

THE EU POLICIES TOWARDS THE CAUCASUS

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1. The EU Common Position on the Caucasus

The design of the EU policies to the Caucasus countries, Armenia, Azerbaijan and Georgia came quite late.

The EU after the end of the Cold War tried to establish close relationships with the New Independent States (NIS). The Commission considered that the former Soviet Republics had the necessary structures and means to establish a new kind of relationship in line with the concept of Partnership and Cooperation. Political reforms and transition to market economy were goals to be achieved in order to establish a larger European space covering different areas of the former Soviet Union.

The European Council in 1992 gave to the Commission the task of negotiating Partnership and Cooperation agreements with Russia and NIS.

In the case of the Caucasus countries the approach and negotiations, as we mentioned, started quite late, given the armed conflicts that were developed at the beginning of the nineties. In this situation the principal EU approach was not political but humanitarian. Small TACIS programs, a loan program and humanitarian aid were the principal EU engagements in the Caucasus until 1995.

The Commission proposed to the Council at the beginning of June 1995 a project of common position on the EU future strategy towards these three countries. The Commission considered that the EU have to carry out essentially the following functions to assist the three countries to pass through a transitional period toward a democratic political system and to set the conditions for a sustained economic development, through economic reform:

- 1.- Support the sovereignty, independence and territorial integrity of the three countries.
- 2.- Political dialogue.
- 3.- Promotion of the peace process in the regional conflicts, especially Nagorno-Karabach.
- 4.- Support for the strengthening of democratic institutions.
- 5.- Humanitarian aid, including food and fuel aid.
- 6.- Financial support, given the dramatic economic situation and major balance of payments difficulties.
- 7.- Support for post-war reconstruction that implied promotion of trade and investment, technical assistance for institution building, enterprise support, restructuring of agriculture and energy sectors.
- 8.- Cooperation and coordination with other major donors.

These objectives were considered that could be achieved using the following instruments:

- 1.- Signing Partnership and Cooperation Agreements.
- 2.- Enhancing Diplomatic Links.
- 3.- Playing a political role in the region, with the introduction of incentives to cooperate and conditionalities, persuading Turkey and Russia to participate constructively and promoting EU interests in the energy sector, both the extraction and the routing of pipelines.
- 4.- Supporting democracy.
- 5.- Giving food aid, humanitarian aid, fuel and agricultural inputs.
- 6.- Financial assistance. Not macro-financial but exceptional.

- 7.- Post-war reconstruction.
- 8.- Intensified Cooperation with international donors, like EBRD, US, Canada, Japan, ensuring burden sharing and avoiding duplication and with NIS creditors in particular Russia and Turkmenistan (Commission 1995).

In the common position, the Council accepted the objectives and priorities proposed by the Commission. The Council also wanted to underline the importance of the EU's role as a major provider of assistance to the three Republics in order to promote the different objectives. The EU member states had to ensure that their national policies conform to this common position.

The Commission negotiated quite rapidly the Partnership and Cooperation Agreements which were signed on 22 April 1996 with Georgia, Azerbaijan and Armenia and submitted to the ratification procedures of the national Parliaments. In the case of Georgia and Armenia, the Council gave the green light in March 1997. In the Azerbaijan's case, in October 1998. They came finally in force the first of July of 1999.

In order to prevent this delay, the Commission negotiated interim agreements to advance the application of the trade chapter and the accompanying measures.

The EU interests were focused on the promotion of stability in the area, the development of a transit corridor to the Caucasus and Central Asia furthering trade along it, and bringing energy resources of the Caspian region to the European market.

Besides, the partnership and cooperation agreements, as we mentioned, the EU used ECHO (European Community Humanitarian Office) to respond to humanitarian crisis and food aid in areas under both government and insurgent jurisdiction in Azerbaijan and Georgia; ECHO aid and food aid to the region have decreased significantly since 1996.

