

CORRIDOR OF POWER: THE CAUCASUS AND ENERGY SECURITY

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Abstract

This article examines one of the key drivers of the South Caucasus's escalating international significance, its role as both a source of and transit route for hydrocarbons. Energy security has become a significant factor driving deepening international engagement with the South Caucasus and there is a need to ensure reliable and stable export routes for hydrocarbons from the Caspian Sea region. Whilst the development of new pipeline infrastructure has brought many benefits to the area, it is still beset with unresolved conflicts that threaten to undermine the progress made in terms of economic and political stability, as well as regional co-operation.

Keywords: *South Caucasus, energy security, Caspian Sea, EU, Russia, Iran, USA*

Introduction

The key strategic location of the Caucasus, squeezed between the Black and Caspian Seas, Iran, Russia and Turkey, make it an area of growing importance in the contemporary security environment, particularly given regional instability and the potential threat to western economic interests because of its energy resources and transport infrastructure. Energy represents one of the most important aspects of the growing international significance of the Caucasus region, and organisations such as the European Union (EU) consequently have a keen self-interest in the development of stability and security in the Caucasus.¹ In May 2003, Nato Secretary-General Lord Robertson described the Caucasus as an 'area of crucial importance to [Nato's] common security', describing the countries of the Caucasus as front-line states in the battle against threats such as terrorism, proliferation and regional instability.² The European Parliament's 2004 Gahrton report also recognised the region's growing importance, particularly that of the south, stating that 'due to its geographical location, the South Caucasus can play an increased role in strengthening international security; whereas if it is instead left out of the evolving networks of

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¹ The Tannock report on the European Neighbourhood Policy (ENP), published in December 2005, described energy policy as an important aspect of the EU's policy as 'the EU is surrounded by the world's largest oil and natural gas reserves (Russian and the Caspian basin, the Middle East and North Africa) and many countries in the neighbourhood...are suppliers or....transit countries'. *Report on the European neighbourhood policy* (2004/2166(INI)), European Parliament, Committee on Foreign Affairs, Rapporteur: Charles Tannock, 7 December 2005, A6-0399/2005, p. 10. This reinforced the opinion of the earlier Gahrton report, which asserted that the South Caucasus region would become increasingly important for energy supply to the EU.

² Speech by Lord Robertson delivered at the French University, Yerevan, Armenia on 15 May 2003, www.nato.int/docu/speech/2003/s030515a.htm.

interdependence and co-operation, the susceptibility of the South Caucasus states to the danger of export of instability from neighbouring regions would increase'.³

This article will examine one of the key drivers of the South Caucasus's escalating international significance, its role as both a source of and transit route for hydrocarbons. The region constitutes a vital land bridge between Asia and Europe, physically linking the Caspian Sea region and Central Asia with the Black Sea and Western Europe. Its role as a critical link between East and West is demonstrated most vividly by its increasing importance as a transport and communications corridor, particularly as a transit route for hydrocarbons from the landlocked Caspian Sea region to international markets. This role has been boosted with the commissioning of the Baku-Tbilisi-Ceyhan (BTC) and South Caucasus (SCP) export pipelines, essential elements in developing the hydrocarbon base in the Caspian basin. The Caspian is set to become an important source of oil and gas both for EU member-states and Asian countries as they seek to diversify sources to secure supply and avoid over-reliance on any one country. By 2020 it is estimated that two-thirds of the EU's energy requirements will be imported, with European gas consumption in particular set to grow dramatically over the coming decades as indigenous reserves decline. Consequently, EU member-states are going to become increasingly reliant on suppliers located on the organisation's periphery, particularly to the East and South.

In addition to deepening engagement with the South Caucasus on the part of European countries and organisations, there has also been greater cooperation between the region and countries in Asia, where economic growth is fuelling a voracious appetite for oil and gas. With no significant reserves of their own and a serious oil habit to feed, many countries in the region are dependent upon imports of oil and gas.

