



The European Union's Approach to the Caspian Sea Region: The Energy-Environment Nexus



Executive Summary

The European Union's presence in the Caspian Sea region provides an interesting case. Over the years, the EU has progressively imported fossil fuels from the Caspian countries, while simultaneously aspiring to be a global environmental leader. Despite being an important region in terms of energy security, the EU policies and instruments do not provide an integrated approach to the region. On the other hand, the EU played an important role in establishing the Caspian environmental regime. This policy brief addresses how the EU's approach to the region can be improved in terms of energy and environment. It is argued that Brussels should aim at developing a coherent and comprehensive energy policy to support the construction of alternative Caspian pipelines. Additionally, the EU should promote an environmental agenda and develop better energy relations with the smaller Caspian states. The recommendations suggest designing a clear vision for the Caspian Sea and aim to help the EU to develop stronger relations with the regional countries.

Written by **NATALIA SKRIPNIKOVA**
SERVAAS TAGHON

© United Nations University Institute on Comparative Regional Integration Studies, 2022

The views expressed in this publication are those of the author and do not necessarily reflect the view of the United Nations University.

Аннотация

Присутствие Европейского Союза в регионе Каспийского моря представляет собой интересный кейс. На протяжении долгих лет ЕС регулярно импортирует большие объёмы ископаемого топлива из прикаспийских стран, в то же время, стараясь укрепить свои позиции как лидера экологического движения в мире. Несмотря на то, что регион является важным с точки зрения обеспечения энергетической безопасности, политика и инструменты ЕС не обеспечивают комплексного подхода к региону. Однако, с другой стороны, ЕС сыграл важную роль в установлении экологического режима Каспия. Данный аналитический обзор рассматривает, как можно улучшить подход ЕС к региону с точки зрения энергетики и окружающей среды. Утверждается, что Брюссель должен стремиться к разработке последовательной и всеобъемлющей энергетической политики, чтобы поддержать строительство альтернативных трубопроводов в Каспийском регионе. Кроме того, ЕС должен способствовать продвижению повестки окружающей среды и развивать более тесные энергетические отношения с небольшими прикаспийскими государствами. В качестве рекомендаций предлагается разработать четкое видение в отношении региона Каспийского моря, которое могло бы помочь ЕС в развитии более тесных отношений со странами региона.

Please note: This Policy Brief was accepted for publication on 31 January 2022 .

Introduction

The Caspian Sea is the largest landlocked body of salty water in the world, the coastline of which is shared by five littoral states (Azerbaijan, Iran, Kazakhstan, Russia, and Turkmenistan). In terms of geopolitical relevance and energy security, the Caspian Sea plays an important role in the relations between the European Union (EU) and Central Asia. Its legal status has been disputed for many years, but in 2018 the littoral states signed the Convention on the Legal Status of the Caspian Sea¹, which offers new prospects for regional developments and could be regarded as a breakthrough.

Today, it is challenging to speak about the Caspian Sea as a region with one distinct identity. This is due to the countries' fragmented commonality, political trajectories, and historical past. However, some common features persist and could explain the Caspian Sea best as an emerging natural resource export region (Anker et al., 2010, 15). It is estimated that the Caspian countries hold 17,4% of the oil reserves in the world and produce 25% of natural gas worldwide.²

The energy and environment nexus presents an essential area for the EU's external policy in the Caspian Sea region. On one hand, the EU

depends on the oil and gas from the Caspian region and must seek an effective energy policy. On the other hand, the EU acts as a leader in the area of environment and tries to promote sustainable development globally through its internal and external policies.

It is worth mentioning that the EU's approach to the Caspian Sea region is not unified under one external or macroregional policy. The EU-Azerbaijan relations are shaped by the Eastern Partnership (EaP) as a dimension of the European Neighborhood Policy (ENP). The relations with Kazakhstan and Turkmenistan are covered by the EU's Central Asian strategy³ endorsed in 2019. In 2020 the Enhanced Partnership and Cooperation Agreement⁴ between the EU and Kazakhstan entered into force, intensifying bilateral relations. Caused by the tensions, the EU applies a 'selective engagement' approach to Russia, while the EU and Iran currently do not have contractual relations.

