

The Black Sea-Caspian Region in Post-Conflict Energy Security Cooperation Scenarios: What Role for the Future?

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Abstract

The expansion of multinational pipelines for the transportation of oil and gas has created new opportunities for both cooperation and competition, with implications for stability and prosperity in the wider Black Sea-Caspian basin where the protracted conflicts in Abkhazia, South Ossetia, Trans-Dniester, Donbas and Nagorno-Karabakh have exacerbated mounting dangers to the regional security situation. The two regions comprising the five Caspian littoral states and the six Black Sea coastal countries have become crossroads for increased commerce and economic development as the old Silk Road is revived. Although each of these countries is trying to evolve its own strategy to confront the issues at hand, there is a lack of comprehensive understanding of the need to address energy security challenges from a regional perspective. It is believed, however, that mutual economic gains can reshape regional mindsets, which, at present, get in the way of tackling the most serious disagreements. Public debate on the commercial value of peace can help the political elite promote confidence-building over intra-regional fractures. Boosting regional cooperation in the energy sector and adopting resource-centered strategies for the management of related natural resources can enhance energy security for the whole region so everybody can win. This opinion piece applies post-conflict scenario planning to the future of the regional energy security cooperation in the Black Sea-Caspian basin and describes collaborative steps that could be taken by all relevant players to think more deeply about promoting the integration of energy markets in this part of the world. Overall, the article examines possible ways the post-conflict energy security cooperation scenarios could contribute to shaping conditions that allow political leaderships to consider negotiated compromise solutions to intractable problems.

Policy recommendations

- Political elites in the Black Sea-Caspian region should place greater emphasis on the critical role of the energy sector as the driving force in incentivizing regional networking and in making energy security cooperation possible.
- All relevant players should take part in a step-by-step consultation process to assess concerns and the willingness for engagement among governments, civil society, and

the private sector, and to examine the important role the post-conflict energy security cooperation scenarios could play in developing specific blueprints that could be implemented in the future.

- Given the strong need for a wider regional dialogue to enable stakeholders to define and harmonize their interests, policies and strategies, government agencies, civil society organizations and private sector institutions should join under the aegis of the OSCE and the Energy Charter to elaborate a post-conflict regional energy security institution for the Black Sea-Caspian basin.
- Due to a rapidly changing geopolitics, demographic problems, energy disasters, climate change, terrorism, cyber-attacks and other global challenges, energy producers and consumers should take the lead in working together to forge a region-wide energy security agenda through regional institutions and in conjunction with the OSCE and the Energy Charter.

Reshaping regional mindsets

Notwithstanding the most acute unpredictability of the new societies in Eastern Europe, the South Caucasus and Central Asia in the 1990s, the young states simultaneously faced the need for intense capital investments in their energy sectors that could drive economic growth. Since then, both the Black Sea and the Caspian basin alike have become crossroads for increased commerce and economic development as the old Silk Road is revived. The two regions' geo-strategic locations,¹ and their resource-provider role in the pipeline game have also had growing implications for the Western world in terms of energy and economic security.

Western democracies have recognized the geopolitical importance of the wider Black Sea-Caspian basin area, thus realizing that new transnational investment projects could provide the flow of substantial energy supplies from the resource-rich region to the global market. With the opening of new transport links from the Caspian Sea between Turkey, Iran and Central Asia, there is the possibility of close economic linkages to Europe via outlets on the eastern shores of the Black Sea to the Mediterranean. Increased energy partnership and economic cooperation could certainly foster greater stability in the region if resource-rich countries implement good governance reforms to ensure transparency between governments and citizens with a view to avoiding the resource curse.²

¹ The five Caspian littoral states include Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan, while the Black Sea is bordered by six countries – Romania and Bulgaria to the west; Ukraine, Russia, and Georgia to the north and east; and Turkey to the south.

