian government, especially as it has threatened to further isolate Armenia by making it even more subservient to Russia. Moreover, throughout the crisis the Armenian gov-

ernment has been especially cautious, largely due to its policy decision to refrain from doing or saying anything that would anger or alienate Armenia's 'strategic partner', Russia.

A second challenge stems from a sudden and unexpected crisis in Armenian-Russian relations. This was sparked by the murder of an Armenian family by a Russian soldier stationed at the Russian military base at Gyumri, which triggered a surprisingly intense debate over Armenia's security relationship with Russia. For Armenia, its role as a reliable partner and ally for Russia has never faced any real challenge. Much of its reliance on Russia stems from security and economic ties and is rooted in the Karabakh conflict, only exacerbated by the absence of 'normal' diplomatic and economic relations with Turkey. For Armenia, the strategic alliance with Russia is generally accepted as essential for security. Beyond security, Armenia also depends on Russia as a crucial source of remittances, with large numbers of Armenians living and working in Russia. Since the incident at Gyumri, however, there is a surprisingly intense debate now underway within Armenia that seriously questions the Armenian-Russian relationship.

An Unpredictable U.S.

Beyond the apparent perception of the European Union's weakness as a regional actor, Armenia is also concerned over developments in the United States,

namely the Trump administration's unpredictability and uncertainty over Washington's approach to Moscow. Such concern over the impulsive nature of the new American president and related apprehension about the U.S. commitment to its allies and alliances is not limited to the South Caucasus. Rather, there is deeper and broader doubt over the wisdom of relying on the new, transactional U.S. approach to foreign policy. Any assessment of shifts in U.S. foreign policy starts by recognizing the impact of the Trump worldview, including his favorable view of Russia and his personal regard for Russian President Putin. All of that suggests Trump will seek to forge a new policy focused on accommodating rather than confronting Moscow (Giragosian 2016).

At the same time, there is the related corollary of the U.S. pursuing a 'Russia First' approach. That entails building a more cooperative relationship with Russia based on shared interests such as engaging in a joint military campaign against Islamic State (ISIS). Regardless of outcome, such a move to engage Moscow would be disruptive and counter-productive, for two reasons. First, any move by the U.S. to re-engage Russia as a strategic interlocutor would be based on an undeserved recognition of Russian power and influence in both global and regional terms. On a broader level, any move to embrace Russia that doesn't require significant changes to its policies would only reward it for its more assertive stance, thereby accepting the consolidation of Russia's power and position within the former Soviet space—what

Moscow views as its natural 'sphere of influence' or 'near abroad.' This would also affirm Russia's project of broader reintegration within the former Soviet space. While Russian attempts to institutionalize the 'reintegration' of the near abroad are nothing new, for the former Soviet states, the new challenge will involve defending their own sovereignty and national interests against Russian pressure with a significantly less credible degree of Western backing.

Second, there will be immediate and immense repercussions for the South Caucasus. From a broader perspective, the eight years of the Obama administration were defined by a mixed record of engagement with the South Caucasus. Despite attempts to support economic and political reform, for example, the U.S. generally fell short on policies aimed at pressuring or persuading local elites to more vigorously combat corruption or ensure free and fair elections. At the same time, the region's so-called protracted conflicts have only escalated, most evident in the steady surge in fighting over Nagorno-Karabakh that occurred under the Obama administration. This has also tended to reinforce the perception that Russia is increasingly the primary and, at times, the only power that counts in the region. Yet to be fair, earlier expectations of deeper American engagement were unreasonable, especially as U.S. policy toward the South Caucasus has long been both driven and defined by the calculus of its strategic relationship with Russia.

The Danger of U.S. 'Benign Neglect'

For the South Caucasus, such an accommodation of Russia would inherently usher in a period of 'benign neglect' wherein U.S. security guarantees would have little credibility. For Armenia, that risk is manageable, mainly due to its security relationship with Russia and its politically-influential diaspora community in the United States. Clearly, the real loser in the region would be Georgia, which would likely see a pronounced decline in U.S. support for its strategic aspirations to join the NATO alliance. With diminished American backing, Georgia may become dangerously isolated and marginalized, and particularly vulnerable in a region seemingly handed over to Russia.

It appears likely that Trump's narrow definition of American national interests will seriously degrade U.S. involvement and engagement with the region's unresolved conflicts. Strategic neglect of the South Caucasus by the U.S. would only encourage Russia to take more unilateral and unopposed moves to maximize its power and influence. That could also be matched by an effort by Moscow to take the lead in mediating the long-standing Nagorno-Karabakh conflict, perhaps going so far as to seek to deploy Russian peacekeepers in Karabakh. That development would not only preclude any possibility for a negotiated resolution to the conflict, but would also deepen both Armenia and Azerbaijan's dependence on Russia. The South Caucasus, therefore, will be the

first concession to Russian interests and, in the absence of any credible commitment from the U.S., will be hard pressed to withstand Russia's looming resurgence of power and influence.

Armenia's EU Advantage

More recently, despite the weakening of the West and concerns over shifts in U.S. policy, Armenia has been able to salvage its relations with the EU. The finalizing of a new EU-Armenia Comprehensive and Enhanced Partnership Agreement in February 2017 was a significant achievement for three reasons.[4] First, the agreement provides an opportunity to regain trust and rebuild relations with the EU following Armenia's decision in 2013 to sacrifice its Association Agreement with the EU and instead commit to joining the Eurasian Economic Union (EEU) (Giragosian 2014).[5] Second, the agreement contributes to strengthening the viability and efficacy of the EU's Eastern Partnership (EaP) program, especially important given recent setbacks in Moldova and Ukraine.

The third factor underlying the significance of the new EU-Armenia agreement is the opening of a new

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[4] For more, see Giragosian, R. & Kostanyan, H. (2016) 'EU-Armenian Relations: Seizing the Second Chance,' Centre for European Policy Studies (CEPS) Commentary, 31 October, available at: www.ceps.eu/publications/eu-armenian-relations-seizing-second-chance.

[5] 'Russian Soldier Arrested in Killing of Armenian Family,' Radio Free Europe/Radio Liberty (RFE/RL) Armenian Service, 13 January 2015, available at: www.rferl.org/a/armenia-russia-killings-soldier/26790948.html.

stage of relations, one that promises to realize Armenia's potential for deeper democratization and enhanced economic reform. Since joining the EEU, Armenia has steadily and stealthily sought to regain and restore relations with the EU and with the West more broadly. The new agreement represents a rare 'second chance' for the country to 'restore, regain and rebuild relations' with the EU following the 2013 decision. This foundation for relations is particularly important, as it forges an Armenian commitment to: 'common values' with the EU; further cooperation aimed at improving democratic institutions, including the judiciary; promoting human rights, the rule of law, and good governance; combatting corruption; and strengthening civil society. Some of the practical benefits available to Armenia include the EU's commitment to improve and deepen trade and investment relations, as well as the promises of visa liberalization and increased sectoral cooperation.

The new agreement is a strategic achievement for the EU as well as for Armenia, as it represents a demonstrable success for the Eastern Partnership program. Moreover, in contrast to 2013, Russia is likely to allow the rapprochement to proceed, for several reasons. First, the agreement does not pose a threat to Moscow, as it is not an Association Agreement. Additionally, the fact that Armenia is now a member of the EEU ensures that Moscow retains a substantial degree of leverage over it. In addition, the negotiations that culminated in the agreement were conducted in a different context than before,

when Armenia was merely a ‘sacrificial pawn’ with which Moscow could send a strong message to other former Soviet states. In addition, the new agreement is viewed in Moscow as a means for the EEU to garner greater international credibility, crucial given that the grouping is not even taken seriously by its members.

On a strategic level, the agreement presents an opportunity for Armenia to offset its dangerous over-dependence on Russia. In terms of both economic reform and trade, the allure of EU markets far outweighs Armenia’s ‘comfort zone’ of limited and asymmetric reliance on the Russian system of subsidized trade and submissive dependency. It can also counter the negative effects of Russia-centric diversion of its natural trade pattern while containing the contagion resulting from the downturn in the Russian economy.

Additionally, Armenia has benefited from the weakness of the EEU, which has become significantly less attractive and less serious, for three reasons. First, the ‘loss’ of Ukraine as a key component of the grouping seriously undermines the economic viability and trade potential of this Russian project of regional (re)integration. Furthermore, the diminished appeal of the Eurasian Union project stems directly from the negative impact of Western sanctions on the Russian economy, which has recently suffered a steep decline in the value of the Russian ruble and a steady fall in global oil prices. These factors have weakened Russia’s position as the economic driver of the EEU. In addition, the foundations of the EEU

itself are limited by an institutional reliance on pressure and coercion on members and partners, rather than offering economic benefits and trade advantages.

Since Armenia joined the EEU in January 2015, the immediate benefits have been significantly less than expected. It remains too soon to accurately measure the full extent of the associated impact on the Armenian economy, but several negative trends have begun to emerge. That being said, there is also an element of promise and opportunity for Armenia. The more immediate promise stems from the country's rare 'second chance' to salvage relations with the European Union despite its membership in the EEU. With a new agreement with the EU set to be signed in November 2017, this second chance is an opportunity to rebuild relations and a way for the Armenian government to restore the trust and confidence of investors.

The more long-term promise is grounded in Armenia's unique position within the EEU. Namely, Armenia has the potential to leverage Iran's ongoing reintegration into the global economy. This represents a geopolitical opportunity for Armenia rooted in both countries' efforts to overcome a shared sense of isolation and to cooperate in deepening ties. Moreover, the regional implications of an ascendant Iran offer serious opportunities for Armenia, mainly in terms of altering the delicate regional balance of power in Armenia's favor. For small, landlocked Armenia, the dividends from its twin advantages of geographic proximity and status as a stable and friendly neighbor could be significant. Engaging Iran also

helps Armenia offset its isolation; because two of its four borders are closed, an alternative route through Iran for trade and energy flows represents a pathway for Armenia to project its own influence.

The obstacles standing in Armenia's way are also numerous, however. The threat of Russian pressure is a real impediment to how far Armenia can go in expanding relations with Iran. For example, while the economic benefits of Armenia's potential role as a platform for Western engagement and trade with Iran are evident, the outlook for energy ties is more problematic. For Russia, a major geopolitical loser from the success of the Joint Comprehensive Plan of Action (JCPOA) deal with Iran, which makes Moscow less attractive and less necessary to Tehran, there will be little incentive for allowing Armenia to escape the Russian orbit. And given Armenia's pronounced dependence on Russian gas imports, the potential for expanded Armenian-Iranian energy ties will be the first target of Russian pressure.

A Crisis in Armenian-Russian Relations

In a broader context, a deep and widening crisis in Armenian-Russian relations has emerged in recent years. For the Armenian side, the crisis in relations represents deepening dissatisfaction not with the relationship and alliance with Russia itself, but with the unequal terms of the 'strategic partnership' and the inherent asymmetry and lack of parity in the relationship (Grigoryan 2015).[6]

The crisis is exacerbated by the limits and costs of the 'strategic partnership', especially as they have stalled or stalemated Armenia's strategic attempts to overcome the threat of isolation. Thus, in a strategic sense, Armenia is becoming more successful at maximizing its strategic options and is now beginning to challenge its over-reliance on Russia as its primary security patron and partner. Moreover, as Armenia's strategic partnership with Russia has steadily become one-sided, Yerevan has begun to see that, although close relations with Russia are essential in the long term, the imperative now is to maximize its options and garner dividends from more concerted ties with the West.

Faced with a dangerous degree of mounting over-dependence on Russia, the nature of the Armenian-Russian security relationship now threatens to degrade Armenia's status from Russia's partner to Putin's pawn. Moreover, as the strategic relationship between Armenia and Russia has deepened in recent years, there are new concerns about the asymmetry and lack of parity inherent in that relationship. While accepting the necessity of maintaining close relations with Russia, there is growing awareness of the one-sided nature of the 'partnership.' Over the past two years, this has fostered a new challenge not to the relationship itself, but to the terms of the relationship. Moreover, the challenge has been driven by

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[6] 'Russia says won't halt arms sales to arch foes Armenia and Azerbaijan,' Reuters, 9 April 2016, available at: www.reuters.com/article/us-nagorno-karabakh-russia-arms-idUSKCN0X60DS.

two additional developments: the emergence of Russia as the leading arms provider to Azerbaijan as well as to Armenia, and the tragic murder of an entire Armenian family in January 2015 by a Russian soldier who deserted the Russian military base near Gyumri, Armenia.[7]

This crisis was deeply exacerbated by the events of April 2016, when an Azerbaijani offensive relying on a large arsenal of Russian-supplied weapons resulted in the most destructive fighting over Nagorno-Karabakh since the 1994 ceasefire (International Crisis Group 2016). For many Armenians, this crisis has been marked by a culmination of frustration with the asymmetry and disrespect inherent to the Armenian-Russian alliance. This sentiment exacerbated by a sense of betrayal by Russia, which provided the weapons that Azerbaijan used against Karabakh. For his part, Russian Prime Minister Dmitri Medvedev only enflamed tensions when, on a visit to Armenia just days after the April 2016 fighting, he reaffirmed Russian plans to continue to sell arms to Azerbaijan. Medvedev exacerbated the situation further by stressing that arms sales were no longer a Russian 'business transaction' but now represented a new policy of Cold War-style 'deterrence' by seeking to 'balance' both sides through the provision of Russian weapons.[8]

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[7] For more, see: Giragosian, R. (2015) 'Armenia as a bridge to Iran? Russia won't like it,' Al Jazeera English, 30 August, available at: www.aljazeera.com/indepth/opinion/2015/08/armenia-bridge-iran-russia-won-150830063735998.html.

[8] 'Armenia could be "bridge" if Iran opens to the world,' Oxford Analytica Daily Brief, 12 November 2015, available at: https://dailybrief.oxan.com/Analysis/DB206641/Armenia-could-be-bridge-if-Iran-opens-to-the-world.

Since the four-day war over Nagorno-Karabakh in April 2016, Armenia has been especially cautious to balance its security reliance on Russia with its own recognition of the limits of the strategic partnership. The brief war started with a massive offensive by Azerbaijan and ended with Azerbaijan's capture of territory. Both in terms of perception and reality, it is Russian arms deliveries to Azerbaijan that are most unacceptable to Armenia. Moreover, as the outlook for the Karabakh conflict remains bleak and the absence of any real deterrent suggests that Azerbaijan is likely to launch another offensive, future Russian arms sales to Azerbaijan will only cause further damage to the already strained Armenian-Russian relationship.

From a strategic standpoint, the fighting presented Russia with a fresh opportunity to further consolidate its power and influence in the region. In this context, the outbreak of war also altered the calculus of Azerbaijani-Turkish relations. More specifically, over the past several months, Azerbaijan has been in the precarious position of being forced to navigate the larger crisis between Turkey and Russia. Yet with the onset of combat operations, Baku was able to regain both the initiative and the upper hand, retaking control of Ankara's regional agenda and leaving it with little choice but to support Azerbaijan.

Beyond the confines of that offensive, however, the broader ramifications are also significant. More specifically, the April fighting posed new risks to the delicate state of regional security and stability, with Georgia

very much caught in between. For example, since the 2008 war with Russia, Georgia has monitored the Armenian-Russian security relationship with careful concern. For its part, Armenia has consistently reassured Georgia that it would never allow its security partnership with Russia to threaten Georgian security.

More recently, there is new concern for both Georgian and regional security. For Georgia, which is already precariously balancing close ties to both Azerbaijan and Armenia, renewed hostilities over Nagorno-Karabakh pose two distinct and direct threats to its security. The first direct threat to Georgia's security posed by renewed fighting involves the possible targeting of key regional energy infrastructure. The targeting of the Baku-Tbilisi-Ceyhan oil pipeline, for example, cannot be ignored or underestimated, especially given the danger of a rapidly expanding field of combat if skirmishes spiral out of control.

