



THE CHANGING GEOPOLITICS OF ENERGY INFRASTRUCTURE IN THE CASPIAN SEA REGION

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Introduction by the Special Editor: The Changing Geopolitics of Energy Infrastructure in the Caspian Sea Region

The issue focuses on the second phase of the Southern Gas Corridor of export pipelines running from Azerbaijan via Turkey to Europe (i.e. on the Shah Deniz II gas field and the TANAP and TAP gas pipelines), looking at the infrastructure projects from four different angles. More specifically, the issue examines the opportunities and constraints surrounding the possible construction of a Trans Caspian Pipeline (TCP), which would deliver natural gas from Turkmenistan across the Caspian Sea to Azerbaijan, where it would join the Southern Gas Corridor.

Firstly, Farid Guliyev discusses how recent developments in global energy markets are likely to have a negative impact on Caspian energy projects. These changes include the shale revolution with the re-emergence of the U.S. as an energy exporter, transitions to renewable energy in Western Europe, and the end of the commodity (high price) super-cycle. The article examines how the Caspian gas producing states have responded to these challenges. Secondly, Marco Siddi discusses Iran's possible contribution to the TCP and the EU's energy supply in the face of geopolitical challenges such as US foreign policy and sanctions. Thirdly, Tracey German explains Georgia's role as an energy transit state and energy hub. Finally, Agha Bayramov analyses the capacity and prospects of trans-Caspian gas deliveries to Europe and the ecological impediments that stand in its way. He analyses the Convention on the Legal Status of the Caspian Sea, which was signed in 2018, and its ecological implications. Bayramov argues that the existing scholarship overestimates the influence of environmental requirements on the construction perspective of the TCP.

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Caspian Energy Producers in the 'New Oil Order': Neglected by the West, Looking East

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Abstract

The shale revolution and the transition to a low-carbon economy in the industrialized West have ushered in a new era of energy. The Trump administration in the U.S. has pushed a new 'America first' energy policy aimed at transforming the U.S. into a global energy superpower. The rise in shale gas production has brought energy prices tumbling down. Traditional oil producers have been hit hard by low oil prices. The new energy order also means a lower demand in the West for Caspian fossil fuels. International oil companies have shown no interest in investing in new Caspian energy developments, and the idea of building a seabed Trans Caspian Pipeline (TCP) to connect Central Asia to Azerbaijan remains stuck on paper. In this article, I examine the impacts of these macro-structural changes on Azerbaijan, Kazakhstan and Turkmenistan. I argue that in the absence of Western oil company investments, and given the lack of U.S. and EU leadership in developing new energy projects, Caspian energy producers, with the exception of those in Azerbaijan, are looking to China and other Asian countries for export markets. Turkmenistan already ships almost all its gas exports to China and is pressing ahead with a new pipeline (TAPI) to deliver gas to Pakistan and India. With substantial Chinese investments in its energy sector and an existing pipeline connection to China, Kazakhstan has increased its gas exports to China. In the case of limited capacity of Kazakhstan's westbound pipelines,

the country is considering plans for diverting some of its growing oil output to China. Azerbaijan has the biggest stake in a TCP because of the urgency of switching to gas. Baku has borrowed billions of dollars to build a network of pipelines (the Southern Gas Corridor) to ship its gas to southern Europe. However, there is currently not enough gas available to make this pipeline project commercially viable.

The 'New Oil Order'

The global energy order is rapidly changing.¹ Recent breakthroughs in drilling technologies have allowed the extraction and development of unconventional (and previously inaccessible) fossil fuel reserves, and there is now a greater use of renewables in countries such as Germany and Sweden. Energy experts talk about a 'new energy order' in which the power of traditional oil producers such as Iran, Russia and Venezuela have declined in the face of the rising production of unconventional energy and the shift to a low-carbon economy (LCE) (Van De Graaf and Bradshaw 2018). The shale revolution in North America has transformed the United States, a long-standing net energy importer, into a major exporter of oil and liquefied natural gas (LNG), redrawing the 'geopolitical' map of energy.² Combined, these factors have exerted downward pressures on the global oil price, which currently hovers at approximately \$65 per barrel, down from its peak level of annual average of \$109 in 2012. As a result, the economies of oil-dependent states, including the Caspian states, are suffering due to the loss of resource rents and are thus forced to make adjustments to their fiscal balance sheets.

For traditional oil producers such as Azerbaijan, Kazakhstan and Turkmenistan, this shift in the global energy system has far-reaching implications. Their most precious commodity and the only source of foreign exchange is losing its value in monetary terms. By embracing the LCE model, Western industrialized countries will reduce their dependence on conventional energy sources. In the medium to long term, the Caspian region will lose its 'geopolitical' and economic significance to the West. This process has already started: there has been no large-scale investment by large energy companies in the Caspian region since the oil price fall in 2014, and several international oil companies (IOCs), such as Statoil, ExxonMobil and Chevron, have divested from major Azerbaijani energy projects.

On the eastern coast of the Caspian Sea, Kazakhstan and Turkmenistan seem to be increasingly oriented towards Asian markets, where countries such as China and India still rely on conventional fossil fuels. About a decade ago, Turkmenistan committed all of its gas exports to China under unfavourable terms, and Kazakhstan is increasingly looking to ship its oil and gas output east, which is expected to rise even further

in the next years. Azerbaijan is halfway through completing a very expensive gas pipeline network connecting the western Caspian area to Greece and Italy and funded by loans from international banks and its own state oil fund resources. Azerbaijan's own gas reserves are relatively modest, and without Central Asian (or Iranian?) gas and a potential under-sea Trans Caspian Pipeline (TCP) connector, this 21st-century mega-infrastructure project may prove to be obsolete (in the context of transitions to low-carbon energy sources in Western Europe) and economically wasteful. In the past, until the shale revolution, Western oil companies invested in large energy projects in the Caspian area and U.S. government leadership was crucial to the success of many of the projects. However, this is no longer the case. The prospects for a TCP connecting the eastern Caspian coast with Baku seem increasingly bleak.

The previous global energy system was marked by a high demand for conventional energy sources, and Western countries were heavily dependent on imports from traditional supplies from the Middle East and North Africa (MENA), Russia and Venezuela. In fact, Western industrialized civilization is hard to image without fossil fuels (Mitchell 2011). From the 1990s to around 2014, the substantial energy deposits in the Caspian region were lucrative and much sought after sources for supplying both energy-importing countries in the industrialized West and resource-hungry China. From the early 2000s to mid-2014, high oil demand coupled with the OPEC-managed quota system kept oil prices high. Both international oil companies (IOCs) and oil-exporting states profited from this energy system. With revenues rising (or expected to rise), IOCs had the funds and incentives to invest in new energy projects and build energy infrastructure to expand production from existing fields. They lobbied before the U.S. government to provide investment and high-level diplomatic support for the construction of energy pipelines. The advocacy for the Baku–Tbilisi–Ceyhan (BTC) pipeline (total cost: \$3.9 billion; launch date: 2006) to ship Azerbaijani oil to western markets bypassing the Russian pipeline network is a primary example of an energy infrastructure project that fit within and benefited from the previous energy order. The BTC was conceived of as a key element of the U.S. energy security strategy. The U.S. was keen to diversify energy supplies away from Russian and the Middle Eastern sources to

1 Energy refers to oil and natural gas. 'Oil' means both crude petroleum and natural gas.

2 'Geopolitics' refers to a zero-sum Realpolitik-type competition between nation states for power and scarce resources.

reduce the risks associated with reliance on one source (or only a few sources) of supply. In the new energy order, the U.S. itself has become a major energy exporter, pushing other countries in Europe and Asia to buy U.S. LNG.