Thus, energy security has become a significant factor driving deepening international engagement with the Caucasus region and there is a need to ensure reliable and stable export routes for Caspian hydrocarbons. Energy security, particularly the challenge of transporting resources to global markets, has emerged as an issue of great importance in recent decades, as countries have become increasingly reliant upon imports of hydrocarbons rather than indigenous resources.⁴ Security of supply impacts on the wider concept of state security and supply disruption can seriously undermine a country's economy and its stability. The Caucasus is consequently tied into the wider network of international economic security, providing a vital route for the export of oil and gas from the Caspian region to international markets. In the future it is hoped that it will be a key part of a fully integrated transportation system, the 'new Silk Road' that will include pipelines, railways, fibre-optic cables and power transmission grids linking Western China with Europe.⁵

³ Report with a proposal for a European Parliament recommendation to the Council on EU policy towards the South Caucasus (2003/2225(INI)), European Parliament, Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy, Rapporteur: Per Gahrton, 2 February 2004, A5-0052/2004, p. 7.

⁴ In recent years the G8, EU, US Congress and White House have all put energy security back to the top of their agendas. For a comprehensive analysis of the issue of energy security see Daniel Yergin, 'Ensuring Energy Security' *Foreign Affairs*, Vol 85, No 2, March/April 2006, pp. 69-82.

⁵ For further details, see S Frederick Starr (ed.), *The New Silk Roads: Transport and Trade in Greater Central Asia* (Washington DC: Central Asia-Caucasus Institute & Silk Road Studies Program, 2007)

Caspian Resources

Following the collapse of the Soviet Union in 1991, the Caspian region was heralded as the Middle East of the future. However, the euphoria and optimism that accompanied the initial involvement of foreign investors in the region has been tempered by difficult operating conditions, both political and geological. Although the Caspian has been lauded as the new Middle East, current proven reserves indicate a greater similarity with the North Sea than with the Persian Gulf (see table below).

Comparison of Proved Reserves in the Caspian and Middle East, 2006

	Proven Oil Reserves (billion barrels)	Share of Global Total %	Proven Gas Reserves (trillion cubic metres)	Share of Global Total %
Azerbaijan	7.0	0.6	1.35	0.7
Kazakhstan	39.8	3.3	3.0	1.7
Russia	79.5	6.6	47.65	26.3
Saudi Arabia	264.3	21.9	7.07	3.9
Iran	137.5	11.4	28.13	15.5
UK	3.9	0.3	0.48	0.3

Source: Figures taken from *BP Statistical Review of World Energy*, June 2007, www.bp.com.

The North and South Caspian basins are very different. The North is comprised of shallow waters, which are ice-bound during the winter months, presenting a serious technical challenge for energy companies. The South is deeper, but is not thought to contain as much oil. Exploratory drilling in the South Caspian basin has significantly reduced estimates of future oil potential and foreign companies have begun to adopt a more moderate attitude towards the development of the Caspian's hydrocarbon reserves. Some results suggest the Azeri part of the Caspian may be more gas- than oil-prone. Nevertheless, Azerbaijan has become increasingly important to the economic security of the West as international oil companies have spent vast sums of money on exploration and development in the wider Caspian region, which is expected to be producing three million barrels of crude oil per day (150m tonnes per year) by 2010. In 1994 the Azeri government concluded its first international oil agreement, the so-called 'contract of the century', with a consortium of global oil companies. The US\$ 8 bn deal established the Azerbaijan International Operating Company to develop the Azeri, Chirag and Guneshli offshore fields in Caspian Sea. Recent exploration in the Azeri sector of the Caspian Sea has been disappointing, with the exception of the BP-led Azeri-Chirag-deepwater Guneshli (ACG) superstructure, and several wells have been plugged.⁶

⁶ The Azeri-Chirag-Guneshli concession is the largest international project in Azerbaijan and comprises three fields with total reserves estimated to be at least 5.4bn barrels of recoverable oil. BP, the operator, believes that the fields will reach optimum output between 2008 and 2010, with production amounting to over one million barrels per day. For further details see BP Caspian, www.bp.com/lubricanthome.do?categoryId=6070&contentId=7013331.

