

## POSITIONS OF THE STATES INVOLVED IN ENERGY PROJECTS IN THE SOUTH CAUCASUS

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### ABSTRACT

South Caucasus (also referred to as Transcaucasus), is a region situated to the south of the Greater Caucasus Mountain Range, composed of Georgia, Azerbaijan and Armenia. Due to the rich oil reserves of the Caspian Sea basin and geostrategic importance of the Caucasus as a crossroad between Europe and Asia, this region has always constituted a pole of attraction for the great powers of the world after the collapse of USSR. Not only neighboring countries like Russia, Iran, Turkey and Central Asian states (Kazakhstan and Turkmenistan), but also the United States, European Union and China are becoming actively involved in this region.

Thus, while Armenia has been allied with Russia and Iran, considering these two powers as a counterweight to Turkey - its main enemy in the region, Azerbaijan and Georgia have developed geostrategic alliance with Turkey, and the United States by promoting cooperation with NATO member countries. Moreover, the conflict in Nagorno-Karabakh had deprived Armenia of the possibility of cooperation with other South Caucasian states. Armenia, which bases itself mainly on the relationship with Russia, believes that maintaining good relations with Iran is vital in terms of its national security, therefore, Armenia encourages active presence of Iran in the region. Meanwhile, Azerbaijan and Georgia, which have developed geo-economic relations between them in course of time and expanded strategic partnership with Western democracies, particularly through the NATO alliance, put forth their best efforts in order to leave the sphere of influence of Russia.

**Keywords:** *South Caucasus, energy project, energy corridor, Caspian Sea, strategic interests, economic interests, Caspian energy, oil, energy security*

### 1. INTRODUCTION

According to the Statistical Review of World Energy of British Petroleum (BP) in 2012, global energy consumption has increased again in 2011, with a growth rate of 2.5%, a value near the average for the last ten years. Consumption growth is attributable especially to emerging economies, because in OECD countries (Organisation for Economic Cooperation and Development) demand fell in 2011 for the third time in four years. Fossil fuels continue to dominate the energy market, with a market share of 87% of the mix of hydrocarbons, the oil being the leader on the market (33.1%). Even if renewable energy is becoming increasingly used, it represents currently only 2% of global consumption. Research in recent years has shown that there are sufficient sources of hydrocarbons to meet demand growth, as evidenced each year by BP in its statistics on proven reserves, but problems accessing these resources in some regions and transportation to consumers create challenges in trying to secure an offer at reasonable prices to demand [BP, 2012].

For this reason, a significant part of foreign policy is concerned with the availability of pipelines and terminals, of future pipeline routes, partnerships, etc. [Dolghin, 2004], or, in short, with the energy security. To ensure the energy security in the last two decades, after the dissolution of the Union of Soviet Socialist Republics (USSR) in December 1991, the European Union (EU) and United States (U.S.) have tried to develop relations with the three countries of the South Caucasus (Azerbaijan, Georgia and Armenia), in order to

gain access through these countries to the rich energy resources of the Caspian basin.

Caspian Sea region (South Caucasus and Central Asia) has approximately three to four percent of global oil reserves and four to six percent of global natural gas reserves [BP, 2012]. The proportion of Caspian hydrocarbon reserves of the world total is not significant, but given the uncertainty of oil supply from the Persian Gulf to international markets, and the possibility for Russia to use its energy supplier status as a tool for local hegemony, energy transport in the South Caucasus and Central Asia (Kazakhstan and Turkmenistan) to the Western countries through the Caucasus has become important for the EU and the U.S. [de Haas, 2006].

But not only the EU and U.S. have energy interests in the Caspian Sea, but also other players like Russia, Iran, Turkey, China and neighboring countries in Central Asia, which would like to get control of oil and gas production or of pipes through which the hydrocarbons will be transported to world markets [Neuğ et. Al., 2008]. U.S. wants to diversify energy routes in the South Caucasus to international markets, especially to Europe, to avoid Russian monopoly and strengthen the independence of states in the region, while Russia is keen to maintain its local hegemony. For Turkey and EU, South Caucasus is a bridge to the Caspian and Central Asia hydrocarbons, while Iran and the Central Asian states see the South Caucasus as route of transport for energy resources to the West [Mehtiyev, 2004]. China's role in this discussion is given by the fact that as the second largest energy consumer in the world, after the United States, the country imports large quantities of Caspian hydrocarbons from Kazakhstan and hence has a

real interest in region's security, but also, given the constant growth in consumption, China may be interested in finding other importers from the Caspian region since already has a pipeline that goes from the Caspian Sea shore in Kazakhstan. This contemporary struggle for energy resources and routes of hydrocarbons from the Caspian basin is thus a complex of economic, geopolitical and security variables [Nuriyev, 2001].

