Constructive competition or destructive conflict in the Caspian Sea region?
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CHAPTER 6: A New Round in the Caspian Pipeline Game: the Southern Gas Corridor

1. Introduction

Chapter 5 discussed the three phases of the BTC oil pipeline through the analytical lens of revised functionalism. It showed that it was not only geopolitics but economic, technical, environmental and social challenges which led to delays and investigations and almost stopped the pipeline project. By using insights from revised functionalism, the previous chapter showed that transnational infrastructure like the BTC is a mediating interface as it creates functional challenges, which lead cooperation between multiple actors (state, non-state and semi-state) because their connection and interaction help to meet the functional challenges in the Caspian Sea. Overall, findings of chapters 4 and 5 illustrated that the past of the Caspian Sea region has not been as miserable as the New Great Game literature paints the picture. By using similar lines of argument, this chapter moves the discussion to a transnational gas pipeline namely, the Southern Gas Corridor (SGC) project. This chapter aims to show whether and in what way cooperation on the BTC pipeline has spilled over into the SGC project. With the help of revised functionalism, this chapter unpacks the effects of the SGC on cooperation and exchange in the Caspian Sea. Chapter 4 illustrated that environmental cooperation created conditions for signing the Legal Status Convention. This chapter asks how this convention has affected the SGC project and whether cooperation on the CEP and the BTC pipeline has spilled over to the SGC project.

This chapter is made up of four parts. The first part provides background information about the SGC project, the three phases of the SGC project, and its timeline. The second part outlines the New Great Game views on the SGC project. It shows that the relevant literature portrays the SGC project as the second round of the New Great Game in the Caspian Sea. In doing so, it again only presents Russia, Gazprom, Iran, and the regional conflicts as the main geopolitical and security challenges for the SGC project. The third and main part of the chapter discusses the three identified phases of the SGC project in light of the insights derived from my revised functionalism. This part of the chapter illustrates that during the planning phase, the SGC project faced challenges beyond and besides those posed by Russia, Gazprom, and Iran. It shows that there was great uncertainty about the direction of gas pipelines and how this would
impact the financial support Western energy companies were willing to provide. More specifically, it shows that there was significant internal competition among the European energy companies and the SGC had to compete with other European pipeline projects rather than Russia or Gazprom’s natural gas pipeline. Furthermore, this part of the chapter shows that the relationship between Azerbaijan, the US, and Turkey grew cold during the planning phase of the SGC because of Turkish-Armenian rapprochement. This cold relationship put the direction of the SGC project under question during the planning phase.

Additionally, the third part of this chapter illustrates how an Italian city halted the SGC project rather than Russia, Iran or other geopolitical powers during the construction phase. Chapter 5 explained that transnational infrastructure does not only connect A point to B point but also it engages with social, technical, and environmental challenges. This chapter develops this argument by showing why, where, and when social, technical, and environmental challenges led to remarkable political and economic consequences in the SGC project. In doing so, it argues that without the network of multiple actors, companies, NGOs and IGOs for example, it would have been impossible to overcome these obstacles during the construction phase. Finally, this chapter illustrates that cooperation among the Caspian littoral states is not limited to the CEP and the BTC pipeline. The formation of cooperation habits, which was begun in the CEP and the BTC, continued and grew stronger through the SGC project. Chapter 5 illustrated that the BTC pipeline has a mitigating influence on the regional conflicts because it created de-escalating conditions. In the same vein, this chapter shows that the SGC project has added another mitigating layer to the regional conflicts. In doing so, the SGC project has strengthened the “no war, no peace” situation in the region.

2. Background of the SCG Project

The SCG pipeline also has the more poetic name “Nabucco”. It was named after the opera that a group of energy executives saw one night while discussing the idea for the pipeline. More specifically, “one evening in 2002 in Vienna, a small group of Austrian energy executives took their colleagues from Turkish, Hungarian, Bulgarian, and Romanian firms to see a rarely performed Verdi opera. It recounted the plight of Jews expelled from Mesopotamia by King Nebuchadnezzar. Before the event, the officials spent the day sketching out a plan for a pipeline that could transport natural gas every year across their countries and into European markets.
The sources of this gas would not be Russia, but Azerbaijan, maybe Iran one day, and with a US-led war against Saddam Hussein looking increasingly likely, possibly the gas fields of northern Iraq. Following this fascinating music concert, the energy executives continued their discussion at dinner. The opera they attended that night was called Nabucco, and that is the name they gave their new pipeline project during the dinner” (as cited in Freifeld, August 22, 2009). The Nabucco project was designed as a 3,900 km pipeline from Turkey to Austria via Bulgaria and Hungary that would carry up to 31bcm of gas to Europe, with an estimated construction cost of over USD 8 billion (Skalamera 2016). The picture 1 below illustrates the Nabucco route.

Map 2: Nabucco pipeline
Source: Bankwatch 2015

The main suppliers were expected to be Azerbaijan, Turkmenistan, Iraq and Iran. The original project was also backed by several EU member states and the US. While the Nabucco project had already been in planning since 2002, it gained strong political momentum in 2009–2010, when – against the background of a March 2009 surge in oil prices and the second Russo–Ukrainian “gas war” – the EU allocated USD 200 million from its own budget to Nabucco (De Micco 2015). The European Commission also appointed a European Coordinator, Jozias Van Aarsten, to facilitate the project’s realisation and to promote dialogue among member states and energy companies. However, despite the strong support of the EU, the Nabucco project was abandoned in 2013. A number of factors led to the project's failure: a lack of support from main EU companies, EU clients' limited demands for gas, the high price of construction and competition from rival projects (De Micco 2015). These points will be discussed in detail later in this chapter.

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Following the official cancelation of the Nabucco project, the South Caucasus Pipeline (SCP), the Trans-Anatolian-Gas Pipeline (TANAP) and the Trans-Adriatic-Pipeline (TAP) became the new pipelines of the SGC project, which will bridge a distance of 3,500 kilometres from the Caspian Sea into Europe, cover elevation differences of over 2,500 metres, and run over 800 metres below sea level. It will deliver 16bcm gas from Azerbaijan’s Shah Deniz 2 field to Europe. The SGC project is a complex challenge involving many different stakeholders – including six governments, eleven energy companies and more than five private as well as public lenders. In the same vein, during the construction phase 24,000 people work on the project in Azerbaijan and Georgia, more than 6,000 in Turkey and over 2,000 already work on the territory of Greece, Italy and Albania (see BP 2018b). Map 3 shows the route of the SGC project.

Map 3: The SGC project.
Source: TAP Official Website 2017a.

The SCP (the first leg of the SGC) runs through Azerbaijan to Georgia, which has been in operation since late 2006. It is also known as the Baku–Tbilisi–Erzurum (BTE) pipeline, which runs parallel to the BTC oil pipeline for 429 miles through Azerbaijan and Georgia before ending in Erzurum, Turkey. The TANAP (the second leg of the SGC) runs through Turkey and was completed in 2018 (Report, June 12, 2018). The TAP (the third leg of the SGC) runs through Greece, Albania, and Italy but is still under construction and expected to be completed in 2020. According to BP (2016a), the project is intended to deliver 16bcm of Shah Deniz natural gas, of which 6bcm will be delivered to Turkey and 10 bcm will be transported to the European energy market. Besides this, several scholars argue that the SGC pipeline capacity could be scaled up to more than 50bcm if Turkmenistan joins the project (Grigas 2017; Rzayeva 2015).
Because the SCP and the TANAP have been constructed and the TAP has been 85 percent completed (Trend July 20, 2018b), the EU seeks to attract Kazakhstan and Turkmenistan to the SGC project. Therefore, future plans include a potential fourth leg to the project – a Trans-Caspian Pipeline (TCP) to bring additional gas from Turkmenistan and Kazakhstan to Azerbaijan and satiate the SGC project with additional resources. For example, after the Fourth Ministerial Meeting of the SGC Advisory Council, in Baku in February 2018, it was suggested that Turkmenistan was ready to actively engage with the project and Maros Sefcovic, the European Commission vice president of energy, confirmed that discussions were continuing with the Turkmen government (Pirani 2018, 2).

3. The New Great Game: The Second Round

This section introduces the claims of the New Great Game literature specific to the SGC project in order to make the discussion more concrete. To do so, it shows whether and how the New Great Game literature mentions and explains the SGC project.

During the planning phase of the SGC, the relevant literature argued that the New Great Game has entered a second round in the Caspian Sea, which is again a competition between two blocks: Russia, China and Iran contra the EU, Turkey, the US and Azerbaijan (Kamrava 2016; Kim and Blank 2016; Kusznir 2013; Siddi 2017; Stegen and Kusznir 2015). A notable development in this second round is that besides Russia and Iran, China has become one of the key players in the Caspian Sea region with the opening of an oil pipeline from Kazakhstan and a gas pipeline from Turkmenistan (Kiernan 2012). In light of this, the relevant scholarship argues that the main aim of the second round of the New Great Game is controlling the transnational natural gas pipelines of the Caspian Sea region (Kamrava 2016; Kusznir 2013).