Consequently, it is estimated that two-thirds of future oil production will be from the North Caspian basin, predominantly from the giant offshore Kashagan field being developed by the Agip KCO consortium. It is hoped that Kashagan will prove to be one of the world's largest offshore fields and also provide a reliable indicator of the Caspian's potential oil supply. Exploratory drilling has indicated that the field holds up to 38 billion barrels of oil, of which approximately 25 per cent (7-9 billion barrels) can be produced. However, the issue of how to export oil from the field, once production commences in 2010, has been much-debated and Kazakhstan has been seeking to keep its options open in terms of export routes. Currently, all export routes that run out of Kazakhstan along the east-west axis are controlled by Moscow.

In June 2006, the presidents of Azerbaijan and Kazakhstan signed a bilateral agreement on exporting Kazakh oil to international markets through the BTC. This was followed at the beginning of 2007 with the signing of a memorandum on the development of a Kazakh Caspian Transportation System. The agreement, signed with Agip KCO, the operator of the giant offshore Kashagan field, and the TCO joint venture, which is developing Tengiz, intends to develop oil shipment routes to deliver crude from Kashagan and Tengiz to the BTC.⁷

Comparison of Oil and Gas Production in the Caspian and Middle East, 2006

	Oil Production (bpd)	Year-on-year change %	Gas Production (Bcm)	Year-on-year change %
Azerbaijan	654,000	+44.9	6.3	+18
Kazakhstan	1,426,000	+5.6	23.9	+2.7
Russia	9,769,000	+2.2	612.1	+2.4
Saudi Arabia	10,859,000	-2.3	73.7	+3.5
Iran	4,343,000	+1.2	105	+4.1

Source: Figures taken from *BP Statistical Review of World Energy*, June 2007, www.bp.com.

Pipeline Politics

As can be seen, countries in the Caspian region such as Azerbaijan and Kazakhstan have considerable hydrocarbon reserves and hope to become major players on the world energy market. However, even if they increase the production of hydrocarbons significantly, there is still the difficulty of transporting products from the remote, landlocked Caspian region to lucrative international markets. Limited export options, as well as reliance upon the Russian pipeline network and neighboring countries, have so far served to restrict the ability of countries in the Caspian to profit from their extensive oil and gas reserves.

During the Soviet era, the routing of pipeline infrastructure was not a prominent issue for oil-producing areas of the USSR – pipelines were constructed to serve the needs of the Union and thus republics such as Azerbaijan were part of the national network, which generally flowed towards western Russia and Moscow. However, independence has meant that the question of how to get oil and gas out of a relatively isolated area to lucrative international markets has progressively risen to the top of the agenda for producers in the

⁷ See www.kmg.kz.

Caspian region. Until recently, countries in the region were reliant upon the Russian network of pipelines to reach European consumers, undermining their political and economic autonomy and giving Moscow substantial leverage. In 1997 Azeri President Heydar Aliyev announced that his country was 'no longer prepared to be totally dependent upon Moscow' for the transit of its oil.⁸ Consequently, there has been considerable investment in new international export pipelines over the past decade.

Two new pipelines came on-stream at the end of the 1990s to transport Azeri oil from the Caspian to the Black Sea: one linking Baku to Novorossiysk on Russia's Black Sea coast, and another linking Baku to Supsa on Georgia's Black Sea coast. Transit via the Baku-Novorossiysk pipeline has in the past been subject to disruption by the ongoing conflict in Russia's North Caucasian republic of Chechnya, meaning that the Georgian line from Baku to Supsa has been pumping at full capacity.⁹ However, these two pipelines increased the volumes of oil flowing to Black Sea ports and consequently increased the burden on the already congested Turkish Straits. There was a need to develop new pipelines that bypass the Black Sea in order to reduce shipping congestion in the Straits, which pass through Istanbul and are one of the most crowded and hazardous waterways in the world.¹⁰

