

Life is a dream: EU governance in the Southern Caucasus

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Introduction

Expectations put forward in the developments of the Southern Caucasus (e.g. Cornell and Starr, 2006), at least in relation to Georgia (e.g. Lynch, 2006; Mitchell, 2009), in the mid-2000s for greater democratisation, economic openness and conflict resolution linked to a greater engagement from the European Union (EU) seem to be waning. If anything, adjectives such as disorder, authoritarianism, corruption and ethnic conflict still feature high when analysts describe the region. Likewise, internal and economic difficulties within the EU as well as conflicts among member states on how to engage with Eastern European neighbours represent important obstacles for more assertive EU policies towards the region (e.g. Ágh, 2010; Cichocki, 2010; Lussac, 2010a; Wolczuk, 2010). In short, the EU suffers from lack of generosity and confidence when engaging its Eastern neighbours, which in addition to the difficulties of the region, often translates into frustration between the EU and SC countries. This is, however, to a great extent a reflection of the high expectations generally set in the role of the EU as an international actor and its capacity to prompt important domestic reforms leading to democratisation, better governance or economic reforms (e.g. Leonard, 2005; Grabbe, 2006; McCormick, 2007).

If we pay attention to the not irrelevant issue that the EU is little more than a project for creating a functioning common market and dealing with the externalities of the latter (Moravcsik, 2002: 607), the picture that emerges about the potential of the EU in world politics is more nuanced. In the terms of this sober view, away from grandiose hopes of «Europeanising» (EU-ising in a stricter sense) the whole continent and beyond, this article aims at overviewing the EU's governance towards the Southern Caucasus (SC) and investigates the degree of impact it is having on the region. In particular, it analyses two policy areas that feature high in the agenda of bilateral and regional cooperation between the SC countries and the EU and that imply important regulatory adaptation: economic relations and access to the EU's single market; and energy security.

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EU policies towards its Eastern neighbourhood, where the SC is encapsulated, can be characterized by a tension between European Commission's approaches and member states' interests in the region (and very especially in relation to Russia) (Cichocki, 2010). The former can be defined as a universal way of extending internal EU institutional arrangements, mainly the projection of EU rules and norms at specific policy or sector level, conceptualised as EU «external governance» (e.g. Lavenex, 2004; Weber et al. 2007; Gänzle, 2009; Lavenex and Schimmelfennig, 2009). In contrast, preferences of member states represented in the Council of the EU towards a specific region or country do not always coincide with the Commission's efforts in developing an EU external policy (Keukeleire and MacNaughtan, 2008).¹

In terms of the Eastern neighbourhood, the overlapping and confusing nature of myriad regional initiatives of the EU, such as the European Neighbourhood Policy (ENP) (bilateral), the Eastern Partnership (the Eastern branch of the ENP that adds up possible multilateral arrangements), the Black Sea Synergy or the Northern Dimension, can be seen through those lenses. Indeed, the largest member states have traditionally been reluctant to give too much autonomy to the EU in order to deal with the Eastern neighbourhood and the Southern Caucasus in particular, in order to manage relations with Russia and the SC countries without EU interference (Lussac, 2010a). As a result of the 2004 enlargement, however, whereby countries such as Poland or the Baltic states with the support of Sweden lobbied for a more assertive and coherent common EU-focused approach towards the East, and the dynamics set out by the ENP and domestic changes in the region (mainly the colour revolutions in Ukraine and Georgia), we can observe the establishment of institutionalised and far-reaching cooperation between the EU and SC countries. Having in mind such processes and a sober evaluation of the limited role the EU can have in shaping domestic developments, this article will look at policy-level cooperation in order to map the degree of reforms and dynamics set out by the ENP and the Eastern Partnership (EaP) in the region. The first section will conceptualise and map EU policies towards the Southern Caucasus and how the EU operationalises sectoral cooperation in order to frame the subsequent empirical analysis at policy level. The article will then move to set out how the SC countries position themselves regarding cooperation with the EU and will finish by an empirical illustration of EU-SC countries in the economic and energy sectors.

1 Empirical work in context of the Eastern neighbourhood on this issue has been carried out mainly on the fields of conflict resolution and defence and security policy (e.g. Popescu, 2011 or Huff, 2011). I thank the reviewers for alerting me of this point.

EU governance in the Eastern neighbourhood and the Southern Caucasus

EU external relations towards its neighbourhood can be depicted as the aim of extending EU influence through a deliberate effort to export its model of socio-economic and political cooperation (Magen, 2007: 373). The main characteristic of EU external relations is the establishment of structured and systematic arrangements with third parties, be they states or international organisations, via bilateral and multilateral agreements that formalise different degrees of relationships according to the aspirations of both the EU and third parties (Keukeleire, 2003; Magen, 2007). According to Youngs (2005), the notion of «transformative engagement» defines this overarching character of the EU relations within the context of the ENP and other arrangements with neighbours. ‘Transformative engagement’ implies the:

establishment and development of formal comprehensive ties incorporating regularised cooperation, dialogue and monitoring (bolstered by financial assistance, technical aid and conditionality) on a broad range of subjects [...] with the aim of affecting far reaching economic, political and social change in targeted countries (Magen, 2007: 375).