During the planning phase of the SGC project, the relevant literature argued that two gas pipelines, namely the South Stream from Russia and the SGC from the Caspian Sea, would compete with each other for the European energy market (Kiernan 2012; Kim and Blank 2016). Kim and Blank (2016) argue that the South Stream aims to isolate Ukraine from Europe and increase Central and Southeast European gas dependency. This would help strengthen Russia’s political position in the Balkans. In this regard, the SGC project is construed as the rival to Russian gas as it provides an alternative to the South Stream pipeline (Kim and Blank 2016,
In the same vein, Kiernan (2012, 35) argues that the South Stream pipeline’s main purpose is to decrease the SGC’s economic and political impact on Europe. According to Kusznir (2013), the EU’s (energy) interests conflict with those of Russia and China. In this regard, “the future of the SGC project will depend on the EU’s ability to deal with Russia and China in the region (2013, 5).” Similar to the EU, China seeks to diversify its sources of imported natural gas supplies. In doing so, China seeks to persuade Azerbaijan, Kazakhstan and Turkmenistan to export their gas resources to the Chinese market (Kubicek 2013; Stegen and Kusznir 2015). Yenikeyeff (2011, 61) argues that “Russia prefers the active involvement of China, rather than that of the EU and the US, because Russia views China as a partner against EU–US bloc.”

However, the South Stream did not receive enough support from the EU because it did not meet the EU diversification of supply strategy. In response to this, Russia decided to change the pipeline direction to Turkey, and called it the Turkish Stream. It is argued that Russia did this in order to increase Turkey’s natural gas dependency and minimize the SGC’s influence (Kim and Blank 2016; Siddi 2017). According to Kim and Blank “Moscow could exploit that reliance to place enormous pressure on Turkey to downgrade the TANAP–TAP line and to block the SGC’s intentions to connect Caspian-area gas producers directly to European markets” (2016, 37-38). In the same vein, Kusznir (2013, 5) claims that “when the transport of Shah-Deniz gas via TANAP will start, Moscow will end its support to Turkey in tackling the country’s growing gas demand, potentially leading to gas shortage.” During the planning phase of the SGC, the relevant literature argued that the failure to realize the SGC would marginalize Azerbaijan, restrict its access to key European customers, frustrate its ability to move toward Europe and entail the decrease of its sovereignty, which would also be a serious defeat for the EU.

Similar to the BTC pipeline, the SGC project has faced a number of economic, environmental and technical challenges during the construction phase. For example, the inhabitants of the Puglia region in Italy protested against the last phase of the SGC because the SGC might damage the region’s environment and tourism (La Republicca, November 29, 2013). A number of environmental NGOs sent an open letter to the EIB to halt the financing for the SGC project (Bankwatch Network, April 13, 2017). Considering this, the relevant literature again depicted Russia as the main cause of the environmental protests because of Russia’s strong presence in Italian energy market. Gurbanov (2017a) argued that Russia is behind these environmental protests, as it wants to stop the SGC. According to Gurbanov (2017a), “the gambit was part of a long-running coordinated campaign, involving various
NGOs and European political parties, to put pressure on the EU to slow down the implementation of the SGC and undermine its ability to attract funding from international financial institutions.” As a result, the relevant literature claimed that Russia finances and encourages the local government and population against the SGC pipeline during the construction phase.

Like the BTC pipeline, the New Great Game literature describes the Nagorno-Karabakh and the South Ossetia conflicts as one of the main security threats to the SGC project in the region (Kucera 2012; Siddi 2017). More specifically, it is argued that it is an insecure gas transport route as Russia can support its military ally Armenia in the South Caucasus to sabotage the SGC project. According to Siddi,

“Russia has considerable influence in the Nagorno-Karabakh conflict as Armenia’s military ally and arms supplier to both Armenia and Azerbaijan. Russia’s sales of modern military equipment to both sides contribute to volatility in the region. Thus, the security situation in the area casts serious doubts on the appropriateness and reliability of projects such as the SGC (2017, 7).”

As mentioned above, the SGC project is almost ready because the SCP and the TANAP pipelines have been constructed and the TAP is 85 percent complete. The EU seeks to expand the SGC project and the TCP pipeline, which would stretch between Turkmenbashi (Turkmenistan) and Baku (Azerbaijan) and may also include a connection between the Tengiz field in Kazakhstan and Turkmenbashi, might therefore become the fourth leg of the SGC project. Since the SGC project has almost been completed, the New Great Game literature argues that Iran and Russia will not allow the expansion of the SGC project through the construction of the TCP. The TCP project is still at the planning stage and like other pipeline projects, there are still a number of financial, political and technical uncertainties that have to be dealt with. By using the familiar lines of argumentation, the New Great Game literature, first, argued that Russia and Iran intentionally postponed the Legal Status Convention to prevent the TCP project (Kusznir 2013; Siddi 2017; Stegen and Kusznir 2015; Verda 2016). For example, Nuriyev (2015) argues that Iran and Russia used the existing environmental concerns to block or hinder crude oil shipping and the construction of pipelines between Azerbaijan, Kazakhstan and Turkmenistan. In the same vein, Siddi argued that for “the import of Turkmen gas, an offshore pipeline crossing the Caspian Sea would have to be built, an endeavour that is complicated by the uncertain legal status of the sea and the opposition of Russia and Iran (both are riparian states and can veto the legal process) (2017, 132).”
As mentioned in chapter 4, the Legal Status Convention was signed in August 2018. Ironically, following the signing of this legal agreement, the relevant literature claimed that the Legal Status Convention includes environmental articles (e.g., 1, 11, 14, 15) which Russia and Iran could use to block the TCP project (Anceschi 2019; Garibov 2018; Gurbanov 2018; Ismayilov 2019). According to the Anceschi (2019), the Legal Status Convention provides Russia and Iran with extensive environmental monitoring powers, which they use to influence the construction of any transport infrastructure sideling Russia or Iran.

As it did in the discussion about the BTC pipeline, the scholarship comes from a fixed mindset revolving around power, rivalry and insecurity to explain all developments in the planning, construction and post-construction phases of the SGC project. In doing so, it fails to view the political and economic changes since the BTC pipeline, and it assumes that everything in the Caspian Sea region is also fixed. It can be seen that the relevant literature does not recognize the difference between different infrastructure projects, namely the BTC pipeline, the SGC project and the TCP. It also does not see the difference between uncertain legal status of the Caspian Sea and the signing of the Legal Status Convention since Russia and Iran are portrayed as the only ones to benefit from both situations. This is because the literature does not take note of the CEP and the Tehran Convention (see chapter 4). It therefore does not discuss the four ecological protocols of the Tehran Convention, of which three protocols had been discussed and signed by the littoral states by 2018. The fourth ecological protocol, called the EIA, was signed in July 2018. Since the relevant literature is not aware of the Tehran Convention and its four protocols, it assumes that the EIA was included by Russia and Iran to block the future pipeline projects in the Caspian Sea. Due to this ignorance, the New Great Game literature fails to explain or even see the complex interconnection between the ecological articles, the Legal Status Convention and the infrastructural projects and it therefore offers an incorrect explanation. Due to this ignorance, the New Great Game literature fails to explain or even see the complex interconnection between the ecological articles, the Legal Status Convention and the infrastructural projects and it therefore offers an incorrect explanation.
4. Discussion: The Planning, Construction and Post-Construction Phases in the Functionalist Framework

If one reads only the New Great Game literature, one will assume that the SGC project competes only with the Russian gas pipeline projects, namely the South Stream for the European gas market. To dismantle the narrow explanation of the New Great Game literature, this section analyses the three phases of the SGC project through revised functionalism. More specifically, this section illustrates that the SGC project has faced challenges beyond and besides Russia, Iran and China during the three phases. These challenges demand for functional services of multiple actors, namely energy companies and public as well as private lenders.

4.1. Planning the SGC Project

The following sections illustrate that during the planning phase the SGC project faced three main uncertainties which negatively influenced the feasibility of the project. First, unlike the BTC pipeline, the SGC project lacked the support of the US because the US increased its political and economic interests in other energy projects, such as the pipeline from Turkmenistan to Afghanistan. The second issue is that there was a cold relationship between Azerbaijan and Turkey during the planning phase due to the Turkish–Armenian rapprochement, which pushed Azerbaijan towards Russia. The third issue is that the SGC faced strong competition from other European pipeline projects and due to this, it was lacking in European support during the planning phase as well. These points are important because as explained in other chapters, any infrastructure project needs to have resourceful external actors in order to strengthen its feasibility in the planning phase. The main argument of this section is that, as it did in the case of the BTC pipeline, the New Great Game literature exaggerates the role of Russia and Gazprom and misses the actual nature of the challenges faces in the planning phase. The following sections show that the SGC project was challenged by states that were supporters of the BTC, such as the US and Turkey, energy companies, and internal European pipelines rather than just by Russia during the planning phase. The following sections also show that the New Great Game literature does not only miss new changes and developments, but it also fails to see changes that are important for geopolitics.
4.1.1 Decline of US interests in the Caspian Sea

Similar to the BTC pipeline, the SGC struggled with a number of uncertainties. One of them was the US government’s and energy companies’ support for other regional energy projects. As explained in chapter 4, both the US government and its energy companies played a key role in development of the BTC oil pipeline, but its energy companies (e.g., Chevron and Exxon) are not actively engaged with the SGC. While reviewing the SGC shareholders, it can be seen that the US companies are not part of this project (see SGC Partners). Instead Russian and Iranian energy companies (NIOC and Lukoil) are major stakeholders in the project at 10 percent each. It is a remarkable difference, because these companies were not part of the BTC pipeline. Unlike the New Great Game literature, this also means that Russia and Iran are (in)directly part of the SGC project. However, during the planning phase, the involvement of NIOC and Lukoil created uncertainty because of the economic sanctions imposed on Iran and Russia by the US (Gutterman and Grojec, September 19, 2018; Paraskova, August 8, 2018). The other project shareholders feared that the SGC could also be target of the US economic sanctions.

