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# Georgia, piece of the puzzle or weak link of the Southern Corridor?

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Georgia's importance as a transit country and as a reliable ally for the West was undeniably proven once it became an important piece of Europe's energy security as a transit country in two major pipelines: Baku-Tbilisi-Ceyhan (BTC) and Baku-Tbilisi-Erzurum(BTE). BTC affords western access to Caspian Sea and Central Asian energy, offering a choice of customers to the landlocked producing states. Parallel to BTC, natural gas flows from the Caspian Sea's Shah Deniz field through the South Caucasus Pipeline to the Turkish city of Erzurum, bound for consumers throughout Europe. Moreover, the Baku-Supsa Pipeline and the Baku-Batumi railroad carry oil to tankers at Georgia's Black Sea ports. Together, these energy conduits form the critical mass required to promote and sustain a broad East-West commercial corridor. Individual pipeline projects of the Southern Gas Corridor were already developed by the respective companies at the beginning of the 2000s, the Southern Gas Corridor, as an overarching concept, only emerged later. It was first described as a "project of European interest", connecting the countries of the Caspian Sea and the Middle East by long-distant natural gas pipelines with the European Union, in a decision of the European Parliament and the Council of September 2006, coded as "NG3"<sup>1</sup>. Finally, in a second review

of the energy strategy, the European Commission categorized the - meanwhile also called - "Southern Gas Corridor" as a Community priority<sup>2</sup>. It was especially through the Russian-Georgian war of August 2008 and the Ukrainian-Russian gas crisis of January 2009 that the Southern Gas Corridor and its key project, the Nabucco Pipeline, became a central component of a European debate about diversification especially from the dependence on gas deliveries from Russia.

## Serious projects, serious threats

One of the pillars on which modern-day Russia was built on has become shaky and unstable. As the world's number one country regarding proven natural gas reserves and continually alternating with Saudi Arabia as the top oil producer Russia has managed in the last 15 years to rebuild and regrow economically, politically and geopolitically-wise due to energy exports mainly to Europe (almost 40% of Europe's gas consumption is imported from the Russian Federation). The energy sector is far more than a commercial asset for Moscow, it has been one of the pillars of Russia's stabilization and increasing strength for more than a century thus making energy security the main issue of the National Security Strategy. But the energy map of Europe and of the world for that matter is changing and we can see trends indicating new

<sup>1</sup> EU (2006) Decision No. 1364/2006/EG of the European Parliament and of the Council of 6 September 2006 laying down guidelines for trans-European energy networks, Brussels: EU; under: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:262:0001>.  
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<sup>2</sup> EU (2008) Communication from the Commission COM(2008) 781 dated 13 November 2008: Second Strategic Energy Review: An EU Energy Security and Solidarity Action Plan. Brussels: EU; under: <http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=CO M:2008:0781:FIN:....>, p. 4f.



producers, and new exporters, not large enough to replace Russia as a global supplier but strong enough to drastically reduce imports in designated countries and cumulatively decreasing export revenues for Gazprom. New elements on the energy market like shale gas (especially in eastern and central Europe), green energy or even EU's Third Energy Package - used by member countries to decrease or even eliminate Gazprom's monopole form their internal markets - has determined Moscow to cutting natural gas prices to Europe while revenue projections are declining starting September 2012.

2013 began with disastrous news for Gazprom: gas up to 2012 fell by 6.7% to 478.7 billion cubic meters, against 513 billion in 2011, and 528 according to the plans of production in 2012, the company's official statement earlier. Close to the worst result of the crisis in 2009 - 461 billion cubic meters. Deterioration in production performance of Gazprom occurred throughout 2012, primarily due to the fall in gas demand in all directions. Already in the first half of 2012, according to the company, the demand on the Russian market in terms of value decreased by 6.4%, in Europe - 10%, in the CIS - even by 29%. As a result, even rise in all these areas has not helped: sales of natural gas in the first half declined and amid rising operating expenses net income for the first half fell by a third, to 655 billion rubles<sup>3</sup>.

