

The Nabucco Project

as a Security Provider for Azerbaijan?

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Abstract

The Nabucco project aims at bringing additional energy money to Azerbaijan, and thus it can further help boost the recovery of Azerbaijani people in terms of infrastructural development, rising salaries and reducing poverty, and diversification and improvement of economic activities. However, the Nagorno-Karabakh issue, the most important security problem of Azerbaijan, has stayed as a negative factor having influenced physical security and socio-political stability of Azerbaijan. In this study, the Nabucco project and its political and/or geopolitical value are discussed with respect to the Nagorno-Karabakh conflict with Armenia. The paper contends that any state having an abundance of scarce resources like oil and natural gas as very significant political assets can find or build geopolitical partners and alliances who can maintain its security, such as seen in the relationship between Saudi Arabia and the United States. However, this cannot be said in the case of Azerbaijan. There are a number of reasons why it is very difficult for Azerbaijan to use its energy resources and the Nabucco project in particular as an effective geopolitical tool to promote its security regarding the issue of the Nagorno-Karabakh problem. This paper tries to identify those reasons through the examination of three related topics: the 'Contract of the Century' and BTC example, the regional security benefits of Nabucco and the ongoing Russian factor.

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The Nabucco natural gas pipeline project extending in east-west direction is thought to provide a number of benefits for the participants including natural gas suppliers, transporters and buyers. Perhaps inspired by similar projects along the same route in the South Caucasus, the design of Nabucco natural gas pipeline attempts to avoid the dominance of one state and a certain type of unpredictable autocratic influence, bringing more peace, security, prosperity and democracy to the participants. If accomplished, the Nabucco pipeline- also referred by some as 'Project of the Century'- is believed to have the potential to provide many more opportunities than that of the 'Contract of the Century' with its carrier, the Baku-Tbilisi-Ceyhan (BTC) pipeline. However, this possible success still requires a lot of work and commitment from the actual participants and some extra-regional supporters, like the United States.

Previously, similar- and bigger, projects were planned to obtain the same results in the South Caucasus and Azerbaijan in particular. Those were the 'Contract of the Century' of Azerbaijan and BTC oil pipeline, carrying Azerbaijan's main oil yields from the Caspian Sea to the international markets, assuming that they were going to provide more security and stability

first for Azerbaijan and then for others in the region. Nearly one and a half decades have passed since the establishment of the Consortium to develop the 'Contract of the Century' and discussion over the construction of a main oil pipeline carrying Azerbaijani oil. Further, since 2005, the BTC oil pipeline has been bringing substantial amounts of oil export money to the Azerbaijani coffer and freedom to maneuver in foreign policies of both Azerbaijan and Georgia. The answers to the question of what kind of security the 'Contract of the Century' and the BTC have thus far provided for Azerbaijan can be used for making a prediction about the effects of the Nabucco pipeline in the future.

It can be easily said, as it was during the discussions of the realisation of the 'Contract of the Century' and BTC, that the Nabucco project too, is closely related to the security of Azerbaijan no matter which security definition, whether traditional or human-based, is considered at the centre of the debate. If the traditional perspective is taken into account, it can be said that political and material benefits of the Nabucco project are obviously invaluable assets in the hands of Azerbaijan, which may further strengthen its geopolitical direction in line with what it has already

done with its choice of BTC. The Nabucco project entails bringing additional energy money to Azerbaijan, and so it, as human-based security perspectives may suggest, can further help boost the recovery of Azerbaijani people in terms of infrastructural development, rising salaries and reducing poverty, and diversification and improvement of economic activities. Already Azerbaijan has largely witnessed a staggering level of economic growth and improvement of socio-economic life as a result of energy income. Yet, what about the most pressing security problem of Azerbaijan, Nagorno-Karabakh (NK) –an issue that has not only influenced physical security of Azerbaijan but also molded and regulated socio-political stability and identity of the Azerbaijani people from the elite level to the ordinary person in the street. As Azerbaijan has ended up hosting around one million displaced persons caused by the NK war between 1987 and 1994 and the occupation of about 20 % of the country by Armenian forces, no other issue, but the NK dispute, can be taken as the most important security problem of Azerbaijan. Without any solution to this problem, Azerbaijan, no matter how much it is prospering from economic growth, cannot take its security for granted.

The Nabucco project and its political and/or geopolitical value are discussed with respect to Azerbaijan's most important security problem, the NK problem with Armenia. This paper argues that, if the 'game' is played according to the 'rules', any state having an abundance of scarce resources like oil and natural gas as very significant political assets, can find or build geopolitical partners and alliances who can maintain its security, such as seen in the relationship between Saudi Arabia and the United States. However, this cannot be said in the case of Azerbaijan. There are obviously a number of reasons why it is very difficult for Azerbaijan to use its energy resources and the Nabucco project in particular as an effective geopolitical tool to promote its security regarding the issue of the NK problem. This paper tries to identify those reasons through the examination of three related topics: the 'Contract of the Century' and BTC example, the regional security benefits of Nabucco and the ongoing Russian factor.