Although the qualifier «transformative» implies that the EU will indeed transform partners and this is hardly the case, the notion of ‘engagement’ as an institutionalised and long-term process of relations captures the nature of the EU’s «actorness» in its near abroad. The enlargement policy, the European Neighbourhood Policy (ENP) and other association and partnership agreements are the reflection of this structured approach.

In the case of the Eastern neighbourhood, it was not until the 2004 enlargement that the EU did not consider upgrading and deepening its institutional and formal relations towards the area. Therefore, and especially in relation to the SC, the seeds of a meaningful «engagement» did not start until the establishment of the ENP, although relations between the EU and the SC countries are formally regulated by Partnership and Cooperation Agreements (PCAs), which entered into force in 1999 and are rolled over until the signature of a new agreement. Such PCAs were common to all former Soviet republics, with the exception of the Baltic countries, and despite some differences in the case of Ukraine and Russia, whose PCAs had a slightly higher degree of institutionalisation, the legal framework of cooperation was very similar. In short, they were not very ambitious and even fell behind in terms of institutionalisation and legal scope than the Association Agreements offered to the Southern Mediterranean neighbours after the launch of the Barcelona process (1995).

The eastwards enlargement of the EU in 2004 brought to the fore the need of deeper engagement with the new Eastern neighbourhood. The immediate response was to develop the ENP, originally targeted at Belarus, Moldova and Ukraine in the 2003 concept paper «Wider Europe», but extended to the whole neighbourhood, although not initially to the SC. It was only the 2003 Georgian Rose Revolution that opened the gates of the SC to the ENP. The election of a vocal and energetic reformist government in Georgia in addition to the interests of new member states such as Poland and the Baltic states (Zaborowski and Longhurst, 2003), allowed such extension to the SC of the ENP in early 2004. Such evolution reflects the lack of interest of the EU-15 in the SC as a whole.

The original ambition embedded in the ENP was to regulate relations with all neighbours by extending EU governance to different policy areas in order to manage interdependence between the EU and its neighbourhood (Ágh, 2010: 1251; Dimitrova and Dragnova, 2009). Initially, the ENP was based on the principles of expanding its regulatory and institutional boundaries (Prodi, 2002; Lavenex, 2004); that is, managing areas of common interests in terms of the EU's internal legal framework as well as offering the EU's *acquis* and regulatory policies as a template for economic modernisation (Wolczuk, 2010) – since the ENP was mirrored in the EU's enlargement policy (Menon and Sedelmeier, 2010). In that sense, the «external governance» approach has dominated recent debates on the way the EU aims to project its rules and norms when cooperating with neighbours at specific policy or sector level (Bosse, 2010), which captures the Commission's approach in offering EU internal arrangements as a universal valid way of organising and framing policy governance.

A considerable shortcoming of the «external governance» approach is the lack of attention in EU member states' interests when considering political and regional conditions, and very especially neighbouring states' preferences and domestic developments, which may oppose (but also reinforce) EU policies. No less important is the issue of the legitimacy of EU rules and norms as a template for development, both in terms of their policy content itself, but also the hegemonic character of the promotion of internal arrangements that a core group of rich countries have developed throughout decades in order to create a common market. In that light, EU governance can take different degrees of institutional formalisation and of legal adjustment according to not only the degree of internal formalisation of an EU policy area, but also in terms of member states' interests and neighbours' preferences (Bosse, 2010). In light of the aforementioned tensions, the political and economic interests of member states, the clarity of the EU's *acquis* in a certain policy area, and how the latter relates to constitutive principles of the EU such as trade and single market issues, will produce different types of hierarchical arrangements with variable degrees of conditionality (Harpaz, 2007).

In view of the conceptualisation of the EU's external relations as a long-term dynamic of engagement, the ENP and the EaP can be seen overall as a process of varying degrees of cooperation at different policy-areas, rather than a process of governance which provides certain incentives linked to clear rewards in a specific timeframe. There does not exist a clear *finalité* (Wolczuk, 2010), and therefore, as a general rule, the ENP would be based on socialisation mechanisms in order to affect domestic policy change in the long term rather than conditionality (Sasse, 2008).² However, this does not imply that there is not the possibility for the EU to project hierarchical governance based on conditionality linked to clear rewards – although this will very much depend on how neighbouring countries perceive the latter, and therefore bilaterally-agreed agendas of cooperation in the framework of the ENP should take into account domestic conditions and ambitions. One of the most demanding areas of adjustment for third countries in their relations with the EU is access to the single market. In the context of the ENP, and a requirement for signing the Association Agreements (AAs) currently being negotiated, the EU offers the SC countries the possibility of finalising Deep and Comprehensive Free Trade Agreements (DCFTA) in exchange of the regulatory adaptation based on EU single market rules. DCFTAs, in addition to a free trade agreement in goods, also imply establishing free movement of services and capital. Ideally and in the long term, once Eastern neighbours have signed AAs and finalised their respective DCFTAs, the EU would create an economic area similar to the European Economic Area.³ If the agreements are completed, the whole European market will be open to the SC countries.⁴