² Avoiding the resource curse will depend on the energy-rich countries' ability to create transparent and accountable institutions in order to sensibly use revenues from the resources and to reinvest in weak sectors of the economy. Investing in education,

healthcare, agriculture, tourism, infrastructure and industry is the way to go forward. Such investments are the basis for economic growth, attracting private capital, generating income and encouraging consumption. If these countries succeed in using their natural resource wealth to promote good governance and pursue sustainable growth strategies, energy trade could lead to economic development, thereby offering new opportunities for wider cooperation in the entire region.

However, the geopolitics of energy in the post-Soviet Eurasia looks very complicated.³ The expansion of transport lines of communication for gas and oil has actually created new opportunities for both cooperation and competition, with strategic implications for economic prosperity for both the North and the South. The thorny cases of Nagorno-Karabakh, Abkhazia, South Ossetia, Trans-Dniester, and Donbas have posed the mounting threats to regional security. These negative ramifications are further exacerbated by the undetermined international legal status of the Caspian Sea and clashing regional powers interests in the Greater Middle East. Devising a coherent regional strategy that focuses on an integrated, coordinated approach and recognizes the shared interests of Russia, the West, and the Black Sea/Caspian littoral states is a pressing challenge that remains unmet.

Even so, mutual economic gains can reshape mindsets, which, at present, get in the way of tackling the most serious disagreements. Only a radical change of regional outlook and behavior could really make the difference in separating energy from geopolitics. A common vision of a more connected, secure energy future for the Black Sea-Caspian basin should have a new-found economic pragmatism that must be pursued and prevail over national security concerns. Shaping compromise in the conflict-prone areas may well start with intellectual discourse on energy, transport, trade issues, including their possible social implications, and the rehabilitation of the territories affected by the conflict and the return of internally displaced persons to their homeland. Public debate on commercial and economic values of peace could hence help

³ Elkhan Nuriyev, Russia, the EU and the Caspian Pipeline Gambit. In: *Journal of Energy Security*, Institute for the Analysis of Global Security, USA, 27 September 2015, <[http://ensec.org/index.php?option=com_content&view=article&id=584:russia-the-eu-and-the-caspian-pipeline-](http://ensec.org/index.php?option=com_content&view=article&id=584:russia-the-eu-and-the-caspian-pipeline-gambit&catid=131:esupdates&Itemid=414)

promote intra-regional confidence building cooperation. In this way, political leaders might be offered flexibility on making tough decisions related to conflict settlement by providing them with a careful consideration of post-conflict regional development scenarios.

Put bluntly, emphasis should be laid on the critical role of the energy sector as the driving force in incentivizing regional network and in making energy security cooperation possible. The main goal is to look at all possible ways post-conflict energy security cooperation scenarios could contribute to shaping conditions that allow incumbent political elites to consider negotiated compromise solutions to protracted conflicts and to facilitate reconciliation between the parties. These scenarios likewise play an important role in developing specific blueprints that could be implemented in the future.

What follows below describes the collaborative steps that could be taken by the major players of the Black Sea-Caspian basin in the post-conflict scenario to provide energy security for each individual state and for the region as a whole.

Need for a dialogue-oriented regional approach

Quite evidently, due to increased geopolitical competition over oil and gas pipeline routes, most countries are often under political pressure to secure reliable, sustainable and reasonably priced energy supplies in order to meet commercial transportation energy demand⁴ and to satisfy the growing aspirations

[gambit&catid=131:esupdates&Itemid=414](http://ensec.org/index.php?option=com_content&view=article&id=584:russia-the-eu-and-the-caspian-pipeline-gambit&catid=131:esupdates&Itemid=414)>. Accessed on 15.09.2017.

⁴ Peak demand is now widely discussed. Energy efficiency improvements, urban deindustrialisation and new energy-efficient industrial technologies are only some of the factors that impact energy use and remain

of the economies of the extended Black Sea and the Caspian basin. Hence, energy security must not be a mere slogan but rather an indisputable reality⁵ and an operational approach to vital economic development throughout the region. Although each of these countries is trying to evolve its own strategy to tackle the problem, there is a lack of increased understanding of the need to address energy security from a regional perspective. It is clear that only a constructive, dialogue-oriented regional approach facilitates a more comprehensive and sustainable set of solutions to the challenges of energy security. However, all countries concerned should take further steps towards a more secure political climate and regulatory regime in this rapidly developing region, as territorial conflicts and geopolitical volatility remain a considerable obstacle for energy market development and economic prosperity.

