Band 7 / 2017

Building an Energy Policy Management Institution for the South Caucasus

Frederic Labarre and George Niculescu (Eds.)

Study Group Information

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Building an Energy Policy Management Institution for the South Caucasus

14th Workshop of the PfP Consortium Study Group
"Regional Stability in the South Caucasus"

7/2017
Vienna, June 2017

Imprint:

Copyright, Production, Publisher:
Republic of Austria / Federal Ministry of Defence and Sports
Rossauer Lände 1
1090 Vienna, Austria

Edited by:
National Defence Academy
Command
Stiftgasse 2a
1070 Vienna, Austria

In co-operation with:
PfP Consortium of Defense Academies and Security Studies Institutes
Garmisch-Partenkirchen, Germany

Study Group Information

June 2017
ISBN 978-3-903121-19-5

Printing:
ReproZ W xxxx/15
Stiftgasse 2a
1070 Wien

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Foreword

Frederic Labarre

The subject of this Study Group Information booklet will seem familiar. In effect, the proceedings of the workshop that took place in Reichenau in November 2016 follow up on the extremely successful workshop that had taken place in Chisinau in April 2016. The co-chairs and organizers are keen to capitalize on the success of that latter workshop.

It is worth taking a moment to reflect on what we mean by *success*. One measure of success is the mere occurrence of the workshop in a context of renewed fighting between Armenia and Azerbaijan in April 2016. While this has certainly made tensions more palpable during the event, discussions were nevertheless very constructive. So constructive in fact, that the breakout groups took on a life of their own, and began exploring beyond mere talks the possibility of institutionalizing – giving factual life – to the concepts that were discussed in Chisinau. We would direct the reader to consult the Policy Recommendations of the thirteenth workshop, entitled *The Geopolitics of Energy in the South Caucasus: Towards a Regional Energy Community*. Many of the ideas that drove the concept for the November Reichenau event were found in the third panel of the preceding Chisinau event. The aim, put simply, is to get the South Caucasus beyond the logic of geopolitics and political realism (or strategic self-help), and towards the logic of economic and political integration.

In this sense, the co-chairs are attempting to fulfill the objectives set by the Austrian Ministry of Defence and Sports of developing a form of strategic personality for the South Caucasus region. A political construction that would simultaneously respect sovereignties (however may they be defined locally) so that the region can speak of one voice. Necessarily, this is a difficult objective to attain in view of the protracted conflicts in the region.

The co-chairs have fastened on the multiplicity of agencies and organizations that deal with energy security and have attempted to conceptualize their activities and development in the context of a local political community reminiscent of the communities that have given birth to the European

Union, the European Coal and Steel Community, and Euratom. The intention is to lead the stakeholders to put strategic resources in common, focus on the business of doing business, rather than having businesses doing war, and eventually, morph the whole community into a more complete political union.

The latter objective is currently out of reach, however, it provides one way to resolve the local dilemma fragmenting the region; choosing between the EU or Eurasian Union. A third way would be for the region to set up its own union.

The Reichenau workshop provided a platform to explore how, in detail, a community of interest on energy security could take shape in real life. The co-chairs built into the program generous time for discussion, either through the regular interactive discussions or through breakout groups. Exceptionally, this time breakout groups were not divided according to the conflict that defined a sub-region of the South Caucasus, but by theme. While one focused on the mission statement of the institution, the other focused on terms of reference and structural development.

This arrangement allowed everyone to participate in the topic they were most comfortable with. We must acknowledge that not all our participants are knowledgeable about public administration or business management so this format and the time given for discussion provided the moderators with the margin necessary to give explanations or rationales when needed.

As Patrick Larkin remarked in his speaking notes, it was time to move from talking to doing. The Regional Stability in the South Caucasus Study Group is a track 2 diplomacy platform which has a consultative capacity whose reputation is increasing all the time. This is why the Geneva Centre for the Democratic Control of Armed Forces (DCAF) has partaken in the Study Group's recent activities; to determine how much what is being done can influence defence institution building (DIB).

If defence is about security, then security, even energy security, is about defence, and so there is really no difference between DIB as a program or initiative, and an energy security institution. By all accounts, the experts on DIB and security sector reform are in Austria and Switzerland. The process

of exploring an energy security community (Chisinau) towards making it a reality with a bona fide and physical institution (Reichenau) is fully in the tradition of the sponsors of the RSSC SG's tradition of SSR and DIB excellence. Of course we thank them for their continuing support.

The first part of this SGI contains a text by Elkhan Nuriyev who traces the outline of an organizational superstructure with broad responsibilities. The second part gives two alternatives; the first, provided by Patrick Larkin, argues for not reinventing the wheel, and enabling the South Caucasus to partake of the advantages of membership in the International Energy Charter. Frederic Labarre, however, is less ambitious, and attempts at providing funding and management mechanisms that could be included in Nuriyev's structure. The third part, provided by George Niculescu, addresses a critical function of the organization that the RSSC SG seeks to develop; emergency management.

One cannot insist enough on the need for emergency management capabilities in the financial and physical understanding of the term. In today's world, where information becomes more and more misconstrued and doubtful, and where public opinion can be manipulated to easily, it becomes important for states to rapidly be able to prevent, mitigate, respond to and recover from disasters, whether natural or man-made. This function is essential in the South Caucasus, regardless of whether an energy security institution exists or not; what the UN calls *spoilers* would only be too keen to use and abuse an energy crisis to accentuate regional tensions.

The booklet concludes by transparently showing how the discussions took place during the breakout groups, giving the reader and policy-maker an insight into why certain solutions were put forward, as opposed to others. The co-chairs want to stress that although they moderated the discussions, they did not lead them. Rather, they let the natural flow of thoughts emerge from the participants, all constituents from the South Caucasus.

In the end, there is only one recommendation, issued to the South Caucasus and Euro-Atlantic capitals, and to international organizations; follow the advice from the South Caucasus and support the establishment of an Energy Security Management Institution.

Abstract

The following publication focuses on energy security and the development of energy institutions in the South Caucasus. In particular, it tries to lay the groundwork for the setting up of new institutions in the region that work towards energy security. The potential layout, funding and legal basis for such an institution is discussed. In addition, the economic gains resulting from such cooperation will be shown. A separate article is dedicated to the CRISHOPE project. This project aims to provide a detailed, qualitative research of the current means, instruments and mechanisms employed in the field of consequence management and early recovery in the aftermath of natural or man-made disasters in the Greater Black Sea Area. Finally, a special contribution on climate change is included.

PART I:

EXAMPLES FROM THE FIELD: SETTING UP NEW INSTITUTIONS

Future Energy Security in the Black Sea-Caspian Region: Towards Establishing an Energy Policy Management Institution in the Post-Conflict Situation

*Elkhan Nuriyev**

Introduction

Notwithstanding the most acute unpredictability of the newly independent states of Eastern Europe, the South Caucasus and Central Asia in the 1990s, the countries of the Caspian basin[1] and the Black Sea[2] simultaneously faced the need for intense capital investments in their energy sectors that could drive economic growth. Yet the Black Sea-Caspian region has become a crossroads for increased commerce and economic development as the old Silk Road is revived.[3] With the opening of new transport links from the Caspian Sea between Turkey, Iran and Central Asia, there is the possibility of close economic linkages to Europe via outlets on the eastern shores of the Black Sea to the Mediterranean.

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1 The five Caspian littoral states include Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan.

2 The six littoral Black Sea states are Bulgaria, Georgia, Romania, Russia, Turkey and Ukraine while the other 15 European states within the basin include Albania, Austria, Belarus, Bosnia-Herzegovina, Croatia, Czech Republic, Germany, Hungary, Italy, Macedonia, Moldova, Poland, Slovakia, Slovenia and Switzerland.

3 Akiner, Shirin: Silk Roads, Great Games and Central Asia. In: Asian Affairs, Issue 3, Volume 42, 2011, pp. 391-402.

The expansion of transport lines of communication for gas and oil has actually created new opportunities for both cooperation and competition,[4] with implications for the security and prosperity for both the North and the South. With potentially large quantities of oil and gas in the Black Sea-Caspian basin and with growing demand for these energy resources in Europe, the entire region indeed has enormous potential for economic integration with the global economy. Without doubt, increased cooperation and prosperity could certainly foster greater stability and security in the region.

What follows below describes the collaborative steps that could be taken by all the countries of the Black Sea-Caspian basin in the post-conflict scenario to provide energy security for each individual state and for the region as a whole.

The Need for a Regional Approach

Quite evidently, each of the countries is now under political pressure to secure reliable, sustainable and reasonably priced energy supplies in order to meet the ever-increasing demand for commercial energy and to satisfy the growing aspirations of the economies of the extended Black Sea and the Caspian basin. Hence, energy security must not be a mere slogan but rather an indisputable reality and an operational approach to vital economic development throughout the region. Although each of these countries is trying to evolve its own strategy to tackle the problem, there is a lack of increased understanding of the need to address energy security from a regional perspective. It is clear that a regional approach facilitates a more comprehensive and sustainable set of solutions to the challenges of energy security. However, all countries concerned should take further steps towards a more secure political climate and regulatory regime in this rapidly developing region, as territorial conflicts and geopolitical volatility remain a considerable obstacle for energy market development and economic prosperity.

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[4] Nuriyev, Elkhan: Russia, the EU and the Caspian Pipeline Gambit. In: Journal of Energy Security, Institute for the Analysis of Global Security, USA, 27 September 2015, <http://ensec.org/index.php?option=com_content&view=article&id=584:russia-the-eu-and-the-caspian-pipeline-gambit&catid=131:esupdates&Itemid=414>. Accessed on 25.11.2016.

For the time being, there is no single legal framework setting out rules on transit and access to energy infrastructure. The vast energy potential of the Black Sea-Caspian region can only be unlocked through transnational co-operation. A multilateral structure is hence needed in order to make use of full regional energy potential. In recent years, the Organization for Security and Cooperation in Europe (OSCE) and the International Energy Charter have served as international legal instruments for securing and promoting international energy investments in the Black Sea-Caspian basin. In the post-conflict scenario, both organizations can provide positive contributions, facilitating energy trade and fostering institutional framework for expanding energy cooperation across the countries concerned and for the improvement of the overall energy security in the region. With the OSCE and the Energy Charter acting in concert, a better-interconnected energy market in this part of the world can bring various mutual gains, including supply diversification and new export routes.

Common Energy Security Program in the Regional Context

All stakeholders should clearly see the logic and need for cooperation between the countries of the Caspian basin and the Black Sea, even though their long-shared history has led to several doubts and misgivings. However, energy cooperation in the region has to be approached in a step-by-step manner. First and foremost is the need for these countries to spell out detailed energy cooperation plans that have long-term demonstrable gains. In order to achieve tangible outcomes, energy security plans of each country should clearly indicate a willingness to cooperate with the other countries of the region. Cooperation between the countries could range from an exchange of experience to a complete integration of the operation of electric power and gas networks in the countries of the region.

A gradual regional approach is to be followed starting with limited exchanges that can build mutual trust and confidence. Such an approach to energy security, including coordinated planning and risk mitigation, should yield significant benefits to each country and to the region as a whole. In fact, the perceptions of risk to the region's energy supply security are very similar for each country in the Black Sea-Caspian basin. This consistent level of concern could well serve as the basis for developing a common regional energy security program.

The following key post-conflict recommendations can become the object of comprehensive debate among the state actors, nongovernmental organizations, scholars, experts, practitioners, businessmen, and can be also considered by international organizations like the OSCE and the Energy Charter.

General Recommendations

1) Create a neutral institution, entitled the "Black Sea-Caspian Energy Security Foundation," thereafter, the Foundation that would be an important first step in this regard. The member countries would make contributions to this institution, which could further be supplemented through donations from multinational agencies and energy companies from the region. All the member countries would have equal rights in this institution, irrespective of their contribution. The Foundation could have a permanent secretariat of its own. Prominent energy sector professionals from within and outside the region would staff and govern this institution.

Ultimately, what is needed is a regional energy security system that benefits the citizens of the Caspian basin and the Black Sea and supports the national development aspirations of each country. The energy situation in the South Caucasus, the Caspian basin and the Black Sea represents a tremendous opportunity to design and implement a regional energy strategy that truly strengthens stability and security of each country. The Foundation will aim to bring the private sector, entrepreneurs, investors and industrial associations, and investment banks from the participating countries together to identify and promote inter-country development opportunities.

The Foundation would serve to identify mutually beneficial investment opportunities for entrepreneurs in the region and to promote regional economic diplomacy and understanding of the business environment in different countries. Private sector investors with assistance from regional governments and multilateral financial institutions could facilitate access to funding sources via the Foundation mechanism. This would expedite project implementation, help create stakeholders with interests across the region, raise the level of confidence of regional governments, and mitigate political risk.

2) Establish the "Black Sea-Caspian Energy Security Centre," the permanent representative institution that will serve as a think-tank of all the countries in the region. The primary objective of this centre is to facilitate intra-regional energy planning, research, training, and to provide a common strategy to address energy concerns on the regional level. Key activities include the formation of a regional energy database and development of relevant information, training materials, studies and position papers to support regional energy cooperation and trade.

3) Consider creating an oil and gas price contingency fund as a means to finance the additional cost burden during short price spike periods.

4) Establish a regional gas grid. Beyond doubt, an independent regional gas grid is today only a remote possibility. But if major pipelines connecting Azerbaijan and Georgia with Central Asia materialize, the feasibility of expanding the natural gas grid to China, Pakistan and Afghanistan could be explored as a step towards the development of a regional gas grid. It can be proposed that a study group be constituted, at the appropriate time, to examine the techno-economic feasibility of establishing a regional gas grid.

Specific Recommendations

The mission and task of the "Black Sea-Caspian Energy Security Centre," thereafter, the Centre, deserve special attention. The primary objective for the establishment of the Centre is to have a regional institution of excellence for the initiation, coordination and facilitation of various programs in energy sector. The proposed goals of the Centre may be defined as follows:

- Strengthen the region's capability in addressing global and regional issues in the energy by enhancing the coordination of energy strategies of the countries concerned.

- Facilitate intra-regional trade in energy through the establishment of interconnecting arrangements for natural gas within the entire region such as transnational gas pipelines.

- Promote regional cooperation in energy efficiency and conservation as effective mechanism for demand-side management.

- Foster the development of new and renewable energy resources in the region as an instrument towards stable energy development over the long term.

- Serve as energy information network and exchange center at both regional and global scales.

- Enhance the development of regional expertise in energy development and management.

- Encourage private sector investment and participation in energy activities of the region.

Selected activities that the Centre may consider include the following:

- Create an energy database to provide statistics for petroleum and natural gas, clean coal, electricity, and new and renewable energy for all member countries. These statistics may address energy resource base, production and generation, refining and processing, transmission, supply and consumption, including imports and exports.

- Produce specialized study reports and position papers on energy issues, including technical and policy issues, pricing questions, etc.

- Develop information materials and mechanisms, including a website, to disseminate research, policy advice and well thought-out recommendations.

- Organize training courses for upgrading skills in different areas of energy policy development, planning, energy conservation, energy efficiency, and the technical and financial aspects of energy transmission and distribution.