Given the fact that almost half of Russia's budget comes from energy

revenues any fluctuation of energy price is a potential threat to Russian economic stability. The financial crisis in Europe (Russia's main energy buyer) could lead to a decrease in energy consumption thus shaking the very foundations of the energy-built empire. Nevertheless reducing consumption willingly in a western technologically-expansive society is a goal achievable in the next 10 to 15 years so it doesn't pose an immediate threat to Russia. The necessity to reduce or to seek other import sources would not have become a political task for the EU for another decade at least if Russia wouldn't have overstepped the line with its hard-policy based on energy. In the last years Moscow has used the energy card once too often in order to influence and force decisions upon member states of the EU thus transforming "the need to diversify energy sources" into a political need and will to find a new supplier altogether. This need backed by political will was postponed once in 2008 when the Russian-Georgian war proved Russia's determination in preserving its influence sphere and proving to the Nabucco investors that the South Caucasus is a volatile route for a vital pipeline.

Ever since the political (and financial) will of the EU has decreased encouraging speculations regarding the success of South Stream and discouraging new investors to look to the project. A new breath of life has been blown in the project on June 26, 2012 when President of Azerbaijan Ilham Aliyev and Prime Minister of Turkey Recep Tayyip Erdoğan signed a binding intergovernmental agreement on the

<sup>3</sup> The defense of "Gazprom" VLADIMIR MILOV, Gazeta.ru  
<http://www.gazeta.ru/column/milov/4922261.shtml>

TANAP pipeline and took it upon themselves to finance the pipeline up to the Black Sea. Besides the immense geostrategic importance of the pipeline from EU's point of view, the Azeri and the Turks regard it as a foothold in the energy security architecture of Europe not just as modest supplier and transit country but as direct contributors, thus securing the full attention of the EU (and US) in the long run. The biggest 'problem' with the TANAP is that is lacking in any political flaws, is safe from any of the divergent opinions, multi-level interests and politically-motivated, time-consuming decisions (the case of the Nabucco in the EU) and comes with its own investors, has real money behind it and is driven by sound national interests. So it has a good chance of succeeding.

The deal could be viewed as historical due to two points: first is that it could change entirely the security and political overview of Eurasia and second that it could bring up a new type of interdependence between two Muslim countries (whose resources are needed in Europe) and a still Muslim-skeptic Europe. Concrete steps taken and about to be taken by the Turkish-Azeri consortium have the power to positively influence the EU into making definitive commitments to the Nabucco West project thus determining the coming into being of the main line in the Southern Corridor. Moreover regional success could inspire countries from the eastern, wider Caspian Sea region, like Turkmenistan and Uzbekistan, to join the project and even speed up the process of solving divergent elements like the demarcation of the Caspian

Sea paving the way for the completion of the Trans-Caspic Pipeline. The Azeri-Turkish bridgehead project can also encourage Kazakhstan to take its resources west, especially under the circumstances in which Moscow was unwilling to offer a profitable deal forcing Astana to take its resources to China.

Up to this point Moscow has been able to successfully deter and counter EU's plans regarding gas imports from the East by creating a gap in the security loop of the South Caucasus through the 2008 Georgia war which proved to the investors that the transit region is volatile and then promoting its own South Stream pipeline attracting the same investors. Russia's air and missile strikes that bracketed the Baku-Supsa oil Pipeline last August were the first shots in a Kremlin gambit to choke the East-West Corridor. That this went largely unnoticed in all the commentary about Russia's August attack on Georgia attests to the acute strategic autism that has seized the west. Also the Kremlin was able to put a strain on the first Nabucco project by making good use of its energy monopoly in liable transit countries and forcing a commitment for South Stream.

The EU only receives a small part of its natural gas imports from remote areas as liquefied natural gas (LNG) by tanker. Due to lower cost and greater capacity, the largest part is imported into the EU, above all, by pipeline from the neighborhood through three large import corridors at the moment: from Russia (Eastern Gas Corridor), Norway (Northern Gas Corridor) and North Africa (Western Gas

Corridor)<sup>4</sup>. Furthermore, the EU is planning to set up a fourth, a Southern Gas Corridor. This is to carry natural gas from the Caspian region and the Middle East to South East Europe and into the EU, above all, to Southern Germany, Austria and Italy. Firstly, setting up such a Southern Gas Corridor has the advantage that the EU will be able to diversify its supply sources. Thus, potential damage caused by technical failure or by politically motivated interruption from one supply source may be reduced and competition improved. This aspect is important to the entire EU but especially relevant for the states of South East Europe, as they are currently receiving a large part of their natural gas from a single supplier (Gazprom) and via a single transit route (Ukraine). Furthermore, natural gas plays an important role in the energy mix of these countries. Secondly, the EU does not have direct access to the natural gas reserves of the Caspian Region and the Middle East at the moment. Imports from these regions are a good option as they represent nearly 50% of the worldwide natural gas reserves<sup>5</sup>, have free export potential, and are situated

