2. EU Energy Security Policies and Azerbaijan

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Introduction

One of the most important features that characterized and accompanied the advent of the post-bipolar system was the progressive loss of meaning of the concept of “security”, as it was conceived in the Cold War period. In the post-bipolar system, threats to the actors of the international community – be they states, individuals or groups of individuals – indeed seem to no longer come primarily from the military sphere, at least not in the classic conception of the risk of armed conflict between sovereign states. Therefore, since the early years following the end of the Cold War, reinterpretation of the concept of security has become a central feature in the strategic studies literature. Against this background, in parallel the traditional “strategic” connotation of the concept of security has gone from an interpretation now encompassing “enlarged” which includes the new threats of economic, environmental and Social Committee. A new and “enlarged” conception of security – encompassing threats of an economic, environmental and social nature – has emerged alongside the traditional “strategic” connotation of security. Very different in their contents, the two conceptions of security also vary in relation to the mechanisms of protection from the threats – which change in form, depth of action and interlocutors. Indeed, the need to defend against threats of an economic, environmental and social nature entails more technical tools, carried out to an increasing ex-

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tent at the local and regional level and, more often than not, in relation to non-state actors.\(^2\)

Since the beginning of the ’90, the debate on the enlargement of the security concept has involved all key international organizations and intergovernmental cooperation mechanisms, each of which, within the perspective of adaptation to the new realities of the international system, gave different responses, creating new mechanisms for cooperation or, rather, adapting the existing ones. Within the European Union, debate and regulatory action aimed at adaptation to new threats to the security of Member States and their citizens, gradually focused on economic security and, in particular, on the closely related energy security, here understood to be «a condition in which a nation and all, or most of its citizens and business have access to sufficient energy resources at reasonable prices for the foreseeable future free from serious risk of major disruption of service»\(^3\).

If, therefore, the concept of energy security revolves around the need for an adequate supply of resources at reasonable prices, different factors come into play in determining what is concretely meant by energy security and how to effectively pursue a strategy aimed at its protection. First of all, as Stern suggests\(^4\), we must distinguish between the need to ensure the availability of “short-term supply” – which takes into account technical and contingent issues – and the goal of ensuring “long-term supply”. Under the latter perspective – taken up in this study, strategic factors of a political and infrastructural nature come into play, which pertain in the first instance to relations between the EU and energy producing and supplying states.

A further distinction concerns the nature of the policies aimed at safeguarding energy security. Indeed, security measures may be alternately placed in relation to energy demand, or rather to its supply.\(^5\) Acting on energy demand entails technical protection mechanisms primarily linked to the rationalization and regulation of the internal energy market which, alone, seem insufficient to eliminate the risks associated with over-dependence on energy imports – the main threat to energy security. This essay will hence focus on the protection mechanisms acting on the supply side that is the “external” dimension of energy security policies, which call into question the need for the Union to deal with third-party countries to ensure access to resources and their tran-

\(^{5}\) S. Haghighi, Energy Security..., cit., p. 16.
sport. A corollary of this approach is, therefore, a special emphasis on the political – rather than economic – nature of energy security policies.

Based on the reconstruction of the process that led to the formulation of the concept of European energy security – in its long-term and external dimensions – the aim of this paper is to analyze the role that the Caspian basin in general, and Azerbaijan in particular, came to play in such a construction in the increasingly urgent perspective of diversifying EU energy suppliers and supply routes.

2.1. EU Energy Vulnerabilities: Rising Demand, Declining Production, Concentration of Suppliers

The European Union is the world’s third largest energy consumer after China and the United States. Although the post-2008 economic downturn has had a negative impact on primary energy demand, the EU Member States’ need for energy is estimated to grow at an average annual rate of 0.2 per cent until 2035, reaching the equivalent of 1,731 million tonnes of oil. Along with the growth in demand, the decline in domestic production will result in a deepening of dependency on fossil fuel imports. The increasing dependency on imports is particularly evident in the case of natural gas, for which demand is set to grow proportionally more than demand for other primary sources. Indeed, while oil demand will slowly decline over the above-mentioned timeframe, the steadier decline in coal and nuclear consumption – prompted by EU environmental and energy-efficiency concerns and regulations – will be compensated primarily by the increasing use of natural gas and renewable energy sources.

With a projected 30 per cent share of the energy mix, by 2035 natural gas is set to become the first primary energy source consumed in EU Member States. Between 2010 and 2035 annual gas consumption will rise from 547 to 594 billion cubic meters (bcm). In the same timeframe, however, domestic gas production is expected to fall from 201 to 84 bcm/y, increasing the rate of EU dependency on imports from the current 63 per cent to 86 per cent. Only the development of EU indigenous unconventional gas deposits might partially reduce the growth in imports, potentially reducing the rate of dependency on imports to 74 per cent. Anyhow, under both scenarios the EU will need a sub-

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6 In this, the study follows the approach of Luciani, who emphasizes the central role that diplomacy has played in the past – and will continue to play in the future – in ensuring security of energy supply for international actors. G. Luciani, Security of Supply for Natural Gas Markets: What is it and what is it not, INDES Working Paper No. 2, 2004, p. 6. As for the internal and economic perspective of analysis on European energy security, C. Egenhofer and T. Law, Security of Energy Supply: A Question for Policy or the Market, Brussels, Centre for European Policy Studies, 2002.


8 EU demand for oil will decrease between 2010 and 2035 from 11.9 to 9.3 million barrels per day. Ibidem, p. 107.
stantial increase in gas import volumes, ranging from 134 to 164 bcm compared with the 2010 level\(^9\). A different trend is foreseen in the EU oil sector. Here, notwithstanding the decline in indigenous production, after 2020 the contraction in EU oil demand is set to reduce imports from 9.8 million barrels per day (mb/d) to 8.8 mb/d in 2035\(^{10}\).