Even today, the need for regional energy security has become a compelling reality for the Black Sea-Caspian basin, as evidenced by the fact that each country in this region is seriously exploring avenues and options to meet future energy demand. Development of regional energy markets will require governments, institutions, academics and businesses to come together to discuss openly and freely the issues involved – including the apportionment of costs and benefits – in a transparent, fair, and equitable manner. In all these activities the governments serve as partners, though this can make it difficult for the Foundation and the Centre to take speedy concrete action, as many of the proposals get mixed up with non-energy political matters and concerns of the countries.

Working toward closer energy cooperation between the countries would be possible if an active body involving not only the government but also other stakeholders in the region's energy sector participated. Some of the issues that need to be discussed in depth and on which actions need to be taken are as follows:

- Establish regional energy projects such as very large hydro projects or very large coal- or gas-based thermal projects.

- Exchange information on new technology, including renewable energy technology and utilization of gas hydrates.

- Exchange geological information between neighbouring countries to facilitate expeditious development of fossil fuels.

- Establish a regional facility for developing renewable technology applications.

- Discuss emerging issues in the energy sector and evolve a common plan of action for the countries concerned for presentation to international bodies.

Overall, the Foundation and the Center could help pursue these ideas. Both institutions could bring together experts from various countries of the region to examine in depth specific issues and recommend proposals

that might be adopted by countries of the region. The Foundation in close collaboration with the Center could insulate energy-related issues from undue political interference. The collaborative work of scientists, engineers, technologists, academics, leaders, public opinion makers, media, and businessmen from the region could help to create an environment of mutual trust and cooperation in the energy sector. This is necessary not only for the development of the energy sector but also for the subsequent improvement of the socioeconomic status of all these countries.

Conclusion

Although the idea of building an energy policy management institution in the Black Sea-Caspian basin sounds idealistic today, it may well turn out to be realistic in the post-conflict scenario. Energy reliability is therefore a requisite for future geopolitical stability of the entire region. This means resource diversification, infrastructure investment and energy efficiency remain very relevant to all countries in the long term. Energy security efforts conducted independently by individual states may prove counterproductive to collective energy security management. The energy producers and consumers could take the lead in working together to forge a region-wide energy security agenda through regional institutions and in conjunction with international organizations such as the OSCE and the Energy Charter. In so doing, they could establish a sound energy policy that would be applied to meeting common energy challenges without geopolitical tumult. This could be a real win-win proposition in the post-conflict situation.

PART II:

ENABLING FUNCTIONS: BUDGETING AND THE LAW

The Importance of Not Reinventing the Wheel: Speaking Notes to the 14th RSSC Study Group

Patrick Larkin

1. The Energy Charter

The most important aspect for European energy security is the Energy Charter Treaty of 1994. This is a legally binding treaty to which each of the sovereign countries of the South Caucasus is one of the original signatories. I refer to Armenia, Azerbaijan and Georgia. The Energy Charter Treaty has applied since 1998. It is therefore part of the energy legal system of these countries. The Treaty is one that seeks to promote and protect investments in the energy sector. It provides a legal framework for energy trade and transit, and a protocol on energy efficiency.

The Treaty came into being in the context of the end of the Cold war, and the great political changes that followed in Europe after the fall of the Berlin Wall. The fundamental aim of the Energy Charter Treaty is to strengthen the rule of law on energy issues, by creating a level playing field of rules to be observed by all participating governments, thus minimising the risks associated with energy-related investments and trade.

The Treaty's provisions focus on five main areas:

i. The protection and promotion of foreign energy investments, based on the extension of national treatment, or most favoured nation treatment (whichever is the most favourable);
ii. Free trade in energy materials, products and energy related equipment, based on WTO rules;
iii. Freedom of energy transit through pipelines and grids;
iv. Reducing the negative environmental impact of the energy cycle through improving energy efficiency;
v. Mechanisms for the resolution of State-to-State or Investor-to-State disputes.

2. Investments

The fundamental objective of the Energy Charter Treaty's provisions on investment issues is to ensure the creation of a "level playing field" for energy sector investments throughout the Charter's constituency, with the aim of reducing to a minimum the non-commercial risks associated with energy-sector investments, in other words political or policy changes.

3. Trade

The Energy Charter Treaty's trade provisions were initially based on the General Agreement on Tariffs and Trade (GATT) trading regime but were modified by the adoption of a Trade Amendment to the Treaty in 1988. This brought the Treaty's trade provisions into line with the eventual World Trade Organization (WTO) rules and practice. The rules are therefore founded on the fundamental principles of non-discrimination, transparency and a commitment to the progressive liberalisation of international trade.

4. Transit

The Energy Charter Treaty's existing transit provisions oblige its Contracting Parties to facilitate the transit of energy in a non-discriminatory basis consistent with the principle of freedom of transit. This is a critical issue for the collective security of the constituency, since so much energy resources are transported across boundaries on their way from producer to consumer.

5. Energy Efficiency

The Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects (PEEREA) provides transition economies with a menu of good practices and a forum to share experiences and policy advice on energy efficiency issues with leading Organization for Economic and Cultural Development (OECD) states.

6. Dispute Settlement

The Energy Charter Treaty establishes dispute settlement procedures for cases of investment related disputes between an Investor and a Contracting Party, and also for bilateral disputes concerning the application or interpretation of the Energy Charter Treaty between Contracting Parties.

In addition, there is a more specific mechanism for trade related disputes between Contracting Parties (envisaging the application of a panel system along the lines of the WTO Dispute Settlement Understanding procedures).

The existence of the Treaty's dispute settlement procedures is of considerable value in confidence building terms. The fact that such procedures are available, and that the Treaty's Contracting Parties have taken an unconditional obligation to accept their application where necessary, provides reassurance for investors that, in the case of a dispute, they will be entitled to have recourse to this mechanism in defence of their interests.

7. The Energy Charter

The European Energy Charter was signed in 1991 in The Hague. It was the first real institutional step taken towards the establishment of a framework of rules for East-West energy trade. This had been envisaged by the Dutch Prime Minister, Ruud Lubbers, at the end of the Cold War.

The Energy Charter Treaty (ECT) followed in 1994 and incorporated the principles contained in the 1991 Charter into a legally binding mutual commitment. The Treaty endorses the need to develop open and efficient energy markets. The Treaty deals with the promotion of conditions for the encouragement of Foreign Direct Investment on a non-discriminatory basis. At the same time the Energy Charter Treaty contains a specific acknowledgement of state sovereignty over natural resources.

The Energy Charter Treaty was signed by all of the countries that were members of the former Soviet Union. However, the Russian Federation is one of four countries who have not ratified the Treaty, but who nonetheless play a role in the Energy Charter Process. All the countries that are

now members of the European Union ratified the Treaty. So did Turkey, a near neighbour in the region.

What is important in the context of today's workshop is that the South Caucasus states – Armenia, Azerbaijan and Georgia – are all members of the Energy Charter. Because of the strategic position of Armenia, Azerbaijan and Georgia between Europe and Asia, each of these countries is an important and active member of the Energy Charter constituency. Georgia was the first country to ratify the Treaty in 1995. Azerbaijan did so in December 1997, and Armenia in January 1998. Georgia held the chairmanship of the Energy Charter Conference in 2015. They have all faced the challenge of adjusting their national and regional policies to the requirements of the Treaty.

The Energy Charter Treaty is unique among international energy organisations because it can count all of the countries of the South Caucasus, the Caspian, and the Black Sea regions as participants in the Energy Charter process. This means that the Energy Charter has a special role in bringing together the producer and transit countries of these regions, and linking them to the main consumer markets for their energy products.

Large-scale foreign investment is required if the full energy potential of any region is to be realised. Foreign investors are simply reluctant to invest where the rule of law is not in place or fully developed. The investment climate can be much improved by reducing the level of risk. That is what the Energy Charter Treaty does, and what it has already done in the South Caucasus.

I refer you to the investment promotion and protection provisions of the Treaty. There you will find a legally binding commitment by parties to the Treaty to abide by international investor-state arbitration in cases of dispute. These provisions also have the effect of strengthening the rule of law and transparency.

8. The Energy Charter and the South Caucasus Region

The countries of the Caucasus connect the Caspian and Black Seas, which, combined, are amongst the most exciting regions in the world of energy.

Since Azerbaijan and Georgia's first involvement with the Energy Charter, they have proved to be reliable transit partners for transporting Caspian energy resources to global markets.

There is an enormous potential in the Caspian region. The need for the successful exploitation of these abundant energy resources has become all the more pressing over the last two decades. This is due not only to local factors, but perhaps even more importantly, it is the result of the changing position of the Caspian region within the fast evolving global energy markets.

Perhaps the most important long-term observable trend in Azerbaijan and Georgia has been steady reforms in the energy sectors. Such reforms have facilitated the transportation of energy resources of the landlocked Caspian Region to the outside world. In the 1990s, the main focus of this trend was on the oil sector, with the creation of new pipeline networks that today enable Caspian oil to reach global energy markets.

In the last decade, the major focus has shifted to expanding gas connections from the Caspian region to the leading consumer markets – in both directions: East (China) and West (Europe). Here the challenges have been different – not only in a technical way but also in terms of the politics in the Caspian as well as the Black Sea regions.

Today, in the wake of COP21, the South Caucasus states also have an important potential as the world looks to transition to low-carbon solutions. These countries have well known strengths and resources in hydropower. There has already been significant development of hydro power in Georgia. Armenia has great hydro power potential. Armenia can, moreover, boast of energy efficiency ratings that put the country near the top of the lists of former Soviet Union republics. As energy efficiency and renewable sources become more important, the potential or the need for regional networks with regard to these resources becomes more urgent. As an example there is the flagship 180 million USD investment development last year when the American firm ContourGlobal bought Armenia's largest hydroelectric complex.

Georgia, for its part, faces security challenges, yet also has paradoxically the strongest position in the region. Georgia is already acting as an energy hub for power and hydrocarbon flows, and this role will only expand. Furthermore, the country has a robust hydro sector with the potential for more development. Both of these facts offer a multitude of opportunities for development in the future, especially as hydro and new power transit corridors become more important.

In Azerbaijan, like other powerful hydrocarbon states, the oil price crash of the past few years has created some difficulties. Combined with the drop in revenue, Azerbaijan has faced challenges in diminished oil field output, though natural gas has filled some of the void. However Azerbaijan is resilient to price deflation. They will leverage their ample resource base and potential for regional electricity trade into a successful future.

While I can point to the great successes and developments in the energy sectors of the three South Caucasus countries, much more investment will be needed over the coming decades, particularly when considering the COP21 initiatives. These investments will not be achieved without mobilising private investors and capital. This therefore represents an opportunity for a region as important as the South Caucasus, with its striking potential in areas such as hydropower and gas, as well as its critical location at a crossroads. The region could become an energy hub, developing its own energy sources, while leveraging the supplies of surrounding countries such as Iraq, Iran, Turkmenistan, and feeding them on to hungry markets in Turkey and beyond. That makes the need for regional cooperation all the more important.

There are important provisions in the area of transit within the Treaty. Indeed the relevance of the Energy Charter was clearly demonstrated during negotiations on the Baku-Tbilisi-Ceyhan (BTC) pipeline. The BTC agreements referred to the Energy Charter Treaty and to its rules for a level playing field. The Treaty requires that those rules should be observed by all participating governments. This has had the effect of mitigating risks associated with investments, transit and trade.

Transit is obviously a major issue. This is the case for Russia and for the Caspian littoral states as energy producing regions, as well as for China and

the EU as energy consuming regions. The geographical location ensures that Azerbaijan and Georgia have been critical to this issue. The fact that the Caspian countries are landlocked means that the transit arrangements of the region are vital not just to them but also to the consumer nations of Europe and Asia. That is where membership of the Energy Charter can continue to benefit all.

Under the Energy Charter Treaty, the Contracting Parties are obliged to facilitate transit of energy consistent with the principle of freedom of transit. Countries (and that includes those of the South Caucasus) should treat transit of energy no less favourably than energy originating in or destined for their own markets. Obstacles should not be placed on the creation of new capacities in energy transportation facilities, and established cross-border flows shall be secured.

However, it is not a secret that the negotiations on a Transit Protocol to the Treaty have had great difficulties. A form of deadlock was reached in these negotiations. Consideration is now being given to a reset, or even a return to the beginning. Now is the right time to make every effort to pursue such a Protocol which would go a long way to addressing transit challenges and which would be of such benefit to this region.

If a reliable common framework for transit were in place at this stage, there would be no need for expensive bypass pipelines. I should also emphasise that the Energy Charter is available as a multilateral framework to address emergency situations with regard to energy supply.

9. The International Energy Charter

My most important point concerns the fault lines that are developing, and which are of such critical importance to this region. The European Union has recently put forward its proposals for an Energy Union.

To the East of the European Union a regional energy market is rapidly taking shape. I refer to the Eurasian Economic Union. The participating states include Armenia, and also Belarus, Kazakhstan and Kyrgyzstan, and the Russian Federation. I should mention that all of these countries with the possible exception of the Russian Federation are Contracting Parties to

the Energy Charter Treaty. These states may have diverging and different interests but it is clear that some shape of common market will emerge. It is difficult to predict what the impact of this new structure will be. Perhaps it may deepen the fragmentation of energy markets in Europe and Asia, or on the contrary it may be the catalyst for new opportunities for cooperation and market integration. There is also the question of what internal reforms may be required by the process for the member states. In the 1990s, the transit of Central Asian gas through Russian pipelines was a sticking point within the Energy Charter process as it attempted to negotiate a protocol on transit. Gazprom wished to protect its monopoly on transport and exports. It is therefore unlikely that the Eurasian Economic Union integration process will lead to any change there.

There is a view in Europe that the Eurasian Economic Union is a project aimed at isolating its members from the European Union and establishing a political coalition under the leadership of the Russian Federation. On the other hand there is a view that the processes can be complementary and ultimately facilitate closer cooperation. To develop a Eurasian Economic Union wide energy grid and to modernise the energy market, enormous foreign investment, know how, and technology transfer will be required.

A difficult situation may arise in the South Caucasus where Georgia is a candidate for the Energy Community, and so being linked to the Energy Union of the European Union, while Armenia is looking towards the Eurasian Economic Union. Azerbaijan, as is mentioned in the material of this Workshop, is so far striving to maintain a balanced relationship with both the European Union and the new Eurasian Economic Union; if you like between Brussels and Moscow.

Meanwhile, China and Russia are discussing the possibility of integrating the Eurasian Economic Union into the Silk Road Economic Belt. China is directing long-term funding into infrastructure projects in the region. The focus is turning to the East.

Given these three blocks: the European Union's Energy Union, the Eurasian Economic Union, and the Silk Road Economic Belt, there is a danger of fault lines developing. The fragmentation of energy markets in the Eurasian continent should be avoided, as it would only create new lines of

conflict and serious commercial disputes. Moreover, free and liberalised energy trade is in everyone's interest.

The countries of the South Caucasus are astride potential fault lines. There is therefore a great need for a forum for dialogue, for a system of global energy governance, to include all these players.

Energy dialogue is a very important exercise. Some forms of energy dialogue are already facilitated in forums such as the International Energy Agency (IEA). At regional level there are forums such as the five Economic Commissions within the United Nations. There are also some forums within the G7. The most recent addition to this "family" is the International Energy Forum, the Secretariat of which is based in Riyadh in Saudi Arabia.