## 2. RUSSIA

Even after more than twenty years after the collapse of the USSR, Russia continues to regard South Caucasus states as part of its legitimate sphere of influence and try to restore traditional geopolitical hegemony in the region, actively fighting, but also subtle, for dominance over its neighbors in the "near proximity" [Nuriyev, 2001]. In addition to these geopolitical interests, Russia has economic grievances to the abundant energy resources in the Caspian Sea, wishing that the new republics of the South Caucasus to export most of these resources through pipelines that cross Russia to the Western countries. Thus, Russia would be the intersection of energy routes to Europe, EU becoming increasingly dependent on the Kremlin leadership. In addition, Russia has lately focused primarily on the ex-Soviet states of South Caucasus because the good relations between Georgia and Azerbaijan which are being closer than ever to NATO and the EU, could reduce Russian sphere of influence and bring security problems for a long term. Sunny (2010), like Nuriyev (2001), feels that the main goal of Russia in the South Caucasus is to restore its local hegemony in the "near proximity", as opposed to U.S. ambitions to achieve global hegemony.

In this region, Russia is able to demonstrate the European Union and NATO that is not willing to cede power over the ex-Soviet states, South Caucasus and Central Asia being the most vulnerable from the former Soviet Union to the influence of great Western powers. If, by 2008, Russia used "soft power" to try preventing the increase of American and European influence in the region, in August 2008 Russia demonstrated by Russo-Georgian war that can appeal to "hard power" if competitors exceeds the limits imposed by Kremlin. Through these events, Russia has shown that if its interests in the region are neglected, both Azerbaijan and Georgia, the two South Caucasus countries open to the West, will suffer serious consequences since Russia has the capability to handle frozen ethnic conflicts from these two countries to restart wars in Nagorno-Karabakh or Abkhazia.

Georgian control is essential for the "energy game" played by Russia, as Moscow considers energy as the key to return to the world stage. Since Georgia is the only alternative for transport of hydrocarbons in the South Caucasus and Central Asia to Europe by avoiding Russia, removing this alternative would be a great step in regaining the title of world power and energy control over European neighbors. The most vulnerable point is Georgia's Black Sea coast, Georgia being the only one of the three South Caucasus countries with access to the Black Sea, poorly protected for a sea invasion, a fact that

could be in the benefit of both Russia and Abkhazia. It is hard to imagine that Russia's armed forces have not a plan for a possible sea attack on Georgia, given the fact that there are antecedents, and the strained relations between Russia and Georgia seem not to improve in the near future. Moreover, Russia has provided weapons to Abkhazia over time for using this region as an intimidation factor against the ambitions of the South Caucasus states to have independent foreign and defense policy [Tchantouridze, 2008]. In this context, Georgia is urged to assert sovereignty and independence from Russia by establishing alliances with Western organizations and states.

In addition, Tchantouridze (2008) explains that from the threat of Russia is not exempted Azerbaijan, which, having a border adjacent to that of Russia to the Caspian Sea, has a higher risk for a Russian invasion. Against Georgia, which could find support in other littoral states to maintain its sovereignty, defense of Azerbaijan in the Caspian Sea is affected by the lack of support of others, for example Iran continuing to deny legal status of the Caspian Sea and holding by Azerbaijan of offshore oil reserves, while Turkmenistan is standing to Russia and does not want to damage the relationship with it by supporting Azerbaijan. Moreover, like the conflict in Abkhazia with Georgia, Russia could get involved in the conflict in Karabakh for supporting Armenia and Karabakh, and even to form an alliance with them against Azerbaijan in order to gain control of its rich resources of hydrocarbons. However, Azerbaijan has not shown a position so strongly against Russia as Georgia, but has a quite clear pro-Western trend. Of the three South Caucasus countries, the only standing to Russia is Armenia that, not being sure of the NATO and EU support against Russian oppression that would arise if they show a desire for integration into these formations, preferred not to take the risk and keep relations with Russia on the level of cooperation. Thus, we can conclude that in terms of Russia's interests in the South Caucasus, they are related by hydrocarbons in the region as if the South Caucasus states remain dependent on Russian energy imports and Russia's pipeline system, they remain within its sphere of influence and within the influence of Russian energy companies.