Additionally, during the planning phase, it was argued that the administration of President Barack Obama was not as forthright in promoting a direct gas link to Europe as the previous Democratic administration of Bill Clinton, which promoted the BTC oil pipeline in the 1990s (Kiernan 2012; Shiriye and Davies 2013). Instead, the Obama administration showed active support for the Turkmenistan–Afganistan–Pakistan–Indian (TAPI) pipeline. In January 2013, for example, the US assistant secretary for South and Central Asian affairs stated that “the TAPI project is one of the most important regional integration projects, because it will provide Turkmen gas for the growing Indian market, but it will also provide very substantial transit revenue for Afghanistan and Pakistan” (Kiernan 2012, 37). The US promotion of the TAPI pipeline is not intended to exclude American support for the SGC, but ensuring Afghanistan’s stability following the withdrawal of NATO troops in 2014 was the highest priority for the Obama administration.

Finally, the Turkish–Armenian rapprochement between 2009 and 2011 had caused a cold relationship between Azerbaijan and the US. In light of this, Washington did not appoint a US ambassador to Azerbaijan until late 2010 (Shiriye and Davies 2013). Washington’s behaviour during this period irritated some Azerbaijani officials (Eurasianet, May 21, 2010). The rapprochement is discussed in detail in the following section. Later, the Obama
administration nominated Matthew Bryza as the next US ambassador to Azerbaijan. However, the US Senate did not support Bryza’s appointment because the Armenian–American lobby had successfully opposed his appointment and several senators accused Bryza of having a pro-Azerbaijani bias (Radio Free Europe, December 29, 2011). In response to this, the Obama administration bypassed the usual Senate confirmation processes and sent Bryza to Azerbaijan on an interim basis (Radio Free Europe, December 30, 2010). However, Bryza did not receive sufficient support from the Senate, and he was replaced by Richard Morningstar, who served as the State Department’s special envoy for Eurasian energy. Only after that did the SGC project start to receive strong support from the US, as Morningstar frequently iterated the US’s support for the regional energy projects. Considering this, it can be argued that unlike the BTC pipeline, the SGC project did not received strong support from the US until late in its planning phase.

4.1.2. Turkish–Azerbaijani Energy Ties

Similar to the BTC pipeline, TANAP is an important part of the SGC project as it connects Azerbaijan to Europe through Turkey. The New Great Game literature takes Turkey’s support for granted. However, this section shows that Azerbaijan and Turkey had a cold relationship between 2009 and 2010 because of Turkish foreign policy towards Armenia. Due to the cold relationship between Ankara and Baku, the SGC transit negotiations between two countries took two years and Azerbaijan even considered a route through Russia as an alternative transit route.

The relationship between Turkey and Azerbaijan grew cold due to the possibility of normalised relationships between Turkey and Armenia becoming ever more likely in 2009. According to Shiriyev and Davies (2013), the US was pressing Turkey to normalise relations with Armenia without emphasizing the Nagorno-Karabakh dispute. This approach alarmed Baku in 2008. There were reports in the Azerbaijani press that Azeri President Ilham Aliyev had considered suspending gas deliveries to Turkey in response to the normalisation process (Azernews, November 20, 2009). Also, President Aliyev boycotted the Summit meeting of the Un-sponsored Alliance of Civilisations Initiative which assembled in Istanbul in April 2009. Shortly after the summit, Aliyev publicly condemned the rapprochement initiative, calling it “a mistake” (Shiriyev and Davies 2013, 191).
Baku started to use its energy card in order to discourage the Turkish-Armenian rapprochement. For example, at official meetings and conference across the EU, Azerbaijani officials suggested that Azerbaijan might consider shifting the direction of its energy cooperation towards Russia, which would decrease Turkey’s energy hub policy (Whitmore 2009). In the same vein, on 14 October 2009, the SOCAR signed an agreement to sell 500 million cubic meters of gas to Russia’s Gazprom starting in 2010, at a price of USD 350 per 1000 cm (Gazprom, June 29, 2009). In the same vein, Russia proposed to increase the amount of gas purchases in the future. This meant Azerbaijan sent the message that Turkey should include Azerbaijan’s demands in its negotiations with Armenia, because otherwise Azerbaijan would consider transiting its natural resources through Russia, which would decrease Turkey’s transit role in European energy security. The deal also led to uncertainty over Azerbaijan’s desire to transit its natural gas through the SGC project. During the crisis in Turkish-Azerbaijani relations, Ankara feared that by signing energy contracts with Russia’s Gazprom, Baku was distancing itself from Turkey, which could damage Turkey’s ambitions to become a regional energy hub. This also means that the cold relations created an opportunity for Russia to influence Azerbaijan’s gas transition. There has been speculation that the problems in relations between Ankara and Baku could result in Azerbaijan accepting Russia’s offer to purchase all the gas that will be produced in the second phase of the Shah Deniz project (Eurasianet, September 3, 2010).

However, the rapprochement between Armenia and Turkey was halted and following this, strategic relations between Turkey and Azerbaijan have intensified, particularly in the energy sector. This was followed by the starting the cooperation on the TANAP gas pipeline in 2012. Considering this, one may argue that the cold relationship between Baku and Ankara could have blocked the SGC project, which would have forced Baku to choose the alternative Russian route to export its oil. Unlike the New Great Game arguments, it was not Russia but it was the US, who pushed the rapprochement process and created the cold relationship between Baku and Ankara. Seen through the lens of revised functionalism, these developments illustrate that the regional dynamics are not fixed or constant, but tend to change. The changing dynamics and complex interconnection between different developments should be explained in order to understand the full picture in the Caspian Sea region. This section has also illustrated that the New Great Game picture is again wrong because the relevant literature misses crucial developments that are important for its geopolitical arguments.
4.1.3. Internal Competition: Nabucco/Nabucco West versus TAP

This section outlines the constructive competition between different European pipelines and energy companies. More specifically, it shows that the SGC project had to compete with different energy pipelines and energy companies besides the Russian South Stream and Gazprom during the planning phase. In contrast to the New Great Game literature, this section argues that the main barrier for the SGC project was its competition with other European projects rather than the South Stream pipeline. Drawing insights from revised functionalism, this section illustrates that meaning, value and importance of the SGC project had to change during the planning phase. It is necessary to view and explain these changes, because they influenced how actors like Russia and Gazprom perceive the SGC, which accordingly influenced how they behaved in the construction phase.

As explained above, the SGC consists of three pipeline networks. The third pipeline is called the TAP, which connects Turkey to Greece and Italy. While discussing the TAP, the New Great Game literature describes the EU as the main supporter of the project. In other words, it takes the EU support of this pipeline for granted. In doing so, the literature illustrates the Russian South Stream project as the TAP’s only competitor. However, the relevant literature neglects that the TAP project faced resistance within the EU because it had its own pipeline preferences, such as the Nabucco, Nabucco West and Interconnector Turkey-Greece-Italy (ITGI) projects. Therefore, the EU was not always supporting the TAP project and to gain its support the TAP and the consortia behind it had to compete with other internal projects and energy companies (European Commission, March 4, 2010). Figure 3 illustrates the three rounds of internal competition between the projects.

![Figure 3: Three rounds of internal competition](image)

Source: Author’s own compilation
Initially the Nabucco and ITGI projects were officially recognized as a project of European interest by the EU and represented the EC’s tactical option to deliver Caspian supplies to Europe through Greece and Italy (European Commission, March 4, 2010). By contrast, the TAP project was supported neither by an institutional ceremony, nor by a special endorsement of President Barroso (Meister and Vietor 2011). Despite the general support for all projects, the European Commission attached political priority to the Nabucco pipeline (Grewlich 2011). The reason is that the Nabucco project was intended to bring 31 bcm of gas from the Caspian Sea to Europe. It was expected that the TAP project, which was not yet supported by Italy and Greece, would be very difficult to realise as it could not compete with that amount (Reuters, February 20, 2012b).

The first round of competition was between the TAP and the ITIGI shareholders. The ITIGI shareholders were Edison (Italy) and DEPA/DESFA (Greece). The initial shareholders of the TAP were Statoil (Norway), EGL (Switzerland) and E.ON (Germany). According to Prontera (2017), the ITIGI project was quite feeble compared to the TAP because both pipelines would follow similar routes, but Greece was struggling with economic crisis. Due to this economic crisis, Greece decided to privatize its energy company DEPA, but it failed to find investors because of company’s financial position. This put Greece and DEPA’s economic power under question, which increased TAP’s feasibility as it has more shareholders with strong economic power. As a result, in 2012, the Shah–Deniz consortium dropped the ITGI project (Azertac, February 22, 2012). While the reason for this decision remains unknown, Greece’s economic vulnerability is consistently proposed as one of the reasons for choosing the TAP project.