This policy brief provides an overview of the EU's developments in securing a better energy policy with the Caspian Sea countries. Then, it analyses the Caspian Sea environmental regime and maps the EU's environmental efforts in the region. Drawn from these findings, the final

¹ Convention on the Legal Status of the Caspian Sea <http://en.kremlin.ru/supplement/5328>

² Numbers retrieved from Statistical Review World Energy 2020 <https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/statistical-review/bp-stats-review-2020-full-report.pdf>

³ JOIN/2019/9 final <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=JOIN:2019:9:FIN>

⁴ Office Journal of the EU 29, 4.2.2016, p. 3-150 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A2016A0204%2801%29>

section offers several recommendations to enhance the EU's approach to Caspian Sea region in the areas of energy and environment.

Energy

Numbers show that the EU is one of the largest energy consuming and import dependent regions in the world. Approximately 10,3% of the world's energy consumption originates from the 27 EU-countries. At the same time, only 4,4% of the produced energy worldwide comes from EU member states. Next to that, the EU's energy consumption has been steadily rising again over the last years from 833,10 mtoe in 2015 to 885,79 in 2018.⁵ The increasing consumption has only aggravated the EU's energy dependency rate that has risen to 58%.⁶ So, to meet the energy demand, Brussels is forced to look for external suppliers. In that respect, the Caspian region with its extensive energy resources becomes crucial for the EU.

Traditionally, Russia has been the largest energy supplier to the EU out of all Caspian countries. Besides being the biggest exporter of crude oil (30%), Russia tops the list of supplying natural gas to the EU (40%) as well.⁷ Iran is equally considered to be a powerhouse in the energy

field but lacks connectivity with the EU to compete with Russia in Europe. The other three Caspian states (Azerbaijan, Kazakhstan, and Turkmenistan) are also rich in natural resources but lack export capabilities for European countries (Ibrayeva, 2018). Amongst the top energy suppliers to the EU, we only find Kazakhstan supplying around 7% of crude oil and no other Caspian state besides Russia makes the top 8 of natural gas suppliers.⁸

Nevertheless, recent energy projects have attempted to increase the connection between those countries and the European continent. Already, European governments and firms are investing in Caspian countries by supporting several energy-related projects (Kubicek, 2013). One example is the construction of the Southern Gas Corridor (SCG) that runs through Azerbaijan, Turkey, Greece, and Italy (Siddi, 2019). In addition, Turkmenistan could gain access to the SCG through the development of the Trans-Caspian Pipeline (TCP). As a result of the agreement on the legal status of the Caspian Sea (see below), this pipeline that would connect Azerbaijan and Turkmenistan is allowed to be built without consent of the Russian Federation (Fuhrmann, 2019).

⁵ European Commission, Directorate-General for Energy, *EU energy in figures: statistical pocketbook 2020*, Publications Office, 2020, <https://data.europa.eu/doi/10.2833/75283>

⁶ Eurostat Energy Statistics 2020 Edition <https://ec.europa.eu/eurostat/cache/infographs/energy/index.html>

⁷ Ibid.

⁸ European Commission Directorate-General for Energy. Registration of Crude Oil Imports and Deliveries in the European Union (EU28). https://ec.europa.eu/energy/observatory/reports/Crude_Oil_Imports.pdf

However, to successfully complete these projects the EU will have to navigate through turbulent waters. Because of its central location, the Caspian region and its energy politics is subject to intensive competition. The TCP, for example, has been on the agenda for nearly 25 years but progress on the implementation of those plans has been hindered by disagreements and obstructions by internal and external actors (Shirvanova, 2020). Unsurprisingly, Iran and Russia are wary of the attempts to strengthen the energy export of the remaining Caspian countries as it would harm their current dominance. While the Convention on the legal status of the Caspian Sea to some extent removes their ability to interfere with energy projects in the region, Iran, and Russia still object to the construction of the TCP (Raimondi, 2019). Another issue might be the special energy relationship between Turkmenistan and China, with the latter being the main importer of Turkmenian gas (Yusufu & Xin, 2020). All of this puts commercial and political pressure on Caspian states participating in the SCG and TCP (Sabou, 2016). The EU should be aware of these issues and develop a coherent and comprehensive policy towards the Caspian region. Yet, because of energy policy historically being in the hands of member states policy harmonisation has been difficult to reach. Additionally, member states have different historical ties and varying interests to fulfil their energy demand (Baumann

& Simmerl, 2011). Nonetheless, Brussels has made some progress with the Lisbon Treaty transforming energy policy into a shared competence. In response to the growing concerns for the energy dependence on Russia, the EU has also initiated the Energy Union. The main goals of this initiative include energy security and supply, amongst environmental and market-related objectives (European Commission, 2015). Notwithstanding these objectives formed at the EU-level, member states remain unpredictable and self-interested. For example, the construction of the Nord Stream II pipeline, aimed at distributing gas from Russia to Germany without having to cross Ukraine, was widely disputed amongst EU member states. As such, the solidarity principles that were agreed on in the Third Energy Package enclosed in the Lisbon Treaty are undermined (Szulecki et al., 2016). With respect to the SCG and TCP, developing an external strategy that is supported by all member states is crucial to meet the commercial and political challenges facing the Caspian countries. In that sense, the EU cannot afford another Nord Stream II debacle and must act as one.