Secondly, Georgia faces a broader, more strategic threat from resumed fighting in the form of the possible Russian response. This threat is rooted in the geographical constraints and limits to Russia's possible military response, which could involve the deployment of Russian forces stationed in occupied Abkhazia and South Ossetia. In such a scenario, Moscow would be expected to pressure Tbilisi to grant airspace or even ground access through its territory for the deployment of Russian forces (Giragosian 2017).

After years of steadily mortgaging Armenia's sov-

ereignty in exchange for the abstract benefits of Russian security guarantees, creation of a common Armenian-Russian military force represents a new challenge to Armenian sovereignty and statehood. Although the move in itself can be seen as fairly benign and appears to be a logical component of both the Armenian-Russian security relationship and Armenia's membership in the Russian-led Collective Security Treaty Organization (CSTO), it poses a deeper danger to both Armenia's sovereignty and regional security. The Russian plan for joint command poses a likely yet potentially disastrous outcome, allowing Russia to leverage its new role to threaten Georgia and pressure Armenia. Potential outcomes include attempts by Moscow to use the new 'joint' command structure not only to interfere or intervene in Armenian defense reform, but also to utilize it as a vehicle for the deployment of peacekeepers in the Nagorno-Karabakh region, with devastating effect on the security of both Armenia and Karabakh (Giragosian 2016).

Armenia-Russia: What Next?

For Armenia, there is a new opportunity to bolster ties with NATO and deepen activities in cooperation with NATO's Partnership for Peace (PfP) program. This opportunity is especially important in the wake of the 'four-day war' over Nagorno-Karabakh, which in many ways only increased the strategic significance of the NATO Alliance for Armenia, revealing the weakness of Armenia's secu-

rity reliance on Russia as a strategic partner. Moreover, despite Armenia's membership in two Russian-led projects, the CSTO and the EEU, Armenia is in the process of significantly deepening its military and security ties with the West. While Armenia has long served as an important Russian ally in the South Caucasus, the country has also steadily pursued a sophisticated alignment with Western security structures and organizations. This orientation has been based on a closer and more active relationship between Armenia and NATO as well as a broad expansion of bilateral military cooperation with key Western countries, including the United States, France, Germany and Italy. In this context, which is likely to continue if not accelerate, Armenia has gradually and steadily restored a strategic balance in the military and security sector. It now acts as an energetic contributor to Western and NATO security and peacekeeping operations in Kosovo, Iraq and Afghanistan as well as the recent UN-led peacekeeping effort in southern Lebanon. At the same time, Armenia has remained a reliable security partner for Russia and a key member of the CSTO.

The Re-Emergence of Iran

Although there are obvious limits to Armenia's opportunities to emerge as a 'bridge' to Iran, including its landlocked geography, the country has three strategic advantages in the new, post-sanctions environment. First, as Iran's only stable and friendly neighbor in the

region, Armenia is uniquely positioned to offer it strategic escape from its isolation. Second, as a member of the EEU, Armenia is an important avenue for Iran's exports into that large combined market. It can also serve as a platform for Western engagement in the now-opening Iranian market. A third advantage is that, although Iran has the options of maritime trade with Russia through the Caspian Sea and with the West through its Persian Gulf ports, only Armenia offers an overland route. That overland route offers real potential for expanding road and railway links and developing a broader energy infrastructure network, with the operational natural gas pipeline between Iran and Armenia serving as a foundation for the expansion of energy transport.

Perhaps most importantly, Armenia is Iran's only stable neighbor. Beyond energy, there is significant potential in the area of infrastructure and transport. Although a general agreement was reached in 2007 on expanding railway links and a feasibility study positively assessed the project, the subsequent Russian acquisition of the Armenian national railway network means the green light for any such project would be given by Moscow, not Yerevan. Iran also hopes to leverage larger infrastructure efforts such as the Asian Development Bank's (ADB) 'North-South' highway project, which aims to develop Armenia's highway networks, offering Iran faster and more convenient highway links with Georgia.

From a more practical perspective, the most attractive commercial areas for Armenian exports to Iran

include the Information Technology (IT) sector, which offers the chance to build upon Armenia's burgeoning IT sector, and most promising, as a key element in the supply chain for the automotive and aircraft parts and supplies, as well as high-end consumer goods. Exploiting the market opportunities in these latter areas will be contingent on the easing of sector-specific sanctions on Iran, but opportunities are afforded by years of pent-up demand and the promise of high profit margins.

China's Belt Road Initiative (BRI)

Despite Armenia's over-dependence on Russia, it has recently made gains in pursuit of other strategic options. For example, going beyond the recent 'second chance' to restore relations with the EU, Armenia has deepened ties with China. In terms of bilateral trade, Armenia has embarked on a low-profile effort to turn to China, with bilateral trade increasing to roughly $480 million in 2015 according to official Armenian statistics, making China the country's second-largest trading partner (Danielyan 2016).

The most important element of Armenia's strategic 'pivot to China', however, centers on the new Belt Road Initiative (BRI). As an opportunity, the BRI offers globalized benefits from inclusion in an Asia-centered trade network, a revitalized 'Silk Road' that offers opportunities for 'connectivity' and trade integration. Moreover, the BRI offers important new opportunities for the de-

velopment of inter-connectivity and infrastructure, two long-standing problems for the South Caucasus amid a paucity of political will and investment capital. While the initiative will leverage the synergy of previous and ongoing investments, including the region's advanced network of energy pipelines and North-South road and railway transport projects, the more promising aspect centers on the potential for new digital networks and fiber-optic pipelines.

It is this latter factor, 'soft' infrastructure, which greatly enhances the future promise of inter-connectivity and incentivizes next-generation reforms capable of transforming the South Caucasus from a peripheral region into a pivotal hub in the broader BRI framework. Ironically, Armenia's membership in the EEU may turn out to be an advantage. As an EEU member state, Armenia can offer a degree of dual access, as a platform for the BRI to attract interest from other EEU members. Moreover, the BRI can also widen its reach by utilizing Armenia as a bridge to much larger markets and a link to vaster Russian transport networks.

Conclusion

From an Armenian perspective, once again it is the Nagorno-Karabakh conflict that will be the fundamental determinant of the coming geopolitical and geo-economic landscape. Based on the implications of the unresolved conflict and the related risk of renewed hostilities, the

Karabakh factor also has major implications for a resurgent Russia, in two key ways. First, it offers Moscow an opportunity to pursue a unilateral Russian-led diplomatic initiative. Although it would most likely be implemented through the existing mediating body, the so-called 'Minsk Group' of the Organization for Security and Cooperation in Europe (OSCE), it would only reaffirm the local perception that Russian involvement is most crucial, much to the diplomatic detriment of the two other Minsk Group co-chairs, France and the United States.

Given the collapse of the existing ceasefire agreement, the Karabakh conflict may become even more of an instrument for Moscow to enhance its power and influence, perhaps through a bid to deploy Russian peacekeepers. The outbreak of war also ended Azerbaijan's precarious position of being forced to navigate the larger crisis of Turkey and Russia. With the onset of combat operations, Baku was able to regain the upper hand, setting Ankara's regional agenda and garnering blanket Turkish support.

The aftermath of the April 2016 war may be the time for Turkey and Russia to respond diplomatically in a manner driven by their own rivalry and conflict. For Moscow, with the West having so little leverage over Azerbaijan and in light of the lack of political will to return to the negotiating table, Baku sees Moscow as the key to any change. Russia as the number one arms provider to Azerbaijan, there may be some grounds for that perception. Still, Russia is in the only position to benefit and to

exploit the conflict to further deepen its regional power and influence.

Overall, given its lack of leverage and the absence of deterrence, there is little the international community can do at this point. Moreover, despite the fact that there is no military solution to the Karabakh conflict, Azerbaijan seems unable or unwilling to accept that reality. Clearly, the Azerbaijani sense of frustration and anger over the lack of any real progress in the peace process has culminated in a new 'tipping point' whereby the Azerbaijanis have decided that the time has come to use force to alter the situation. Although their frustration is understood, the manifestation of that frustration through force of arms is both deadly and destabilizing.

It seems unlikely that anyone other than the parties to the conflict themselves can step back and climb down from the brink. However, a return to normalcy and a real de-escalation seem unlikely, especially given the rhetoric and domestic political constraints that have imprisoned the region's leaders.

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THE INTERNAL-EXTERNAL NEXUS IN THE EASTERN PARTNERSHIP: CONSEQUENCES OF THE EU'S CRISIS FOR THE SOUTH CAUCASUS

Laure Delcour[1], Hrant Kostanyan[2]

Introduction

Since the launch of the European Neighborhood Policy (ENP) in 2004 the European Union (EU) has highlighted the links of the ENP with its own integration process. In the EU's view, 'over the coming decade and beyond, the Union's capacity to provide security, stability and sustainable development to its citizens will no longer be distinguishable from its interest in close cooperation with the neighbours.'[3] In other words, as was made clear in its 2003 security strategy, the EU's enhanced engagement in adjacent areas was meant, among other things, to reinforce its own security by preventing threats emanating from the neighborhood from spilling onto its territory: 'Even in an era of globalisation, geography is still important. It is in the European interest that countries on our borders are well-governed … Our first line of de-

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[3] European Commission (2003) 'Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours', COM(2003) 104 final, Brussels, 11 March, available at: http://eeas.europa.eu/archives/docs/enp/pdf/pdf/com03_104_en.pdf.

fence will often be abroad.'[4]

The links of the EU and the ENP have cut both ways. The EU's own integration process has shaped its engagement with the neighborhood and ultimately influenced the outcomes of the ENP and the EU's specific policy for the Eastern neighbours, the Eastern Partnership (EaP) launched in 2009. In the European neighborhood as in other parts of the world, the sensitivity of policy areas[5] – namely high political stakes and legally-binding obligations – was identified as a crucial factor affecting the scope of the EU's external engagement (Kostanyan 2017). The current crisis in the EU is thus likely to have a major impact on the EaP, due both to the multifaceted nature of the crisis and the tight interdependence between the EU and its neighborhood.

This chapter explores the influence exerted by the EU's internal dimension on implementation of the EaP and the resultant outcomes in South Caucasus countries. It highlights the shifting dynamics of how the EU's internal dimension has shaped its policy toward the South Caucasus. While the structure of the EU as a multi-level system of governance as well as its experience with integration framed the design and early implementation of the EaP, relations with South Caucasus countries are now shaped by the current context of crisis in and around the EU. We

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4 Ibid.

5 The European External Action Service (EEAS) has more discretionary power in the EaP multilateral than in the EaP bilateral framework. The more sensitive the policy area is (e.g. political dialogue, migration), the less discretion the Member States delegate to the EU.

argue that the combination of two factors, namely the role of the EU's own integration experience (the structural factor) and the role of current developments (the contextual influences of the EU's internal dimension), are likely to strengthen the impact of the EU's internal dimension on its policies in EaP countries in the coming years.

The EU's Offer of the Acquis: To What End?

The EaP was designed with the aim of reinforcing the EU's offer to its eastern neighbors and providing them with stronger incentives to reform. However, in many respects the EaP ignored local contexts and the varying levels of socio-economic development of partner countries as well as their respective ties to Russia. Such oversights stemmed from the connections between the EaP's toolbox and the EU's own integration process. In fact, while the ENP was based upon both vague incentives and conditionality, the EaP – especially with its offer of the Association Agreement and with it the Deep and Comprehensive Free Trade Agreement (DCFTA) – marks a shift toward more tangible incentives based upon the massive diffusion of EU standards combined with hard-law integration and sector-specific conditionality. For instance, the EU expects EaP countries to adopt and apply a broad range of EU and international standards before it will grant visa-free travel to the Schengen Area. In a similar vein, the DCFTAs require partner countries to approximate their domestic legal framework with over 90%

of the EU's trade-related acquis (Duleba et al. 2012). This is due to the fact that the agreements go beyond simple market access for goods, also covering areas such as sanitary and phytosanitary measures (SPS), technical barriers to trade (TBT), competition, public procurement, trade in services and intellectual property rights (IPR). In an increasingly diverse Union, the acquis is what unites member states (Duleba et al. 2012). Therefore, extensive use of the acquis in relations with the EaP has contributed to reinforcing the coherence of the EU's policy, not least because this technocratic approach downplays the political differences among member states as to the perspectives that should eventually be offered to EaP countries. In fact, approximation with the acquis is regarded as a prerequisite to any deepening of relations, including association. For instance, the EU introduced a long list of pre-conditions (titled 'key recommendations') regarding legal approximation prior to opening DCFTA negotiations with Armenia, Georgia and Moldova.

Yet the EU's reliance on the acquis as an instrument of foreign policy calls into question the critical connections between the EU's 'inherited patrimony' (Magen 2007, p. 392) on the one hand and its transformative power beyond its borders on the other. Over years and decades, the acquis developed as a common set of rules designed for EU member states. Therefore, its export outside the context of enlargement raises key questions about its potential to adapt to partner countries' needs (Delcour and Wolczuk 2013). This is because EU regula-

tions were drafted for countries with much higher levels of economic development than have Armenia, Azerbaijan and Georgia. In addition, EU demands can hardly be reconciled with the strategic priorities of some partner countries. The gap was especially visible in Georgia under the Saakashvili presidency, when the Georgian authorities favored a liberal economic strategy that proved incompatible with a number of EU requirements under the DCFTA.

In fact, all the key EaP instruments were designed primarily to address the EU's internal concerns. The SPS and TBT measures negotiated as part of the DCFTAs are intended to protect the health and well-being of EU consumers. The competition and public procurement provisions are intended to ensure a level playing field for EU businesses operating in neighboring countries. Therefore, promoting the socio-economic development of the partner countries was not the decisive factor behind the wholesale diffusion of the acquis to the South Caucasus. While EU standards may give an impetus to economic modernization in the partner countries, that is a long-term perspective given the massive and costly reforms required in the short term.

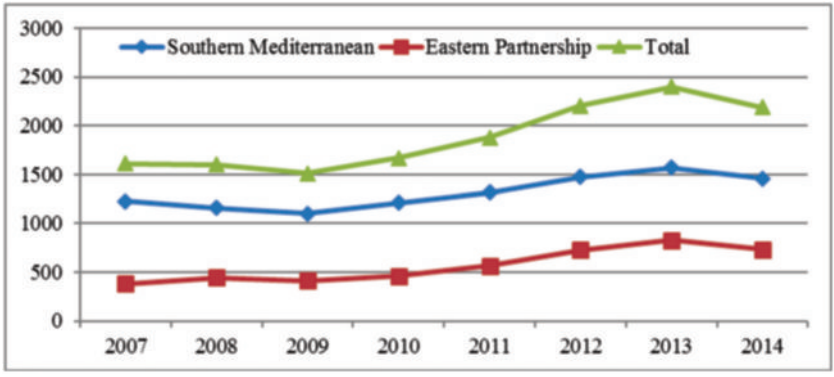
In a similar vein, within the visa liberalization framework the EU requires massive reforms and applies more extensive conditionality than was the case in previous visa liberalization processes (for instance in the Western Balkans). Yet for the South Caucasus countries, visa liberalization offers fewer incentives than it does for Moldova and Ukraine, given the region's remoteness

from the EU. For instance, the more affordable visa fee offered under the visa facilitation agreement means little in light of limited transport connections and the high cost of flights to the EU. The visa-free perspective is nevertheless attractive to all three countries.