## 3. UNITED STATES

The three small states of the South Caucasus have gained each more attention from the United States than expected. Explanation is given by the Azerbaijani oil, strong international Armenian diaspora and the pro-Western standing of Georgia [Olcott Brill, 2002]. U.S. involvement in the region is manifested by a desire to achieve and ensure the area stability by solving frozen conflicts and to ensure the exploitation and transportation of Caspian oil to international markets by removing Russian monopoly.

As noted in the previous section, Russia, since the collapse of the USSR in 1991, has expressed a desire to control the ex-Soviet states, a fact disliked by the world powers, including the U.S.. The latter was attracted by Azerbaijan's oil reserves, and many U.S. oil companies such as Chevron, ExxonMobil, Unocal and Amerada

Hess, are involved in oil extraction projects in Azerbaijan [Olcott Brill, 2002]. For this reason, Caspian security problems have become very important for the U.S., who have started dialogue on security issues in Azerbaijan since 1997, and since 1999 have provided the South Caucasus state arms and patrol vessels in the Caspian Sea [Mehtiyev, 2004]. Bilateral relations between the two countries have improved significantly since the events of September 11, 2001, when, with the onset of military action in Afghanistan, Georgia and Azerbaijan, Azerbaijan has proven to be a trustful ally in the fight against terrorism, together with Central Asian countries such as Turkmenistan, Kazakhstan, Uzbekistan and Kyrgyzstan, giving U.S. the right to land, refuel and transit through their territories [Cornell, 2005]. Instead, the United States offered to modernize air defense system and military airports in Azerbaijan and established a department of defense cooperation with the U.S. embassy in Baku to strengthen military cooperation between the two nations. Moreover, the crisis in Iraq and support of Azerbaijan in American military action in Iraq in 2003, increased opportunities for establishing long-term alliances in the region.

Both great importance of oil reserves in the South Caucasus and geopolitical considerations determined U.S. to consider relocating some of its military forces from Western Europe to the Caucasus and Caspian Basin [Mehtiyev, 2004]. Also in 2005, the United States expressed their intention to build two radar systems in Azerbaijan, one on the border with Iran and other on the border with Russia, which will be linked to the proposed missile systems to be installed in Central Europe in order to achieve a protective umbrella against Iran from the Caspian Sea to the Balkans [Baban & Shiriyev, 2010]. But reactions were immediate. Both neighbors of Azerbaijan, Iran and Russia, as U.S. rivals, criticized military cooperation between U.S. and Azerbaijan and possible military presence in the South Caucasus which are not to be willing to accept.

However, the U.S. intervention in Azerbaijan proved to be beneficial for the latter because, otherwise, would have been much harder to exploit its own oil and gas reserves, and also for Turkmenistan, who would have been totally dependent on Russia for transporting hydrocarbons to world markets. Exactly this dependence feared U.S., since the price structure of oil, in respect of gas, is given by world markets, transit countries having great discretionary power. Therefore, in order to avoid transiting Russia, the Clinton administration strongly supported the project of transporting oil from Azerbaijan through Turkey, on the route Baku - Tbilisi - Ceyhan (BTC pipeline) instead of the version through Russian port Novorossisk [Olcott Brill, 2002].

Regarding natural gas, since May 2006 when BTE gas pipeline (Baku - Tbilisi - Erzurum) became operational, several projects such as Nabucco, ITGI (Interconnector Turkey Greece Italy), TAP (Trans Atlantic Pipeline) AGRI (Azerbaijan Georgia Romania Interconnector), White Stream and others, have been completed, are under construction or in the planning phase, all having in common that they do not include Russia as a transit country. For this reason, as was shown in the previous section, Russia, seeing the more active

presence of U.S. and EU in its sphere of influence, is trying to keep active "frozen conflicts" in the region, with the hope that this will slow their investments in energy projects in the Caspian region and prevent loss of control over the South Caucasus. Thus, until a consensus is reached between these three major global players, the Western powers decided to provide energy security in the South Caucasus. Both Western and Russian sources reported that military officers in Turkey, together with their colleagues from Azerbaijan and Georgia have simulated exercises over time to protect the BTC and BTE pipelines in case of armed attack, and support the possibility of understanding with the U.S. and NATO to secure them. But NATO, U.S., Georgian and Azerbaijani officials deny involvement of U.S. and NATO in security projects in Georgia and Azerbaijan, arguing that both countries do not benefit from foreign aid to protect pipelines, position that is contrary to claims of NATO representatives who showed an interest in the South Caucasus and particularly in its energy resources [de Haas, 2006].