Past Experiences: The 'Contract of the Century' and BTC

Azerbaijan's first agreement on the development of its Azeri-Chirag-Gunesli (ACG) offshore oil deposits in the Caspian in 1995 with domi-

nantly western energy companies was once named the 'Contract of the Century.' The new deal of the Nabucco pipeline signed between five transit countries of Turkey, Bulgaria, Romania, Hungary, and Austria with backing by the EU and the United States, is called a similar name, the 'Project of the Century.' Both projects and related pipelines were and still are two of the most important elements in the security calculation of Azerbaijan and especially on the resolution of the NK problem in Azerbaijan's favour. However, realization of the 'Contract of the Century' and BTC have been unable to provide a considerable degree of leverage for Azerbaijan to re-establish its territorial integrity by reaching a peace agreement with Armenia on the NK issue.

The 'Contract of the Century' was aimed at giving Azerbaijan an alternative to project its socio-economic development closer to western models and enhance its security in a volatile geopolitical environment. In other words, it was thought that if Azerbaijan had continued to rely largely on Russian energy companies and energy transportation means, it would have been difficult for it to get out of Russia's economic, political and security orbit. Azerbaijan managed to stay out of Russian-controlled Col-

lective Security and Treaty Organization (CSTO), and has found ways to develop strategic relationships separate from Russia. The 'Contract of the Century' has become a symbol for Azerbaijan and other energy rich states in the region such as Kazakhstan and Turkmenistan that they could no longer be counted as being fully dependent on Russia.¹

BTC that became a subject of rivalry throughout the 1990s has turned out to be the lifeline of the 'Contract of the Century.' However, Azerbaijan has remained unable to become an important bridge linking two sides of the Caspian, especially transportation of Kazakh oil resources via a pipeline crossing the Caspian seabed and Azerbaijani territory. It is true that some amount of Kazakh and Turkmen oil are transported via Azerbaijan and BTC,² but neither the amount nor the way they are transported is enough in volume and size to make Azerbaijan an invaluable energy hub.

1 For the details of the Russia's energy relations with Kazakhstan and Central Asia in general, see Ariel Cohen, *Kazakhstan: Energy Cooperation with Russia-Oil, Gas and Beyond*, (London, GMB Publishing Ltd., 2006); Svante E. Cornell, Mamuka Tsereteli and Vladimir Socor, "Geostrategic Implications of the Baku-Tbilisi-Ceyhan Pipeline", S. Frederick Starr and Svante E. Cornell (eds.), *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West, Central Asia-Caucasus Institute & Silk Road Studies Program*, Washington, D.C, 2005, pp. 17-38, www.silkroadstudies.org (accessed on 06 May 2006).

2 Country Analysis Brief: Kazakhstan, Energy Information Administration, November 2010, <http://www.eia.doe.gov/cabs/Kazakhstan/pdf.pdf>, p. 5 (accessed on 02 April 2011); "Turkmen Oil Starts Flowing Through BTC Pipeline", RFE/RL, 12 August 2010, http://www.rferl.org/content/Turkmen_Oil_Starts_Flowing_Through_BTC_Pipeline/2126224.html (accessed on 02 April 2011).

There needs to be a long term and solid pipeline structure between Azerbaijan and the other energy rich states in Central Asia in order to have larger economic and geopolitical significance, beneficial for Azerbaijan's security needs. Having been aware of the fact that big energy structures between the two sides of the Caspian would provide Azerbaijan and other participant states with a number of economic and geopolitical advantages, Russia worked hard to diminish the likelihood of the realization of such ventures throughout the 1990s.

Certain parts of the Russian government, like the Ministry of Foreign Affairs, worked against the 'Contract of the Century' and the main oil pipeline of BTC. It first declared that the 'Contract of the Century' was void since the status problem of the Caspian water body was not resolved.³ Then Russia developed a new pipeline, Caspian Pipeline Consortium (CPC), capable of carrying 1.5 million barrels of oil per day from Tengiz oil fields of Kazakhstan.⁴ With the latter, Russia wanted to secure rights to carry most of Kazakh oil via its territory and not provide much option to Kazakhstan and others to use

the BTC line. Azerbaijan now exports much of its oil via BTC while Kazakhstan has been in search of pipelines alongside Russia's oil pipeline system. Among other things, one can surely see that any energy pipeline avoiding Azerbaijan in the East-West direction means Azerbaijan has to rely on its own limited ACG oil deposits and the amount it has received from Kazakhstan and Turkmenistan for export. Also, Azerbaijan is a landlocked country and its narrow territorial passage for energy transportation in the western direction via Georgia, Armenia or Iran does not offer much confidence for states and companies to invest much monetary and political capital in the region.

