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Exercise Solo Flight

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INTRODUCTION

Energy security is a very important domain for global security in the 21st century. It is a very challenging issue and energy independence is very important for economically and politically fragile countries. In addition, some of the strong countries use it as an element of national power against relatively weak and small countries. They are trying to make the energy security a subject of political trade to achieve their goals. This kind of tactic is used by Russia against Europe and the South Caucasus. South Caucasus is the region which shares a border with Russia. It consists mainly of three countries: Georgia, Azerbaijan and Armenia, and has always been considered by Russia a buffer zone between Russia and NATO. Russia is using its hard and soft power in order to monopolize energy resources in the region and with this trying to manipulate and influence European countries and their foreign policy. The theme of this paper is Energy security in South Caucasus and Eastern Europe. In this paper I will argue that Europe needs a robust energy security plan, and Georgia can play an important role to help Europe enhance its economy and energy security. To prove this theory this paper will analyze current situation in Eastern Europe and South Caucasus regarding energy security. I will analyze the energy security issues in Georgia, Azerbaijan and Armenia, as well as Russia's role as a big player in this domain. I am going to prove that Russia is trying to have an influence on European economy and energy security by creating artificial barriers and monopolizing the European energy market. The main question which I am going to answer is, what role Georgia can play in the European economy and energy security, and what are Russia's geopolitical interests in the South Caucasus and how Russia can influence the European economy and energy security by establishing its agenda in the South Caucasus. The Caucasus has always played an important role for a European stability, and because of that Caucasus was always considered as a key terrain for Europe. The complexity of this region is further enhanced by its geographic location between the Middle East, Europe and Russia. In addition, this is not an issue of geography alone, but an issue of the

struggle between large energy producing and consuming markets in order to control the energy channels.¹

ENERGY SECURITY IN SOUTH CAUCASUS

The South Caucasus often associates as the main access to the energy-rich Caspian region for Western countries. The European Union's energy security strategy considers Caspian hydrocarbons as a means to diversify its energy supplies, and the South Caucasus as a strategic transit route connecting Caspian energy resources with European markets.²When we talk about South Caucasus we should consider three main countries. These countries are Georgia, Azerbaijan and Armenia.

Azerbaijan

Azerbaijan is the richest country in the South Caucasus with its energy resources. With large oil and natural gas reserves Azerbaijan is a major energy producer in the region. Hydrocarbons from Azerbaijan are mainly exported to European markets, and to a lesser extent to Russia: Georgia, Turkey and other countries in the region.³The main energy stakeholder in Azerbaijan is the State Oil Company of the Azerbaijan Republic (SOCAR), which also widely operates in Georgia. SOCAR has close ties with the President and represents Azerbaijan in external energy affairs and is a shareholder in the major internationally-led upstream projects: it holds 20 per cent of shares of the Trans-Adriatic pipeline and 58 per cent of the Trans-Anatolian pipeline, the key elements of the EU's Southern Gas Corridor.⁴SOCAR is investing to provide access to gas to consumers in rural areas as well in Azerbaijan and in Georgia. It is likely that making gas widely available could increase the amount of electricity available for exports, as consumers prefer cheap gas over

¹Tamar Pataraiia, Energy transit and security imbalance in South Caucasus: The road between Russia and the European Union. P1

²Leila Alieva and Natalia Shapovalova, Energy security in the South Caucasus: views from the region, November 2015.p 1

³*Ibid*,p 12

⁴*Ibid*,p 13

electricity, so this in turn will make it possible to enhance Azerbaijan's role as an electricity exporter to neighboring countries.⁵

Armenia

Armenia is the main energy dependent country in South Caucasus. It is mostly dependent on Russia's energy resources. Natural gas, which accounts for two thirds of energy supplies, comes mainly from Russia through Georgia, and smaller volumes of Iranian gas are swapped for electricity. Armenia also completely depends on Russia for nuclear fuel, which is used to generate over one third of the country's electricity at Armenia's single nuclear power plant in Metsamor.⁶ Because Iran is under sanction from the United States and influential European players, Armenia is forced to receive Energy resources from Iran and mostly depends on Russia and Georgia as a main transient corridor between Russia and Armenia. However, supplies are vulnerable to technical accidents, natural disasters, growing instability in the conflict-torn region, and unfriendly policies of neighboring states. An energy ministry representative referred to the possible purchase of Georgia's state-owned transit pipeline by an Azerbaijani or Turkish company as a key threat to Armenia's gas supplies.⁷ The Armenian government also hopes that when Iran's international sanctions are removed, Armenian-Iranian energy cooperation will be expanded. Some of the energy experts believe that Armenia could become a transit route for Iranian gas to Europe. However, they fear that Gazprom will use its control over Armenian gas infrastructure to prevent cooperation with Iran – and that the Armenian government will not resist the pressure, so government's decision announced in June 2015 to sell its section of the Iran-Armenia gas pipeline to Gazprom bolsters such perceptions.⁸