However, the EU's demands raise two series of problems. On the one hand, the production of biometric passports, effective border management and stricter migration regulation (which are meant to protect the EU from potential threats) require massive reforms in countries in which (except for Armenia) migration management is not a priority. In Georgia, the EU's insistence on introduction of stricter visa regulations met fierce resistance, especially (but not exclusively) under the Saakashvili presidency. In contrast to the EU, Georgia has pursued an open-door policy, which it regards as necessary for its economic development and attraction of foreign investment. On the other hand, according to the EU's narrative the inclusion of requirements related to good governance and human rights protection is expected to contribute to political transformation in EaP countries. Yet, EU demands touch socially and politically-sensitive areas for post-Soviet countries such as the fight against corruption and anti-discrimination provisions. Therefore, as is the case in trade, EU conditions under the visa liberalization process reveal potential tension between reliance on EU (and international) standards as transformative instruments and EaP countries' domestic preferences and local contexts.

While EU internal factors shape the policy mechanisms initiated under the EaP, they do not affect the level of EU engagement. This is because the EU and its member states regarded diffusion of the acquis and extensive conditionality as conditions that pave the way for enhanced integration with South Caucasus countries. Therefore, the EU's financial commitments remained unchanged and allocations unaffected by the EU financial crisis, as demonstrated in Table 1.

Table 1: ENPI/ENI bilateral and regional allocations (in EUR million) (2007-2014)



Source: Bossuyt et al. (forthcoming)

Between 2007 and 2014 the EU allocated (see Table 2) $404.74 million to Armenia, $138.12 million to Azerbaijan and $1,220.2 million to Georgia. Moreover, over the same period the EU committed €631 million for regional programs in the South Caucasus. Beyond bilateral and regional financial assistance, the EU supported

South Caucasus countries through the European Instrument for Democracy and Human Rights (EIDHR) and the Civil Society Organisations and Local Authorities (CSO/LA) program. The EU also continued to provide technical assistance through the Twinning, Technical Assistance and Information Exchange (TAIEX) and Support for Improvement in Governance and Management (SIGMA) programs.

Table 2: EU allocations in US dollars, millions.

Year	2007	2008	2009	2010	2011	2012	2013	2014
Recipient								
Armenia	21,52	15,97	38,88	34,89	98,46	45,84	70,16	79,02
Azerbaijan	9,49	12,72	12,51	21,72	24,44	27,62	17,51	12,11
Georgia	29,44	110,86	168,07	161,84	180,7	174,82	227,3	167,17

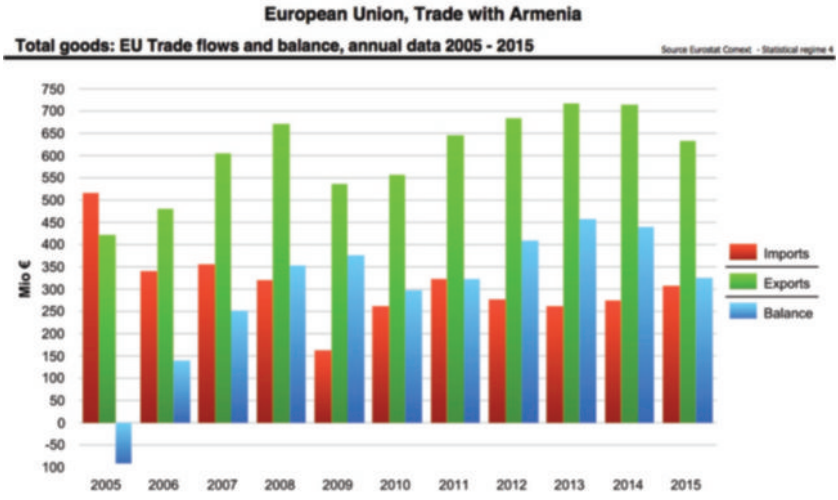
Source: the OECD stat database.

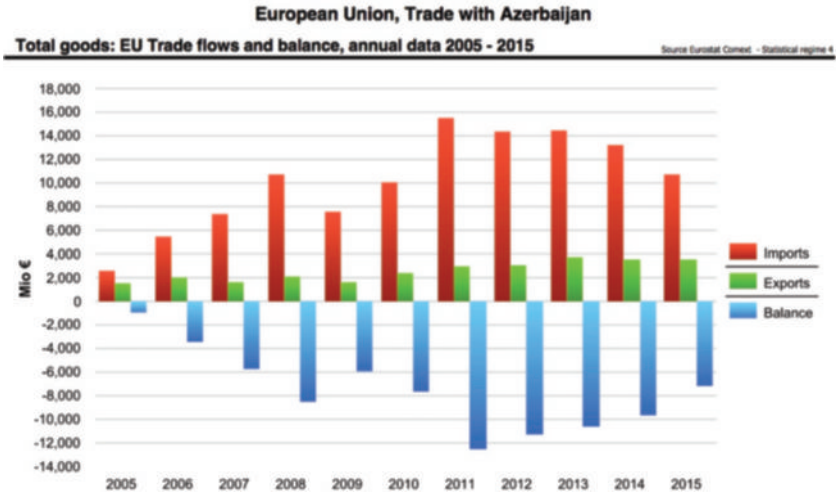
Beyond financial and technical assistance, the EU has significantly stepped up its presence in the South Caucasus since the EaP launched in 2009.[6] For instance, whereas it had established only one delegation (in Georgia) by the 1990s, it opened new delegations in Armenia and Azerbaijan in 2008. The increase in linkages connecting South Caucasus countries to the EU since the EaP's launch is evident in figures on trade flows (see

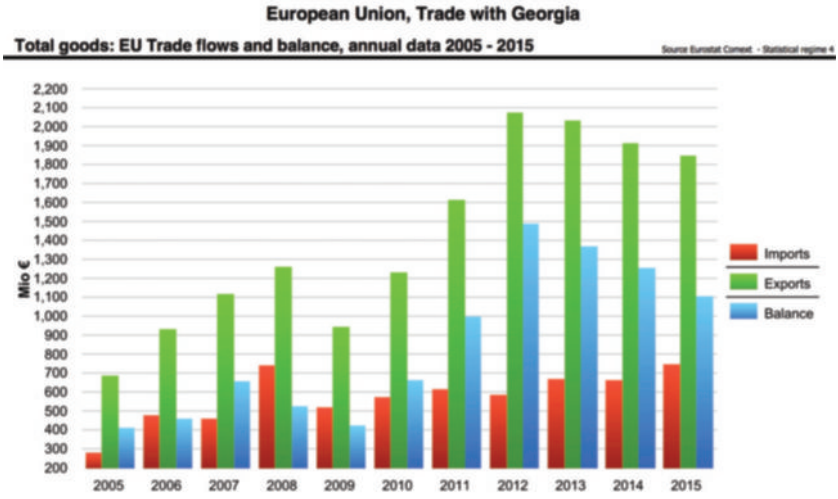
[6] Council of the European Union (2009) 'Joint Declaration of the Prague Eastern Partnership Summit', 8435/09 (Presse78), Brussels, 7 May, available at: https://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/er/107589.pdf.

Table 3) and visa issuance (see Table 4). This is due to the fact that the EU began offering a new level of relations including the Association Agreement and its related DCFTA and visa liberalization.

Table 3: Trade flows







Source: European Commission.

Table 4: The number of short-term visas issued

Year	2012	2013	2014	2015	2016
Armenia	35.780	40.097	46,757	50,590	54,370
Azerbaijan	49.867	60.240	69,967	65,190	52,834
Georgia	59.363	72.702	80,967	87,043	92,895

Source: European Commission (2017) Migration and Home Affairs (Brussels, European Commission), available at: https://ec.europa.eu/home-affairs/what-we-do/policies/borders-and-visas/visa-policy_en.

Overall, from its outset the EaP has been characterised by a discrepancy between what the EU was able and willing to offer the countries of the South Caucasus

and the specific needs of those countries. Yet, despite the EU-centric nature of the relevant policy instruments and mechanisms, the South Caucasus countries have (to varying degrees) proved receptive to the EU's offer. The reasons behind this receptivity are manifold and vary from country to country, including membership aspirations (in the case of Georgia), the perception of the EU as a template for modernization (in the case of Armenia), the EU's status as an important energy partner (in the case of Azerbaijan) and (for all three countries) a desire to balance Russia's influence.

The Implications of the EU's Internal Crisis for the South Caucasus

In recent years, the EU has faced a multifaceted crisis deeply shaking its foundations. The Union is currently confronted with the largest migration crisis since World War II. For the first time in its history, it is about to say goodbye to one of its member states, the United Kingdom. Eurosceptic movements have either emerged or gained strength in most EU countries. All three developments may alter (even if to varying degrees) the EU's integration process and have potentially strong implications for its foreign policy, especially in EaP countries.

In 2015, more than 1 million refugees and migrants arrived in Europe, beginning a process that is still ongoing. The major migration flows have originated from war-torn Syria, Iraq and Afghanistan as well as unstable

states such as Libya and Pakistan. The EU was not prepared for such an influx of refugees and has struggled to cope with it. As a consequence, the refugee crisis led to a crisis of migration policy in the EU, including serious questioning one of the major pillars of the EU integration process – the Schengen Area.

Importantly, the South Caucasus countries also coped with inflows of refugees (even if their scope was more limited). For instance, Armenia is a host to some 17,000 refugees fleeing the war in Syria. This could have resulted in enhanced cooperation between the EU and its eastern neighbours on migration issues. For instance, Georgia reportedly signalled its willingness to accommodate some Syrian refugees from the EU (Georgia Today 2015, quoted in Ademmer & Delcour 2016). In fact, setting up dialogues with the South Caucasus countries on the refugee and migration crisis could have been a step toward creating a broader security community including both the EU and its neighbors – one of the key objectives of the ENP, illustrated by the motto 'stability, security and well-being for all concerned.'[7] However, recent developments point to opposite trends; that is, a greater emphasis on protecting the EU from its neighborhood even if perceived threats (in this case, massive inflows of refugees and irregular migration patterns) originate

[7] European Commission (2004) 'Communication from the Commission, European Neighbourhood Policy: Strategy Paper,' COM(2004) 373 final, Brussels, 12 May, available at: http://www.europarl.europa.eu/meetdocs/2004_2009/documents/com/com_com(2004)0373_/com_com(2004)0373_en.pdf.

from other parts of the world.

The multiple delays in introducing the visa liberalization regime with Georgia undoubtedly offer the best illustration of the EU's growing mistrust of the South Caucasus countries. In essence, Georgia met all the EU's requirements for the visa-free regime in 2015. On 9 March 2016, recognizing that the country had met all benchmarks in all four blocks of conditions, the European Commission recommended lifting the visa requirement for Georgian citizens holding biometric passports. However, the process was marred by resistance from some EU member states. The member states play a key role in final decisions on visa liberalisation, which are made by the Council of the European Union (Council) (based upon qualified majority voting) and the European Parliament (Parliament). On 8 June 2016, Germany, supported by France and Italy, blocked the process, citing home burglaries in Germany involving Georgian criminal groups (Rettman 2016).

Moreover, the so-called 'suspension mechanism' – already in place to allow temporary suspension of the visa-free regime in the event of abuse or breach of EU conditions – had to be revised. The EU member states and the Parliament disagreed on the terms of revision, however. The Council set reaching consensus on the new mechanism as a precondition for lifting the visa obligation for Georgia. On 5 October 2016, the Council concluded that 'the entry into force of visa liberalisation for Georgia should be at the same time as the entry into force of the new "suspension mechanism."'[8] On 13 December 2016

the member states and the Parliament finally agreed on the simultaneous entry into force of both the suspension mechanism and the visa waiver for Georgia, thereby unblocking the process for lifting visa requirements for Georgians. Visa-free travel came into effect for citizens of Georgia on 28 March 2017.

The Georgian experience demonstrates how the EU's internal concerns can take precedence over foreign policy priorities. In fact, the EU member states' reluctance to proceed quickly with visa liberalization fuelled disappointment in Georgia, especially in light of the wide-ranging reforms carried out to that purpose. Such disillusionment could have been a wake-up call for the EU on the eve of parliamentary elections in Georgia, where the prospect of deeper integration with the EU serves as a beacon of hope amid poor domestic economic conditions. However, while acknowledging Georgia's 'hard work' and confirming that its path to Europe 'should be encouraged', the Council stated upon reaching agreement with the Parliament that 'it was the recent upgrade of the suspension mechanism that allowed us to inject a new momentum into talks on visa liberalisation with countries fulfilling all criteria.'[9]

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[8] Council of the European Union (2016a) 'Visas: Council agrees its negotiating position on visa liberalisation for Georgia', Press Release 550/16. Brussels, 5 October, available at: http://www.consilium.europa.eu/en/press/press-releases/2016/10/05-visas-georgia/.

[9] Council of the European Union (2016b), 'Visas: Council confirms agreement on visa liberalisation for Georgia', Press Release 793/16, Brussels, 20 December, available at: http://www.consilium.europa.eu/en/press/press-releases/2016/12/20-visa-liberalisation-georgia/.

The Council's narrative is revealing of the EU's penchant for prioritizing internal security concerns. This is despite the fact that visa liberalisation only covers a short stay in the Schengen Area. Moreover, although in the current context the countries of the Southern Caucasus do not pose threats of irregular migration and there have not been increased requests for asylum in the EU from Armenians, Azerbaijanis and Georgians, the negative atmosphere in the EU around the issue of migration has affected all three countries. Moreover, the current air of suspicion around visa liberalization for Georgia (and for Ukraine) has spilled over into EU-Armenian cooperation on freedom of movement. Armenia has effectively implemented visa facilitation and readmission agreements, steps which were supposed to pave the way for the EU to open a visa dialogue followed by a Visa Liberalisation Action Plan (VLAP.) However, the EU delayed launch of the visa liberalisation process with Armenia because of attitudes toward migration within the Union.[10] This is despite the fact that the Armenian side has prioritized visa dialogue with the EU and, since the end of negotiations on the EU-Armenia Comprehensive and Enhanced Partnership Agreement (CEPA), has regularly expressed hope of being granted the VLAP.

The raise of populism in the EU (especially since the onset of the economic and financial crisis) is also likely to affect the level of EU cooperation with the EaP countries, including in the South Caucasus. Populist parties

[10] Authors' interview with an EU official, Brussels, 16 Dec 2016.

and movements such as the Five Star Movement in Italy, Spain's Podemos, Greece's Syriza, the U.K. Independence Party (UKIP), the National Front in France, the Freedom Party in the Netherlands, Alternative for Germany and the Freedom Party in Austria occupy the entire political spectrum from extreme left to extreme right. The spread of populism matters for the South Caucasus countries (especially Georgia) as it especially affects chances of the EU granting membership perspectives to its eastern neighbors. It was in a context of pervasive populism that the Netherlands voted against the EU-Ukraine Association Agreement in April 2016. In the wake of that referendum, the compromise text adopted by the EU member states in order for the Dutch Parliament to ratify the Association Agreement testifies to the reluctance to provide any membership perspective: 'The Agreement does not confer on Ukraine the status of a candidate country for accession to the Union, nor does it constitute a commitment to confer such status to Ukraine in the future.'[11] Moreover, at the July 2017 EU-Ukraine summit the Netherlands insisted on omitting any reference to the 'European aspiration of Ukraine' (Stern 2017). The Netherlands argued that the expression 'European aspi-

[11] European Council (2016) 'European Council Conclusions on Ukraine: Decision of the Heads of State or Government of the 28 Member States of the European Union, meeting within the European Council, on the Association Agreement between the European Union and the European Atomic Energy Community and their Member states, of the one part, and Ukraine, of the other part', Press Release 785/16, Brussels, 15 December, available at: http://www.consilium.europa.eu/en/press/press-releases/2016/12/15-euco-conclusions-ukraine/.

ration' goes against the Council's conclusions, although the language was used in the 2015 Eastern Partnership Summit and is enshrined in the EU-Ukraine Association Agreement that will enter into force in September 2017.

