

# **Working Paper**

## **Russia makes a move in the Caucasus – and looks beyond<sup>1</sup>**

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## ***Introduction***

The war in South Ossetia was entirely predictable and indeed over-predicted – and still took every major actor, including Russia, by surprise. The guns of August shattered the status quo that had survived the ‘Rose Revolution’ in Georgia in November 2003, a couple of electoral crises in Armenia and Azerbaijan, and indeed the two Chechen wars. Now the US has to assess the risks of renewing military ties with Georgia, the EU needs to hammer out a strategy of meaningful engagement with the South Caucasus – and Russia is taking stock of new strengths and weaknesses of its position, perhaps discovering that the spoils that duly go to the victor are mostly damaged goods.

The war have changed many intricate Caucasian interplays but it has resolved nothing as the status problem of South Ossetia and Abkhazia remains open, and the deep ‘ideological’ conflict between the Putin/Medvedev regime and the Saakashvili regime continues to generate tension. This analysis will not go into the impact of the war on Russia’s political evolution, but will concentrate on the shifts in competing energy policies in the Caspian area, on the emerging new role of the power factor in the Caucasus, and on Russia’s changing guidelines for Iran, Turkey and the Middle East.

## ***The pipelines are safe but the energy business is slow***

The new Russian Foreign Policy Concept approved in July 2008 says next to nothing about energy but in fact the main focus of the foreign policy efforts in the Caspian area in the last few years has been on increasing Russia’s access to the hydrocarbon production and control over their transportation. It is remarkable in this context that the clash with Georgia had very little direct impact on the flow of Caspian oil and gas to the world markets. Having a perfect opportunity to destroy the Baku-Tbilisi-Ceyhan (BTC) pipeline, which is a symbol of Western engagement with the region, Moscow refrained from any sabotage.<sup>2</sup> The signal to the Western oil ‘majors’ as well as the governments was clear: The energy business is too serious to expose it to the risks of local wars.

Russia quite possibly has achieved more in the mid-term oil-&-gas manoeuvring by demonstrating restraint than it would have by temporarily choking the Georgian ‘corridor’. Now it can swiftly redouble the efforts at opening a new oil channel out of the Black Sea – the Burgas-Alexandroupolis pipeline by-passing the Bosphorus – that would take the bulk of the Kashagan production in Kazakhstan. It can also advance the *South Stream* project from Novorossiisk to Varna for delivering to Europe new Caspian gas, including from Azerbaijan, which has received very tempting offers from *Gazprom*. These reliable routes would seriously diminish Georgia’s importance (while greatly

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<sup>2</sup> On BTC’s geopolitical profile see S. Frederick Starr & Svante E. Cornell, *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West*. Washington: Johns Hopkins University, 2005. During the war, the pipeline was closed because of an explosion in Turkey.

increasing Bulgaria's profile), particularly since its attractiveness for investment has been seriously compromised.

The problem with this Russian energy policy that connects perfectly with the growing 'energy nationalism' of Caspian petro-states is that the development of hydrocarbon resources noticeably slows down. Russia's own oil and gas sectors have reached a plateau, and the delays with drilling in the Northern Caspian fields add to this trend. Kazakhstan increases pressure on the Western companies developing Tengiz and Kashagan, demanding greater share of profits, and Azerbaijan might open for revisions the production-sharing agreements from the 1990s. Turkmenistan keeps promising plenty of gas to every suitor but has signed only one contract for developing 'green fields' – with China. The producers share the perception that there is no need to rush the extraction since the value of their resources is only going to appreciate. That could create a situation when Russia's transport capacity would exceed the amount of product, so Moscow would be able to bargain down the transit costs – and put pressure on Georgia and Ukraine.

