



# The Winner is TAP: The EU's Failed Policy in the South Caucasus

**Nona Mikhelidze**

## **Abstract**

Between the two competitors for the delivery of Azerbaijani gas to Europe - Nabucco West and the Trans-Adriatic Pipeline (TAP) - the winner is the latter, a project designed to transport Caspian gas via Greece and Albania and across the Adriatic Sea to southern Italy. The EU welcomed the decision of the Shah Deniz consortium. Yet the political objective of the Southern Corridor was to diversify gas supply to Europe and reduce the energy dependence of some EU member states on Russia. With TAP as the winner, it is questionable whether the EU has truly met these goals. As for Azerbaijan, the selection of TAP can be viewed as a commercially sound decision and a political balancing act by Baku to gain access to European markets and to avoid angering the Kremlin. Yet this choice came only after President Aliyev failed to convince the EU to take a clearer stance on the Nagorno-Karabakh conflict resolution process in exchange for Nabucco West. For its part, the EU has failed to be a credible actor in the region, able to defend its interests by diversifying energy supplies, decreasing the energy dependence of some member states on Russia and contributing to regional security in the South Caucasus.

**Keywords:** *European Union / Energy supply / Natural gas / Pipelines / Azerbaijan / Russia*

## The Winner is TAP: The EU's Failed Policy in the South Caucasus

by Nona Mikhelidze\*

### Introduction

"The Nabucco project is over", Gerhard Roiss, chief executive of the Austrian energy company OMV, announced at a news conference.<sup>1</sup> Between the two competitors for the delivery of Azerbaijani gas to Europe - Nabucco West, favoured by the European Union (EU), and the Trans-Adriatic Pipeline (TAP) - the winner is the latter, a project designed to transport Caspian gas via Greece and Albania and across the Adriatic Sea to southern Italy. "I welcome today's decision by the Shah Deniz II Consortium selecting the Trans-Adriatic Pipeline (TAP) as the European route of the Southern Gas Corridor. This is a shared success for Europe and a milestone in strengthening the energy security of our Union", stated Commission President José Manuel Barroso.<sup>2</sup> Yet the political objective of the Southern Corridor was to diversify gas supply to Europe and reduce the energy dependence of some EU member states on Russia. With TAP as the winner, it is questionable whether the EU has truly met these goals.

Nabucco West was planned to pass through a similar path to that due to be crossed by the Russian energy giant Gazprom's South Stream pipeline, which is intended to deliver Russian gas to Europe (Bulgaria, Greece, Austria and northern Italy). The decision to select TAP represents a clear win for Russia, as it allows Gazprom to maintain a monopoly of gas supplies to energy-dependent states with high gas consumption, such as Bulgaria and Austria. By contrast, TAP is targeted at low-consumption markets such as Greece, Albania and southern Italy. True, over the long run, TAP would plan to reach Montenegro, Bosnia & Herzegovina and Croatia. But by the time these plans develop, Russia may well be on its way towards realizing its South Stream project.<sup>3</sup> Furthermore, again, all the southern Balkan countries are low consumers due their size and economic structures.<sup>4</sup>

For its part, Azerbaijan has always been eager to develop political and economic ties with the EU. Over the last decade, Baku tried to develop Nabucco (indirectly) into a realistic project in terms of cost and viability. In order to do so, Azerbaijan launched the

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<sup>1</sup> "EU-backed Nabucco project 'over' after rival pipeline wins Azeri gas bid", in *EurActiv*, 27 June 2013, <http://www.euractiv.com/energy/eu-favoured-nabucco-project-hist-news-528919>.

<sup>2</sup> European Commission, *EU Commission welcomes decision on gas pipeline: Door opener for direct link to Caspian Sea* (IP/13/623), Brussels, 28 June 2013, [http://europa.eu/rapid/press-release\\_IP-13-623\\_en.htm](http://europa.eu/rapid/press-release_IP-13-623_en.htm).

<sup>3</sup> Gazprom is already negotiating with the Southern Balkan countries over gas supplies to be delivered through the South Stream pipeline.

<sup>4</sup> "TAP Emerges a Winner: Preliminary Implications", in *Natural Gas Europe*, 1 July 2013, <http://www.naturalgaseurope.com/tap-win-preliminary-implications-eu>.

construction of the Trans Anatolian Natural Gas Pipeline Project (TANAP),<sup>5</sup> which was expected to run from the Georgian-Turkish border to the European edge of Turkey, and then to be connected to Nabucco-West or TAP. As “one big project we saw it [Nabucco] wasn't really doable. Then, we thought if we can't make one large project, let's divide it into two. The largest part of a 2,000 kilometres is in Turkey and 1,200 kilometres would be in Europe”, Turkey's Energy Minister Taner Yildiz told *New Europe* in April 2013.<sup>6</sup> In such a way, Nabucco was downsized into Nabucco West. Yet the question arises: if Nabucco West was favoured by the EU as well as by Azerbaijan, then why was TAP ultimately selected?