In fact, the recent debate about Ukraine merely confirms the fact that, although the EaP follows the logic of enlargement (particularly vis-à-vis the DCFTA countries) in advancing the EU's acquis, it neither provides for nor formally precludes the membership perspective. Moreover, the rise of populism makes granting such a perspective even more distant and tenuous. Among the South Caucasus countries, the Ukrainian ordeal has implications especially for Georgia, which has openly sought membership in the EU. It is clear given the Dutch referendum and the current environment in many EU member states that the possibility of granting membership perspectives to the EU's eastern neighbors has been pushed back.

Moreover, populism is likely to create even more obstacles for Georgia's membership aspiration as it has already weakened the influence of those EU member states that are the strongest advocates of Eastern enlargement. The British referendum was defined by populist narratives generated by UKIP, among others. In particular, the results of the British referendum and the United Kingdom's eventual exit from the EU will deprive the EaP countries of a strong proponent of enlargement. The populism also strengthened the opposition of some member states such as Germany and the Netherlands to

the membership aspiration.

The rise of populism may exacerbate another aspect of the EU's internal dimension with potentially major implications for the EaP countries: The coherence of EU external action vis-à-vis Russia. Hungary's rapprochement with Moscow under Prime Minister Viktor Orban offers a clear example of how domestic changes of power – and in particular the election and power consolidation of populist leaders – can lead to significant changes to a given country's position vis-à-vis Russia. Other populist political figures (for instance, Marine Le Pen in France), even failing to gain power have made no secret of their positive views toward Russia's policy in Eastern Europe and the South Caucasus, including the annexation of Crimea. This suggests that more EU member states could swing toward leniency or even implicit support for Russia's actions, should elections result in populist leaders gaining power.

The rise of populism is not the only factor that could undermine the EU's fragile unity on Russia, however. In fact, the impacts of Russian counter-sanctions on domestic economies have eroded some member states' support for EU sanctions introduced after the annexation of Crimea. For instance, the lifting of sanctions is an objective broadly shared (to varying degrees) across the French political spectrum, going well beyond the National Front. This is because the country's already sluggish economy was badly hurt by Russia's ban on agricultural imports from the EU. In sharp contrast, even in the con-

text of electoral changes of power, other member states (such as the three Baltic countries and Poland) are likely to remain strong proponents of extending EU sanctions against Russia. This is because they regard Russia as a threat to their own national security as well as that of the EaP countries. This lack of coherence regarding Russia may impact EU policy toward the South Caucasus because it will probably be reflected in similar disunity on the EaP. Those countries that view Russia as a threat are likely to persist in supporting advanced integration (and the membership perspective) for EaP countries. Such support is framed by the new buzzword used in the ENP review which refers to differentiation based on each EaP country's respective positions vis-à-vis Russia and the EU. In particular, those EU member states that advocate granting the membership perspective to EaP countries are likely to support Georgia's quest to join the EU and back – if less vehemently - Armenia's lingering quest for complementarity between Russia and the West. By contrast, those EU member states that seek to reinvigorate ties with Russia are likely to be less supportive of the EU membership aspirations of the South Caucasus countries, given their consideration for Russia's concerns. Besides the issue of perspectives offered to EaP countries, such disunity may also adversely affect the (already limited) EU contribution to conflict resolution efforts in the region.

Therefore, the multifaceted crisis currently confronting the EU may have major consequences for its

external policy. Given the tight interconnectivity of the Union and its neighborhood, this could affect the South Caucasus countries first and foremost. Also, negatively impacting these countries is the fact they are broadly viewed within the EU as less important than some closer and more strategic neighbors such as Ukraine. After all, bilateral relationships between EU members and Armenia, Azerbaijan and Georgia are not as strong as, for example, Ukraine's relations with Poland or Moldova's relations with Romania. This leaves the South Caucasus countries with much less support from EU member states than that received by Ukraine and Moldova. Armenian ties with France are largely driven by the French Armenian diaspora. This influence, however, hinges critically on the survivors of the Armenian Genocide of 1915 and their children. It may decrease over time. Azerbaijan has benefitted from the support of some EU member states because of its rich energy resources. Finally, the Baltic countries have offered extensive assistance to Georgia both for its steadfast stance vis-à-vis Russia and its efforts to approximate the EU acquis.

Conclusion

Following the 2015 ENP Review the EU has undoubtedly downsized its ambitions in its neighborhood (Delcour 2015; Schumacher 2016), especially vis-à-vis those neighbors that do not seek the EU membership. In the Review, the EU indicated that it 'cannot alone solve

the many challenges of the region' and thereby explicitly acknowledged the limits of its leverage.[12] The increased differentiation makes the reviewed ENP less normative and more pragmatic and flexible in its relations with those neighbors that do not seek or are unable to conclude Association Agreements and the included DCFTAs.

These changes are first and foremost a consequence of the current context of crisis within and around the Union as well as Russia's increasing assertiveness. The policy dilemmas brought about by the massive inflow of refugees and migrants and the sharp rise of Euroscepticism have created a climate of uncertainty about the EU's future, something which does not bode well for the EU's future engagement in the South Caucasus. This uncertainty only adds to the EaP's pre-existing design flaws. Notably, the mismatch between the EU's offer and the EaP countries' needs results from the EaP toolbox being influenced by the EU's own integration process.

The weak role of the EU in resolving conflicts in the South Caucasus, its limited financial support and the absence of the membership perspective for EaP countries in the foreseeable future only weaken the EU's offer. While an initiative that provides primarily a long-term perspective, the EaP is not well suited to mitigate the

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[12] European Commission (2015) 'Joint Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, "Review of the European Neighbourhood Policy"', JOIN(2015) 50 final, Brussels, 18 November, available at: http://eeas.europa.eu/archives/docs/enp/documents/2015/151118_joint-communication_review-of-the-enp_en.pdf.

South Caucasus countries vulnerabilities to Russian aggression. This is due to the fact that the EU has not factored into Russian ties with the countries of the eastern neighborhood upon designing the EaP.

However, despite structural and contextual weaknesses, the EU's offer under the EaP remains attractive to the countries of the South Caucasus, especially Georgia and Armenia. The EU provides a model of development attractive to Georgia, which is implementing the EU's full offer under the EaP. Armenia has used the possibility of differentiation offered by the reviewed ENP to conclude negotiations on an ambitious agreement with the EU. The EU remains an important provider of aid to both Georgia and Armenia. For Azerbaijan, the EU is a key actor in energy cooperation. For all three countries, the EU is both an important trade partner and a major destination for the tens of thousands of citizens of Armenia, Azerbaijan and Georgia who travel there each year. Crucially, even if the EaP is not effective in decreasing Russian pressure on the South Caucasus countries, for all three countries, the EU remains an attractive counterbalance (for Georgia, an alternative) to a Russia they deeply mistrust.

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THE IMPACT OF THE UKRAINE AND SYRIA CONFLICTS ON THE GEOPOLITICS OF THE SOUTH CAUCASUS

Svante Cornell[1]

Introduction

Amid the cavalcade of events in the past several years, one unruly corner of Europe – the South Caucasus – has gradually receded from the headlines. To its north, the Ukraine crisis and Russia's renewed confrontation with the West has dominated attention. Equally significant have been events to the region's south: the Syrian civil war, the rise of ISIS, and the political transformation of Turkey have all eclipsed the South Caucasus in their capacity to demand attention and urgency. Yet the combination of these events, Russia's aggressive posture, western disengagement, and the internal dynamics of the South Caucasus have led to dramatic changes in the region's geopolitics. This chapter will discuss the role of the South Caucasus in Eurasian geopolitics, analyzing its evolving geopolitical constellation and the impact of recent crises. U.S. and EU to re-engagement is necessary for the situation in the South Caucasus to stabilize. Yet, from a strategic perspective, that re-engagement must

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take into account the region's connections to theaters of conflict to its south and north.

The South Caucasus in Eurasian Geopolitics

When the Soviet Union collapsed, the geopolitical importance of the South Caucasus was not immediately obvious to western governments or analysts. Expertise in the area was weak; the region appeared to be a hopeless quagmire of warring ethnic groups and there was a strong tendency to consider it part of Russia's backyard. Moreover, the conflicts in the South Caucasus in the early 1990s took place at a time when more pressing issues dominated the western agenda. These included the Gulf War, the wars in the Balkans that were much closer to the heart of Europe, and the managing of Russia's transition—to say nothing of its nuclear arsenal.

Already in the early 1990s, however, it was clear that Russia's leadership—particularly its defense and security services—paid an inordinate amount of attention to reasserting Russian power in the South Caucasus, including through the manipulation of ethnic conflicts.[2] This effort had no parallel in other parts of the former Soviet Union, indicating that Russian leaders saw the region as exceptionally important. Moreover, this reassertion took place at a time when Russia itself was not only weak but wracked by serious internal problems.

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[2] See Cornell, S. (2001) Small Nations and Great Powers (London, RoutledgeCurzon).

Chechnya and Tatarstan both declared independence between 1991 and 1994, and it would have seemed natural for Russia's leadership to focus on putting its own house in order before attempting to secure its influence in the South Caucasus (Blank 1995). Instead, Russia's leadership expended precious resources subduing the newly-independent states of the South Caucasus (Hill & Jewett 1994). Russia quickly secured its influence over Armenia and employed subversive tactics in an effort to topple Azerbaijan's nationalist government (Goltz 1993). But nowhere were Russia's intentions more obvious than in Georgia, where it both trained North Caucasian volunteers and deployed its air force and other military assets in support of the South Ossetian and Abkhaz rebels in the years 1991 to 1993, thus helping to create conflicts that are yet to be resolved (Cornell 2001).[3] Moscow also worked hard to subdue the independent-minded leadership of Eduard Shevardnadze through various subversive efforts, succeeding in forcing Georgia to join the Commonwealth of Independent States (CIS), accept Russian control over its border with Turkey, and allow the deployment of four Russian military bases on its territory (Gordadze 2009).

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[3] See Chervonnaya, S. (1994) Conflict in the Caucasus: Georgia, Abkhazia, and the Russian Shadow (Oxford, Gothic Image Publications); Hill, F. & Jewett, P. (1994) Back in the USSR: Russia's Intervention in the Internal Affairs of the Former Soviet Republics and the Implications for United States Policy Toward Russia, Working Paper, (Cambridge, MA: Harvard University John F. Kennedy School of Government), available at: https://www.brookings.edu/wp-content/uploads/2016/06/Back-in-the-USSR-1994.pdf.

This was no coincidence: it reflected the long-standing geopolitical importance Russia has attached to the South Caucasus, which it identified in the late eighteenth century as its buffer against the Middle East. Indeed, the key importance of the South Caucasus lies in its crucial geographical location at the crossroads of both east-west and north-south transport and trade corridors. For millennia, the South Caucasus has been a link—or buffer—between the Black and Caspian Seas, and thus between Europe and Asia and between Russia and the Middle East. In contemporary international affairs, the region's key value lies in its location at the mouth of the east-west corridor that connects Europe with Central Asia and beyond; and simultaneously, at the intersection of major international powers, most prominently Iran, Russia, and Turkey.

The development of the Caspian Sea basin's energy resources began in earnest in the mid-1990s. The success of projects, involving western multinational companies, to develop the oil and gas resources of Azerbaijan, Kazakhstan, and Turkmenistan have proven crucial to the economic and political independence of the states of the South Caucasus and Central Asia. Indeed, they were the key independent income stream that enabled these countries to consolidate their sovereignty. Specifically, the creation of the pipeline system connecting Azerbaijan's energy resources via Georgia to Turkey and beyond provided an opportunity to develop these resources while avoiding the control of the former colonial over-

lord. While this primarily benefited Azerbaijan, it held great importance for Central Asian states as well. The new infrastructure broke the Russian monopoly over the transportation of energy resources. Only after this was accomplished was China able to further shatter that monopoly by making inroads into Central Asia, particularly through the Turkmenistan-China gas pipeline. The bulk of Kazakhstan's oil and Turkmenistan's gas resources have yet to come online, but the South Caucasus's further potential to serve as a key corridor for these energy resources is significant.

Secondly, the significance of the South Caucasus for international security was proven in the aftermath of the terrorist attacks of September 11, 2001. Waging a war in the heart of the Eurasian continent, thousands of miles from the closest U.S. military base, posed enormous logistical challenges to the United States. The rapid American response which resulted in the crippling of the Taliban and Al Qaeda in Afghanistan was possible only by inserting U.S. military power into Afghanistan via the South Caucasus and Central Asia. Because Iran was not an option and Russia placed highly restrictive terms on use of its airspace, the overwhelming majority of overflights that supplied the U.S. forces in Central Asia transited through the Georgia-Azerbaijan air corridor. When the U.S. expanded its troop levels in Afghanistan a decade later, the South Caucasus corridor ensured that America was not solely dependent upon Northern Distribution Network (NDN) routes across Russia (Shiriyev

2013). At least 30 percent of the transit was conducted through the territories of Georgia and Azerbaijan. In the wake of the deterioration of U.S.-Russian relations since 2014, the South Caucasus corridor will certainly be crucial to any future western presence in Afghanistan or Central Asia.

Thirdly, the South Caucasus has emerged as the most efficient component of an emerging system of inter-continental trade by land. Most east-west trade between China, India, and Europe at present is conducted by sea and air. Land routes across Eurasia provide a third option, which is far cheaper than air travel and much faster than sea transport (Ziyadov 2012). As in the case of the NDN, the South Caucasus is far from the only route but is the best means of assuring that neither Russia nor Iran has a monopoly over these emerging transportation corridors. Considerable investments have already been made in port facilities in Azerbaijan, Georgia, and Turkmenistan as well as in railroads across the region. In the longer term, the stability of the South Caucasus will be a concern not just for major western oil and gas firms but also for Chinese and Indian interests in uninterrupted trade between Asia and Europe (Starr, Norling & Cornell 2015).

Looking at the South Caucasus differently, the region is sandwiched between the two most salient challenges to the transatlantic alliance today that are fundamentally reshaping the security environment to Europe's east and south: Russia's aggressive expansionism, and

the Islamic radicalism emanating from the Middle East. And far from just comprising 'flyover' countries, the South Caucasus (together with Central Asia) is an important pressure point in both directions. On the one hand, the task of countering Putin's Russian imperialism goes beyond Ukraine, and requires a firm strategy of bolstering the states on Russia's southern periphery. On the other hand, the South Caucasus and Central Asia contain half of all the secular Muslim-majority states in the world. These states may have far to go in terms of democratic development but, importantly, their governments and populations are committed to the separation of state and religion and to secular laws. Thus, the South Caucasus and Central Asia are potential bulwarks against both Moscow and the Islamic radicalism of the Middle East, the latter encompassing the threat of Sunni radicalism as well as the Iranian theocracy that continues to assertively expand its regional influence from Syria to Yemen.

The Geopolitics of the South Caucasus, 1992-2008

After being ravaged by conflict in the early 1990s, the South Caucasus developed a return to relative stability by achieving geopolitical balance. By the mid-2000s, the major development in the region was, in fact, the rapid economic growth of all three countries. While Azerbaijan's oil exports made it the world's fastest-growing economy for several years, Armenia and Georgia also ranked among the top ten global performers in 2006.

Expanding wealth led to considerable hope that the region would begin to move toward peaceful resolution of its unresolved conflicts.