### ***Temptations for Russia in the power-play in the Caucasus***

The war has inevitably brought the power factor to the forefront of political interactions in the Caucasus, and that gives Russia a distinct advantage over the US, while the European 'soft power' might take years to reassert its relevance.<sup>3</sup> It was back in the early 1990s that Russia was able to establish dominance in conflict management relying on its military power, but since then diplomacy of international organizations and activities of various international NGOs, the inflow of Western investments and the revival of tourism have transformed and 'softened' the nature of Caucasian politics.

Russia became a status-quo power, in no small degree due to the burden of the second Chechen war and the profound destabilization of the North Caucasus that required a sustained 'counter-terrorist operation'. The situation has started to change since mid-2006 as Ramzan Kadyrov consolidated his control over Chechnya, and during 2007 insurgencies in Dagestan and Kabardino-Balkaria lost their drive. Moscow in the meanwhile continued to build up military muscle deploying new mountain brigades in the North Caucasus and increasing combat training. For the first time since 1994, Russia had available combat capabilities – sufficient for defeating the poorly-led Georgian army.

Russian losses were minimal and no burdensome tasks in securing the de-facto independence of Abkhazia and South Ossetia have been added, so Moscow would continue to enjoy the ability to project irresistible power across the Caucasus in the near future. Georgia would remain the most immediate subject for this pressure, and its plans for rebuilding its army with Western help involve considerable risks. NATO might feel obliged to grant Georgia the Membership Action Plan (MAP) but the Alliance has to evaluate the possibility that a next clash might involve a 'candidate' country – and in the

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<sup>3</sup> One balanced analysis is S. Neil MacFarlane, 'The Crisis in Georgia', *Strategic Datalink*, Canadian Informational Council (<http://www.igloo.org/canadianinternational/publicatio~2/strategicid>); an insightful view is Thomas de Waal, 'Caucasus Burning', *IWPR Caucasus Reporting Service*, 19 August 2008 ([http://www.iwpr.net/?p=crs&s=f&o=346251&apc\\_state=henpcrs](http://www.iwpr.net/?p=crs&s=f&o=346251&apc_state=henpcrs)).

not too distant future, a member-state. The reality of preponderate and hostile Russian power will be acutely felt in Georgia and might stimulate a rise of secessionism, particularly in Ajaria and Armenian-populated Javakheti.

Azerbaijan, which refrained from expressing any support to Georgia in the conflict with Russia, will also have to take into account the reality of Moscow's new readiness to exploit its heavy-impact military instruments. That might discourage Baku from pursuing the intention to 'buy' itself an army capable of winning back the lost territories and perhaps even the Nagorno Karabakh, which is tightly integrated with Armenia.<sup>4</sup> Russia's demonstrated dominance could also discourage Azerbaijan's pro-Western orientation, particularly since there is a perfect political compatibility between Ilham Aliyev's and Putin-Medvedev's 'enlightened authoritarian' regimes.

Maintaining the position of power in the Caucasus might require more flexible instruments than tanks, and Moscow would probably add a few more vessels to the Caspian Flotilla, which is able to show flag right next to the oil and gas-fields disputed by Azerbaijan and Turkmenistan – and to make sure that a trans-Caspian pipeline never becomes a practical proposition. It might, however, be far more difficult to upgrade the Black Sea Fleet, which was quite active during the war with Georgia – and thus possibly sealed its future. Ukraine – whatever turns its domestic politics might take – will insist on withdrawing the Russian naval base from Sevastopol by 2017, and building a new one in Novorossiisk is a hugely complicated task, not least because of the sprawling oil terminals. A usable naval superiority in the Black Sea and occasional Mediterranean tours might become unsustainable.

### *Intrigues or interests in the Middle East?*

The visits to Moscow of Turkish Prime Minister Recep Tayyip Erdogan and Syrian President Bashar al-Assad in the days when Russian tanks stood just outside Tbilisi demonstrated that the resonance of the war did spread southwards. Moscow is keen to exploit its strengthened positions in the Caucasus for boosting influence in its immediate neighbourhood – Iran and Turkey – as well as in the Middle East. This influence is based not on Russia's reconstituted military strength but on the fact that it inflicted a humiliated defeat to a US ally and then brushed off the idle threats from Washington.