After the ITGI project had been dropped, the TAP company lobbied intensively to gain support from Italy and Greece because they had been supporting the ITGI (Prontera 2017, 2015). After their initial hesitation, both Rome and Athens demonstrated their political and diplomatic support for the TAP because of its similarity to the ITGI project (Hurriyet Daily News, August 9, 2012). Additionally, the TAP would create significant economic benefits Greece and Italian energy and construction companies. Considering the economic situation in these countries, it can be argued that it increased the attractiveness of the TAP’s position. Because of this, both Rome and Athens took action to facilitate its realisation in different ways. Italy and Greece (and Albania) signed agreements to support the project and granted the TAP a 25-year exemption from Third Party Access for its complete initial capacity of 10 bcm (a decision confirmed by the European Commission), for example. They also (especially Italy)
worked to create a wider inter-state coalition to increase EU support for this pipeline (De Micco 2015). Both governments strengthened their bilateral diplomatic engagement with Azerbaijan to facilitate its completion (Prontera 2017). Following this, two competitor projects remained in the game, namely Nabucco and the TAP.

The second round of competition was between the TAP and the Nabucco project. However, in this round the TAP’s position was more difficult as the European Commission, besides supporting it politically and diplomatically, funded the Nabucco consortium with a grant covering 50 percent of the cost of its feasibility study and decided to grant the project a 25-year-long 50 percent exemption from Third Party Access requirements (Baev and Øverland 2010). However, in 2012 the original Nabucco project (31 bcm) downscaled to Nabucco West (16 bcm) (European Commission, June 28, 2012). There were multiple reasons for this, the first being that Azerbaijan and Turkey announced the construction of the TANAP which overlapped with the Nabucco’s eastern section in Turkey. The TANAP was intended to serve fewer countries than the original Nabucco project, as its capacity was only 16 bcm, but it was expected to be less expensive than the EU project (Reuters, June 26, 2012a). Second, the Nabucco pipeline could not find sufficient gas to feed the pipeline other than Azerbaijani gas (Skalamera 2016). Due to this, the major European companies (e.g., EDF, GDF-Suez, Eni, E.ON, and RWE) would not commit to the project (Wiesmann 2012). As a result, it had to be revamped as Nabucco West.

However, the EC supported Nabucco West project diplomatically and politically as well (European Commission, June 28, 2012). Nabucco West was intended to compete for the Azerbaijani Shah–Deniz 2 gas field; it would run from the Greek–Turkish border to Austria through Bulgaria, Romania, and Hungary. However, in 2012 one of the shareholders (Germany’s RWE company) of the Nabucco West project dropped its support, which negatively influenced the project (Wiesmann 2012). Following this, the Nabucco West project also broke down due to its commercial disadvantages, technical infeasibility, and complex and untimely decision-making procedures. It was argued that Nabucco West was more expensive than the TAP (Skalamera 2016). Finally, on 28 June 2013 the TAP project was selected over the Nabucco West by the Shah–Deniz consortium (European Commission, June 28, 2013).

Drawing insights from revised functionalism, it can be argued that the planning phase of the SGC project has been more complex, difficult, and complicated than the purely geopolitical description makes it out have been. More specifically, if one zooms out, one can
only see Russia as the main obstacle for cooperation. But if one zooms in, one sees that the SGC project has faced three rounds of competition between different energy pipelines, states, and energy companies besides and beyond Russia and Gazprom. In contrast to the New Great Game arguments, the value, meaning, and importance of the SGC was not fixed but changed at each round of competition. Accordingly, this change influence how the EU, Russia, and the assorted energy companies perceived the SGC project. In this regard, it is necessary to consider state, corporate, and material competitions while discussing the planning stage of the SGC.

4.2. Constructing the SGC Project

The following section analyses the construction phase of the SGC project, particularly the TAP, its third leg. The reason for choosing the TAP pipeline is that the SCP, the first leg of the SGC, is already operational and the TANAP, the second leg of the SGC, did not face severe protests within Turkey because of the authoritarianism of the Turkish regime. However, among the SGC pipelines, the TAP has faced a wealth of resistance from Albanian, Greek, and Italian cities. More specifically, throughout the construction phase, the TAP faced several intertwined technical, environmental, social, and economic challenges. By not discussing these challenges, the New Great Game literature falls in the common trap of geopolitical studies and figures that Russia, Gazprom or some other state has to be behind them. However, this section illustrates that the relevant literature paints a reductive picture again because it does not explain why, where, and when social, technical, and environmental challenges acquire unexpected political and economic consequences. The relevant literature does not see how and why these challenges lead functional cooperation between multiple actors (state, non-state and semi-state). Drawing insights from revised functionalism, this section explores these challenges, their causes, and their actual influence on the development of the TAP project during the construction phase.
4.2.1 Technical Challenges

The first technical challenge was the incomplete geographical facilities the project had to work with. In order to construct and transport the pipelines and technical equipment, the TAP companies needed to repair or even build roads, facilities and bridges. For example, in Albania an access bridge was refurbished, in service of the TAP project, using a structural strengthening method that allowed keeping the bridge open for road traffic (TAP, August 20, 2017a). The bridge, 92m long and 7m wide, is located in Mbrostar, at the entrance to the town of Fier, and serves as the main access point along the route from Durrës to the south of Albania. The location and the volume of daily traffic did not allow the bridge to be closed for a complete replacement of the deck, so another non-intrusive technique was needed. At the end of 2016, TAP completed the upgrade of approximately 58km of access roads, the construction of two new bridges, and refurbishment of 40 bridges in Albania (TAP, April 20, 2017b).

The second technical challenge was the unexpected discovery of historical settlements. While clearing the pipeline route for the Albanian section, construction workers brought to light an ancient settlement, which had been inhabited for an extensive period of time from the early Iron Age to the 10th century, in Korça, south-eastern Albania (Tirana Times, May 10, 2017). Due to this discovery, construction was suspended at least for a month (Azertac, May 10 2017).

The third challenge was the transportation of olive trees in Italy. The TAP’s route passes through ancient olive groves and over pristine beaches in the Italian region of Puglia, which relies on these idyllic landscapes for its major industry, tourism. That caused a standoff between global energy interests and local business interests. The most contentious issue is that of a grove of 1,900 olive trees that the consortium planned to move while the pipeline is being constructed and then move back when it is done (Kucera and Shiriyev 2017). However, transplanting the trees – some of which are more than 1,000 years old – is a delicate operation as they had to be transported during certain months, and the construction had to wait until the right time. However, this process costed extra effort, money and time because both local authority and the inhabitants of the Puglia region objected to the process. It was argued that even if TAP could safely move and replant the olive trees, the project had to meet a checklist of more than 30 other conditions, which led to fresh delays (Natural Gas World, April 21, 2017). These include measures to preserve the natural environment and wildlife habitats – on land and at sea. The TAP developers had hoped to begin moving the first of roughly 10,000 trees sometime in 2018,
but local opposition to moving them slowed the process, shortening the construction timetable and jeopardising the TAP developer’s goal to deliver first gas into Italy in 2020 (Reuters, March 7, 2017b). Although the TAP developers secured government clearance for the pipeline, Renzi’s government attached 66 demands – some of which could only be fulfilled with the cooperation of local authorities (Reuters, October 4, 2016). Due to these circumstances, the EIB has announced that its financial support depends on environmental and social conditions. More specifically, if any TAP company wants to receive financial support, it needs to help settle the local issues in Italy first (European Investment Bank, February 6, 2018).

4.2.2. Social and Environmental Challenges

The SGC project has faced several social and environmental obstacles since the first day of the construction phase, just like the BTC pipeline, such as active protests by a number of NGOs and environmental grassroots movements. Environmental and human rights NGOs, as well as representatives of local population, have sent letters to the World Bank, the European Parliament, the EBRD, the IFC, and BP to stop the SGC (Counter-Balance, January 28, 2016). While the three pipelines have faced several challenges the TAP, the final leg of the pipeline running into Europe, represents the biggest chance protesters have of disrupting the project as the TAP has faced opposition movements in Greece, Albania, and Italy.

The TAP project has previously been contested in the Puglia region in Italy. The Puglia Regional Committee on the Environmental Impact Assessment rejected the TAP proposal in 2012, questioning the environmental compatibility of the project in relation to its intended landing place on the Puglia mainland (Prontera 2017). After the selection of the TAP route by the Shah–Deniz 2 consortium, a new proposal from TAP identified a point of arrival on the mainland near San Foca, in the municipality of Melendugno (near Lecce), but the local protests, as well as opposition from the Puglia region, increased (La Republicca November 29, 2013). Following this, the Puglia Regional Committee on the Environmental Impact Assessment rejected the TAP proposal again in January 2014 (Colluto 2014). This second negative judgement from the regional committee, along with the opposition of local communities, severely complicated the TAP’s attempts to realise the plans. The TAP company started a
campaign at the local level to “win friends” by offering sponsorship to local events in the communities affected by the pipeline’s route. However, this promotional campaign did not appease local protests (Papadimitrious 2014). On the contrary, it prompted stronger debate at the local and the national levels. This debate did not lessen, although the Italian Ministry of the Environment voiced positive opinions regarding the realisation of the TAP at the end of August 2014 (Prontera 2017).

TAP’s website has pointed out the so-called benefits that “the pipeline is environmentally friendly and compatible with the area and will have no impact on tourism” (TAP, January 12, 2017a). Some believe the investment will breathe new life into the area, others fear it will threaten the region's tourism in Melendugno. Local concern is that the pipeline will make landfall at the popular Puglia beach of San Foca famous for its sparkling blue waters (Squires 2017). This is an area where young people especially are highly dependent on tourism for their daily sustenance. Therefore, if any kind of accident were to happen the region might lose its touristic attraction.