But energy dialogue is not enough. The challenge is the move from dialogue to governance. That is precisely the potential of the Energy Charter. And as I said at the beginning, all the countries that we are discussing today, those of the South Caucasus, Turkey, Ukraine, and Moldova are members.

In 2015 in The Hague, the International Energy Charter was adopted by consensus by the seventy-three countries present. A number of other countries have since signed. Most significantly, the International Energy Charter takes the Energy Charter from its original Eurasian context and brings it to a global level. This was best illustrated by the fact that China was one of the signatories to the new Charter in The Hague. There are also countries from the continent of Africa and from the Americas. Essentially, the International Energy Charter is an effort to create a global energy framework.

The adoption of the International Energy Charter is a clear demonstration that the Energy Charter Process is inclusive, that it is non-discriminatory, that it is open to any country willing to share the principles. Meanwhile, it addresses such contemporary challenges as access to energy. The necessity to invest in renewable energy has also been added. The focus for all countries and companies remains on energy investments, which would pay huge dividends for the South Caucasus states and provide an opportunity to leverage their advantageous natural resources and crossroads locations.

The International Energy Charter can be used by the countries of the Caucasus to ensure cooperation at a working level – for example high voltage grids, experiences in unequal power generation, and regional distribution, mechanisms of cross-border trading, network planning and IT security. Such efforts would contribute to ensuring compatibility between all, or at the very least prevent further drifting apart at the technical, commercial and regulation levels.

There are three particular issues where I believe that the multilateral approach – as embodied in the Energy Charter Treaty – can make a vital contribution to more predictable energy policy and legal certainty in the South Caucasus. That is something that would be in the interests of all. Those three issues are; investment protection, secure and reliable transit, and building confidence and promoting co-operation. However, to achieve this, a political will is required. The Energy Charter can only reach its full potential when the member states exercise sufficient political will.

The Sinews of Peace:
Common Funding for Multinational Organizations

Frederic Labarre

Introduction

This contribution is designed to attract attention on the cardinal means of business in international and regional organizations; money and budgeting. As the French would say, "l'argent c'est le nerf de la guerre" – money is the sinew of war. Except that in this case, we intend to develop institutions that spill-over into stability and eventually into positive peace. This chapter provides the reader and the workshop participants with some ideas on how to establish funding principles for a regional organization, such as an Energy Security Management Institution for the South Caucasus.

Ever since the Great Recession of 2008-2009, governments have become wary of the idea of spending public money on ventures that appear to constituents as being removed from day-to-day interests or necessities. It is precisely because interests and necessities of "overcoming" are seen as proximate that the governments of the South Caucasus have been able to justify defence and security spending to the degree that they have – even to the obvious detriment of their respective constituents. The preference to spend on guns rather than butter or bandages is of course dependent on the conflict situation still at work in the South Caucasus. Governments spend money to win wars. In the article that follows, we postulate that a solid agreement for the cessation of hostilities in the many conflicts in that region has been reached. The ideas that follow emerge in a post-conflict context. Therefore, we provide an outline of funding processes and practices in order to help win the peace.

Premise

In the scenario we have in mind, it has been decided to establish a regional organization whose task is to balance the energy security interests of stake-holders that are primarily from the South Caucasus, with due consideration

of the fact that depending on whether a country is energy-rich or energy-deficient, interests may involve access, availability, affordability and sustainability of energy. Access, availability, affordability and sustainability are the four forms of energy security that were discussed during the 13th Regional Stability in the South Caucasus Workshop, held in Chisinau, April 7-9 2016.

When a new institution is created, it has a tendency to develop its own bureaucratic interests.[1] In a regional context where ethno-centrism and nationalism have been blamed for much of the conflicts, perhaps this is not as reprehensible as in other contexts. At the very least, we could expect that multinational functionaries' self-interest might permeate those of the institutions.[2] We would argue here that in order to avoid reproducing regional fragmentation within a burgeoning institution, that institution must develop and protect its own interests – indeed create its own class, one that goes beyond the limitations of national and ethnic identification. Nevertheless, this institution is the product of the interests of its stakeholders. It is the stakeholders that will fund it, even if, in the end, the result would be a multinational tool with only remote connections to national goals.

Two reasons stand of this reasoning; the first is institutional independence defined as the ability of the organization to operate and administer free from national (or other) interference in the pursuit of the goals it has been given by its stakeholders. That is, the institution has to have a life of its own. The second reason is closely connected to the first; the officers (public servants) of the institution must also have the leeway to develop policies and procedures, and procure capabilities to make the achievement of that institution's objectives more likely. As we have argued above, the overall objective of an Energy Security Management institution is to balance stakeholders' interests between the four definitions of energy security within the South Caucasus. Therefore, promote the use and commerce of energy with due consideration to access, availability, affordability and sustainability.

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1 Leif Lewin. 1991. Self-Interest and Public Interest in Western Politics. London: OUP, p. 75-76.

2 Morten Egeberg. "Bureaucrats as Public Policy-Makers and Their Self-Interest", *Journal of Theoretical Politics*, 7:2, April 1995, pp. 157-167.

Because there is a contradiction between the four definitions of energy security, there will inevitably be tension built into the imperative of "balancing" these interests. This is why preserving institutional independence is crucial. Not only must politics be divorced from energy security, it also has to be separate from public administration of a multinational regional organization. This independence must be purchased through a "fair" or "equitable" process of funding from the stakeholders. The imperative here is to avoid any of the stakeholder from being primus inter pares within the institution merely because it contributes more to the common budget – either in real or perceived terms.

Three Options

The institution should be funded according to a formula that all stakeholders consider fair. Since fairness is a matter of perception and accounting is a creative art as much as science, a number of options for discussion are presented here.

The first option, of course, is equal nominal contribution up to a total that matches the estimates needed for the normal operations and maintenance of the institution. Since we intend to make this institution inclusive (and, remember, we are operating in a post-conflict environment), the putative stakeholders of such a South Caucasus institution could (would?) be; Abkhazia, Armenia, Azerbaijan, Georgia, Nagorno-Karabakh and South Ossetia.[3] So the formula for funding would be based on the principle 100/6, meaning that each would be responsible for 16.7 percent of the annual budget of the institution. The next step to ensure fairness (and ease of payment) would be to negotiate a rate of contribution that even the smaller stakeholders can make. The advantage of this formula is that a natural brake to institutional growth would be applied. The institution could not run a tab so high as to make stakeholder defection likely in the medium term. The evident drawback of this model is that the larger stakeholders are put in the default position of free-loader, even if the positions within the organizations are equally distributed. This is because the salaries

[3] It would not be far-fetched to consider Iran, Russia and Turkey as stakeholders as well, though the implications of their overwhelming political weight would need careful attention.

of its officers would also be equal, which would make the national contributions to the institutional budget inequitable.

This option is contingent on economic performance and does not account for relative demographic weight. This latter point is important, if we consider that the purpose of this regional institution is to serve constituents (not national) interests. Naturally, countries with larger consumer markets (such as Azerbaijan) might feel discriminated against others (such as South Ossetia) which represent a smaller market. Finally, and in view of the latter example we have taken, this option does not account for the positioning of the stakeholder within the energy market.

The second option would see each stakeholder contribute the same percentage of gross domestic product to the institution. This would mean that the problem of rate contribution would be solved, but again, free-loading would be encouraged, this time from the smaller contributors. On the other hand, the prospect of improving economic conditions region-wide opens the door to the eventuality that the institution would be progressively better funded from year to year. Furthermore, the interest in such an option increases when the institution becomes responsible for a portion of regional economic improvement. As a matter of fact, the mission statement of this institution is the balancing of interests. It would be designed to act to alleviate energy shocks for stakeholders who are energy-rich and energy-dependent alike, so the alleviate of market volatility would serve the overall economic performance of the region, leading every stakeholder therein to commit ever greater sums of money (but not relative to GDP) to the operations and maintenance of this institution.

This option takes into account the demographic weight of a stakeholder as well as its position in the market. Although demographic fluctuations are rare, we have seen Azerbaijan increase dramatically in population, whereas Armenia has seen a steady decline owing to its workforce going to Russia for work. There would need to be agreement as to what constitutes a member of the demographic pool of a stakeholder (there is a large Armenian diaspora worldwide which contributes to the Armenian GDP; would this count?) On the other hand, such a funding scheme might make it attractive for regions to welcome back internally displaced persons (IDPs) from previous conflicts.

The third option would see equal participation among the parties in terms of function funding. To be clear, stakeholders would be free to contribute to the function of their choice. There would need to be serious discussion about the meaning of fairness in this case. Setting this aside, the greater concern would be the replication of regional fragmentation – or worse, the co-opting of certain functions that would become directly attached to national interest. For example, what are we to think of an ombudsman function that is funded exclusively by one (or two) of the stakeholders? Another problem would be built-in neglect; certain functions of the institution would receive more attention than others. In terms of the management of interests understood as access, availability, affordability and sustainability, we can certainly be worried that very few might decide to fund a function attached to the development of sustainable (and renewable) energy in the South Caucasus, for example. Nevertheless, this option opens the door to the notion of discretionary funding. This would be extremely useful in a research and development function, where one or more stakeholder might chose to use the institution to achieve certain objectives in common.

The third option would be beneficial in guaranteeing funding, because it would always be tied to national interest. However, being tied to national interest, one could expect regional fragmentation to be reproduced institutionally, and even certain functions to predominate over others, making the system and processes lopsided. Certainly, this would not be a feature that would encourage the development of an institutional identity separate from particular interests.

Factors to Remember

Of course, any of the three options above can be modified, mixed, etc. as long as the process is equitable to all stakeholders. Nevertheless, there are some factors to consider as a funding process is implemented. Perhaps the most important one would be to protect that process against changes in national administration and government.

Since the objective of this regional institution would be the pursuit of the welfare and benefit of constituents (of the region), it can be assumed to be unchanging, and not connected to the type or persuasion of any given administration within the region. That is, the survival of an institution –

although never absolutely guaranteed – should never be subject to the whims of any stakeholder. Defection from the goals of constituent welfare and prosperity through this institution should be prevented. One suggestion is to found the funding process of the institution within the respective national legislation of the stakeholders'. This way, the endeavour would emerge from a national decision rather than, for instance, a "party" decision. The way to do this is, of course, to "ratify" the decision to create a multinational institution – perhaps including a negotiated funding process – at parliamentary level.

In addition to parliamentary ratification, a memorandum of understanding (MOU) establishing or confirming an agreed funding process should be registered among all stakeholders, reaffirming commitment to common funding, and to the life of this multinational institution. The point is to make it "illegal" to defect from one's funding responsibilities. Further to the subject of legality, the whole structure could be made subject to the International Court of Justice, so that defection, if it does occur, would not only entail sanctions at the level of this multinational institution (for example expulsion from its decision structure), but also condemnation at higher levels.

One should also consider that as this institution is designed to be inclusive, other stakeholders may wish to join it after inception. Then the founding stakeholders should also be clear about the mechanisms and conditions for membership, and this should also account for non-state actors, such as civil-society organizations, or representation from industry. For example, the stakeholders who choose to determine the funding process as a "percentage of GDP" would have to define an equivalent measure for non-state actors. In other words, what is the "GDP" of an energy company? Is it a percentage of its profits? Of its stock value? That has to be decided. The problem is all the more acute when considering civil-society actors. Usually, NGOs are not-for-profit, so there should be an equitable mechanism there too to enable fair participation within the institution, if that is what is wished for by the stakeholders.

Finally, stakeholder decision-making on the use of money should stop when the accounts of the institution are filled every year. This means that conditionality does not accompany the money allocated every year (except

in a case where stakeholders would allow a certain level of discretionary national contribution to the institution). From the point that the institution receives funds, as we have argued above, its permanent secretariat, or secretary general, whichever the case may be, must have freedom to execute the institution's mission without national interference.

"Sovereign" Administration

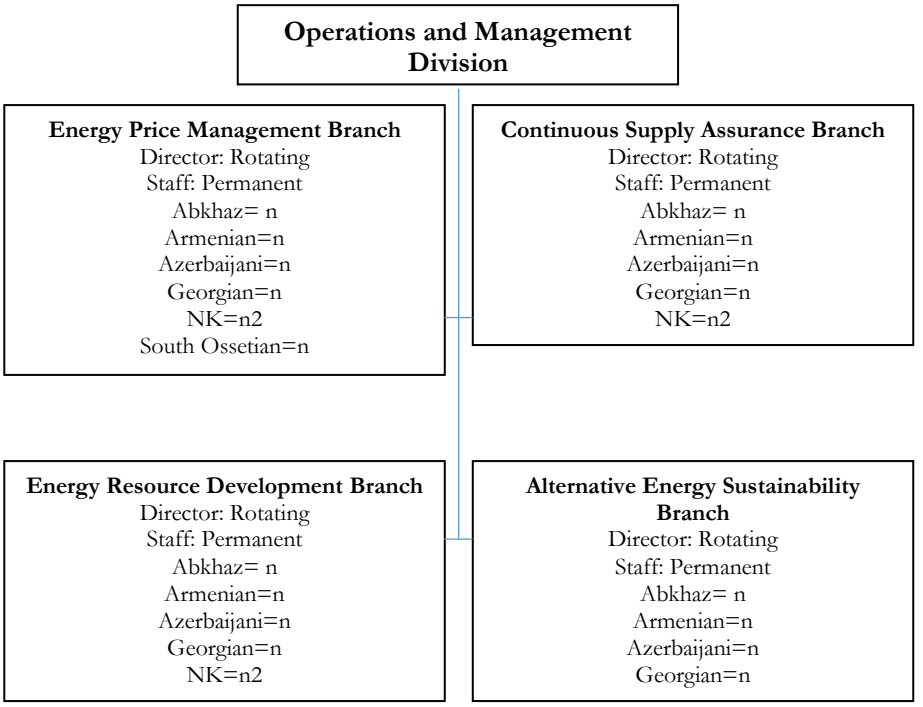
Once a method of funding has been agreed, it follows that the administrative mechanisms for budget planning and allocation should be set up. The institution would have its own planning cycle, preferably matching the fiscal years of the stakeholders. Annual allocation, as we have said, should be buttressed by national legislation to guarantee funding, and expose the stakeholder to punitive action in case of non-payment or defection from the multilateral treaty that underpins the funding process or the existence of the institution. Decisions about planning cycles should be left with the authorities in charge of administering the institution, and not national legislatures or stakeholders' boards.

It is primordial that the internal methods of funding be streamlined and also equitable. In certain commonly-funded institutions, it sometimes happens, as new functions are developed, that a funding allocation will not always follow. This author recalls how, in the Baltic Defence College, a trinational defence institution created by Estonia, Latvia, and Lithuania, certain divisions enjoyed their own budget, whereas others were subject to the approval of the Dean or the Deputy Commandant on a day-to-day basis, rather than division heads having the same discretion with their respective budgets. The consequences of this sort of asymmetry are clear; it fosters jealousies between functions which are nevertheless deemed equally important. Furthermore, the work of any of the division can be affected from year to year depending on the attitude of officers (Dean or Deputy Commandant) who are not directly related to execution of work of any of the divisions of which they nevertheless hold the budgets of.