in immediate vicinity and within pipeline distance to the EU<sup>6</sup>. This is where Moscow's problems begin: both Azerbaijan and Turkey are independent from Russian energy imports and cannot be constrained or deterred from the TANAP project through Moscow's 'conventional' means. Russia acting on Europe is useless at this point as the pipeline will still happen and gas will be available on the Black Sea coast regardless. More so, Moscow's coercion capabilities in Europe have been drastically reduced once the Third Energy Package was enforced and precedents created in the international courts, seriously threatening the Russian gas monopole in some countries of the EU. Therefore Russia was forced to resort to more primal actions and engage in soviet - era tactics which it applied in the South Caucasus, at the "root of the threat".

<sup>4</sup> In 2009, 33.2% of the EU-27 natural gas imports came from Russia, 28.8% from Norway, 14.7% from Algeria, 5.0% from Qatar, 3.0% from Libya, 2.4% from Trinidad and Tobago, 2.1% from Nigeria, 2.0% from Egypt and 8.8% from other third countries. Jiménez, Ana (2010) Statistical aspects of the natural gas economy in 2009 (Eurostat Data in focus 20/2010); under: [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-QA-10-020/EN/KS-QA-..., p. 1](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-QA-10-020/EN/KS-QA-..., p. 1).

<sup>5</sup> Iran and Qatar have 29.6 and 25.3 trillion cubic meters (tcm) respectively and thus the second and third largest reserves after Russia. Furthermore, there are large reserves in Turkmenistan (8.0 tcm), Saudi-Arabia (8.0 tcm), the United Arab Emirates (6.0 tcm), Iraq (3.2 tcm), Egypt (2.2 tcm), Kazakhstan (1.8 tcm), Kuwait (1.8 tcm), Uzbekistan (1.6 tcm) und Azerbaijan (1.3 tcm). BP (2011) BP Statistical Review of World Energy: June 2011. London: BP; under: [http://www.bp.com/assets/bp\\_internet/globalbp/globalbp\\_uk\\_english/report..., p. 20](http://www.bp.com/assets/bp_internet/globalbp/globalbp_uk_english/report..., p. 20)

<sup>6</sup> Friedemann (2010) A European Energy Policy: Challenges and Perspectives, in: Linke, Kristin / Viëtor, Marcel (eds.) Prospects of a Triangular Relationship? Energy Relations between the EU, Russia and Turkey (International Policy Analysis), Berlin: Friedrich-Ebert-Stiftung, p. 5-11; under: <http://library.fes.de/pdf-files/id/07150.pdf>, p. 7

Azerbaijan has been stricken (starting May 2012) by a series of internal and external geopolitical crises<sup>7</sup> that build up tension both inside and outside the country, crises that appear to be “unnatural” and could create the sense of volatility in the eyes of the investors for different projects. All these elements combined create a real threat especially in the October 2013 presidential elections. On the other hand, Turkey a NATO country has yet to face destabilization attempts but the problems with the Kurds in the north and the maritime disputes involving the Mediterranean gas reservoirs.

## Georgia: game-altering politics or a new game?

Last but not least there is Georgia, a vital transit country an important piece of the entire energy architecture of the South Caucasus and of the energy corridor towards Europe. Under these circumstances Georgia is the most susceptible to any kind of Russian pressure. After the 2008 war the country managed to stay on its democratic pro-western path but not lacking any pressure from Moscow or continued provocations from separatist provinces.

Russia amassed a powerful security contingent in each region (approximately 4000-5000 troops) and deployed tactical ballistic missiles in South Ossetia (Tochka-U) and air defense missile systems in Abkhazia (S-

300). It also worked to modernize its air access infrastructure in South Ossetia (helipad near Dzhava) and to expand its foothold on Abkhazia's Black Sea shore (in the port of Ochamchira). As a result, from a military point of view, the separatist enclaves are safe from a conventional attack, while Russia, if needed, is able to split Georgia in two in several hours, by cutting the transport infrastructure (main highways and railways) linking the western and the eastern parts of the country, and to rapidly reach with ground troops the outskirts of Tbilisi. The military security gap these facts create cannot be closed immediately and leaves evidence of a dangerous region instead of an investment plan.