Lacking oil and gas reserves of Azerbaijan, Georgia is vulnerable to Russian pressures, the Kremlin being always ready to use "hard power" in Georgia, as shown in 2008. Because of threats from Russia, Georgia became the most open to the West of all three South Caucasus states, aiming to find sources of funding and support for security and independence of state. Thus, the transport of Caspian oil has become crucial for Georgia since it represents a source of income that ensures its existence and even if the Georgian government has assumed the responsibility to protect existing and future oil and gas pipelines across the country, that relies on the fact that the EU and U.S. will not allow alternative routes of transport of hydrocarbons to fall under Russian control [Olcott Brill, 2002], this assumption giving hope that in case of a possible future conflict Georgia benefit from external support. In fact, it has already happened, Georgia being considered by the U.S. as part of Caspian energy corridor and an ally in the war against terrorism. The first step in this direction was the launch of the "Train and equip" operation in February 2002, when the Bush administration announced its decision to send 150 military trainers and 10 military transport helicopters to Georgia, a help the Georgians had asked since 1997, but the Clinton administration was reluctant to offer it. Bilateral military assistance from the U.S. offered to Georgia was also steadily increasing since that time, funds provided aimed to ensure both border security and providing training and military education.

Of the three South Caucasus states, Armenia is the only one who has a close partnership with Russia, seen as a protector against Turkey. The fact that the latter is a NATO member, and close to EU - U.S., leads Armenia since 1991 to preserve the traditional alliance with Russia and later to become strictly dependent on it to survive. However, after the events of September 11, the possibilities offered by the U.S. and Europe have made Yerevan to consider implementing a new foreign and security policy after a multi-vector model which requires, while preserving the partnership with Russia, an improved relation with other world powers like the U.S. or France. In January 2005, Armenia has supported

the U.S. in Iraq, and in 2007 began the debate in Congress on the adoption of a resolution on the recognition of the "Armenian Genocide" approach postponed due to opposition of Turkey [Priego, 2008]. Noting the slight opening of Armenia, the United States tried its involvement in energy as a transit corridor to transport Azerbaijani hydrocarbons to Europe, U.S., as a mediator in the Nagorno-Karabakh conflict, considering that such a project could also lead to solving issues between the two countries. Armenia's refusal to waive the close relationship with Russia, led to the elimination of this variant and to reorientation of decision-makers to Georgia, who is willing to reduce Russian power in the region and to join Euro-Atlantic structures [Sabanadze, 2002].

#### 4. EUROPEAN UNION

Although directly interested in the Caspian riches, as the largest global oil consumer and the main recipient of an East-West energy corridor, until the early 2000s, the EU has preferred to leave the initiative in regard to action in Caspian region to NATO, U.S. and their regional allies (Turkey), desiring not to worsen relations with Russia, the main supplier of energy in Europe. Initially, immediately after the collapse of the USSR, the EU has shown interest in the Caspian region as a potential supplier of oil, taking advantage of the chaos of the Russian Federation beginnings. In this respect, the EU launched major energy projects as TRACECA (Transport Corridor Europe-Caucasus-Central Asia) and INOGATE (International Oil and Gas Transport to Europe) that would have to link Europe to the Caspian region, but regional escalation of conflicts and Russia's return to power on the European energy market has led to stagnation of these projects. The EU also decided not to get involved in solving frozen conflicts in the Caucasus, leaving this task to others international organizations [Aldea, 2008]. Lately, however, EU enlargement to Eastern Europe, by the accession of Bulgaria and Romania in 2007, brought the EU to the border with the South Caucasus, which has increased the Union's interests for the region. In this context, European strategies regarding the Caspian area were reviewed and coordinated with the U.S. and NATO efforts. EU decided to become more active in the Caspian region, both as a mediator of conflicts, but also by reconsidering energy projects in the region, seeking to ensure energy security by diversifying energy sources. The latter can not be obtained without solving serious security problems of Caspian region both internally, given the political tensions and separatist conflicts, and externally, being influenced by geopolitical rivalries of regional actors.

In fact, the South Caucasus states are also interested in developing relations with the West, which are solid security guarantees from major world powers such as the EU or NATO, needed to secure their political independence and economic viability [Cornell et. al., 2005]. The inclusion of the South Caucasus in the European Neighbourhood Policy in 2004 was a small step in this direction since announcing intensification of cooperation between the EU and South Caucasus

countries, but what particularly expect Georgia and Azerbaijan is an guarantee of long-term security, which can be obtained at the earliest by joining NATO umbrella.