**Figure 2.1. EU energy mix (2009 and 2035)**

Dependency on external suppliers of fossil fuels does not in itself pose a threat to energy security, at least not as long as the consumer party has access to a sufficiently stable and diversified supply network. This is not, however,

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the case for the European Union, whose import network seems to be neither diversified nor stable enough, threatening to turn its energy dependence into a source of vulnerability. Indeed, 58 per cent and 76 per cent of the EU oil and gas supply respectively is provided by just three major producers, and – as perfectly shown by the Arab Spring – the producing areas are plagued by cyclic instability, thus threatening the stability of supply.

**Figure 2.2. EU oil and gas imports (2010)**

![EU oil and gas imports (2010)](image)
The relationship between import dependency and energy insecurity is especially true with regard to gas, due to the peculiarities of its market and against the backdrop of the growing “strategicity” of EU gas use. Unlike the oil market, which is global and includes many operators and producers competing with each other, the natural gas market is fragmented on a regional scale and with less competition, both on the demand and the supply side. Behind this difference lies primarily infrastructural data. Unlike oil, which can be transported by rail or by sea, gas necessitates piping and has a transport process that is “rigid” by definition. This means that – unlike oil and despite the growth of the gas spot market and European continental trading hubs – gas exchanges are largely based on bilateral contracts that bind buyers and sellers in the long term (usually 20-25 years) and are generally accompanied by take-or-pay clauses. Furthermore, a similar trend also occurs in the case of trade in LNG, a potentially more flexible source which producers prefer to manage through long-term contracts, similar to those utilized for pipelines. Thus, if an interruption of supply from an oil producer can be replaced through the international markets – as demonstrated by the recent Libyan crisis – in the case of gas such substitutability does not exist. The rigidity of the gas market hence obliges consumer countries to apply a more forward-looking strategic policy for planning and investment, with a view to securing a sufficiently stable and diversified supply network. In addition, such strategic planning is not confined to the economic sphere. Tying together producers and consumers over the long-term, the gas market normally requires a wider entente between the two sides, which entails a higher degree of political entente and consequently a greater role for policy makers and so-called energy diplomacy. This consideration is all the more urgent since the distance between gas producing and marketing areas often requires the involvement of transit states.

From the EU perspective, the rigidity of the gas market has another relevant implication related to its Member States’ different degrees of dependency on imports and their different degrees of diversification. Indeed, due to both geographical and historical reasons the Central and Eastern European Member States rely heavily on gas imports from the Russian energy champion

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11 The increasing strategic role of gas use in the EU is primarily linked to its growing share of power generation. According to the latest Eurogas data, the share of gas in electricity production increased from 8.5% in 1990 to 23.1% in 2009, contrary to the other traditional energy sources whose share declined in the same timeframe (coal from 39% to 25.3%, nuclear from 30.5% to 27.5%, oil from 8.5% to 2.9%). Moreover, due to the foreseeable reduction in nuclear energy use and to EU policies aimed at decarbonisation in power generation – in line with the European Union Emissions Trading System – the share of gas will steadily rise in the mid and long term periods. Eurogas, *Gross electricity production by fuel, EU-27*, web database, http://epp.eurostat.ec.europa.eu/portal/page/portal/energy/data/database; As for the “key role” of gas in EU energy policies, see European Commission, *Energy roadmap 2050*, Publications Office of the European Union, Luxembourg, 2012, p. 12.
Gazprom\(^{12}\), which they perceive as an unreliable supplier – if not a threat\(^{13}\) – due to its closeness to the Kremlin and its role in Russian foreign policy planning. Such a perception has been reinforced in recent years by the aggressive energy policy Moscow has implemented vis-à-vis energy transit states such as Belarus and Ukraine, which has resulted in the cutoff of gas deliveries and hence in disruption of supply to those Central and Western European states whose supply network transits through their territory. The “gas-crisis” – the worst of which occurred in 2006 and 2009 – contributed to highlighting two dangerous sources of vulnerability for EU energy security. First and foremost, the crisis openly showed the risks arising from excessive dependence on a single supplier, Russia, for a vital energy resource such as gas. Moreover, by deepening suspicions about Russia’s reliability as a fair energy supplier\(^{14}\), the crisis showed that discrepancies in dependence on gas imports in general and Russian supplies in particular generate a deep gap in perceptions among EU Member States, which threatens to undermine the very foundation of European integration itself that is intra-EU solidarity.

Hence, the growing share of gas in the EU energy mix, the rigidity of its market, higher concentration of suppliers, and instability of the external producing areas, as well as the alleged political use of energy leverage, give gas high strategic stakes, making diversification of suppliers and supply routes an absolute priority with a view to safeguarding the Union’s energy security.

### 2.2. The Evolution of the EU Energy Security Concept

Notwithstanding the central role played by energy cooperation in the foundation of the European integration process – historically seen as a tool for ensuring peace in the continent and raising the living standards of its citizens – the EU is largely unprepared to face twenty-first century energy security challenges. First and foremost, the lack of a common energy policy was the result of the reluctance of its Member States to devolve sovereign prerogatives in a

\(^{12}\) Although the following data have to be weighted with the relative quotas enjoyed by natural gas in each country’s energy mix, in 2011 supplies from Russia accounted for 100% of gas imports in the Baltic Republics, Bulgaria, Romania and Slovakia, 85.7% in Poland, 84.5% in Hungary and 78.7% of Greece’s gas imports. Bp, *BP Statistical Review of World Energy*, June 2012, web edition, www.bp.com/statisticalreview.


\(^{14}\) It is worth noting that the perception of Russia exploiting its supplier position as a political tool is also shared by EU institutions. Referring to the gas crisis, the Economic and Social Committee stressed the “realization [they stirred up] that Europe’s energy dependency was not only of huge economic significance, but above all, that the supply of energy could readily be used as a weapon for exerting political pressure”. Opinion of the European Economic and Social Committee on “Energy supply: what kind of neighbourhood policy do we need to ensure security of supply for the EU”, «Official Journal of the European Union», C132, 3 May 2011, p. 15.
sphere, such as energy, traditionally considered to have high strategic value\textsuperscript{15}. Hence, despite energy dependence being already recognized as a threat to the fundamental objectives of the Community\textsuperscript{16}, EU legislation kept focusing its energy policy on the creation of an efficient internal market, on the assumption that this would have helped to eradicate the problem of external dependence\textsuperscript{17}.