One way of developing an effective energy policy towards the smaller Caspian states is to address the lack of engagement in the region. Currently, relations between the EU and Azerbaijan, Kazakhstan and Turkmenistan are fragmented and almost solely focused on

energy cooperation (Dupont, 2015). The construction of the SGC and TCP could provide a window of opportunity for the EU to increase its presence in the Caspian region. That way, the EU could pursue broader economic and political objectives and formulate an answer to the influence of China and Russia in the region (Cutler, 2020). In other words, energy relations then get included in a wider frame of cooperation that allows the EU to address other topics e.g., human rights. Moreover, by establishing advanced partnerships with the Caspian states, energy deals can also be concluded within existing platforms. Finally, the EU could use these structures to introduce proposals about energy transition so that it can still uphold its global environmental ambitions.

Environment

The Caspian Sea environmental regime has been emerging since 1990s. In 1998 a cooperation framework the Caspian Environment Program (CEP) was launched and operated until 2012 (The Caspian Sea State of the Environment Report, 2019, 92). It was established with the aim to halt the deterioration of environmental conditions of the Caspian Sea and to promote sustainable

development in the area for the long-term benefit of the Caspian population (UNEP, 2020).

At this stage the European Union contributed to the CEP under the Technical Assistance for the Central Independent States (TACIS) programme as one of the main donor organisations: UNEP, the World Bank, and UNDP (Frappi & Garibov, 2014, 85).

The second huge milestone in creating the environmental regime was signing of the Framework Convention for the Protection of the Marine Environment of the Caspian Sea (Tehran Convention)⁹ in 2003. The Tehran Convention 2003 was approved by all the Caspian Sea countries in 2006 and became the first regional and binding mean for these countries (Nejat et al, 2018, 105). The Tehran Convention Interim Secretariat (TCIS) is hosted and administrated by the United Nations Environment Programme Regional Office for Europe in Geneva (Switzerland).

Environmental cooperation played a facilitative role in solving the issue of legal status of the sea and resulted in the Convention on the Legal Status of the Caspian Sea. "The lessons learned from environmental cooperation have spilled over into the discussion on the legal status of the Caspian seabed" (Bayramov, 2020, 516). "The Convention stipulated that each state shall have

⁹ The Framework Convention for the Protection of the Marine Environment of the Caspian Sea, the Tehran Convention <http://www.tehranconvention.org/>

its national sector of the seabed, while the surface of the sea should be treated as international waters” (Orazgaliyev & Araral, 2019, 974). However, the Convention does not specify maritime borders; their delimitation requires additional agreements on a bilateral basis. Through these functional processes the littoral states constructed new norms, drew regulations, and articulated their national interests addressing environmental and legal concerns of the Caspian Sea.

In other words, environmental cooperation in the Caspian Sea region also bears a strong geopolitical notion for littoral states. Regional countries had to take part in environmental cooperation to avoid unsystematic use of natural resources and as a result minimise environmental concerns and tougher political relations. The analysis of regional geopolitics and environmental issues highlights the role of environmental regulations and their observation by littoral states in achieving a geopolitical convergence and sustainable development of the Caspian basin (Zeinolabedin et. al, 2009).