Of the three South Caucasus states, as for the relationship with NATO, Georgia has most clearly expressed its willingness to join the EU, which is predictable given its vehement opposition from Russia. Moreover, Azerbaijan is open to cooperation and interested in EU membership, but do not neglect relations with Russia, while Armenia, as shown in previous sections, being very close to Russia, does not consider membership in Euro-Atlantic organizations while working with several western states. Openness to West of Georgia and Azerbaijan also involves high risk for their safety, Russia suggesting again that is willing to intervene military in the region, repeating events of 2008, if Georgia joins NATO, a threat that wants to show that the Kremlin is not willing to accept the presence of NATO or EU in its sphere of influence, given that both parties are interested in destroying Russian energy monopoly.

Despite the obvious EU energy interests in the Caspian region, European efforts over the past two decades were much lower than those of the U.S. and U.S. policy continues to be the best representation of Western position for the South Caucasus in terms of ensuring security, strengthening the rule of law and promotion of energy projects. Indeed, among the main priorities of EU energy development policy are included avoiding strategic dependence given that some EU countries are already strategically dependent on Russian gas, especially countries in Central, Eastern and South-Eastern Europe, where there is a dependence of almost one hundred percent of Gazprom, a Russian monopoly gas supplier. Even France and Germany are increasingly dependent on Russian gas and natural gas demand in Europe is expected to increase substantially in the future, Russia is prepared to fill this gap with its own gas, or gas from Turkmenistan and Kazakhstan, and if they do not have alternative delivery options at the time, Russia will control the transport route of these hydrocarbons [Cornell et. al., 2005].

The first alternative to this version proved to be a natural gas pipeline from the Caspian Sea transiting Azerbaijan, Georgia and Turkey, which helped to diversify energy supply for Europe and of course reduce dependence on Russian monopoly. This is known as the Baku - Tbilisi - Erzurum (BTE often abbreviated) which transports natural gas from Sangachal terminal to Erzurum in Turkey and became operational in 2006. In parallel with BTE pipeline there is the Baku-Tbilisi-Ceyhan (BTC) oil pipeline from Azeri-Chirag-Guneshli oil field in the Caspian Sea to the Turkish port of Ceyhan on the Mediterranean Sea.

Of course, there is no way to eliminate, by means of these two projects, the Western countries' dependence on oil from the Middle East and on Russian gas, the above named projects managing to cover only a very small percentage of overall demand. However, these two pipelines diversify global oil supply and secure it against problems that might occur elsewhere. This creates a competitive market that is the long-term interests of

Europe, of the U.S. and of the monopolists themselves because it forces them to reform the system.

However, once the Azerbaijani hydrocarbons will reach European markets, any supply disruption could have an immediate impact on European consumers as fungible the markets might be. Faced with the real threat of disruption of energy supply, the EU should feel the need to invest in the political and economic security of the South Caucasus, namely to revive TRACECA, with a serious political and financial commitment; to speed up the South Caucasus states integration in transatlantic partnerships and NATO, to facilitate the internationalization of processes of conflict resolution in the South Caucasus, which are currently monopolized by Russia, and provide further strong support for the development of energy projects [Cornell et. al., 2005].

Thus it can be concluded that EU Member States and Georgia and Azerbaijan need that the Union to become more consistent in implementing its policy instruments and much more related to activities in the region of EU Member States. However, as seen on the international political scene so far, the EU maintains a position of neutrality in the Caspian region [Nuriyev, 2007]. Most likely the reason is that the EU wants at all costs to avoid a direct conflict with Moscow, although its interest in Caspian energy sources and projects in the region is growing.

## 5. TURKEY

Turkey is the second most important regional player, after Russia, bordering all three South Caucasus states, being related to the region in historical, cultural and linguistic terms. South Caucasus in the last two decades has gained strategic importance for Turkey, especially for two reasons. The first is the need for stability regions after the collapse of the USSR, for the Turkish state own security. The second reason is economic growth given by Turkey's participation in energy projects in the region as a transit country for natural gas and oil pipelines leaving from the Caucasus and Central Asia to international markets [Szymanski, 2009]. Thus, we can conclude that Turkey shares common interests of the U.S. and the EU to ensure the stability and security of the South Caucasus through peaceful resolution of frozen conflicts in the region and achieving energy projects in the southern corridor to avoid transiting Russia.

For the South Caucasus states, several features of Turkey make it to be regarded as an indispensable partner in the region. Among these important values is that Turkey is a NATO member and EU close with a traditional alliance with the Western democracies. Also, Turkey's position in the heart of Eurasia, at the intersection of Asia, the Middle East and Europe, gives it a strategic geopolitical importance as a transit country. Moreover, embrace of democracy and open market economy makes Turkey a model for the Caucasian countries and an attractive partner for cooperation and investment.