Following the silence of the Treaties of Maastricht (1993), Amsterdam (1997) and Nice (2000) on means to ensure adequate levels of energy supply, the principles of energy security protection from the outside and through common action have emerged gradually, thanks to the proactive role played by the European Commission (EC) and since the November 2000 publication of the Green Paper Towards a European strategy for the security of energy supply\textsuperscript{18}. Here for the first time, the EC placed emphasis on the Union’s structural weaknesses, envisaging the need to adopt an active energy policy capable of freeing the Union from its increasing energy dependency. Moreover, moving toward a different understanding of energy security policies, the Green Book put forward the need to conceive energy policy from an angle other than that of the internal market, harmonization, environment or taxation, questioning the efficacy of a purely economic approach to the problem of external dependence and wondering if a "geopolitical" approach was not preferable for tackling it\textsuperscript{19}.

Included in the 2003 EU Security Strategy as one of the global challenges of special concern for Europe\textsuperscript{20}, the energy security issue quickly rose to the top of the EU policymakers’ agenda mainly due to the first gas supply disruptions caused by the allegedly politically-motivated crisis between Russia

\textsuperscript{15} The EU Member States’ position reflects the wider debate, among economists, on the most appropriate means to ensure the efficiency of the energy market. On the one hand is the position of those who maintain the need to provide the Union with the necessary regulatory tools to pursue a coherent energy strategy – a position based on the consideration of the states’ growing interdependence and on the impact of policy choices of one of them on the others. On the other hand lies the vision of those who advocate a priority role of the states, which by knowing the dynamics of their markets better, can more effectively ensure their own energy security needs. This debate occurs in the broader context of the dichotomy between supporters of a liberal approach to the European energy issue – based on confidence in the self-regulation capability of the markets – and supporters of decisive intervention by the EU institutions. Driven by geostrategic rather than economic considerations, the latter view is aimed on the one hand at countering the policies of the EU’s competitors and on the other hand at bridling energy companies’ freedom of action, which may prove to be counterproductive to the interests of the Union. As for the “liberal” view, see C. Egenhofer and T. Legge, Security of Energy Supply, cit.; as for the “geostrategic” view, A. Correlje and C. Van der Linde, Energy supply security and geopolitics: A European perspective, «Energy Policy», Vol. 34, 2006, pp. 532-543.


\textsuperscript{17} S. Haghighi, Energy Security..., cit., p. 63. For a panorama of the “internal” projection of EU energy policy and the lack of its connection with “external” measures, see ibidem, pp. 103-186.

\textsuperscript{18} Commission of the European Communities, Towards a European strategy for the security of energy supply, COM(2000) 769 final, 29 November 2000.

\textsuperscript{19} Ibidem, pp. 4 and 13.

and the Eastern European transit states. Moreover, adding urgency to the need to tackle the energy security issue, the 2004 enlargement – as would be the case for the 2007 one – deepened EU energy dependency in general and gas dependency on Russia in particular, against the backdrop of steadily increasing hydrocarbon prices. Energy cooperation hence also came to be regarded as a tool for engaging external partners with a view to pursuing the creation of an arch of stability made up of a “ring of friends” beyond the EU’s borders.

A steppingstone for EU energy security new thinking as well as for the attempt to develop a common European Energy Policy (EEP) was the March 2006 publication of the EC Green Paper *A European Strategy for Sustainable, Competitive and Secure Energy*. By raising the supply security to a key aim for the EU – along with sustainable development and competitiveness – the Green Paper emphasized energy security’s external dimension, the coherent pursuing of which was not by chance mentioned as one of the priorities in order to achieve a comprehensive European energy policy. Common action by its Member States was, from the EC perspective, a logical prerequisite for coherent external action able to address XXI century challenges. Indeed, only by speaking with “a common voice” on energy questions, might the EU have exploited its weight – both in terms of market scale and policy range – to protect and assert its interests. Based on the strength guaranteed to the EU by joint action of its members, the Green Book put forward two key goals – and respective instruments – which, from then onwards, would have shaped EU policies aimed at safeguarding energy security in its long-term and external dimensions.

The first was promotion of energy partnerships with producer and transit countries. Based on the assumption of interdependency between the EU and its energy partners, such engagement involved deepening the dialogue with major international energy suppliers as well the promotion of a common regulatory space aimed at bringing partners and neighbors closer to the EU’s internal market and facilitating the flow of investments. The second goal put forward by the EC in 2006 was a “clear policy on securing and diversifying energy supplies” which, by recognizing the intra-EU dependency discrepancies, was regarded as necessary both for the EU as a whole and for specific Member States or regions, as part of the wider attempt to enhance solidarity within the Union. The main tool for achieving the diversification goal – intended as the promotion of diversity in suppliers, transport routes and transport methods – hence became

the upgrading and construction of the infrastructure deemed necessary for the security of EU energy supplies, especially in the gas sector.

The diversification policy was pursued mainly through the development of the Trans-European Energy Networks (TEN-E), whose original purpose was to provide a more political impulse to energy infrastructure investment, and which underwent a significant change in strategy and operational approach since 2003. Indeed, the 2003 TEN-E guidelines marked the transition from a “bottom-up approach” consisting of evaluating projects of common interest originating from the field, to a “top-down strategy” built on the identification of axes for priority projects. In this way, EU institutions introduced a hierarchy among projects of common interest, giving higher priority to those deemed crucial for tackling the increased dependence on gas imports\(^23\).