In May 2005 the controversial Baku-Tbilisi-Ceyhan (BTC) oil pipeline came on-stream, transporting oil from Azerbaijan via Georgia to the Turkish deepwater port of Ceyhan on the Mediterranean, a vital element in expanding oil production in the Caspian basin.¹¹ The transnational pipeline was not only a triumph of engineering, its construction also represented the successful culmination of years of regional and international collaboration. The 1,768-kilometre pipeline will allow a million barrels of oil a day to be exported from the Caspian and is expected to bring significant benefits to the wider region. The 692-km South Caucasus Pipeline (SCP) runs parallel to the BTC and transports gas from the giant offshore Shah Deniz field in the Azeri sector of the Caspian Sea through Georgia to Erzurum in Turkey, where it connects with the Turkish domestic supply network. Once it reaches full capacity the pipeline will be able to export 16 billion cubic metres of gas per year.

The commercialisation of the BTC and SCP pipelines has created substantial revenues for the transit countries, and will help strengthen economic and political links between Azerbaijan, Georgia, Turkey and the West. In addition to providing the region with direct access to world energy markets, bypassing Russia, they will provide economic benefits in the form of transit revenues. According to a recent study, oil transportation tariffs will rise from US\$0.89 to US\$1.86 per ton, adding US\$62.5m per year to Georgia's national

⁸ Quoted in *Nezavisimaya Gazeta*, 16 August 1997.

⁹ In an attempt to alleviate the threat from the Chechen conflict, a 312-km bypass around Chechnya through Dagestan was constructed. However, the Baku-Novorossiysk route is less favourable as it is longer and more expensive than the Western route to Supsa. Furthermore, it mixes AIOC crude with other, poorer quality crudes during transit, thereby reducing its value.

¹⁰ The Straits constitute a key 'chokepoint', a point that is critical to the global oil trade because of the amount of crude that passes through, but which could easily become blocked, either as the result of an accident or a terrorist attack. There are also major concerns about the environmental risks posed by further growth in oil-related traffic along the Bosphorus through the heart of Istanbul. For further details see Christopher Slaney, 'Turkish Concern for Bosphorus Complicates Oil Transport Scenarios' *Washington Report on Middle East Affairs*, Vol 23, Issue 4 (May 2004), pp. 34-41.

¹¹ A total of 10 million barrels of oil from the Azeri-Chirag-Guneshli fields in the Azeri sector of the Caspian Sea were required to complete the filling of the pipeline and the first cargo of oil transported through the pipeline was exported from Ceyhan in June 2006.

budget.¹² This can only boost the country's economic security and, as a result, increase stability.

The region has also benefited from increased cooperation between states as a result of the construction of the pipelines. The successful completion of the BTC and SCP pipelines has given renewed impetus to a project to connect the rail networks of Azerbaijan, Georgia and Turkey and open the way for a possible link from China, through Central Asia and the Caucasus, to the European Union. The Kars-Akhalkalaki railway line has been under discussion for over a decade, but little progress has been made on the project to date. A feasibility study was conducted in 2005 and in November 2007 the presidents of Azerbaijan, Turkey and Georgia launched construction with a groundbreaking ceremony in southern Georgia.¹³ The 98-km link between Kars in Turkey and Akhalkalaki in Georgia would be the final link in the region's network, connecting Baku with Istanbul. Akhalkalaki in southern Georgia is currently very isolated and would benefit from greater integration both into the national and regional economy. It is located in the Samatskhe-Javakheti district of Georgia, which is populated by an Armenian majority of over 90 per cent. The Georgian government has been making efforts to rebuild links between the region and the centre, and the Kars-Akhalkalaki railway is key to this.¹⁴

Transnational infrastructure projects such as the BTC require states to work together to address threats that may jeopardise the development, thus regional cooperation and security integration is boosted. Furthermore, the fact that much of the Caspian region is landlocked, particularly key oil producers such as Azerbaijan and Kazakhstan, means that countries have been forced to rely upon their neighbours to cooperate in order to transport their resources to market. It also means that the benefits of these resources have been shared to some extent with those countries who do not possess them, contributing to greater stability in the region. The challenge is to overcome tensions and resentment from those who do not stand to profit. Armenia's isolation in the Caucasus region, the result of the ongoing conflict with Azerbaijan over Nagorno-Karabakh (see below), means that it will not benefit at all from the so-called 'wall of money' brought in by the new pipelines and development of Caspian resources, which could only serve to further destabilise the volatile region.