Currently, the EU is contributing to the improvement of maritime safety and security as well as prevention of marine pollution in the region by the Black and Caspian Sea (BCSEA)

project¹⁰. The project covers Azerbaijan, Georgia, Iran, Kazakhstan, the Republic of Moldova, Turkey, Turkmenistan, and Ukraine. The total budget of the project is € 4M for the period of 59 months; project duration 2017-2021. The project supports the efforts of coastal states to implement relevant international legislation, align their regulatory frameworks with EU legislation and improve the performance of their maritime activities. The project is built on the achievements of previous the EU-funded TRACECA projects 'Development of common security management, maritime safety and ship pollution prevention for the Black Sea and Caspian Sea' - SASEPOL - (2009-2011), and 'TRACECA - Maritime Safety and Security II' (2013-2015).¹¹

These findings lead to the proposition that despite the EU's dependency on the Caspian Sea energy resources, the EU has not fully exercised environmental leadership in the region. The EU has a strong aspiration to become a globally recognised leader in environmental policy and sustainability. "It has adopted a broad scope of environmental legislation, which has enabled the EU to lead by example at the international level and show the world that a high level of environmental protection is compatible with economic growth

¹⁰ European Maritime Safety Agency <http://www.emsa.europa.eu/we-do/assistance/training/traceca-iii.html>

¹¹ EU Neighbours East <https://www.euneighbours.eu/en/east/stay-informed/projects/maritime-safety-security-and-marine-environmental-protection-black-and>

and welfare” (Delreux & Happaerts, 2016, 252). The EU’s external competences in environmental field along with its policy instruments could contribute to enhancing environmental protection of the Caspian Sea and as well as demonstrate actorness in the region.

As it has been mentioned earlier, the EU’s relations with some of Caspian countries are mainly centred on energy politics. Therefore, the EU’s engagement in environmental cooperation in the Caspian Sea could bring new dynamics in international relations with the regional states. Moreover, the long-term decarbonisation objective of the EU could be a challenge as well as an opportunity for external relations with the Caspian countries (Dupont, 2015). If the EU reduces energy consumption as planned according to the European Green Deal¹², it can be puzzling to maintain a certain interdependence in the energy sector with the partners to stay influential in the region. However, the EU could also transform the relations based on increasing export of renewable energy or environment friendly technologies if the regional countries are interested in such developments. Nevertheless, the environmental dimension of the EU’s approach to the Caspian Sea could play a

greater role in engaging the region as well as prepare for low-carbon transition.

Conclusion

The review of the EU’s approaches to energy and environment in the Caspian Sea demonstrates that more nuanced policy would strengthen the EU’s presence in the region. Besides, a more coherent EU policy in the Caspian region would create opportunities to transform bilateral relations with the regional states mainly based on energy diplomacy, address pressing environmental challenges and diversify energy flows coming to the EU single market. As mentioned before, energy and environment policy areas are integrated within already existing policy frameworks ENP and Central Asia Strategy, but the focus on the Caspian Sea as a region is lacking.

A more balanced EU approach to the Caspian Sea region in the field of energy and environment could be achieved through the implementation of the following policy recommendations:

- i. Elaborate the EU’s vision on the Caspian Sea region and further translate it through already established bilateral relations with littoral states, strategic partnerships, and inter-governmental forums.

¹² COM/2019/640 final. The European Green Deal <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52019DC0640>

- ii. More actively support international efforts aimed at safeguarding Caspian environment such as the implementation of the Tehran Convention and UN Environment mission.
- iii. Intensify macroregional cooperation with the Caspian states based on EU previous expertise in the areas of environmental protection, marine safety, and green technologies.
- iv. Support the construction of alternative pipelines such as the SGC and TCP to lower import dependency on Russia and put emphasis on energy relations with Azerbaijan, Kazakhstan, and Turkmenistan.
- v. Build on the principles of the Lisbon Treaty and Energy Union to formulate an effective and comprehensive energy strategy to the Caspian region that is supported by all member states.

Acknowledgements

The authors want to express their gratitude towards Dr. Tom Casier for his feedback and the UNU-CRIS team for offering their services in publishing this policy brief.