However, the process of signing a DCFTA is a complex and painful process conditional to the adoption of not only clear rules mainly related to the *acquis*, but also to international norms such as WTO, IMF or ILO provisions. In contrast, «external governance» characterises the EU's approach in energy relations towards the region, although member states' interests, especially regarding relations with Russia, and the dominant role of the EC's DG-Energy, affect the overall effectiveness and coherence of a common EU approach (Lussac, 2010a). As aforementioned «external governance» is characterised primarily by cooperation and the expansion of EU internal regulatory and legislative arrangements, but without conditionality and, hence, a less strict adaptation with

2 Although some important member states such as the UK and Poland insist that the implementation of the ENP Action Plans in Eastern Europe and the EaP can be considered as a preliminary step for becoming candidate countries.

3 The EEA allows [Iceland](#), [Liechtenstein](#) and [Norway](#) to participate in the [EU's single market](#) without being [EU members](#). In exchange, they are obliged to adopt all EU legislation related to the single market, excepting agriculture and fisheries.

4 Presentation by the team leader of the EU Advisory Group to Armenia, Yerevan, 11/05/2010. Available at www.aeplac.org [last accessed on 01/04/2011].

EU rules and monitoring processes (e.g. Lavenex 2004, pp. 695-696). The aim of the EU in the SC, and the wider Black Sea by extension, is to create a «transparent, secure and stable regional energy market that guarantees the EU's energy security» (Pardo Sierra, 2010: 645). In order to do so, it needs to bring together Azerbaijan, as a producing country, and transit countries, such as Georgia and Turkey, all of them with different interests and located in a politically unstable region. The overall approach is to create a common regulatory framework between the EU and neighbours based largely on the Energy Charter and the EU's internal energy market (Pardo Sierra, 2010).

The Southern Caucasus and EU engagement

We cannot talk of an EU regional and differentiated approach towards the SC. In fact, considering the SC as a homogenous region is stretching the concept too far. Indeed, despite being located in a relatively coherent geographical area, and certainly with some common cultural traits, the SC countries possess enough and deep differences with one and another to be regarded as a part of self-contained region. If we take into account five theoretical inter-related levels that may constitute a region: a «space» as a geographical location; a «complex» as based on inter-state relations characterised by «balance of power»; a «society» with interaction between regional civil society actors within a regional «space»; a «community» as a system of institutionalised international and domestic contacts based on similar values; and a regional «integrated» polity (Ágh, 2010: 1244), the Southern Caucasus can hardly be seen as a region beyond a «spatial» location with countries that struggle for building viable modern states (Mkrtchyan and Petrosyan, 2009). Likewise, local and extended family loyalties are often deeper and stronger than state or national allegiances.

Indeed, the mere establishment of «statehood» seems an exception rather than the norm in the SC.⁵ In that sense, the SC elites have traditionally looked outwards in order to secure their countries' position instead of searching regional cooperation and solutions – and increasingly more difficult given the existence of persistent unresolved conflicts. This means that any EU «regional approach» towards the SC (or where the latter participates such as the Black Sea Synergy), e.g. by replicating the relatively successful Northern dimension, is condemned to failure. For example, EU's attempts to finance and foster regional parliamentary summits with the participation of SC countries members of parliament were abandoned given the difficulties to merely find a «neutral» place to meet and the lack of interest.⁶ In such situation, EU efforts remain at bilateral level despite aims

5 See Suny, 1996 and De Waal, 2010 for introductory overviews on the history of the Caucasus.

6 Interview with the coordinator of the initiative in Georgia, Tbilisi, 08/05/2009.

of creating regional and multilateral platforms. For example, the multilateral dimension envisaged by the EaP in the fields of energy, governance and democracy, economic integration or contacts between people, is still at a very nascent state two years on after the launch of the EaP. Only when the EU's and neighbours' interests clearly converge there has been some success, such as the Energy Community,⁷ although negotiations and approximation to the EU's energy *acquis* has been developed at bilateral level and not regional.

