

# CAUCASUS AND CENTRAL ASIA THE EURASIAN REGION - TOWARDS A MORE COMPREHENSIVE EU POLICY

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## **Introduction**

The countries of the Caucasus and Central Asia - sometimes also called the Eurasian region - are drawing more and more attention from the international community. After having for a long time been part of the monolithic Soviet Union, the countries of the Eurasian region have embarked on a process of asserting their political independence and national identity. This process gives rise to threats and opportunities in the region. There is good news and bad news: oil and gas, pipelines, investment, resources, trade, but also regional conflicts, Nagorno Karabakh, separatism, terrorism, fundamentalism, Ferghana valley, Afghanistan, illegal trafficking of drugs, migration, transboundary water management, human rights, environment, the Aral Sea, Semipalatinsk, the status of the Caspian Sea, the role of foreign countries and so on.

## **Policy**

At present the EU does not have a comprehensive policy towards the Eurasian region. It rather has a patchwork of assistance instruments and different policies towards the various countries in the area: first of all Caucasus and Central Asia, but also neighbouring countries like Russia, Iran and even Turkey.

It has Partnership and Cooperation Agreements with countries in the region. It has national instruments and various programmes like Tacis, food security, ECHO, rehabilitation, democracy, Tempus and so on. As to the region as a whole, it has regional programmes like Traceca for transport, Inogate for oil and gas, environment programmes, a nuclear safety programme, and a programme for fighting drugs.

The EU policy towards the region has been mainly "bottom-up". It was rather the unintentional result of the application of various aid and assistance instruments. The EU is the largest donor of grants. It has granted more than Euro2bn to Russia through its Tacis programme on technical assistance and support to nuclear safety. It has spent roughly Euro1bn to the South Caucasus and Euro500m to Central Asia. This investment has, however, not produced dividends in terms of conflict resolution, political stability and economic development. The question rises - in particular in the Caucasus - whether the EU wants to give its engagement in the region a more political dimension and instead of remaining a paymaster becoming more of a peacemaker.

There is an opportunity to develop a more political "top-down" comprehensive approach, which would be the intentional effect of a deliberate policy. Changes in Europe have opened a window of opportunity: thanks to the settlement of the Balkan conflict and the end of the Chechnya war, the decisions on the process of EU enlargement and the adjustments of its institutional structures as decided by the European Council in Nice. Moreover, the development of new policy instruments under its Common Foreign and Security Policy and European Security and Defence Policy will push the EU to look beyond its own borders and its own backyard and devote more attention to its "new near abroad".

The EU will also be pulled to do so. The countries of the Caucasus turn to Europe for their future development. Very strong requests have been made by practically all players in the region for the EU to become more involved than in the past. The EU is for many of them a beacon of light on the horizon. The countries of the Caucasus are part of Europe. Their accession to the Council of Europe demonstrates their interest in forging closer relations with European institutions. But also Central Asia looks for EU support, even if it were only to counter-balance the heavyweight to the North. Current relations are covered by a Partnership and Cooperation Agreement, the overall objective of which is to support consolidation of democratic and economic reform, provide a basis for economic, social, financial, industrial and cultural cooperation and promote activities of joint interest. But some countries already look beyond the PCA. They have expressed the wish of ultimately joining the EU.

The current Swedish Presidency has soon realised this window of opportunity and taken some fresh initiatives. It decided to send the highest level ever EU mission to the Caucasus in February 2001,

including the CFSP Supremo Solana and Commissioner Patten; to start discussions on moving "towards a more effective EU policy on Southern Caucasus"; to strengthen the strategic partnership with Russia; to renew relations with Iran; to help Turkey to prepare for its future accession to the EU; and finally to review relations with Central Asian countries in the framework of the Partnership Agreements.

There are many reasons to use this opportunity. The Union has strategic interests in the region. It is a junction for EU energy interests and an important transport corridor. It gets geographically closer to an enlarged Union since it will border some of the new Member States, including Turkey. It is of strategic importance. Moreover, it is an area where the Union has the potential of playing a constructive role and of making a difference.

## **Eurasian region**

The EU has an overall interest in promoting stability in the Eurasian region. As said before, the region moves politically and economically closer to the heart of Europe, even geographically, as part of it will become a neighbouring region when EU enlargement continues eastward to the Black Sea. The region has abundant energy reserves, a wealth of human resources and a unique richness and diversity of culture and tradition. Its location makes it a potential major crossroads for trade. As a cornerstone of the ancient Silk Road it has invaluable links with the Black Sea countries to its west, Russia to its north, China to its east and Turkey, Iran, Pakistan and India to its south. Future exploitation of the energy reserves in the Caspian region will increase its role as a supplier of energy and a transit zone.