Throughout these protests, the Five Star Movement, Bankwatch Network, local Italian environmental groups, and even local Italian governors have been constantly opposing the TAP. For example, one of the opposition leaders, Beppo Grillo, expressed that “if they come to build a pipeline in any part of Puglia, even if they bring their army, we will line up our army” (Reuters, September 21, 2014). These groups constantly organized protests in order to stop the construction of the TAP project. During one of the business events, a dozen mayors, who fear that the pipeline will destroy the environment and the safety of their communities, staged a protest against the government’s support for the project. They were demanding that, instead of supporting it, the Italian government and the EU drop the project (Counter-Balance, September 22, 2015). In the same vein, Puglia governor Michele Emiliano has been lobbying Rome to shift the pipeline's landing point. He publicly denounced the removal of the first 211 olive trees (out of the 1900 to be moved in total) in a post on Facebook and called moving the trees illegal, and this statement rapidly spread in the news (Bankwatch Network, April 13, 2017). Eventually, the Lazio Regional Administrative Court (TAR) suspended a permit from the Ministry for the Environment for the removal of the olive trees on the TAP gas pipeline site in Melendugno, Puglia, because of these systematic protests (the Italian Insider, April 7, 2017).

Because of these protests, the TAP shareholders and the EU had already become concerned about the prospect of delays. According to EU official Elena Gerebizza; “time is
running out and the landing point in Italy is still an issue. The project is not moving ahead, the resistance is well-grounded in expert analysis, technical issues have not been solved, and political consensus is lacking” (as cited in Kucera and Shiriyev 2017). In the same vein, SOCAR’s vice president, Vitaly Baylarbayov, voiced his concern that local Italian opposition “creates a risk for the realization of the project (Bankwatch Network, April 13, 2017). Another Azerbaijani official mentioned “it is all about (local) politics. One would hardly believe that a few hundred olive trees could outweigh the huge benefits the country could get” (as cited in Kucera and Shiriyev 2017). Several officials and academics are arguing, without proof, as they did in the case of the BTC pipeline, that Russia is behind these environmental protests, because it wants to stop the TAP from being realized (Gurbanov 2017b). The protests even got attention of Anders Fogh Rasmussen, secretary-general of the North Atlantic Treaty Organisation (NATO), and former prime minister of Denmark, who argued that

“Russia, as part of their sophisticated information and disinformation operations, engaged actively with so-called non-governmental organisations - environmental organisations working against shale gas - to maintain European dependence on imported Russian gas” (The Guardian, June 19, 2014).

However, Rasmussen acknowledged that he has no proof and mentioned that “it is my interpretation” (The Guardian, June 19, 2014). Using unfounded statements like this one, the existing literature proposed Russia as the main target. Russia finances and encourages the local government and population against the TAP.

However, to depict Russia as the sole reason behind the controversy over the pipeline’s construction in Italy is too reductive as it is not a single dispute, but rather collection of local and global disputes that led to unanticipated consequences. These disputes include internal political struggle in Italy, difference in economic development between Italian regions, international opposition to the activities of transnational energy companies, and global protests for preserving the environment (Barry and Gambino 2019). These global and local systematically intertwined issues have blocked the short route the TAP could have taken in Italy. For example, an expert from BP mentioned that

“I am sceptical about the involvement of Russia in this issue because in Italy local and main government bodies do not like each other, therefore it is an
internal issue. This makes it difficult to get a permit for construction (Interview, October 26, 2017).”

During an informal meeting an expert from TANAP pipeline shared his very similar view that “it is a local politics that caused the delay, because political parties want to play every card they can to get support from local people. Additionally, the government structure of Italy is very different that of Turkey, Georgia and Azerbaijan because municipalities or provinces have more decision-making power (Interview, June 18, 2019).”

Although the Five Star Movement party won the election and came to power in 2018, it did not halt the TAP. More specifically, Luigi Di Maio, the Italian Deputy Prime Minister and member of the Five Star Movement, mentioned that he gave green light for the TAP in 2018 (Euractiv, October 30, 2018).

Additionally, it can be seen that Russian energy companies promoted and supported the SGC project. For example, Lukoil is part of the SGC, which owns a 10 percent stake of the Shah–Deniz field, and got USD 1 billion credit from international finance institutions for this project (Lukoil Press Release, August 7, 2015). This also means that the Russian company, and indirectly Russia, even own 10 percent of a gas project that was devised by Europe as an alternative to Russian gas. Moreover, Gazprom has publicly announced its interest in transporting its gas through the future expansion of the TAP (Reuters, February 14, 2017a). Additionally, despite close relations between Rome and Moscow, Rome had already condemned Russia’s annexation of Crimea and agreed to several rounds of EU sanctions targeting Moscow (Bloomberg, March 14, 2014). These examples illustrate that to depict Russia as the sole reason for these local protests in Italy is too reductive as there are issues beyond and beside those clearly caused by Russia in Italy.

4.2.3. Economic Challenges

Similar to that of the BTC pipeline, the estimated cost of the SGC project has changed over time due to the technical, social, and environmental challenges that had to be overcome. Initially, it was estimated that the project would cost approximately USD 35 billion and this
estimate was later increased to USD 45 billion (Farchy 2015). However, the cost estimation was recently decreased again to USD 41.5 billion (Azernews, October 13, 2017b). Azerbaijan’s share in the USD 40 billion SGC project is around USD 11.5 billion, half of which will have been borrowed from international financial institutions and commercial banks (Azernews, October 13, 2017b). However, due to low oil prices, Azerbaijan economy has faced severe economic devaluations which have diminished the financial support for the countries part in the realization of the SGC (Deloitte 2018). Amidst volatile oil prices, securing financing is of primary importance for the timely implementation of this strategic energy transit corridor. Speaking in autumn of 2016, the deputy vice president of Azerbaijan’s State Oil Company (SOCAR), Vitaly Baylarbayov, argued that the changing market situation, marked by volatile oil prices, has made strategic planning more difficult and impacted negatively on SOCAR’s investment portfolio (Euractiv, October 4, 2016).

While Azerbaijan has managed to raise USD1.05 billion in eurobonds on the international financial markets to fund the SGC’s segments, additional external financing was still needed to cover the remaining funding (Financial Times, March 10, 2016). Azerbaijan’s former minister of energy Natig Aliyev confirmed that “the timely realization of the project depends on financial support” (Gurbanov 2015). According to Afgan Isayev, the director general of the SGC Closed Joint Stock Company (SGC-CJSC), the total cost of the SGC’s realization for Azerbaijan amount to some USD11.5 billion. The company has already fulfilled half of its financial commitments by raising around USD 6 billion of the required sum for its shares (Azernews, December 23, 2016).

Overall, the social, technical, and environmental challenges have led to significant delays, political attention, and extra financial costs as they did in the realization of the BTC project. Initially, the TAP was expected to be finished in January 2019, but currently the project is expected to be completed by December 2020 (European Commission, March 17, 2015a). One may argue that every project involves extra costs and delays, and the cost inflation and delays in this project should therefore not be exaggerated. With this in mind, there are three distinguishing points that need to be highlighted. First, one of the supporters of the SGC project, Italy, halted the last leg of the SGC project, which is not an expected or calculated delay. This is an important point because this issue could put the feasibility of the project under question. The EC had granted the TAP an exemption from Third Party Access requirements but this exemption could lose its effects or expire if the pipeline would not start operating. In return,
this could put the project’s entire financial feasibility under question (Barry and Gambino 2019).

Second and related to this, the power, resistance, and the role of the Italian city councils should be considered. The above-mentioned examples show that despite the strong support of the Italian government, the local municipality can stop, postpone, or delay the USD 40 billion project because of olive trees. This means that the relevant literature needs to consider actors beside states and different government structures while discussing the transnational projects. If the project is agreed upon at the state level, it does not mean that the deliberations are over, because there likely to be further requirements that need to be fulfilled, as outlined above. Third, these delays and extra economic costs happened while the oil price was below USD 40 per barrel and Azerbaijan was struggling with internal economic and political turmoil. This means the technical issues came to be combined with unexpected issues and that led to extra costs, risks, and frustration. As a result, this delay has increased the economic challenges to the project because Azerbaijan needs to pay its credits and every day of delay cost Azerbaijan potential energy revenue. Additionally, these issues made it difficult to get extra loans as the project was becoming too risky to finance. While these findings do not deny that geopolitics play a role in the project, geopolitics nevertheless do not represent the whole picture.

Considering the technical, political, and economic scope of these issues, it can be argued that these problems can only be solved on both a national and regional level at very high costs, and they thus require the involvement of actors above and beyond just states to be financed and solved. More specifically, the SGC project created functional challenges, which led multiple actors (state, non-state and semi-state) to cooperate because their connections and interaction helped to deal with the functional challenges in this project.

4.3. Network of Actors

According to Skalamera (2016), political agreement is only one instrumental, but not the decisive condition, for the realization of complex infrastructure projects. Thus, it is too simple to assume that just because the strategic rationale for a certain energy infrastructure project is strong, gas will flow. For the SGC, the first hurdle is addressing the above-mentioned
challenges. Second, the investors must ascertain that the SGC is economically viable and superior to alternative transport routes. Because of this, there has to be a transnational energy company or consortium of transnational energy companies willing to commit to leading the SGC project. More specifically, facing these challenges also demands the functional services of multiple actors, namely energy companies and public as well as private lenders. These actors are likely to offer the required services, however, because they are looking to make a profit, diversify their energy sources, and address human needs. These motives induce international technical and political cooperation because multiple actors have to pool their sources for the common goal, namely transporting gas through the SGC. The following section explains who the key actors, besides states, involved in shaping and constructing the SGC project are and how their preferences (political and economic) and networks affect the capacity, opportunity, and will of governments (e.g., ministries, parliaments, presidents etc.) to cooperate.