Against this backdrop, the 2006 TEN-E guidelines revision introduced a further hierarchization among energy projects by labeling as “of European interest” mature projects located on a priority axis which have a cross-border nature (or a significant impact on cross-border transmission capacity) and contributed to strengthening security of supply in the Community. Moreover, in order to politically support and speed up the construction of gas pipelines of European interest encountering significant delays or implementation difficulties, the 2006 guidelines put forward the possibility of appointing a European coordinator responsible for the coordination of national procedures, as well as for the promotion of the European dimension of the project and cross-border dialogue\(^24\).

The tendency to build EU external energy policy on the strengthening of dialogue with partners and on infrastructural policy was confirmed in 2008 by both the Green Paper Towards a Secure, Sustainable and Competitive European Energy Network and the Second Energy Strategic Review\(^25\). Underlining once again the imperative need for EU Member States to enhance solidarity and joint actions both internally and beyond the Union’s borders, these documents


focused on the strengthening and integration of the internal infrastructure network and on its connection to the “essential infrastructure” bringing supplies from third-party countries and allowing supply route diversification. Once again, special emphasis was placed on securing a stable and diversified gas supply scheme, which the EC deemed to be necessary notwithstanding the ambitious targets for renewables development put forward by the EU in the 20-20-20 strategy. Moreover, with the backdrop of the January 2009 gas disruptions caused by the Russo-Ukrainian crisis and before the first signs of one of the toughest economic and financial crisis ever to be faced by Europe, the strategic role of natural gas in ensuring EU economic development and well-being was certified by the European Economic Recovery Plan (EERP)\textsuperscript{26}. Presented by the EC in November 2008, the stimulus package made available an unprecedented amount of funds (€3.9 billion) to finance a critical and mature energy infrastructure, this being an accelerator of investments in infrastructure aimed at both stimulating recovery from the economic downturn and fostering EU energy security objectives in terms of diversification. Significantly, the EERP marked a relevant shift in the EU’s energy sector funding, as for the first time it went beyond mere support to feasibility studies – traditionally granted within the TEN-E framework – providing funds contributing to the project implementation phase, and hence giving new impetus to an infrastructure experiencing financial hurdles.

Consistently with the above picture, the steady attention devoted by the EU institutions – and particularly the EC – to the external dimension of energy security has been confirmed by the documents released in the last two years, setting proposals and action plans for the short and mid-term\textsuperscript{27}. Indeed, alongside the need for the EU to ensure the functioning of internal markets and foster the development of renewable energy sources, cooperation with non-EU partners and diversification of suppliers and the supply channel remain at the top of EU policymakers’ priorities in line with the Lisbon Treaty provisions\textsuperscript{28}.

As for the priority given to the development of a strategic energy infrastructure, the EC has recently called for an overhaul review of the TEN-E


\textsuperscript{28} Article 194 of the Lisbon Treaty (on the functioning of the European Union) put forward the EU’s energy policy competences, which shall aim to: (a) ensure the functioning of the energy market; (b) ensure security of energy supply; (c) promote energy efficiency and saving; (d) promote the interconnection of energy networks. Moreover, according to article 171(1), «the Union shall establish a series of guidelines covering the objectives, priorities and broad lines of measures envisaged in the sphere of trans-European networks; these guidelines shall identify projects of common interest». 

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framework that is for a new EU infrastructure policy aimed at promoting the completion of priority projects through a dedicated budget – estimated at €9.1 bln for gas infrastructures in the 2014-2020 period29 – and likely to be partially allocated to the implementation phase of those projects which are not viable under existing market conditions30. At the same time, the need to expand cooperation with key suppliers and transit countries through mutually beneficial energy partnerships, and to include the promotion of energy infrastructure development in EU external relations, has been readdressed by the EC with the September 2011 communication The EU Energy Policy31. Urging the Union to «to take a strong, effective and equitable position on the international stage to secure the energy it needs», the EC focused its proposal for the consistent development of an external energy policy around four main objectives, consisting of:

- building up the external dimension of our internal energy market;
- strengthening partnerships for secure, safe, sustainable and competitive energy;
- improving access to sustainable energy for developing countries;
- better promoting EU policies beyond its borders.

2.3. Caspian Region’s and Azerbaijan’s Place in EU Energy Security Policies from the PCA to the EaP

Against the backdrop of the EEP’s gradual development and since the issue of the 2000 Green Paper, the exploitation and transportation of the significant and largely unexploited Caspian Sea energy resources32 has become a priority with a view to the diversification of energy suppliers and, generally speaking, to safeguard EU energy security from beyond EU borders33.
The production potential of the Caspian basin is, however, partially offset by the difficulty in accessing and transporting its resources. Indeed, land-locked and with no direct access to European markets, the basin’s states emerged from Soviet dissolution with a Russo-centric energy export network – a network which reinforced Russian energy leverage vis-à-vis the EU, giving the basin the “dual role” of energy producer and transit country. From this perspective, although Azerbaijan has a significant but limited share of Caspian hydrocarbon reserves, its value to the European diversification policy is not confined to its role of energy producer. Indeed, due to its strategic location on the Western shore of the Caspian Sea, wedged between Russia to the north and Iran to the south, Azerbaijan plays a potentially key transit role for hydrocarbons produced on the Eastern side of the basin. Being the “cork in the bottle” for the direct transportation of Caspian energy resources to European markets, Azerbaijan has emerged as the key regional actor in the competition developed since the mid 90s, aimed at breaking the Russian monopsony over the purchase of Caspian hydrocarbons. This aim was achieved through the opening of an Azerbaijani-Georgian-Turkish oil and gas corridor which, besides its own significance, could have represented the western stretch of a longer East-West corridor linking Central Asia to Europe. It is worth noting that throughout the 90s, regional energy competition evolved without EU direct involvement, notwithstanding the crucial role played by European energy companies – from Bp to Eni, Total and Statoil. Keeping a low-profile approach, the EU limited its involvement in the so-called “Great Game” to offering technical and financial support under the TACIS and INOGATE programs, while the critical political support came instead from the US Administration. Indeed, it was not until the emergence of a clearer EU external energy policy that Caspian resource development became a priority target for Brussels, and Azerbaijan consequently came to be regarded as a strategic actor due to its twofold role of energy producer and transit country for Central Asian hydrocarbons. Hence, although Azerbaijan role played by the Commission in such an attempt was highlighted in May 2003 by the communication addressed by the EC to the Parliament and the Council in which, by widening the scope of the emerging European Neighbourhood Policy (ENP), the Caspian region was listed among those with which the EU was called upon to cooperate in order to: (a) face the challenges of growing external energy dependence; (b) address infrastructure issues on a regional level; (c) diversity sources of energy geographically and technologically; (d) broaden the basis for energy trade in the European continent and its adjoining continents. Commission of the European Communities, Communication from the Commission to the Council and the European Parliament, on the development of energy policy for the enlarged European Union, neighbours and partner countries, COM(2003)292 final, Bxelles, 26 May 2003, pp. 4-5.