The Shale Revolution and Its Consequences

In the past decade, the international energy order has undergone substantial changes. New technologies for hydraulic fracturing (fracking) and horizontal drilling allowed U.S. energy companies to tap into vast and previously impermeable reserves of unconventional oil and gas. In 2015, U.S. Congress lifted a long-time ban on oil exports. An unexpected boom in shale energy production since 2007 has transformed the U.S. from a net importer of energy into a major exporter of oil and natural gas. Following his election in 2016, President Trump announced a new U.S. energy doctrine, an ‘America first’ energy policy that aims to ensure U.S. energy is independent and free from its reliance on oil imports from the major oil exporters united in the OPEC cartel (White House 2019).

The above-mentioned shifts in U.S. energy policy have resulted in a number of changes in the global energy order, with wide-ranging implications for oil producers across the globe. Energy markets are flushed with shale gas. This, in turn, has pushed energy prices down due to an oversupply of fossil fuels. The shift to a major energy exporter has led U.S. policymakers to rethink the role that the U.S. has traditionally occupied in the global political economy of oil. The Trump administration adopted a new U.S. energy policy concept. Not only has the Trump administration lifted Obama-era environmental regulations on domestic oil producers, it has also actively pushed European and Asian markets to open up and buy U.S.-sourced oil and gas as an alternative to Russian fossil fuels. In pursuit of this goal, the U.S. sought to limit its competitors, especially Russia, in the European markets. Notably, the Trump administration advocated against the construction of a major gas project, Nord Stream 2, which, when completed, will have the capacity to deliver up to 50 billion cubic metres (bcm) of Russian gas to Europe. For example, at a NATO summit in 2018, Trump said that the Nord Stream 2 project makes Germany ‘a captive of Russia’ (Alcindor 2018). To reduce European dependence on Russian energy supplies, U.S. diplomats have pushed European countries to buy more U.S. LNG gas (Osborn 2018).

With regard to Caspian producers, while the Trump administration seems to rhetorically endorse the idea of building a trans-Caspian link connecting Azerbaijan and Turkmenistan for gas shipment to Europe as an alternative to Russian gas, this has not been a top

priority in U.S. energy policy given that the U.S. is now a major producer itself. The idea has not materialized, as there has been no concrete action or any tangible contribution towards the project costs from the U.S. government.

For traditional oil and gas producers, these developments are bad news. After enjoying a commodities supercycle for more than a decade (from the early 2000s to mid-2014) (Arezki and Matsumoto 2017), the Caspian producers now face new challenges, including low energy prices, the lower profitability of existing projects and weaker incentives for IOCs to invest in developing new energy fields, as well as the loss of the ‘geopolitical relevance’ of Caspian energy for the U.S. government.

Azerbaijan

The Southern Gas Corridor (SGC)—a network of pipelines connecting the western Caspian with the Adriatic coast of Italy—has been hailed as a major energy infrastructure project helping Europe diversify its energy imports and has been compared to the BTC oil pipeline. However, the SGC differs substantially from the BTC in a number of ways. The SGC has had high upfront investment costs for its construction. Most funds were drawn from international loans and Azerbaijan’s own state oil fund (SOFAZ). The BTC was a success story because U.S. diplomats lobbied for it aggressively, plus rising prices made it easier to convince international oil companies to commit money to its construction (Boersma and Johnson 2018). In contrast, the SGC has enjoyed little U.S. support and was initiated and largely promoted by the Azerbaijani and Turkish governments.

For Baku, it has been a major challenge to build a new gas pipeline in the new energy era with weak U.S. and EU commitment. In the early 2000s, the EU and European energy companies supported the ambitious Nabucco gas project, which failed to materialize due to internal competition within the EU. Pressed hard by the 2014 oil price squeeze and dwindling fiscal revenues, Azerbaijan decided to proceed with building the SGC gas pipeline route on its own, ensuring a partnership with its strategic ally, Turkey. Unlike Turkmenistan and Kazakhstan, which have plenty of energy reserves, Azerbaijan is approaching the depletion of its oil deposits. The transition to natural gas is an existential question now that the opportunity to diversify away from fossil fuel dependence has been missed. Since there was no pipeline infrastructure for gas exports, there has been the sense of urgency to construct a new one.

Beginning in 2019, Azerbaijan increased gas exports from the second stage development of its largest Shah Deniz gas field. Most Azerbaijani gas exports are currently imported by Turkey, but once the extension capac-

ity to Italy through the TAP [the Trans-Adriatic Pipeline] is completed, gas will be shipped to buyers in southern Europe starting in 2020 (Bhutia 2019). The \$8 billion Trans-Anatolian Natural Gas Pipeline (TANAP) was completed this summer (Istrate 2019). The pipeline has a capacity of 16 bcm (10 bcm is slated for Europe). Azerbaijan estimates that the earnings from the SGC will be approximately \$2–3 billion annually, a notable difference from its earnings from oil exports (Azernews 2018). Azerbaijan's total revenue from oil projects amounts to \$140 billion. The total cost of construction of the Southern Gas Corridor is estimated at \$40 billion. The cost of the TANAP alone is estimated at \$7 billion. Both the TANAP and its extension, the TAP, are financed by a number of loans.³ The total accumulated loans so far amount to \$8.1 billion.⁴ The state oil fund of Azerbaijan (SOFAZ) also contributed to the TANAP (AZN 1.5 billion).

While the BTC pipeline was 70 percent funded through loans, it was developed by the Baku–Tbilisi–Ceyhan Pipeline Company (BTC Co.), of which BP is the largest shareholder and operator. The BTC Co. owns and operates the pipeline. The TANAP gas pipeline⁵ has a different shareholder structure. Initially, there were only two shareholders: the Azerbaijan state oil company (SOCAR), which held 80 percent, and Turkey, which held 20 percent. Notably, during its inception, IOCs did not have much interest in the TANAP. Only in 2015 did BP decide to acquire a 12 percent stake in the gas pipeline. According to the new shareholder structure, Turkey's BOTAS has 30 percent, SOCAR now holds 58 percent, and BP holds 12 percent (O'Byrne 2018).

Azerbaijan's gas will not be enough to make the SGC project commercially viable in the long run. The country's gas reserves are estimated at 1.2 trillion cubic metres (approximately 1.1 percent of the total world reserves). Without gas from Turkmenistan, which has so far committed all its gas exports almost exclusively to China, the SGC will not even be able to recover its construction and operational costs.

Another sign of the loss of interest was the decision of several oil majors to abandon projects in Azerbaijan. Norwegian Statoil withdrew from the Shah Deniz gas project in October 2014, selling its 15.5-percent stake to Malaysia's Petronas. It has kept its 8.65 percent in the ACG 'contract of the century'. French Total sold its stake in Shah Deniz earlier the same year (Fouche and Solsvik 2014). In December 2018, Exxon Mobil and Chevron were reportedly selling their stakes in Azerbaijan's largest oilfield, Azeri-Chirag-Guneshli (ACG),

and the BTC pipeline. From 1997 to the end of 2016, this BP-operated ACG field produced more than 3 billion barrels of oil with approximately US\$33 billion of investment (Paraskova 2017). In 2017, Azerbaijan and BP extended the ACG contract through 2049, and the Azerbaijani state oil company (SOCAR) increased its share from 11 to 25 percent. BP and its partners agreed to commit billions of dollars of investment to develop the project in the upcoming decades.

Kazakhstan

To begin with, Kazakhstan has more reserves of oil (30 billion barrels). Oil exports proceed according to existing long-term contract commitments. Kazakhstan has the existing pipeline infrastructure with routes to western markets (via the Caspian Pipeline Consortium Pipeline (CPC)), to Samara in Russia and to China. Oil from one of the country's largest oilfields (Tengiz oilfield developed by Tengizchevroil, the joint venture between Chevron, ExxonMobil, KazMunaiGaz and LUKoil) is shipped via the CPC pipeline to Novorossiysk. Smaller amounts are shipped via the tanker link across the Caspian, and Kazakhstan has been developing a new port at Kuryk, 60 km south of Aktau, in preparation for shipping oil from the Kashagan Field across the Caspian. Most of Kazakhstan's pipelines are bound to Russia (the CPC and the Atyrau–Samara pipeline) and China (the Kazakhstan–China pipeline, also known as the Atasu–Alashankou oil pipeline). The Kazakhstan–China pipeline is co-owned by the state-owned China National Petroleum Corporation (CNPC) and Kazakhstan's national oil company KazMunaiGas (through its subsidiary KazTransOil). The pipeline has a throughput capacity of 10 million tons per year (mty), with the upward expansion possibility of up to 20 mty if pipeline extension is conducted in the future.