In a post-conflict context, rigorous symmetry must be respected, especially in the functions dedicated to the balance of interests in energy security (access-availability-affordability-sustainability) which the institution is called to manage. The multinational composition, number of staff and salaries, in

particular, should be identical (see Figure 1). This would prevent certain conceptions of energy security from dominating others, and thereby exposing the institution to the charge of discriminating against certain energy security conceptions – and thereby, certain fundamental stakeholder interests. In this sense, it can be said that the institution would enjoy a certain level of "sovereignty" of action. This author believes that this "sovereignty" enables the institution to permit the participation of non-state actors and partially-recognized or non-recognized national and political groups in its midst.

Figure 1: Four energy security functions – Staffing, Composition and Funding



Clearly internal funding (operations and management) is directly dependent upon the number of staff. But the number of staff is also dependent upon the number of stakeholders. In Fig. 1, above, we have provided each function with the same composition to avoid discrimination and the predominance of one function over the other.

The manner in which each division would make its plans should ideally be harmonized also, but this cannot be guaranteed at this stage, as so many bureaucratic agencies tend to operate in silos – independently of one another. It is beyond the scope of this paper to suggest a coordination mechanism to reconcile all energy security functions. However, any change within any of these particular agencies would need to be reflected in the others as well. To control "growth" of the agency, therefore, there would need to be a higher authority to permit staff composition, remuneration or staff number fluctuation.

Trust Fund Management

During the 13th workshop of the Regional Stability in the South Caucasus workshop held in Chisinau, Moldova, the idea of creating a trust fund to mitigate the economic and social impacts of energy crises was suggested.

A trust fund, although purely an economic instrument, nevertheless participates to the function of crisis management. As such, it is also intended to prevent disputes from arising in cases of acute energy price fluctuations. As was discussed in Chisinau, energy security depends on whether a country (or stakeholder) has accessible, available, affordable and sustainable energy. Since a country like Azerbaijan has little to fear in terms of access and availability, energy crises usually happen when a resource becomes depleted, or when its price falls dramatically. A trust fund could be tapped into to alleviate the social consequences of price or resource fluctuation.

While a price increase will inevitably benefit an energy-rich country, a country which depends on affordable energy for social stability and economic development will find itself at a disadvantage. Armenia, which has suffered energy-related riots in the last two years, would benefit from an injection of funds to alleviate the increase in energy costs. Again, the trust fund would be a tool of economic and social risk alleviation. Others, like Abkhazia and South Ossetia, might find access difficult, and the problems associated with transportation may make energy there permanently more expensive than elsewhere. Steady trust fund subsidies may also help in such a situation.

Common funding of a multinational regional institution dedicated to Energy Security Management would inevitably have to feed this trust fund.

Considering the crises it would be called to alleviate, one can surmise that the sums dedicated to it would have to be considerable.[4] For this reason, and also because of the principle of interdependence – that the impact of energy price crises or interruptions may be carried down the supply chain – it may be envisaged that the stakeholders of the institution and of the trust fund might be different. For example, countries like Ukraine, Russia, Turkey, or even organizations such as the European Union or the Collective Security Treaty Organization (CSTO) may be permitted to contribute to the trust fund.

The question this section seeks to address is what proportion the trust fund should have relative to the costs associated in operations and maintenance. The costs of O&M are related to capital expenditures, amortization, and human resources. Let us postulate that the infrastructure has been offered pro bono but that eventual maintenance will have to be assured by the institution. We cannot infer here a cost, but we can infer a formula which relates the average square meterage per staff (based on best practices in ergonomics), equipment cost per staff, and maintenance cost per square meter of infrastructure.

Figure 1 above represents probably one third of the establishment; some 32-50 people. So we can expect a full establishment of some 150-180 people working for the benefit of a total population of some 15 million region-wide. This latter figure is important because the trust fund is supposed to serve that constituency in case of energy crisis. The former figure is important to determine administration costs relative to the trust fund burden.

The formula should be n x $40m^2$ = Infrastructure size, x 3 for land. So we are talking of a building of 6,000-7,200m^2 on a land of some 18,000-21,600m^2. The annual cost of maintaining such infrastructure in a Western country is on average 30 USD per m^2 per year, so half a million to 648,000 USD per year. Add to this an average salary of 30,000 USD annually (very generous for the region), a range of 4,5 to 5,4 million USD per annum, and the annual budget of the institution should be at least 5 million dollars

[4] As a way to reduce that burden, a regional strategic energy reserve could also be set up, but that is the subject of another article.

annually. This represents 30 cents per person in the region in terms of tax revenue expenditure.

Now if the trust fund is designed to alleviate price shocks at economic and social levels, we must account for the per capita cost of energy in the South Caucasus. For example, Armenia, Azerbaijan and Georgia's constituents used respectively 969, 1,474 and 1,032 kilograms of oil equivalent per capita in 2013 for energy consumption.[5] That is respectively 6.9, 10.5 and 7.4 barrels per capita. In 2013, the average price of the barrel was some 92.5 USD.[6] So the annual individual expenditure in energy of an Armenian, Azerbaijani and a Georgian is respectively equivalent to 638.25, 971.25 and 684.25 USD. However, the price of the barrel has been halved in the last three years and now stands, at time of writing, at 42 USD.[7] Clearly, an advantage for the individual consumer, but equally a catastrophe for energy producers like Azerbaijan. The trust fund would therefore alleviate this severe drop in revenue according to an equitable formula. Starting from a nominal "100" mark at the inception of the trust fund for every stakeholder's constituent energy use, a certain proportion of funds would have to be allocated when there are severe fluctuations.

For example, if the cost of energy per capita increases to 150 per capita, the trust fund could be used to amortize that shock in a certain proportion (the formula would have to be agreed to by the stakeholders). The same would happen if there is a price decrease to 50 per capita in an energy-producing country. One formula could be half the average from year one. Let us say we take the data from 2013; the result would be some 382 USD per capita for that year for the stakeholder that requires assistance. The trust fund, if it is to cover all constituents in the South Caucasus, would amount to a value of 5.7 billion USD. This calculation is indicative only, and serves to give a proportion of 1:1,000 for the maintenance of the institution relative to the trust fund.

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5 World Bank consulted 2 December 2016, http://data.worldbank.org/indicator/EG.USE .PCAP.KG.OE.

6 Tim McMahon. Historical Crude Oil Prices (Table). InflationData.com 1 May 2015. http://inflationdata.com/Inflation/Inflation_Rate/Historical_Oil_Prices_Table.asp.

7 Ibid.

Conclusion

Admittedly, this exercise is theoretical and serves to provide the reader and the workshop member with some ideas. None of the suggestions made here is meant to be definitive, but rather are meant to get a regional brainstorm going. At 5.7 billion USD, such a trust fund might be difficult to generate against the many other responsibilities of each of the stakeholders. But this author recalls an article published in the New York Times, penned in January 2001, in which the author, Thomas L. Friedman, thought the cost of 5 billion USD until then expended to secure peace in the Balkans had been wasted. History proves otherwise even if this money has been spent on sundry peacebuilding projects by the European Union, NATO and other civil society actors.

But this was a decade and a half ago. 5.7 billion USD might be less difficult to generate now when so much is at stake and perhaps this should be the signal to get actors outside the South Caucasus more involved in this region. Also such an amount needs not be injected immediately but gradually (furthermore, there would be an incentive in establishing such a multinational institution while energy prices are relatively low).

In a nutshell, much still needs to be discussed, and the task appears overwhelming. However, this author believes that institution building, if it is to take place, requires the careful consideration of all aspects of implementation. Taken in the detail, institution building does not look like what it professes to be. For example, this article has spoken about actuarial practices, budgeting and funding. While this is merely a food-for-thought paper, the plans it may eventually generate will also necessarily be partial. We hope that future workshops will fill in the gaps, or that policy recommendations will be taken up by other actors to be put into action. For this, the workshops of the Regional Stability in the South Caucasus Study Group should continue to be a useful tool of track-two diplomacy and confidence-building for conflict regions. The co-chairs certainly believe that a topic of common interest, such as energy, can be leveraged in the context of functional institutionalism, and that the many prior successes experienced with the creation of the United Nations, the European Union, etc., can be recreated in the South Caucasus.

PART III:

ESTABLISHING AND MANAGING CRISIS COPING MECHANISMS

All Hazards Emergency Management Policy-Making and Capability Generation

George Vlad Niculescu

Introduction

In response to the topic of this presentation, I introduced CRISHOPE[1] – a regional model for modern institution building for consequence management and early recovery in the aftermath of disasters in the Greater Black Sea Area – as a potential blueprint for the South Caucasus Incident Prevention and Response Mechanism (IPRM) proposed in Chisinau.

All regional actors are able to deal with small disasters, but most of them could hardly handle the consequences of major energy disasters on their territories. This is mainly because they do not have the required capabilities, resources, and, in many cases, the practical experience for dealing with major incidents. Therefore, a regional institution with an in-built IPRM capability for energy-related disasters would be a way to create synergies by pooling resources and sharing capabilities among them. However, the "unresolved conflicts" in the SC are hampering regional cooperation at the institutional level.

The CRISHOPE research identified key principles (KP) for regional institution building on disaster relief and disaster risk reduction, and Standard-Objectives (SO) for the development of modern, more effective and efficient government institutions. A regional Process of Planning and Continuous Improvement should foster dialogue, exchange of experience and practical cooperation on implementing the SOs. At the institutional level, this process could involve relevant public institutions in formats with "variable geometry" enabling project/issue-oriented participation of regional actors while avoiding political sensitivities against some neighbors, for example Azerbaijan vs. Armenia or Russia vs. Georgia. At a non-

[1] For details see: http://www.cseea.ro/crishope.

institutional level, participation of the relevant civil society organizations, private companies, media, and local communities should be envisaged.

Major international assistance donors may play a key role in implementing this model by embedding the SOs in their cooperation and partnership instruments, and by using the CRISHOPE reference model as a platform for providing assistance and for monitoring progress on implementing reforms.

Excerpts of the article published in 2012 within the proceedings of the international conference on "Early Recovery and Consequence Management in the Aftermath of Natural and Man-Made Disasters in the Greater Black Sea Area", organized by the Centre of East European and Asian Studies-CEEAS in Bucharest, on 28-29 January 2012,[2] that has been used for documenting this presentation can be found below:

CRISHOPE Comparative Study on Early Recovery and Consequence Management in the Aftermath of Natural and Man-Made Disasters in the Greater Black Sea Area (GBSA)

CRISHOPE Team, Centre for East European and Asian Studies-CEEAS Bucharest (Romania)

1. The Challenge

Over the last 20 years, the Greater Black Sea Area (GBSA) covering the territories of Armenia, Azerbaijan, Bulgaria, Georgia, Republic of Moldova, Romania, Russian Federation, Turkey, and Ukraine as well as the Black Sea basin has itself faced a broad range of natural and man-made disasters, including earthquakes, floods, landslides, terrorist attacks and industrial accidents.

Over this time span, in spite of the existence of some international agreements and practical cooperation involving regional countries, the vulnera-

[2] See http://www.cseea.ro/upload_tiny_mce/file/Volum%20International%2021052012%20si%20coperta.pdf.

bility of individual GBSA states to the consequences of natural and man-made disasters has increased due to a unique combination of factors: insufficient reforms (on legislation, strategies, policies, inter-agency coordination mechanisms, capabilities, management and operating procedures) leading to relatively lower levels of preparedness, effectiveness and efficiency; lack of a comprehensive threat profile; poor regional cooperation involving national experts, academics, researchers and NGOs; little flexibility and adaptability of the national institutional systems to ongoing demographic modifications (increased urbanization, and, in some areas, population growth), and climate change/variability; rare involvement of national and international NGOs and civil society; and little understanding of the role of individual citizens and local communities.

2. The CRISHOPE Project

CRISHOPE aimed to provide a detailed, qualitative research of the current means, instruments and mechanisms employed in the field of consequence management and early recovery in the aftermath of natural or man-made disasters in the Greater Black Sea Area. The **direct beneficiaries** of the CRISHOPE project should be the GBSA countries that are more specifically:

a) **central and local authorities**, who might take the lead in implementing the reference model in accordance with the national threat assessments and the available resources;

b) **academic and scientific communities** who might broaden their international cooperation, as well as their interaction with relevant authorities, and who might turn the results of the project into specific university programs and training courses;

c) **civil society** who should be involved in the development and implementation of the reference model.

The **indirect beneficiaries** of the project will eventually be the citizens of GBSA states who would acquire a more prominent role in dealing with the consequences of disasters affecting their own communities through the

empowerment, increased activism and responsibility promoted by CRISHOPE.

The CRISHOPE team is expecting that the implementation of the regional reference model for consequence management and early recovery in the aftermath of natural and man-made disasters in the GBSA would lead to: comprehensive reforms of the relevant national systems and inter-agency mechanisms in regional countries; enhanced regional cooperation both among national and local authorities, and among relevant academics and scientists; stronger involvement of, and sounder responsibilities for the civil society, local communities and individual citizens.

The following research objectives have underpinned the work of the CRISHOPE research team:

a) To investigate present mechanisms, instruments, procedures, and institutional structures for early recovery and consequence management in the aftermath of natural and man-made disasters within the Greater Black Sea Area (GBSA);

b) To analyse comparatively current strategies, government policies, decision making processes as well as other aspects (including mitigation, resilience and adaptation) which are relevant to the early recovery and consequence management in the aftermath of natural or man-made disasters in the GBSA countries, as well as in the United States and at the level of the European Union;

c) To elaborate based on the acquired knowledge, a reference model for early recovery and consequence management in the aftermath of natural and man-made disasters that is both adapted to the profile of regional disasters and to the particularities of the GBSA countries. This reference model shall be made available (as open source) for expert and political review region-wide;

d) To promote regional cooperation and transfer of knowledge, expertise and best practices in the field of early recovery and consequence management of natural and man-made disasters.

3. CRISHOPE Project Implementation

The CRISHOPE team developed a clear and relevant methodology of academic inquiry in the field of early recovery and consequence management of natural and man-made disasters as well as the CRISHOPE questionnaire, which was widely distributed both during the study trips and via the Internet; it also gathered and published on the project's webpage documentation including public legislation, strategies, policies and other relevant documents from the states of the Greater Black Sea Area in the field of early recovery and consequence management in the aftermath of natural and man-made disasters. The team conducted 7 research and study visits to Armenia, Bulgaria, Georgia, Moldova, and Turkey, as well as to the United States and to Brussels The researchers identified many non-governmental organizations from Armenia, Azerbaijan, Bulgaria, Georgia, Moldova, Romania, and Turkey interested in contributing to the implementation of the project, and 11 cooperation agreements were signed by the Centre for East European and Asian Studies (CEEAS) with those who were ready to do so.

4. Basic Requirements for the CRISHOPE Regional Reference Model

The CRISHOPE regional reference model should aim at helping regional countries to reduce their vulnerability to disasters by developing comprehensive and coordinated approaches to early recovery and consequence management in the aftermath of disasters.