⁵*Ibid*, p 14

⁶*Ibid*, p 8

⁷Leila Alieva and Natalia Shapovalova, Energy security in the South Caucasus: views from the region, November 2015.p 9

⁸*Ibid*,p 9

Georgia

Georgia is strategically located on the East-West and North-South energy trading routes, due to its access to the Black Sea and land transit links to major energy exporter and importer countries. Georgia lies within the EU's Southern Gas Corridor: SCP that traverses Georgia is currently being expanded to link up with the Trans-Anatolian pipeline (TANAP).⁹ Georgia mostly depends on neighboring countries, and its majority energy supply comes from abroad. Previously the main provider of natural gas for Georgia was Russia, but currently Georgia is capable of diversifying energy resources and natural gas, and these energy resources are mainly imported from Azerbaijan. Nowadays 10 percent of the natural gas still comes from Russia, but it should be noted that in the past Georgia was taking 10% of natural gas from the transit of gas that Russia supplies Armenia, but after political pressure from Russia on the Georgian government and on the basis of new agreement Russia now pays for the transit. This new agreement favors Russia and as a result Georgia loses millions of dollars annually. Georgia possesses vast hydro resources that account for 17 percent of its energy supplies and 80 percent of its electricity generation. However, due to the seasonal volatility of hydropower supply (excess in summer and deficit in winter), Georgia depends on regional trade, which explains why it intensively develops interconnections with all neighboring countries.¹⁰

Georgia is constantly working for energy diversification and robustness of energy security, so as a result the government has established several initiatives to fund the development of energy infrastructure. For example, the first combined cycle power plant recently built in Gardabani was funded by the Partnership Fund, a state-owned investment facility, and the state-owned Georgian Oil and Gas Corporation.¹¹

⁹*Ibid*,p 17

¹⁰Leila Alieva and Natalia Shapovalova, Energy security in the South Caucasus: views from the region, November 2015.p 17

¹¹*Ibid*,p 17

But despite everything energy diversification of Georgia is still relevant and electricity the market is almost entirely dominated by two major players: Energo-Pro, a Czech investor owning the biggest distribution system and the majority of medium and big HPPs, and the Russian state company Inter RAO UES that owns the Tbilisi electricity distribution company 'Telasi', HPPs Khrami-1 and Khrami-2 and Georgia's biggest thermal power plant 'Mtkvari' in Gardabani.¹² The gas sector also has two major players. Azerbaijan's state company SOCAR controls gas distribution in the regions through SOCAR Gas Georgia, and Kazakhstan's state company KazMunayGas owns gas distribution in Tbilisi through KazTransGas.¹³

The presence of international energy companies and financial interests of western powerful and rich countries is a guarantee for Georgian energy and state security. British Petroleum (BP) operates transit gas and oil pipelines, namely SCP, Baku-Supsa (also known as the Western Route Export Pipeline) and BTC.¹⁴ The Kazakhstan state company KazMunayGas owns an oil terminal and exclusive rights to the sea port in Batumi. Georgia has several major oil suppliers: LUKoil (Russia), Wissol (Georgia), KazMunayGas, ROMPETROL, Gulf (Gulf Oil Int) and SOCAR, among others, but even though the oil products market is reasonably diversified, cartel deals are still possible.¹⁵

Despite all the international guarantees and lots of positive features some of the subject matter experts in Georgia are talking about the approaching threat and negative aspects, and as a counter arguments stating that whereas reliance on hydropower implies uncertainty given seasonal variations and climate change (causing the reduction of water flows), geopolitical threats to the security of supply such as instability in the region and the role of Russia – whose energy interests are seen contrary to the free flow of Caspian hydrocarbons to the West – appear

¹²*Ibid*,p 17

¹³*Ibid*,p 17

¹⁴*Ibid*,p 18

¹⁵Leila Alieva and Natalia Shapovalova, Energy security in the South Caucasus: views from the region, November 2015.p 18

to be more salient.¹⁶ It should be noted that their concerns are quite legitimate and a large share of foreign state-owned (especially Russian) companies in Georgia's energy sector is seen as a risk.¹⁷ Evaluating current situation in South Caucasus we can assume that there are significant differences in the perceptions of the different actors in the energy sector within each South Caucasus country that could lead to political conflicts over energy security strategies.¹⁸ This issue is still relevant and become puzzle game for a Caucasus and because of those state actors in the region share similar concerns about the security of supply, especially in energy-poor Armenia and Georgia, as well as preoccupations over the security of exports in Azerbaijan.¹⁹