However, Turkey has differentiated strategy in relations with the South Caucasus states. It considers Georgia and Azerbaijan as natural allies in the South Caucasus

[Nuriyev, 2001], supporting Azerbaijan in any field and having good cooperation with Georgia, who shares the role of a transit country for Caspian hydrocarbons. Regarding relations with Armenia, Turkey leads a policy of isolation [Asatryan, 2002], taking part of Azerbaijan in the Nagorno-Karabakh conflict, and any improvement in the relations between Turkey and Armenia would mean losing alliance with Azerbaijan. Thus, the peaceful resolution of the Nagorno-Karabakh is currently the only way to engage in a relationship these three states.

Ankara has shown over recent years interest in the South Caucasus, although its influence in the region is limited by the instability of Turkish society and its domestic problems. These realities are that, despite of its strong cultural and linguistic links with the South Caucasus, Turkey to have among the main regional actors the least impact on the region. But the great advantage that Turkey has, over these big regional powers, is given by its geopolitical position that facilitates involvement in all energy projects designed to supply Europe with Caspian hydrocarbons [Nuriyev, 2001]. The first attempts, namely oil BTC pipeline and gas pipeline ETC showed that it is possible a diversification of energy sources and routes ensuring Europe's energy needs with options that bypass Russia, and more ambitious projects such as Nabucco are expected to be implemented in the near future, Turkey receiving, through its role as a transit country in all these projects, incentives to imply more in the region.

## 6. IRAN

Iran is also an important geopolitical actor in "The Great Caspian Game", being in the vicinity of the South Caucasus and with historical, economic, cultural and ideological interests in the region. With the collapse of the USSR, Iran hoped to be able to restore its historical influence on South Caucasus states [Nuriyev, 2001] categorically opposing the involvement of the Western powers in the South Caucasus and Caspian Sea region.

Noting the opening of Azerbaijan and Georgia to cooperation with the West, including with Turkey, seen as a rival in the region, Iran has decided to ally with Armenia, supporting it at the beginning of the conflict of the Nagorno-Karabakh. Moreover, the assistance offered to Armenia helped to improve the relations between Iran and Russia, the two countries having common interests in the Caucasus, and subsequently led to the establishment of the axis Russia - Armenia - Iran [Sadegh-Zadeh, 2008].

Over the years, Yerevan and Tehran have built strong relationships, especially regarding the energetic cooperation, a first gas pipeline connecting the two countries being already operational. However, Iran's position regarding the conflict between Azerbaijan and Armenia is not the same as before, Tehran moving to certain neutrality and becoming interested in its diplomatic solution. Its northern border instability and possible involvement of third parties in the renewal of hostilities is a source of concern for Iran.

Like Russia, Iran is very interested in what happens in Azerbaijan, especially in the Caspian Sea. The fact that Azerbaijan has strengthened its cooperation with the

West by developing relations with Turkey, NATO, the United States and Israel, offers, according to the Iranian analysts, the possibility to Azerbaijan to become a powerful oil-producing country that Iran can no longer influence [Nuriyev, 2001]. For this reason, Tehran is trying to make felt the threat of Russian-Iranian alliance to the territorial integrity and sovereignty of Azerbaijan, in order that Azerbaijan, aware of the dangers occurred if pro-western policy would end relations with Russia and Iran, to maintain cooperation with these two countries.

Divergences in the Caspian Sea, the BTC pipeline construction and exclusion of Iran from the "Contract of the Century" on the understanding of oil exploration in 1995, have deteriorated over the past two decades relations between Iran and Azerbaijan [Sadegh-Zadeh, 2008]. Among these problems, the most important is of the status of Caspian Sea and its division of resources. The five states with access to the sea - Iran, Russia, Kazakhstan, Turkmenistan and Azerbaijan - have different views on the definition of the Caspian as sea or lake, and depending on their position these states fail to agreement regarding its division. Iran demands an equally divided sea, each country receiving 20 percent, without specifying whether 20 percent refers to reserves or sea surface. On the other hand, Russia has decided to split the area based on each country border the sea, Kazakhstan and Azerbaijan agreed with this approach since their independence in the early '90s. Even if in this division Russia can not take advantage of the great reserves thus assigned to Azerbaijan and Kazakhstan, it still has important deposits in the north of the sea and is based on the fact that it will benefit anyway from transportation and processing of hydrocarbons of other neighboring countries. Thus, the only obstacle in clarifying the Caspian Sea status is represented by Iran, the main dispute being between it and Azerbaijan. The conflict escalated in 2001 when Iran has threatened to use military force to avoid exploring the region by fleet owned by BP, which led Azerbaijan to postpone exploring that area to settlement of conflict [Cornell et. al., 2005]. Moreover, disagreements exist between Azerbaijan and Turkmenistan, and solving the problem of territorial delimitation of southern Caspian Sea is an impediment to development projects in the region, which affects not only the Caspian Sea littoral states, but also all other actors involved in "The Great Caspian Game".