Azerbaijan possesses 18.3% and 4.4% of Caspian area proved oil and gas reserves. Bp, BP Statistical Review..., cit., pp. 6; 20.


The Baku-Tbilisi-Ceyhan and the Baku-Tbilisi-Erzurum oil and gas pipelines were inaugurated on the route which links Azerbaijan to Turkey via Georgia in May 2005 and in December 2006 respectively.
signed a Partnership and Cooperation Agreement (PCA) with the EU in 1996 (in force since July 1999), and although energy cooperation was already included in the cooperation scheme thereby put forward, it was the EU’s increasing focus on diversification of both suppliers and supply routes which made Azerbaijan the key partner for the development of Brussels’ energy policies since the mid 2000s.

Against this backdrop, EU-Azerbaijani energy cooperation was progressively stepped up in line with the guidelines for external action spelled out by the 2006 Green Paper – that is the fostering of dialogue with energy partners and their engagement in EU diversification policies. The central role of Azerbaijan in the EU diversification policy emerged since 2003 and the review of the guidelines for the development of trans-European energy networks. Consistently with the new “top-down strategy” thereby put forward, the European Parliament and the European Council listed a gas corridor between the Caspian Sea countries and the Middle East to the EU among the five axes for priority projects (NG3), hence prioritizing existing gas pipeline projects having Azerbaijan as their main gas source. The reference relates to Nabucco, Intercollider Turkey-Greece-Italy (ITGI) and Trans-Adriatic Pipeline (TAP) – the latter enjoying “common interest” project status – whose concepts were put forward after 2001 by the energy companies involved. EU backing of pipeline projects running through the NG3 axis represented the EU’s first concrete step into competition aimed at accessing and transporting Caspian region gas resources. In doing so, the EU took over the US project of an East-West energy corridor linking Central Asia to Western markets, prompting the idea of a fourth EU gas supply channel – alongside the Norwegian, Russian and North African ones. Indeed, although the fourth supply channel – which came to be defined the “Southern Corridor” in 2008 – was conceived to benefit from a multi-source supply scheme, since its initial proposition it was closely linked to the possibility of receiving gas supplies from Turkmenistan, through a Trans-Caspian Gas Pipeline (TCGP) whose concept was put forward after 1998 under US political aegis.

Stepping up the effort to open the Southern Corridor, the 2006 TEN-E guidelines labeled Nabucco and ITGI as projects of European interest, giving the highest priority to their realization. Moreover, in order to support the

39 Decision No. 1364/2006/EC..., cit., p. 10.
rapid development of the Southern Corridor, both Nabucco and ITGI-Poseidon – that is the interconnection between Greece and Italy – were listed among the ‘relatively small number of highly strategic projects’ which the EERP aimed at stimulating through the granting of fresh funding40. In addition, exploiting the possibility provided by the 2006 TEN-E guidelines, the EC anticipated through the 2007 Priority Interconnection Plan its intention to assign a European coordinator to the Nabucco project41. The subsequent appointment of the Dutch Foreign Minister Jozias Aartsen to the post signaled the gradual rise of Nabucco – the only pipeline project assigned with a coordinator – to the top of the EU energy diversification agenda and, on the other hand, the deepening of EC political investment in promotion of the Southern Corridor. Indeed, although the EU, with the ultimate aim of facilitating diversification of the Union’s gas supply, officially supports all pipeline projects running through the Southern Corridor, it has nonetheless granted Nabucco with de facto political priority – first and foremost due to its huge planned transport capacity.

The degree of political investment in the Southern Gas Corridor emerged clearly through the 2008 Second Strategic Energy Review42. Presenting the Corridor as “one of the EU’s highest energy security priorities”, the Review called for a joint effort by the EC and Member States to work with the countries concerned – and Azerbaijan among them – in order to secure firm commitments for gas supply and construction of the necessary pipelines. Accordingly, the EC announced the possibility of setting up a block-purchasing mechanism for Caspian gas – the so-called Caspian Development Corporation (CDC)43 – aimed at aggregating Member States’ gas demand to be addressed through the Southern Corridor. Hence the CDC concept helped tackle two hurdles delaying the development of the Corridor. First and foremost, moving from the assumption that no country individually requires incremental gas volumes that are sufficient to underpin the investment in infrastructures, the CDC aimed to foster the added value of a joint consumers action, while, on the other hand, being instrumental in overcoming the “defensive attitude of gas producers”. The latter consideration is particularly relevant with regard to Brussels’ attempt to open a trans-Caspian supply channel from Turkmenistan to Azerbaijan, the importance of which was stressed by the Second Strategic

43 As for the development of the CDC concept and its operability, IHS CERA, Caspian Development Corporation. Final Implementation Report, December 2010.
Energy Review. Indeed, while Baku responded promptly and positively to EU engagement, the same was not the case with Ashgabat, which pursued a more differentiated export policy and a more conservative attitude to opening its national upstream sector to foreign investment.

