

BAKU DIALOGUES

POLICY PERSPECTIVES ON THE SILK ROAD REGION

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It has been argued that the U.S. shale revolution, the Trump Administration's energy policies, and the global shift towards low-carbon energy sources and renewables have contributed to shape a new energy order—one that challenges the market power traditionally enjoyed by petro-states. Nowhere are these developments more relevant than in Azerbaijan, as the country's expensive investments in the Southern Gas Corridor come under increasing pressure. Unless Azerbaijani gas can be decarbonized at a competitive cost, it may risk becoming redundant within a couple of decades as Europe embraces a greener future.

Geopolitics and Geo-economics
The Southern Gas Corridor (SGC) is a \$45bn mega-project (\$25bn for the development of the Shah

Deniz II field and at least \$15bn for the delivery system) to supply natural gas from the Caspian Sea to Europe and, by so doing, reduce reliance on Russian imports. This is a priority that has taken on urgency in the wake of Russia's 2014 annexation of Crimea and the sharp deterioration in relations between Moscow and Brussels that ensued. Currently, the SGC is made up of two pipelines to deliver gas from Azerbaijan's Shah Deniz II field to Turkey and Europe—one called TANAP that is already operational and runs the length of Turkey, and another known as TAP stretching from Turkey's border with Greece across Albania to Italy, which started pumping gas in late 2020.

This is how a leading ADA University policy expert described the situation to me in October

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2020, in light of technical delays in the pipeline's inauguration and the big changes in energy markets described above: "the TAP pipeline is 90 percent completed and will be inaugurated soon. Unlike oil pipelines, whose flexible delivery to the end-consumer can be sorted out once they are built—as oil travels via tanker, rail, etc.—gas pipelines are more rigid investment endeavors. [...] You don't agree on a gas pipeline unless you have

secured a buyer on the other end." While natural gas supplies from Azerbaijan's Shah Deniz field are already contracted, the project has seen numerous twists and turns since it was signed with great fanfare at the end of 2013. The SGC is an expensive endeavor and the institutions that lined up to finance it are a testament to the degree of strategic importance it carries for the EU. The project has, indeed, been designated as one of the EU's "priority projects."

The EU, backed by the United States, has long championed the Southern Gas Corridor as a way for Europe to reduce its dependence on Russian gas. BP is a major shareholder in the project, to which

the World Bank supplied a \$400m loan, and both the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), owned by EU member states, also provided large funding. In October 2017, the

The EU, backed by the United States, has long championed the Southern Gas Corridor as a way for Europe to reduce its dependence on Russian gas.

EBRD approved a €1.5bn financing package for the TAP project. This included €500m of its own crucial money—the EBRD's biggest-ever single loan—and a further €1bn syndi-

cated loan to one of the Southern Gas Corridor pipelines, the TAP. Similarly, the EU's EIB in February 2018 approved a €1.5bn loan for building the TAP, one of the largest ever for Europe.

These loans came under increased scrutiny when in October 2017 the board of the Extractive Industries Transparency Initiative (EITI) instructed the Azerbaijani government to revise some laws regarding civil society within four months or face suspension, on the grounds that Baku had not made satisfactory progress on requirements related to civil society engagement. In response, Azerbaijan withdrew from the international transparency watchdog, presenting

a dilemma to international financial institutions (IFIs) such as the World Bank and the EBRD, which were at the time appraising loans to Azerbaijan's energy sector conditional on its compliance with EITI norms. The withdrawal at first cast doubt on prospects that Western IFIs would lend for Azerbaijan's contribution to the SGC project; but given the importance of the SGC, the U.S. and some European countries lobbied against outright suspension of the agreed financing, with officials at the EBRD—the only international financial institution with a specific mandate to promote democracy—insisting that it had ensured that TANAP met the usual standards.