However, until recently, relations between Azerbaijan and Iran appeared to be improved, going to greater cooperation in the political and economic field. In terms of political field, Azerbaijan expressed its refusal to join an anti-Iranian coalition, considering the problem of using nuclear technology should be solved diplomatically. In addition, the two countries had signed an agreement to prevent the attack of one against the other. Economically, Azerbaijan and Iran had signed various agreements for energy projects, and even negotiations on dividing the Caspian Sea seemed to have entered the right track [Sadegh-Zadeh, 2008].

But although since last year Azerbaijan leadership suspected that behind a growing number of protests in the country is Iran as instigator [Stratfor, 2011], at the beginning of the year Azerbaijani authorities have clear evidence in this regard, arresting 22 people who are

believed to have planned an attack against local Israeli and American targets, ordered by Iran. Following these events, Wafa Guluzade, a political commentator seen very close to Azerbaijani President Ilham Aliyev, warned Iran that "planning the murder of prominent foreign citizens in Azerbaijan by a band of terrorists, one of whom living in Iran, is considered as a 'hostile activity' against this country "and that such actions will not influence the socio-political situation of Azerbaijan, but continuing in this direction will receive a response from Azerbaijan and its Western allies [Shvidler, 2012]. Relations deteriorated further due to Azerbaijan Eurovision festival organization, Iranian media strongly criticizing the show that was ranked as un-Islamic and very scandalous. Consequently, Iran withdrew its ambassador in Baku in May 2012 to protest against "insults to the holy" [Ştefanescu, 2012].

Even if it does not have a border with Iran, diplomatic relations between Georgia and Iran have developed quite a lot lately, especially because of the conflict between the South Caucasus state and Russia. Georgia seek ways to eliminate economic and energy dependence on Russia, and Iran, which has significant natural gas reserves, is willing to export oil to this new client and to develop economic relations with Tbilisi. However, Iran's cooperation with Georgia could bother Russia, and so Iran may be forced to stop engaging in relations with Georgia if it wants to retain political and military cooperation with Moscow. Also, as it did in the past with Azerbaijan, U.S. could ask Georgia to break ties with Iran [Sadegh-Zadeh, 2008]. Thus, the development of relations between Iran and the South Caucasus still remains uncertain.

## 7. CENTRAL ASIA

Even though after 1990 Caspian basin became an important element in international geopolitical discourse because of its potential energy, the term "Caspian", besides to define the sea with same name and the depression in which it is, never meant an entity, either culturally or politically. Besides that was along time space for which control rivaled the Russian Empire and Iran, the two regions east and west of the Caspian Sea are relatively foreign to each other. The reason is that, in the past, ties between Europe and Asia were made either through the south axis Iran-Turkey to the Mediterranean or through the north by Russia [Peyrouse, 2009].

However, with the implosion of the USSR, the countries of South Caucasus and Central Asia have tried to regain role as intermediaries between Europe and Asia because, by developing bilateral relationships, these states can be opened to new markets, those in Central Asia being interested in Turkish and Iranian markets, and those in South Caucasus in Chinese and South-Asia markets. Peyrouse (2009) argues that interests are both economic and strategic, most of these countries wanting to reduce Russian dominance in the region, and being, in fact, influenced by major world powers, the United States trying to achieve an east - west axis instead the traditional north - south axis, and China trying to gain

access to Iranian and Turkish markets, and Europe hoping to develop TRACECA project.

Even if there is a high potential for developing relations between the two regions, trade is still limited, the most significant exchanges taking place between Azerbaijan and Kazakhstan, in particular in energy field. Considering that hydrocarbons transport from Caspian basin to international markets would drive the development of relations between South Caucasus and Central Asia, Russia's active involvement in the region, not to lose control over transportation and processing of these resources, is an obstacle also for other products trade.