For the time being, there is no single legal framework setting out rules on transit and access to energy infrastructure.⁶ The vast energy potential of the Black Sea-Caspian region can only be unlocked through transnational cooperation. A multilateral structure is hence needed in order to make use of full regional energy potential and to promote unimpeded transit of energy and mitigate energy price fluctuations affecting regional countries, while stimulating energy diversification, including alternative and renewable sources. In recent years, the Organization for Security and Cooperation in

Europe (OSCE) and the International Energy Charter have served as international legal instruments for securing and promoting international energy investments in the Black Sea-Caspian basin. In the post-conflict scenario, both organizations can provide positive contributions, facilitating energy trade and fostering institutional framework for expanding energy cooperation across the countries concerned and for the improvement of the overall energy security in the region. With the OSCE and the Energy Charter acting in concert, a better-interconnected energy market in this part of the world can bring various mutual gains, including supply diversification and new export routes.

Common energy security program in the regional context

All stakeholders should clearly see the logic and need for cooperation between the countries of the Caspian basin and the Black Sea, even though their long-shared history has led to several doubts and misgivings. However, energy cooperation in the region has to be approached in a step-by-step manner. First and foremost is the need for these countries to spell out detailed energy cooperation plans that have long-term demonstrable gains. In order to achieve tangible outcomes, the energy security plans of each country should clearly indicate a

crucial challenges for energy and climate policies, while still seeing rises in energy consumption. For an interesting overview, see 2017 Outlook for Energy: A View to 2040, ExxonMobil, <<http://cdn.exxonmobil.com/~media/global/files/outlook-for-energy/2017/2017-outlook-for-energy.pdf>>. Accessed 15.09.2017.

⁵ Energy security is commonly understood as a long-term and stable provision of adequate, secure and cost-effective energy supplies that ensures sustainable economic and social development. For example, the International Energy Agency (IEA) defines energy security as the uninterrupted availability of energy sources at an affordable price. See

<<https://www.iea.org/topics/energysecurity>>. There is also an enormous amount of scholarly discussion on this issue. For interesting insights, see Aleh Cherp and Jessica Jewell, The Concept of Energy Security: Beyond the Four As. In: *Energy Policy*, Volume 75, December 2014, pp. 415-421. Accessed on 15.09.2017.

⁶ At present, regional organizations, like GUAM (Georgia, Ukraine, Azerbaijan and Moldova) and the BSEC (the Black Sea Economic Organization) have not so far been able to fulfil expectations since both are not playing a crucial role in developing the energy security regime in the Black Sea-Caspian region. Therefore, there is a strong need to leverage existing legal and functional frameworks.

willingness to cooperate with the other countries of the region. Cooperation between the countries could range from an exchange of experience to a complete integration of the operation of electric power and gas networks.

A gradual regional approach is to be followed starting with limited exchanges that can build mutual trust and confidence. Such an approach to energy security, including coordinated planning and risk mitigation, should yield significant benefits to each country and to the region as a whole. In fact, the perceptions of risk to the region's energy supply security are very similar for each country in the Black Sea-Caspian basin. This consistent level of concern could well serve as the basis for developing a common regional energy security program.

Towards a regional energy community: key post-conflict recommendations

The necessity for establishing a regional energy community would arise from the uncertain future of the energy sector due to a rapidly changing geopolitics, demographic problems, migration processes, energy disasters, climate change, terrorism, cyber-attacks and other global issues. Emphasis should therefore be put on consultation and cooperation to lay the groundwork for an Energy Policy Management Institution for the Black Sea-Caspian region. It is about a regional model for modern institution building for managing a crisis coping mechanism in the aftermath of energy disasters in Eastern Europe, the South Caucasus and Central Asia. Most regional actors⁷ can hardly handle the consequences of major energy problems.

