

# TRANSCAUCASUS AND THE CASPIAN REGION WITH PARTICULAR FOCUS ON ENERGY ISSUES

*Neil MacFarlane*

*Director, Centre for International Studies, St. Anne's College, University  
of Oxford, UK*

**A comment on the paper submitted by Friedemann Müller**

## **Introduction**

The link between energy and security in the Caspian Region is a complex one. Dr. Müller has provided a very able analysis of it, leaving me with few targets of opportunity. I should like to divide my remarks into four sections. The first concerns the definition of security itself and its relation to energy development in this region. The second involves changes in the Caspian energy equation and their possible security implications, as well as their impact on the broader set of issues raised by Dr. Müller. The third concerns the relationship between the state and the market as it concerns Caspian energy development. The fourth is the relationship between developments in the Caspian energy sector and broader issues of **internal** social and political stability.

## **Definitions of Security**

I should like to start with the meaning(s) of security, since I believe this lays the basis for what follows. One aspect of the paper that might have been developed further is the definition of security itself. The topic presumes a connection between energy development and security (and stability) in the region. Yet that relationship is not addressed in detail.

The subject matter of security has been in considerable dispute over the past two decades. The traditional focus of security studies has been how states (and groups of states) address external military threats. Some 16 years ago (see, for example Ullman, 1983), increasing doubt emerged in the academic literature as to whether this was a sufficient or appropriate focus. Why should the state be the principal focus of security when, ultimately, security resided in the individual human being? (Buzan, 1991) Why should the security of the state be privileged in analysis when in many instances the state itself was a principal

threat to the well-being and physical survival of its citizens? (Ayoob, 1991) Why should military aspects of security be privileged in discussions of the subject when it was increasingly clear that economic trends, or environmental (Homer-Dixon, 1991) or health issues posed equally or more significant threats to human beings. The result was an explosion of the literature that expanded conceptions of security both in terms of referents (beyond the state to the individual, the community, the ethnic group, the region, the globe) and issue areas (economics and welfare, the environment, health, migration). Seminars such as this one are reflections of this trend.

I do not want to comment on the merits and demerits of this expansion in detail. Instead, I think it is worthwhile to dwell on just what the essential meaning of security is and then to address what significance energy issues have in the consideration of security in this essential sense in the region in question. As far as I am concerned, security is, in its most fundamental sense, about the presence or absence of threats to the core values of individual human beings. These core values generally include life (survival), truth (that promises once made will be kept), and property (stability of possession) (Bull, 1977). The security of the state is privileged because the state is the agent that (ideally) ensures the security of individual human beings. In Hobbesian terms, individuals cede sovereignty to the state in return for protection.

This definition of security presumes an understanding of threat. Threats to individual (and, by extension, state) security can be military, political, economic, social, cultural, environmental, or, for that matter, medical.

How is energy sector development related to security in the Caspian Basin region? The development of the region's energy resources has positive and negative effects on the security of the region and the people living there. On the positive side, revenue from the export of energy plays an important role in stabilising the region's economies and in allowing the states to address the needs of their peoples. In the future, it may possibly play a more substantial role, though much depends here on how revenues are allocated and spent, as is clear from Dr. Müller's comment on the Norway to Nigeria spectrum (p.220). I shall return to this issue later.

The negative side of the relationship between energy and security in the region is the fact that competition over energy resources may cause inter-state conflict. This is evident in Dr. Müller's discussion, for example, of the arguments over the legal status of the Caspian sea floor and water column. Many other plausible examples are evident in the region. Many, for example, believe that the failure to conclude a political settlement of the Karabakh conflict reflects the Russian desire to retain leverage over Azerbaijan's energy sector development. Others have argued that one source of the war in Chechnya in 1994-96 was the Russian perception that its capacity to exercise leverage over Caspian Basin (and particularly Azerbaijani) energy development was limited as a result of its lack of control over the Chechen Republic. When the AIOC agreed with

Georgia and Azerbaijan on the construction of a western (Baku-Supsa) pipeline, Georgian officials were told by their Russian counterparts that Russia would never allow such a pipeline to be built. It is not surprising that Georgians are convinced that one factor underlying the military rebellion in western Georgia at the end of 1998 was the impending opening of the Baku-Supsa line.

One final conceptual point. The other referent in the seminar title is “stability.” Rather than going into an extensive discussion of its meaning, I would simply note that stability does not necessarily conduce to security in this region, or elsewhere. If one accepts that the essential point of reference in consideration of security is the individual, then it is easy to conceive of situations where stability does not coincide with security. Chile under Pinochet was stable, but hardly secure from the perspective of the individuals who were tortured and murdered by this regime.