The EU also used the TACIS program. Until 1995, the small TACIS projects implemented in Armenia, Azerbaijan and Georgia were centered on:

- Assistance in the energy sector.

- Privatization and enterprise restructuring.
- Financial services in Armenia.
- Human resources development.
- Food production and agriculture.
- Transport and telecommunications advice.
- Assistance to small and medium enterprises in Armenia.
- Humanitarian aid in Georgia.
- Monitoring and Evaluation.

The projects have been focused, especially since 1996, on feasibility studies and technical assistance linked to infra-structural development, including energy; assistance to governments wanting to enter the global and European markets; democracy and civil society reinforcement, increasing local authorities administrative capacity, independence of judges, and rehabilitation.

TACIS is the only program of financial aid included in the Partnership and Cooperation Agreements. Since 1996 is the more used instrument in order to achieve political objectives, especially institution-building, and the goals set out in the Partnership and Cooperation Agreements.

The European Commission considers that, in the future, the aid policies should consist on a mix of short and medium term measures, combining a short term humanitarian aid and food aid package with TACIS projects for improving the business environment, promoting administrative changes and sound financial management.

In the medium term, financial aid should be linked to conflict resolution and normalization, supporting the return of refugees and the obligations established in articles 2 and 3 of the Partnership and Cooperation Agreements (TACIS Programme 1998).

ECHO programs will be progressively withdraw and TACIS programmes will be used more and more for promoting regional cooperation, market economy and rule of law.

Another significant program financed by the EU is TRACECA (Transport Corridor Europe-Caucasus-Asia).

TRACECA is a program of technical assistance to support the development of transit links from Europe to Central Asia via the Caucasus and alternatives to existing routes through Russia. The cost of the program is approximately 45 MECUS. Only a limited amount have been used for limited reconstruction and improvement of transport facilities.

Another regional program is INOGATE (Interstate Oil and Gas to Europe) centred on pipeline management and rehabilitation and on oil and gas transmission. The program tries to improve the overall oil and gas transport system toward Europe and is open to Russia and other Republics. The cost of the program was 50 MECUS over four years.

Finally, we can also mention the Black Sea Environment Program with TACIS support.

In total, the EU has given an assistance to the region, including not only aid but also grants and loans until the end of 1998 of more than 845 MECUS -excluding the INOGATE and TRACECA regional programs.

After the ratification of the Partnership and Cooperation agreements the framework for cooperation is clearly established.

The agreements are divided into the following chapters:

- General principles.
- Political dialogue.
- Commerce of commodities.
- Trade and investment regulations.
- Payments.
- Intellectual, Industrial and Commercial Property.
- Legislative Cooperation.
- Economic Cooperation.
- Democracy and Human Rights Cooperation.
- Prevention of illegal activities and prevention and control of illegal immigrants.
- Cultural Cooperation.
- Financial Cooperation.

- Institutional, General and Final Regulations.

In article 1, the agreement establish the objectives:

- The creation of a framework for political cooperation.
- The assistance in the consolidation of democracy and market economy.
- The promotion of trade and economic relations.
- The creation of a base for legislative, economic, social, financial, scientific, civil, technological and cultural cooperation.

Respect for democracy principles of international law and human rights as well as mutual cooperation among the NIS are conditionalities that were clearly inserted by the EU into the draft agreements (articles 2 and 3).

Article 4 allows for reviews of the changing circumstances of the partners and article 95 establishes that the parties emphasize that a breach in the agreement consist of violation of human rights, principles of market economy and respect for democracy.

Regarding energy issues, it was clearly established that cooperation has to be developed in the framework of market economy and the European Charter on Energy, covering areas such as development of energy policies, modernization of energy infrastructure, transport and transit of energy products. One clause establishes that the parties will interchange relevant information on investment projects in the energy sector in particular the construction and modernization of pipelines and other means for transport of energy products (Partnership and Cooperation Agreements with Armenia, Azerbaijan and Georgia).