The 'Contract of the Century' has helped Azerbaijani leadership to follow much bolder and independent foreign policy in comparison with those have-not countries in the region, Georgia and Armenia. Yet, it must also be admitted that the same Contract and its main arm, the BTC, did not provide much hoped for external security for Azerbaijan, especially regarding the NK dispute with Armenia. They have only helped maintain the status quo that was established with the cease-fire signed in May 1994 between Azerbaijan and Armenia and the geopolitical balance

³ For the Caspian status issue, see Guner Ozkan, "The Caspian Status Problem: An Issue Undermining Azerbaijan's Security Strategy"; *Avrasya Etüdleri*, No: 29-30, 2006, ss.35-61

⁴ Ariel Cohen, *Kazakhstan: Energy Cooperation with Russia-Oil, Gas and Beyond*, (London, GMB Publishing Ltd., 2006), pp. 3-4.

agreed by major external actors like Russia, the United States, Turkey and Iran. On the NK issue, the participating companies and governments in the 'Contract of the Century' did not give much heed either to the application of the United Nations Security Council (UNSC) resolutions- 822, 853, 874 and 884, or to favouring Azerbaijan. It is true that all parties including the United States, Russia and Turkey have continued urging the resolution of the problem, but their efforts did not go beyond the likely efforts that would have been expected if there had not been energy business of Azerbaijan in the Caspian. Even such a big project, which had been much celebrated by some as being the main source of regional security, could not stop the emergence of the war between Russia and Georgia in August 2008.

Nabucco and Wider Security Benefits in the Trans-Caspian Region

Success of the Nabucco project does not rest only on the volume of natural gas that Azerbaijan will or can supply. Turkmenistan, as well as Iraqi and Iranian contributions to the project, is of vital value for the success of the Nabucco line and assumed security for all the participants alike.

Azerbaijan has reiterated a number of

times that it is ready to supply gas to Nabucco.⁵ Its recent gas export deal with Russia only included a small amount of yield, 500 million cubic metres (mcm), and after Medvedev's visit to Baku in September 2010, this amount was agreed to be increased to 2 billion cubic metres (bcm) annually from 2012 onwards.⁶ Nevertheless, in three to five years the Second Phase of the Shah Deniz project, which contains 1.2 trillion cubic metres (tcm) proven gas reserves of the overall total 3-4 tcm of Azerbaijan's gas reserves, will provide up to 16 bcm of gas per year, and a substantial amount of this is expected to fill the Nabucco pipeline. Whatever the amount Shah Deniz supplies in the near future, Nabucco is of great strategic importance for Azerbaijan since it would further strengthen Azerbaijan's hand and role in the geopolitical game played by powerful regional and international actors, namely Russia, Iran, Turkey, Armenia, Georgia,

5 Fariz Ismailzade, "Rush for Nabucco: Azerbaijan's Position Strengthens", Eurasia Daily Monitor, Volume: 6 Issue: 18, 28 January 2009, Category: Eurasia Daily Monitor, Energy, Azerbaijan http://www.jamestown.org/programs/edm/single/?tx_ttnews%5Btt_news%5D=34424&tx_ttnews%5BbackPid%5D=27&cHash=b0863839f7 (accessed on 20 February 2010) ; "Azerbaijan Fully Supports Nabucco Gas Pipeline Project: Minister", 13 July 2009, Trend, <http://en.trend.az/capital/oil/oilgas/1503996.html> (accessed on 15 March 2010) ; "Ilham Aliyev and President of the European Commission Jose Manuel Barroso Held a Press Conference", Press Conference, 13 January 2011, <http://www.president.az/articles/1392?locale=en> (accessed on 29 March 2011).

6 "Azerbaijan to Double Gas Exports to Russia", RFE/RL, 03 September 2010, http://www.rferl.org/content/Azerbaijan_To_Double_Gas_Exports_To_Russia/2147684.html (accessed on 03 March 2011); R. M. Cutler, "BP, Azerbaijan Seal Offshore Gas Contract", Asia Times, 15 October 2010, http://www.atimes.com/atimes/Central_Asia/LJ15Ag01.html (accessed on 17 January 2011).

United States and the EU.

Azerbaijan's available and projected natural gas resources alone are not enough to fill the Nabucco line for a time period that could satisfy buyers in the lucrative European market. This scarcity of natural gas extracted in Azerbaijan puts Turkmenistan as an important source of supply to realise the project.⁷ The Turkmen President seems to be willing to be part of this project and, in fact, has important reasons to do so. After the death of the previous President, Saparmurat Niyazov, the new leader of Turkmenistan, Gurbanguly Berdimuhammedov, has been interested in opening up the country to the outside world. Berdimuhammedov seems to have accelerated this process, through which he is trying to increase options. Turkmenistan, a country of 5.5 million people, is using its most important and sought after asset, natural gas, as a strategic material in its hand. Berdimuhammedov appears to have learnt well from experience the decade or so that Turkmenistan cannot rely on Russia as the only and major energy corridor through which it exports its gas yield. A few interwoven and important development can be

7 In the former Soviet territories, Turkmenistan holds the second biggest proven natural gas reserves with about 8 tcm after Russia with its about 44 tcm. See (BP Statistical Review of World Energy June 2010, p. 22, <http://www.bp.com/productlanding.do?categoryId=6929&contentId=7044622> (accessed on 15 September 2010). Though many experts have some reservations, Turkmenistan's possible natural gas reserves goes up to 20 tcm, according to Turkmen officials.

given about the risks Turkmenistan has faced by solely relying on Russian territory to export all or vast portions of its gas production.