The new energy context makes foreign investment by IOCs and traditional oil producers prohibitively expensive and risky. On the other hand, plummeting oil revenues have limited the amount of resources available for investment in new projects. The impact on Kazakhstan is thus that there seems to be little incentive to invest in a TCP should an agreement be reached. The extra output expected to rise from the giant Kashagan Field in 2022 can be diverted towards China and other Asian markets if the European markets continue to be oversupplied by nonconventional energy sources.

In the absence of sufficient Western interest to push for a TCP and with possible Russian (and Iranian) opposi-

3 Loans were secured from the European Investment Bank, EBRD, World Bank, Asian Development Bank, and Asian Infrastructure Investment Bank (AIIB).

4 Southern Gas Corridor, CEE Bankwatch, <http://tiny.cc/9hzvzb>

5 TANAP Company's website: <http://tiny.cc/h7w1bz>

tion to it (as was the case in the past), Kazakhstan has the option of diverting extra oil output towards China. This year, for example, Kazakhstan announced its plans to divert some of its Europe-bound exports to China to increase exports to 6–7 million tons starting in the second half of 2020 (Afanasyeva 2019). The flow of oil will be reversed on the Kenkiyak–Atyrau pipeline, which has previously been used to ship oil in a westward direction. In 2018, Kazakhstan's oil exports to China dropped to a record low of 1.3 million tons from its highest level of 11.8 million tons in 2013, which was related to the decline in the output of oilfields operated by Chinese companies. At the same time, the Russian Rosneft took the lead in this direction by increasing exports to 10 mty.

Gas exports to China were launched in 2017 with 1.1 bcm. Kazakhstan is planning to ship 10 bcm of gas to China next year, which is up from the current level of 5 bcm, based on an agreement between KazTransGas and PetroChina International. Kazakhstan sent 38.7 bcm of gas through the Central Asia–China pipeline. The pipeline has a capacity of 55 bcm (Bisenov 2018).

Turkmenistan

Turkmenistan has enormous gas reserves, estimated at 50.4 trillion cubic metres. The country is entirely dependent on earnings from gas exports, and the fall in energy prices sent the economy into a deep crisis. Part of the problem is that Turkmenistan made ill-fated choices in the past. Its agreement with China stipulated that Chinese companies would invest in refineries and pipeline development. China additionally invested approximately \$20 billion in developing Turkmen gas fields. In 2009, Turkmenistan stopped exports to Russia and directed all exports to China, and in 2017, it halted exports to Iran. China lowered the price that it is willing to pay for Turkmen gas, and Turkmenistan had no other choice but to agree. In 2016, Turkmenistan supplied 29.4 bcm of gas to China, and its gas exports totalled approximately 35–37 bcm per year. In 2017, gas exports to China rose to 31.7 bcm.

Russia was the main importer of Turkmenistan's gas before China took over. Before 2009, Turkmenistan used to supply up to 40 bcm of gas annually to Gazprom, which then resold it for a higher price to Europe. This route was halted due to commercial disputes with Russia. Turkmenistan resumed exports to Russia this summer. According to a new agreement, Gazprom will buy up to 5.5 bcm annually from the state-owned Turkmenengaz until 2024 (RFE/RL 2019).

China pays Turkmenistan \$185 per 1,000 cubic metres of gas (a total of \$5.55 billion annually). How-

ever, the earnings do not all go to Turkmenistan's government. The reason is that part of the gas export revenues are used to cover billions of dollars of loans from China that the country provided for the development of gas fields and the construction of gas pipelines to China in the past (Shaban 2017).

In March 2019, President Trump sent a holiday message to Turkmenistan's president in which he expressed "hope that Turkmenistan will be able to take advantage of the new possibilities for gas export to the West in connection with the recently defined legal status of the Caspian Sea" (Cutler 2019). Later, he sent a similar message to the Azerbaijani president, indicating U.S. support for the SGC.⁶ However, the US approach this time seems to be different from the active energy diplomacy of the 1990s. While Trump provided rhetorical and diplomatic support for the SGC, there has been no tangible input and certainly no direct investments.

In an effort to diversify export options and reduce the Chinese monopoly, Turkmenistan has invested in the construction of a Turkmenistan–Afghanistan–Pakistan–India (TAPI) pipeline (capacity: 33 bcm per year), and China has shown interest in further extending it to China. For Turkmenistan, the completion of the TAPI seems to be a priority. Considering infrastructural sunk costs, it is unlikely that Turkmenistan will actively pursue a TCP in the western direction without a strong Western push.

Conclusion

The changes in the U.S. energy policy as well as transitions to low-carbon energy sources and renewables in Western Europe are reshaping the global energy order. The strong market power enjoyed by traditional petro-states is being challenged by shale gas producers. This keeps oil prices low and weakens the bargaining power of traditional energy producers. How has this shift—notably, the lower oil prices and limited investment in new upstream projects—impacted the energy producers in the Caspian region, namely, Azerbaijan, Kazakhstan and Turkmenistan?

Considering the lack of Western company investments and given the neglect by the U.S. and EU leadership in developing new energy projects, Caspian oil and gas outputs are increasingly moved towards Asian markets. Almost all gas from Turkmenistan and some portions of Kazakhstani oil and gas are transported to China. The new infrastructure being built or extended for capacity reasons is also targeting Asian markets. Kazakhstan is even considering reversing one of its pipelines to redirect the shipment of oil to China. This reverse system can be deployed to accommodate increasing output from its largest oil fields, Tengiz and Kashagan, in

6 Letter from President Trump to President Aliyev on the 26th anniversary of the Caspian oil and gas show, May 30, 2019, <http://tiny.cc/e6w1bz>

the near future. A TCP remains one plan on the table, but it was previously blocked by Russia and Iran, and since the late 1990s, the projects have not caught the attention of foreign investors. In the new energy order, the chances that it will ever be constructed are slim.

Among the three countries covered, Azerbaijan has been most vulnerable to macrostructural changes due to its denser linkages (through the existing pipeline network and contract commitments) to western energy markets, the draining of oil reserves and the challenges of attracting IOC investment into a new gas pipeline infrastructure. Its geography has trapped it into dependence on Western or Russian markets and the existing west-bound oil pipeline ties it to Turkey and European markets. Azerbaijan may be the country with the largest stake in the TCP project. With dwindling oil revenues

and declining oil production, Baku felt the urgency of switching to gas, a sector that the government identified as its second best comparative advantage. In a way, instead of diversifying the domestic economy to reduce its addiction to oil and gas, the government in Baku borrowed billions of dollars from foreign lenders to build gas infrastructure (TANAP-TAP) that perpetuates the country's dependence on conventional fossil fuels. This not only makes the Azerbaijani economy vulnerable to oil shocks but also increases the country's debt burden.

Turkmenistan's and Kazakhstan's choices for export routes have put the commercial viability of the Southern Gas Corridor into question, as there is currently not enough gas available to fill the TANAP-TAP pipeline. Without a TCP and Turkmen gas supplies, the SGC may turn out to be yet another ill-conceived 'white elephant' megaproject.