Besides being considered a potentially key energy partner in the EU’s attempt to promote supplier and supply route diversification, Azerbaijan has been increasingly and directly engaged in energy dialogue and cooperation with the EU institutions, both bilaterally and within multilateral frameworks. Apart from the above-mentioned provisions of the 1999 PCA and the space devoted to energy cooperation in the framework of European Neighbourhood Policy (ENP) Action Plans, the turning point for EU-Azerbaijani bilateral relations was the signing in November 2006 – with the backdrop of guidelines for external action put forward by the 2006 Green Book – of a Memorandum of Understanding (MoU) aimed at establishing a strategic partnership in the field of energy. Recognizing Azerbaijan’s dual role of key producer and important transit country, the MoU promoted a shared vision of energy challenges which, built upon the enhancement of interdependence, outlined a comprehensive and balanced approach in terms of respective commitments and incentives focused on four areas of cooperation:

1. gradual harmonization of Azerbaijani legislation with EU legislation in the energy field;
2. enhancing safety and security of supplies from Azerbaijan and the Caspian region to the EU;
3. development of a comprehensive energy demand management policy in Azerbaijan;
4. technical cooperation and exchange of expertise.

It is worth noting that, as highlighted by the second area of cooperation, the MoU recognized the dual role of Azerbaijan as a key producer and important transit country and committed the parties to work together in order to support the development of the Central Asia-Europe energy corridor, identifying and promoting additional hydrocarbon sources and supply routes to Azerbaijan and onwards to the EU.

As the drive to develop the Southern Gas Corridor progressed, Azerbaijan emerged as the most committed country to its realization and the only producing country concretely able and willing to supply it. The Baku gov-

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45 Broadly speaking, the degree of Azerbaijani commitment to the development of projects aimed at diversifying EU supply routes and enhancing regional cooperation was further testified by the support provided, between
ernment’s political commitment to the development of the supply route was firstly spelled out on the occasion of the 2009 EU Southern Corridor Summit held in Prague. There, the Azerbaijani President Ilham Aliyev—along with his EU Council, Turkish, Georgian and Egyptian counterparts—cosigned a declaration expressing their full support for the realization of the Corridor, seen as an important and mutually beneficial initiative for both the enhancement of energy cooperation and the fostering of social, economic and political cooperation in the whole region.46

Politically, the most relevant reciprocal endorsement of energy cooperation came in January 2011 with the visit to Baku of the EC President José Manuel Barroso and Energy Commissioner Günther Oettinger. On that occasion, Barroso and Aliyev cosigned a joint declaration reaffirming the importance of the bilateral energy relationships and stressing the common objective to rapidly establish the Southern Corridor, regarded as «a stepping stone in increasing European Energy security and a guarantee that the resources upon the territory of Azerbaijan can be developed in the expectation that sufficient infrastructure and markets as well as commercial conditions exist»47.

The Azerbaijani commitment to supply the Southern Corridor—regardless of the selected route for gas transportation—represented the most concrete breakthrough for a concept which otherwise would have had limited possibilities of realization. In this perspective, the January 2011 reciprocal commitment to cooperate for the realization of the Corridor paved the way to the unprecedented EU decision to endorse the EC, in September 2011, with the mandate to negotiate on behalf of Member States a legally binding treaty between the EU, Azerbaijan and Turkmenistan to build a Trans-Caspian Pipeline system.

Along with the bilateral path of energy dialogue, Azerbaijan has been actively engaged by the EU through the multilateral frameworks for cooperation launched since the second half of the 2000s with the backdrop of the 2004 and 2007 enlargements. Underscoring the steady rise of Baku’s regional profile in relation to energy cooperation, in November 2004 Azerbaijan hosted a Ministerial Conference between the EU and fourteen states of the Caspian and Black Sea areas which launched the so-called “Baku Initiative” aimed at enhancing energy and transport cooperation among its participants. Since its inception and through the creation of dedicated working groups, the Baku Initiative has focused on four priority areas, consisting of energy market convergence, energy security, sustainable energy development and investment attrac-

2007 and 2008, to the concept of “Caspian-Black Sea-Baltic Energy Transit Space”, whose objective was to connect Caspian producers to the EU through Ukraine.


tion. Against the backdrop of EU enlargement, the Baku Initiative emphasized two significant trends in EU policy for Azerbaijan and the Caspian area. On the one hand it highlighted the tendency to place this policy within the wider framework of the European neighbourhood strategy for the Black Sea area and, at the same time, to regard energy cooperation as one of its main pillars. On the other hand and consequentially, the Baku Initiative showed that energy policy – besides being functional to EU security needs – provided a tool for the gradual approximation of partner countries to the acquis communautaire, as well as for the enhancement of cooperation and mutual trust among them.

The above-mentioned tendencies also underlie the objectives put forward by the Black Sea Synergy (BSS), a regional cooperation mechanism launched in 2007 and based on the assumption that, with the backdrop of Bulgarian and Romanian accession to the EU, the prosperity, stability and security of the Eastern neighbours were of immediate concern to the Union. In accordance with the Baku Initiative’s ratio, cooperation in the energy sector – along with the transport and environment sectors – was regarded by the BSS as an area of special dialogue with the Union, functional to build an entente likely to develop into concerted action in favor of civil society.