Then, there is little the EU can do in terms of promoting effective multilateral policies given the inter-state dynamics between SC countries (and Russia) characterised by tension, with the exception of Georgia and Azerbaijan – but even these two countries have yet to agree on the final demarcation of their common border. The bilateral focus of the ENP continues to be the norm – with the exception perhaps of the civil society forum created in the framework of the EaP. Therefore, the issue of how SC countries see the added value and efforts of collaborating with the EU, and also how it affects the regional balance of power, is of paramount importance for understanding the success of EU initiatives. It follows then, that EU influence will vary according to different countries *and* sectors.

The concept of «engagement» with the ultimate goal of transforming to the EU's image some elements of domestic governance, impinges upon the notion of «normative power» (Manners, 2002), whereby the EU aims at shaping the values of others. In short, norms can determine and change states' behaviour, and therefore, the EU attempts to project the norms and rules it is founded upon. As aforementioned, legitimacy of the latter will be crucial for the long-term influence of the EU. In the context of the SC, such normative EU power has been inexistent for different reasons. In general, SC countries do not see the EU, rightly so, as a unitary actor able to engage with the security issues of the region (Abushov, 2009). In an area subject to considerable hard security dynamics (internal conflicts, rearmament, or external powers pressures), this is of paramount importance, despite of the danger of perpetuating a security dilemma in the SC as a whole.

At country level, Georgia is the most striking case as it is normally regarded as a pro-Western country with the long-term goal of becoming part of NATO and the EU (Asmus, 2010),⁸ and we would expect a favourable environment for adopting the EU's agenda of reform. This has not been the case and the Georgian government has been vocal, as the next section elaborates, against implementing most of the economic advice

7 The Energy Community led by the European Commission pursues the goal of developing a regional energy market in South East Europe, with the goal of framing the process of extending the energy *acquis* to candidate countries. EaP partners have the choice whether or not to become part of the Community. It is a highly institutionalised institution governed by a Ministerial Council, and with a Secretariat in charge of monitoring the implementation of binding regulations.

8 Although such rhetoric has somehow decreased in recent years.

coming from Europe (Wilson and Popescu, 2008). Driven by a perceived urgent need of obtaining foreign investment, rearming the army and achieving territorial integrity (an experienced observer of the region characterised President Saakashvili as «a man in a hurry»),⁹ the EU was relegated until the 2008 August War to a secondary role not only due to cost-benefit calculations, but also, importantly, because of lack of legitimacy. In contrast, Armenia has opted for pragmatically benefit from what the EU offers in the ENP and EaP (Popescu, 2009). Definitely with a more autocratic political system than Georgia's (Freedom House, 2010), the Armenian elites have opted for collaborating with the technical support and assistance that the EU offers, since they do not ambition «Euro-Atlantic» integration dreams and value close ties with Russia. However, cooperation with the EU, as well as with the US (whose embassies in Tbilisi and Yerevan are the largest in Europe), is a necessary policy in order to avoid total dependence on Russia. However, the Armenian approach is a pragmatic way of dealing with the expectations-capabilities gap that the EU normally suffers (Hill, 1993; 1998), as it values EU support in some administrative and sectoral reforms, as well as better trade and business conditions; or in short: what the EU is able to deliver in the short and medium term.

Deeper obstacles appear in Azerbaijan, where not only member states regard the country as largely relevant because of energy issues, but where also the Commission has tended (especially DG-Energy) to focus its efforts exclusively on that front (Lussac, 2010a). Despite geopolitical difficulties and close relations of important member states with Russia in the energy sector, the EU has managed to establish the foundations for the layout of the Nabucco pipeline connecting the South Caucasus pipeline to Europe and, thus, potentially if finalised, diversify gas supplies (Pardo Sierra, 2010). However, in this picture, EU engagement with Azerbaijan is clearly pragmatic and undermines the possibility of projecting normative power. Despite the cash inflows from gas and oil exports, economic development hardly spreads out from Baku and the Aliyev regime remains autocratic with little options for the development of civil society. Clearly, the ENP and EaP are not attractive as a whole to the regime. Therefore, cooperation in the energy sector is set out in an ad-hoc separate framework: the «memorandum of understanding» between the EU and Azerbaijan signed in 2006. However, the EU has opened with the country, as with the rest of the SC, negotiations for an AA, which in principle are subject to some conditionality regarding more transparent and open governance as well as democratic standards. In other words, conceptualising the EU as a normative power beyond the secure environment of

9 Thomas de Waal, *The Caucasus and Central Asia: Theoretical, Cultural and Political Challenges*, 3-4 July 2009, Caucasus and Central Asia Research Group Conference, University of Birmingham.

the EU is largely a utopian and wishful thinking. Before concluding the section and moving on to the empirical illustration of these debates, the following table summarises the positions of the SC countries regarding their bilateral agenda of reforms with the EU in the context of the ENP and EaP.