According to an August 2018 story that appeared in the *Financial Times*, the EIB's financing also went on without any human rights safeguards, spurring criticism over how Western officials and IFIs chose to minimize the inconvenient truth that their energy policies (and related funding) are directed toward actors whose human rights practices are understood to diverge from EU norms. Former British prime minister Tony Blair's appointment for offering, through his consulting firm, political and strategic advice to the BP-led Shah Deniz consortium on the export of Azerbaijani gas to Europe has

also been placed under the microscope and discussed through the prism of scholarly debates—as exemplified by a 2018 *Journal of Democracy* article authored by Alexander Cooley, John Heathershaw, and J.C. Sharman entitled “The Rise of Kleptocracy: Laundering Cash, Whitewashing Reputations.”

At the same time, Western stakeholders' demands for limited legal changes in light of the October 2016 EITI ultimatum were not well received by senior figures in the Azerbaijani government, who pushed back hard against the perceived interference in Azerbaijan's internal affairs and, subsequently, went on to mobilize less ‘demanding’ financiers. Two months later, the China-led Asian Infrastructure Development Bank (AIIB) approved a loan of \$600 million, the largest at that point in its history, for the construction of the TANAP gas pipeline from Azerbaijan to Turkey. As Elshad Nassirov, Vice-President for Investments and Marketing at SOCAR, the state oil company, told me: “Chinese money was quicker.”

Given that IFI finance is so critical for the SGC, which had continued to face a funding gap (especially after 2014, when world oil prices collapsed), it appears that Western banks moved closer to

the AIIB position with respect to questions about Azerbaijan's record on corruption and democracy subsequent to the latter's entry as a funder. More widely, such “pipeline politics” in the SGC has been scrutinized for its divergence from the normal ways in which economics tended to trump politics in the European gas trade. As energy expert Akhmed Gumbatov has argued in a recent *Baku Dialogues* essay, for the EU and the U.S., the SGC is clearly a project of geostrategic importance.

SGC Benefits

The EU insists that the SGC is important for its efforts to diversify supply routes and develop an open, competitive gas market. While not involving zero-emission or renewable energy, it will help to replace coal and lignite, still widely used in the Balkans, with cleaner gas. In this sense, TANAP and TAP not only help increase total gas volumes available to Europe, but they are also going to help diversify the gas supplies of central and southeastern EU member states (and Western Balkans candidates and aspirants), which strongly rely on Russia-dominated supplies of natural gas. Compared with the Middle East, Azerbaijan is a safe place to do business—due to the fact that, while foreign companies

need the resources, Baku needs their technology and the revenues. Moreover, SOCAR has been enabled to become a real player in the international industry. And TAP, with plans to deliver 10bn cubic meters to Europe a year, will provide modest yet important diversification in Europe's natural gas sources as well as slightly reduce the EU's reliance on Russian supplies. Europe's strategic interests explain SGC's built-in scalability (i.e., the underlying desirability to increase its size) and investors' interest in the project despite the somewhat high risks and costs associated with it.

As British sociologist Anthony Giddens argues in his 2009 book *The Politics of Climate Change*, all risk assessment is contextual and depends, in the final analysis, upon values, which inevitably shape our perception of the saliency of given threats: the constant variable shaping decisionmaking given that no course of action is ever risk-free. In that sense, the idea to open a new corridor to the European continent to import gas not only from Azerbaijan but the wider Caspian region and the Middle East, including Turkmenistan and Iraq, has dominated the EU's energy policy discourse. Initially, the 3,500km SGC network would transport gas from the giant, BP-led Shah Deniz

field in offshore Azerbaijan, but, ideally, would in future draw supplies from other Caspian and Central Asian countries and even the Middle East, changing the energy map of the whole region. Despite the strong momentum, it has become increasingly challenging to make the case that expanding the SGC makes commercial and political sense for four crucial reasons. The sections below will examine each in turn.

Security of Supply

European Union officials have long argued that TAP could turn out to be a “first step” towards the construction of a Trans-Caspian Pipeline that would bring gas from Turkmenistan (and some day from Iran) to Azerbaijan — and thus help to diversify Europe’s energy imports. The pipeline is designed to be flexible enough to be scaled up if new sources of gas emerge.