About the Author

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The Southern Gas Corridor: Prospects and Challenges for EU Foreign Policy

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Abstract

As the construction of the Southern Gas Corridor (SGC) is nearing completion, the European Commission has recently expressed an interest in the future doubling of its capacity. In addition to Azeri gas, Turkmen gas could be made available through gas swaps involving Iran. However, the SGC poses an ethical, environmental and security conundrum for European energy and foreign policy. Major issues include the partnership with Azerbaijan's regime, transit dependence on Turkey and large public investments in infrastructure that may become stranded as the EU transitions away from fossil fuels and due to competition from Russian gas and liquefied natural gas (LNG). Moreover, current US policy casts doubt on Iran's future involvement and regional stability.

Introduction

The Southern Gas Corridor (SGC) is the outcome of a long-term quest of the European Union (EU) to diversify its gas imports by accessing Caspian Sea fields through a route that bypasses Russia. Russia supplies approximately 40% of EU gas imports and is the main gas provider to most Eastern and South-Eastern European countries (European Commission 2018, 11). In some of these countries, concerns about Moscow's dominant market position and the security of its supplies has grown over time, particularly following the gas transit crises between Russia and Ukraine (in 2006 and 2009) and the deeper conflict between the two countries following Russia's annexation of Crimea in 2014 (see Siddi 2018 for an overview of the energy aspects).

In the 2000s, the EU elaborated ambitious plans to import gas from the Caspian basin and Central Asia. The Nabucco pipeline project, with a planned capacity of 31 billion cubic metres per year (bcm/y), was the embodiment of these plans. Nabucco aimed to import gas from Azerbaijan, Iran and/or Turkmenistan to Europe. However, it was never built due to adverse economic conditions and the lack of sufficient gas to fill the pipeline. In particular, this was due to the international sanctions on Iran's energy exports after 2006 and the legal and economic obstacles to building a Trans-Caspian Pipeline allowing access to the vast Turkmen resources.

In 2013, the Shah Deniz consortium—which extracts the Caspian gas intended for export to Europe—opted for a more modest export route to the EU, the Trans Adriatic Pipeline (TAP), with a capacity of 10 bcm/y (Chazan and Shotter 2013). This represents only a fraction of the EU gas import demand, which reached 363 bcm in 2018 (European Commission 2018, 10). However, SGC gas could partly diversify the portfolio of countries such as Greece and, potentially, Bulgaria. Currently, Azerbaijan is the only gas supplier to the SGC.

In its destination markets, the SGC will face competition from Russian pipeline gas and possibly liquefied natural gas (LNG), particularly if new import terminals are built in the Balkans and the LNG prices are competitive. Nonetheless, the EU has provided relentless support to the SGC, both through financing and diplomacy, because it considers it a strategic (that is to say, geopolitical) project to bypass Russia. The same logic explains the vocal US support for the project. Geopolitical confrontation with Moscow after 2014 has supported this rationale.

The following sections describe the main technical and financial aspects of the SGC, the security and foreign policy challenges related to its route, and the ethical and environmental issues that have been largely disregarded in the EU's official debate.

The SGC: Route and Financing

The SGC consists of four sections, with a total length of approximately 3,500 kilometres (from the Caspian Sea to the Southern Italian region of Apulia). The first section comprises the Shah Deniz gas field and extraction facilities in the Caspian Sea. The second part includes the South Caucasus pipeline, running from Baku to the eastern Turkish city of Erzurum. This pipeline has been operational since 2006, but its capacity will be expanded to allow additional exports from the SGC project. From Erzurum, the gas will be channelled westwards via the Trans-Anatolian Pipeline (TANAP), which crosses Anatolia and European Turkey all the way to the Greek-Turkish border. The building of the TANAP was completed in July 2019. Further west, construction is still ongoing on the TAP, which will carry gas from the Greek-Turkish border to Italy via Greece, Albania and an offshore section in the Adriatic Sea. According to the estimates of the TAP consortium, the work will be completed in 2020, and the gas will start flowing by the year's end.

A total of 10 billion cubic metres per year (bcm/y) of gas will be channelled to the EU via the SGC. The prospect of expanding the volume of exports to 20–25 bcm/y has been discussed (Gotev 2019), but this would require additional infrastructure, investments and gas sources (Pirani 2018). In the foreseeable future, Greece and especially Italy will be the main recipients of Azeri gas. Other countries in the Balkans, such as Bulgaria, could receive SGC gas following the completion of the necessary infrastructure, notably the Gas Interconnector Greece–Bulgaria and the Vertical Gas Corridor (also known as BRUA, connecting Bulgaria, Romania, Hungary and Austria).

Estimates of construction costs of the SGC have oscillated between 40 and 45 billion US dollars (USD). A substantial part of the costs has been covered with bank loans. The largest lender has been the European Investment Bank (EIB), a public bank owned by EU member states, which has provided a total USD 2.8 billion for the construction of TAP and TANAP. The World Bank has loaned USD 1.8 billion to TANAP, whereas the European Bank for Reconstruction and Development (where EU member states and EU institutions hold a majority of shares) has loaned a total USD 1.7 billion to TAP, TANAP and the Shah Deniz consortium. Other prominent funders have been the Asian Development Bank (USD 1.3 billion) and the Asian Infrastructure Investment Bank (USD 0.6 billion).¹ As noted by some NGOs, billions of European public monies have been spent on supporting the construction of the SGC.

Security and Foreign Policy Challenges

There are two sets of security and foreign policy issues regarding the SGC: the first concerns the existing project, whereas the second stems from proposals to involve suppliers such as Iran and Turkmenistan.

The SGC follows a route that is dangerously close to several regional conflicts. It runs only a few kilometres from Nagorno-Karabakh and South Ossetia. The prospect of another war between Azerbaijan and Armenia over Nagorno-Karabakh remains very real, as highlighted by the clashes in April 2016 (Broers 2016). The Armenian air force has simulated attacks on Azeri energy infrastructure, which could take place in the event of a full-out war (Kucera 2012). Such a conflict may also involve Russia, Armenia's ally within the Collective Security Treaty Organization.² Moreover, Russian troops stationed in South Ossetia are within easy reach of the SGC infrastructure in Georgia and have already

crossed the current SGC route during the August 2008 war against Tbilisi (Siddi 2019, Marriot and Minio-Paluello 2013, 147–157).

In the Turkish territory, the SGC runs through areas where frequent clashes occur between the Turkish army and Kurdish militias. This conflict has not spared the energy infrastructure in the past (see, for instance, Reuters 2015). Ankara's changed geopolitical stance and relationship with the EU also has potential implications for the transit of SGC gas through Turkey. EU–Turkey relations deteriorated following the attempted coup d'état in Turkey in July 2016. Ankara has also cooled its relations with NATO and the West and has pursued a policy of rapprochement with Russia, exemplified by the construction of the TurkStream pipeline and the purchase of the S-400 missile defence system (Hürriyet 2019).

While EU–Turkey relations have deteriorated, some key EU policies have become more dependent on Turkey. This is particularly the case of the migration policy following the 2016 migration deal, through which Brussels gave Turkey a central role in managing (or blocking) the arrival of asylum seekers from the Middle East to the EU. This means that Ankara has influence on a highly politically sensitive EU policy area. The SGC creates a new dependency on Turkey for the EU, this time in the form of energy transit. This further strengthens the Turkish leverage over the EU at a time of difficult relations between Ankara and Brussels. Developments in the summer of 2019 illustrated the implications of this situation, including the possibility that Turkey will link migration and energy issues in its relationship with the EU. In July, Turkey suspended the migration deal following the EU's imposition of sanctions on Ankara in response to Turkish gas drilling activities in Cypriot waters.

A second set of issues relates to plans to expand the SGC, which would most likely require additional supplies from Iran or Turkmenistan. The reintroduction of US sanctions against Iran since 2017 have made Iranian involvement in the SGC an extremely unlikely prospect. Even before the Trump administration took this highly controversial decision, market factors suggested that Iran would rather seek to export its gas as LNG, rather than through a long and expensive land route (Tabatska 2015).