Table 1. SC countries' stances to the EU's agenda of reforms

Armenia	Armenia: increasing authoritarianism, but reformist and keen on benefiting from the EU
Azerbaijan	Azerbaijan: Authoritarian and close regime. Not reformist, but considers the EU a key partner (close cooperation in the energy sector and domestic investments)
Georgia	Georgia: in the middle in terms of domestic governance; reformist, but in the opposite way of EU rules/agenda

EU regulatory governance and economic relations with the Southern Caucasus¹⁰

The EU has offered the SC countries a second generation of the General System of Preferences (GSP+) as a transitional step to the final signature of DCFTAs, which as aforementioned are a condition for establishing an Association Agreement with the EU. Georgia and Armenia have ratified and implemented the scheme, which cover all the main goods exported by these countries. These GSP+ agreements are subject to the ratification and implementation of 27 core conventions on human rights, labour rights, and good governance. The existence of GSP+ means that Armenia and Georgia now have virtually tariff-free access to the EU. It is evident then, that a DCFTA maybe be beyond the interests of the SC countries. As aforementioned, the process of DCFTA negotiations entails a high degree of conditionality, given the clear criteria requiring fulfilment and the determinacy of the final rewards, which are encapsulated in achieving an Association Agreement. Areas of reform are extensive, from food safety measures, competition law, and EU customs legislation to regulatory convergence.¹¹ The main question is whether the SC countries regard the DCFTA as a reward worth the implementation costs.

In contrast, Russia offers important economic incentives. The SC countries, with the exception of Georgia since the 2008 August war, are part of the trade regime of the Commonwealth of Independent States (CIS), which is a simple free-trade area with very weak institutional and legal links (Freinkman et al., 2004). Armenia has observer status in

¹⁰ The next two sections partly rely on Pardo Sierra, 2011.

¹¹ European Commission Fact-Finding Mission Report, 2008 (not public).

the customs union emerging between Belarus, Kazakhstan, and Russia within the Single Economic Space (SES). Contrary to the EU, Russia does not resort to conditionality or the approximation of economic and legislative models but relies instead on the attraction of its market and political weight in the region – which includes a visa-free regime with CIS countries. The domestic costs of economic integration with Russia, therefore, are low, whereas the incentives of acceding its market and investments are important. The crucial issue, however, is that deep economic relations with Russia and the EU resemble a zero-sum game, or in short, they might be irreconcilable. For instance, SES rules are generally incompatible with the WTO regime and the EU's approach. Such circumstance explains why Armenia and Ukraine have been reluctant to become part of the customs union of the SES despite having close economic and trade links with Russia.

The EU's influence on economic reforms in the SC countries has been limited, but that has changed in recent years, although the current financial crisis in Europe at the moment of writing may have important consequences in that regard. Since 2008, Georgia and Armenia have started a process of approximating to EU standards and implementing economic aspects of the ENP Action Plans, although with a long way to go in terms of implementing the preliminary conditions for starting DCFTA negotiations.¹² In the case of Azerbaijan, it is mainly interested in the financial and energy aspects of the cooperation with the EU given its reliance on fuel exports and the potential for increasing its foreign investments. Therefore, Azeri political and economic elites are not interested in signing a DCFTA, despite the fact that the EU is a key partner for precisely those reasons. The important factor in that regard is that the EU has opted for a pragmatic approach regarding energy issues putting aside conditionality and normative issues.

The slow increase of EU influence in the region can be explained as the result of the following reasons: first, clear and credible EU rewards and far-reaching socialisation mechanisms are recent phenomena. It was only after the 2008 war over South Ossetia (and after a fact-finding mission to Georgia and Armenia in the autumn of 2008) that the EU undertook a thorough evaluation of the prospects for DCFTA negotiations. In short, the war gave advocates of an increased EU regional profile, such as Poland and Sweden, some momentum towards reinforcing the Eastern dimension of the ENP through the EaP. Since then, benchmarking and monitoring mechanisms have become more consistent through regular rounds of contacts in the subcommittees for trade and economic affairs, between working groups, Taix actions, and the first Twinning projects. Second, the EU's relative

12 See also European Commission's website: <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/regions/south-caucasus> [last accessed on August 12, 2011].

trade dominance in the SC, Armenia included. This is, nevertheless, not enough to anchor the region to the EU, despite being the latter the major trade partner in the region. The share of EU trade remains stable at around 30% in Armenia and Georgia since 2005, whereas the main bulk of Azeri exports are fuel related but are rarely higher than 50%.¹³ These percentages do not seem large enough to link a country to an economic area. Turnover between Central European post-communist countries and the EU, for instance, moved up from low values to at least 60% during the '90s (Cameron, 2009).