For example, Maroš Šefčovič, a former European commissioner for energy, has often hailed the project as “a new source, new supplier, new route, and really new molecules of gas” and argued that the EU would like to see the corridor expanded to take in gas from other states, such as Turkmenistan, Iran, and Iraq.

In 2016, Šefčovič was quoted in the *Financial Times* as saying, “it’s a project which is built in a super-strategic area, very rich in hydrocarbons, very close to Turkmenistan, Iran, northern Iraq. [...] The guys who are developing Israeli, Egyptian, or Cyprus gas fields are also looking at this pipe as a [...] potential [delivery] route.” TAP and connected pipelines could, indeed, become a route for other new suppliers. For instance, Turkey’s 2020 big discovery of natural gas in the Black Sea has prompted analysts to argue that the size of the provisional find would be significant if it proved to be commercially viable.

Due to the geopolitical quandaries involved in East-Med gas and the uncertainty over the profitability of Turkey’s discovery, though, in the short-term the SGC is only likely to increase in volume if and when low-cost supplies from Iran and Turkmenistan come on-stream. But low-cost Iranian or Turkmen gas is far from being available. Therefore, one major risk linked to the project’s expansion is resource availability—in other words, the ability to demonstrate a steady, balanced, long-term flow of gas. It appears that the SGC team is yet to take steps that would secure the gas necessary to fill any expansion of the pipelines. Thus

far, only Azerbaijan has gas reserved for Europe. Iran’s gas is off the table due to the effects of American sanctions. Direct European access to Turkmen gas is not likely to become a reality in the near future for a variety of reasons, not the least of which involve China’s increasingly competitive

offers to take the gas in the other direction, the unproven feasibility of an undersea Caspian route, Russian and Iranian opposition to the whole project, and a combination of low market prices and high transit costs involved. Earlier in 2021, Azerbaijan and Turkmenistan signed a landmark agreement to jointly develop a long-disputed Caspian gas field, a move that could, in principle, pave the way for the transit of Turkmenistan’s massive gas reserves to Europe. In practice, however, most observers stress that an undersea gas pipeline across the Caspian Sea to take gas from Turkmenistan would still be “difficult” due to the above-mentioned factors.

Expanding the SGC project is, of course, less commercially attractive in a lower price environment,

Earlier in 2021, Azerbaijan and Turkmenistan signed a landmark agreement to jointly develop a long-disputed Caspian gas field, a move that could, in principle, pave the way for the transit of Turkmenistan’s massive gas reserves to Europe.

which is why SOCAR’s Nassirov has said that “it is in the interests of everybody to find these additional low-cost volumes, which would make the pipeline’s expansion both commercially viable and politically interesting.” The result of the current lack of additional gas molecules to fill

the SGC’s planned expansion may be that Russia’s Gazprom—which has been in intense competition with these EU-backed projects to supply more gas to the EU’s lucrative markets—is coming to be viewed as a candidate that could still make the expansion feasible, if not very profitable. “The more gas in the pipeline, the more profitable it becomes,” Nassirov told me in an interview. “It is not accurate to say that Azerbaijan plays games to keep competitors at bay. More gas only adds to economic profitability.”

The Role of Russia

The EU, supported by the U.S., has long insisted that the SGC has advantages over Russia-backed pipelines, as it will bring gas from a new source. But the politics

surrounding the SGC are turning Russian gas, ironically, into a potential justification for the economics of expansion.

When BP first committed to bringing new gas volumes to Europe, it pledged to do so through a secure corridor and at a competitive price. But the SGC has yet to secure the gas needed to justify the scalability of the funded pipelines, which could, in principle, swiftly be increased in capacity to supply gas from other fields as well. While taking gas from Russia would run counter to EU energy

objectives to diversify gas supply away from Russia, the European Commission may struggle to find a legal basis to challenge such a proposition. Under EU law, pipeline operators are obliged to grant third-party access or specifically seek exemptions from this. While an exemption was granted for the first phase of Shah Deniz development to take on Azerbaijani gas only, TAP and TANAP will likely both need to apply the key principles behind the EU's energy laws in case any expansion occurs. These include

transparent pipeline operation, non-discrimination in setting fees, third-party access, and separation of supply and transmission. At the moment, Gazprom does not appear to be signaling that it is seriously considering this route; at the same time, the company has repeatedly floated the idea of TAP as an alternative export route for Russian gas.