### 1. Azerbaijan seeks a breakthrough in the Nagorno-Karabakh conflict

According to British Petroleum (BP), the principal motivation for selecting TAP was the substantial commercial difference between the two competing projects, including the cost of shipping Azeri gas and gas prices in the recipient markets. Yet the domestic political situation in Azerbaijan and the nature of its ruling elite suggest that energy-related decisions cannot be taken without the approval of the highest political authorities in the country. Consequently, the fate of Shah Deniz II was largely dependent on political negotiation between Azerbaijan and the EU. For Baku, the main political issue at stake was, and remains, the unresolved Nagorno-Karabakh conflict and the continuing occupation of the seven adjacent regions by Armenia. Therefore, the future of Azerbaijani gas supplies to EU member states, together with the fate of Nagorno-Karabakh, have long been the most important themes of discussions between Baku and Brussels.

Since the early 1990s, the mobilization of energy resources has become key to Azerbaijan's foreign policy making, creating enormous policy opportunities towards external and regional players. Energy has been used politically to cater for a number of objectives, including balanced relations with all political actors in order to avoid membership of military alliances and the possibility to use energy agreements as a foreign as well as a domestic policy tool.<sup>7</sup> In this context, Azeri President Ilham Alyev had long sought to negotiate the future of the Shah Deniz II field in connection with the Nagorno-Karabakh peace process. Insofar as almost 20 years of mediation by the OSCE Minsk Group over Nagorno-Karabakh have borne no fruits, the principal aim of Azerbaijan has become to change the status quo of the peace process in some way. From an Azeri perspective, there were three main external actors with whom Baku could negotiate: Russia, the US and the EU.

Moscow never made a secret of its aversion to the Nabucco project. In order to avoid EU-Azerbaijan energy cooperation, in 2010 the Kremlin made a strategic proposal to

<sup>5</sup> 80% of the total cost will be covered by the Azerbaijani State Oil Company SOCAR (interview with Azerbaijani official, 2013).

<sup>6</sup> Kostis Geropoulos, “SOCAR, Turkey hail TANAP, mull further projects”, in *New Europe online*, 13 April 2013, <http://www.neurope.eu/article/socar-turkey-hail-tanap-mull-further-projects>.

<sup>7</sup> Nona Mikhelidze, “Juggling Security, Democracy and Development in the Caucasus: What Role for the EU?”, in *IAI Working Papers*, No. 1322 (July 2013), <http://www.iai.it/content.asp?langid=2&contentid=952>.

purchase the total volume of Azeri gas<sup>8</sup> at European market prices, offering nothing in exchange, however, and especially no concessions on Nagorno-Karabakh, as Baku would have hoped. In view of this, it became useless for Azerbaijan to put all its eggs in one basket.<sup>9</sup> The search for a favourable agreement on Nagorno-Karabakh necessitated a greater involvement on the part of the US and the EU.

The Nabucco project had long been supported by the US in the framework of its strategy to reduce Russian influence in the South Caucasus and Central and Eastern Europe. To this end, the US had strongly backed the Baku-Tbilisi-Ceyhan oil pipeline. However, during Obama's presidency and in view of its "reset" with Russia and detachment from European affairs, US policy towards the region has changed dramatically. The perception of the regional countries is that Washington has abandoned the Caucasus (and Central Asia) and accepted Russia's primacy over the post-Soviet space. US participation in the Nagorno-Karabakh peace process, namely its co-chairmanship of the OSCE Minsk Group, has become symbolic, unable to trigger a real breakthrough.

While refraining from making it an official policy, the EU's long-standing insistence on the importance of energy diversification suggested that it was also pro-Nabucco. As mentioned above, TAP had a strong commercial rationale, bearing in mind costs and gas prices. Yet it offered no political dividends (in comparison with Nabucco West) to Azerbaijan. Less still did it offer such dividends to the EU. In view of these convergent interests, the EU had become the only actor with whom Baku could negotiate the fate of Shah Deniz II, linking this negotiation, however, to the question of Nagorno-Karabakh.

## 2. The EU's failed policy

Azerbaijan has long tried to use energy cooperation to forge closer political ties with the EU, and in particular to induce the latter to formulate a clearer position on Nagorno-Karabakh as well as to contribute concretely to the peace process. Over the years, the EU's engagement with the conflict has been limited to drafting the documents, acknowledging that there is no progress in the talks mediated by the OSCE Minsk Group, claiming that the Union continues to finance confidence-building projects between the conflicting parties, and calling on the authorities to reach an agreement based on the Madrid Principles.<sup>10</sup>

The EU's position regarding Azerbaijan's territorial integrity has always been ambiguous or unclear. When mentioning the conflicts in the region in a speech at the Azerbaijan Diplomatic Academy in Baku in May 2013, Štefan Füle, European Commissioner for Enlargement and Neighbourhood Policy remarked that "[w]hatever position one holds on the conflicts in the Eastern Partnership region, one cannot deny

<sup>8</sup> "Russia's Gazprom ready to buy all of Azerbaijan's gas - CEO Miller (Update)", in *RIA Novosti*, 19 June 2010, <http://en.rian.ru/exsoviet/20100619/159493755.html>.