We have to focus our attention on a certain episode that in itself has the power to change the fragile but already established architecture of the South Caucasus: the October 2012 parliamentary elections in Georgia. This event marked the beginning of a new period in Georgian politics as the party that had been governing the country for the past six years (United National Movement) lost majority to the coalition formed around billionaire Bidzina Ivanishvili (Georgian Dream-Democratic Georgia). The transition of power was made more or less peaceful which is in fact a merit of both political sides. The immediately following period the new executive body of the country began building its legitimacy upon charges against former state officials. This gave the Ivanishvili government enough credit in Georgia but created a credibility lack with Georgia's traditional allies

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<sup>7</sup> The extradition of Ramil Safarov in Aug. 2012 that triggered an elevated level of tensions between Armenia and Azerbaijan and given a war prospect to the region, the reactivation of the insurgent cell Forest Brothers linked to the North Caucasus insurgency, social riots and protests in different contexts and a general appetite for rebellion that has no visible explanation.



that interpreted the gestures as political vendetta.

Moreover the new prime-minister took the opportunity given by his station and made wild statements regarding important transnational projects. Ivanishvili stated in December 2012 that the construction of the Baku-Tbilisi-Kars (BTK) railway, connecting Azerbaijan to northeastern Turkey via Georgia, raised many questions about its economic efficiency and profitability for Georgia, regardless of the project's geopolitical importance<sup>8</sup>. The statement was widely considered as a threat to the continuation of this politically and economically important project, which has been under construction since 2007 and already cost hundreds of millions of dollars. It caused an uproar in Georgia and especially in Azerbaijan, where some even suggested that Baku might think about raising its price on natural gas for Georgia<sup>9</sup>. Following the international reaction to his statements Ivanishvili stated, during a visit to Baku, that it was all a misunderstanding and retracted his former statements<sup>10</sup>.

The BTK railway project envisages the construction of a roughly 65-mile railway link between the city of Kars in northeastern Turkey and the city of Akhalkalaki, in southern Georgia. Furthermore, it includes plans for the rehabilitation of the existing railway link within Georgia between

Akhalkalaki and the town of Marabda, in the southeastern corner of the country, close to the Azerbaijani border. From there it will link up with the railway line running through Azerbaijan all the way to its capital Baku on the Caspian Sea. The 516-mile-long railway, which will cost around \$600 million, eventually will have the capacity to annually transport over 15 million tons of freight and 3 million passengers. The project will be completed in 2013<sup>11</sup>.

This was going to be only the beginning as the new Georgian prime-minister would make more political mistakes that would have the international community wondering about the intentions of the new executive branch of the country. One such example (a repeated mistake as Ivanishvili said the same thing twice) occurred during his visit to Armenia, Georgian Prime Minister Bidzina Ivanishvili stated that "Armenia provides a good example for Georgia, and it can be a source of envy in a positive sense," for managing to have good relations with Russia and at the same time with the United States and North Atlantic Treaty Organization (NATO) member states<sup>12</sup>.

Setting Armenia—a country which does not aspire to NATO membership and is widely considered to be Russia's satellite state in the South Caucasus—as an example was quite an alarming statement for Georgia, which already

<sup>8</sup> PM Says Construction of Baku-Kars Railway "Triggers Questions, Civil Georgia, Tbilisi / 21 Dec. ,

<http://www.civil.ge/eng/article.php?id=25575>

<sup>9</sup> Bidzina Ivanishvili shares concerns over Baku-Tbilisi-Kars railroad project, apa news, 24 December 2012 ,

[http://en.apa.az/news\\_bidzina\\_ivanishvili\\_shares\\_concerns\\_over\\_185003.html](http://en.apa.az/news_bidzina_ivanishvili_shares_concerns_over_185003.html)

<sup>10</sup> Ivanishvili: There are no obstacles for Baku-Tbilisi-Kars project, Georgia Times, 2012-12-27,

<http://www.georgiatimes.info/en/news/84887.html>

<sup>11</sup> Russia May Gain in South Caucasus, as Georgian Government Wavers on Regional Railway Projects, December 21, 2012, Vasili Rukhadze,

[http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews%5Btt\\_news%5D=40399](http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=40399)

<sup>12</sup> UNM Slams Ivanishvili for Naming Armenia as Model for Ties with Russia, NATO, Civil Georgia, Tbilisi / 18 Jan.'13,