Nassirov says that SOCAR does not view Russian gas as a rival and has pledged there will be no political obstacles to Gazprom's participation in feeding an expansion of the SGC, "should the EU not ob-

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ject it." As such, according to Azad Garibov, an analyst specializing in Caspian affairs at the Jamestown Foundation, Russian gas in the SGC seems to be an alternative that could make expansion commercially viable without provoking backlash from Moscow. Russian gas is typically low-cost, which makes it very competitive. This explains why the economic case for Russian gas supplies has typically been received more favorably than the current state of geopolitical standoff might otherwise suggest: despite

the Ukraine crisis, EU member states imported about 170bn cubic meters of Russian gas by pipeline in 2018, about 37 percent of their total consumption, according to BP's 2019 *Statistical Review of World Energy*. Russia's role aside, SGC's expansion may still face other problems. Another question mark is the geostrategic risk related to transit.

Transit Risk and Security of Demand

Involving seven countries and 11 companies, the marathon project has been described by BP as the global oil and gas industry's "most significant and ambitious undertaking yet." Political and cross-border uncertainties are among some of the key risks during the development phase of a major pipeline. Consensus amongst governments can at times be difficult to reach due to differing priorities among the various countries involved.

As the SGC runs only a few kilometers from Nagorno-Karabakh and South Ossetia, the uncertain economic rationale of expanding the SGC—especially as gas demand in the destination markets is not expected to grow—is compounded by the geopolitical risk of relying on a number of volatile transit countries, not least Turkey.

Turkey's and Russia's involvement in the Nagorno-Karabakh conflict, Iran's proximity, and the presence of major strategic oil and gas pipelines all make this a region a place where a local flare-up could quickly turn into an international headache. Potential funders of the project's expansion will evaluate if and how it is possible to overcome the very large potential transit risks linked to the project.

In addition to the supply, transit, and technical risks of any major pipeline project, risks such as security of demand (which may be variable due to changing environmental and social priorities) must be considered early in the development stage of such a large-scale undertaking of expansion. As mentioned, gas demand may be subject to abrupt shifts. The TAP is a good, albeit modest, answer to the growing gas need in Europe in the next couple of decades. However, according to the IEA's 2019 *World Energy Outlook*, by 2040 demand for gas is expected to sharply decline in the European Union despite the depletion of indigenous sources. This casts more doubt about the project's expansion.

Two game-changing events have recently altered global politics in fundamental ways and reordered the world, as it were, from the

perspective of hydrocarbon producers. *First*, the shale revolution has fundamentally eroded hydrocarbon industry profitability. *Second*, the renewables' revolution will continue to depress growth in demand for fossil fuels. The combined result has put the profitability of the entire global hydrocarbon industry under pressure. As U.S. energy expert Meghan O'Sullivan noted in a Spring 2020 *Bloomberg* column, history has shown that a big change in energy markets often precipitates a big change in geopolitics. For instance, the shift from coal to oil catapulted Middle Eastern countries to strategic significance. And the recent technology-driven boom in shale oil elevated the United States to net oil exporter status, changing its outlook on the importance of oil in global affairs.

Similarly, the world now also faces one of the largest shifts in the global oil and gas industry, which could impact directly on SGC expansion plans. For one, the collapse in oil prices induced by the shale revolution complicated things for the SGC. But the larger long-term disruption has had not so much to do with a cyclical fall in oil prices,

but rather with the energy transition—a secular shift that places a strong emphasis on promoting energy efficiency and the development of renewable energy. It is this trend that explains a lower appetite for big hydrocarbon investments among the world's oil majors.