<sup>9</sup> Interview with Azerbaijani official, 2013.

<sup>10</sup> European Commission and High Representative, *Implementation of the European Neighbourhood Policy in Azerbaijan. Progress in 2012 and recommendations for action* (SWD(2013) 88 final), Brussels, 20 March 2013, p. 3, <http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=celex:52013sc0088:en:not>.

their continuing effect in restricting growth and opportunity".<sup>11</sup> Yet what the EU's position actually is regarding Nagorno-Karabakh is largely undefined or unknown. The EU has remained passive and at times even contradictory in its efforts towards resolution of the conflict. Its contradictory policy was highlighted in the ENP (European Neighbourhood Policy) Action Plans for Azerbaijan and Armenia, in which it underlined the importance of Azerbaijan's territorial integrity in the Azeri Action Plan, while including a reference to self-determination and Nagorno-Karabakh in Armenia's Action Plan. By sending such ambiguous signals, the EU has done little to win a formal and respected role in mediation activities.<sup>12</sup>

In January 2013, Al Cook, in charge of BP's Azeri operations, declared that one of the criteria for selecting the winner between TAP and Nabucco would be the political commitment of the governments involved.<sup>13</sup> The expectation of Baku was that the political commitment of the EU would take the form of more active participation in the conflict resolution process in two ways. First, the EU would issue statements underlining the importance of Azerbaijan's territorial integrity and sovereignty and condemning Armenia's occupation of both Nagorno-Karabakh and, most of all, seven adjacent regions.<sup>14</sup> Second, the EU would seriously consider the possibility of changing the format of the OSCE Minsk Group, whose co-chairs include Russia, the US and France, by replacing France, viewed as singularly pro-Armenian, with a more balanced EU role. The Union proved to be unwilling (or unable) to do either of these things.<sup>15</sup> Consequently, in April 2013 rumours emerged that the implicit negotiation between the EU and Azerbaijan on the connected issues of Nabucco and Nagorno-Karabakh had failed. Indeed, TAP's External Affairs Director Michael Hoffmann told Reuters that "there has been a dramatic shift" in the EU's approach towards the two pipeline project proposals.<sup>16</sup>

Having reached this dead end, for Baku there was nothing left than to make a decision based on commercial and technical rather than political grounds. At that stage, Azerbaijan had to manage at least to maintain its balanced foreign policy, trying to please everyone and especially Moscow in this very delicate moment in the unresolved Nagorno-Karabakh conflict and with presidential elections upcoming in Azerbaijan.<sup>17</sup> Thus the selection of TAP can be viewed as a commercially sound decision and a political balancing act by Baku to gain access to European markets and to avoid

<sup>11</sup> Štefan Füle, *EU-Azerbaijan: How to bring the relations to a higher level* (SPEECH/13/383), Baku, 3 May 2013, [http://europa.eu/rapid/press-release\\_SPEECH-13-383\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-13-383_en.htm).

<sup>12</sup> Nona Mikhelidze, "Eastern Partnership and Conflicts in the South Caucasus: Old Wine in New Skins?", in *Documenti IAI*, No. 0923 (September 2009), <http://www.iai.it/pdf/DocIAI/iai0923.pdf>; Nona Mikhelidze, "Juggling Security, Democracy and Development in the Caucasus: What Role for the EU?", cit., p. 11.

<sup>13</sup> Georgina Prodhon, "BP sees pipeline rivals equal in Azeri gas race", in *Reuters*, 31 January, 2013, <http://www.reuters.com/article/2013/01/31/bp-azerbaijan-pipelines-idUSL5N0AZFCP20130131>.

<sup>14</sup> Interview with Azerbaijani official, 2013.

<sup>15</sup> Email interview with Azerbaijani official, 2013.

<sup>16</sup> Georgina Prodhon and Barbara Lewis, "Russian gas pipeline could doom Europe's Nabucco plan", in *Reuters*, 28 May 2013, <http://www.reuters.com/article/2013/05/28/eu-gas-idUSL6N0E41JX20130528>.

<sup>17</sup> As stated by a Turkish official in interview, "TAP was a strategic decision on the part of Azerbaijan's strategy of avoiding antagonizing Gazprom. Even the Russians are happy with this choice". See "Russian factor in Baku's pipeline decision", in *Hurriyet Daily News*, 9 July 2013, <http://www.hurriyetdailynews.com/russian-factor-in-bakus-pipeline-decision.aspx?pageID=449&nID=50279>.

angering the Kremlin, while keeping its own costs down.<sup>18</sup> Yet this choice came only after President Alyev failed to convince the EU to take a clearer stance on the Nagorno-Karabakh conflict resolution process in exchange for Nabucco West. For its part, the EU has failed (once again) to be a credible actor in the region, able to defend its interests by diversifying energy supplies, decreasing the energy dependence of some member states on Russia and contributing to regional security in the South Caucasus.

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<sup>18</sup> Center for Economic and Social Development, "Why TAP?", in *CESD News*, 28 June 2013, <http://cesd.az/new/2013/06/why-tap>.



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