Turkey is certainly a NATO member and is bound by Atlantic solidarity; its rift with the US, however, caused by the war in Iraq, goes deep and determines a different approach to relations with Russia. Turkey had provided assistance in reforming the Georgian army prior to the war, but in principle it is more interested in building ties with Turkic-speaking countries, first of all Azerbaijan. Russia showed sensitivity to Ankara's concerns and refrained from any airstrikes or naval operation against Batumi, the Georgian port close to the Turkish border. Economic ties between the two states have evolved from semi-legal 'shuttle trade' to massive mutual investments, but as far as energy is concerned, Moscow now seeks to avoid transit through Turkey, much to Ankara's chagrin. The key security problem for the near term could be not the lifting of

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<sup>4</sup> See Oleg Vladykin, 'The point of no return is close', *Nezavisimaya gazeta*, 4 July 2008.

Turkish blockade of Armenia but the recognition of Abkhazia's independence, which Ankara might be convinced to consider in exchange for Russia's support on the Cyprus problem and on Turkey's possible moves into Northern Iraq.

Russia's course towards Iran has been highly ambivalent as the goals of cultivating 'good-neighbour' ties and of contributing to Western efforts aimed at terminating the Iranian nuclear program have worked strictly cross-purpose. The sharp deterioration of relations with the US caused by the war with Georgia will quite possibly prompt Russia to curtail the cooperation in non-proliferation and thus increase the emphasis on rapprochement with Iran. Moscow would certainly prefer to see the controversial nuclear program to remain strictly civilian, but a nuclear-armed Iran would hardly pose a greater security risk than Pakistan, and the Russian leadership is prepared to accept such a prospect.<sup>5</sup> The export of conventional arms to Iran might increase, but the key question will be about *Gazprom's* involvement in developing huge gas-fields in Iran, since Tehran is interested in exporting its gas to Europe – and *Gazprom* could have different ideas.

As for the Middle East, Russia has been cautiously opportunistic seeking to maximize the advantages of its uniquely impartial role of a party that is able to talk with both Israel and Iran and even with 'untouchables' like *Hamas* and *Hizballah*. Moscow is showing little of the Soviet 'generosity' even to 'old friends' like Syria and agrees on cancelling bad debts in exchange for strictly commercial terms in new contracts. Its particular attention to Algeria and Libya is not quite reciprocated, as both states aim at expanding their ties with Europe. Playing with the idea of a 'gas OPEC', Russia is not keen to further cooperation with the real OPEC, preferring the position of a 'free rider'. Besides arms markets, Russia is very interested in the plans for building nuclear reactors that are contemplated by many Arab states – but here its nuclear cooperation with Iran is not necessarily an advantage. Taking a defiant stance against the US, Moscow might have scored a few points with the Arab 'street' but the governments have a good measure of the limits of Russia's engagement.

### ***Conclusions***

In the aftermath of the Caucasian war, the US expressed an intention to 'punish' Russia and NATO declared that there would be 'no business as usual', but the net result of these tough words was a greater failure of Western policy towards Russia. In the Caucasus, Moscow now has every reason to believe that no effective containment of its power projection could be mastered. The states of the region, including the traumatized Georgia, will have to adjust to the new reality of Russia's dominance and find ways to accommodate the obstinate quasi-state actors. As new channels for transporting the Caspian energy would open towards Russia and China, the geopolitical importance of the Caucasus might decline, but for Moscow this region will continue to be of vital importance. Russia now has the ability to supplement its military might with economic strength and to put into play some other elements of 'soft power', so it is only the arrogance of supremacy that might derail its post-imperialist magnification.

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<sup>5</sup> See Andrei Frolov, 'Iran's Delivery System Capabilities', *Security Index*, Summer/Fall 2007, pp. 31-50.

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