In December 2019, the EU unveiled its Green Deal, aimed at creating the world's first carbon neutral continent by 2050. The Green Deal envisions a power sector based

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largely on renewable sources, the rapid phasing out of coal, decarbonization of gas, and a focus on energy efficiency. Over the next few decades, mounting pressure

to take action on the threat of climate change may be the single most important factor in deciding the fate of SGC expansion.

A Bridge Fuel?

Gas is sometimes referred to as a “bridge fuel,” in the sense that it can be a lower-carbon option to help the transition from a coal-burning past to a renewable energy future. This explains why Azerbaijan has tried to reinvent itself as a leading producer and

transit hub for natural gas—a process concurrent with the terminal decline of the Azeri-Chirag-Deepwater Guneshli, the enormous field offshore in the Caspian Sea, whose development since 1994 had spurred Baku's previous oil boom.

Yet the world market for gas, too, has shrunk by more than 10 percent in the past decade and is liable to decline further as climate policies accelerate the switch to renewables. Furthermore, in an era of shale gas-induced abundance, global competition over the EU's gas market is fierce: with LNG imports increasing, and Russia determined to dominate the European market, there is no shortage of supply. In addition, the outlook for SGC's enlargement could worsen as renewables become cheaper and more accessible over time.

That said, as long as at least some fossil fuel power plants are needed to back up variable generation from wind and solar—and during the indeterminate period that will see homes and businesses switch to electricity for heating—there will still be demand for imported gas in the European Union (especially as the domestic sources held by member states are rapidly depleting).

Some EU countries may still argue that additional supplies of Caspian

gas are not required, as the EU expects additional gas to be available from the construction of liquefied natural gas terminals, and through the Nord Stream II project from Russia. In the long run, as gas competition over Europe's oil and gas market tightens, existing trading relationships will fall away. In that sense—and not unlike Russia and other fossil fuels supplying countries—Azerbaijan finds itself in a buyer's market that it cannot control. All this explains the gradual pivot to the east—in investments, and perhaps, in the future, also in the energy trade.

The Role of China

As political scientist Farid Guliyev argues in a 2019 essay published in *Energy Policy*, existing scholarship appears to have overlooked the deep shifts in the Trump Administration's energy policy and the long-term consequences for the global energy system. America's shale revolution—which keeps oil prices low due to a global oversupply—and the implementation of the EU's climate agenda has made long-term projects for the import of fossil fuels such as the SGC largely redundant. So far, Joe Biden's policies do not appear to run contrary, in a fundamental way, to those of the previous

administration in this regard. Guliyev goes on to observe that in the absence of investments by Western oil companies—and given the lack of U.S. and EU leadership in developing new energy projects—Caspian energy producers, with the exception of those in Azerbaijan, are looking to China and other Asian countries for export markets.

Azerbaijan is an interesting case in this context: the government in Baku has borrowed billions of dollars from Western lenders to build a network of gas pipelines (e.g., TANAP and TAP) to ship its gas to southern Europe—an endeavor that also perpetuates the country's dependence on revenues from conventional fossil fuels. The country still remains the only exception in the regional panorama in terms of its commitments to westbound export markets for its fossil fuels. However, more recently, Chinese lenders and the AIIB have loomed large in the list of financiers from which Baku has borrowed billions: so even though Azerbaijan is not actively looking to China (as yet) for pipeline export markets, it had taken on Chinese debt during the boom in commodities prices, while its finances are particularly vulnerable to plunging commodity markets today.

In the past five years, the U.S. has turned into a major exporter of oil and natural gas, which has had far-reaching implications for the global energy order. As Guliyev contends, this new energy order also means a lower demand within the West for Caspian fossil fuels. For the resource-rich countries of the Caspian basin, these trends have fed a strong Chinese presence and a more permanent tie-up to Beijing. Yet, as seen from the perspective of the recipient countries, Beijing's strong push to assert influence is by no means an unmitigated blessing. On the one hand, some of the Caspian countries have become more vulnerable to kleptocratic state capture; on the other hand, there has been much debate whether China's regionalism in Central Asia—and in particular BRI—reflects debt trap diplomacy that has left many host countries mired in debt.