For years, after independence, Russia had bought Turkmen natural gas at a very cheap price and re-sold it to European countries at high prices. Also, while Russia often sold natural gas on behalf of Turkmenistan to Ukraine, a country that has often found it difficult to pay its gas bills, it reserved many prosperous markets in Central and Western Europe for its own gas sales. Further, in April 2009 the natural gas pipeline between Turkmenistan and Russia was disrupted by an explosion with an unknown cause. Although Russia repaired the broken part of the line after a long disagreement on which side should repair it, the impact of the dispute over the disruption and repair continues to influence the energy relations between Ashgabat and Moscow. As Russia is the main carrier of Turkmen natural gas and sells most of its yields to European markets, when demand and/or price of natural gas gets lower, Moscow chooses to reduce the amount of natural gas it buys from Turkmenistan. All these issues have surely provided for Russia a good deal of economic and political advantages in its Turkmenistan or Central Asia pol-

icies in general.

Perhaps, because of the risk resulting in the reliance on one transport country for energy resources, Turkmenistan has been in close cooperation with China for alternative energy lines in the east. Turkmenistan already signed a development license agreement with Chinese National Petroleum Company (CNPC) in 2007 for the development of the Bagtyarlyk gas field of 1.3 tcm gas reserves next to the Turkmen-Uzbek border. China also promised to lend Turkmenistan around \$3 billion for the development of South Yolotan natural gas field, one of the biggest five natural gas reserves it contains, according to experts, along the border with Afghanistan. All these have then increased the possibility of the amount of gas flowing from Turkmenistan to the rapidly growing Chinese economy. In April 2009, the two sides signed a 30-year agreement that included building a 4,000 mile long natural gas pipeline capable of increasing the volume of natural gas sales from Turkmenistan to China up 30% to 40 bcm annually.⁸ The new deal that was agreed to in March 2011 increases the volume of Turkmen natural gas sales to China further

from 40 bcm to 60 bcm.⁹

Reduction of the dependence of Turkmenistan on the Russian option for its energy transportation has obviously been a great advantage for the foreign and security policies, or geopolitical position of the regime in Ashgabat. Put simply, Berdimuhamedov in Turkmenistan has better tools now by dividing gas export routes mainly into the two directions via and to the great powers of Russia and China, so that he can now pursue his country's 'non-aligned' policy position in regional and international levels. Indeed, if or when Turkmenistan becomes the other biggest partaker in Nabucco, that will link the country to the three biggest geopolitical centres in international system- Russia, China and the West (mainly the EU)- more or less on equal footing.

Turkmenistan is now less dependent on Russia, and this policy is not an easy one to pursue especially in the area of energy transportation in the Caspian region as it may contravene interests of Moscow. This is especially true when the discussions on the Caspian status problem and related problems are put forward around environmental issues by Russia and Iran in order to discredit the Turkmen

8 Luke Harding, "China Signs Deal for 30 Years of Turkmen Gas", 25 June 2009, the Guardian, <http://www.guardian.co.uk/business/2009/jun/25/china-turkmenistan-gas>(accessed on 15 September 2010).

9 "China, Turkmenistan Agree on New Natural Gas Supply", Reuters, 02 March 2011, <http://af.reuters.com/article/energyOilNews/idAFTOE72105F20110302> (accessed on 01 April 2011).

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leg of Nabucco through the bottom of the Caspian water reservoir.¹⁰

Thus, participants of Nabucco including Turkmenistan should avoid the mistakes and hesitations that they made over the status of the Caspian and financing of the line in the negotiation process for building the Trans-Caspian pipeline in the late 1990s and early 2000s. If both achieve this, Azerbaijan, which lacks geographical, and so geopolitical, depth due to being surrounded by Russia, Iran and the problematic status of the Caspian, can enhance its security that has already been boosted by the other energy lines, BTC and BTE. By this, therefore, Azerbaijan and Turkmenistan can link their security and national interests in a way that a Trans-Caspian gas pipeline could open up

other opportunities to resolve existing problems like sharing the disputed Kepez/Serdar oil fields in the Caspian between Baku and Ashgabat. If this is the logic to be adopted in the establishment of the Nabucco leg between Azerbaijan and Turkmenistan, the same scenario can be put forward in the case of Iran too.