Regarding substantial gas imports from Turkmenistan via the SGC, these are also unlikely. The Turkmen gas export policy is already oriented towards China and is unlikely to change significantly. Even if it were to

1 The NGO Bankwatch published a breakdown of approved and proposed public finances for the different components of the SGC, which is available at: <https://docs.google.com/spreadsheets/d/1NktFpFQY8x1Y8pxnGiEnL3i5hIKIq2GRsl5Vm3u4vt8/edit#gid=247408276>.

2 For another hypothesis (albeit rather speculative) on how Russia could intervene militarily in the region, see Baev 2019.

change, a Trans-Caspian pipeline would have to be built to link the Turkmen gas network to the SGC. Despite last summer's agreement on the legal status of the Caspian Sea, which seemingly removed the main legal obstacle to the construction of the pipeline, political hurdles persist, including Russian and Iranian opposition to the project (Brzozowski 2018). Moreover, the economics of Turkmen exports to Europe via the SGC and a Trans-Caspian pipeline remain problematic: with current prices and transit costs, Turkmen gas would not be competitive against Russian gas or LNG in the EU (Pirani 2018, 11–18). On the other hand, Turkmenistan has recently sold gas to Azerbaijan and Armenia through swap deals with Iran. According to press reports, Iranian and Turkmen officials hope to strike more such deals and export up to 5.4 bcm/y to Azerbaijan and Armenia, thereby possibly allowing Baku to channel some additional gas via the SGC (Gotev 2018a).

However, additional SGC exports to South-Eastern Europe may face increased competition from Russia, the dominant gas supplier to the region. Russia's Gazprom plans to complete the construction of the TurkStream pipeline—transporting gas to Turkey and the Greek–Turkish border via the Black Sea—by the end of 2019 (Platts 2019). TurkStream has a capacity of 31.5 bcm/y, half of which is meant for exports to Europe. While construction of the adjoining pipelines in the EU will take longer, substantial volumes of competitive TurkStream gas will probably be available in the Balkans by 2021 or 2022, before the infrastructure for additional SGC exports is built. This prospect casts doubt on the economic rationale of expanding the SGC, especially as gas demand in the destination markets is not expected to grow.

Ethical and Environmental Concerns

No less important than foreign policy and economic issues, EU gas imports from Azerbaijan and the SGC involve serious ethical and environmental concerns. Gas revenues are essential in propping up Azerbaijan's authoritarian government, which has a vast record of human rights violations (see, for instance, Bankwatch 2019, Marriott and Minio-Paluello 2013). If the EU imports of gas from Turkmenistan begin, the EU would *de facto* provide lucrative business opportunities for the leadership of another authoritarian country. The EU's quest for a partnership with Azerbaijan and Turkmenistan, largely due to energy interests, contradicts its claims to pursue a values-based foreign policy.

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Please see overleaf for References

The construction of the SGC has led to several protests and problems all along its route. In Turkey, it is likely to create a high security, militarized corridor across the entire country, causing loss of land and environmental problems for locals (Bankwatch 2019). Land acquisition and poor compensation have caused grievances in both Albania and Greece. In Italy, large protests have occurred in the areas where the TAP is planned to land due to the fear of negative consequences for local tourism, agriculture and the fisheries. Opposition to TAP was also one of the main electoral themes of the now governing Five Star Movement, which initially pledged to stop the project but had to change course once in power due to the prospect of paying huge penalties (Gotev 2018b).

The EU's political and financial support to the SGC also appears in contradiction with its commitment to decarbonize the European economy. Large sums of public money were loaned to support an expensive, long-term gas project that may further lock European economies into fossil fuel consumption. Arguably, the EU's stance towards the SGC reveals how geopolitical logic can still trump ethical and environmental concerns in European decision making.

Conclusion

Following years of construction and various types of controversies, the SGC appears close to completion. While the gas will probably start flowing relatively soon and even contribute to some (limited) diversification in South-Eastern European gas markets, the political and foreign policy issues described above will continue to feed uncertainty in the foreseeable future. If, in the 2000s, the original goal of importing gas from the Caspian region was that of making a substantial contribution to European energy security, the achievements have been modest. The security benefits of the SGC appear particularly dubious due to the numerous crisis zones (potential and real) dispersed along its route.

Even before the gas began to flow, some European officials and business actors began to talk about expanding the capacity of the SGC. However, the economics of this endeavour, as well as the concrete availability of additional gas to fill new pipelines, are highly uncertain. Prospects for further EU gas imports from the Caspian region and Central Asia will also depend on whether geopolitical arguments continue to prevail in the EU over ethical and environmental considerations.

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Pipelines, Ports and Pressure: Georgia and the Development of Transit Infrastructure in the South Caucasus

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Abstract

Georgia is an important element in the development of oil and gas reserves in the wider Caspian region, providing a key transport corridor that enables the shipping of hydrocarbons from the landlocked Caspian Sea region to international markets without the need to transit Russian territory. The commercialisation of the Baku–Tbilisi–Ceyhan (BTC) and South Caucasus (SCP) pipelines has created substantial revenues and strengthened the economic and political links among Azerbaijan, Georgia, Turkey and the West. Georgia will also be a crucial component of the next major pipeline project, the EU's Southern Corridor. This article explores the influence of the development of the pipeline and other transit infrastructure on Georgia's foreign policy, as the country seeks to diversify its economic and political links.

Introduction

A small country in terms of territory and population, Georgia has become increasingly important as a strategic corridor and international partner. The wider South Caucasus 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, and thus the region is an important transport and communications corridor, particularly as a transit route for shipping hydrocarbons to international markets. The Georgian government has sought to capitalise on the country's geographic location, which is simultaneously a fundamental strength and critical vulnerability. A key foreign policy objective, outlined in both the National Security Concept and Foreign Policy Strategy 2019–2022, is to establish Georgia as a transport hub between Europe and Asia. In addition to the economic benefits that such a transit role would bring, it would also ensure a greater international interest in the country's stability and security. The construction of transnational pipelines over the past two decades has facilitated the engagement of Western actors in both Georgia and the South Caucasus. However, while the focus has been on pipeline infrastructure, moving forward, the emphasis is broadening to include transport initiatives such as rail transit of goods from further afield, along the East–West axis.

Georgia is the most pro-Western of the three South Caucasus states, and since its independence in 1991, it has consistently sought to maintain an autonomous foreign policy that removes it from the Russian sphere of influence and to develop a democratic state in line with Western values and standards under the protection of a Euro-Atlantic security umbrella. The pursuit of NATO membership and a closer relationship with the EU has remained a central pillar of Georgia's for-

ign policy, despite intense pressure from Moscow, and Tbilisi has deliberately courted external powers, such as the US and EU (and now China), in an attempt to counterbalance Russia's influence. The notion of Georgia 'returning' to Europe and the West has become a common theme in Georgian political and popular discourse, a part of the process of constructing a European identity. China, along with Azerbaijan and Turkey, has also become increasingly important for Georgia in recent years, as Tbilisi seeks to diversify its trade partners and markets, as well as its diplomatic links. However, this foreign policy diversification is not without risk, and Georgia's ongoing democratic reform process is under pressure from external partners.

The development of long-distance, transnational pipelines that transit Georgian territory, such as the Baku–Tbilisi–Ceyhan (BTC) link, symbolise an increasing interdependence between Europe and the South Caucasus and have transformed both Georgia and Turkey into key energy transport hubs. There has been considerable investment in new international export pipelines over the past two decades, which has led to the development of a southern oil and gas corridor between the Caspian and Mediterranean seas and brought significant economic and security benefits. The pipeline infrastructure is a physical manifestation of Georgia's Western-leaning foreign policy and the growing connections both within and between the southern Caucasus region and Europe. Sitting on Russia's southern flank, astride a vital transit route for Caspian hydrocarbons heading for international consumers, Georgia has become an important element in the development of oil and gas reserves in the wider Caspian region. The country provides a key transport corridor, enabling the shipping of hydrocarbons from the landlocked Caspian Sea region to international markets without the need to transit Russian territory.