But, at the same time, the region is a sensitive area along some of the major faultlines that condition Europe's stability and security. The diversity of the region's culture and tradition has contributed to complex territorial and ethnic disputes. Some tensions tend to become more acute because of events in North Caucasus (spill over of the Chechnya war), tensions with Russia (visa and gas supply to Georgia), conflict of interests on energy issues (Azerbaijan and Turkmenistan), illegal drugs trafficking, the threat from Taliban in Afghanistan and the rise of fundamentalism and terrorism in the Ferghana valley.

Stability in this sensitive region is essential for developing its potential, in particular its oil and gas resources. No economic development without political stability; but the reverse is also true: no political stability without economic development. They are inter-linked and should be approached as such.

On political stability, the relations between the EU and most of the countries are covered by Partnership and Cooperation Agreements, the overall objective of which is to support consolidation of democratic and economic reform, provide a base for economic, social, financial and cultural cooperation and promote activities of joint interest. Respect for democratic principles and human rights underpin the Agreements. There is no such Agreement with Iran. The EU might decide to start negotiations on a more limited Trade and Cooperation Agreement with this country in order to normalise its economic relationship. On Russia, the European Council has adopted in June 1999 a Common Strategy which aims to reinforce their strategic partnership. On the Caucasus, a Joint Declaration has been adopted by the EU and its partners from South Caucasus (at a Presidential Summit in Luxembourg also in June 1999). The Council recently adopted conclusions and guidelines for the EU's future activities in the Caucasus.

The "frozen conflicts" in the region are a serious impediment to development and cannot be left to fester indefinitely. The EU wants to promote progress in this field, bilaterally, regionally and in international fora. It has committed itself to use its instruments to underpin such progress and to assist the region in post conflict reconstruction and rehabilitation.

On economic development, the region has great potential. Its two main problems are the development of its resources and the access to markets. They are potentially prosperous countries but many are land-locked and far away from world markets. The EU tries to address these issues by carrying out two main programmes, one for resources, oil and gas in particular (Inogate) and the other for transport and transit (Traceca). Let's focus first on oil and gas. This is a sector of strategic importance to the EU. Why?

Europe is the natural market for oil and gas and other natural resources from and through the region. As to gas, the Union is importing 50% of its consumption, out of which about half comes from Russia. The diversification of gas supply through new resources from

the Caspian region would be strategically important for the Union. Concerning oil, in spite of reduced estimates of the Caspian reserves, these resources are also of strategic importance. The region provides a crucial link between the Union and its neighbours and Central Asia. The availability of new incremental sources of energy and other basic commodities will be a significant element in the future development of the countries of the Caspian region itself, those around the Black Sea and the present candidates for accession to the EU.

The main instrument to deal with energy supply and cooperation is at present INOGATE, a Tacis regional programme in the area of oil and gas pipelines. Its main achievement was the "Umbrella Agreement" developing rules governing international oil and gas transport activities. Its objectives are to reduce project risks to standard commercial risks and to help introduce international standards and environmental norms in the sector. Inogate is moving away from its initial focus on the Caspian region to the wider Eurasian region, including Turkey and Iran. It will become instrumental in the implementation of an integrated European approach. Political developments call for a greater integration of the East West energy network.

The other main programme of the EU, TRACECA, aims at facilitating the countries' access to world markets by developing a transport and transit corridor. It is in fact the revitalisation of the ancient Silk Road, a concept which is as brilliant as it is simple. The corridor has been narrowed to one specific route on which to focus actions. Participating countries have identified deficiencies in the region's transport systems and translated them into concrete projects. These projects were essential for the diversification of the traditional Moscow-centred trade and transport flows and to open up trade routes to Europe. Traceca assists countries in transport infrastructure, legal and regulatory issues and management training. It has a strong multiplier effect: by granting roughly Euro50m it has mobilized Euro400m from international financial institutions and Euro1bn from private investors. Its main achievement is the signing of the Multilateral Agreement on Transport in Baku at a Presidential Summit in September 1998. This Agreement paves the way for promoting transport and transit in the Eurasian region.

Regarding the countries in the Eurasian region, let us start with the three countries of the Caucasus. The EU is ready to do its part in building a stable, prosperous and peaceful region. See the Joint

Declaration and the new policy paper. The focus is on developing trade and investment links, completing the transition process, sustainable economic development, assisting confidence building and post conflict rehabilitation, and reconstruction. In this way assistance can become an incentive to constructive change. The EU has enhanced its role in the region and announced its willingness to support efforts to resolve the Nagorno Karabakh conflict. In Georgia (Tskinvali region) the EU combines its rehabilitation programme with an effort to promote conflict resolution. The Commission participated in the recent Joint Control Commission in Vladikavkaz. It also supported the Georgian Border Guards to enable them to protect the OSCE monitors on the Chechen part of the Georgian-Russian border. The EU has financed activities to support transport and transit infrastructure and development of pipeline networks. It has also financed an optical cable linking the three countries. The EU hopes that the South Caucasus could become a model of how long-standing animosity can be resolved peacefully through joint cooperation initiatives.