This section was very relevant taking into account the so called great game that was going on regarding the pipelines in the Caspian Sea and the different routes proposed.

However, in the agenda of the first Cooperation Councils with Armenia, Azerbaijan and Georgia after the ratification of the agreements as we will explain later, there was no single block dealing with energy.

The problems for discussion in October 1999 were the following:

- Tensions in the region and regional cooperation.
- The lack of an economic and legal framework in order to attract foreign investments.
- The development of bilateral interchanges and investments.
- Agreements for democratization and human rights promotion.
- Future cooperation in justice and home affairs.

It was clear that the EU finally recognized that they needed a deeper political approach to the Caucasus. The main causes of the problems, including the slow economic reform, were political. Tensions and conflicts are also aggravated by the political statu quo that for the leaders means "stability", but for the people means distrust, poverty and lack of modernization.

2. Energy Issues and Regional Cooperation

INOGATE (Interstate and gas transport to Europe) is a major initiative of the EU in the field of technical assistance to the Caucasus and Central Asian Republics. It was founded in Brussels in November 1995.

Its main objectives are the promotion of regional cooperation and programme security of the member countries, ensuring the functioning of effective oil and gas transport corridors across Europe and the support of its beneficiary countries in:

- Rehabilitating, rationalising and modernising regional oil, gas and oil products;
- Assessing possible alternative options for the transport of hydrocarbons from the Caspian and Central Asian regions to European and Western countries.

The European Commission has assigned financial means through the TACIS Program for:

- Preparing the studies to identify different kind of projects, prioritising projects for rehabilitazion, and studying new routes.
- Training key staff in modern and market oriented oil and gas transmission systems, management and operations;
- Designing the contractual and regulatory framework required for establishing a sustainable regional and export market based on internationally recognized standars and practices;
- Designing and implementing small scale investments in hazardous cross border infrastructures.

The aim is to assist the beneficiary countries in restructuring cross border oil and gas trade and in mobilising considerable financial resources which are required to modernize the existing systems, rationalize the use of existing facilities and assure their safe and environmentally sound operation.

In the first years of operation, INOGATE financed several projects dealing with the Caucasus. In 1996 budget year, these were the projects:

- A business plan for the rehabilitation of regional gas pipelines in Central Asia and the Caucasus.
- A technical feasibility study for a pipeline across the Caspian Sea.
- A business plan for the rehabilitation of existing crude oil and oil products pipelines, oil processing facilities and oil products transport systems.
- Technical assistance on institutional and financial issues in support of regional cooperation.

In 1997 budget year a set of projects were added:

- Assessment of the beneficiaries hydrocarbon potential.
- Complementary feasibility studies for oil and gas transport from the Caspian Sea Region to Central and Eastern Europe.
- Priority emergency investments in oil and gas infrastructures.

- Follow-up of institutional and financial approaches for the transport and transit of oil and gas.

This last project resulted in the negotiation of a multilateral agreement, the "Umbrella Agreement". At the end of the Ministerial Conference held in Brussels under the auspices of the European Union's TACIS Program on 16-17 February 1999, in which 47 delegations participated, twelve countries initialled the "Umbrella Agreement". This was a major contribution to the development of rules governing international oil and gas transport activities. The parties accept the obligation to cooperate when establishing one or more interstate oil and gas transportation systems crossing their territories.

The "Umbrella Agreement" contains a hard core of mandatory obligations:

- Obligation of the state parties to apply technical specifications recognised internationally by the oil and gas industry.
- Establishment of appointment (by separate protocol) of a common commercial operation entity which will provide transportation services; the operation entity also establishes a Common Operation Agreement with each of the States concerned.
- Provision of guarantees on security for the infrastructures.
- Respect of the Kyoto Protocol and the Energy Charter Protocol on Energy efficiency and related environmental aspects, taking into account local environmental conditions, and to implement common policies safeguarding the environment against any harmful effect caused by the Design, Construction, Rehabilitation, Maintenance and Operation of one or more Interstate Oil and Gas Transportation Systems established pursuant to the present Agreement (article 9).