The ambitious 1,768 km Baku–Tbilisi–Ceyhan oil pipeline is a vital element in the expansion of oil production in the Caspian basin. The pipeline's construction has strengthened the political and economic autonomy of states such as Azerbaijan and Georgia, while reducing Russian influence and cementing the involvement of Western actors such as Europe and the US. The pipeline has also established the Turkish port of Ceyhan as an important oil trading centre. Clear mutual dependencies have developed among the three states: Georgia's geographical location (combined with regional tensions) means that the country is pivotal for Azerbaijan's export of hydrocarbons from the Caspian Sea region to Europe, as well as Turkey's desire to become a regional energy hub.

The Southern Gas Corridor and Georgia

The construction of the BTC was largely driven by the US, which wanted East–West oil export routes from Central Asia and the Caucasus to bypass Iran and Russia, weakening these countries' influence in the region. However, it is the EU that is leading the next major pipeline project, the Southern Gas Corridor (SGC), which is focused on securing sufficient supplies of natural gas. Europe is already the world's largest market for natural gas imports, but it is estimated that over 80 percent of the EU's energy requirements will be imported by 2030 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. Europe is surrounded by gas-exporting countries, such as Azerbaijan: according to some statistics, 80 percent of the global natural gas reserves are located within 4,500 km of the EU, and many can be connected to the region by a pipeline. The SGC is a highly complex infrastructure development, covering over 3,500 km, seven countries and a number of energy majors in a series of separate projects. Georgia is a crucial component of the SGC, as it lies on the route of the Trans-Anatolian (TANAP) gas pipeline from Azerbaijan to Turkey, which will connect with the existing South Caucasus gas pipeline (SCP), the first step in the creation of the SGC.

The commercialisation of the BTC and SCP pipelines has created substantial revenues for transit countries and strengthened the economic and political links among Azerbaijan, Georgia, Turkey and the West. In addition to providing the region with access to world energy markets and bypassing Russia, the pipelines pro-

vide economic benefits in the form of transit revenues. For a country such as Georgia, which does not have an abundance of natural resources such as oil and gas, cementing its role as a transit hub provides a vital source of revenue. The South Caucasus region makes a vital contribution to European energy security, facilitating the diversification of both supply and transit routes. The pipeline infrastructure has also strengthened the political and economic autonomy of Georgia, whilst cementing the involvement of Western actors, such as Europe and the US, who have an interest in the stability of the country and the wider region. These infrastructure initiatives are important in terms of the strategic signals that they send regarding Georgia's autonomy and the country's attempts to diversify its economic and diplomatic partners. Georgia's accession to the European Energy Community in 2017 further strengthened its ties to Europe, demonstrating its commitment to compliance with EU regulatory frameworks and institutions.

A Strategic Hub Between the East and West?

In recent years, the Georgian government has sought to position the country as a vital part of the southern Eurasian corridor, as part of China's Belt and Road Initiative (BRI). China has become increasingly important for Georgia, as demonstrated by the signing of a free-trade agreement in 2018, which can perhaps be viewed as a counterbalance to Russian influence. The signing of a free-trade agreement with Beijing sits alongside the Deep and Comprehensive Free Trade Area (DCFTA) set up with the EU in 2014, which increases market access between Georgia and Europe. The emphasis on future infrastructure projects, such as the deep-water port at Anaklia, suggests that Tbilisi is looking eastwards, as well as to the West. Hopes that Anaklia would become a strategic trading hub between China and Europe have been dented, as the project has become mired in scandal and allegations of Russian pressure intended to thwart the development, which would compete with Russia's Black Sea port of Novorossisk. Speaking in June 2019, the former US Secretary of State Mike Pompeo signalled strong US support for the project, which, in his opinion, would 'enhance Georgia's relationship with free economies and prevent Georgia from falling prey to Russian or Chinese economic influence.'¹

There are parallels between the disagreements surrounding the Anaklia project and the debate over the construction of the BTC pipeline in the early 2000s:

1 'Statements to the Press With Georgian Prime Minister Mamuka Bakhtadze As Part of the U.S.–Georgia Strategic Partnership Commission', Remarks, Michael R Pompeo, Secretary of State, Treaty Room, Washington, DC, 11 June 2019, www.state.gov/statements-to-the-press-with-georgian-prime-minister-mamuka-bakhtadze-as-part-of-the-u-s-georgia-strategic-partnership-commission/

that is, US support for infrastructure projects that are intended to strengthen the political and economic autonomy of post-Soviet states such as Georgia by reducing Russian influence. However, the pursuit of greater economic and political independence threatens Georgia's ambitious aspirations regarding further integration into the Euro-Atlantic community, as the aspirations increase its reliance upon its illiberal neighbours. Years of cooperation among Georgia, Azerbaijan and Turkey has resulted in the successful implementation of regional energy and transportation infrastructure projects, which capitalise on the location of the South Caucasus region to consolidate its role as a major transit route between the East and West. Georgia benefits from transit tariffs that support its economic development and its ambitions to establish the country as a transport hub between Europe and Asia, a goal that was boosted in October 2017 with the inauguration of the Baku–Tbilisi–Kars railway line, which links Azerbaijan to Georgia and Turkey. Nevertheless, as these projects have strengthened Georgia's ties with Azerbaijan and Turkey, Georgia has become more dependent on them: Azerbaijan has become the principal supplier of natural gas to the country and is also one of the largest foreign investors in Georgia, followed by Turkey.

These deepening ties present dangers for Georgia, and there is concern that its increasing economic and political reliance on its two illiberal neighbours is undermining its ability to adhere to declared ideals such as its commitment to democratic values and human rights norms, which could undermine its pursuit of integration into European structures such as the EU. The 2017 cases of Turkish teacher Mustafa Emre Chabuk, who was arrested by Georgian police on terrorism charges at Turkey's request, and the extrajudicial detention of Azerbaijani opposition journalist Afgan Mukhtarli cast some doubt on the Georgian government's ability to resist the undemocratic demands of its neighbours, who also happen to be key strategic partners. Tbilisi needs to ensure that it does not sacrifice its ambitions of closer

integration with European institutions, which requires adherence to liberal democratic norms and values (along with reform and regulatory restructuring), for the pursuit of economic stability and the immediate self-interest of its principal regional partners.

Conclusion

It is evident that Georgia has already achieved its objective of becoming a vital link in the transit of hydrocarbons from the Caspian region to Europe. Moving forward, the question remains as to whether Georgia can progress its ambitions to become a transport hub for goods moving from East to West. The Anaklia deep-water port project is crucial for this aspiration, and its progress (or lack thereof) will provide a good indicator of both the direction of internal reform and the influence of external actors. The geostrategic location of the South Caucasus, between Russia, Turkey and Iran, together with the role of external actors, including regional powers, Western security organisations and, increasingly, China, continue to have a significant influence on Georgia's foreign policy orientation.

The rise in the influence of powers such as China has, to a large extent, been demand-driven, as Georgia seeks greater diversification in its diplomatic and economic ties. However, this diversification could come at a cost, and Georgia will need to protect its domestic reform efforts from potential pressure from illiberal neighbours and partners. Western democracies and European organisations such as the EU and NATO cannot afford to be complacent about their influence in the South Caucasus. Powers such as Russia and China are now able to provide material support to countries in a way that they have not been able to previously, thereby undermining Western influence and conditionality (Frantz/Kendall-Taylor 2017). If Tbilisi is able to successfully balance the interests of both regional and external powers, the country has the opportunity to benefit from the increasing connectivity across the South Caucasus and further afield, enabling it to capitalise on its geostrategic location.