References

- Baumann, F., & Simmerl, G. (2011). *Between conflict and convergence: the EU member states and the quest for a common external energy policy.* (CAP Discussion Paper).
- Bayramov, A. 2020. The reality of environmental cooperation and the Convention on the Legal Status of the Caspian Sea. *Central Asian Survey*, 39(4): 500-519.
- Cutler, R. M. (2020). *The Trans-Caspian Is a Pipeline for a Geopolitical Commission.* Energy Security Program Policy Paper No. 1 March 2020.
- Delreux, T., & Happaerts, S. 2016. *Environmental policy and politics in the European Union.* Macmillan International Higher Education.
- Dupont, C. 2015. Decarbonization and EU Relations with the Caspian Sea Region. In *Decarbonization in the European Union: Internal policies and external strategies*, edited by Oberthür, S., & Dupont, C. (pp. 180-200). Palgrave Macmillan.
- European Commission (2015). *A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy.* COM/2015/080.
- Frappi, C., & Garibov, A. 2014. *The Caspian Sea chessboard: Geo-political, geo-strategic and geo-economic analysis.* EGEA spa.
- Fuhrmann, M. (2019). *European Union Keen on Trans-Caspian Pipeline Development - Improvement of Relations with Russia and Turkey a Key Hurdle.* Global Strategic Studies Institute, Monthly Report, November 2019.
- Ibrayeva, A. (2018). Importance of the Caspian countries for the European Union energy security. *International Journal of Energy Economics and Policy*, 2018, 8(3), 150-159.
- Interim Secretariat of the Framework Convention for the Protection of the Marine Environment of the Caspian Sea (Tehran Convention). 2019. *The Caspian Sea State of the Environment Report.* Available from: <https://www.grida.no/publications/476>
- Kubicek, P. (2013). Energy politics and geopolitical competition in the Caspian Basin. *Journal of Eurasian Studies*, 4(2), 171-180.
- Nejat, S. A., Hermidas Bavand, D., & Farshchi, P. 2018. Environmental challenges in the Caspian Sea and international responsibility of its littoral states. *Caspian Journal of Environmental Sciences*, 16(2): 97-110.
- Orazgaliyev, S., & Araral, E. 2019. Conflict and cooperation in global commons: Theory and evidence from the Caspian Sea. *International Journal of the Commons*, 13(2): 962-976.
- Raimondi, P. P. (2019). *Central Asia Oil and Gas Industry-The External Powers' Energy Interests in Kazakhstan, Turkmenistan and Uzbekistan.* FEEM WORKING PAPER.
- Sabou, A. (2016). *Azerbaijan as a link between Europe and Asia Silk Road perspectives. The development of the Trans-Caspian Pipelien project.* Research paper.

- Shirvanova, T. (2020). Trans-Caspian Gas Pipeline - Real Opportunities or Endless Promises. *Economic and Social Development: Book of Proceedings*, 4, 557-563.
- Siddi, M. (2019). The EU's botched geopolitical approach to external energy policy: The case of the Southern Gas Corridor. *Geopolitics*, 24(1), 124-144.
- Szulecki, K., Fischer, S., Gullberg, A. T., & Sartor, O. (2016). Shaping the 'Energy Union': between national positions and governance innovation in EU energy and climate policy. *Climate Policy*, 16(5), 548-567.
- UN Environment Programme (UNEP). 2020. Caspian Sea. Available from: <https://www.unep.org/explore-topics/oceans-seas/what-we-do/working-regional-seas/regional-seas-programmes/caspian-sea>
- Yusufu, G., & Xin, S. (2020, December). Study on China Turkmenistan Natural Gas Trade Cooperation From the Perspective of Supply-Demand Balance and Diminishing Marginal Utility. In *Fifth International Conference on Economic and Business Management (FEBM 2020)* (pp. 57-63).
- Zeinolabedin, Y., Yahyapour, M. S., & Shirzad, Z. 2009. Geopolitics and environmental issues in the Caspian Sea. *Caspian Journal of Environmental Sciences*, 7(2): 113-121



**UNITED NATIONS
UNIVERSITY**

UNU-CRIS

**Institute on Comparative
Regional Integration Studies**

in alliance with



The United Nations University Institute on Comparative Regional Integration Studies (UNU-CRIS) is a research and training institute of the United Nations University whose mission is “to generate policy-relevant knowledge about new forms of governance and cooperation on the regional and global level, about patterns of collective action and decision-making.”

About the Authors

Natalia Skripnikova was a Research Intern at UNU-CRIS from October 2020 - May 2021. She worked on topics of cross-border cooperation and environmental governance. Natalia previously obtained professional experience at the Secretariat of the Council of the Baltic Sea States and as an Office Manager in a project within the framework of the ENI Cross-border Cooperation Karelia Programme. Natalia holds a Master of Science degree in European Studies from the University of Gothenburg (Sweden).

Servaas Taghon was employed as a research intern at UNU-CRIS between October 2020 - March 2021. During his internship, he worked on topics such as EU-Russia relations, the regional responses to China's OBOR-project and the EU's engagement in the Caspian Sea region. Currently, Servaas works as academic assistant at the Ghent Institute for International and European Studies (GIES). He holds a Master of Science degree in International Politics from Ghent University and an Advanced Master in European Integration from the Institute for European Studies (Brussels).