Energy cooperation also has a central role for the Eastern Partnership (EaP) initiative, launched by the EC in December 2008 and aimed at bringing the Eastern neighbours closer to the EU by fostering their stability, governance and economic development. Indeed, energy security was included as a cooperation area for both the EaP bilateral and multilateral tracks. While with specific reference to EU-Azerbaijani bilateral relations the agenda focused mainly on the issues of Nagorno-Karabakh conflict resolution, the strengthening of democracy and human rights, energy security represented the third of the four policy platforms which form the framework’s multilateral track. Ac-

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48 See, Ministerial Declaration on Enhanced energy co-operation between the EU, the Littoral States of the Black and Caspian Seas and their neighbouring countries, web edition, http://ec.europa.eu/dgs/energy_transport/international/regional/caspian/doc/2006_11_30_astana_conclusions.pdf (last retrieved on 30 August 2012). Referring to the “Baku Initiative”, the EC highlighted that “for the EU, the main objective of this initiative is to facilitate the transportation of the extensive Caspian oil and gas resources towards Europe […]. Indeed, secure and safe export routes for Caspian oil and gas will be important for the EU’s security of energy supply by increasing the geographical diversification of the EU’s external energy supplies. Supplying the EU market at competitive international prices will also be crucial for facilitating the economic, social and political development of countries of the Caspian region”. Commission of the European Communities, What is at stake - Background document on the Green Paper - A European Strategy for Sustainable, Competitive and Secure Energy, [SEC(2006)317/2], p. 40.


Accordingly with the decision endorsed by the first meeting of the dedicated working group in November 2009, energy security cooperation revolves around four key objectives:

- enhancing framework conditions and solidarity;
- support for infrastructure development, interconnection and diversification of supply;
- promotion of increased energy efficiency and use of renewable resources;
- regulatory framework and approximation of energy policies.

2.4. EU Energy Policies Regarding Azerbaijan: Accomplishments, Constraints and Recommendations

Since the beginning of the XXI century, the external dimension of EU energy security policies – and the consequent need to diversify energy suppliers and supply routes – has increasingly gained space within EU policy-making processes. Hence, while addressing the external dimension of energy security has become a policy imperative for the EU, the promotion of the Southern Gas Corridor has emerged as one of its key initiatives and, at the same time, as one of the major political investments undertaken by the EC, which came to play a driving role in the development of a common European energy policy. It is in this context that Azerbaijan, with its double strategic value of energy producer and potential transit country, emerged both as a critical EU partner and a relevant test case for evaluating the consistency between Brussels policies’ aims and means. Against this backdrop – and on the eve of allocation of Shah Deniz II (SDII) gas to one of the pipeline projects running through the Southern Corridor – it may be stated that Azerbaijan’s potential as a new EU gas supplier has been successfully exploited, while its transit potential – at least for the time being – has not.

Doubtless the EU, thanks to its support provided to pipeline projects through the TEN-E framework and the EERP, has been playing if not a decisive, at least a relevant and facilitating role in ensuring the flow of Azerbaijani gas to European markets – regardless of which market will be definitively chosen by the SDII consortium from the South-Western and the Central-Eastern ones. In particular, the EU has contributed to the projects’ advancement by providing them with political backing and public visibility while, at the same time, acting as a catalyst for international funding from IFIs (International Financial Institutions). Yet the EU institution’s role did not turn out to be decisive in fostering the realization of projects of European interest. This was primarily due to the structural shortcomings of the TEN-E framework which,
as recognized by the EC itself\textsuperscript{52}, lacks focus, flexibility and a top-down approach to overcome the hurdles faced by the infrastructures. Moreover, given the cross-border projects’ implementation delays caused by the different national authorization procedures, the EU still lacks the means to ensure consistency between European and national energy infrastructure priorities that is to coordinate the prioritization of infrastructures at EU and Member State levels. The road to overcome these shortcomings has already been identified by the EC through the renewed proposals for revision of the TEN-E scheme currently debated within EU institutions. Their endorsement would certainly provide the EU with more effective tools to address the political, financial and normative challenges posed by the construction of crucial cross-border infrastructures.

Since the beginning of the century, the evolution of competition for the transportation of Azerbaijani natural gas to Europe has clearly shown that the main decisions and agreements leading to the forthcoming inauguration of the Southern Gas Corridor were taken above and outside EU initiatives and participation. Indeed, the key role has thereby been played by energy companies with the direct or indirect support of their respective national institutions. While the primary role of private companies is inscribed in the market rules and in the bottom-up approach of the TEN-E provisions, Member States’ external energy policies have more often than not turned out to be contradictory and contrary to the spirit of intra-European solidarity that should represent the foundation of EU common energy policy. Indeed, the lack of agreement among EU Member States on the means to ensure their own energy security has resulted in deep rivalry both within and between the main European gas supply corridors – that is among rival projects within the Southern Corridor as well as between the Southern and Eastern Corridors themselves. Besides overshadowing Brussels’ preferences and guidelines, the unilateralist tendencies did not contribute to the overall transparency of energy competition and, at the same time, untied the interdependence knot which, from the EC perspective, should enhance the EU’s international position and bargaining power. Yet, the EU Member States’ tendency to pursue autonomous – when not contradictory – external energy policies is mainly the result of their traditional unwillingness to alienate sovereign prerogatives in a strategic sector such as energy and, all the more so, in relation to gas negotiations with key suppliers, which states prefer to manage bilaterally and within the wider framework of their own foreign policy vectors. From this viewpoint, the lack of coordination between the policies of governments and the EU institutions reflects the broader

dichotomy between state and supranational prerogatives in the energy sector, which the Union’s founding Treaties have not yet resolved.

In this context, the forthcoming opening of the Southern Gas Corridor’s “first leg” linking Azerbaijan to European markets is primarily the result of the convergence of energy companies’, Member States’ and EU institutions’ interests and policies. Hence, it is not by chance that the same success was not achieved where such convergence did not occur and, consequentially, the EU had to act as the main actor. This applies to the full exploitation of the Caspian gas corridor which is – at best – still uncertain, due to a number of technical and political causes not entirely dependent on EU failures.

First and foremost, full development of the Southern Corridor was hindered by the unexpected consequences of the tough financial and economic crisis which has affected EU Member States since 2008. By reducing aggregate EU demand for gas, the crisis added uncertainty to the gas demand addressed to the Southern Corridor, against the backdrop of wider uncertainties resulting from the potential development of unconventional gas in Eastern Europe and the greater availability of LNG on the market. In this context – while the stakeholders acting in the Azerbaijani leg of the Corridor were flexible enough to scale down the capacity of the most ambitious pipelines that is the Nabucco project – the huge investments required for the construction of a trans-Caspian gas pipeline proved to be economically unfeasible. Yet, the EC attempt to establish a mechanism for the aggregation of Member States’ gas demand was a step in the right direction. The CDC, however, has not materialized yet, and in the meantime the EU has been losing ground to international competitors – primarily China – which have proven to be more flexible and determined in opening a gas supply channel from Central Asian producers.