Levels of Foreign Direct Investment (FDI) in the SC reinforce the previous trend. FDI indicates the relative level of a country's economic development and geographic orientation (Linn and Tiomkin, 2007: 219). The origin of FDI in the SC is mainly non-EU, with the exception of Azerbaijan. In Georgia, the main investors are Turkey, Azerbaijan, and a variety of Arab countries.¹⁴ In Armenia, the most important investor is traditionally Russia, followed by France, the US, and Lebanon.¹⁵ Only in Azerbaijan is FDI mainly European, but it is basically related to the energy sector, with British Petroleum totaling 50% of the total FDI in 2009.¹⁶

Legitimacy issues have also played a role in impeding economic cooperation with the EU and Russia. The most striking case in this regard is Georgia, as it is normally regarded as pro-Western and it follows, at least rhetorically, a pro-Euroatlantist foreign policy. After Georgia's Rose Revolution, economic reformists implemented a radical liberalization that was contradictory with the EU's approach. The view that there was negligible value in accepting EU rules is partly explained by the need of attracting capital, which led to the adoption of such strategy of radical economic liberalization (Jandieri, 2009). EU prescriptions have had a low resonance in Georgia, and the Saakashvili administration felt little identification with the EU (Asmus, 2010), which was not seen as a model of development. Thus, the ENP failed not only in terms of perceived incentives but also in many occasions in terms of the legitimacy.

Since the war, however, the Georgian government's need of European support, side-payments for establishing negotiations of visa liberalisation, financial assistance, and the presence of EU monitors have opened up the potential for convergence where there were only disagreements. Since 2009 there has been a new impulse in Georgia to engage in DCFTA negotiations. As an example, the first Twinning project in Georgia was launched in 2009, indicating the low level of interest in adopting EU rules and standards before the war. However, «libertarian» elements within the economic leadership are still influential (Lloyd, 2009).

13 Data as per IMF, Direction of Trade Statistics.

14 See Civil Georgia, 16/09/2009, www.civil.ge

15 Armenian Statistical Service: <http://www.armstat.am/en>

16 'Foreign Investment in Azerbaijan Declines More Slowly', 12/17/2009, News.az, www.news.az

In the Azeri case, the reform of the economic system is difficult, since it involves a delicate balance between the president and state energy companies (Lussac, 2010b). Issues of sovereignty and state-building, which are common causes of concern among the country's political elites of the SC countries, make difficult Azeri relations with the EU's approach to governance. But, importantly, the Azeri economy is totally oriented towards the oil and gas industry (99% of its total exports to the EU are related to gas and oil); hence, the incentives of assuming the costs of a DCFTA are insignificant. The windfall from energy resources has turned the country into a net investor instead of a net recipient. Indeed, the most integrative trend in the region is the increasing linkage between Azerbaijan, Georgia, and Turkey, a process initiated by the construction of the Baku-Tbilisi-Ceyhan (BTC) pipeline and increasing trade and investment ties between the countries. The construction of the Baku-Tbilisi-Kars railway, with Turkish and Azeri investment is a symptom of such trend (see Lussac, 2008).

In Armenia, economic power is intimately tied to influential groups close to the current President Sargsyan and former Presidents Kocharyan and Ter-Petrosyan (Petrosyan, 2010: 9). Reform is hampered by high levels of corruption, lack of a separation of powers, and close ties between business groups and the state bureaucracy. These elites maintain important business ties with Russia (Halpin and Hughes, 2006). Likewise, not only are Russian economic interests important in Armenia (Mkrtchyan, 2009), but some Armenians are also prominent in the business life of Russia. In addition, Russia provided a \$500 mln «stabilization loan» in 2009, and Russian investors control all strategic assets in Armenia (i.e., energy, railway, and telecommunications), including the Metsamor nuclear plant.

It is important to note the fact that regional competition has affected economic choices. The US prevented the isolation of Armenia and has fostered the East-West transport and energy corridor. Armenia is the second-largest recipient (per capita) of US aid (\$60 mln in 2008), and the US has turned a blind eye to its cooperation with Iran in order to alleviate its dependence on Russia. Such situation strengthens the Armenian ability to take advantage of Russian and Western support and prevent the costly economic reforms stemming from deeper relations with the EU. Likewise, the Bush administration increased US assistance to Georgia considerably after the Rose Revolution (Mitchell, 2009), allowing the country to disregard the EU until the 2008 war.¹⁷ The disastrous consequences of the short conflict with Russia in August 2008 have led some Georgian elites to realise that the country cannot solely rely on the US politically.

17 In 2005, the US included Georgia and Armenia in the Millennium Challenge Corporation. The five-year assistance package for Georgia was \$300 mln and for Armenia, \$235 mln.