Both the BTC and SCP pipelines have considerable symbolic significance, providing a direct link between the Caspian region and Europe. The BTC has been described by one

¹² S. Frederick Starr & Svante E Cornell, *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West* (Washington DC: Central Asia-Caucasus Institute & Silk Road Studies Program, 2005), p. 87. The study also estimates that the pipeline will lower the level of unemployment by over 30 per cent and contribute to a rise in GDP.

¹³ Starr (ed.), *The New Silk Roads*, pp. 312-3.

¹⁴ Poor communication and transport links with the rest of Georgia, combined with a nearly homogenous ethnic composition, have reinforced the region's sense of isolation and tension in the region has been growing. Akhalkalaki is the site of one of the two remaining Russian bases in Georgia, which is one of the dominant employers in the region. The impending closure of the base, in line with a detailed timetable agreed with Moscow in 2006, has raised concerns about the economic impact and loss of jobs, and the consequences this could have for an already tense region. The Kars-Akhalkalaki railroad could go some way to dissipating these concerns and tensions. Azerbaijan has agreed to provide a US\$220 million loan to finance the construction and reconstruction of the Georgian portion of the railway. In addition, a new road from the Turkish border to Georgia and passing through Samtskhe-Javakheti is under construction, financed by the US Millennium Challenge Account. For further details see *Minorities in the South Caucasus – Factor of Instability?*, 166 CSCDG 05 E, Nato Parliamentary Assembly, Committee Reports, 2005 Annual Session, Rapporteur: Bert Middel (Netherlands), <http://natopa.ibicenter.net>.

observer as an ‘umbilical cord’, anchoring Azerbaijan and Georgia firmly within the European perspective.¹⁵ It also gives Europe direct access to Central Asia. Pipelines are the most tangible manifestation of the growing connections between the Caucasus region and Europe, but they are fraught with geopolitical significance. Construction of the BTC was heavily backed by the US, which was keen to ensure that east-west export routes from Central Asia and the Caucasus bypass Iran and Russia, thereby weakening their influence in the region. Not only does the pipeline bypass both of these traditional rivals for influence in the Caucasus region, it also underpins relations with Turkey.¹⁶ Its construction has significantly altered the balance of power in the region, strengthening the political and economic autonomy of Azerbaijan and Georgia, reducing Russian dominance and cementing the involvement of Western actors such as Europe and the US.

Some Russian observers have described the issue of pipelines in the Caspian region as a ‘battle for domination’, particularly on the part of the US, which ‘is seeking to accelerate the process of the political and economic isolation of former Soviet republics from Russia’.¹⁷ According to this analysis, the battle between Russia on the one hand and Turkey, Azerbaijan and the US on the other, over the transport of oil from the Caspian region is not just about securing transit revenues, it is predominantly about securing geopolitical influence in the region. Whilst this view ascribes little autonomy of action to the states involved, who are seeking to protect their fledgling independence, it does highlight the suspicion with which Moscow regards growing Western (particularly US) influence in the Caucasus and Caspian region.¹⁸

Elizabeth Jones, Assistant Secretary of State for European and Eurasian Affairs, hinted in 2003 at future US plans in the South Caucasus in a speech that made it very clear the Bush administration has no plans to disengage from the region, reaffirming its commitment ‘in the strongest terms... as a stable and prosperous Central Asia and the Caucasus will mean a more secure world for the American people and a more prosperous future for the people of the region’.¹⁹ In June 2003 the Pentagon unveiled plans to increase the number of US

¹⁵ Cornell and Starr, p. 17.