The **focus on institution building for early recovery and consequence management in the aftermath of disasters** which should be promoted by this model does not mean that there is a lack of institutional capacity in any of the regional countries. Its meaning is rather related to the common need of regional countries to modernize such institutions with a view to making them more effective, more efficient and better adapted to the current demographic and climate changes. This common need could make building modern institutions a possible main goal for regional cooperation in the GBSA. Regional dialogue, exchanges of experience and practical cooperation could help GBSA countries to meet that goal.

The CRISHOPE project team implemented this project with the understanding that it could only **add value by promoting a practical approach to early recovery and consequence management in the aftermath of disasters**. Such an approach was welcomed by the project stakeholders with whom the CRISHOPE team met during the study trips. A practical approach would involve, on the one hand, the need for greater flexibility of the regional reference model which should be adaptable to the individual needs and circumstances of interested regional countries. On the other hand, advisory teams and education and training programs should support the implementation of the reference model to the individual needs of each interested regional country. In addition, the practical approach of the CRISHOPE model might turn it into a regional resource for increasing the effectiveness and efficiency of relevant international assistance by major donors, such as the UNDP, US, EU, and NATO, by offering a comprehensive platform for monitoring progress achieved by each regional country, and for coordinating international assistance on institution building for early recovery and consequence management in the aftermath of natural and man-made disasters in the GBSA.

5. Key Principles for Early Recovery and Consequence Management in the Aftermath of Disasters in the GBSA

After completing most of the project implementation phases, the CRISHOPE team concluded that there has been a broad support among the GBSA regional stakeholders in early recovery and consequence management in the aftermath of disasters for **6 key principles (KP),** which are being considered essential for the successful implementation of the CRISHOPE regional reference model for institution building for early recovery and consequence management:

KP1. The CRISHOPE model emphasizes regional expertise and ownership, promotes best practices at the institutional level, strengthens the involvement and the responsibilities of civil society, local communities and individual citizens, and promotes regional cooperation, for example by facilitating relevant exchanges of information and experience.

KP2. Although the CRISHOPE model is focusing specifically on enhancing national and regional performance on early recovery and consequence

management, it does so as part of a comprehensive approach which is addressing mitigation and enhanced resilience to disasters, as well as the adaptation to ongoing demographic modifications, and climate change/variability. It is developed under the assumption that the efficiency of consequence management and early recovery could be significantly enhanced by investing resources in preventive mitigation and in raising preparedness for dealing with disasters.

KP3. The CRISHOPE model assumes that the GBSA countries are implementing the Hyogo Framework for Action (HFA) 2005-2015 for Disaster Risk Reduction (DRR) and are accepting its priorities for action:

a) ensure that DRR is a national and local priority with strong institutional support for implementation;
b) identify, assess and monitor hazards and enhance early warning;
c) develop and implement a national strategy, and policy to use knowledge, innovation and education to build a culture of safety and resilience at all levels;
d) develop and implement a national strategy, and policy to reduce the level of risk;
e) strengthen disaster preparedness and improve the effectiveness of response at all levels.

CRISHOPE is consistent with, and meant to mutually reinforce, the HFA, by complementing it in accordance with the regional disaster risks and threats profile, as well as with the political, social, cultural and security particularities of regional countries. CRISHOPE is stimulating related regional cooperation initiatives/projects while avoiding any duplication of efforts or conflicting roles, priorities and commitments part of the HFA.

KP4. Although the CRISHOPE model takes into account the primary role of public institutions in performing consequence management and early recovery, it also aims at meeting the requirements of human security, including the protection of individual rights of citizens, in line with relevant constitutional and legal provisions in GBSA countries. This approach is based on the importance of enhanced functionality and efficiency of relevant institutional procedures and structures while attaching an appropriate value to human dignity and respect for human rights.

KP5. Effective and efficient early recovery and consequence management of natural and man-made disasters, at the national level, requires:

a) a high level of disaster preparedness;
b) well established operational procedures to identify risks and perform needs assessments;
c) flexibility and adaptability of structures and procedures to suit the needs and the conditions on the ground, and to respond to requirements for newer, more adaptive, resilient and mitigation-based approaches due to changes in the technology and experience bases;
d) exchange of experience and information at the regional (GBSA) level, in spite of possible diverging political, security, or socio-economic interests and concerns.

KP6. GBSA states are able to use common standards, procedures, practices and systems. Their national strategies, policies, and capabilities for early recovery and consequence management will be more effective and efficient if they are inter-connected and better integrated.

6. The Standard-Objectives of the CRISHOPE Regional Reference Model

In order to help regional countries to reduce their vulnerability to disasters, the CRISHOPE regional reference model has formulated **four standard-objectives (SO).** These SOs are fundamental for the development of modern, more effective and efficient disaster relief and early recovery institutions in individual GBSA states, and have been developed taking into account relevant best practices in the United States and in other Western countries. The CRISHOPE model is also proposing a **regional process of planning and continuous improvement (PPCI)** aiming to help regional countries from the GBSA to meet the SOs through fostering and promoting dialogue, exchange of experience and practical cooperation at both institutional and non-institutional levels.

At the institutional level, the regional PPCI could involve relevant public institutions from GBSA countries in formats with variable geometry enabling project/issue-oriented participation of regional countries while avoid-

ing political sensitivities against some neighbours, for example Azerbaijan vs. Armenia or Russia vs. Georgia. At a non-institutional level, participation of the relevant civil society organizations, private companies, media, and local communities should be envisaged, while appropriate exchanges and coordination with the institutional level should be maintained.

6.1. Standard Objective 1: Legislation

The aim of Standard Objective 1 (SO1) is to develop and implement effective and transparent legislation for disaster relief, early recovery and disaster risk reduction (DRR).

The CRISHOPE research team has identified, translated into English and published on its webpage a large number of relevant laws and other normative documents from GBSA countries. However, during the research activities a number of issues requiring review in most of the GBSA countries popped up.

In Georgia, the CRISHOPE team found that inter-agency cooperation at lower levels (regional or local) is actually hampered by existing legislation. There is no appropriate legislation on enhancing the preparedness for and prevention of disasters. Current legislation is rather focused on disaster response, while there is neither legal nor institutional framework for public-private dialogue.

In Armenia, the legal framework for disaster prevention, preparedness and response is well developed. However, cooperation of public institutions with private companies and with the civil society is sometimes difficult because of the lack of specific legislation and of appropriate cooperation mechanisms.

Having in view the need of most GBSA countries to **review their legislation** for disaster relief, early recovery and DRR, the CRISHOPE regional reference model is suggesting that such a review might be focused **on the following priorities**:

a) developing a clear division of roles and responsibilities of state institutions at national, regional, and local levels, as well as

establishing a clear set of supporting roles and responsibilities for non-institutional actors (including civil society, private companies, local communities, and individual citizens). This definition of roles, responsibilities and relations among various actors should strengthen the "institutions-working-for-the-citizen" approach, and should cultivate within state institutions, at every level, the respect for the individual rights of citizens. It should also take into account the need for empowering citizens and non-governmental actors, and for implementing positive discrimination policies for the under-privileged and vulnerable categories of citizens that may have special needs in the aftermath of disasters;

b) establishing mechanisms/arrangements for inter-agency cooperation, institutional management decentralization, cooperation with non-governmental organizations, and public-private partnerships;

c) establishing appropriate procedures for guaranteeing public access to information, both prior to and during disaster relief operations;

d) developing mechanisms/arrangements for cooperation and coordination with neighbours or with other states, as well as with international organizations.

6.2. Standard Objective 2: Policies, Plans, Capabilities and Management

The aim of Standard Objective 2 (SO2) is to develop effective and transparent national strategies, policies, and capabilities, as well as operational and management arrangements to build resilience to disasters, and increase adaptation to ongoing demographic change and climate change/variability.

Most GBSA countries are currently deeply engaged in modernizing their doctrines, policies, and capabilities, as well as their operational and management arrangements for addressing disaster relief, early recovery and DRR. However, they are basically working in quasi-isolation from each

other pursuing their own plans and policies and paying relatively little attention to what their neighbours are doing. This approach could hardly lead to developing their ability to use common standards, procedures, practices and systems, or building more effective and efficient systems through increased inter-connectedness and better integration of national systems.

The key areas where most GBSA countries need further improvement and where they might benefit both from regional exchanges of experience and cooperation and from adapting Western models to their individual needs are the following:

a) adopting a bottom-up approach to disaster management;
b) planning and operational inter-agency coordination;
c) prioritizing disaster risks, and developing relevant capabilities and budgets accordingly; the emphasis here should be on development of proper, operational tools for risk identification, risk assessment, risk analysis, risk matrix building and risk scenario building as a continuously updated basis for local, regional or national response and prevention plans and as a way of strengthening institutions and building relevant capability at different levels;
d) focusing on building capacities at a local level;
e) decentralizing resource management by empowering the local level, while establishing a transparent system of financial planning and spending;
f) effective and transparent management of human and financial resources.

For example in Armenia, most interlocutors of the CRISHOPE study team believed that inter-agency cooperation was working well. They thought they had very good inter-agency planning, including in cases of major earthquakes, as well as well-established mechanisms for contingency planning. However, the biggest challenge for Armenia has been the implementation of these plans mainly because of the lack of adequate financial, material, and human resources, in particular at the local communities' level. The creation of the Ministry of Emergency Situations (MES) in 2008 has been very helpful in coordinating work on disaster prevention, preparedness and response. Armenian authorities have approved the creation of a

National Crisis Management Centre which would enhance inter-agency cooperation on operational and training matters. However, one interlocutor asked CRISHOPE to suggest solutions for enhancing the management of human and financial resources, in particular at the local communities' level. Another one asked for recommendations on how to mobilize the resources of the state institutions, the private sector and the population to enhance their joint disaster response.

In Georgia, according to NGO sources, the Ministry of Interior, who is the leading operational coordinator on disaster response at governmental level, would actually tend to minimize the national efforts in the prevention and preparedness phases of the disaster management cycle, while being too focused on response to disasters. In contrast, other Georgian governmental agencies, such as the Ministry of Regional Development and Infrastructure and the National Environmental Agency, seemed to be much more focused on aspects related to preventing disasters and DRR. This apparent policy de-synchronization might be alleviated in the future by the recent designation of the National Security Council (NSC) as the main decision making body on response to national security threats, including in the area of crisis management.

In addition, the Parliament of Georgia has recently approved the National Response Plan on Natural and Man-Made Emergencies. This is a very positive step towards a well-coordinated inter-agency response to disasters. In addition, it seems that the decision-making and budgetary allocation mechanisms are being too heavily centralized, leaving to relatively few competencies and resources at the regional and local levels. Consequently, NGOs could hardly cooperate with local communities on DRR projects. In the views of the Georgian civil society there is also much room for improving the transparency of governmental decision making and budgeting in the area of disasters prevention, preparedness and response, as well as for enhancing the quality of the public data delivered by the Statistics Department.

Azerbaijan established the Ministry of Emergency Situations in 2005. The mission of the Ministry is the evacuation of the population to safe zones, search and rescue and other emergency activities in the aftermath of industrial and natural disasters. A Joint Operational Headquarter has been creat-

ed, including representatives of the Ministry of Emergency Situations, the Ministry of Defence, the Ministry of National Security, the Ministry of Internal Affairs, and the Ministry of Health, the Ministry of Transport and other ministries, which is tasked with contingency planning and with ensuring better inter-agency operational coordination during post-disaster interventions. However, in Azerbaijan there is no National Disaster Management Action Plan to facilitate integrated disaster response by ensuring appropriate cooperation among planning structures and the development of planning procedures at a national, regional or local level.

To help GBSA countries to better focus, coordinate and integrate their national efforts **to modernize national strategies, policies, and capabilities** for building resilience to disasters and increase adaptation to demographic and climate changes at a regional level, as well as related **operational and management arrangements** this standard-objective of the CRISHOPE regional reference model might focus on the **following priorities**:

a) developing operational mechanisms and capabilities to identify, assess and monitor hazards and enhance early warning;
b) developing and implementing effective and transparent national and sectorial strategies and policies;
c) developing and implementing effective and transparent planning structures and procedures at national, regional, and local levels, including a National Response Plan or other organized and documented effort to integrate disaster response;
d) developing and implementing effective and transparent disaster relief and early recovery operational structures and procedures, at national, regional, and local levels;
e) establishing national Inter-agency Emergency Operations Centres to coordinate national operations and contingency planning, to conduct regular national exercises and training, and to supervise operations, exercises, training and contingency planning at national, regional and local levels;
f) developing and maintaining affordable communication, operational, and logistic capabilities corresponding to current disaster risk assessments;

g) developing effective and transparent structures and procedures for personnel management, including: recruitment, education and training, career planning, professional assessment, promotion, and retirement;
h) developing effective and transparent financial planning, resource management and logistics structures and procedures;
i) developing an inter-agency system for collecting, sharing and integrating data and information within the current system for education and training including lessons-learned from recent disaster relief and early recovery operations.

6.3. Standard Objective 3: Non-Institutional Actors.

The aim of Standard Objective 3 (SO3) is to enhance the involvement and the role of non-institutional actors, including civil society, private companies, the media, local communities and individual citizens in disaster relief and early recovery.

The involvement of non-institutional actors, including civil society, private companies, the media, local communities and individual citizens in disaster relief and early recovery is currently rather marginal in most GBSA countries. Even in countries where such involvement might be overcoming the marginal level, the legislation, institutional framework, and the ability to play an active role are under-developed. However, in all GBSA countries visited by the CRISHOPE team both authorities and representatives of civil society expressed a genuine interest for making significant progress in this area.

In Georgia, the National Response Plan involves the Red Cross which was assigned as coordinator of contributions by NGOs to disaster response operations. The Georgian authorities are conducting information sharing with civil society on a regular basis (annual information meetings where main priorities of MoI/EMD are presented), and there is a database of volunteers prepared to intervene in disaster response operations. However, in the opinion of Georgian civil society there is much room for enhancing the role and involvement of the civil society and local communities by providing education and training on disaster prevention, preparedness, and response and for enhancing the access of the civil society to information on

what is being done on DRR. In addition, in Georgia there would be neither legal nor institutional frameworks for public-private dialogue.

In Azerbaijan, although there are no local volunteer organizations, specialized in disaster relief, there is a civil defence structure in each organization which ensures the safety of the people, and who would be implementing protective measures in emergencies. They are conducting regular trainings of workers responsible for evacuation, communication, first medical aid, radiation control, dispensing gas masks and other safety actions, and, in case of emergencies could serve as volunteers. Azerbaijani experts are deeming international assistance as a resource for enhancing the involvement of local communities and volunteers in disaster relief by: conducting public education programs; disseminating early warnings to all potentially affected people; preparing lists of available local resources; organizing community safety teams; conducting rescue and evacuation operations; providing disaster relief and medical supplies to affected people; identifying community and individual needs; providing relief and recovery services; providing rehabilitation assistance to disaster victims.

For Armenia, changing the mentality of the population to become more involved in disaster prevention, preparedness and response is a real challenge. The Armenian state is very much committed to achieve such a change by appropriate education and training. There is a specific education subject which is taught in all Armenian schools. The Ministry of Emergency Situations and the Ministry of Education and Science have developed manuals and are now considering introducing elements of disaster prevention, preparedness and response within other subjects which are taught in schools. They are also developing ways to include specific elements in the education programs of kindergartens. One NGO who met the CRISHOPE team suggested organising a training programme for students who might play the role of knowledge multipliers in this area. Armenia is one of the GBSA countries which made significant progress on DRR, including by establishing a national platform involving public institutions and civil society on all five HFA priority areas. Education and training on DRR in particular for local communities seems to be a high priority for state agencies, the UNDP and some local NGOs.