Among the possible gas suppliers of Nabucco, obviously Iran has the biggest potential not only having abundant reserves, as the second largest deposits in the world, but also being closer geographically to Europe via Turkey. Yet, as is well known, the United States, even now under the Obama Administration, has also opposed Iran’s participation in the project before getting concrete compromises on the Iranian nuclear issue. If Iran were allowed to take part, there would be a great benefit not only for having more suppliers for Nabucco, but also for helping regional and international security. Whether taking Iran as a partner into any energy supply line to Europe would make the Iranian regime renounce its nuclear ambition is open to debate; it would surely be a positive step to engage with the state with positive terms that could provide some security benefits regionally and internationally. For instance, a relaxed and less pressurized Iran would not be willing to devel-

10 Sergei Blagov, “Moscow Aims for Caspian Settlement in 2011”, Eurasia Daily Monitor, Vol: 7, Issue: 216, 03 December 2010, <http://www.jamestown.org> (accessed on 20 January 2011); Bruce Pannier, “Caspian Summit Fails To Clarify Status, Resource Issues”, RFE/RL, 19 November 2010, http://www.rferl.org/content/Caspian_Summit_Fails_To_Clarify_Status_Resource_Issues/2225159.html (accessed on 13 December 2010).

op energy and other economic ventures with Armenia, which has seen Tehran as the second most important viable option, after Moscow, to escape economic and political isolation imposed by Azerbaijan and Turkey. A poverty stricken and isolated Iran would accept and join the Nabucco project if there was a serious offer made by decision makers on the realization of Nabucco, such as the United States and European governments. In the short and mid-term, however, it is unlikely that Iran will be one of the suppliers for the Nabucco pipeline as the United States and Turkish governments are divided on the participation of the country.¹¹

Russian Ongoing Energy and Military Tools

As it was during the discussions of the ‘Contract of the Century’ and the BTC pipeline, Russia has again taken an opposing side in the construction of the Nabucco pipeline. While Russia has, on the one hand, constantly argued the lack of commerciality of the Nabucco pipeline, on the other it has tried to take advantage of its upper hand in the South Caucasus and

Central Asia by signing more natural gas contracts with those states considered to be hosting prime resources to fill the Nabucco line. More than this, Russia has not hesitated to use military force and strengthen its military presence, all of which have, one way or another, influenced energy issues and security in the South Caucasus and in Azerbaijan in particular.

Similar to what once happened, developing CPC against BTC, Russia has now put forward South Stream against Nabucco. This then shows its reluctance to give up a strong presence in the South Caucasus and the Caspian. Russia has done it not just because Nabucco would really negatively impact Russia’s coffers by attracting energy exports away from its territory, but because it can further release a number of countries in Central and Eastern Europe, South Caucasus and the Caspian from continuing to be dependent on Russian gas and political maneuvering. In order not to lose such influence in those countries, Russia has treated Nabucco as a venture as if it were politically motivated, and advertised that it would be doomed to failure due to lack of suppliers for it¹², not an unfa-

11 “Energy: Nabucco Chief Eyes Iranian, Russian Gas Despite U.S. Objections”, Eurasianet, 22 June 2008, <http://www.eurasianet.org/departments/insight/articles/pp062308a.shtml> (accessed on 20 February 2010); “UPDATE 1-Turkish PM says wants Nabucco to transport Iran gas”, Reuters, 13 Jul 2009, <http://www.reuters.com/article/2009/07/13/energy-nabucco-iran-idUSLD60806920090713> (accessed on 20 January 2011); “Nabucco Gas Pipe Consortium Delays Plans to Include Iran in Project”, RIA Novosti, 23 August 2010, <http://en.rian.ru/business/20100823/160310830.html> (accessed on 20 January 2011).

12 “Nabucco Gas Project Has No Future - Russian Deputy PM”, RIA Novosti, 22 October 2010, <http://en.rian.ru/business/20101022/161053001.html> (accessed on 02 April 2011); “Nabucco Not Serious Rival to Russian Gas Pipe Projects – Zubkov”, RIA Novosti, 15 June 2009, <http://en.rian.ru/russia/20090715/155533724.html> (accessed on 02 April 2011).

“Similar to what once happened, developing CPC against BTC, Russia has now put forward South Stream against Nabucco.”

miliar message to those who closely watched the Russian argument put forward against the realization of the BTC.

Similar to the quick development of the CPC to transport Tengiz oil to Novorossiysk and reduce the chance that BTC would be used for the same purpose, Russia has been working to develop the South Stream gas pipeline system to curb Nabucco. Even if Turkey seems to have accepted the passage of the Russian South Stream gas pipeline via its exclusive economic zone in the Black Sea, the Turkish permission is, in fact, based on bargaining with Russia on the Samsun-Ceyhan oil pipeline and other developing cordial economic and political relations between Ankara and Moscow. Moreover, the most obvious goal of building Nabucco for the market countries and Turkey is to meet natural gas needs of Europe from as many diverse resources as possible. This single, but crucial fact, suggests that it is the governments of those states which, being heavily dependent on Russian gas, will first and foremost decide to get gas from Na-

bucco away from Russia’s control. As well as the Caspian delimitation problem, Russia has been using its gas giant, Gazprom Company, to make Nabucco unfeasible in commercial terms. As Vladimir Socor, also correctly recognizes that the agreement that was reached in February 2011 between Gazprom and Austrian OMV, which is one of the shareholders in the Nabucco project, to build and run a 50 km gas pipeline from Hungary to Baumgarten terminal in Austria is actually targeting to undermine Nabucco’s strategic importance.¹³ By building this pipeline, it is believed that Russia via Gazprom is trying to supply gas to the Nabucco’s main storage and distribution centre in Baumgarten in Austria from its planned South Stream line before the EU and other partners realise the rival Nabucco line.¹⁴