¹⁶ The Iranian route down to the Persian Gulf would have been the shortest route and would also have offered direct access to Asian markets. However, the idea of Iran profiting from Caspian resources was unpalatable to the US administration. For further details of US interests in the Caspian region see *The Caucasus and Caspian Region: Understanding US Interests and Policy*. Hearing before the Subcommittee on Europe of the Committee on International Relations, House of Representatives, 107th Congress, First Session, 10 October 2001 (Washington D.C.: US Government Printing Office, 2001).

¹⁷ SS Zhil'tsov, IS Zoni & AM Ushkov, *Geopolitika kaspiskogo regiona*. (Moscow: mezhdunarodnyie otnosheniya, 2003), p. 110.

¹⁸ Russian successes in the region, such as the subsea Blue Stream gas pipeline, are considered to be the result of the ‘failure of American pipeline strategy in the Caucasus and Central Asia as a whole’. Zhil'tsov *et al*, p. 131. Georgia in particular has witnessed a veritable flood of assistance from the US: financial support to date totals over US\$1bn. The US\$64m ‘Train and Equip’ (GTEP) programme, which ran from 2002 to 2004, has been replaced by a 16-month, US\$64m Sustainment and Stability Operations Programme (SSOP) launched in 2005.

¹⁹ ‘We are committed to long-term engagement in the countries of Central Asia and the Caucasus – through both diplomacy and assistance. Counterterrorism will remain a prominent and integrated element of our assistance. We plan to put more resources into counter-narcotics and law enforcement cooperation across the region, where porous borders and weak law enforcement have created significant opportunities for terrorists and those trafficking in illicit weapons and drugs... The United States is wholly committed to intensive engagement and dialogue with each of the nations of this pivotal region of the world.’ *US Engagement in Central Asia and the Caucasus: Staying our Course Along the Silk Road*. Remarks by Elizabeth Jones, Assistant Secretary of State for European and Eurasian Affairs, at ‘Central Asia: Its Geopolitical Significance

troops in the Caucasus region to ‘assure the long-term viability’ of Caspian energy resources. The proposal, part of the redeployment of American forces from western Europe, would see as many as 15,000 troops moved to the Caucasus, with some rotating through bases in Azerbaijan and possibly Georgia.²⁰

Moscow is seeking to retain its influence over former Soviet states such as Moldova and Belarus, believing that it has ‘lost’ Georgia and Ukraine to the West. President Vladimir Putin has insisted that Moscow will continue trying to influence affairs in former Soviet states, dismayed at perceived Western attempts to ‘manufacture democracy’ in what it considers to be its own ‘strategic backyard’.²¹ As a result, Moscow has been seeking to re-assert its waning hegemony by means of political posturing and sabre-rattling, attempting to manipulate separatist conflicts as foreign policy instruments.

War and peace

Regional leaders hope that the development of several oil and natural gas export pipelines will bring peace and prosperity to the Caucasus, which is crucial to ensure the uninterrupted supply of oil and gas to world energy markets. As discussed above, the new pipelines will strengthen the economies of the transit countries, boost environmental security in the Turkish Straits and enhance regional co-operation. However, the pipelines cross a very volatile part of the world, both in political and geological terms, and the stability of the Caucasus and, thus the security of energy supplies, is threatened by the unresolved conflicts which divide the region.

Problems within the Caucasus can no longer be regarded as extraneous to the security of the West: separatist conflicts in Nagorno-Karabakh, Abkhazia and South Ossetia, as well as the long-running conflict in Chechnya, have implications not only for stability in the Caucasus region, but also for Europe and the wider international community. Although these unresolved conflicts are unlikely to physically impact upon energy infrastructure such as pipelines, continued instability in the region could deter future investment.²² The conflicts undermine wider regional stability, not just because of the threat of a renewal of fighting, but because they have created ‘black holes’ without government control, providing ideal conditions for security challenges such as terrorism, organised crime and illegal trafficking to flourish. Furthermore, the conflicts undermine efforts to boost regional co-operation, hampering economic development and further destabilising the region.

and Future Impact’ Conference. Conference hosted by Title VI Undergraduate International Studies and Foreign Language Programme Directors, University of Montana, Missoula, Montana, 10 April 2003, www.state.gov/p/eur/rls/rm/2003/19606pf.htm.