The last question to be addressed in this section is how the energy-security-stability nexus affects NATO. In the early years after the collapse of the USSR, the quick answer would have been very little. NATO powers perceived few significant interests in the region, and tended to defer to Russia in the management of security issues there. This has changed for several reasons. First, it became clear that Russia’s regional policy was less benign than we had hoped. Second, the war in Chechnya and the decay of Russia’s military raised increasingly important questions about Russia’s capacity to manage regional security issues. Third, by 1995-96, several key NATO states and not least the United States had grown increasingly aware of the region’s energy potential. To judge from American declaratory rhetoric, the United States was coming to see the region as a matter of vital interest (MacFarlane, 1998). Moreover, American and European firms had become heavily involved in investment in the region and lobbied for a more active policy role there by NATO member states. The EU, meanwhile, has become strongly involved through the TACIS TRACECA project in regional energy infrastructure development. NATO itself was becoming increasingly involved with regional states through the PFP and the EAPC. Finally, several of the region’s states, frustrated by Russian, UN and OSCE failure to deliver political settlements to their conflicts, began to look to NATO for answers. The Georgian discussion of repeating Kosovo in Abkhazia, or the Azerbaijani discussion of repeating Bosnia in Karabakh, are interesting in this regard. Azerbaijan and Georgia both perceive NATO to have a role in protecting the region’s energy infrastructure.

## **Change in the Caspian Energy/Security Equation**

In view of this heightened interest and engagement, it is appropriate for Dr. Müller to have spent considerable time in assessing the actual and probable levels of energy resources in the region. His cautious estimate of reserves is a useful corrective to the hyperbole that characterises much discussion of the

region. In view of this realistic estimate of the region's potential impact on global energy markets, it seems odd that American policy makers in particular should emphasise so heavily the national security interest in securing access to the region's energy resources.

Several updates on the situation so clearly described by Dr. Müller are in order. The first is the evolving record of results from oil exploration in the sector of the Caspian Sea claimed by Azerbaijan. Here, two major efforts (CIPCO and NAOC) turned up dry. The third (Shah Deniz) produced a major find but it was gas, not oil. There are two significant implications of this record. In the first place, this confirms Dr. Müller's proposition that "the actual value [of oil reserves] is much closer to the lower estimate than to the higher one" (p.212). This has immediate implications, moreover, for Baku-Ceyhan. It strengthens considerably the argument for a Trans-Caspian oil pipeline to link to Baku-Ceyhan. Most people I talk to in the industry now doubt whether Baku-Ceyhan is viable without a Transcaspian link of some kind. That said, I am somewhat more sanguine than is Dr. Müller about prospects for the Baku-Ceyhan line, since price changes since the paper was written make it a more attractive and commercially viable proposition. I suspect that the question with regard to this project is not so much "if" as it is "when." To the extent that pipelines for Turkmen (and now Azerbaijani) gas move forward using an Azerbaijan-Georgian route to Turkey, this increases the likelihood of a Baku to Turkey oil line, since the right-of-way costs can be distributed across the two projects. Moreover, the delay in the decision has apparently caused Turkey to compromise further on licensing arrangements and transit fees. This alters the cost projection favourably.

The major BP-AMOCO gas strike strengthens Dr. Müller's point (p.212) that the region's gas reserves are likely to be substantially greater than are those of oil. It also raises important issues plausibly related to regional security. The structure of interest surrounding the Trans-Caspian gas pipeline was reasonably clear prior to this discovery. Turkmenistan needed an outlet to its major potential market (Turkey). The United States was (and apparently remains) opposed to Iranian options, and has managed to place significant barriers in the way of their development, while inducing Turkmenistan to consider seriously the Western alternative. Azerbaijan had an interest in its being built, given its own (shrinking) gas deficit, and because of the likelihood that it would obtain significant transit revenues. Russia opposed the Trans-Caspian alternative since, if built, it would reduce Russia's influence over Turkmenistan.

Azerbaijan's arrival as a major potential player in global gas markets has introduced substantial ambiguity into this situation. In the first place, the logical market for Azerbaijani gas is also Turkey. This creates a potential conflict of interest between Azerbaijan and Turkmenistan that will complicate co-operation over pipeline issues. It is worth stressing that Russia is also a competitor for the Turkish market (viz. the Blue Stream project for a pipeline from Russia across the Black Sea to northern Turkey). Consequently, Azerbaijan's arrival

on the gas scene may worsen Russian-Azerbaijani relations still further, as well as reducing whatever interest Russia might have in co-operating to further a settlement of the Karabakh question, an interest that has already been undermined by recent events in Daghestan and the closure of the northern route through Chechnya (Ruseckas, 1999).