⁷ For example, Russia is the most powerful energy player in the region, albeit Moscow is susceptible to price volatility. Elsewhere in the Black Sea-Caspian basin, high energy prices have their benefits, especially in countries like Azerbaijan, Iran, Kazakhstan and

Capabilities, resources, and practical experience are unequally distributed. Consequently, a regional institution pooling resources and sharing capabilities with an integral and rapid response mechanism capability for energy-related disasters would create synergies.

Good examples of international coordination to take collective response actions are the IEA's Coordinated Emergency Response Mechanism, the Euro-Atlantic Disaster Response Coordination Cell, the EU Community Mechanism for Civil Protection, the Eastern Partnership flagship initiative for Prevention, Preparedness and Response to Natural and Man-made Disasters, and the Working Group on Cooperation on Emergency Assistance of the Black Sea Economic Cooperation Organization. Avoiding duplication with existing cooperation mechanisms, however, is strongly recommended. Instead, there is a need for a new regional model that aims to help the riparian countries to reduce their vulnerability to disasters by developing comprehensive and coordinated approaches to early recovery and consequence management in the aftermath of disasters. After all, multinational institutions are set up to bring competing national interests within the realm of the public good, especially in conflict resolution situations.

In essence, the creation of a neutral institution, the Black Sea-Caspian Energy Security Foundation, would be an important first step in this regard. The member countries would make contributions to this institution, which could further be supplemented through donations from multinational agencies and energy companies from the region. All the member states would have equal rights in this institution, irrespective of their contribution.

Turkmenistan. On the other hand, the high price of energy is detrimental to energy-poor countries, like Armenia, Georgia and the self-proclaimed republics of Abkhazia, South Ossetia and Nagorno-Karabakh where the dependence on larger regional actors is strongly felt.

The stakeholders of this Foundation would rely on a Permanent Secretariat and on the work of prominent energy sector professionals far and wide.

Ultimately, what is needed is a regional energy security system that provides benefits to industries, businesses and citizens of the Caspian basin and the Black Sea, and supports the national development aspirations of each country. The energy situation in the South Caucasus, the Caspian basin and the Black Sea represents a tremendous opportunity to design and implement a regional energy strategy that can truly strengthen stability and security of each country. There is strong need to task the Foundation with promoting the unimpeded transit of energy and mitigating energy price fluctuations affecting regional countries, while at the same time stimulating energy diversification, including alternative and renewable sources.

Besides, the Foundation would aim to bring private sector organizations, industrial associations and investment banks from the participating countries together to promote inter-country development prospects. It would serve to identify mutually beneficial investment opportunities for local entrepreneurs and to foster regional economic diplomacy and understanding of the business environment in different countries. Private sector investors with assistance from regional governments and multilateral financial institutions could facilitate access to funding sources via the Foundation mechanism. All this would expedite project implementation, help create stakeholders with interests across the region, mitigate regional energy and political risks, increase mutual respect and raise the level of confidence.

Beyond doubt, an independent regional gas grid is today only a remote possibility. But if major pipelines connecting Azerbaijan and Georgia with Central Asia materialize, the

feasibility of expanding the natural gas grid to China, Pakistan and Afghanistan could be explored as a step towards the development of a regional gas grid. It can be proposed that a study group be constituted, at the appropriate time, to examine the techno-economic feasibility of establishing a regional gas grid. The interested parties could also consider creating an oil and gas price contingency fund as a means to finance the additional cost burden during short price spike periods.

It is likewise recommended to establish the Black Sea-Caspian Energy Security Center, the permanent representative institution of excellence that will serve as a think-tank of all the member countries to address energy concerns on the regional level. The primary objective of this Center is to facilitate intra-regional energy planning and research, form regional energy database, develop relevant information materials, produce special reports and position papers, provide training and design exercises on prevention of, and response to, energy disasters.