4.3.1. Energy Companies

The key actors in the SGC project are multinational energy companies, such as BP, SNAM, Enagas, Lukoil and Petronas who offered a number of the required resources to transport landlocked natural gas to the European markets, as was the case with the BTC pipeline project. These resources include financial investment, political influence, security personnel and material, and advanced technology. The first important point that needs to be highlighted is the economic leverage that multinational energy companies have. Although the SGC involves six states (Azerbaijan, Turkey, Georgia, Albania, Greece, and Italy), its economic cost is beyond their financial capacities. Because oil prices have dropped, these countries (particularly Azerbaijan) desperately need international economic support. As mentioned above, Azerbaijan’s investment share in the SGC project is approximately USD 11 billion, which means the rest of the project needs to be financed by different actors. In light of this, the Shah Deniz (the main supplier field of the SGC) is shared by seven co-ventures among which BP owns the biggest percentage at 28.8 percent and is leading the Shah Deniz II project. The second largest stakeholder in this project is Turkish Petroleum (TP) with 19 percent, then comes Petronas with 15.5 percent, SOCAR with 10 percent, Lukoil with 10 percent, NIOC 10 percent, and SCC 6.7 percent (BP 2016a). In the same vein, ownership of the three pipelines (SCP,
TANAP and TAP) is also divided among several multinational energy companies. Table 6 below shows the actors involved in the SGC project.

Table 6: List of actors involved in the SGC project.

Source: Author’s own compilation.

This means the USD 40 billion economic cost of the SGC project has been divided among these companies. The strong financial contribution of the consortium companies increased the feasibility of the SGC project because these companies divided the economic risks. To do so, they have also applied for loans from private and public lenders in order to finance the project. For example, according to the Enagas’s report of 2016, the company invested 84.8 million euros in the TAP project in the first half of 2017 (Enagas 2016). In the same vein, Lukoil got USD 1 billion of credit from the EBRD for the SGC project (Antidze 2014). This example illustrates, in contrast to what the New Great Game literature concludes, that Lukoil is not one of the geopolitical tools Russia uses to implement its foreign policy goals. It is, however, important to note that these companies benefit significantly from involving themselves in the SGC project, because the SGC adds new reserves to their resource bases and diversifies their energy portfolios. These benefits induce energy companies to offer functional services and facilitate international technical cooperation.

The second important point that needs to be mentioned is the internal and external political power of BP, SNAM, Enagas and SOCAR. The international energy companies have strong relationships with their home governments, who provide them with the ability to strongly influence the decisions of local governments (see chapter 3). In this sense, having BP, SNAM,
Fluxys, and Enagas on board with the SGC project has secured the support of several European capitals. For example, one of the shareholders of SNAM is the Italian government, and the involvement of SNAM in the SGC makes the Italian government part of that project. Additionally, although BP only has a small share in the TAP project, it played an important role in solving the Italian olive tree problem. An expert from BP mentioned that during this time, BP helped coordinate the discussion between local and central government to work towards a solution and continue construction. Another example that has mostly been kept from the relevant discussion is that of the US’s sanctions against Russia. As mentioned above, the Russian and Iranian energy companies Lukoil and NIOC own 10 percent of the Shah Deniz field. This meant that the US sanctions against Russia and Iran could also influence the Shah Deniz II project. In order to alleviate the impending US sanctions, BP, together with Azerbaijani government, used its strong lobbying network in the US senate to get exceptions for Lukoil and NIOC in the sanctions (Paraskova, August 10, 2018). As a result, both got this exception. If they had not the SGC project would have faced difficulties. In terms of networking, BP, being a European company, helps SOCAR implement systematic coordination and cooperation with other European companies. BP has great expertise and a strong network in the European market, but SOCAR is new at this and therefore BP shares its expertise with SOCAR to facilitate coordination among the TAP companies.

The third important point is security. The companies involved play a key role for the security of the SGC project, as the companies involved in the BTC pipeline did for that project. Remarkably, this aspect has been neglected by both geopolitical and geo-economic literature. According to an expert from TANAP, there several security measures are needed to ensure the safe operation of the pipeline, such as physical, procedural, and electronic measures. Physical security includes building fences, lighting the perimeter, and creating clear zones, gates, doors, and locks. Procedural security includes drawing up and implementing risk management plans as well as emergency response procedures by defining and assigning the roles and actions and coordinating with the public security providers involved.” Electronic security measures include CCTV systems, access control systems, intrusion detection systems, and warning systems. These security measures are provided by the relevant energy companies. For example, BP sets out certain security standards for the pipeline countries to implement and follow. If BP realizes that the suggested security measures are not enough, it gets involved and asks the relevant governments to expand the requirements for the security measures. When doing so, BP offers financial and technological support, such as drones. BP and SOCAR have implemented social
support programs at six countries to gain the public’s support, as they did in the BTC pipeline project. According to an expert from BP, “these social programs are important for the security of pipeline because the project gains the support of local people through them, which means local people grow willing to inform the government of threats that arise”.

Finally, the exploitation and transportation of natural gas from the Caspian Sea would never have been possible without advanced technology, which the states in this region lack. This has led the consortium companies to revitalize the technical capacities of the states in this region by offering modern gas processing plants and fabrication facilities. They supported local experts by offering several educational and capacity-building training programs. These examples show that these companies do many of the things traditionally, sometimes exclusively, associated with the state. However, it is also worth reiterating that these companies exploit the natural resources of the Caspian Sea to gain extra revenue from it. In doing so, only a few cities, mainly those on the pipeline’s route, benefit from these companies’ financial contributions, while others are neglected. Additionally, these companies prefer to sideline human rights issues within certain countries (e.g., Azerbaijan and Turkey) and focus mainly on economic benefits.

4.3.2. Private and Public Lenders

Although quite a number of TNCs and states are already involved, the realization of the SGC project requires the involvement of more actors, as the currently involved TNCs and states cannot cover all the cost of the project. To construct the 3500 km SGC pipeline, which crosses seven countries and represents a total investment of approximately USD 40 billion, systematic financial support from a number of financial institutions, such as the EBRD, ADB, BSTDB, ING Bank, and the World Bank has proven necessary. Because of this, both companies and states have used their strong lobbying and networking power to gain support from these financial institutions. For example, an expert from BP mentioned that

“by using its strong reputation, BP has played an important role in attracting international financial organizations and banks to the SGC project. BP is a European company; it has strong risk management and environmental and technical
standards. Therefore, banks and financial institutions trust BP and its opinion (Interview, October 26, 2017).”

Another example of companies using their stature to gain private and public lenders’ support is Lukoil. In 2015, Lukoil signed a 12-year credit-facility agreement with a consortium of banks to borrow USD 1 billion, of which the EBRD, the ADB and the BSTDB would provide USD 560 million. The remaining amount, USD 440 million, is provided for a period of 10 years by a commercial banking syndicate comprising of the ING Bank, Bank of China, UniCredit AG and Société Générale via the B Loan programs of the EBRD and ADB (Lukoil Press Release, August 7, 2015).

Table 7 below shows international loans from different public banks.

<table>
<thead>
<tr>
<th>Amount</th>
<th>Lenders</th>
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<tbody>
<tr>
<td>USD2.8 Billion</td>
<td>European Investment Bank (EIB)</td>
</tr>
<tr>
<td>USD 1.8 Billion</td>
<td>World Bank Group</td>
</tr>
<tr>
<td>USD 1.7 Billion</td>
<td>European Bank for Reconstruction and Development (EBRD)</td>
</tr>
<tr>
<td>USD 1.3 Billion</td>
<td>Asian Development Bank (ADB)</td>
</tr>
<tr>
<td>USD 0.6 Billion</td>
<td>Asian Infrastructure Investment Bank (AIIB)</td>
</tr>
</tbody>
</table>

Table 7: Amount of loans from public lenders.


The total cost of the TANAP project is USD 8.6 billion. On 20 December 2016 the World Bank approved two USD 400 million loans to Turkey and Azerbaijan for the TANAP project (World Bank, December 20, 2016). One day later, on 21 December 2016 the Asian Infrastructure Investment Bank (AIIB) allocated USD 600 million to a loan for the TANAP project (AIIB, December 21, 2016). In the same year, the EBRD had declared its intention to grant a loan of up to USD 1.59 billion for the TAP project and another large loan for the TANAP project (Trend, July 27, 2016). The total TAP project cost is more than USD 4.5 billion of which the EBRD supplied approximately USD 1.5 billion in loans. Finally, in 2016 additional modest financial support (just over USD 14 million) has come from the European Commission (EC) under the European Union’s special Connecting Europe Facility (CEF) funding instrument. The money will be directed toward archaeological investigations and excavation studies for the TAP project, within the framework of the EU’s priority energy projects (European Commission,
February 17, 2016). After becoming involved in the SGC project, these institutions have used their network and lobbying power to attract several private and governmental banks. However, when investing in this project, these institutions require certain environmental and social standards and measurements from the energy companies and countries. By using their economic leverage, these institutions push energy companies and countries to follow these requirements in order to secure the funding for the project. For example, EBRD has yet to decide to confirm one of the loans for the project due to environmental protests and complaints. However, it is also important to mention that these institutions have closed their eyes to the human rights abuses in Azerbaijan. They have not really used their economic leverage to put pressure on the Azerbaijani government.