From the mid-1990s to 2008, the region experienced the development of relatively stable geopolitical alignments (Cornell 1999). Azerbaijan and Georgia sought to break out from Russian domination and oriented their foreign policies toward the West. Both countries aligned with Turkey and the United States, both of which devoted considerable attention to the region. This formed the nucleus of the emerging east-west corridor, which focused initially on the development and transport of considerable deposits of Caspian oil and natural gas, and subsequently expanded to military logistics and trade in goods. On the other side, Armenia's focus on securing the conquest of Nagorno-Karabakh from Azerbaijan led it to accept dependence on a Russian security umbrella that gradually led to its reluctant but firm inclusion in a Russian-led north-south alignment with Iran, an alignment which opposed western influence in the region. The geopolitical fault lines at the time were determined mainly by the South Caucasus's unresolved conflicts: Azerbaijani and Georgian elites were motivated by the perception that Russian interference in the conflicts had undermined their independence, which prompted an attraction to foreign powers willing and able to counterbalance Russia's influence. By contrast, Armenia prioritized territorial control over political independence and therefore viewed Russia's role as a sine qua non for its

ambitions to obtain recognition of Nagorno-Karabakh's secession from Azerbaijan.

Until 2003 the geopolitics of the South Caucasus and Central Asia were relatively devoid of normative, ideological aspects. In other words, the a given country's level of democratic reform had not been a decisive factor in its relationships with the great powers. Liberal Kyrgyzstan had closer ties to Russia than to authoritarian Uzbekistan. But this changed with the color revolutions, which coincided with and contributed to important shifts in Russian and American priorities. The color revolutions took place while the Bush Administration was developing and enunciating its 'Freedom Agenda', which made the promotion of democracy a cornerstone of U.S. foreign policy and welcomed regime change as a vehicle for achieving it (Carothers 2006). This had two effects: first, it alienated the less-democratic allies the U.S. had cultivated in the region. Second, it led Vladimir Putin to conclude that the practice of democratic government by Russia's neighbors was both a threat to Russian interests in the neighborhood and a potential threat to his own regime's hold on power. Russia reacted with great alarm to the spread of popular revolts in its neighborhood, positioning itself as the protector of authoritarian regimes—what political scientist Thomas Ambrosio has called a strategy of 'bolstering' allied regimes while 'undermining' those coming to power in color revolutions (Ambrosio 2009).

This took place in parallel to controversies over

American policies in the Middle East, particularly its invasion of Iraq. It also led to a growing confrontation between Russia and the United States in Eastern Europe. Vladimir Putin's February 2007 speech at the Munich Security Conference in which he openly castigated American policies proved to be a turning point; the Bush administration responded by promoting NATO Membership Action Plans for Georgia and Ukraine, but failed to have the plans approved at the April 2008 Bucharest Summit. This set the scene for Russia's August 2008 invasion of Georgia, which proved to be the shock that fundamentally altered the geopolitics of the South Caucasus (Asmus 2008).

Destabilization, 2008-14

The period between the wars in Georgia and Ukraine featured a number of shocks that contributed to destabilizing the South Caucasus. These included the impact of the war in Georgia itself; shifts in western policy following the financial crisis; the Obama administration's 'Reset'; the Turkish-Armenian rapprochement; the Arab upheavals; and the Iranian nuclear deal.

As noted, Russia's renewed imperial ambitions and turn to confrontation toward the West were symbolized by Putin's 2007 speech in Munich (Rolofs 2007). However, the implications became clear only with Moscow's invasion of Georgia, which immediately changed calculations everywhere regarding Russia's intentions and level

of determination. While no one in the region expected the U.S. Marine Corps to come to their rescue if threatened by military attack, Azerbaijan and Georgia had placed their bets on implicit western deterrence of Russia. This expectation was based largely on the notion, strongly held in the West, that wars no longer happen in Europe.[4] Such faith in implicit deterrence was shattered by the Georgia-Russia war. Worse, the threshold for use of large-scale military force in general was lowered. Until 2008, the threat of large-scale military confrontation had been seen as remote; now, it was very real. While embodied by Russia's use of force, just as a rising tide lifts all boats, it meant the instrument of force was considered increasingly viable by other states as well. It is in this context that the escalation of hostilities between Armenia and Azerbaijan since 2008 should be understood. By 2016, a pattern of escalation over a number of years led to large-scale hostilities with casualties rising to three figures, and, for the first time since 1994, a change in territorial control (Cornell 2017).

The rise of the Russian threat took place in conjunction with gradual disengagement by the West, particularly the U.S. This had begun to be visible with the fallout of the Iraq war, which brought Transatlantic relations to a low point and reduced America's ability and willingness to spend scarce resources in the post-Soviet space (Wisnick 2004). American exhaustion, of course, had helped

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[4] As the author witnessed a senior European Union official tell a Georgian Deputy Prime Minister in Brussels in May 2008.

trigger Russian adventurism in Georgia. The 2008 war was then followed by the western financial crisis, which led both the U.S. and Europe to be preoccupied primarily by domestic concerns. In the region and globally, the sense of American disengagement from security affairs became palpable.

America's disengagement did not occur in isolation but in conjunction with the evolution of the Obama administration's Russia policy. Western sanctions on Russia proved short-lived: the EU started gradually dismantling its sanctions regime after only three months. By March 2009 – only half a year after the war – U.S. Secretary of State Hillary Clinton presented a (mislabeled) 'Reset' button to Russian foreign minister Sergey Lavrov. Architects of the Reset including Ambassador Michael McFaul were adamant that the Reset was not intended to subordinate American relations with South Caucasus states to its relations with Russia. Yet, this was the practical effect of the initiative. While the U.S. government, particularly under the Bush administration, invested significant resources in training and equipping the Georgian military, the Obama administration's Reset led it to refrain from advancing policy goals in the region that would be seen as 'irritating' Russia – a notion that, as Nicu Popescu has pointed out, does not amount to a policy (Popescu 2009). Most notably, the Obama administration refused all arms sales to Georgia, in effect punishing the victim of aggression. It also disengaged from security affairs, including taking a back seat to Russia's lead in the Arme-

nia-Azerbaijan peace process. Thus, America was happy to follow Russia's lead in negotiating peace between Georgia's immediate neighbors after Moscow had invaded the country in a move that Russian President Dmitry Medvedev himself later stated was intended to stop NATO expansion – in other words, to maintain a Russian sphere of influence (Dyomkin 2011). America's stance represented a clear disengagement from the security affairs of the South Caucasus. It was paralleled in Eastern Europe more broadly, including in the withdrawal of plans to deploy missile defense systems in Poland and the Czech Republic. Meanwhile, while the EU was never equipped to take a lead on hard security matters, it tried to fill the void by deploying a EU Monitoring Mission to Georgia, which has since played a crucial role in preventing re-escalation of the conflicts (Freire & Simão 2013).

The one curious initiative the Obama administration did launch in the South Caucasus was its insistent backing of the Turkish-Armenian normalization process. This was curious because in retrospect it constituted the only serious direct engagement of the White House in any South Caucasus matter during the eight years of the Obama administration. Yet the initiative was fundamentally flawed in its attempt to artificially de-link the Armenia-Turkey relationship from the Armenia-Azerbaijan conflict. Political realities in Turkey and the region ensured that these relationships would remain interlocked, and the envisaged opening of the Turkish-Armenian border could hardly be expected in the absence of progress

in the Armenian-Azerbaijani peace process. Yet as mentioned, the Obama administration allowed Russia the lead in that process – even while part of the rationale for the Turkish-Armenian normalization process was to reduce Armenia's dependence on Russia. The irony of this was apparently lost on the crafters of the policy. On a deeper level, the administration's focus on the normalization process effectively meant relegating the much more serious Armenia-Azerbaijan conflict to the backburner – or more accurately, off the stove completely. As a result, the approach led directly to the escalation of tensions between Armenia and Azerbaijan, the weakening of Armenia's leadership internally, damage to Azerbaijan's ties with Turkey, and the near-destruction of Baku's strategic relationship with Washington (Cornell 2017).

In parallel, Moscow ramped up its Eurasian Union project and began to exert heavy pressure on regional states to join the Moscow-centric initiative.[5] While this certainly applied to Armenia and Azerbaijan, Georgia was partly an exception, as the 2008 war had led to a rupture in diplomatic relations between Moscow and Tbilisi and resulted in Georgia leaving the Commonwealth of Independent States. No political force in Tbilisi could advocate membership in a Moscow-led organization and

[5] For a comprehensive treatment of the Eurasia Union project, see: S. Frederick Starr and Svante E. Cornell (2014) Putin's Grand Strategy: The Eurasian Union and Its Discontents (Washington, D.C. and Stockholm, Central Asia-Caucasus Institute and Silk Road Studies Program, available at: http://silkroadstudies.org/publications/silkroad-papers-and-monographs/item/13053-putins-grand-strategy-the-eurasian-union-and-its-discontents.html.

survive in the court of public opinion. But Baku and Yerevan soon began to feel the heat as Russia alternated between carrots and sticks. In many ways Russia played the two adversaries against one another with the ambition of coaxing both to accept Moscow's suzerainty. Azerbaijan responded by shifting from a pro-western policy to one of non-alignment. Armenia tried to play both sides, continuing to serve as Moscow's loyal ally in the military and security field while simultaneously negotiating an Association Agreement with the European Union. Perhaps predictably, this balancing act failed and in September 2013 Armenian President Serzh Sarkisian was forced to unceremoniously ditch the Association Agreement with the EU and pledge allegiance to the Eurasian Union project (Giragosian 2014).

The Iranian nuclear deal, to a lesser extent, contributed to the general picture of growing insecurity. Indeed, the geopolitical significance of the South Caucasus to the West depended in part on its proximity to Iran. Yet when the U.S. initiated its outreach to Iran, its efforts to reassure allies in Iran's neighborhood entirely neglected Iran's northern neighbors. In other words, the South Caucasus countries were neither consulted nor regularly informed on the process, much less provided with any assurances of American security engagement. While Washington spent considerable resources reassuring traditional U.S. allies in the Middle East, no such efforts were undertaken toward the pro-western states north of Iran. Predictably, each responded by launching individual measures to im-

prove relations with Iran. From the 1990s until the twin 2008 crises – the war in Georgia and the financial crisis – the United States had been by far a more relevant force in the South Caucasus than had been the EU. Indeed, only gradually did the EU develop a coherent foreign and security policy. America's withdrawal from the region left a vacuum, however, and in this environment the EU gradually became a more important actor. The EU advanced its interests in the region through two main initiatives: the Southern Energy Corridor and the Eastern Partnership. The Southern Energy Corridor continues to form an important link between Europe and the region, although the EU has only limited resources with which to make the corridor a reality. In fact, realization of the corridor has mainly resulted from American support provided in the late 1990s as well as Turkish-Azerbaijani bilateral cooperation in the present. Indeed, it was American support that made the Baku-Tbilisi-Ceyhan pipeline a reality; by contrast, the EU supported the Nabucco gas pipeline project, which failed to attract the leadership of a major multinational company. This led the project to falter, although its essential concept was resuscitated by the Trans-Anatolian Pipeline (TANAP) project, essentially a bilateral Turkish-Azerbaijani project that is scheduled for completion in 2018. TANAP, in turn, is scheduled to be connected with the Trans-Adriatic Pipeline (TAP) that will bring Azerbaijani gas to European markets. The EU has been a supportive but far from decisive force in the development of regional energy infrastructure.

The Eastern Partnership is the EU's most significant instrument in the region. It offers a clear perspective on EU integration to its six involved countries, although the potential for membership remains an open issue. As such, the Eastern Partnership has considerable potential to assist in the region's Europeanization and development, as it provides an opportunity for the unilateral adaptation of these states to European Union norms and regulations. Yet, unfortunately, that potential has yet to be realized because the EU has failed to keep up with geopolitical shifts in the region. Georgia is the only South Caucasus state to have fully embraced the offer of an Association Agreement and Deep and Comprehensive Free Trade Agreement. Later, long after Georgia had fulfilled all the relevant criteria, the EU also provided Georgian citizens with visa-free travel to the Schengen Area. In spite of its ties to Moscow, Armenia initially followed Georgia's example before geopolitics trumped its efforts at balancing. By 2013, Yerevan was coerced into jettisoning the Association Agreement and instead opting for accession to the Russia-led Eurasian Union. Azerbaijan, in part due to its oil economy, has shown no interest in an Association Agreement, instead seeking to develop a Strategic Partnership Agreement with the EU. The Eastern Partnership was conceived as a one-size-fits-all instrument. Similar to the accession process, which is not truly a negotiation process but rather the unilateral approximation by prospective member states of the Acquis Communautaire, the EU expected all six states to sign essentially

identical Association Agreements and Deep and Comprehensive Free Trade Agreements. The EU undermined its own goals however when it adopted a 'more-for-more' strategy toward the countries of the Eastern Partnership, promising greater assistance to those countries willing to make greater commitments while keeping the recalcitrant countries at arm's length. Thus, EU assistance and attention was made contingent on 'good behavior' rather than tailored either to the specific needs or the geopolitical significance of the country in question. The country that suffered most from this policy was Azerbaijan, a crucial conduit to Central Asia and a key energy exporter, which nevertheless received increasingly scant attention from Brussels. As a result, the EU's relationship with the countries of the Eastern Partnership increasingly fragmented into a series of bilateral relationships. In 2017 the EU re-negotiated a 'Comprehensive and Enhanced Partnership Agreement' with Armenia – using entirely novel terminology – while a revised agreement with Azerbaijan was under negotiation as of late 2017, with its name yet to be decided. In sum, the EU's approach to the Eastern Partnership no longer proved to be functional and was replaced by a more realistic approach.

A commonality can be identified in western policies toward the South Caucasus following the 2008 war: all western initiatives failed to take into account, much less address, the region's most thorny problem and one which had dictated its fundamental insecurity since independence: the unresolved conflicts. Moscow made the

manipulation of these conflicts a key element of its foreign policy, and certainly linked its respective policies toward Ukraine, the South Caucasus and even Syria to one another. The western powers never did so. Therefore, western initiatives had the effect of unwittingly contributing to the escalation of these conflicts, and worse, of proving to decision-makers in the Kremlin that the orchestration and manipulation of frozen conflicts was a highly successful tool for undermining these countries' sovereignty and preventing them from being considered viable candidates for Euro-Atlantic integration. The West's myopia regarding the unresolved conflicts directly influenced Russia's 2014 decision to employ that very instrument to mortally wound post-Euromaidan Ukraine by annexing Crimea and manufacturing an unresolved conflict in the Donbass.

The Impact of the Ukraine Conflict

As is evident, the geopolitical situation in the South Caucasus deteriorated significantly between 2008 and 2014. It would turn even more volatile and unpredictable, however. Further deterioration resulted from a series of interrelated developments: Russia's annexation of Crimea and its war in the Donbass; the deepening crisis in Syria and Iraq; and the transformation of Turkey.

The Ukraine crisis had both direct and indirect impacts on the region. Most directly, it reinforced the lessons of the war in Georgia and showed that Moscow's

massive use of force there was not an isolated incident. It also showed that Moscow was, systematically, not only exploiting but effectively creating 'frozen conflicts' in countries attempting to follow an independent foreign policy and refusing to follow Moscow's line. On a deeper level, the Ukraine crisis indicated that the costs of a pro-western foreign policy could be prohibitive while the benefits were considerably less than many had expected. NATO membership appeared off the table for the foreseeable future, meaning that any collective security mechanism other than the Moscow-led CSTO was not in the cards for the states of the region. The concrete benefits of the Eastern Partnership were mostly abstract, economic, and long term, while the format provided little to national populations aside from the prospect of visa-free travel – an important recognition of European identity but not something that could visibly improve the economic or political situation in a given country. Indirectly, the Ukraine crisis and the ensuing sanctions led to serious economic consequences for Russia, including the free fall of the Russian currency. As all three South Caucasus states have large populations of guest workers in Russia, the economic impact was visible – and exacerbated in the case of Azerbaijan by the 2014 collapse in oil prices. Reflecting this decline, Azerbaijan's GDP in dollars fell from $75 billion in 2014 to $34 billion in 2016.[6]

Of course, each of the three countries was affect-

[6] World Bank data, available at: https://data.worldbank.org/country/azerbaijan.

ed to a different degree. For Armenia, the impact was strong and palpable, particularly given the manner in which Armenia was forced to jettison its pending Association Agreement with the EU. President Serzh Sargsyan announced the unexpected decision in Moscow directly following a meeting with Putin (Grigoryan 2014). Sargsyan had consulted neither his government nor the parliament. Similarly, Putin had not deigned to consult with the leadership of the EEU's other members, Belarus and Kazakhstan, before announcing that Armenia would become a member. While this says much about the nature of the Eurasian Union, it also cemented Armenia's submission to Moscow. As for Azerbaijan, Moscow employed both sticks and carrots to push it toward a more pro-Russian line. As a result, Baku recalibrated: while it did not jump on the Russian bandwagon, it began to eschew visibly pro-western positions. Yet, Moscow tried to interfere directly in Azerbaijan's presidential election in 2013. This, as well as suspicion of American support for 'regime change', led Azerbaijan's leadership to tighten control over both the bureaucracy and civil society. This led to further troubles in the U.S.-Azerbaijani relationship.