## **States and Markets**

The third theme I would like to pick up is the relationship between states and markets in the Caspian energy sector. This should be no surprise to Dr. Müller, since we have been amicably arguing about this for three years. Since time is short, I shall limit myself to a few general remarks. Dr. Müller clearly believes that, in the context of globalisation, when states attempt to resist market forces, they lose. I would be betraying my profession if I did not take up this challenge. I don't think the conclusion is as clear-cut as he proposes. With regard to ILSA and Iran, for example, it is clear, as the paper argues, that there are leaks in the sanctions imposed by the US on Iran. That does not mean they have failed. Despite the apparent advantages of Iran as an export route, and despite the interest of many (including US) oil firms in Iranian options, the United States has effectively closed Iran out of the oil pipeline game. That is unlikely to change unless there is a political rapprochement between the two countries. Second, with regard to Baku-Ceyhan, although it is true that the US and Turkey have not managed to override oil company reservations thus far, as I note earlier the game is not over yet. Moreover, the policies of the Turkish state (e.g. the position taken on major new oil transport through the Bosphorus) and the US (e.g. their apparent opposition to an MEP through Russia or Iran) has had significant dampening effect on other contenders such as Baku-Supsa, Iran and Russia. It is true that in the contest between states and markets, states do not get everything they want. But the same is true with market forces. And it is undeniable that states have exercised a significant influence over energy development decisions and that they will continue to do so.

Third, I cannot resist noting an unresolved tension in Dr. Müller's argument with respect to the state. He argues that the economic forces of globalisation are driving politics. This is to some extent true. Yet further on he argues that for the market to succeed, the state must provide appropriate regulatory and legal structures. "Without the rule of law, investment will be too low." And indeed, this is one critical reason why no one takes the northern option seriously anymore. The Russians cannot deliver the kind of environment in the northern Caucasus that would permit predictable operation of pipelines. This would appear to suggest that market forces depend on the state. My own rather sloppy view on the relationship between states and markets is that both are important in driving outcomes. In some instances one is more important than the other.

It is probably not useful to attempt to generalise beyond this about which is more determining of practical results.

## **The Energy Sector and the Future of Regional Security in the Caspian Basin**

One area of the paper deserves amplification. As Dr. Müller notes, revenues from energy can play a key role in the revival of the region's economies. This is already evident to varying extent in the main energy producing countries (Azerbaijan, Turkmenistan, Kazakhstan) and to a lesser extent in Georgia. To the extent that energy development generates higher levels of general employment and prosperity, this should have a stabilising and security-producing effect. Two problems are already evident, however. First, although some people are already enriching themselves from energy, there has been little positive effect as yet on the population as a whole in these countries. From 1991 to 1997, the human development indicators of the countries of the southern Caucasus and Central Asia fell from a uniform 0.92 to a range between 0.58 (Tajikistan) to 0.72 (Turkmenistan). In terms of HDI global rankings, the region's states slipped from a uniform 31 to a range between 85 (Turkmenistan) to 115 (Tajikistan). (UNDP, 1998) There has been a deep decline in the general standard of living, with little evidence of any turnaround. Energy development has been sold as a panacea for many of these ills. Expectations have been dramatically raised.

Moreover, even if they are equitably distributed (which seems unlikely), energy revenues will not make a real difference for at least five years. The combination of elite enrichment, mass unemployment and poverty, and disappointed expectations raises important questions concerning the political stability of the governments of the region. This problem may well be aggravated by the region's looming problems of political succession.

A second obvious problem is that, from the perspective of energy development, there are in the region haves and have nots. This would suggest that greater effort should be made to embed Armenia in structures of regional economic co-operation and energy infrastructure.

## **Conclusion**

By way of conclusion, two basic policy issues emerge from the above and from Dr. Müller's paper. In the first place, it is worthwhile for NATO to think systematically about its role in the region, since demands for greater activity are likely to emerge both from the regional states and from major NATO members. Second, NATO's role in the region should probably be seen not in isolation (viz. the PfP emphasis on interoperability and civil military relations), but as part of an integrated effort on the part of Western European (e.g. the EU, the CoE, and the EBRD), European (the OSCE) and international (e.g. the

UN “family”) institutions to address the political, economic, and social dimensions of energy development in the Caspian Basin.

#### *Acronyms*

AIOC	Azerbaijan International Operating Company
CIS	Commonwealth of Independent States
EAPC	Euro-Atlantic Partnership Council
NATO	North Atlantic Treaty Organization
OSCE	Organisation for Security and Co-operation in Europe
PFP	Partnership for Peace
TACIS	Technical Assistance to the CIS
TRACECA	Transport Corridor Europe Caucasus Central Asia
UN	United Nations
UNDP	United Nations Development Program
US	United States
USSR	Union of Soviet Socialist Republics

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