These examples highlight two important factors that have been overlooked to some extent. First, the SGC is indeed a mediating interface as it manages to bind multiple actors together, which creates mutual interdependency and alliances among them. More concretely, the infrastructure project has brought several actors and their network together on economic, social, and technical issues on the pipeline’s route. Contrary to conclusions drawn from state-centric assumptions, these actors not only include states but also companies, financial institutions, NGOs, and IGOs. Second, and related, each actor offers specific and functional contribution (e.g., economic, political, social, technical and security) to deal with certain challenges. After recognizing their mutual dependency, these actors pooled their resources which was needed to complete this infrastructure project. The multiple networking ties between these actors generated continuous interaction by invoking the image of connectedness between individuals and organizations on the one hand and private and public actors on the other. The guidance and governance of the projects would have been unreliable without their involvement.

4.4. Operating the SGC: Expectations versus Reality

The case of the BTC pipeline has illustrated that it is possible to find room for more pragmatic cooperation among the littoral states after the successful completion of an oil infrastructure project. As discussed in chapter 5, the Caspian littoral states have started to use the BTC oil pipeline as an alternative to their old oil transport routes. Additionally, chapter 4 explained that
the Legal Status Convention, which was signed in August 2018, created suitable conditions for building undersea pipelines in the Caspian Sea. Drawing insights from revised functionalism, this section shows whether and how cooperation on the CEP and the BTC pipeline has spilled over to the SGC project. The following section explains the ways in which the SGC became entangled with wider regional processes after its construction. More specifically, this section explains how the recently signed Legal Status Convention can affect the SGC project and whether and how the SGC project affects the possibility, likelihood, and severity of regional conflicts.

4.4.1. Pragmatic Cooperation: the TCP

Similar to the BTC project, the SGC project has offered the Caspian littoral states and external powers an issue-specific opportunity to cooperate. The relevant literature focuses on the states in the region and on external states, namely Russia, Iran, and China while discussing the SGC project. This means that the scholarship neglects other actors, such as Iranian and Russian energy companies (Lukoil and NIOC) and China’s financial institution (the AIIB), even though Lukoil and NIOC are already part of the Shah Deniz Consortium and hold a 10 percent share each. As explained above, Lukoil even got a loan of USD 1 billion from the EBRD for the SGC project (Antidze 2014). Additionally, the NIOC got an exception from Western sanctions due to its involvement in the SGC project. In the same vein, Mahmoud Vaezi, Chief of Staff for the President of Iran, mentioned that Iran was considering transporting its gas to Europe by means of the TANAP gas pipeline (SNAM, August 8, 2014). Finally, China is part of the SGC indirectly through the AIIB, which was initiated and launched by China and granted a USD 600 million loan to support the SGC project in 2016 (AIIB, December 21, 2018). Considering this, one may ask why Iran and Russia’s national energy companies are part of the SGC project if the states themselves are against this project? Are they trying to sabotage the SGC project? If so, then why did Lukoil borrow USD 1 billion? Of course, the New Great Game scholars would find answer to these questions in line with their Great Game explanation, but in reality, their involvement means that China, Iran, and Russia are part of this project indirectly and will benefit from it. These examples also show that even if there is a “Great Game”, it is about constructive cooperation rather than destructive rivalry.
Additionally, Turkmenistan and Kazakhstan have expressed their interest to join the SGC project, like they did with the BTC pipeline, as it would offer them an alternative route to reach the European energy market. For example, gas accounts for nearly two-thirds of Turkmen exports and it is almost exclusively sold to Russia, Iran and China (Natural Gas World, 6 December 2015). Ever since the completion of the Central Asia–China Pipeline, Turkmenistan has supplied a substantial portion of China’s gas demand through the infrastructure in Uzbekistan and Kazakhstan (Socor 2012). The SGC project would offer Turkmenistan an opportunity to diversify its pipeline routes and establish relations with the West, allowing it to drive up the price of its oil by making China and the West outbid each other. In this sense, this is the significance of the opportunity to diversify the export routes. One of the ways to connect Central Asia to the SGC project is to build the fourth leg of the project, the so-called TCP. This new underwater pipeline is expected to transport 30 bcm of Turkmen gas from Turkmenbashy to the Sangachal Gas Terminal in Azerbaijan, from where it would be transported to Europe (Cason 2015). When this pipeline idea was initially presented, both Kazakhstan and Turkmenistan supported the TCP option (European Commission, September 12, 2011). For example, the Turkmen President expressed its support for the project when he met with the top EU officials in 2011. Following this, on 1 May 2015, Azerbaijan, Turkmenistan, and the EU signed the Ashgabat Declaration to develop energy cooperation between the parties (European Commission, May 1, 2015a). Turkmenistan even considered the possibility of shipping compressed natural gas (CNG) to Azerbaijan by tankers, decompressing it there, and transporting it onward through the SCG to Europe. This development is very remarkable because it shows that practice of cooperation between the littoral countries has not been limited to the CEP and the BTC, but has moved into other areas.

To show its interest in the project, Turkmenistan sent a delegation to the Fourth Ministerial Meeting of the SGC, which was held in Baku in 2018. During his opening speech, President Aliyev of Azerbaijan explicitly stated

“I am glad that representatives of friendly countries, Romania and Turkmenistan, are also attending this meeting for the first time. Their participation in this meeting also demonstrates that they attach great importance to our project” (as cited in President, February 15, 2018).

In the same vein, Parviz Shahbazov, Azerbaijan’s Energy Minister, noted that
“the volume of Azerbaijani gas transported along the SGC may be increased at the expense of gas from Turkmenistan. The participation and statements of representatives of Turkmenistan and Romania at the fourth Ministerial Meeting of the SGC Advisory Council also confirm that interest in the project is gradually increasing (Trend, May 8, 2018b).”

Additionally, as explained in chapter 4, the Legal Status Convention, provides clarity about the requirements for constructing the TCP and was agreed on by Azerbaijan, Turkmenistan, and Kazakhstan. More specifically, Article 14 of the Legal Status Convention states that the littoral states may construct submarine pipelines on the bed of the Caspian Sea if they are compliant with environmental standards and requirements of the Tehran Convention (Convention on the Legal Status of the Caspian Sea, 2018). In doing so, “submarine cable and pipeline routes shall be determined by agreement with all the parties the seabed sector of which is to be crossed by the cable or pipeline (Kremlin, August 12, 2018).” This means that one of the points of uncertainty between Azerbaijan, Turkmenistan, and Kazakhstan has been resolved. This also illustrates the interconnection between environmental, legal, and infrastructural cooperation in the Caspian Sea region. More concretely, the Legal Status Convention, the Tehran Convention, and the environmental documents of the CEP offer common base for the governments of the littoral states, and they can refer to these documents while discussing the TCP project. In light of revised functionalism, it can be argued that these examples illustrate that the cooperative practices, which were started during the CEP and the BTC pipeline project, continued and facilitated collaboration between the littoral states in other areas.

It is worth noting that there are other issues that still need to be resolved in order to construct the fourth leg of the SGC project. First, Turkmenistan’s policy of gas transport requires the buyer to assume all risks from the Turkmen border onward (Cason 2015). This means those who want Turkmen gas must build the pipeline to Turkmenistan to receive it. Azerbaijan does not have enough money to build this pipeline and it is still engaged in covering the SGC’s costs (Azernews, May 19, 2017a). Second, as mentioned above, any transnational infrastructure project requires the strong financial support of actors besides states. Because of this, it is still not officially confirmed whether the TCP project can secure sufficient financing from European companies and public as well as private lenders to match its political endorsement. Considering the current low oil prices, many European companies are hesitant when it comes to the risks of financing complex pipeline projects. Third, Azerbaijan wants to deliver its own natural gas to Europe first because Azerbaijan has enough natural gas capacity
to supply the promised 16 bcm. Therefore, Baku will only greenlight the TCP pipeline if it turns out its natural gas capacity is not enough to fulfil the promise of supplying 16 bcm of natural gas. In 2019, BP announced that there might be another giant gas field in the Caspian Sea, which would increase the capacity of the SGC project (Bloomberg, January 10, 2019). As mentioned above, Baku also got a Third Party Access Exception from the EU, which means Azerbaijan can have a monopoly over the transport of natural gas through the SGC and can reject the transportation of natural gas from third parties.

However, there are cooperation initiatives besides the TCP project in other areas, such as the development of seaports. The littoral states have started modernizing their ports in the Caspian Sea to facilitate more transportation options and to improve regional and global connectivity by establishing free trade zones. Meanwhile, the boards of the littoral states’ seaports have organized regular meetings to exchange ideas and sign cooperation memorandums (Port of Baku, November 23, 2018). An expert from an Azerbaijani port mentioned that “although each Caspian state has its own port, the main aim of these ports is to cooperate rather than compete. The reason for this is that there is strong interdependency and networking between the five ports. They aid each other in terms of capacity, transportation, bureaucracy, customs service, and regional and global connectivity (Interview, June 1, 2018).”

To strengthen the regional and global economic connectivity, Turkmenistan organized the First Caspian Economic Forum in 2019 (Trend, August 19, 2019a). During the forum, the littoral states signed a number of documents related to transport, industry, agriculture, infrastructure, and diplomacy (Trend, August 19, 2019a).