A 2018 article by Mehdi P. Amineh and Melanie van Driel entitled *China's Statist Energy Relations* epitomizes the position of those who argue that China's growing economic interest in the oil-rich nations of Caspian basin should come as no surprise, as Beijing's domestic power-wealth structure relies on uninterrupted foreign (energy) supplies. Within the larger region, Azerbaijan sits on a geopolitical

fault line between west and east and is gaining in importance as an energy transit route and as a hub between European and Asian markets. As such, Azerbaijan has become increasingly alluring to China, along with more established players such as the EU, Iran, and Turkey as well as Russia and the United States.

China's hydrocarbon investments and "greening" efforts within the Silk Road region must be viewed in light of its long-term effort to meet its energy needs, curb pollution, and set itself at the forefront of clean technology investment at home and abroad. While Western IFIs investments in Azerbaijan persist, a related domestic political development is worth noting here. As Meghan O'Sullivan notes in her 2017 book *Windfall: How the New energy Abundance Upends Global Politics and Strengthens America's Power*, domestic efforts by the United States to style itself as a "global energy superpower" have boosted global supplies of hydrocarbons. At the same time, global demand has withered due to Western policies favoring decarbonization and a change in

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consumer behavior, mirrored in consumers' willingness to pay for clean energy, thus creating new opportunities and jeopardizing traditional business models.

These developments are likely to make expansions of Caspian oil and gas pipeline projects targeting the EU market prohibitively expensive, revealing an interaction between domestic politics and international bargaining that, in the field of international trade, has been discussed under the rubric of U.S. political scientist Robert Putnam's two-level games.

Two-level Games and Stranded Assets

The \$40bn, 3,500km SGC conduit is one of the biggest infrastructure projects in the global oil and gas industry. Today, however, the geopolitical calculus around this large gas corridor has changed—not only do the U.S. and Russia compete in global hydrocarbon markets but Azerbaijan, too, has become a potential competitor for the U.S. and Russia in the lucrative EU gas market. It

remains to be seen whether America's new energy prowess and the EU's climate agenda will affect the eagerness of Western IFIs to finance the long-discussed expansion of the SGC.

A more likely scenario is that these large infrastructure investments become stranded as the EU transitions away from fossil fuels in an increasingly well-supplied gas market where lower-costs suppliers such as Russian piped gas, Qatari LNG, Yamal LNG, and American LNG ferociously compete for market share. Here we come to the term "stranded assets." The International Energy Agency defines stranded assets as "those investments which have already been made but which, at some time prior to the end of their economic life, are no longer able to earn an economic return." Vast swaths of Caspian oil and gas reserves may never be extracted because doing so would intensify global warming as foreign policymakers, fossil fuel companies, and leading thinkers come under increasing pressure to

consider how the world will change in response to this very phenomenon.

Globally, the U.S. is the largest combined shareholder of leading multilateral development banks (MDBs), including the World Bank, the Asian Development Bank (ADB), and the EBRD. It bears watching whether in the upcoming tranches of infrastructure

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financing there will be any observable decrease in Western development monies allocated to the SGC. If so, this would support an argument about *how* the waning interest in financing the region's hydrocarbon projects is reflective of changes in America's domestic energy policy as well as transitions to low-carbon energy sources and renewables in Western Europe, both of which are reshaping the global energy order. This, in turn, would draw attention to the domestic sources of multilateral trade cooperation through the logic of two-level games.

In a 2013 article published in *World Politics*, political scientists Daniel Mao Lim and James

Vreeland, indeed, show that regional hegemony do not hesitate to use their power in multilateral organizations to advance unilateralist foreign policy objectives. Similarly, in their recent analysis of China and Japan's role in Asia, political scientists Saori N. Katada and Jessica Liao argue that powerful states often use tools of economic statecraft to establish regional leadership. In a 2015 article published in *International Studies Quarterly* entitled "Oil and International Cooperation," scholars Michael Ross and Erik Voeten indicate that the more states depend on oil exports, the more unilateralist they become. Besides reflecting new dominant ideas on sustainability within the West's policy discourse, any abrupt decrease in Western investment in SGC hydrocarbons would also reflect the material domestic priorities of relevant actors able to call the shots within Western MDBs, such as the United States (a situation reminiscent of the Chinese "greening" tied to domestic priorities of combating "air pollution.")