Though not as fiercely as it did during the 1990s over the ‘Contract of the Century’ and BTC, Russia has still played the role of hard security holder in the South Caucasus. Russia has long claimed that it is on the side of peace through taking military steps aimed at maintaining the status quo on the most important regional conflicts or rearranging the existing sta-

¹³ Vladimir Socor, “Gazprom-Austrian OMV Agreement: A Political Blow to Nabucco”, Eurasia Daily Monitor, 22 February 2011, http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=37541 (accessed on 02 April 2011).

¹⁴ Ibid.

tus quo by military and economic means when it sees any prospect Moscow could lose some ground in the same area. Although one may not read those sorts of Russian measures as being directly linked to the energy issues in the South Caucasus and the Nabucco pipeline, they are all important factors influencing the minds of state and non-state decision makers on whether they choose to join in building costly energy pipelines skirting the Russian Federation.

For instance, in the case of Georgia, Russia placed its military in the Georgian breakaway regions of Abkhazia, South Ossetia and the two other ethnic areas of Acaria and Javakheti. By doing that Russia separated these regions from the Georgian capital and did not give the Georgian government and the regions (Abkhazia and South Ossetia), which had fought in the early 1990s, any chance for reconciliation.¹⁵ Russia always described its deployment of military into the region in the form of peacekeepers and a military base, as efforts necessary to establish and maintain peace and security. However, Russia's military deployment policy carried the meaning of nothing more than peace and security

¹⁵ See Pavel Baev, "Peacekeeping and Conflict Management in Eurasia", in Roy Allison and Christoph Bluth (eds.), *Security Dilemmas in Russia and Eurasia*, (London, Royal Institute of International Relations, 1998), pp. 209-229; Svante E. Cornell, *Small Nations and Great Powers: A Study of Ethnopolitical Conflict in the Caucasus*, (Surrey, Curson Press, 2001), pp.343-353.

that Moscow has itself imposed on the region.

In a similar vein, in the problem between Azerbaijan and Armenia over the NK region, Russia has played the key role. Establishment of Russian a military base in Gyumri in Armenia has provided for Yerevan and the separatist NK region a security cloud; consequently, no progress has been achieved on the problem between Azerbaijan and Armenia. While Russia has often stressed that it was ready

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to accept any peace Azerbaijan and Armenia agreed on over the NK issue, it did not hesitate to sign military strategic agreements with Yerevan and modernise the Armenian armed forces.¹⁶ Throughout the 1990s, when the discussions over the energy pipelines from Azerbaijan to international

¹⁶ Svante E. Cornell, *Small Nations and Great Powers: A Study of Ethnopolitical Conflict in the Caucasus*, (Surrey, Curson Press, 2001), pp.353-357, p. 396.

markets were held, Russian presence in the region and the ongoing dispute over the NK and other regional security issues provided serious obstacles to making decisions on energy pipelines. This same situation regarding Russia is still very relevant today for the South Caucasus.

For instance, Georgia's aspiration to be a full member of NATO, which would reduce Russia's political and military position in the South Caucasus, led Moscow to use military force against Georgia in August 2008. Among others, one of the main topics discussed by the experts on the region and international politics in general was whether Russia's strong return to the region would impede the existing and possible future energy lines crossing the region. Georgia has now lost two breakaway regions to Russia indefinitely and created more risks for the security of Azerbaijan and existing and future investment decisions of the governments and companies in the Caspian region.¹⁷ Broadly speaking, the most obvious development is that the region from the Black Sea to the Caspian has witnessed a new rise of geopolitical intensity played by a number of soft (energy and economics) as well as

17 For a comprehensive overview on the impact of the war in Georgia in August 2008, see Mamuka Tsereteli, "The Impact of the Russia-Georgia War on the South Caucasus Transportation Corridor", The Jamestown Foundation, 2009, <http://www.jamestown.org> (accessed on 20 March 2011).

hard tools (military deployment and armed intervention). This has shown itself either in the example of Russia's strong return to Abkhazia and South Ossetia with military muscle or in the case of the removal of the pro-western President of Ukraine (Viktor Yushchenko) with the pro-Russian Viktor Yanukovich. Ukraine has done this power change via democratic elections, but it would be naive to rule out the role of Russia on Ukrainian public opinion, by cutting off the gas flow to Ukraine amidst the global economic crisis, in the run-up to the elections.