Finally we can say that South Caucasus countries not only see benefits in regional energy cooperation, but also see significant political and security obstacles. Therefore, their energy security strategies tend to emphasize either energy independence or dependence on powerful external players.²⁰ The most excellent example of interdependence is cooperation between Georgia and Azerbaijan in term of energy security, however because of Russian factor and its strategic interests in the region trilateral interdependence (Georgia-Azerbaijan-Armenia) in the South Caucasus will be not possible at least in nearest future.

ENERGY SECURITY IN EUROPE

Europe is not rich with energy resources and mainly depends on Russia's natural gas. In turn, Russia has always tried to use this situation in its favor. To solve these problems leaders of European countries intended to find alternative energy sources and take away Russia's weapon of political trade. The energy rich South Caucasus region was the closest and best option for implementing this plan. The countries of South Caucasus quickly became interested in cooperating with the EU in the energy sector, and as a result Georgia joined the Energy Charter Treaty in 1995, and Azerbaijan followed suit in 1998, as well as Armenia also became a member

¹⁶*Ibid*,p 18

¹⁷*Ibid*,p 18

¹⁸*Ibid*,p 7

¹⁹*Ibid*,p 7

²⁰*Ibid*,p 7

in 1998.²¹ While Azerbaijan is entering a market that Russia has long dominated, the government in Baku has never openly expressed concerns about Russia's intentions to preserve its position as the primary gas supplier to Europe by constructing parallel pipelines, including the Turkish Stream.²² To disrupt energy cooperation between Europe and South Caucasus Russia is doing everything. Regarding the security of energy supply, European leaders have raised concerns about physical threats to the transit systems, such as terrorist attacks, or an escalation of the Nagorno-Karabakh conflict and broader geopolitical complications in the region, including the war in Ukraine and Russia's aggressive policies in the neighborhood.²³ In response to these threats the European Union started to work on Joint Energy Security Policy. In order to create a common scope of regulations for itself and its neighbors, in 2006 the EU prepared a green paper "Energy Policy for Europe" (officially issued in 2007) on so called 'Europeanization' of the energy market, supporting market development in the energy sector through the involvement of third party states.²⁴ Azerbaijan and Georgia have the chance to become a part of the European corridor. That reduces the risks for European Countries to be dependent on Russia and its political intrigues.

RUSSIA'S GEOPOLITICAL INTEREST IN THE CAUCASUS AND EUROPE

Russia is widely interested in destabilization in the South Caucasus region and doing everything to strain the situation in the Caucasus. This strategy helps Russia on the one hand present Caucasus as the destabilized region and on the other hand create problems for Europe in term of energy security. This perception has been enhanced after several pipeline explosions occurred in Russian territory close to Georgia's border in 2006 and air strikes in the vicinity of the BTC oil pipeline during the 2008 Russia-Georgia war, also three days prior to the war there was an

²¹Tamar Pataraiia, Energy transit and security imbalance in South Caucasus:The road between Russia and the European Union. P5

²²Leila Alieva and Natalia Shapovalova, Energy security in the South Caucasus: views from the region, November 2015.p 14

²³*Ibid*,p 14

²⁴ Tamar Pataraiia, Energy transit and security imbalance in South Caucasus:The road between Russia and the European Union. P5

explosion in the Turkish section of BTC, which was allegedly caused by a Russian cyber-attack.²⁵The recent moves of the administrative border demarcation sites and creeping occupation of Georgian territories by Russian border guards in South Ossetia bringing 1,600 meters of the Baku-Supsa oil pipeline under Russian control aggravate the feeling of insecurity.²⁶

The same situation exists in Abkhazia, (Western part of Georgia) the Enguri-Vardnili hydropower cascade, which produces around 40 percent of Georgia's electricity, is partly located on Abkhazian territory, currently occupied by Russia, and because of this unresolved conflict in Abkhazia, Russia is hindering the security of supply for the rest of Georgia.²⁷It should be mentioned that Georgia is providing Abkhazia with electricity for free. Because of Russia's military presence in Abkhazia and their growing infrastructure the Abkhazian side consumes more electricity every year, this is accompanied by a failure of the hydroelectric power plant and because of this Georgia has a deficit in terms of electricity supply, especially in the winter time. Although there have been no serious problems reported to date, Abkhazia's energy consumption is growing, while supply to the rest of Georgia is decreasing. Therefore there is a concern that the threat of supply interruption from the Georgian side to Abkhazia could be easily used as a political weapon from Russia, which in itself strains the situation in the region.²⁸The lack of generation capacity and uncertainty regarding supply in winter force the Georgian government to import electricity, which in turn affects affordability. That is why state representatives and electricity providers consider the construction of new HPPs as a solution to the problem of availability.²⁹ The Russia is using this situation very well and trying with all possible levers to prevent Georgian government in solving these problems.