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Unpacking the Environmental Requirements of the Caspian Legal Convention: Prospects for the Trans-Caspian Pipeline

By Agha Bayramov (University of Groningen)

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Abstract

This article explains the Convention of the Legal Status of the Caspian Sea, which was signed in August 2018. More specifically, it focuses on the environmental articles of the legal agreement. In doing so, it argues that the existing scholarship overestimates the influence of the environmental requirements (Articles 1, 11, 14, and 15) on the construction perspective of the Trans-Caspian Pipeline. While it has been constantly claimed that Russia and Iran could use ecological requirements to oppose the pipeline in the future, this is not the case at the present. Rather, the Caspian littoral states have been cooperating with environmental protocols and regulations under the Tehran Convention since 2003; therefore, the recent ecological requirements of the legal agreement are not new. This article serves as a response to the relevant debate on ecological issues and infrastructure cooperation across the Caspian Sea.

A Short Overview: The Trans-Caspian Gas Pipeline

The Trans-Caspian Gas Pipeline (TCP) is a proposed 300 km submarine pipeline that would stretch between Turkmenbashi (Turkmenistan) and Baku (Azerbaijan) and may also include a connection between the Tengiz field in Kazakhstan and Turkmenbashi. It is expected that the proposed submarine pipeline would transport natural gas from Turkmenistan and Kazakhstan to the European energy market. Its projected capacity is 30 bcm per year, at an estimated cost of USD 5 billion. The TCP is also considered a natural eastward extension of the Southern Gas Corridor, comprising the South Caucasus Pipeline, the Trans-Anatolian Pipeline, and the Trans-Adriatic Pipeline. While for many years, the TCP has remained a dream for the European Union, preliminary steps are being taken to move forward. For example, on 12 September 2011, the EU adopted a mandate to negotiate a legally binding treaty between the EU, Azerbaijan and Turkmenistan to build the TCP. Additionally, after the Fourth Ministerial Meeting of the SGC Advisory Council, in Baku in February 2018, it was suggested that Turkmenistan was ready to engage with the project actively, and Maros Sefcovic, the European Commission Vice President for Energy Union, confirmed that discussions were continuing with the Turkmen government (Pirani 2018). In the same vein, Parviz Shahbazov, Azerbaijan's Energy Minister, noted that the volume of gas transported along the SGC may be increased with the help of gas from Turkmenistan. However, despite political statements from the EC, Azerbaijan and Turkmenistan, it is argued that the TCP failed to materialize due to the lack of clarity over the legal status of the Caspian Sea. More specifically, one of the long-standing problems to a proposed TCP has been the uncertain legal status of the Caspian

Sea and outstanding demarcation disputes between the Caspian littoral states.

The Convention on the Legal Status and the Geopolitical Explanation

The leaders of the five Caspian littoral states signed the Convention on the Legal Status of the Caspian Sea at the Fifth Caspian Summit in Aktau, Kazakhstan, on August 12, 2018. The third agreement was signed by the five littoral states after 22 years of negotiations and more than 50 meetings of the Ad Hoc Working Group. The other two agreements are the Tehran Convention and the Agreement on Security Cooperation. The Legal Status Convention includes these two documents and their protocols. In this sense, it is a comprehensive agreement that covers diverse interconnected areas, namely, regional security, environmental protection, navigation and fishing rights, and the construction of submarine pipelines. More concretely, if the littoral states would want to construct a submarine pipeline, they would need to meet the requirements of the Tehran Convention (see Article 14). Additionally, no naval forces other than those belonging to the littoral states are allowed in the Caspian Sea (see Article 3). The agreement does not clarify whether it is a sea or lake, however, nor does it include a delimitation of the seabed, which still requires additional negotiations between the littoral states (see Article 8).

From the very first day of the legal agreement, it has been argued that ecological articles of the legal agreement (see Articles 1, 11, 14, and 15) provide Iran and Russia with an important pressure tool to obstruct the potential exploration of oil and natural gas fields in the Caspian Sea (see, e.g., Anceschi 2019; Garibov 2018; Gurbanov 2018; Ismayilov 2019). More concretely, a number of scholars have argued that Russia and Iran have intentionally included environmental articles in

the agreement to be able to veto and/or disrupt the possible natural gas pipeline connection between Azerbaijan and Turkmenistan. According to Garibov (2018, p.193), Russia and Iran have used environmental concerns to halt the construction of the TCP for approximately two decades, and the wording of the convention seems to leave room for debate about the “requirements and standards for the pipeline.” This argument is shared by Anceschi (2019), who argues that the convention provides Russia and Iran with extensive environmental monitoring powers, which they use to influence the construction of any transport infrastructure sidelining Russia or Iran. In the same vein, Ismayilov (2018, p. 9) claims that “Russia and Iran have used environmental requirements in the past and could use them to oppose the TCP in the future”. Ironically, the relevant scholarship proposed a similar line of arguments before the signing of the legal agreement. For example, Nuriyev (2015) argued that Iran and Russia use the existing environmental concerns to block or hinder crude oil shipping and the construction of pipelines between Azerbaijan, Kazakhstan and Turkmenistan. These examples illustrate that the relevant literature does not recognize the difference between the uncertain legal status of the Caspian Sea and the signing of the legal agreement, because Russia and Iran are depicted as the only ones to profit from both situations. However, the relevant scholarship fails to clarify when, why and how Azerbaijan, Kazakhstan and Turkmenistan agreed with the environmental protocols. It also fails to conclude why the three littoral states signed a legal agreement if the ecological articles are a tool for Russia and Iran. Finally, the relevant literature fails to explain the alternatives to preserving the ecology of the Caspian Sea if the ecological articles are merely a tool for Russia and Iran. I guess for the above-mentioned scholars, one alternative possibility is to ignore environmental issues and not to include ecological articles in the legal convention. The reason for this misinterpretation of the ecological articles is that the relevant scholarship is not aware of the Caspian Environmental Program and the Tehran Convention. The following section discusses these neglected points.

Debunking the Environmental Requirements of the Legal Status Convention

According to environmental studies, the fluctuation of water levels, land degradation, depletion of biodiversity and water pollution are important environmental issues in the Caspian Sea (Firoozfar *et al.* 2012). To address the common ecological issues and to facilitate sustainable cooperation, the CEP was established as a regional umbrella programme by the governments of the littoral states in 1998. It was established with support from international agencies

(e.g., the United Nations Environmental Program, the European Union’s TACIS programme, the Global Environment Facility, the United Nations Development Program and the World Bank). The programme has developed common regional and national measures to address ecological issues and to promote environmental agreement among littoral states. In 2003, the CEP was given more gravity as the littoral states signed the first ecological and legally binding agreement: the Tehran Convention.

The Tehran Convention serves as an overarching framework laying down the general requirements and the institutional mechanism for the protection of the marine environment of the Caspian Sea. In addition to the general ecological duties, the Tehran Convention includes four concrete environmental protocols. These are (1) the Protocol on the Conservation of Biological Diversity; (2) the Protocol on the Protection of the Caspian Sea against Pollution from Land-based Sources and Activities; (3) the Protocol concerning Regional Preparedness, Response and Co-operation in Combating Oil Pollution Incidents and (4) the Protocol on Environmental Impact Assessment in a Trans-Boundary Context. By 2006, the Caspian littoral states ratified the Tehran Convention and entered into force on the 12th of August 2006, which was the most significant step. The fast ratification of the Convention confirmed that there was willingness and commitment among the governments of the littoral states to work together and to include environmental concerns in their planning of future development. The four ecological protocols have all been signed by the littoral states. In light of this, it can be argued that the littoral states have been working on the four environmental protocols and other ecological regulations freely and autonomously since the late 1990s. More specifically, it is necessary to consider the history of environmental cooperation in order to understand the complex dynamics of the Caspian Sea. Tables 1 and 2 on p. 18 and p. 19 detail the timeline of environmental cooperation and the legal status negotiation process from 1992 until 2018. The two tables help illustrate that there is a parallel and complex interconnection between the agreement reached on the environmental protocols and the agreement reached on the legal status of the seabed. They also help to show the historical background of the two conventions because the relevant literature ignores the historical background and therefore assumes that the ecological articles appeared only in 2018.