Russia's apparent calculation was that its control over Armenia was so secure it could afford to attempt to apply a similar carrot-and-stick approach to coax Azerbaijan into the Russian orbit as well. This brinkmanship took a spectacular turn in April 2016: when major fighting broke out between Armenia and Azerbaijan, Moscow

– rather than coming to Armenia's defense – assumed a largely neutral stance. This infuriated many Armenians and led to a re-evaluation of the country's past twenty years of policy choices. Anti-Russian sentiment grew rapidly in Armenia, gradually forcing Moscow to reassure Armenia of its strong commitment to the country's security. That, in turn, ruined whatever goodwill Moscow had won in Baku.

Moscow faced a growing conundrum in approaching Armenia and Azerbaijan. While Armenia fit neatly into Moscow's foreign policy agenda, it did not quite approximate Russia's domestic regime agenda: the paramount importance of rolling back the wave of 'color revolutions' by increasing repression and state control over society. While Armenia has grown more authoritarian in recent years, it appears the Russian authorities do not trust Armenia's leadership to employ sufficiently harsh methods to stamp out dissent. According to this line of thinking, Moscow was forced to intervene decisively to preclude Armenian efforts to further its EU integration. By contrast, Moscow was pleased with the growing acrimony between Azerbaijan and the West and appeared to view Azerbaijan as a reliable bulwark against revolution of any color. The conflict in Ukraine further confused matters: Russia's annexation of Crimea buoyed Armenian hopes while it constituted a further dangerous precedent for Azerbaijan. Yet the strong western reaction to Russia's violation of Ukraine's sovereignty, in contrast to the lukewarm concern for Azerbaijan's territorial integrity, initial-

ly infuriated Azerbaijani leaders. But with time, western leaders gradually worked to establish some policy consistency that favored Azerbaijan's stance: western leaders again expressed support for Azerbaijan's territorial integrity, about which they had grown mum in the preceding years (Baev 2017).

Georgia stands out in the regional context because it experienced Russian aggression but also because it is in the process of implementing its Association Agreement with the EU. Given that Moscow strong-armed Armenia into desisting from such an agreement and fueled the flames of war in Ukraine for the same reason, one wonders how long the Kremlin will sit idly by as Georgia continues on its path of Euro-Atlantic integration. Yet following the peaceful and democratic transfer of power in 2012, Georgia's leadership adjusted the country's policies in an effort to avoid unnecessarily antagonizing Moscow. Thus, while continuing to work toward Euro-Atlantic integration, Tbilisi sought to restore economic ties with Russia while maintaining a lower-key approach to continuing Russian provocations along the administrative boundary lines demarcating Abkhazia and South Ossetia.

Unlike the leaders of the Rose Revolution, the country's new strongman, business tycoon Bidzina Ivanishvili, had his formative experiences during the Soviet period and during his business career in Moscow in the 1990s. His governing Georgian Dream coalition included both reliable pro-western forces and outright anti-Amer-

ican factions. When Georgian Dream began jailing former power-holders on generally flimsy charges, Ivanishvili made clear that he would not let western opinion guide his actions. He continues to decide key matters from the shadows despite formally leaving politics in late 2013. From 2014 to 2016, he gradually discharged the two main pro-western political parties from his coalition – first the Free Democrat Party, and subsequently the Republican Party of Georgia (Fuller 2016). In Georgia's current reality, the country's de facto leader thinks such figures are expendable. Meanwhile, anti-western groups funded by Moscow are slowly but surely instilling doubt among the Georgian population regarding the country's western orientation. As a result, it should surprise no one if, in the absence of more robust western engagement, Georgia gradually moves toward an increasingly non-aligned position between Russia and the West. Unless western powers manage to counter continued Russian aggression against Georgia, Tbilisi may be less likely to align with western policy priorities and may instead be forced to bow to Russian pressure and desist from meaningful steps toward Euro-Atlantic integration.

Syria and the Growing Together of the South Caucasus and the Middle East

The geopolitics of the South Caucasus have been further complicated by the growing merger of post-Soviet and Middle Eastern affairs, as exemplified by the civil

war in Syria, Turkish and Russian involvement in that war, the growth of Iran's regional power, and the increasingly volatile web of relationships among these powers.

The South Caucasus is often viewed solely in a post-Soviet geopolitical context and thus in isolation from the Middle East. Yet for most of its history, the South Caucasus was effectively a part of the Middle East. Those ties are rapidly re-emerging. This process had been ongoing under the radar screen but became increasingly obvious as the conflict in Syria and Iraq intensified. The new conflict zone is geographically much closer to the South Caucasus than many would assume: Mosul is only 300 miles from Yerevan and Raqqa is 600 miles from the Caspian Sea coast. Connections go beyond geography: 100,000 Armenians live in Syria and Armenia's first president, Levon Ter-Petrosyan, was born in Aleppo. When Armenian Syrians sought refuge in Armenia from 2012 onward, many were resettled in the occupied territories of Azerbaijan, particularly Lachin district. Conversely, the growing sectarian strife in the Middle East posed a huge challenge for Azerbaijan, a country that is two-thirds Shi'a and one-third Sunni (Cornell 2011). Both Shi'a and Sunni Azerbaijani militants have traveled to fight on opposite sides in Syria's civil war, something that contributed to the Azerbaijani government's decision to strengthen the secular character of the state (Cornell, Karaveli and Ajeganov 2016). Georgia has not been spared, as the connections between Georgian citizens of North Caucasian origin and ISIS have been notable. Most infamous

is ISIS commander Abu Omar Al-Shishani, born Tarkhan Batirashvili, a former Georgian army sergeant of Chechen origin (Walker 2016).

In comparison to several European countries, the number of fighters arriving from the South Caucasus remains relatively small. However, fighters from the North Caucasus stand out as important actors in the conflict.

The transformation of Turkey and its increasingly adventurist foreign policy is intimately linked to this development. Turkey had been on a path toward EU integration during the 1990s, viewing itself unequivocally as a European state. It was also a key U.S. partner in the South Caucasus. By contrast, for the past decade Turkey has increasingly become a Middle Eastern country – with an increasingly unstable political environment dominated by political Islam on one hand, and a foreign policy focused squarely on the Middle East on the other. Indeed, Turkey has grown increasingly authoritarian and Islamist and has embarked on a fanciful mission to establish itself as a leading force in Middle Eastern politics. Under the forceful leadership of Recep Tayyip Erdogan, following the 2011 Arab uprisings Turkey made a bid for regional leadership in the Middle East. That involved considerable divergence from western foreign policy goals. More importantly, however, by 2013 it had mired Ankara in the Syrian civil war, in which it invested heavily to secure the departure of the Assad regime. This led Ankara to become increasingly sucked into the sectarian vortex of the conflict, providing support to successively more rad-

ical Islamist groups.

From the vantage point of the South Caucasus countries, this meant that Turkey had become a problem: it facilitated rather than hindered the flow of foreign fighters into Syria, thus acting as a magnet for radicalism. Turkey's stance posed other problems as well, particularly for Azerbaijan, whose population was increasingly consuming information from Turkish media outlets. Erdogan's growing sectarian tendencies thus had the potential to impact Azerbaijani society as well.[7]

But more importantly, Turkey's policies in Syria put it on a course of confrontation – in fact, a proxy war – with Tehran and Moscow. Ankara aligned with the Gulf monarchies attempting to defeat the Assad regime and bring to power a Sunni-dominated government; Moscow and Tehran ramped up support to save the Assad regime from being overthrown. As America vacillated, Moscow intervened militarily in 2015, providing air support to the Iranian-backed militias propping up the Assad regime. Turkey was unable to counter this move, and the pretense of cordial relations with Moscow disappeared after the Turkish downing of a Russian fighter jet late that year. Instead, an acute confrontation ensued between Ankara and Moscow.

This had important implications for the South Caucasus. Suddenly, the geopolitical dynamic of the war in Syria was essentially the same as those surrounding the South Caucasus: it featured Russia, Turkey and Iran

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[7] Conversations with Azerbaijani officials in Baku in 2017.

in leading roles, with the West largely absent from the game. This meant the geopolitics of the South Caucasus and the Middle East had merged to a significant degree, at least temporarily. Consequently, the South Caucasus could not avoid contagion of these great power conflicts over the Syrian theater.

That directly impacted the Armenia-Azerbaijan conflict, where Turkey and Russia supported opposing sides. Turkish helicopters violated Armenian airspace even before the jet downing incident; in March 2016, Moscow responded to the jet downing by beefing up its military presence in Armenia. When major fighting erupted between Armenia and Azerbaijan in April, Turkish leaders unequivocally stood with Azerbaijan, dispensing with the usual calls for restraint (Jones 2016). In fact, the Armenia-Azerbaijan conflict rapidly displayed elements of becoming a proxy war between Turkey and Russia. Of course, that threat dissipated following the July 2016 aborted coup against Erdogan and the reconciliation between Erdogan and Putin that followed the next month.

Meanwhile, the election of Donald Trump also generated uncertainty about the future of U.S.-Iranian relations. While there had been considerable unhappiness in the region about the nuclear deal, leaders of the South Caucasus nations do not desire a renewed confrontation between the U.S. and Iran – particularly as U.S. policy toward the South Caucasus is no clearer one year into the Trump presidency than it was under Obama.

If anything, however, that uncertainty further has

deepened linkages between the theaters of conflict: relations among Turkey, Iran, Russia and the United States over Middle Eastern issues continue to affect the South Caucasus. For the foreseeable future, the Levant and the South Caucasus will continue to be dominated by the same major regional powers, which will ensure that controversies and conflicts in one theater could easily spill over into the other.

Conclusions

As this chapter has sought to demonstrate, the regional geopolitics of the South Caucasus have undergone significant transformation over the past decade. During the mid-2000s, there was a relatively stable regional environment that provided some hope for economic development, Euro-Atlantic integration, and peaceful resolution of the conflicts. However, the progression of adverse events cataloged above has led to an increasingly unpredictable, even volatile, geopolitical situation in which old patterns of alignment no longer apply. Importantly, no new stable order is visible on the horizon, either. Armenia is safely but unhappily ensconced in the Russian embrace, its current leadership finding its options severely limited by choices made to safeguard its conquest of Karabakh in the 1990s. Azerbaijan, disgruntled with the waning prospects of a western strategic presence, now seeks to avoid be dragged into Moscow's orbit by pursuing an essentially non-aligned foreign policy. Geor-

gia is in something that closely resembles limbo, as the western powers that once afforded it considerable attention have lost interest. As a whole, the region appears to be trending toward greater political instability and armed unrest.

At the same time, however, the war in Georgia showed that the South Caucasus is thoroughly integrated into the European security landscape. A raging war in the region inevitably lands in the EU's lap. Today, the main threat is the unresolved conflict between Armenia and Azerbaijan, which has been on an almost linear path of escalation since 2008. Along a cease-fire line that had seen only intermittent fighting, casualties remained in single digits throughout 2008-09 before entering double digits in 2010, passing 30 in 2012, 60 in 2014, and 80 in 2015, before going into triple digits in 2016. While the chief logic of the conflict remains local, it has become an instrument of pressure by foreign forces – primarily Russia but also Turkey and Iran – ensuring that the international politics of the conflict are no longer mainly or even primarily about the main protagonists. In this dangerous situation, the EU and U.S. have become less central to this geopolitical dynamic. Over time, western disengagement has meant a steady decrease in the West's ability to influence developments in the South Caucasus. Paradoxically, however, the risk of the South Caucasus's problems affecting the West has only increased.

In the longer term, the key question is whether the U.S. and EU are suffering from temporary weakness re-

sulting from the 2008 financial crisis, or whether the decline of their regional influence will continue. If the EU's internal problems and the disarray of U.S. policymaking continue, the trend may become difficult to reverse. On the other hand, if the EU manages to respond to the challenges confronting the European project and the U.S. succeeds in restoring its credibility among allies and enemies alike, the positive repercussions would be immediate in the South Caucasus. Importantly, the region continues to express considerable interest in closer ties with the West. While Georgia continues to work toward Euro-Atlantic integration, one of the few things Armenia and Azerbaijan have in common is their redoubled efforts to negotiate improved agreements with the EU. The big question mark is the posture of the United States. Regional elites, particularly in Azerbaijan and Georgia, have been cautiously optimistic about the Trump administration, anticipating that Republican officials will take a more traditional approach to regional affairs and work to restore American credibility. To a certain degree, this began to happen on a bureaucratic level during the first year of the Trump administration. The uncertainty at the top of the American government has provided little long-term reassurance, however. In many ways, the South Caucasus remains in limbo.

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EU GLOBAL STRATEGY, RESILIENCE OF THE EAST EUROPEAN SOCIETIES AND THE RUSSIAN CHALLENGE

Nona Mikhelidze[1]

Introduction

In June 2016, the European Union (EU) launched 'A Global Strategy for the European Union's Foreign and Security Policy: Shared Vision, Common Action: A Stronger Europe' (EU Global Strategy). It drafted a Review of the European Neighbourhood Policy a few months before, in November 2015.[2] Both documents pledge that 'principled pragmatism will guide' the EU's foreign and security policy in its neighborhood.[3]

Over the years, the EU's most effective geostrategic policy has been to support state-building processes in countries stuck in transition. In particular, that has included encouraging reforms in the political and economic spheres. In the framework of this policy, the EU's Eastern Partnership (EaP) has been relatively successful in Georgia, Moldova and Ukraine. The aim of the EaP was to

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[2] European Union External Action Service (2016) A Global Strategy for the European Union's Foreign and Security Policy: Shared vision, Common Action: A Stronger Europe (Brussels, European Commission), available at: https://eeas.europa.eu/top_stories/pdf/eugs_review_web.pdf.

[3] Ibid.

strengthen trade relations and enhance political dialogue – as well as develop legislative and regulatory mechanisms, good governance and democracy – with the final goal of signing Association Agreements (AA) and Deep and Comprehensive Free Trade Agreements (DCFTAs) between the EU and the partner countries. These final two objectives have been achieved, but much still remains to be done. Today, Georgia, Moldova and Ukraine are each in the process of implementing their respective AAs and DCFTAs with the EU; moreover, all of them have been granted visa-free travel to the EU's Schengen area.

However, the rapprochement between the EU and its Eastern neighbors, and the EU's democracy promotion efforts more generally, have brought geopolitical implications in their wake. In order to prevent EU expansion, Russia annexed Crimea and initiated the war in Eastern Ukraine. Indeed, the ongoing war in Ukraine and the Georgian-Russian war in 2008 highlight that when threatened with losing control over its 'near abroad', the Kremlin is more than willing to use military force to defend what it considers its vital interests.