The projects established since 1997 were well advanced in 1999. The preliminary conclusions presented by the Commission representatives at the Brussels Conference confirmed the need for small scale investments and the technical feasibility for crossing the Caspian Sea.

It was agreed by the participants in the Conference that new potential projects should be prepared to facilitate the implementation of the "Umbrella Agreement".

Exporting countries from Central Asia and the Caucasus confirmed their interest in attracting foreign investment, the importance in this regard of the "Umbrella Agreement" and their policy of relying on a multiplicity of routes between producing areas and export market to maintain competition and ensure security of supply.

A first achievement was the inauguration of the Baku-Supsa oil pipeline and the Supsa technical on 6 April 1999. The project cost was 545 million EURO, and the capacity is 115.000 barrel/day. It became the first South route of the "East-West corridor", due to the cooperation between GIOC and SOCAR.

Months later, on 22 July 1999 an INOGATE summit took place in Kiev to discuss oil and gas supply in Europe and to proceed to the final signature of the "Umbrella Agreement". Forty seven delegation participated.

In this meeting the President of Ukraine described the participation in the creation of oil and gas transport corridors of the Black Sea-Caspian region as one of the priorities in Ukrainian global strategy for the 21st Century.

The Prime Ministers of Azerbaijan and Central Asian countries reaffirmed their interest in the creation of an international consortium for organising transport of oil extracted in those regions to Ukraine and from there to Western Europe (www.inogate.com).

But the question mark was the following: Nothing was said on the negotiations going on for the export of gas and oil from Turkmenistan and Azerbaijan to Turkey.

At the end, in November 1999, President Clinton participated in the signing ceremonies in Istanbul that lay down the legal framework for gas and oil from the Caspian Sea to Turkey. The Trans-Caspian Gas Pipeline Framework Declaration was signed by Turkmenistan, Azerbaijan, Georgia, Turkey and United States. The

intergovernmental agreement for an oil pipeline Baku-Tiblisi-Ceyhan was signed by Turkey, Georgia and Azerbaijan.

Later on Madeleine Albright and high level officials from Azerbaijan, Georgia and Turkey signed on 28 April 2000 the legal framework agreement for the Baku-Tiblisi-Ceyhan oil pipeline.

The EU was put aside of the East-West Caspian energy corridor. Azerbaijan, Georgia, Turkey and Turkmenistan are beneficiary countries in the INOGATE Programme.

It is also worth mentioning the fact that the EU financed a viability study for the Trans-Caspian pipelines.

3. Future Prospects

The Partnership and Association agreements with Armenia, Georgia and Azerbaijan entered into force on 1 July 1999, and on 12 October the first Cooperation Councils took place at the Ministerial level in Luxembourg.

After reading the conclusions, in particular the conclusions of the Cooperation Council EU-Azerbaijan, we can say that energy issues were almost irrelevant.

Later on, during the Portuguese Presidency the first Cooperation Committees took place, in February 2000 with Georgia and in March with Armenia and Azerbaijan.

The EU-Georgia Cooperation Committee, whose tasks were the monitoring of the implementation of the recommendations of the Cooperation Council, to ensure continuity of the partnership and the proper functioning of the agreement, and to prepare the meetings and deliberations of the Cooperation Council, dealt with energy issues in the point dedicated to TACIS and INOGATE programme. The Commission promised to submit the results of the Trans-Caspian study. The study on a Trans-Caucasian multimodal oil transport system from Kazakhstan and Turkmenistan to Supsa through a new second Baku-Supsa pipeline was also finalized. The project will facilitate the removal of bottlenecks on oil transit through the Caucasus until the planned main Baku-Ceyhan oil

pipeline becomes operational. The question of gas was also dealt with, given the fact that INOGATE was investigating new possibilities for transport of Caspian gas to European markets through Georgia and Turkey. But INOGATE and energy issues only were included under the heading of regional cooperation asking to Georgia the acceleration of the ratification process for the "Umbrella Agreement".