As well as those policies, Russia's new effort in the South Caucasus has shown itself with the new military agreement signed between Moscow and Yerevan on 20 August 2010.¹⁸ This strengthening of the military realignment between Russia and Armenia cannot be excluded from the establishment of the Nabucco project and its safe and secure functioning in years to come. The new defense deal between Armenia and Russia extended the presence of Gyumri military base until 2044, a base agreement that was going to end in 2020. By the new deal, Russia has also committed to upgrading the Armenian military with new weapons and guaranteeing

18 "Deal Signed on Extending Russian Military Presence in Armenia", RFE/RL, 20 August 2010, http://www.rferl.org/content/Russia_Armenia_Sign_Extended_Defense_Pact_/2133043.html (accessed on 21 August 2010).

the security of Armenia alongside Armenian armed forces. Although what kind of new military equipment Russia will supply to Armenia under the new agreement is not yet clear, it is assumed that Russia may give similar weapons to Armenia that it has already deployed in the Gyumri base such as S-300 missiles, MIG-29 fighter jets and T-72 tanks.¹⁹ Despite the fact that Azerbaijan is worried about Russia's military sale or deployment of weapons to Armenia and asked the Russian government not to allow those weapons to be used in the NK region, it is almost impossible to think that Armenia and Russia will hesitate to use them against Azerbaijan. As seen in the past during the war over NK, when Azerbaijan gained military successes on the battlefield, Russia did interfere by both supplying arms and personnel aid to the Armenian side through the existing Soviet military in the region.

There are also now rumors of Russia's sale of S-300 weapon systems to Azerbaijan. If they are true, then it suggests Russia's desire to maintain the status quo between Azerbaijan and Armenia. Two reasons can be given why Russia is selling advanced weapons of air defence to both sides: 1) Russia is selling its advanced

weapon system for commercial reasons, and 2) Russia, by showing its interests in maintaining military balance between the Azerbaijan and Armenia status quo, seems to make clear once again to regional and extra-regional actors that it is the most important and necessary actor between Baku and Yerevan and, of course, over the fate of the NK issue.

The latest likely point of Russia being the main actor in the region is also supported by the view that Russia has wanted to curb Azerbaijan for any of its attempts to restart the war in NK against Armenia as Baku has intensified efforts to modernize the Azerbaijani national army in recent years. According to SIPRI (Stockholm International Peace and Research Institute), Azerbaijan has spent much more money on armaments than Armenia between 1999 and 2008/2009. While Armenia spent \$93 million in 1999 and \$217 million in 2008, Azerbaijan surpassed those amounts during the same period with respectively \$133 and \$697 million.²⁰ It is also reported that Azerbaijan imported 70 armored personnel carriers from Russia, entered a joint project with South African Paramount Group to produce Mata-

19 "Armenia and Azerbaijan: Preventing War", Policy Briefing, No.60, International Crisis Group, 8 February 2011, p. 7, pp.14-15, <http://www.crisisgroup.org> (accessed on 20 March 2011).

20 Paul Holtom, "Arms Transfers to Europe and Central Asia", SIPRI Background Paper, Stockholm International Peace Research Institute (SIPRI), February 2010, <http://books.sipri.org/files/misc/SIPRIBP1002.pdf>, p. 2 (accessed on 20 May 2010).

dor and Marauder mine protected vehicles and bought unmanned drone aircraft from Israel. Most importantly, Azerbaijan has accepted a \$3.12 billion military budget for 2011, an amount that is said to be 30% more than the total yearly budget of Armenia.²¹

Azerbaijan is surely modernizing its army and buying new weapons with the money it is receiving from selling oil and gas, which has been strengthening the country's military capability in comparison with those of the other states in the region, especially Armenia. Azerbaijan has owed its ability to increase its military spending and cooperation with weapon companies in other states to its energy exports that have so far largely consisted of oil export via BTC. If the Nabucco project is accomplished, Azerbaijan will obviously have the potential to strengthen its military forces further. However, so long as Armenia and Russia continue to renew their strategic military alliance, Azerbaijan may not be able to restore its territorial integrity by using military means. Also, for other strategic and economic reasons alike, one may think that the agreement between

21 Mina Muradova, "Azerbaijan Boosts Defence Production", Central Asia Caucasus Institute Analyst, 19 January 2011, <http://www.cacianalyst.org/?q=node/5482> (accessed on 02 March 2011); "Risk of New Karabakh War Persists despite Astrakhan Summit", RFE/RL, 04 November 2010, http://www.rferl.org/content/Risk_Of_New_Karabakh_War_Persists_Despite_Astrakhan_Summit/2210479.html (accessed on 13 December 2010).

Baku and Moscow on gradually increasing gas exports of Azerbaijan to Russia to 2 bcm annually aims to convince and/or pacify Moscow not to interfere in the event of war over the NK region. This would however be unrealistic considering the past examples. One of them was the Azerbaijani acceptance of the Baku-Novorossiysk pipeline for the transportation of early oil from ACG, which was not considered sufficient reason by Moscow for not renewing and constantly arming Armenia in the region.