²⁵Leila Alieva and Natalia Shapovalova, Energy security in the South Caucasus: views from the region, November 2015.p 19

²⁶*Ibid*,p 19

²⁷*Ibid*,p 19

²⁸Leila Alieva and Natalia Shapovalova, Energy security in the South Caucasus: views from the region, November 2015.p 19

²⁹*Ibid*,p 19

GEORGIA'S ROLE IN EUROPIAN ENERGY SECURITY

Georgia because of its strategic location is very important for European energy security. Considering all this there is close cooperation between Georgia and European countries and it is planned to expand this cooperation in the future as well. The implementation of the EU-Georgia Association Agreement (concluded in 2014) and Georgia's accession to the European Energy Community are seen as instrumental in obliging the government to make the sector more transparent, liberalize and deregulate the market by 2017 to allow users to choose their energy providers.³⁰ Regional cooperation for energy transit and seasonal energy exchange are perceived as effective measures to increase energy security in the region, and this potential for Caspian gas transit to the EU is viewed as an important factor for increasing Georgia's international role, regional stability and security.³¹ If Russia reaches its goal to establish its hegemonic management in the Caucasus and Georgia, it will be given the opportunity of cutting the Caspian Sea energy corridor and creating problems for energy security for Europe. For example Germany depends on Russia's gas and trying to find alternative ways for natural gas import. One scenario for Germany is to import gas from Norway. But unfortunately Norway does not have enough resources to completely replace Russian gas. Even though this scenario will reduce Germany's dependence on Russia by 25%, but it will increase the price of gas. The alternate scenario is for Germany has to import gas from countries such as Turkmenistan and Kazakhstan, but Georgia is still needed as a transit country. Another scenario is import from Azerbaijan through Georgia, or from Iran. Iran has two ways to export gas in Germany. One way is through Turkey, but because of tension between Turkey and Iran makes this project unrealistic, and second way is through Armenia, Georgia and Black Sea which is more realistic.

³⁰*Ibid*,p 20

³¹*Ibid*,p 20

CONCLUSION

So analyzing all possible ways for Europe to import natural resources ties with Georgia as an important transit country. Azerbaijan-Georgia cooperation is very important; both need each other in the supply chain to help Europe in energy diversification, and because of this energy transportation infrastructure that links such regional pipelines and the Baku-Tbilisi-Kars railway strengthen this interdependence.³² Georgia has potential to be a transit country for delivering gas from Turkmenistan and Kazakhstan, through Azerbaijan and Georgia. All this is a big responsibility for Georgian government. Georgia as a transit country must strengthen democratic governance and democratic reforms in general, and obtain support from the important players in the energy market, such as the EU and the US.³³ The Caucasus and Georgia was always playing an important role for a European stability and it was always considered as a key terrain for Europe. Finally to conclude this paper we can say that Europe needs to robust its energy security, and Georgia can play an important role as a transit country to help Europe enhance its economy and energy security. But European Union should be ready for provocations from Russia because the monopolization of energy sector is one of the strategies of Russian asymmetric warfare, and they use all possible soft power to achieve the success in this domain. In addition of this, it is obvious that as long as Russia does not behave according to Western regulatory standards, and the transit routes remain unpredictable, the energy security issue must be addressed by measures within EU jurisdiction.³⁴ Despite all these risks coming from Russia to get away from Russian energy dependence is realistic for Europe, and because of its strategic location in Caspian energy corridor, Georgia can play significant role in this scenario. That gives opportunity to the country, play an important role to enhance energy security for the South Caucasus and Europe as well as enhance democracy and its internal strategic security.

³²Leila Alieva and Natalia Shapovalova, Energy security in the South Caucasus: views from the region, November 2015.p 20

³³ Tamar Pataraiia, Energy transit and security imbalance in South Caucasus:The road between Russia and the European Union. P8

³⁴ Ole Gunnar Austvik, The EU Energy Union, Energy Security and Russian Gas. December 2015. P1

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