<http://www.civil.ge/eng/article.php?id=25657>

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for more than a decade seeks to join the North Atlantic Alliance and distance itself from Moscow. As Georgia intensely moved toward the West since the 2003 Rose Revolution, Tbilisi actively cooperated with NATO-member Turkey and its Caucasian ally, Azerbaijan, in the economic, political as well as military spheres. Armenia has been left out of all major joint projects, becoming increasingly isolated in the region. This isolation is actively encouraged by Azerbaijan, Georgia's strategic ally, but Ivanishvili's statements have caused unrest in Baku as Georgia is in the position to decide which of the two countries is being isolated at least from the West or in Armenia's case, from Russia. Yerevan relies heavily on Tbilisi's neutrality in the Nagorno-Karabakh issue as it relies on a good relation with Georgia due to, primarily, its need of uninterrupted energy imports from Russia. This dependence comes from Armenia's landlocked position and Azerbaijan's active lobby towards its isolation, lobby attained through Georgia's and Turkey's dependence on energy imports from Baku.

In this complicated interdependence web, Georgia plays a decisive role due to its bridge-like geographical position between the two. Under these circumstances statements of support towards projects like a railroad linking Russia to Armenia (as Ivanishvili made)<sup>13</sup>, even if that was a beginners mistake, tend to create uncertainty and discontent among stable alliances. Georgia, because of its geographic

location, is a pivotal state in the entire Caucasus—it is the only country that borders all the states and political entities in the region (with the exception of Adygea). Against the background of the ongoing Armenian-Azerbaijani conflict and subsequent blockade of Armenia by Azerbaijan and Turkey, Georgia provides the shortest land connection for Azerbaijan to its ally Turkey and for Armenia to its ally Russia. Consequently, it does matter a great deal for the Caucasian states where Georgia stands. Georgia's foreign policy orientation largely determines which state becomes isolated in the conflict-ridden and divided South Caucasus.

All these elements combined raise the question whether Georgia is or will continue to be a reliable partner for the West or its strategic partners in the South Caucasus. Despite the fact the parliamentary majority of the Georgian Dream coalition agreed upon voting on resolution that binds the government to a Euro-Atlantic course<sup>14</sup> this doesn't mean that this view can't change once a new president is elected in October 2013. It is a well known fact that Russia exerts pressure on Georgia in every way it can (such an example is the Kavkaz 2012 military exercise that was scheduled one week before the parliamentary elections - a similar exercise was held by Russia in 2008 just before the beginning of the August war) and that pressure needs an exhaust to release it. The military-political measure is not Russia's only tool: Russian companies

<sup>13</sup> Ivanishvili comments on restoring Armenia-Abkhazia railway section, 17.01.13, Rustavi 2, [http://rustavi2.com/news/news\\_text.php?id\\_news=47855&pg=1&im=main&ct=1&wth=0](http://rustavi2.com/news/news_text.php?id_news=47855&pg=1&im=main&ct=1&wth=0)

<sup>14</sup> Georgian Parliament adopts resolution on the main directions of the foreign policy, Mar. 8, Trend, N.Kirtskhalia, <http://en.trend.az/regions/scaucasus/georgia/2127432.html>



own controlling stakes in most strategic industries across the South Caucasus, including telecoms, mining, power generation, transmission and distribution. It also remains one of the most important trading partners for the three states in the region. Thus, it is understandable why Moscow considers the South Caucasus to be within its 'zone of privileged interest'. Nevertheless it is of absolute importance for all those concerned to discern between hot-headed rookie allegations and malevolent intent and at this certain point, when the Ivanishvili government has been in function for six months, such a detail is hard to tell. Even so, a governing coalition comprised of almost every type of political ideologies led by a man who's worth is almost the same as the GDP/year of the country he governs (fortune that he was able to achieve in Russia), raises questions regarding Georgia's capability or willingness to continue with its existing external engagements when the GD and its leader failed to create a coherent image in the first six months.

Despite all the above-mentioned elements we have to take into consideration one very important fact: Georgia's budget is more than half dependant on FDI (Foreign Direct Investments) which makes it, depending on our point of view, either a very reliable external partner or a malleable one. Whichever the case Georgia has enough carrots and too few sticks to continue along with its traditional partners and cooperate with the Southern Corridor. This would also serve immensely the declared goal of the Georgian government of

accessing the EU, a goal which the Corridor project would serve a great deal to.

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