Building upon the existing needs in this area of the GBSA countries, and on the good practices developed in Western countries, the CRISHOPE regional reference model is suggesting the **following priority areas** for this standard-objective:

a) developing effective and transparent legislation and policies to ensure/enhance the involvement of non-institutional actors, in particular on awareness raising, recruitment, education and training, and responding to the basic needs of the population affected by disasters;

b) developing effective and transparent mechanisms/arrangements for engaging existing volunteer organizations and individual experts in operations;

c) facilitating the establishment of volunteer organizations, and of a network of national experts and volunteers available to assist public authorities;

d) establishing effective and transparent communication mechanisms/arrangements between national authorities and non-institutional actors, consistent with national legislations and international best practices;

e) facilitating the access to relevant education and training of non-institutional actors, and the development of research capabilities in universities, NGOs, research centers, and private companies.

6.4. Standard Objective 4: International Cooperation and Assistance

The aim of Standard Objective 4 (SO4) is to develop and contribute to institutional and/or non-institutional arrangements in the Greater Black Sea Area, ensuring effective transnational assistance, information and experience exchanges and cooperation on disaster relief, early recovery and disaster risk reduction at both bilateral and multilateral levels.

All GBSA countries are able to deal with small disasters, but most of them could hardly handle the consequences of major disasters on their territories.

That is mainly because they do not have the needed capabilities, resources, and, in many cases, the practical experience for dealing with major incidents. Therefore, the aim of CRISHOPE to stimulate regional cooperation in the GBSA on disaster relief, early recovery and disaster risk reduction makes a lot of sense since it would be a way to create synergies by pooling resources and sharing capabilities among regional countries.

Most GBSA countries visited by the CRISHOPE team have been actively involved in cooperation on disaster relief, early recovery, and DRR with major international assistance donors, in particular with the UNDP, NATO, the US and the EU, but also with some of their neighbours or with other GBSA countries, both in the framework of BSEC and beyond it.

On the other hand, the so-called "unresolved conflicts" on the territories of some of the GBSA countries are plaguing regional security, by undermining stability and by hampering regional cooperation at the institutional level. This was obvious during the implementation of the CRISHOPE project as well, when a country rejected the visit of the CRISHOPE study team on the grounds that its main "enemy" was also participating in the same project. Participation of government officials in regional cooperation activities involving officials from an "enemy" country was also questioned in another GBSA country, while it was admitted that, at non-institutional level (civil society, private sector, local communities, and media) cooperation with representatives of an "enemy" country might be possible.

Given that disaster/emergency management is a soft security area, we believe there is plenty of room for improving the track record for regional cooperation in the region. This could be best achieved on the basis of regional ownership, through regional cooperation and flexible international partnerships within the framework of a process for continuous improvement and adaptation. However, one should emphasize here the prospect of international and regional cooperation as a means of burden-sharing not of burden-shifting.

Moreover, this cooperation should be based on prioritizing actions that allow for participating countries to maximize comparative advantages and benefits as well as impact, but at the same time it should also be open to building multinational capabilities. Last, but certainly not least, regional

cooperation could best progress on the basis of sub-regional, topic-based clusters of participating states through building the capacity of these states to identify their own needs in the field of disaster/emergency management and engaging in cooperative forms to meet those needs. A possible issue might be the costs of such cooperation, but this is a false obstacle when considering the costs of inaction and refusal/withdrawal from cooperation. Sustainability is key here, and regional cooperation should thus be based on a framework of sustainable planning built around interoperable and increasingly integrated systems within what could possibly be a soft security regional regime/framework/network.

6.4.2. Findings of the CRISHOPE Study Visits

Most Armenian interlocutors of the CRISHOPE study team would welcome enhanced regional cooperation in this area as a confidence building measure among neighbouring countries who might have tense relations, in particular from the Caucasus. In addition, one Armenian interlocutor suggested that the CRISHOPE project should recommend to national authorities from the GBSA the creation of a regional network of disaster response capabilities to be used for mutual support in case of major disasters. By developing "practical regional cooperation with variable geometry", that is projects-based multilateral cooperation among interested countries, where the specific countries involved may vary between activities, the unfortunate consequences of the unresolved conflicts on regional cooperation in the GBSA might be successfully tackled.

At the level of the Georgian MoI/EMD there were pretty high expectations for receiving international assistance on improving legislation and enhancing operational capabilities for the protection of population and environment in emergency situations from a new twinning project, sponsored by the EU, which was due to start in autumn 2011. There is a CBRN threat in Georgia which might generate disasters because of CBRN materials trafficked from Russia through the territory of Georgia. Currently, there are a number of Georgian trainers from the Training Centre for Emergencies Situations trained in the US on how to handle a CBRN disaster.

Azerbaijani experts considered that regional cooperation in the GBSA could have a significant contribution in strengthening community involvement in early recovery and consequence management in the aftermath of natural and man-made disasters. For example, it may contribute to: developing and maintaining disaster risk reduction training programs; developing and implementing a public awareness program; developing and disseminating a range of disaster awareness information. Interlocutors from other GBSA countries were also interested in participating in regional cooperation on enhancing the involvement of non-institutional actors in disaster relief and early recovery.

The CRISHOPE reference model is suggesting the **development of GBSA regional cooperation** on early recovery, consequence management along **the following priorities**:

a) active membership in international and regional disaster assistance and disaster relief mechanisms and with institutions, including the EU MIC, and NATO's EADRCC;

b) participating in international information and experience sharing, and in "practical regional cooperation with variable geometry in the GBSA" (i.e. projects-based multilateral cooperation among interested countries where the specific countries involved may vary between activities);

c) facilitating assistance by relevant international donors (including the UNDP, the EU, the US, and NATO), and regional cooperation to ensure/enhance the involvement of non-institutional actors in disaster relief, early recovery and disaster risk reduction;

d) facilitating public awareness and involvement of the media in the aftermath of disasters in the GBSA countries, by participating in regionally coordinated press campaigns in the aftermath of disasters, or by contributing to establishing specialized regional media opportunities, and to regular regional media broadcasts.

7. Conclusions

Setting up practical regional cooperation on early recovery and consequence management (possibly with "variable geometry") would require: a good blueprint, which could be provided by the CRISHOPE reference model; political will and support from regional countries; an appropriate legal basis providing cooperation mechanisms which would allow effective resources pooling and capabilities sharing; multinational exercises facilitating the identification of regional capability gaps; practical projects supported by international donors aiming at filling in the capability gaps; a common set of standards and operational procedures in disaster management and disaster risk reduction. Avoiding duplication with existing cooperation mechanisms, such as the Euro-Atlantic Disaster Response Coordination Cell (EADRCC), the EU Community Mechanism for Civil Protection (EU CMCP) and the Eastern Partnership flagship initiative for Prevention, Preparedness and Response to Natural and Man-made Disasters (PPRD East), or the Working Group on Cooperation on Emergency Assistance of the Black Sea Economic Cooperation Organization (BSEC) is highly recommended.

The CRISHOPE regional reference model aims to help regional countries to reduce their vulnerability to disasters by developing comprehensive and coordinated approaches to early recovery and consequence management in the aftermath of disasters. To this end, it has formulated four standard-objectives: 1) Review and implement legislation; 2) Develop and implement effective and transparent policies, plans, capabilities, as well as management arrangements; 3) Enhance the involvement of non-institutional actors, including civil society, private companies, the media, local communities and individual citizens; 4) Develop, contribute to and implement bilateral and multilateral cooperation arrangements in the GBSA.

The CRISHOPE project team implemented this project with the understanding that it could only add value by promoting a practical approach to early recovery and consequence management in the aftermath of disasters. A practical approach would involve, on the one hand, greater flexibility of the model which should be adaptable to the individual needs and circumstances of interested regional countries. On the other hand, advisory teams and education and training programs should support the implementation of

the reference model to the individual needs of each interested regional country. In addition, the practical approach of the CRISHOPE model may also be reflected in turning this model into a regional resource for increasing the effectiveness and efficiency of relevant international assistance by major donors, such as the UNDP, the US, the EU, and NATO.

To generate practical consequences, the CRISHOPE model should be translated into a flexible, open-ended political framework, committing interested GBSA countries to implement the standard-objectives in accordance with their individual needs and circumstances, and to pursue the regional process of planning and continuous improvement. A small group of countries might take the lead in setting up such a political process/framework, and create the political momentum needed for adoption by a majority of, if not all, GBSA countries.

The focus on institution building for early recovery and consequence management in the aftermath of disasters promoted by this model is rather related to the common need of regional countries to modernize such institutions with a view of making them more effective, more efficient and better adapted to the current demographic and climate changes. From this perspective, building modern institutions should be the main goal for regional cooperation on early recovery and consequence management in the aftermath of natural and man-made disasters in the GBSA.

To implement this goal the CRISHOPE regional reference model is proposing a regional Process of Planning and Continuous Improvement (PPCI) through relevant dialogue, exchange of experience and practical cooperation. A Regional Centre for Information Exchange on Consequence Management and Early Recovery in the GBSA could offer institutional support to the PPCI. This process may be developed at both institutional and non-institutional level. However, it is essential that each of these two levels conduct their activities in full transparency and in close coordination with each other. Cross-participation of institutional and non-institutional experts in activities organized at the other level of cooperation is highly recommended.

The BSEC Agreement and its Additional Protocol, although offering a legal basis for emergency assistance and emergency response to disasters,

do not cover regional cooperation on institution building being rather focused on operational aspects of disaster relief. Until recently, they have taken a narrow perspective on disaster management rather than a comprehensive approach which would be addressing mitigation and enhanced resilience to disasters, as well as the adaptation to ongoing demographic changes. This has started to change with the BSEC decision to establish the Ad-hoc WG on Evaluation of Seismic Damage and Risk, though progress in the work of this new structure is still to be seen. In addition, the BSEC Agreement is paying lip service to the growing role which should be paid by the non-institutional actors in disaster relief, early recovery and DRR. The CRISHOPE model is most relevant to the work of the BSEC Working Group on Cooperation on Emergency Assistance. Without a prejudice to the possible interest of this WG to play a role in its implementation, a discussion with BSEC members of the WG and/or with the relevant experts of the BSEC PERMIS should be organized in the near future. Such a discussion might aim at opening further opportunities for cooperation between the CRISHOPE community and BSEC experts.

The PPCI should provide expert advice to those countries of the GBSA who would undertake efforts to adapt the CRISHOPE model to their individual needs and circumstances, and, where possible, it could also organize specialist training activities (workshops, short courses) for interested public institutions from the GBSA countries, building upon the successful experience of the Mobile Contact Teams.

One possible example of practical regional cooperation with variable geometry in the GBSA might be the establishment of a "Disasters Response Capabilities Sharing" initiative. Such an initiative might help interested GBSA countries to share critical capabilities in the shape of highly specialized personnel, expensive equipment (such as air or sea transport and SAR, MEDEVAC helicopters, CBRN detection and monitoring systems, etc.), and commodities with other GBSA countries affected by a major disaster while establishing a firm legal basis for the reimbursement of related costs, and for ensuring the interoperability needed to cooperate with other countries' responsible authorities. Such a program might be developed on the basis of setting up capability sharing and standardization mechanisms among interested GBSA countries building upon the experience of the US Emergency Management Compact (EMAC) and the Emergency Manage-

ment Accreditation Program (EMAP). The possible implementation of such a program might have an incentive effect on the GBSA countries who might be interested in pooling resources with a view to invest in acquiring and maintaining such critical capabilities, since they would know that they might get a reasonable return for their investment by having them used by a number of neighbouring countries. [...]

For the PPCI to become effective at the non-institutional level a new mentality of approaching early recovery and consequence management in public-private-civil society partnerships should start to emerge in the GBSA countries. This is the only way in which the challenge of aggregating public, private, and NGO resources into more effective and efficient responses to an increasing demand for disaster relief, early recovery and DRR activities can be achieved.

As possible topics for the regional PPCI, at a non-institutional level, the data gathered by the CRISHOPE study team converged towards:

a) legislation and policies to ensure/enhance the involvement of local communities and volunteers in disaster relief and DRR;
b) awareness raising on disaster relief and DRR of the population;
c) mechanisms for effective engagement of NGOs and volunteers in disaster management operations;
d) arrangements for dialogue, coordination, information sharing and cooperation on disaster relief, early recovery and DRR between private stakeholders and national authorities;
e) increasing public awareness and the involvement of the media in disasters relief and early recovery in other GBSA countries;
f) education and training needs for experts in disaster relief, early recovery and DRR at the level of the local communities, private companies, and civil society, and the most effective ways to address these needs. [...]

Major international assistance donors, including the UNDP, the US, the EU, and NATO, may play a key role in implementing this model by promoting and supporting the adoption of the political framework, by integrating the standard-objectives with their cooperation and partnership instruments for regional countries, and by using the CRISHOPE reference

model as a platform for monitoring progress and for providing assistance to GBSA countries. Donor assistance may be provided by advisory teams sent to interested GBSA countries to provide advice on how to best implement the model in accordance with individual needs and circumstances, as well as through support for establishing regional education and training programs at various levels and for various functions (practitioners, civil society, citizens, etc.). Major international assistance donors might also consider taking the lead in, or contributing to establishing the Regional Centre for Information Exchange on Consequence Management and Early Recovery in the GBSA, which should offer institutional support to the regional PPCI.

Last, but not least, the CRISHOPE model is based on the fundamental belief that tackling disasters in the GBSA and achieving meaningful and sustainable regional security in the face of natural and man-made disasters is a task which can only be achieved in concert, through a stay-with-the-challenge approach by preparing oneself individually and collectively at the regional level to constantly improve and adapt in an interoperable and integrated fashion.

Report of Discussions on the Planning of an Energy Security Management Institution for the South Caucasus

Frederic Labarre, George Niculescu and Elena Mandalenakis

Introduction

This section of the Study Group Information booklet (SGI) is not like in previous versions of workshop proceedings; it enlarges on the presentation papers of our speakers by detailing what the workshop participants have done subsequently with the information provided during breakout group and plenary discussions. The 14th workshop of the RSSC SG, which had been joined by the Security Sector Reform Working Group, went beyond the mere "study" of a problem. It proposed a plan of action for practical purpose, and did so with a great attention to detail. This report gives and appreciation of those discussions, and provides added insight to the formulation of policy recommendations distributed to South Caucasus capitals, headquarters of major international organizations, and institutes of higher learning. As usual, the summary of recommendations can be found at the end of this SGI booklet, but the co-chairs felt it would be helpful to describe the process whereby these recommendations were achieved. It was further felt useful to inform the reader and the other members of the RSSC SG of the motives for such a radical departure from the usual workshop format.