In Central Asia the EU is faced with an increasing difference between the countries. Instead of developing as a region the countries seem to move away from each other. Kazakhstan and Uzbekistan have the potential of playing an important role in developing the region. Kyrgyzstan and Tajikistan are too small and Turkmenistan has effectively isolated itself. Kazakhstan is most of all concerned about its oil and looking for the best outlet to the world market. It has completed the CPC pipeline and considers access to the Baku-Ceyhan pipeline. It would thus improve the BTC project's economics while extending its strategic benefits of strengthened independence, stability and regional integration. Uzbekistan has gas, cotton and troubles. Its efforts to integrate into the regional and world economy have come to a halt. Instead it managed to create problems with all its neighbours because of terrorism, drugs, gas, water and borders. Turkmenistan's role, however, is less clear. Although it would make sense for Turkmenistan to be a part of an energy corridor to the Caucasus and Turkey, a conflicted and clouded decision-making process in Ashgabad over the past year has made, unfortunately, Turkmenistan's access problematic. The country seems to lose out on all three fronts: Russia, Iran and Trans-Caspian.

To reverse the disintegration trend in Central Asia, the EU has started efforts to promote regional cooperation. One of its key objectives is to use its assistance instruments to encourage the pea-

ceful development of the region. The agreements and conventions which the countries of the region have already signed up to offer a useful basis for the development of regional cooperation in areas such as energy, transport, environment and combating illegal activities. The EU has launched assistance programmes in all these areas. The objective is not political: it is to encourage trade and investment on the basis of international norms, to prevent economic hardship owing to the creation of artificial barriers to trade and transit, and to facilitate work on issues such as water management, the war on drugs and maybe pipelines.

The EU has also launched the initiative to develop a strategic partnership with Russia. The initiative to develop a closer dialogue between the EU and Russia will be vigorously pursued. Russia's commitment to economic and political reform is of fundamental importance. Russia is a key player in the region. It is seen to be "part of the problem". It is not known, however, how Russia could become "part of the solution". The role of Russia is complex. Having strong security and economic interests in the region, as well as historic and strategic connections, its leadership has the strategic choice of either fuelling instability - "divide et impera" - or projecting stability and thus contributing to positive developments - "res concordia crescunt". The EU intends to enhance its dialogue and cooperation with Russia so as to stimulate Russia to develop a stability-promoting policy on the region.

Iran should also be engaged in the development of the region. The EU is willing to address the question if and how to engage Iran in a constructive way in EU dialogue and cooperation in the region. Iran has relations with all countries in the region. It is expected to play a key role in deciding the future status of the Caspian Sea and the creation of a multiple network of pipelines. In particular, by constructing a gas pipeline it may play a crucial part in efforts to find alternative sources of energy for Armenia in the framework of the closing down of the Medzamor NPP and to reduce Armenia's dependency on Russian gas and nuclear fuel.

Furthermore we have to add Turkey. Turkey is one of the most dynamic markets. In spite of its current financial crisis, its enormous and continuously growing demand for energy and its strategic location for transit makes it a very attractive partner for cooperation and investment. Turkey has become a candidate for EU membership. It has pledged to reform, modernise and liberalise its economy. One of the

most surprising developments is the "thaw" in the relations with Greece, allowing for interesting prospects for cooperation, in particular building a gas pipeline between the two countries, thus creating a "Southern Gas Ring" in Europe.

To complete the Eurasian picture we need to add the United States. The EU and US work closely together. They have a permanent dialogue. Both agree on the same principles and objectives of market economy and pluralistic democracy. In energy they agree on the concept of multiple pipelines. They have adopted a common declaration to that effect at their Presidential Summit in 1998. Both support multiple pipelines because they believe monopolies make neither commercial nor political sense. They do differ however on the role of Iran, less so on the role of Russia. It will be interesting to see what policy the Bush administration will pursue. Will it be driven by the Texas oil lobby or rather by the traditional Republican propensity to limit US intervention to areas of vital strategic interest?

## **Conclusion**

Many wonder whether the Eurasian region will become again the theatre of a "Great Game". Let's use the terminology of game theory from political science: the Great Game at the start of the previous century was in fact "a zero-sum game", where someone's gain (Russia) was some one else's loss (Britain), or vice versa. At the start of this new century we may have a Great Game in the modern sense: current instruments and policies are designed to produce "a positive sum game", where everyone could win and no one should lose. If all the countries and parties cooperate in the region there will be finally a "win-win" situation.