Overall, a step-by-step consultation process to assess concerns and the willingness for engagement among stakeholders should be presented to the OSCE, the Energy Charter and the European Bank for Reconstruction and Development (EBRD). Such a move would enable to take the following steps:

First, strengthening regional capability by enhancing coordination on energy issues, including disaster response legislation, policies and strategies in the entire region;

Second, facilitating intra-regional energy trade through power-grid interconnection;

Third, promoting regional energy efficiency and conservation as a means to manage demand;

Fourth, developing long term energy stability by promoting new and sustainable power sources;

Fifth, providing a regional and global energy information exchange platform;

Sixth, enhancing regional expertise in energy development and management;

Seventh, promoting private sector investment in energy activities in the region;

Eighth, supporting regional energy disaster response, as well as energy disaster preparedness and disaster risk reduction.

Even today the need for regional energy security has become a compelling reality for the Black Sea-Caspian basin, as evidenced by the fact that each country in this region is seriously exploring avenues and options to meet future energy demand. Working towards closer energy trade and wider regional cooperation would be possible if an active body involving not only the government authorities but also business circles in the region's energy sector participated. Development of regional energy markets will therefore require governments, academics and private sector institutions to come together to discuss openly and freely the issues involved – including the apportionment of costs and benefits – in a transparent, fair, and equitable manner. In all these activities the governments should serve as partners, though this can make it difficult for the Foundation and the Center to take speedy concrete action, as many of the proposals get mixed up with non-energy political matters and concerns of the member countries.

Nevertheless, the Foundation and the Center could help pursue the ideas discussed above. Both institutions could insulate energy-related issues from undue political interference. The collaborative work of scientists, engineers, technologists, civil society leaders, public opinion makers, media, and businessmen

from the region could help create an environment of mutual trust and closer cooperation in the energy sphere. This is necessary not only for the development of the energy sector but also for the subsequent improvement of the socioeconomic status of all these countries.

Last but not least, the aforementioned post-conflict recommendations can become the object of comprehensive debate among the state actors, nongovernmental organizations, scholars, experts, practitioners, businessmen, and can be also considered by international organizations like the OSCE, the Energy Charter and the EBRD.

Conclusion

Still, the Black Sea and the Caspian basin both remain dangerous flashpoints. As the European Union's Energy Union, the Eurasian Economic Union, and the Silk Road Economic Belt are currently evolving in Eurasia, the post-Soviet countries involved in these big integration projects are straddling fault lines and choosing sides in the entire region. A lot of challenges facing the Black Sea/Caspian littoral states have put them at the juncture of those potential fault lines. Notwithstanding that the leaderships in these regions is lacking the political will for the moment, all relevant players fully realize the necessity of establishing a common regional energy community that may help them avoid the fragmentation of energy markets in Eurasia.

There would be a need for a wider regional dialogue to assess feasibility, enable stakeholders to define and harmonize their interests, policies and strategies. The governments and interested parties from civil society and the private sector should join under the aegis of the OSCE and the Energy Charter to elaborate a post-conflict regional

energy security institution, according to the step-by-step consultation process described above. Engaging through the OSCE platform for discussions and gaining invaluable experience from the Energy Charter would facilitate interaction on launching and implementing the entire project. Such a dialogue could result in producing a final declaration at ministerial level expressing stakeholder buy-in and commitment to creating the Black Sea-Caspian Energy Security Foundation and the corresponding Center.

Although the idea of building the putative energy policy management institution in the Black Sea-Caspian basin sounds idealistic today, it may well turn out to be realistic in the post-conflict scenario. Energy reliability is therefore a requisite for future geopolitical stability of the whole region. This means resource diversification, infrastructure investment and energy efficiency remain very relevant to all countries in the long term. Energy security efforts conducted independently by individual states may prove counterproductive to collective energy security management. The energy producers and consumers could take the lead in working together to forge a region-wide energy security agenda through regional institutions and in conjunction with international organizations such as the OSCE and the Energy Charter. In so doing, they could establish sound energy policy that would be applied to meeting common energy challenges without geopolitical tumult. This could indeed be a real win-win proposition but is only feasible once protracted conflicts are resolved, or a

meaningful progress in the peace process is reached.

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