Besides the consequences of economic hardship, it was however on political grounds that the EU institutions failed in advancing the concept of the Southern Corridor’s Caspian leg. Basically, the EC has not been able to force the hand of those producers – primarily Turkmenistan – which, unlike Azerbaijan, were less willing to cooperate actively with the EU by facilitating its tasks. Indeed, while Baku has traditionally pursued an “open door policy” toward foreign investments in energy and, most importantly, has actively contributed to the infrastructural policy beyond its borders, Ashgabat has undertaken a resource nationalism course which has kept its upstream sector almost closed and, at the same time, prefers to sell gas at its borders and stay out of the pipeline politics. Hence, unable to aggregate Member States’ gas demand,

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53 The reference relates primarily to the Trans-Anatolian Pipeline, a project put forward in 2001 by Azerbaijani and Turkish national energy companies and aimed at transporting Shah Deniz II gas to the Turkish-EU border from 2017. The project was crucial in advancing the EU Southern Corridor concept, by circumventing many of the financial and technical difficulties faced by the European infrastructural projects.
the EC lacked an effective policy of both economic and political incentives capable of circumventing Turkmenistan’s closures.

Moreover, the failure in advancing the Trans-Caspian project is also the result of the lack of a coherent regional policy, able to provide EU institutions with the necessary tools to address the political issues that underlie energy competition. Indeed, since the initial appearance of the Trans-Caspian project, the main hurdle for its realization has stemmed from the lack of agreement among riparian states on the legal status of the basin. A legal dispute, the latter, behind which traditionally lay opposing views on the development of the energy sector, as well as cross-claims over some offshore deposits – including, inter alia, those directly involving Baku and Ashgabat54. Yet, although the EC 2011 mandate to negotiate a trilateral treaty aimed at building a Trans-Caspian Pipeline represents a stepping stone for EU involvement in the basin’s politics, it seems unlikely for the EC to achieve a concrete breakthrough toward construction of the pipeline, unless it is framed within a wider dialogue and mediation effort with all parties concerned – including Russia and Iran, traditionally opposed to the construction of the pipeline. Hence, the drive for the construction of the Trans-Caspian Pipeline shows the extent to which the presence of international relations “heavyweights” in the Caspian region limits EC influence in regional energy politics, making the Union’s external energy policy subject to the same contradictions characterizing the development of a coherent EU foreign policy. Yet, a concrete proposal aimed at both strengthening EU external energy policy and fostering its regional profile has recently come from the European Economic and Social Committee (EESC). In a 2001 exploratory opinion, the EESC suggested the appointment of a high representative for energy policy along side the high representative for foreign affairs and security policy, «given that energy security comes within these policy areas»55.

If the EU has been successful in engaging Azerbaijan in its energy diversification policies, the same has not occurred in its attempt to involve the country in the EU’s drive to extend its norms, rules and institutions beyond its borders with a view to creating a pan-European energy space. The attempt to gradually move from cooperation to integration failed notwithstanding the numerous frameworks within which it was pursued. In particular, Azerbaijan has not yet joined the 2005 Energy Community Treaty, a legally binding framework for non-discriminatory and market-based conditions for trade, transit and investment in energy products, regarded by the EU as the main instru-

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54 Azerbaijan and Turkmenistan have not yet found agreement on the demarcation of their respective sea borders in the Caspian Sea. Cross-claims on the offshore Serdar/Kypaz field represent the main hurdle toward bilateral entente.
ments for the expansion of its rules – and hence its soft power – to the neighbourhood. Hence despite the Azerbaijani oil industry’s proven reliability as a partner for the establishment of a favorable climate for investment and its participation in both the Energy Charter Treaty and the Extractive Industries Transparency Initiative, the country remains outside the gradual establishment of a common European legal space in the energy sector. Such a shortcoming reflects the failure of both bilateral energy engagement and the various multilateral frameworks – from the Baku Initiative to the Black Sea Synergy and the Eastern Partnership – aimed at accomplishing the goal of fostering regional cooperation through the sharing of rules and the gradual adoption of the acquis communautaire.

Generally speaking, the multilateral approach to the challenges posed by energy security has proved to be unsuccessful, and the EaP is no exception to this trend. Indeed, it did not bring about the “real step change” in bilateral and multilateral relations between the EU and its Eastern neighbors that it was supposed to provide, at least not in relation to Azerbaijan or with reference to energy security cooperation. While the progress in advancing the Azerbaijani leg of the Southern Corridor occurred outside the EaP framework, little was achieved between 2009 and 2011 with regard also to the key objectives of the multilateral track. Notwithstanding that enhancement of the cooperation to integrate partners’ and the EU’s energy markets through comprehensive energy sector reforms is a key policy objective for the 2012-2013 period56, it seems unlikely that EaP multilateral track will accomplish its goals. Indeed, the EaP exhibits most of the shortcomings of the Union’s external energy policy, first and foremost the lack of a wider and consistent regional strategy able to tackle the deepest political issues that impinge upon EaP countries’ foreign and energy policies – from the above-mentioned legal status of the Caspian Sea to the still unresolved regional conflicts. Unless the EU provides political depth to its regional economic and energy policies, its regional projection and more specifically its energy cooperation objectives will basically depend on single countries’ goodwill and specific interests. Only by demonstrating that the EU – in the words of the EC – “is prepared to engage with the Caspian and the Middle East regions on a long term basis, both politically and economically”57, will it benefit from an incentive scheme able to provide Brussels with concrete influence over its partners’ policies.


57 European Commission, COM(2011)539 final…, cit., p. 5.