The RSSC SG gave itself the mandate, in collaboration with the Security Sector Reform Working Group (sponsored by the Geneva Centre for the Democratic Control of Armed Forces – DCAF) to examine more precisely the topic of defence institution building (DIB), upon the urging of the PfP Consortium's executive director, Raphael F. Perl. Although the PfP Consortium's Regional Stability Track (which unites the Study Groups on RSSC and the Regional Stability in South East Europe – RSSEE) has always worked on the process of security institution building ever since the creation of its component Study Groups, the desire was expressed to focus more on the topic of defence. Unbeknown to the U.S. Department of Defense and the executive director of the PfP Consortium who were

championing this approach, this was inadvisable in the context of the South Caucasus. To reconcile this wish with the realities on the ground, the co-chairs (spearheaded by George Niculescu) decided to attract attention on the enduring problem of energy security in the South Caucasus, and to unlock the promises of regional institutionalization in this field.

Under the leadership of George Niculescu, the RSSC SG had already achieved a significant breakthrough at its 13th workshop, which had been held in Chisinau, Moldova, in April 2016. The breakthrough in question came when the group proved unexpectedly ready to discuss the topic of regional institution-building. Lest we forget, the April workshop took place merely five days after the most ferocious fighting in some twenty years had resumed between Armenia and Azerbaijan over Nagorno-Karabakh.

The co-chairs capitalized on this enthusiasm for the ensuing Reichenau workshop, where the ideas discussed in Chisinau were unpacked and explored in detail. The method employed was to invite topical experts on institutional and change management to share best practices with participants from the South Caucasus. Thereafter the organizers provided generous time for intra-group discussions in two separate breakout groups. The idea of two breakout groups was indeed made necessary by the sheer magnitude of the task that the workshop had set; propose a plan to establish an energy security management institution at regional level.

Background

At the Chisinau workshop, panellists discussed the various definitions of energy security, as they applied to respective South Caucasus actors. Each conception of energy security corresponds to a country's relative energy dependency. In turn, particular challenges will emerge from this relative dependence, and challenges will be made more security-sensitive because of the political situation currently brewing in the South Caucasus. The workshop reiterated what the literature[1] had already discovered: that there were predominantly four dimensions of energy security, some of which contradicted each other. The first dimension is access; the second is availability,

[1] See F. Labarre. (2015). Review of Literature on Energy Security 2009-2014. NY: Ithaka/JSTOR (Unpublished).

the third affordability, and the fourth is environmental sustainability. The latter dimension pertains to developed economies' penchant to reconcile environmental concerns (not unlike those expressed in this volume by Dan Harvey in his piece) with alternative and/or innovative energy provision. A country is energy-secure when it has access to resources that can be extracted. Not only can that country provide for itself, it can also sell the extracted commodity down market, generating revenue. This is most evidently the case of Russia and Azerbaijan. Otherwise, countries are energy-secure when sources of energy are affordable. This is because commercial competitiveness is connected to low energy prices since a large part of national security is dependent upon economic development. Nowhere in the South Caucasus is this more cruelly demonstrated than in Armenia. For that country, lacking access and direct availability, affordability of energy is essential. In previous SGI and policy recommendations, the co-chairs have repeated that the "electric riots" that have rocked Yerevan in 2015 were events that made the social fabric vulnerable to sudden energy price hikes. The lessons of the 2008-2009 "Great Recession" show how interconnected economies are prevented from recovering quickly because of high energy prices. Therefore energy affordability is undeniably linked to external and internal security, and this perspective is also salient for energy producers.

Energy availability is another important dimension of energy security. Availability is defined as the ease and reliability with which a country can procure the energy – at almost any price – that it requires. The "gas crises" that have affected Ukraine in 2006 and 2009 are crises of unavailability. Owing to the fact that the dispute arose between Ukraine and its suppliers over new delivery contracts, one can also say that the crisis would have migrated from "availability" to "affordability" had the Ukrainian government accepted the new trade terms from Gazprom, the main energy supplier. The problem for Ukraine would have probably been an early "Maidan" against the government, not unlike what was witnessed in Armenia over electricity in 2015. To an important extent, Georgia and Armenia are similarly exposed to availability interruptions, and therefore need good relations with Azerbaijan.

Finally, energy security is also sustainability. Taken out of context, the term "sustainability" may be understood as "regularity", or uninterrupted flow of energy. But in fact it is a construct developed by Western nations to push

for energy diversification, innovation, and environmental-friendliness. The root of this concept has emerged from the idea that energy provisioning is itself a source of insecurity; think of the tanker wars in the Persian Gulf in the late 1980s, or oil spills in Alaska (the Exxon Valdez in 1989) or in the Gulf of Mexico (the Deep Horizon drilling platform explosion of 2010) and even the 1998 Ice Storm in Eastern Canada. Secure energy means the provision of commodities that do not endanger the ecosystem or other sectors of the economy, such as fisheries, agriculture and tourism. Thus an agenda for alternative energy, or "clean" energy is one that has emerged from sophisticated economies able to devote generous resources to research and development, backed by vibrant democratic principles. The relative lack of economic and commercial diversity of the South Caucasus does not absolve actors from proper environmental stewardship. However, far more urgent priorities preoccupy the region's leadership. Nevertheless, an important realization is the point that regional stability would be gravely impacted if energy flows were disrupted by a catastrophic incident either natural or man-made.

This, at any rate, were the conclusions upon the closing of the Chisinau workshop; energy disruptions and cost spikes, whether market- or incident-related, could have catastrophic consequences on the already fragile stability of the South Caucasus. In the case of a pipeline disruption, the local cost increases might benefit a supplier-country like Azerbaijan, but not if the client cannot afford the cost of energy anymore, or if deliveries cannot be made for a lengthy period. Similarly, the cost increases cannot be absorbed by client countries because of already narrow profit margins. In this case, the costs will be transferred to consumers who will have to make the cruel choices of whether to procure food for their families or warmth for their homes. Companies would face a similar dilemma; pay energy bills and lay off the workforce, or shut factories down altogether. None of these choices are appealing to local governments because they introduce stress into society which is usually relieved in the street.

The intention of the Chisinau workshop was to divorce politics from the "business" of energy. The outcome sought was to make business interest predominate over that of political or national interest in the energy sector. The Study Group did acknowledge, however, that for some countries, business and national interests are often indistinguishable, making the ob-

jective of divorcing politics from business out of reach.[2] The solution that emanated from discussions was reminiscent of the idea that gave birth to European Coal and Steel Community or Euratom in the 1950s, and which eventually led to the creation of the European Union. The interpretation of an "energy security community" as preconized by the 13th RSSC SG workshop in Chisinau took the shape of an "energy security management institution", with an embryonic structure drafted in one of the breakout groups. This initiative propelled the topic for the 14th RSSC SG workshop, jointly with the Security Sector Reform Working Group (SSR WG) in November 2016. What follows is a detailed narrative of how the ideas of the 13th workshop were developed in depth. Throughout the discussions and therefore in this description, Chatham House rules are rigorously maintained and so no allusion is made as to the origin of suggestions or comments.

The Breakout Group Discussions of the 14th RSSC-SSR Workshop

The point of departure for establishing an energy security management institution (hereafter the Institution or the Agency) is the reconciliation of energy security definitions (and therefore interests) among the cast of characters of the South Caucasus. We have already presented these definitions in the previous section. The ultimate objective is the creation of an Institution or Agency robust enough to spill over into regional and political stability. There was great accordance with this objective, it having been reached in Chisinau already. This removed the political component from the discussions and enabled two breakout groups provided by the co-chairs to undertake their work in relative serenity.

The breakout groups were named Dumbarton Oaks and San Francisco to ensure that workshop participants maintained their objectives at the top of their minds. Indeed the United Nations Organization began from talks held at Dumbarton Oaks in Washington, DC and later in San Francisco. The humility of such an organization's beginnings can only help in bringing a sense of proportions to the breakout groups' activities. The Dumbarton

[2] Here, the institution that can help make the most headway is the World Trade Organization which substitutes its own constraints and policies to those of its member states. In such a context, the WTO could extract business from politics. Alas, not all South Caucasus countries are members of the WTO.

Oaks breakout group was led by George Niculescu and the rapporteur was Elena Mandalenakis. The San Francisco breakout group was run by Frederic Labarre, and its rapporteur was Elizaveta Egorova.

San Francisco

The San Francisco breakout group discussed the structure and terms of reference (ToRs) for the Institution's functions. The intention was to stimulate the breakout group participants to reflect deeply on the potential consequences of the choices that they made on the life of the Institution. Participants were urged to consider not only the principles of efficiency and effectiveness, but to reflect on how the choices they proposed could be perceived in various regions and constituencies of the South Caucasus. How would regional governments perceive the initiative as a whole? How would they react to this as opposed to that selection or funding process? How would the public react? What would be the consequences for the work atmosphere within the Institution, and the serenity of the working environment?

Immediately, a participant seized on the necessity to for establishing a body that would embody trust in the Institution. In essence, a Board of Trustees (BoT). An interesting fact about the suggestion for this BoT was that, for the breakout group participants, it would act as "legitimate initiator" of the Institution, even if the question of the setting up of a Board of Trustees was somewhat eluded. Indeed, what would be the interest of having various industry, NGO, policy and sundry public figures sacrifice their time for such an endeavour (remuneration, as in other BoTs, is usually minimal) when they have to keep an arm's length relationship with the Institution that they create, merely to avoid conflicts of interests? The initial interest would have to be grounded in some sort of collective desire to generate security and stability for the region, in addition to the condition of operating in a post-conflict context. This would be predicated upon preliminary meetings and consultations among eventual trustees.[3] Trustees themselves

[3] The idea of proceeding "step-by-step" from platforms with carefully-crafted agendas has been proposed by the Dumbarton Oaks breakout group, whose discussions are detailed below. Perhaps the conclusions of Dumbarton Oaks and of San Francisco can be reconciled to help create a BoT.

would have to have an impeccable business and personal reputation to embody the "trust" that the Institution hopes to generate from among the constituencies it is designed to serve. It is assumed here that the BoT would generate its own rules of procedures and decision-making. The San Francisco breakout group deliberated that one of the critical functions of the BoT would be to select a Secretary-General for the Institution.

By that time, however, the breakout group had already elaborated much of the Institution's structure. In particular, it had advocated for the establishment of a division where the four definitions of energy security would be managed. The breakout group had also created an emergency management function as well as a division of public affairs and an operations and maintenance (O&M) division to see to the daily activities of the Institution. Eventually, it was agreed that the BoT would select a Secretary General on a 2/3 majority, and that the Secretary General would have full freedom for shaping the organization below him or her. This did not elicit any objections from the members of the San Francisco breakout group, nor did any questions emerge in later plenary discussions.

This co-chair registered a word of caution concerning the idea of letting the Secretary General shape the organization. While the first incumbent to the job of Secretary General might reasonably expect to follow the initial guidance and mission imparted to the Institution (a mission statement was drafted by the San Francisco breakout group later in the discussions), it is by no means certain that a) the Institution will acquire a life of its own in the short term (enabling the founding mission to be deeply ingrained in its activities), and b) that spill-over effects will have manifested themselves in the medium term. In other words, the mission of the Institution could be "forgotten" through the shaping and re-shaping of the organization away from the original intent by well-meaning Secretary Generals before the Institution can be self-sustainable, and before genuine stability in the South Caucasus has been achieved. In fact, we could expect the efforts of managing regional energy security concepts to falter if it is seen by the stakeholders that a Secretary General begins making "self-serving" or "national" changes to the structure. It is the suggestion of this co-chair, therefore, that the Secretary General's powers be somewhat curtailed by the BoT or by the Institution's by-laws.

This being said, there were actually no objections to the Secretary General having such sweeping powers. However, the San Francisco breakout group had already drafted much of the Institution's structure. It was therefore acting, as it were, in lieu of the Secretary General. It was therefore decided to interrupt the work on the terms of reference and institutional structure, but to retain what had already been achieved as a holistic recommendation for any potential first incumbent as Secretary General. The San Francisco breakout group thereupon focused on the framing of a functional mission statement on which to base the Institution.

It is heart-warming to report that the inspiration for the eventual mission statement came from the experience of the creation of the United Nations. The San Francisco breakout group was inclusive and representative of the whole South Caucasus (irrespective of political status, origin, or national definition). Perhaps it is for this reason that there were no adverse reactions to making the mission statement of the Institution equally inclusive. The co-chairs feared that the mission statement would reflect "state" participation in the Institution, and that attempts at extending the representativeness of the Institution to partially-recognized political entities might be thwarted. This co-chair insisted that the final audience of the Institution – the audience it was designed to serve – were not states, but rather individual constituents. Inversely this also suggested that representatives of partially-recognized regions would not attempt to use the Institution as a platform for sovereignty or independence promotion. This co-chair is of the opinion that any attempt by partially-recognized entities to push a "national" agenda through this Institution is likely to paralyze its work, to the detriment of all. It would be hoped here that the principles of the better-known theories of international relations would prevail in maintain the stakeholders' good processual behaviour. Otherwise, this will call the need for precise rules of procedures to prevent blocking actions or stakeholder defections. In view of the occasional self-damaging policy-making witnessed in the South Caucasus, one does not expect to see values of cooperation and counter-defection bandwagoning to emerge in the near term. These were some of the considerations that drove the framing of the mission statement.

The first line of the mission statement is the one that required more discussion. The aim of a regional energy security management Institution would

be to "Balance the stakeholders' interests *in order to* ensure the health and prosperity of constituents." The term "stakeholder" is not accidental. We are not speaking of members, but of stakeholders. Of participants who have an interest in collective decision-making. Also the term does not denote a particular "type". The term is therefore inclusive, enabling participation from NGOs, IOs, industry, partially-recognized as well as national representatives. The breakout group wisely insisted on the conjunctive formula "in order to" (set in italic above) to distinguish between the activities (predicated by the verb "balance") and the goals (measurable results defined as health and prosperity). The opening line of the mission statement helps avoid the fate of so many bureaucracies; that of being defined by their activities rather than by their results. Health and prosperity of constituents can be measured easily; it can be done through the Institution or one of its Agencies' own feedback and assessment mechanism, through national statistical data collected through stakeholders' national agencies or statistical functions, or through the work of large international organizations, such as the World Health Organization (WHO), the World Bank Group or the International Monetary Fund, who maintain such statistics as a matter of course. The matter of institutional effectiveness would be measured by co-relating the energy security balancing effect on the health and prosperity of stakeholders. The second part of the statement reveals a certain contradiction in the opinion of this co-chair;

> "We created this energy security management organization with the aim of balancing stakeholders' interests through the management of the diversification of supply and demand, the implementation of energy efficiency measures, and to mitigate environmental and social impacts of energy crises."

Clearly the contradiction lies in the "aim of balancing", whereas we argue above that the aim is of ensuring health and prosperity. Here the gerund of the verb will hopefully be understood as equivalent to its simple infinitive "to balance", thereby limiting the statement to define activities. The second part of the statement goes on to highlight the different meanings of energy security, as presented in the first part of this report; availability, access, affordability and environmental sustainability. The problem of consequence management is also introduced as a factor of energy crises.