EU external energy governance and the Southern Caucasus

The EU has devised different regional initiatives concerning the wider Black Sea region in order to approximate the energy market of neighbours to the principles of the EU's energy policy such as the Baku Initiative in 2006 or the Black Sea Synergy in 2008, but the EU has mainly established a far-reaching bilateral agenda of reform in the sector through the ENP Action Plans. The ENP focuses on the opening of domestic markets and on the unbundling of energy production and provision, in addition to the approximation of national legislation to that of the EU. For its part, the Energy Security Platform of the EaP aims to develop mutual energy support and security mechanisms with partners, to support infrastructure development and diversify energy routes (European Commission, 2008). For that purpose, and a recent innovation included in the EaP in order to increase the attraction of EU plans, the Commission aims to involve international financial institutions, especially the EU's European Investment Bank (EIB) in the process of bringing investment and incentives to a higher approximation to the EU energy market. Such aim signals increasing efforts of the EU for realising the Southern Energy Corridor, which aims to link the South Caucasus gas pipeline (running from Azerbaijan to Turkey through Georgia) with Central Europe. We have to bear in mind that such effort is a recent phenomenon. Until the energy rows between Ukraine and Russia in 2006 and 2009, the EU member states (EU-15) considered Russia the main energy partner. It was not until then, in addition to most of the new member states' interest in diversifying gas suppliers, that the EU did not raise its stakes in promoting the Caspian basin as a serious alternative – and hence, the Azerbaijan-Georgian transit route towards Europe (Mangott and Westphal, 2008). It is clear that such scenario clashes with the goals of Russian gas companies to monopolise gas supply to and access to the Caspian basin reserves (Pardo Sierra, 2010). Such situation makes it difficult for the EU to compete with Russia, as the large member states cooperate closely with Russia in the sector. However, there seems to be a rising consensus in the compatibility of Nabucco and the Gazprom's alternative «Blue Stream» (Grigoriadis, 2008; Götz, 2009).

Understandably, the SC countries show different degrees of interest in cooperating with the EU in the energy sector. For Georgian elites, integration into the EU's framework is crucial for the country to attract investment and secure its position as a stable and reliable transit country (especially after the 2008 war). The Georgian government has opted to follow a maximalist approach and aims to accede to the EU-led Energy Community (of which it is currently an observer), a process that requires a considerable convergence with

the rules of the EU's energy market. Such an ambitious agenda is also framed in the Georgian aspiration to be part of the Euro-Atlantic structures, and the Energy Community is a visible process of integration.

Azerbaijan, as a producer country, has leverage on the EU's regional projects and only signed a deal with Turkey on Nabucco after the Turkish-Armenian protocols were dropped in 2010 (Lussac, 2010c). It is also relatively independent from Russia thanks to its energy resources. As mentioned earlier, it has managed to increase its regional influence through the consolidation and integration of the East-West energy and transport corridors with Georgia and Turkey. The case of Azerbaijan clearly reflects the pragmatic or business-like approach of the EU towards this sector if necessary, especially when it comes to producing countries: interdependence and EU energy interests in this case lead the EU to have a pragmatic approach towards human rights and democratisation issues included in the Azeri ENP Action Plan (Nuriyev, 2008). Russian influence, however, is still important regarding this area. Given its decisive role in the Karabakh conflict as political broker between conflict parts, Azerbaijan's need for Russia's help to maintain its domestic stability due to border issues and the delicate balance of power among different clans in Azerbaijan (despite the image of the country as a hierarchical autocracy), the Azeri government is therefore careful not to isolate Russia despite the construction of the BTC and Western investments.

Lastly, Armenia largely depends on Russia in the energy sector. Armenia is the weakest link in the region regarding the EU's approach in the energy sector. It has been excluded from regional projects owing to its isolation from Turkey and Azerbaijan, despite EU efforts (stemming mainly from France) in order to avoid alienating Armenia. For instance, the possibility of an Iran/Armenia/Georgia/Ukraine grid backed by Russia was a better option for some EU members than the Commission-supported Nabucco, as it would ensure stable gas supplies to Armenia and allow the closure of the old Armenian nuclear plant (twin-model of Chernobyl), but the EU refrained from pursuing a confrontational policy given the strong support of the US for the East-West energy corridor (Kandiyoti, 2008: 173).

Conclusion

The article has provided an analysis and an illustration of the EU's governance in the Eastern neighbourhood, taking the example of EU relations with the Southern Caucasus (SC) countries in the areas of economic cooperation and energy security. It has shown that in evaluating EU external relations it is necessary, at least, to differentiate Commission-led approaches and member states' interest reflected in the Council and in their respective independent national policies. Commission approaches can be conceptualised as «external governance» aiming at projecting internal EU arrangements and rules, be they EU properly or international standards and norms, that characterise the arrangements within different EU policy areas. Such rules and arrangements are deemed to be universally applicable and, therefore, exportable in the agreements with neighbouring countries in the framework of the European Neighbourhood Policy (ENP). On the other hand, member states' interests and policies (normally reflected in Council positions) may contradict, reinforce or render ineffective the EU's «external governance». In short, coherence between the Commission approaches (and even between its different directorate generals) and member states (those that have something at stake in relation to some regions or countries, and also between different policy configurations of the Council) is of paramount importance to understanding the impact, or lack thereof, of EU policies in third countries. This may be seen as a truism and not particularly original, but it is often overlooked by analyses of EU external relations.