Overall, it can be argued that the habit of coming together that took shape in the CEP and the BTC pipeline project continued to flourish in the Caspian Sea region, and the SGC project created a new interest and pride in continuing cooperation among the littoral states. Of course, this does not mean that the CEP and the BTC pipeline have explicitly encouraged the littoral states to join the SGC project. However, as is illustrated in chapters 4 and 5, the CEP and the BTC project are the initial places where the littoral states started to experience and establish the practice of environmental and infrastructure cooperation, interaction, negotiation, and trust. However, it is worth noting that the littoral states mainly produce and export natural resources, meaning that non-energy-related industry sectors represent only a limited share of their total exports (ADB, January 28, 2019). This in turn means that, since there is a lack of production and development in non-energy-related industry sectors, there is limited room and thus need for expanding cooperation beyond transportation of oil and gas. As mentioned in
revised functionalism, spillover between different sectors or issue areas only occurs if there is a need or necessity. In this sense, if the littoral states do not establish competitive industry sector outside the energy industry, economic and political agreements, documents or treaties will only play an important role on paper.

4.4.2. Regional Conflicts

Since the 1990s, the existing literature has described the regional conflicts (e.g., Nagorno-Karabakh) as being among the main security threats to every project in the region (Ceccorulli et al. 2017; German 2012; Siddi 2017), as mentioned in section 3. In the early 1990s this was understandable because the Cold War had just ended and it was uncertain how the situation would develop. However, while reading this literature, one may say yes there is a threat in the region but so what? And what is the suggested solution to this threat? Should no project be done or implemented until the Nagorno-Karabakh conflict is solved? Or should transnational projects perhaps be implemented to mitigate the regional conflicts? Unfortunately, the relevant literature does not answer to these questions and just mentions that the Nagorno-Karabakh is the main security threat. Despite this alarm in the literature, the countries in the region have continued their projects and international actors have invested billions in these regional projects. It has been almost 30 years and this threat still exists in the region, but within those 30 years several international mega projects have been completed. More specifically, life continues in the region in spite of the existing security risk. Considering this, it is necessary to ask why, despite the existing threat, regional and international actors invest in transnational projects and in what way these projects influence the regional conflicts or have shaped them?

Similar to the BTC pipeline, the SGC project is one of the salient factors in the current “no peace, no war” situation because it has made regional conflict less beneficial and less feasible. As mentioned above, Azerbaijan’s economy is under-diversified as it is overdependent on natural resource income. The BTC pipeline has partly created this overdependence, and the SGC project has added to it with an extra layer. As mentioned in sections 4.2 and 4.3, Azerbaijan has received financial loans and credit from several international institutions to complete the SGC and it needs to return them following the construction of the project. Because of this, Azerbaijan is aware that any conflict between Armenia would be very likely to result in damage to the existing pipelines, which would cost the international consortium approximately USD 50 billion. For example, low oil prices in 2015 and 2016 led to devaluation of Azerbaijan’s
currency and high inflation, which led to protests in several cities and challenged the internal stability (Radio Free Europe, January 14, 2016). This shows that for the Azerbaijani government any temporary or permanent disruption of its energy flow is a direct threat to its economy and internal stability. Such a disruption would also increase Azerbaijan’s reputation as an unstable business partner and suspend essential services (economic loans, technical, and administrative), which are its main source of income. Therefore, transnational infrastructures should be seen as a factor that silently deters conflict.

Map 4 below shows the Caspian Sea region without and with its pipelines. It can be used to compare the region and its changing strategic importance before and after the infrastructure projects. Map 4a shows only the geographical borders of the region, which does not say too much about the strategic, economic, or political importance or connections in the region. On the other hand, the map 4b shows the region with the existing pipelines, which have changed strategic, economic, and political value of the places that the pipelines pass.

Because the New Great Game literature fails to see the difference between map 4a and 4b, it also fails to explain developments that are important for geopolitics. Considering map 4b, one may argue that it is apparently possible to construct transnational pipeline projects despite the existing conflicts, because the regional conflicts apparently do not influence the involvement and decision of international actors. Several local experts (both Armenian and Azerbaijani) mentioned that the West and its financial institutions are aware of the threat of armed conflict.
and Azerbaijan’s dependency on energy infrastructure projects, but they view Nagorno-Karabakh as a manageable threat. It is true that these institutions do assume risk, but the return is worth assuming this risk because high risk means high financial reward.

Considering map 4b, one may argue that if there was no SGC and/or BTC infrastructure, regional conflicts would not get much attention from the West either, because some Western countries and energy companies are part of the projects. The literature neglects that six states and more than ten international energy companies, financial institutions, and intergovernmental organizations are involved in the SGC. All the potential beneficiaries of the SGC are ultimately interested in safeguarding their sizeable investments. In this regard, the SGC is a piece of international property and Azerbaijan is not its sole owner. This also makes Armenia think twice before targeting transnational infrastructure. An Armenian expert mentioned that

“targeting infrastructure is not a viable option, it is a last resort if there is no other option. If Armenia does not have a choice, then this infrastructure will become a target, but first Armenia intends to avoid harming international investments (Interview, September 26, 2018).”

In the same vein, several local experts from Azerbaijan, Armenia and Georgia mentioned that in the worst-case scenario, these countries will not hesitate to hit this infrastructure. However, it is worth mentioning that both Armenia and Azerbaijan use the Nagorno-Karabakh conflict to justify their bad behaviours (human rights violations, corruption, and weak elections). Considering this, it can be argued that Azerbaijan and Armenia are two scorpions in a bottle, each capable of killing the other, but only at the risk of his own life (De Wilde 1991).

5. Conclusion

By using insights from revised functionalism, this chapter has analysed the planning, construction, and post-construction phases of the SGC project. First, the chapter has illustrated that Western support and interests are not granted or fixed but that they change according to the size, value, and meaning of the project takes on. In contrast to the way it acted in the BTC pipeline project, the US government increased the amount of attention it paid to Afghanistan and to alternative energy projects in the region. In the same vein, its energy companies did not
involve themselves in the SGC. This absence was counteracted by the Russia and Iran’s energy companies, namely Lukoil and NIOC. Additionally, Azerbaijan had cold relations with one of the key transit countries, namely Turkey, because it sought to normalize relations with Armenia, Azerbaijan’s enemy. This situation called Turkey’s role as a transit country into question and created room for Russia as an alternative transit country. During the planning phase of the project, the SGC also had to compete with EU’s internal energy pipelines in order to gain financial and political support from European energy companies as well as private and public lenders. These uncertainties influenced the feasibility, value, and important of the SGC project during the planning phase.

Second, the chapter has highlighted that political agreement was only one of the instruments not the decisive condition needed to complete the SGC project. This chapter has shown that the SGC faced technical, environmental, and economic challenges during its construction phase, which necessitated the cooperation of multiple actors (state, non-state and semi-state) because their connection and interaction were needed to help deal with these challenges. As shown, a local Italian municipality stopped construction on a USD 40 billion project because of olive trees and environmental pollution, despite the Italian government’s strong support of the project. A local municipality’s actions led to frustration, delays, extra costs, and political difficulties during the construction phase of the project. These construction challenges were resolved due to the systematic support and networking of multiple players, namely transnational energy companies (BP) and private and public lenders (the World Bank Group), as was the case with the BTC pipeline. In line with revised functionalism’s insights, this chapter illustrated that the interaction and cooperation of these actors increased the political and economic feasibility of the SGC project because they pooled their political, technical, and economic resources to deal with the shared construction challenges.

Third, the SGC project has added a mitigating layer to regional conflicts (e.g., the Nagorno-Karabakh), just like the BTC pipeline project did, by increasing the regional interdependency and price of conflict. The economic, political, and technical value, scope, and importance of the SGC project further entrenched the current “no peace, no war” situation in the region. Although the SGC project has not brought Armenia and Azerbaijan together, it is one of the reasons discouraged Azerbaijan and Armenia from starting a full-scale war. Additionally, the active involvement of different international and local shareholders and their large investments made it possible to keep the current status quo.
Finally, this chapter has illustrated that cooperation among the Caspian littoral states was not limited to the BTC project and the CEP. The practice of cooperation, which was established by the CEP and strengthened by the BTC, has continued and spilled over to the SGC project. Turkmenistan and Kazakhstan have expressed their interest in joining the SGC project, as they did with the BTC project, and constructing the fourth pipeline, the TCP. Because the BTC pipeline has already been constructed, the littoral states have experienced options for transporting natural resources from Kazakhstan and Turkmenistan to Azerbaijan. In light of this, Azerbaijan, Kazakhstan, and Turkmenistan have increased the frequency of their official meetings in order to thoroughly discuss the possibility of the latter two joining the SGC project. Although Russia and Iran are not transporting their natural resources through the SGC, their respective energy companies are among the shareholders of the project and are working together with other actors to complete the SGC in 2020. As explain in revised functionalism, the littoral states are part of the SGC project with respect to their interests, capacities, and resources.

To prevent Euro-centric expectations, this chapter has argued that the habit of cooperation among the littoral states is mainly focused on the Caspian Sea’s natural resources because the littoral states have done little to develop the non-energy-related sectors of their industry, which represent only a limited share of their total exports. Although the littoral states have signed a number of documents, agreements, and treaties with regard to agriculture, tourism, technology, and customs, one can observe a very limited cooperation in these fields, because these sectors are not nearly as developed and advanced as the energy sector in the Caspian Sea region. This means that the current cooperation can spillover into different areas only if they diversify their non-energy industry. Otherwise, the above-mentioned non-energy-related agreements are unlikely to move beyond words on paper.