Yet, even though increasing gas exports to Russia seems to be a blow to the Nabucco project, in reality that policy of Azerbaijan is quite consistent with old policies established by Heydar Aliyev in the 1990s. The volume of gas that Azerbaijan promised to increase for Russia is far from negatively impacting the value of the Nabucco project for Azerbaijan and other likely participants as sellers and buyers. It is because, as well as exporting its own gas yield from Phase 2 of Shah Deniz project, Azerbaijan wants to be an energy hub by being a transport country for a significant volume of Turkmen gas to Europe as well. For the first time, since the late 1990s when the Trans-Caspian gas pipeline was considered, Turkmenistan has explicitly backed the build-

ing of the gas pipeline from Turkmenistan to Azerbaijan through the Caspian seabed. In November 2010, at the summit of the five leaders of the Caspian states, the Turkmen President Berdimuhammedov declared openly in the presence of Russian President Dmitry Medvedev that any pipeline to be laid down in the Caspian is an issue that could only be decided by the two states (Azerbaijan and Turkmenistan) involved.²² After this, the joint visit of the President of the European Commission, Jose Manuel Barroso, and Energy Commissioner, Guenther Oettinger, to Baku and Ashgabat in January 2011 was another boost in the realisation of the Nabucco project. All these revived cooperative efforts among the three main actors (Azerbaijan, Turkmenistan and the EU) of the Nabucco project appear to have made it clear that neither the frozen conflicts including the NK issue in the South Caucasus controlled by Moscow nor Russia's reminder of the Caspian status and environmental problems regarding the Trans-Caspian gas pipeline, could stop linking the two side of the Caspian with a solid project that will surely promote regional security at the centre of which Azerbaijan sits.

22 Bruce Pannier, "Caspian Summit Fails To Clarify Status, Resource Issues", RFE/RL, 19 November 2010, http://www.rferl.org/content/Caspian_Summit_Fails_To_Clarify_Status_Resource_Issues/2225159.html (accessed on 13 December 2010).

Conclusion

The 'Contract of the Century' has accomplished a lot with its arm of BTC. Nevertheless, its contribution to domestic political, social and economic development in the South Caucasus and the Caspian has still remained fallen short. The example of the 'Contract of the Century' is thus not presenting a clear picture that, when the Nabucco is put into service, it will solve many of the existing domestic political, social and economic problems of the gas suppliers. Yet Nabucco is a much more complex venture with a number of participating states having diverse regional and global interests.

If or when the Nabucco project is completed, its contribution can and should be expected in the development and/or improvement of the relationships among those participating states and regions. For instance, after Azerbaijan, now Turkmenistan's connection to the West with a very solid project like Nabucco will increase Ashgabat's self confidence for building a much more balanced relationship with Russia and give way for the development of similar projects in the western direction. It is true that when or if the Nabucco project is made real with the participation of Azerbaijan, Turkmenistan, Iraq and

Iran, it will create a much bigger positive impact not only on existing traditional security worries but also on non-traditional ones in the South Caucasus and, Central Asia, as well as in the ongoing worrisome relationship

“Nabucco appears to be able to contribute to the resolution of the NK problem no more than the contribution that the BTC provided for the same issue for a long time, what Azerbaijan has held in its hands in terms of strategic security capacity and foreign policy options cannot be underestimated.”

between Iran and the United States. Though it seems realistically to be a slim possibility, the United States' acceptance of the Iranian participation in Nabucco may help start a new beginning between Tehran and Washington in which it would be much easier for them to discuss the nuclear issue of Iran and decrease their differences in other matters in the Middle East.

It seems that, as a result of the positions all participating and likely participant states have displayed, it would be too optimistic to think that Azerbaijan would be able to use Nabucco to resolve the NK problem in a very definitive manner. To be more specific, neither initial Russian in-

volvement in the development of ACG oil deposits nor the energy companies of the western countries in the same and other projects did much in the way of changing their governments' policies towards the NK issue. However, as it was seen in the process of the development of BTC, Russia cannot do much to prevent Nabucco from being realised. The main difficulty again in the realisation of the Nabucco project, as was the case in the long delay of BTC, stems not only from states which are either suppliers of the gas and transit countries but also from likely buyers in Europe and external supporters like the United States.

At the end, although Nabucco appears to be able to contribute to the resolution of the NK problem no more than the contribution that the BTC provided for the same issue for a long time, what Azerbaijan has held in its hands in terms of strategic security capacity and foreign policy options cannot be underestimated. Even if it does not appear to help much to change the Armenian, Russian as well as other actors' positions in the resolution of the NK problem, the Nabucco project will definitely double the capacity of Azerbaijan in economic, military and strategic terms stretching from across the Caspian to the very heart of Europe. If not in

short and mid- terms, this enlarged importance and capacity that Azerbaijan will achieve has the capacity to transform strategic thinking in the region, and the NK problem cannot escape from the wind of change and stay as it is today.