In that regard, the article has illustrated these tensions in the analysed policy areas. First, until the 2004 enlargement, most of the EU-15 member states regarded relations with Russia as a priority, and therefore avoided any high-profile engagement with the (now) Eastern neighbourhood, which implied giving the EU in a secondary role. Second, some of them, particularly France and Germany, aimed to monopolise relations in the SC and prevented the EU to have some «teeth» in promoting the Commission's goals in both analysed areas (a real economic transition through some conditionality and promoting the SC as an energy hub for the import of energy resources from the Caspian basin). As a result, the EU had little more than a donor's role, merely a vehicle for financial assistance to the region. This situation changed with higher institutionalisation of EU relations towards the neighbours with the establishment of the ENP and Eastern Partnership in 2004 and 2009 respectively, and reflects the pressures of most of the new member states to raise the EU's profile. Such an approach is certainly a change and brings the novelty of emerging diverging visions between the large EU-15 members and most of the new member states

towards Russia and the Eastern neighbourhood.¹⁸ In terms of the SC, as a result, EU policies are more institutionalised, far-reaching and structured, reflecting the conceptualisation set out in the article of considering EU external policies as a process of «engagement», aiming at transforming domestic policies of third countries at the EU's image.

Another obstacle that emerged during the analysis in the EU's process of engagement with the receiving end of neighbouring states is that, in addition to the incentives provided by the EU, the legitimacy of EU rules and agenda of reform might be an important factor in explaining EU influence or lack thereof and, in general, it has been considerably low in the SC, even in pro-Western countries such as Georgia. While it may be possible that the EU model of political and economic organisation is attractive as a whole (but, for example, a recent influential Georgian Minister called the EU an «sclerotic civilisation»),¹⁹ the particular EU approach to the governance of cooperation with neighbours is hardly shared by them. In that sense, the EU's normative power, the aim of shaping what can be considered «normal», is perhaps an exercise of wishful thinking beyond the cosy security environment of the EU and NATO. Indeed, for Eastern neighbours, which with no exception face important internal and external security challenges, in addition to regional isolation and poverty, what they can expect from the EU is, overall, of little added value. In view of the deep economic and political crises within the EU that started in late 2008, it is likely that the traction of the EU in the post-Soviet space, and very especially in the Southern Caucasus, will remain low.

However, this article has aimed to pursue a sectoral analysis of EU-SC countries relations framed within those pragmatic boundaries, being conscious of the limitations of the EU's capacity to exert a coherent, ambitious and meaningful foreign policy towards the region. In that regard, the impact of the EU's governance on both areas, trade relations and access to the single market, and energy security, although uneven between countries, has taken some inroads in domestic policies. In the case of Georgia and Azerbaijan, cooperation with the EU in energy security is crucial, the former in order to become a transit and hub country, and the latter for reasons of searching alternatives to Russia and investments in the sector. In that respect, it is not surprising that the EU is an actor of reference. But, as a reflection of the lack of internal coherence and ambition, it was not until the energy rows between Russia and Ukraine in 2006 and 2009, that key member

18 A poignant point was made in that regard by the deceased Polish President Lech Kaczyński during his visit to Tbilisi together with the presidents of Ukraine and the Baltic States in the midst of the Russian invasion of Georgia in 2008: 'Tonight, here there should be 27 presidents and not 4'. Of the other 23, only the presidents of the Czech Republic, Hungary, Romania and Slovakia attended his funerals.

19 Speech by Minister Bendukidze on Dutch broadcaster VRPO, 03/04/2005.

states, especially Germany, accepted to give the Commission a leading role in order to fulfil the Southern Energy Corridor. Regarding trade relations and access to the single market, it is here where normative and legitimacy issues have arisen between Georgia and Azerbaijan and the EU. The case of Georgia is striking being a reformist country since 2004, especially in the economic realm, and allegedly pro-Western. Here, the attraction of the EU as an economic model has been low among elites; whereas in the case of Armenia, its elites have shown a pragmatic approach of benefiting from what it is in offer (in terms of security, the country has a relatively comfortable position relative to neighbours as has, in principle, Russian security guarantees).

Finally, the analysis reflects the need of directing the analysis to the domestic settings and neighbouring countries' interests in order to fully understand the dynamics of EU-neighbours relations. In recent years, extensive research has been oriented towards scrutinising EU policies and approaches with little attention yet to the receiving end of the ENP and EU/member states policies (Najslova, 2010). Research on that dimension and the varying governance settings according to different policy areas, and taking into account regional dynamics, promise to shed light on the effectiveness and shortcomings, and thus, how to address obstacles, of the EU's external relations towards Eastern Europe.

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