The EU-Armenia Cooperation Committee dealt also with INOGATE, the "Umbrella Agreement", the improvement of cross border gas trade between Georgia and Armenia and the assistance to any interstate oil or gas project between Armenia and Azerbaijan, in particular for supplying to Nagorno-Karabach and Nakhichevan, should Armenia and Azerbaijan agree on such.

Finally, the first EU-Azerbaijan Cooperation Committee dealt with the same energy points than that of the EU-Georgia. It was clear that Azerbaijan wanted to improve the relationship with Iran, and given the fact that Iran was admitted as an observer to INOGATE new possibilities were apparent.

In general, we can say that the EU has the perception that there is a link between energy policies in the region and conflicts, present and potential, and also risks of foreign intervention. This constitute a risk for European Security. All this was clearly stated in the Communication from the Commission to the Council and the Parliament. "The EU relations with the Southern Caucasus in the framework of the Partnership and Cooperation Agreements" of 7 June 1999 (Commission 1999). The conclusion for the Commission is obvious, the present and potential conflicts maintain an effective status of emergency that impedes any substantial advance in the democratization process, rule of law, the opening of borders and free access to other markets.

In this respect, regional cooperation in transport and energy issues, including Iran, will be continually promoted by the EU. Energy is considered an important factor of integration. The export of energy from the Caspian Sea and the development of regional energy markets are clear policies in this field. This will imply the support to international initiatives for conflict resolution and a stronger coordination among the different instruments the

Union has in the first and the second pillar of the Amsterdam Treaty. (MacFarlane).

Political dialogue established in the Partnership and Cooperation Agreements will also have a regional dimension, including not only Turkey but also Russia and Iran.

If these are the policies that the EU tries to promote in the Caucasus, the passive position adopted with respect to the development of the East-West Caspian corridor was clearly inconsistent. It can be said that there was a division of labor between the EU and the US, but this distribution of tasks is not evident. At the Luxembourg meeting of the General Affairs Council of the EU on 27 April 1998, it was declared that the construction of multiple pipeline routes was logical and desirable. The Council believed that the timing on strategic decisions on pipeline routes and the specific routes chosen should remain essentially a commercial one for the companies concerned. This declaration probably facilitated the political approach of the US.

In any case, looking to the future, taking into account the existing difficulties for the construction of pipelines crossing the Caspian Sea, it can be said that there will be a broader margin for manoeuvre that will potentially facilitate regional integration. Russia and Iran are not excluded from the game. They can become full partners of the EU in energy issues of the region.

ANNEX

TACIS FUNDS TO CAUCASUS COUNTRIES (million ECUS)

	1991	1992	1993	1994	1995	1996	1997	1998	TOTAL
Armenia	2,3	9,6	17,0	0	6,0	14,0	0	10,0	58,9
Azerbaijan	0,4	12,5	8,0	8,0	6,0	18,0	0	26,8	77,7
Georgia	5,0	9,0	6,0	8,0	6,0	18,0	0	16,0	66,0

Source: Tacis Programme Annual Report 1998.

ECHO PROGRAMS BENEFITTING CAUCASUS COUNTRIES (ECUs)

	1994	1995	1996	1997	1998	1999	TOTAL
Armenia	19.089.000	23.955.218	5.070.000	1.960.000	1.600.000	2.301.000	53.975.218
Azerbaijan	18.850.000	28.831.010	9.450.000	7.546.000	4.400.000	5.150.000	74.227.010
Georgia	17.745.000	27.469.772	12.630.000	5.622.000	6.410.000	6.930.000	76.806.772

Source: ECHO Statistics.

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