The discussion process of the last protocol, the Environmental Impact Assessment (EIA), shows my argument more clearly. The EIA protocol explicitly regulates the construction of underwater pipelines and the ecological impact they may have on the Caspian Sea (see Annex I of the Protocol). According to the Protocol, the

littoral states need to inform each other when they plan on undertaking any of the activities listed in Annex I, which include the construction of large diameter pipelines and the production of natural resources. When reviewing the documents of the Conference of Parties (COP) under the Tehran Convention, it becomes apparent that Turkmenistan suggested taking out the word “large diameter” and adding the word “exploration” after “production” (see Annex I, list of activities 9 and 16). Iran and Russia supported these suggestions, but Azerbaijan and Kazakhstan were against them because the changes would restrict construction of all pipelines, large and small, as well as exploration activities. When reviewing the documents of preparatory meetings (e.g., COP 5 2014 and COP 6 October 2017), one can see that Azerbaijan and Kazakhstan explicitly opposed the Protocol. Because of this, it took several years to agree upon the EIA’s principles. To solve this disagreement, the Secretariat of the Tehran Convention sent a letter to the Secretariat of the Espoo Convention, asking whether the Protocol contradicted the Espoo Convention or limits its scope (see COP 6 November 2015). The reason for this is that only Azerbaijan and Kazakhstan are part of the Espoo Convention, which sets out the obligations of parties to assess the environmental impact of certain activities at an early stage of planning. Since Azerbaijan and Kazakhstan have followed the Espoo Convention’s environmental requirements, they wanted to ensure that the new EIA does not contradict it and does not work against their interests in the Caspian Sea. Per the letter of 15 October 2015, the Secretariat of the Espoo Convention replied that the Protocol does not limit the bilateral or multilateral activities of the littoral states. However, the letter could not solve the issue, and in the end, Turkmenistan’s suggestions were not accepted. On 20 July 2018, the governments of the littoral states organized an extraordinary meeting in Moscow, which ended with the signing of the EIA. One month after this event, the governments of the Caspian littoral states met in Aktau to sign the Convention on the Legal Status of the Caspian Sea.

In contrast to the geopolitical line of arguments, the disagreement illustrates that ecological protocols have undergone systematic discussion processes, and each round of cooperation might incur resistance since governments are now aware of upcoming obligations and restrictions. Unlike the geopolitical arguments, it is also good to emphasize that it was Turkmenistan, not Iran or Russia, who suggested the changes. In the end, Azerbaijan and Kazakhstan were able to reject the changes of the EIA protocol despite the support of Russia, Iran and Turkmenistan. They preferred to safeguard envisioned projects in adjacent areas to keep their autonomy and room to manoeuvre. Therefore, Iran and Russia are not

the only rule makers in ecological discussions. What this situation also shows is that the language of every document is very important and that each country weighs every word because these documents can influence the littoral states’ ability to extract natural resources.

The Legal Treaty is not a Silver Bullet

The relevant literature overlooks the fact that the legal treaty is not sufficient to ensure that the TCP is built. It is too simple to assume that just because the strategic rationale for the TCP project is strong that gas will flow. This is because there are still a number of obstacles that must be overcome before pipeline construction. First, Turkmenistan’s policy of gas transport requires the buyer to assume all risk at the Turkmen border onward. This includes the construction of pipelines. Those who want Turkmen gas must build the pipeline to Turkmenistan to receive it. Azerbaijan does not have enough money to build this pipeline, and it is currently preoccupied with the cost of the SGC.

Second, there is doubt as to whether the project can secure sufficient financing from European companies to match its political endorsement. Considering the existing low oil and gas prices, many European companies are hesitant about the risks of financing complex pipeline projects. Russia and Iran were opposed to the Baku–Tbilisi–Ceyhan in the early 2000s. However, the BTC became operational in 2006 because the U.S. and its energy companies offered strong political and economic support. In this sense, the TCP needs to secure significant financial and political support from the EU and its energy companies in order to enhance its feasibility.

Third, Azerbaijan wants to first deliver its own natural gas to Europe. In 2019, BP announced that there might be another giant gas field in the Caspian Sea, which is another reason to discourage Azerbaijan from building the TCP pipeline as it has a sufficient supply for Europe (Bloomberg January 10, 2019). Therefore, Baku will accept the TCP pipeline when its natural gas capacity decreases and it needs third party(s) to fulfil the pipeline. As mentioned above, Baku also received a Third-Party Access Exception, which means Azerbaijan can transport its own natural gas without including other gas suppliers.

Conclusion

The Legal Convention of the Caspian Sea and its environmental requirements have hitherto largely been investigated from a geopolitical angle that depicts them as an important tool for Iran and Russia to obstruct the TCP project. This paper has argued that this assessment does not sufficiently capture the whole picture, however. Instead, it has shown that the governments of the Caspian littoral states have been working on the environmental requirements of the Legal Convention and other

ecological regulations since the late 1990s. In contrast to the relevant literature, in 2003, the littoral states signed the first legal agreement, the Tehran Convention, in order to address the shared ecological issues. Therefore, the ecological requirements of the Legal Convention are not the main impediment to the TCP project. Instead,

economic conditions for building the TCP are still far from favourable, which makes the TCP very unlikely. More specifically, the cost of transporting Turkmen gas to Europe via a yet-to-be-constructed pipeline makes that gas less competitive than other options, in particular, additional Russian imports and LNG.

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Table 1: Timeline of the Legal Convention

September/October 1992	The first stage of the negotiation was launched.
May 1995	Ad hoc working Group was established in the Almaty Conference.
July 1998	Russia and Kazakhstan signed the first bilateral agreement regarding the division of the seabed of the relevant sectors of the Caspian Sea.
November 2001	Azerbaijan and Kazakhstan signed a delimitation agreement.
April 2002	The first Caspian Summit of the littoral states leaders held in Ashgabat.
September 2002	The North Caspian region was delimited by the signature of a treaty between Azerbaijan and Russia on delimitation of adjacent areas on the Caspian seabed.
May 2003	Trilateral agreement between Azerbaijan–Kazakhstan–Russia on the Convergence Point of the delimitation lines of the adjacent areas of the Caspian Seabed.
October 2007	The second Caspian Summit of the littoral states leaders held in Tehran.
November 2010	The third Caspian Summit of the littoral state leaders held in Baku. The Agreement on Security Cooperation in the Caspian Sea was signed.
September 2014	The Fourth Caspian Summit of the littoral state leaders held in Astrakhan.
December 2014	The agreement between the Kazakhstan and Turkmenistan on the Delimitation of the seabed of the Caspian Sea was signed.
August 2018	The fifth Caspian Summit of the littoral states leaders held in Aktau. The Convention on the Legal Status of the Caspian Sea was signed.

Source: Author's own compilation

Table 2: Timeline of the CEP and the Tehran Convention

May 1994	The Almaty Declaration on Cooperation of the Environmental Protection.
June 1995	The draft version of the CEP, initiated by the World Bank, UNDP and UNEP, was agreed upon.
May 1998	The official launching of the Caspian Environmental Programme.
November 2003	The Tehran Convention was signed by the littoral states.
August 2006	Tehran Convention entered into force.
May 2007	First Conference of Parties Meeting in Baku, Azerbaijan.
November 2008	Second Conference of Parties Meeting in Tehran, Iran.
August 2011	Third Conference of Parties in Aktau, Kazakhstan. The Protocol Concerning Regional Preparedness, Response and Cooperation in Combating Oil Pollution Incidents was signed.
December 2012	Forth Conference of Parties Meeting in Moscow, Russia. The Protocol for the Protection of the Caspian Sea against Pollution from Land-based Sources and Activities was signed.
May 2014	Fifth Meeting of the Conference of Parties in Ashgabat, Turkmenistan. The Protocol for the Conservation of Biological Diversity was signed.
August 2018	Extraordinary Meeting of the Conference of Parties in Moscow, Russia. The Protocol on Environmental Impact Assessment was signed.

Source: Author's own compilation

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