With oil prices falling (coupled with energy-transition related difficulties), Baku is rethinking how it will fund a possible expansion of the SGC project. Should Azerbaijan and China's interests align in the future, one should not

rule out a more prominent role for Beijing in the country's hydrocarbon investments, given that China's ruling class continues to recognize a connection between the domestic economy and the economies of resource-rich countries.

The Pandemic's Disruptive Effects

Adopting carbon friendly policies may not suit countries that depend on oil and gas for government revenues but suffer less pressure to change their behavior from the investment community. Azerbaijan is one such country. Global secular trends in "greening" are, however, now concurrent with an ongoing crisis that may have lasting market and geopolitical implications for hydrocarbon producers: namely, the coronavirus pandemic. According to Russian economist Tatiana Mitrova, it is highly likely that the effects of COVID-19 will amplify and accelerate trends for decarbonization, especially in Europe, Azerbaijan's main export market.

Some analysts go on to add that the instability of the oil market could hasten a structural shift toward renewable energy by making traditional fossil fuel companies less attractive to investors. While

renewable energy projects typically generate lower returns than oil and gas exploration, they also offer long-term price stability that would become more attractive in the current market. As Mitrova notes, there are already increasingly vocal calls from governments and international organizations to adopt a low-carbon approach to restarting the economy.

Azerbaijan is a prime example of a shift in energy power from producers to buyers, and the country is especially vulnerable to such *external shocks*—a situation cemented by the oil boom of the 2000s that made it even more dependent on oil and gas. The combined effect of the secular decline in global oil prices and the coronavirus pandemic (which halved gas prices and reduced oil prices by a third) seriously damaged Azerbaijan (at least in the short-term), as oil and gas revenues make up 45 percent of the country's economy.

Structural reforms undertaken since the drop in oil prices in 2014 may help to mitigate the impact, but for the state budget, the slowdown in fossil fuels exports meant a sharp hit and a may force a rethink of the country's established economic model. The Second Karabakh War also put a strain on

state coffers, all of which may now force a geopolitical reset.

Given that fossil fuels are still very much seen as the basis of China-powered growth, one should not rule out an enlargement in the scope of BRI-driven engagement in Azerbaijan. Such cooperation could have far-reaching social and political consequences for Azerbaijan, as new transnational clientelist relationships may continue to disproportionately benefit local political elites.

Reordering

Judging by the decreasing cost of renewables and their increased appeal for investors, we may conclude that the current disruption in hydrocarbon markets will reorder some power relationships. In a 2019 edition of the *Caucasus Analytical Digest*, scholars Farid Guliyev and Marco Siddi argue that, guided by commercial interests, Western oil companies have already shown no interest in investing in new Caspian energy developments, and the idea of building a seabed Trans-Caspian Pipeline to connect Central Asia to Azerbaijan remains stuck on paper. It is worth watching how prominent EBRD investments in the hydrocarbons of the Shah

Deniz Gas Field will evolve in light of the seismic changes currently underway in the global geopolitics of energy, and whether any links can be drawn between the international economic statecraft of Western IFIs and the domestic priorities of important stakeholders within their ranks.

In the past, Russia has questioned the feasibility of the SGC. In 2015, Vladimir Chizhov, Russia's ambassador to the EU, described the project as "extremely challenging from a technical point of view" and

"exorbitantly expensive." Then of course it got built. The first phase of the SGC excluded third-party access and went on to take gas only from the Shah Deniz field in offshore Azerbaijan. Any expansion is likely to guarantee third-party access in accordance with EU regulations. Time will tell if Russia will try to join the SGC and, by so doing, use TANAP and TAP pipelines built on the back of billions of, *inter alia*, EU public monies to undermine the European Union's Southern Gas Corridor diversification plan. **BD**

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