²⁰ *The Wall Street Journal*, 10.6.03, internet version, www.wsj.com

²¹ Vladimir Putin, *Annual Address to the Federal Assembly*, 25 April 2005, The Kremlin, Moscow, www.kremlin.ru. The democratic ‘revolutions’ in Georgia, Ukraine and Kyrgyzstan were viewed as part of a Western conspiracy to usurp Russian influence, an opinion expressed in the government-controlled newspaper *Rossiiskaya Gazeta* in December 2004, which argued that ‘Russia cannot afford to allow defeat in the battle for Ukraine’ as it ‘would mean velvet revolutions...in Belarus, Moldova, Kazakhstan, Kyrgyzstan and possibly Armenia’. *Rossiiskaya Gazeta* (internet version), 2.12.04. www.rg.ru. Quoted in Graeme P Herd, ‘The “Orange Revolution”: Implications for Stability in the CIS’ *Conflict Studies Research Centre*, January 2005. (Camberley: 2005)

²² For example, the BTC is buried at least one metre below the surface as it transits Azerbaijan.

Conclusion

A whole series of issues have greatly elevated the strategic importance of the South Caucasus in recent years: regional instability, the threat to Western economic interests, and its key strategic location make the region of increasing importance in the contemporary security environment. But it is the region's role as a key transit route for the export of hydrocarbons from the landlocked Caspian Sea region that have really put it on the international map and tied it into the global economic system. However, this role has proven to be something of a mixed blessing.

The BTC and SCP pipelines have strengthened the economic security of both Azerbaijan and Georgia, helping the two countries move away from the Russian sphere of influence and more firmly orient themselves towards the West. They have also boosted the political security of the two countries, by strengthening their political and economic autonomy and boosting the involvement of external actors in the region. However, as Azerbaijan and Georgia seek to move away from the Russian sphere of influence, they are becoming more influenced by Western powers such as the US and EU. While they might be small countries in terms of territory, they are at the same time increasingly important as energy corridors. The region is playing a key role in enabling European countries to reduce their dependence on Russian energy and should also enable Asian countries to diversify and reduce their reliance on the Middle East.

Hopes that Russia's stranglehold on Caspian energy supplies could be further reduced were dashed in May 2007 with the announcement that Moscow had reached an agreement with Kazakhstan and Turkmenistan to construct a pipeline around the shore of the Caspian Sea in order to boost exports of Turkmen gas to Russia. This planned pipeline will connect with the Central Asia-Centre (CA-C) link that joins Central Asia to Russia. The agreement dealt a blow to Azerbaijan and Georgia, who had been hoping to export Turkmen gas via the South Caucasus. There appears to be a major division opening up between supporters of Russian and non-Russian export routes, which has the potential to produce new dividing lines in an already unstable region.

Nevertheless, the South Caucasus' increasing importance in terms of energy security could also prove to be a curse for the region, not least because of the risk of further conflict fuelled by petrodollars, as discussed above. Any future conflict in the region could have an impact on energy production in the Caspian Basin and could ultimately impact on supplies to the international market. The dangers were highlighted in a communication from the European Commission in December 2006, which called on the EU to be more active in addressing frozen conflicts in the South Caucasus as they threaten to produce 'major spillovers for the EU, such as illegal immigration, unreliable energy supplies, environmental degradation and terrorism.'²³ Organisations such as Nato and the EU need to redouble their commitment to stability and democracy in countries in the region, as well as their involvement in the search for acceptable solutions to the long-running conflicts. Peaceful settlement of the three conflicts would boost stability in the region, strengthen regional security and co-operation and, in the long run, improve energy security.

²³ *Communication from the Commission to the Council and the European Parliament on strengthening the European Neighbourhood Policy*, COM (2006) 726 Final, 4 December 2006, p. 2.