The EU's pledge to conduct foreign and security policy according to 'principled pragmatism' is in part the fruit of the crisis Europe is witnessing in the neighborhood. In fact, both documents, the EU Global Strategy and the Review of the ENP, were published in the midst of Brexit, the wars in Syria and Ukraine, the refugee crisis and unrest in Turkey and the Middle East. In these turbulent times, the EU has realized that its policy to-

wards its neighbors has not really succeeded in fostering developed democracies, peace and prosperity in the surrounding regions. After years of engagement with the neighbors, the Union has acknowledged that only a few of them actually want to become European.[4]

Therefore, democracy promotion ambitions have been downgraded and the EU instead introduced a new concept – 'resilience', which refers to investing in the ability of the neighbors to reform and make their own sovereign choices.[5] Strengthening the social and economic resilience of the countries of Eastern Europe is of a geopolitical nature, however, as it makes the EU a geopolitical competitor of Russia in the shared neighborhood.

Bearing this context in mind, this paper addresses two main issues. It will analyze whether the concept of resilience truly marks a new EU approach towards the neighbors or if it is just a change of wording; whether, to stress 'pragmatism', the EU has simply dropped the term 'democracy promotion' (something that irritated Russia and fuelled conflicts in the post-Soviet space). Secondly, after unpacking the concept of resilience and gaining an understanding of its geopolitical dimension, the paper provides a brief overview of the value system promoted

[4] European Commission (2015) Review of the European Neighbourhood Policy, Joint Communication to the European Parliament, the Council, the European Economic and Social committee and the Committee of the Regions, European Commission, High Representative of the Union for Foreign Affairs and Security Policy, JOIN(2015) 50 Final, 18 November, Brussels, available at: https://eeas.europa.eu/enp/documents/2015/151118_joint-communication_review-of-the-enp_en.pdf.

[5] A Global Strategy for the European Union's Foreign and Security Policy: Shared vision, Common Action: A Stronger Europe.

by Russian President Vladimir Putin, helping to comprehend why, for the Kremlin, the EU is a normatively-unacceptable actor in the shared neighborhood.

Resilience of the Neighbors in Eastern Europe

In an interview with The International Spectator, EU Global Strategy author Nathalie Tocci asserted that the EU should 'observe the world … as it is, not as we would like to see it.'[6]

After more than a decade of EU engagement with partners in the Eastern neighborhood, the exercising of its normative power in Eastern Europe has become context-dependent and has led to varying results. The EU, as a democracy promoter in the region, has had some success in Georgia, Moldova and Ukraine but considerably less in Armenia and almost none in Azerbaijan and Belarus. Of these countries, only Georgia, Moldova and Ukraine have managed to sign AAs and DCFTAs with the EU; Armenia has decided to join the Russian-led Eurasian Economic Union (EEU) and Azerbaijan has remained firm in its policy of 'not choosing.' Moreover, Azerbaijan has distanced itself from Europe, as has Belarus. Unable to fill the security vacuum in the South Caucasus but still seeking to support state-building processes in Armenia and Azerbaijan, the EU seems to have developed a new regional approach: splitting the region in two, moving Georgia into

[6] 'Interview with Nathalie Tocci on the New European Union Global Strategy', The International Spectator, 51, 3, September 2016, available at: http://www.iai.it/sites/default/files/tocci.pdf.

the Eastern Europe group along with Moldova and Ukraine (i.e. a group of EaP countries which have already signed AAs and DCFTAs with the EU), while keeping Armenia and Azerbaijan in the block of South Caucasus countries.[7]

In order to abandon the ambition of being a model for democracy, the EU Global Strategy introduced a new concept called 'resilience' – the ability of the state and society to reform. 'It is in the interests of [European] citizens to invest in the resilience of states and societies to the east stretching into Central Asia, and south down to Central Africa. A resilient society featuring democracy, trust in institutions, and sustainable development lies at the heart of a resilient state,' declares the EU Global Strategy.[8] The goal has also been to downgrade the EU's ambition of being a democracy promoter in the post-Soviet space, thus avoiding confrontation with Russia.

In the EU's understanding, resilience should include all of society. This means EU initiatives to promote law-based governance will have to be bottom-up instead of only top-down, as they were before. Bottom-up initiatives are intended to enhance citizens' abilities to hold their governments accountable. In fostering the resilience of recipient states, the EU's policy instruments will be applied 'in a more coherent and flexible manner' (Dennison 2015). Societal resilience is to be strengthened by deepening relations within civil society, cultural organizations,

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[7] Author's interview with an EU diplomat within Direct Neighbourhood East, DG Near, European Commission, 5 December 2016.

[8] A Global Strategy for the European Union's Foreign and Security Policy: Shared vision, Common Action: A Stronger Europe.

religious communities, social partners and human rights defenders in efforts to hold their governments more accountable. The Union will thus support 'different paths to resilience, targeting the most acute cases of governmental, economic, societal and climate/energy fragility.'[9]

The Union admits that fragility beyond European borders threatens all its vital interests. By contrast, resilience – which is intended to augment the ability to withstand and recover from internal and external conflicts – benefits Europe and its neighbourhood. For the EU, a resilient state is a secure state, and security is key for prosperity and democracy.'[10]

However, as can be seen from the long list of the EU's preferred fields of engagement, there is no reference to security in terms of conflict resolution. Even if the EU acknowledges that internal and external security are interwoven and that Europeans indeed have an interest in peace in their neighborhood, the EU is only willing to promote human security and address the root causes of instability. Admittingly, the unresolved ethnic and geopolitical conflicts continue to pose primary threats to security and stability in the region, especially for those countries that have openly declared their European aspirations. However, from the EU's perspective, regional security issues should be addressed as part of the everyday process of governance (Bourbeau 2014). That is because the instabilities emerging in the neighborhood lie

[9] A Global Strategy for the European Union's Foreign and Security Policy: Shared vision, Common Action: A Stronger Europe.

[10] Ibid.

outside the security domain, instead having their roots in 'poverty, inequality, a perceived sense of injustice, corruption, weak economic and social development'.[11] For the EU, these are the factors which increase vulnerability and bring about radicalization.

In the EU's understanding, strengthening resilience is also an answer to those partners which wish to have closer relations with the Union. Therefore, the EU Global Strategy pledges to develop stronger relations – for example, with Georgia and Tunisia in the framework of the ENP – and to explore possibilities for creating an economic area with the countries implementing DCFTAs by extending their participation in the Trans-European Networks and the European Energy Community.

When looking at the EU projects carried out in Georgia, Moldova and Ukraine, one can easily understand that all the EU's democracy promotion initiatives and economic and social programs perfectly fit into the concept of strengthened resilience. Over the years, EU assistance to Georgia has focused on supporting justice, freedom and security as well as on the development of democracy and civil society, with a particular emphasis on human rights. The EU has also promoted projects devoted to the spheres of: economy, trade and public finance management; infrastructure, environment and rural development; education, health and social development. The same applies to Moldova, where the EU has been active in: enhancing democratic governance through improv-

[11] Review of the European Neigbourhood Policy.

ing electoral processes; supporting the modernization of central and local public administration, agriculture and rural development; boosting the capacity of civil society organizations, the business community and the media; and strengthening the judiciary and prosecution service as well as the police and the human rights ombudsman.

In Ukraine, more than 250 projects are currently being carried out in a wide range of sectors, regions and cities across the country. EU assistance focuses on: supporting democratic development and good governance; regulatory reform and administrative capacity building; infrastructure development; and nuclear safety. The aims of these projects are to: a) strengthen the Ukrainian authorities' capacity for policy formulation and decision-making processes for sustainable regional development; b) establish a national financial instrument for regional development; and c) assist the Ukrainian authorities in implementing its plan of activities for sustainable regional development. These wide-ranging initiatives target civil society organizations and individuals to develop their abilities to influence decision-making processes and ensure adherence to the rule of law.[12]

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[12] For further information, see: European Union External Action Service (2017) Delegation of the European Union to Georgia (Brussels, European Commission), available at: http://eeas.europa.eu/archives/delegations/georgia/index_en.htm; European Union External Action Service (2017) Delegation of the European Union to Moldova (Brussels, European Commission), available at: http://eeas.europa.eu/archives/delegations/moldova/index_en.htm; and European Union External Action Service (2017) Delegation of the European Union to Ukraine (Brussels, European Commission), available at: http://eeas.europa.eu/archives/delegations/ukraine/index_en.htm.

The EU continues to believe that its 'enduring power of attraction can spur transformation and is not aimed against any country'.[13] Another EU objective regarding strengthening the resilience of its neighbors is to enhance their abilities to make their own sovereign choices in the face of external pressures.[14] These sovereign choices should be made in the framework of a global order based on European and international law, which the EU pledges to respect and promote in all spheres of international politics. In this context, 'relations between the EU and Russia are premised upon full respect for international law and the principles underpinning the European security order, including the Helsinki Final Act and the Paris Charter ... [Official Brussels] will not recognize Russia's illegal annexation of Crimea nor accept the destabilisation of eastern Ukraine ... [Moreover, the EU will], enhance the resilience of [the] eastern neighbours, and uphold their right to determine freely their approach towards the EU'.[15] This is where the Russian challenge comes into play.

The Russian Challenge

It is well known that Vladimir Putin's Russia represents a very different set of values than those of the European Union, given that the Kremlin actively chal-

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[13] A Global Strategy for the European Union's Foreign and Security Policy: Shared vision, Common Action: A Stronger Europe.

[14] Review of the European Neighbourhood Policy.

[15] A Global Strategy for the European Union's Foreign and Security Policy: Shared vision, Common Action: A Stronger Europe.

lenges the EU's position in the post-Soviet space.

Indeed, Russia has always considered the EU a normative-civilizational competitor in the shared neighborhood. The European model of statehood challenges the Russian concept and undermines the Kremlin's power in the region. Moscow seeks to influence the post-Soviet states, preferring to be surrounded by weak political systems. However, it now finds itself in a new reality where some of its neighbors continue to go ahead with the process of democratic state building.

Over the years, President Putin has condemned popular revolutions around the world, especially in the post-Soviet space.[16] He has criticized the so-called 'Color Revolutions' in Georgia, Kyrgyzstan and Ukraine as well as the 'Arab Spring' in the Middle East. The Ukrainian events in Maidan in late 2013 and early 2014, where popular demonstrations brought about a change of government in Kyiv, was seen by Putin as a coup, an unconstitutional means of toppling the government. Moreover, according to Putin, all of these revolutions have been supported by Western actors, mainly the US and EU,[17] with Western actions usually labelled as 'humanitarian' interventions.[18] The Color Revolutions in the post-Soviet

[16] 'Meeting of the Valdai International Discussion Club', Kremlin.ru, 22 October 2015, available at: http://en.kremlin.ru/events/president/news/50548.

[17] 'Interview to American TV channel CBS and PBS', Kremlin.ru, 29 September 2015, available at: http://en.kremlin.ru/events/president/news/50380.

[18] 'Annual address to the Federal Assembly of the Russian Federation', Kremlin.ru, 8 July 2000, available at: http://en.kremlin.ru/events/president/transcripts/21480.

space have been interpreted as the West meddling in Russia's sphere of influence with the aim of establishing pro-western political regimes and, eventually, bring about a regime change in Russia as well.[19]

Thus, Putin's reactions to the Color Revolutions in the post-Soviet space have not been dictated only by geopolitical logic, but also by normative considerations. The Kremlin has perceived all of these changes of government as invoked by the promotion of Western values, values that could ultimately target Russia. This same logic explains why protesters in Moscow in 2012 were branded as internal enemies, foreign agents and national traitors, while terms such as 'liberal' and 'opposition' have become more controversial (Trenin 2014). In 2015, Putin claimed that 'Western special services have not given up their attempts to use non-government groups to discredit Russian authorities and destabilize the internal situation in Russia, and they are already planning actions for the period of the forthcoming elections in 2018'.[20]

Just as unacceptable to Russia is the EU's sustained policy to finance the third sector in the neighborhood, as President Putin has always had his own understanding of the role of civil society vis-à-vis the state. Speaking about the third sector, Vladimir Putin claimed that it was not always easy to 'combine patriotic responsibility for

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[19] 'Vladimir Putin answered journalists' questions on the situation in Ukraine', Kremlin.ru, 4 March 2014, available at: http://en.kremlin.ru/events/president/news/20366.

[20] 'Federal Security Service board meeting', Kremlin.ru, 26 March 2015, available at: http://en.kremlin.ru/events/president/news/49006.

the destiny of [Russia] with … civil liberties, [rather, work was needed for civil society to] become a full partner of the state'.[21] Promoting his own understanding of democracy, Putin declared that democracy is the political choice for Russia; however, Russian democracy has its own traditions of self-rule and is not the embodiment of standards imposed on Russia from abroad.[22]

This discourse has involved not only issues strictly linked to democratic development, but also to other aspects of the state-building process. To offer an example, according to Russian Foreign Minister Sergei Lavrov, when it comes to the modernization of a country, it is not necessary to give up Russia's 'cultural code.' Instead, Russia could offer a model of modernization based on its traditional values. This Russian model of development – as one among many – challenges the diffused narrative of the Western model as the universal frame of development. National economist Vladimir Yakunin, the former head of Russian Railways and a long-time friend of Putin, claimed that the 'fundamental reference point' for Russia's economic ideology is national security. He condemned liberalism as the enemy of Russia's 'nationally-minded' economy and argued that 'the economic success of the Russian economy should be measured against its ability to ensure Russia's national interests, not against the false benchmarks of economic liberalism' (Saari 2015).

[21] 'Annual address to the Federal Assembly of the Russian Federation'.

[22] 'Address to the Federal Assembly', Kremlin.ru, 12 December 2012, available at: http://en.kremlin.ru/events/president/news/17118.

The global security order promoted by the EU, which puts a special emphasis on liberal democracy, has become similarly unacceptable for the Kremlin (Makarychev 2015). Unsatisfied with the global security order that emerged soon after the collapse of the Soviet Union, Putin argued at the 2014 meeting of the Valdai International Discussion Club that because the post-war world order had been created so long ago, some revisions and redefinitions had become necessary. According to Putin's speech, this situation had also come about because the Cold War ended without a signed peace treaty or agreement establishing new rules and standards of action for international relations. In light of these circumstances, some major players tried to act unilaterally and to occasionally impose their own 'universal recipes' on others, he stated. Consequently, Putin's notion of national sovereignty had been compromised. Sovereign states had begun to act according to the following formula: 'the greater the loyalty towards the world's sole power center, the greater this or that ruling regime's legitimacy'.[23] President Putin stated further that, 'a unilateral diktat and imposing one's own models produces the opposite result'; instead of conflict resolution, the world had witnessed military escalations across various regions or 'on the border of cultural, historical and civilizational continents'.[24] Ukraine was one of Putin's cited cases affecting

[23] 'Meeting of the Valdai International Discussion Club', Kremlin.ru , 24 Octover 2014, available at: http://en.kremlin.ru/events/president/news/46860.

[24] 'Meeting of the Valdai International Discussion Club', 24 October 2014.

the international balance of power.[25]

According to Putin, the Ukraine crisis is indeed a result of the irresponsible actions of Western actors' who consider themselves the 'winners' of the Cold War and have attempted to impose their will around the world; actions that have, in practice, been translated into NATO enlargement and the EU's EaP program. These initiatives forced the post-Soviet countries to make a choice between Russia and Europe. Moscow views the coup d'état in Kiev as the culmination of this policy orchestrated by the West.[26] More generally, the Kremlin considers the Color Revolutions, NATO expansion and EU expansion through AAs and DCFTAs as actions against Russia, and particularly against Eurasian integration.