Moreover, proximity to Russia or to West divides the group of South Caucasus and Central Asian states in two. The most important oil-producing countries in the Caspian region, Azerbaijan and Kazakhstan, and Georgia as a transit country, hope that by supporting multiple pipelines routes may limit Russia's ability to use economic mechanisms to influence. Meanwhile, they try to resist the economic pressures of Russia in the hope that these routes will be constructed. Azerbaijan and Georgia, as well as Uzbekistan, producer of gas, and Kyrgyzstan, poor in resources, are also confident that the political, military and economic relations with other countries will help to resist Russian pressure. Kyrgyzstan, with less to offer in economic or military terms, is more willing to accept Russian influence than Uzbekistan. On the other hand, Turkmenistan, the largest gas exporter in the region, most shipped to destinations in Russia, sought to reduce the vulnerability to Russia doing a policy of more and more increased political, economic and social isolation. Finally, Armenia and Tajikistan are dependent on Russia for their security needs, and therefore maintain close relations with Moscow [Oliker, 2002].

Opening the West of most Caspian states and realization of the first southern caucasian energy project that avoids Russia through the BTC pipeline, completed in 2005, gave courage to Central Asian states to engage in such projects. For example, since 2006, Kazakhstan has committed to export oil through BTC. Moreover, discussions on the implementation of the Trans-Caspian Pipeline (TCP) from Turkmenistan to Azerbaijan, an undersea pipeline to carry gas from Central Asia to the EU [Mitan, 2011], started in 1999, but concerns over Caspian status yet raises obstacles to its construction. Therefore, so far transporting Kazakh oil through Azerbaijan to European markets was made by rail and sea.

The situation is similar for exports of natural gas, the BTE project being expected to expand further eastwards to include Turkmenistan and Kazakhstan. Both countries have shown interest in the European project Nabucco, but no concrete measure has been taken so far [Peyrouse, 2009].

Thus, we can conclude that relations between states in the South Caucasus and Central Asia are limited and will likely continue as long as countries in the region do not share common interests and strategies. In addition, the situation is aggravated by the involvement of major world powers like China, Russia, Iran and the U.S., who also have different approaches to the problem.

Therefore, the chances for cooperation or competition in the region appear to be equal at the moment, only the global political elite ability to promote partnership instead of competition being able to bring relations between these countries on track.

## 8. CHINA

In 2011, China recorded the largest increase in consumption of oil and gas worldwide, being the second largest energy consumer globally after the U.S. [BP, 2012]. Thus, with continued growth in consumption, China is looking for new energy sources and routes of transportation of hydrocarbons.

Therefore, even if, so far, China has not shown a special interest in energy projects in the South Caucasus, this could occur in the near future. It is known that Iran, Kazakhstan and Russia already exports oil to China, between Kazakhstan and China being in operation a pipeline that starts near the Caspian Sea. Thus, the development of the submarine trans-caspian project could also facilitate exports of Azerbaijani hydrocarbons to the East.

Steps in this direction have already been taken by China, which over recent years has significantly improved relations with the South Caucasus states. In addition, China has expressed a desire to ensure stability in the region, this being necessary to develop energy transport on the East-West axis. It can therefore be concluded that although still far from maturity, relations between the Caucasus and China will grow in importance in the near future, given the growing presence of China in the region, aimed to find new markets for its products and energy resources, but also of transport corridors to Europe.

## 9. CONCLUSIONS

Its geostrategic position and rich energy reserves turned Caucasus from an area unknown to the West in the new "star" of the world stage. Interest of the main powers of the world, highly industrialized and energy consumers, in an era where energy consumption is growing faster than the discovery of new resources, was attracted immediately after the collapse of the USSR to this newly independent region, each of them trying to secure benefit from it.

As emphasized throughout this paper, Russia has the highest authority in the development projects in the region, not only being able to use "soft power" and "hard power" to impose its position. This regional actor can be stopped by a more active EU or U.S. presence. Up to date EU has not imposed sufficiently strong position in the region in order to avoid a conflict with Russia, and U.S. is not so much interested in the Caspian region to be more involved.

Thus, the South Caucasus countries, still feeling the threat of Russia, and without strong international support, have the power to solve ethnic conflict and to secure peace and stability that investors expect to start valuable energy projects.

Uncertainty and unpredictability that dominate this region make unknown the direction in which the three

South Caucasus states are going, the effects of negative developments certainly going to be felt widely. Thus, it is expected to reach a consensus of major powers to help these new states to exceed the period of transition from the former Soviet republics to independent and sovereign states. In addition, their support for stability and regional security could have beneficial effects on international routes and diversifying energy sources.

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