Conclusions

The EaP, the new ENP and the EU Global Strategy all aim at transforming Georgia, Moldova and Ukraine from failed states into stable and functioning democracies. Therefore, the EU is eager to further develop bilateral relations with these partners. Its objective to strengthen societal resilience in these countries will further contribute to the process.

However, reform towards democracy, market economy and higher living standards promoted in the region by the EU through strengthening societal resilience will

[25] Ibid.

[26] 'Interview to Al-Ahram daily', Kremlin.ru, 9 February 2015, available at: http://en.kremlin.ru/events/president/news/47643.

inevitably acquire a geopolitical dimension, as they will produce a decisive break with Russia and Soviet-style governance (Band 2015). Russia's president already considers post-Euro-Maidan Ukraine – and especially the country's democratic path towards the West – a direct threat to his system of governance, which he equates with Russian national security. In his logic, the EU-assisted reforms in the region directly threaten the Kremlin's interests in what it considers a special Russian sphere of interest, making a geopolitical clash between the EU and Russia almost inevitable (unless democratic changes occur inside Russia). Like Putin, the majority of Russia's political and intellectual elite believes that Russia cannot achieve internal political stabilization without exerting special influence in the post-Soviet space.

The EU's choice to put emphasis on resilience rather than democracy promotion has ultimately been determined by the perception that exporting Western values brings about revolution (and, consequently, instability), furthermore irritating Russia. However, the change of wording from 'democracy promotion' to 'strengthen resilience' will inevitably not solve the problems with Russia, as the difference between these two concepts is in form rather than in substance. Therefore, the EU's policy of strengthening the resilience of the post-Soviet space would, logically, be just as irritating to Russia as is the promotion of Western values. A resilient society is more capable of standing up for its sovereign rights, something which would weaken Russian influence in the

neighborhood.

Having said that, the recommendation to Brussels is not to reduce the scope and level of its engagement with Eastern partners to assist the state-building process. On the contrary, the EU has no choice but to live up to its values. Moreover, the decision of these post-Soviet societies to develop law-based systems of governance has made them natural partners and allies of the EU. Russia, quite frankly, does not represent a model of development for these countries, which is why they are looking westwards (those who still remain in the Russian orbit, i.e., Armenia, are forced to do so out of security concerns related to the unresolved Nagorno-Karabakh conflict). Deeper ties with the EU means better governance and developed democracy at home, whereas enhancing relations with Moscow implies maintaining a weak political system. Consequently, Brussels should be constantly ready for an action-reaction cycle with the Kremlin towards the Eastern neighborhood. The military escalations in Georgia in 2008 and in Ukraine in 2014 took the EU by surprise. They should not have, but somehow Europe underestimated itself, failing to understand that its soft power actually did have a geopolitical dimension. The concept of strengthening social and economic resilience in the neighborhood is indeed a geopolitical idea (as was 'democracy promotion') challenging Russia's position in the shared neighborhood.

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CONCLUSION

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Over the past decade, the regional geopolitics, geoeconomics, and security of the South Caucasus have undergone a significant transformation. The region ultimately is part of the geopolitical expanse where regional powers such as Russia, Turkey and Iran have critical economic and political interests. In addition, the region is a space where such international players as the U.S. and the EU are also engaged in the exercise of their influence and normative policy. The Baku–Tbilisi–Ceyhan and Baku–Supsa oil pipelines and Baku–Tbilisi–Erzurum gas pipeline, as well as construction of the Anaklia Deep Sea Port on the Black Sea, have also amplified the importance of the region as a major East–West transport corridor. Moreover, on October 30, 2017 Azerbaijan, Georgia, and Turkey have launched a rail link connecting the three countries, establishing a freight and passenger link between Europe and China that bypasses Russia and Armenia. The Baku-Tbilisi-Kars (BTK) rail link will have the initial capacity to transport one million passengers and five million tons of freight a year. The project would create a much shorter and faster rail corridor between Europe and Asia than the current one through Russia, making Georgia and Azerbaijan the key hubs for the Eur-

asian transport network. In a statement[1], the European Union called the opening of the rail link “a major step in transport interconnections linking the European Union, Turkey, Georgia, Azerbaijan, and Central Asia.”

Echoing ongoing changes, Svante Cornell argues in his chapter that in the 2000s there was a relative stable regional environment that gave hope for economic development, democratic transformation, resolution of the conflicts, and even integration into Euro-Atlantic institutions. By contrast, today we observe a volatile security and geopolitical situation in the wider region where authoritarian countries like Russia, Turkey, Iran, and, in the economic field, China, play major roles. With Donald Trump having become U.S. president, the fear of a U.S. withdrawal from the region has increased, while the EU is still occupied with its internal institutional, financial, and legitimacy crisis. In the South Caucasus, which has failed as a region, we observe all three countries drifting in different directions.

Due to its lack of choices, Armenia has integrated into the Russian orbit while joining the Eurasian Economic Union and integrating its security forces with the dominant patron. Azerbaijan, frustrated with the waning prospect of a Western strategic presence in the region and having Russia and, increasingly, Turkey as authoritarian role models in the region, feels pressed by

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[1] European Union External Action Service (2017) ‘EU Statement on opening of the Baku-Tbilisi-Kars railway’, European Commission, 30 October, Brussels, available at: https://eeas.europa.eu/delegations/azerbaijan/34825/eu-statement-opening-baku-tbilisi-kars-railway_en.

Moscow´s military and energy power to reconsider its non-alignment foreign policy. Georgia, as the frontrunner in reform in the context of the Eastern Partnership, is increasingly frustrated with the lack of membership perspectives to the EU and NATO and the loss of interest in the region by its Western allies. Besides the unresolved conflicts and the growing security threats in the wider region, it is the internal crisis of the Western liberal democracies that challenges the compass of the South Caucasian states. The regional societies asked themselves increasingly whether there really is a European alternative to their post-Soviet reality of corruption, vested interest, and lack of economic modernization. Therefore, Svante Cornell argues, the trend for the region appears to be “greater political instability and armed unrest.”

The EU and the U.S. have become less central to the dynamics in the region compared to regional powers Russia, Turkey, and Iran. Cornell describes the following paradox: While Western disengagement has meant a steady decrease in the EU’s and U.S.’s ability to influence developments in the South Caucasus, the risks of the region’s problems affecting them (particularly the EU) have only increased. The EU’s inward-looking policy and the lack of instruments and power to solve conflicts in its Southern and Eastern neighborhood have direct impacts on migration, terrorism, trafficking, and security in the EU. Nona Mikhelidze argues, with its policy of shaping transformation as well as strengthening social and economic resilience in its Eastern neighborhood, the EU has

challenged Russia's position in the shared neighborhood and has provoked (in line with NATO's activities in the region) Russia's reactions in Georgia in 2008 and Ukraine in 2014.

As Laure Delcour and Hrant Kostanyan argue, the rise of Euroscepticism has created a climate of uncertainty about the future of the EU, a climate that undermines the EU's engagement and credibility in the South Caucasus. This trend makes the mismatch even more visible between the EU's offer and the EaP countries' needs. The EU's limited role in managing and resolving the protracted conflicts, limited financial engagement, and the lack of a membership perspective weakens the EU's offer and ability to influence transformation in the region. This is more striking against the background of growing Russian pressure in using the conflicts in Abkhazia, South Ossetia, and Nagorno-Karabakh to challenge the security situation of all three states. As Delcour and Kostanyan argue, while the EaP focuses on the long-term perspective of the EaP countries, it does not well suit to mitigate the South Caucasian countries' short-term vulnerabilities to Russian aggression.

The EU's faltering approach toward the South Caucasus can be exemplary studied in its energy policy and also shows the interdependence of both. For Brenda Shaffer, the EU's future decisions on its energy policy affect the next stages of its relations with the South Caucasus. If natural gas will play an important role in the EU's energy mix, the development of the Southern Gas

Corridor will deepen energy trade and mutual investment with the wider South Caucasian-Caspian region. But the EU's contradictory signals and policy unsettles investors and regional governments. The failure of the Nabucco project was also a consequence of the lack of political will and the contradictory economic interests of the EU member states. For Shaffer, the EU's goal of establishing a liberalized energy marked conflicts with its interest to secure the security of supply, which is in her view better promoted by government involvement. At the same time, she argues, ensuring security of supply can involve blocking ownership of energy infrastructure by foreign players attempting to achieve geopolitical goals. But such a policy would contradict the EU's goal of promoting free market principles. The EU needs to form a clear policy on the desired role of natural gas in its energy mix in order to make long-term investments possible.

This is most striking for Azerbaijan, the main energy producer in the region with a strong interest in exporting gas to the EU. For Anar Valiyev, Azerbaijan's future lies in greater cooperation with the EU. But for now, the costs for deeper integration with the EU are too great for the elites. Simultaneously, Moscow already puts pressure on Baku, in an environment of low energy prices and shrinking budgets, to join the Eurasian Economic Union (EEU). For Azerbaijan, the Belt and Road Initiative (BRI) connecting China with Europe is of interest, as is a north-south transport corridor with Russia and Iran. But all these promising economic and infrastruc-

ture projects are challenged by the country's security situation regarding the Nagorno-Karabakh conflict: the constant growth in military escalation has been evident in recent years. In Valiyev's argumentation, the Russian decision to establish joint military forces with Armenia and supply the country with Iskander missiles have taken regional tensions to another level and increased the militarization of the region. It provoked the Azerbaijani government to invest far more in military equipment, most of it purchased from Russia. But here as well, U.S. disengagement, the EU's occupation with internal issues, and Russia's rapprochement with Turkey and Iran leads Moscow closer to its goal of bringing the region "under its heel", argues Valiyev. As a consequence, Baku is slowly losing leverage vis-à-vis Russia as no other major power is seriously engaged in the region to counterbalance Moscow. While Turkey always has been a role model for Azerbaijan's elites, the deterioration of Turkish-EU relations impacts Azerbaijan's relations with the EU.

Also for Armenia, the Nagorno-Karabakh conflict is the fundamental determinant of its future regional geopolitical and geo-economic landscape. As Richard Giragosian argues, the lack of Western engagement in the conflict offers opportunities for the Russian leadership first and foremost: It gives Moscow the possibility for unilateral Russia-led diplomatic initiatives and power games. Given the collapse of the ceasefire agreement, the Karabakh conflict may become even more an instrument of the Kremlin to enhance power and influence, for instance

through the idea of deploying Russian "peacekeeping troops." Armenia's overdependence on Russia can only be limited a comprehensive partnership and cooperation agreement with the EU and deepening ties with China, as Giragosian argues. China is now the second-largest trading partner of Armenia and has also started to involve Armenia in its BRI. Ironically, with its membership in the EEU, Armenia can offer dual access between the BRI and the other EEU member states. For Giragosian, Armenia can become a bridge to much larger markets as well as Russian transportation networks. The EU is also important in these new patterns of connectivity and trade but it is much less central than it was in the past.

Georgia, the regional country with the strongest European aspirations, is increasingly frustrated by the lack of a membership perspective to the Euro-Atlantic institutions. Turkey's alienation from the EU makes it even more difficult for Georgia to integrate with the EU as a geographical continuation. Therefore, Kakha Gogolashvili argues for a EaP+3 format, with closer cooperation between Georgia, Moldova, and Ukraine to promote their respective EU membership. A European Economic Area-plus or a Neighborhood Economic Community with the EU would, in the eyes of Gogolashvili, contribute to the establishment of a Georgia-Moldova-Ukraine sub-regional group of states aiming for EU-membership. The main activity of the Georgian government should be new formats of multilateral cooperation and integration with these two Black Sea states. This concept would challenge

the South Caucasus as a geographic region by focusing on political integration and cooperation of Georgia with two states in the region. This approach can be similar to that of the four Visegrad states as a preparation club for EU membership prior to 2004.

In analyzing Russia's role in the post-Soviet region, Andrey Makarychev and Alexandra Yatsyk identify three distinctive roles: First, that of a non-cooperative hegemon, like in the cases of Abkhazia and South Ossetia, where Russia recognized the regions' sovereignty and gradually integrated them into its administrative and territorial structures. Second, an instrumentally cooperative hegemon, which is exemplified by its role in the OSCE Minsk group on Nagorno-Karabakh and in the case of the Meseberg memorandum on Transnistria, where the Kremlin did not make compromises or changes to its non-cooperative approach but presented the image of a responsible player through leading or participation in negotiations. Third, there are cases of cooperative hegemony, like where Russian leadership negotiated in 2004 between outgoing president Eduard Shevardnadze and incoming president Mikheil Saakashvili. Against the background of the growing conflict between Russia and the EU, the two authors argue, the South Caucasus can still be a testing ground in the search for compromises and adjustments between Russia and the EU. While this policy has failed in Georgia and is not on the table in the case of Azerbaijan, the only country which has no interest in integrating either into the EEU nor EU, for Ar-

menia it may offer a way forward. Yerevan has become a member of the EEU but also negotiated successfully a comprehensive and enhanced partnership agreement with the EU in February 2017.

Contrary to this argument, Licinia Simao argues that the deterioration of relations between Russia and the EU have made progress in conflict settlement more difficult. Russia is using the conflicts in the South Caucasus and in other post-Soviet countries to prevent those countries from integrating with the EU and NATO. The EU and U.S. have often accepted Russia as the main negotiator in these conflicts; however, Moscow's main goal is not settlement of the conflicts but their continuation. A typical method deployed by Russia in previous centuries is referred to as "protracted conflict." According to Simao, while we observe U.S. and, to some degree, EU disengagement from conflict settlement, Russia, Turkey, and Iran have become active challengers of the Western liberal order and are more actively engaged in conflict management in the Caucasus and the Middle East. The growing authoritarianism in Turkish policy reduces the EaP's possibility to rely on Turkey as a supporter and promoter of EU regional influence in the neighborhood. While Turkey is still important for the EU's energy security and conflict management policy, Russia remains the main challenger to the EU's economic and political goals in the Eastern neighborhood.

Russia increasingly challenges the sovereignty, independence, and territorial integrity of the South Cau-

casus states. The lack of EU (and U.S.) response to this policy raises concerns in the three states in the ability and will of Western institutions and states to reassure the security of smaller states in its neighborhood. Against the background of these trends and difficulties, Delcour and Kostanyan argue that despite structural and contextual weaknesses, the EU still remains attractive to the countries of the region, particularly Georgia and Armenia. Brussels is the main provider of aid to both countries. For Azerbaijan, the EU is still a key factor in energy cooperation as the main destination of energy exports. For all three countries, argue the two authors, the EU is an attractive counterbalance to a deeply-distrusted Russia.

In spite of instability and the crucial geopolitical and geoeconomic role of the South Caucasus to the EU, none of the authors expect that the EU will make a strategic shift toward the wider South Caucasus, Caspian, and Black Sea region. The key question to be answered in coming years is whether the EU and the US are suffering only from temporary weakness as a result of the 2008 financial crisis and are able to adapt to globalization and digitalization, or whether the decline of their regional influence will continue further. If the EU manages to reinvent the European project, opening a place for the South Caucasus states in Europe, and the U.S. and is able to restore its credibility, this would have direct and positive impacts on the South Caucasus, says Svante Cornell. The alternative would be a South Caucasus in limbo in an in-

creasingly fragmented and volatile environment. Neither Russia nor Turkey offer solutions for the South Caucasus to its economic, political, social, and security challenges. To the contrary, the Russian leadership exploits the internal and external fragility of all three countries to sustain its role as the regional hegemon. This will lead to increasing contestation strategies by the regional elites of the small states, for which external players will be crucial. It will be, on the one hand Turkey, Iran, or China, or on the other hand the EU and partly the U.S., which will serve as the major role models. The chessboard is in a period of reshuffling. The EU member states hold that chessboard in their own hands if they choose to remain crucial players in the game.

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