One of the critical functions to alleviate and mitigate consequences of energy crises had already been alluded to in Chisinau. There, it had been

argued that a Trust Fund be set up to alleviate market crashes, energy inflation spikes created by accidental rarity or deprivation, and avoid the transfer of price volatility to individual or commercial consumers. We believe that such fluctuations continuously hamper the development of a vibrant middle class in the South Caucasus. The management of the Trust Fund would therefore take place within the context and function of emergency management. Emergency management policy has been tackled by the text of George Niculescu in this volume, in addition to being discussed again briefly in the Dumbarton Oaks breakout group. For the purpose of the discussions within the San Francisco breakout group, however, a Trust Fund would act as the Institution's own "insurance" against risk. It would be used as a consequence management tool, consequences being understood as the economic, commercial, environmental and social effects of an incident, be it man-made or natural. In other words, for constituents, it is the effects that are the emergency.

Scenarios for Trust Fund Application and Administration

Thus if the Oil Producing and Exporting Countries (OPEC) organization decides to alter output to create a price increase, while this may be good news for Azerbaijan and Russia, it may spell disaster for recovering economies in Georgia and Armenia. The Trust Fund would be used to shore up those stakeholders most at risk from energy inflation. Note that willful or accidental disruption of energy flows would also have local inflationary effects that would require remediation.

Disruptions can also entail delays in payment, for which the Trust Fund could also be used in the form of temporary loans to supplying stakeholders. Alternatively, a catastrophic energy flow disruption, such as the Deep Horizon disaster in 2010, might affect other sectors of the economy. If such a scenario unfolded in Azerbaijan a trust fund could come to the rescue of the struggling tourism or marine agriculture sectors.

A Trust Fund would find many uses, and also within complex emergencies. It would need to be richly supplied. A Trust Fund could also be used in a preventive context; procuring emergency response equipment and vehicles for common use; funding the maintenance and repair of infrastructure and even research and development for alternative energy generation.

The decision-making process (and body) and administration of the Trust Fund is problematic. The San Francisco breakout group proposed several alternatives, each with its own rationale. Normally, the administration of the Trust Fund would be handled by the O&M division under the rubric of capital expenditures, procurement, investments and acquisitions. However, the O&M division's main task is to support the daily operations of the Institution, not necessarily delve into emergency management functions. Perhaps, also in the O&M division, the administration of the Trust Fund would best be handled under the "Budget and Finance" department. However, this latter section would exist for the Institution itself, and not for the South Caucasus. In the opinion of this co-chair – and of many participants of the San Francisco breakout group besides – that an actuarial function beyond the reach of the Institution's budgetary officers would be preferable to maintain the link between the nature of the Trust Fund as emergency tool and the mission of the Institution.

This notion came late in the discussions and triggered further discussions as to the exact nature of this emergency tool. Temporarily, the San Francisco breakout group participants opted to place the Trust Fund management function outside the structure, but subordinated to emergency management, even if administered by O&M, and overseen by the BoT. This complicated arrangement helped preserve efficiency, effectiveness as well as trust. However little discussion took place after that, owing to the earlier conclusion that such structural decisions would have to be made by the incumbent Secretary General.

Concluding Discussions in San Francisco

The remainder of the time was spent discussing the provision of other divisions with necessary functions, especially public affairs. At the moment this discussion took place, this co-chair thought that excessive attention was being directed on matters of "image". This was unfair on my part. With two months' hindsight, the breakout group was wise to consider strategic communications in detail. The reasons are clear:

1) an energy security management Institution – if successful – is soft power collectively expressed. Therefore members have a stake in leveraging the Institution's reputation for their own benefit;

2) to clearly establish to the outside world that it is not the toy of this or that stakeholder, the Institution needs a voice of its own, distinct from that of its stakeholders; and

3) it needs to communicate credibly not only to the regional constituents it aims to serve, but also with other institutional counterparts who may support the Institution's goals (for example, the International Energy Agency – IEA, headquartered in Paris).

A public relations/press department would presumably deal with the Institution's members' collective diplomacy effort. In other words, it would also be the only agency where the region of the South Caucasus can speak of one voice to the world. To this co-chair, this factor seemed to outshine all others; it must be recalled that at the inception of the Regional Stability in the South Caucasus Study Group back in 2012, one of the strategic objectives outlined by the main sponsor of the Study Group, the Austrian National Defence Academy, was to get the South Caucasus to develop a "strategic persona" – an identity that could be typically South Caucasian, and which would transcend regional differences and the sensitivities of frozen conflicts.

An energy security management Institution (or Agency, because some participants argued that this effort should be part of existing organization, like the Energy Charter) with a built-in strategic communication function would go a long way in stimulating this sense of community and generating common policy decisions.

Right upon closing the session, a participant alerted the breakout group that perhaps a dedicated Bank, rather than a Trust Fund, would be a better emergency management tool. The motive behind this precision was that some South Caucasus countries are World Trade Organization members, and the WTO may look upon money transfers between the Trust Fund and these countries as a form of industrial subsidy, which is prohibited in free trade practices. However, a bank would not have the same purpose; it would provide loans. How such a bank would be capitalized was not discussed, but there was a general agreement that an "emergency recovery" bank (not unlike the European Bank for Reconstruction and Development – EBRD) was perhaps the way to go.

Finally, the breakout group did not elicit any precise policy recommendations. Rather, the totality of the discussions – reproduced above – and the results they yielded (see Figure 1) were hailed as the breakout group's collective offering of policy recommendations to decision-makers. Therefore the San Francisco breakout group has produced the structure in Figure 1 as advice to any incumbent Secretary General, and delivers it in totto to any national, international, civil society, industry or non-state authority charged with implementing plans to establish a South Caucasus energy security management Institution. Whether the structure in Figure 1 can stand on its own or should be part of an existing organization, as Patrick Larkin argued in Chisinau and reiterated in this volume is not a question for this breakout group or Working Group, but, it is hoped, up to those charged with shaping this Institution. In this respect, the discussions of the Dumbarton Oaks breakout group bring much-needed guidance, as the next section will show.

Dumbarton Oaks

The Dumbarton Oaks Group was charged with the task to discuss whether there is a need to create an institutional structure with the authority and capacity to prevent, respond and mitigate the consequences of energy disasters in the South Caucasus region. This endeavour is expected to take place in a post-conflict era for the South Caucasus thus, it does not involve or negotiate the current regional conflicts.

All group participants agreed that the South Caucasus region provides the ground and opportunity for the creation of a regional energy security organization that would be beneficial to each participating stakeholder as well as to the region as a whole. Furthermore, the necessity for such an organization rises from the gloominess of the future in relation to the energy sector due to the demographic problem, climate change, conflict, etc. It is envisaged to be a step-by-step process through which the concerns and interests of the participants would be identified and the willingness for cooperation among the stakeholders would become evident.

The creation of an institution, under the name of "Black Sea-Caspian Energy Security Centre" was proposed. This Centre would function as a multinational think-tank with a permanent Secretariat and it would incor-

porate stakeholders from both the Black Sea and the Caspian Regions. The Security Centre would operate into three working groups of the Black Sea, the South Caucasus and the Caspian Sea, in order to preserve the regional focus on the South Caucasus. It would encourage intra-regional research and planning and it could develop a regional energy database to provide statistics for petroleum, natural gas, clean coal, electricity, and renewable energy for all participating stakeholders. The specific tasks of the Centre would be:

- To strengthen the region's capability in addressing global and regional issues in the energy by enhancing the coordination of energy strategies of the South Caucasus countries.

- To facilitate intra-regional trade in energy through the establishment of interconnecting arrangements for electricity and natural gas within the region such as the proposed power grid and transnational gas pipeline.

- To promote regional cooperation in energy efficiency and conservation as effective mechanism for demand-side management.

- To promote the development of new and renewable energy resources in the region as an instrument towards stable energy development in the South Caucasus over the long term.

- To serve as energy information network and exchange Centre at both regional and global level.

- To enhance the development of regional expertise in energy development and management.

- To promote private sector investment and participation in energy activities of the region.

- To undertake other related activities in connection with the abovementioned objectives.

The Centre's cooperation with the Black Sea Economic Cooperation (BSEC) and the Energy Charter (EC) was considered possible.

The formation of a neutral institution was proposed, under the name "Black Sea-Caspian Energy Security Foundation" capable of mitigating regional energy and political risk and thus, creating an environment of mutual respect and cooperation in the energy security sector by increasing state confidence. The organization and function of such a Foundation would assume equal rights of its stakeholders irrespective of their economic contribution. It would rely on a Permanent Secretariat and on the work of prominent experts on energy security issues from within and outside the region. The participant stakeholders would identify mutually beneficial investment interests while taking into account the energy business environment in each country. The Foundation could revive the existing Organization of the Black Sea Economic Cooperation (BSEC).

These proposals were accepted and encouraged by all participants. Nevertheless, a question was raised as to the region's preparedness to implement such a proposal. Instead, it was proposed to launch a "South Caucasus Regional Dialogue" prior to the institutionalization of a regional energy cooperation. This dialogue would allow for the stakeholders to define and seek harmonization of their energy security interests, policies and strategies. This Dialogue could also possibly include stakeholders from other than the South Caucasus regions.

As an alternative to the regional Dialogue, it was suggested that the establishment of the "Regional Energy Security Centre" should become a priority in order to shape regional energy policy. The Centre should consist of experts, tightly connected to the governments in order to be influential in policy formulation. Under this framework, governments would be equal partners with the private energy sector being integral to this collaboration. The Centre would be involved in regional energy crisis management, disaster response and recovery, energy disaster preparedness and disaster reduction risk (DRR). The Centre would facilitate the exchange of information between member stakeholders serving as a main tool for establishing a process of planning and continuous improvement. It would also provide training and it would design exercises on prevention and response to ener-

gy disasters. The discussants agreed that there was a need for harmonization of the member-states' disaster response legislation.

The path to the institutionalization of energy security cooperation could be as such: First, energy experts' dialogue, then a Ministerial Conference that would produce a Final Declaration expressing the ministers' political commitment to establish the regional Energy Security Centre and the Foundation. The next step would be the Negotiation of a Memorandum of Understanding regarding the establishment and the functioning of these two organizations along with the clarification of their relationship. Funding for these institutions would come from donations in the regions.

The inclusion of the OSCE would facilitate the realization of the Centre and the Foundation as a platform for the states to initiate and implement these plans. It was proposed that a linear approach to the development of this institutional cooperation starting with the Energy Security Centre would feed the development of the requirements for the Foundation.

During the discussion it was argued that duplication of energy institutions should be avoided. Nevertheless, the Energy Charter's experience on energy conferences and collaborations is considered to be a valuable asset in supporting the proposed regional energy institutions.

The group discussed the role of Russia in this new regional energy cooperation. It was suggested that Russia could have an Observer status instead of full membership for fear that it would dominate and monopolize this undertaking. The discussants were initially hesitant to include the US and the EU in these institutions. In their final proposals they included these countries. It was clearly agreed that extensive stakeholder membership would lead to a broad spectrum of projects that would eventually strengthen this regional energy cooperation.

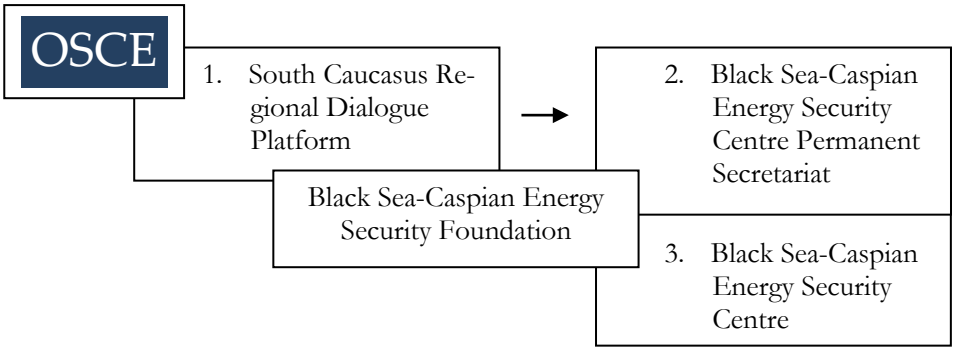
Conclusion

The reconciliation of the conclusions of the Dumbarton Oaks and San Francisco breakout groups could take place along the lines of an unofficial statement delivered by someone close to the OSCE during the last day's plenary. The statement urged the OSCE to set up a platform to study the

feasibility of this project, and so Figure 2, above, gives added weight to the role of that organization in providing a dialogue structure specifically for the purpose of an energy security management institution.

There was broad agreement as to the necessity to widen the geographical scope of the institution, and so the inclusion of the Caspian in the debates as well as in the name and functions of this institution make perfect sense. The "Foundation" would reflect the need to provide for a neutral funding apparatus. There has been no discussion as to whether a Foundation would be preferable to a bank or a trust fund, although an independent trust fund has been, for all intents and purposes, discarded as a format of funding. What matters here is that a bank or a foundation would maintain the critical function of emergency management as described above.

Figure 2: Establishing a Black Sea Energy Security Centre: A step-by-step approach



Other structures also find reconciliation; the office of a secretary general is not too different from that of a Permanent Secretariat, and if no direct discussion has taken place in plenary concerning the main structure's function (the actual Black Sea-Caspian Energy Security Centre for Dumbarton Oaks, or the Energy Security Management Organization of the San Francisco groups), there has been no disagreement as to the particular functions. Therefore, cell number three can easily be identified as the structure provided in Figure 1, with the exception of the Secretary General and Board of Trustee functions. Although it could be said that the BoT could also be understood as a Permanent Secretariat. Time was insufficient to discuss these issues.

What matters is that the prospect of such an institution has triggered significant interest from large international organizations, and also smaller ones. The Energy Charter representatives were adamant that such functions should be incorporated into the EC Treaty organization. Other participants believed that the Black Sea Cooperation Organization could be revived if endowed with the functions discussed in Reichenau. All the ideas proposed in this Study Group Information booklet, therefore, should be taken in as its own form of advice, as food for thought for any authority wishing to see the South Caucasus move beyond the current stalemate, and engage in mutually-beneficial cooperation, with the prospect of effective and rewarding spill-over effects.

SPECIAL CONTRIBUTION

"Turning up the Heat" – Climate Change in the South Caucasus: Security Challenges and Solutions

Dan Harvey

Introduction

Man is cruel, nature is ruthless; man is strong, nature is powerful; man is harsh, nature is unforgiving; man mistreats nature, nature destroys man. Man-made heat-trapping gas emissions harmfully impact the atmosphere, nature's balance is interfered with, the climate is changed and becomes warmer, wetter, with more intense and more frequent extreme weather events and risks as a result. Melting land ice, rising sea levels, desertification, severe storms, droughts, and floods, will all cause enormous environmental stress. The abrupt shift in climate adds another layer of complexity to already existing instabilities, fragilities, conflicts, and impacts security. By aggravating already brittle conditions and situations, climate change globally, but in the South Caucasus also, will be a merciless threat multiplier.

Situated at the intersection of energy and transportation lines, the region is already in the midst of a contest for energy resources in the Caspian Sea. The region's economic, political, and security dynamics are also closely tied to its hydro politics as state borders create artificial barriers for regional ecological processes. The territory of the South Caucasus is largely mountainous, the Kura-Aras River Basin is the largest in the region, and its water resources underpin the development of all sectors of the economy, agriculture remaining as one of the most important.

Armenia, Azerbaijan and Georgia, the three countries of the South Caucasus sub-region, are already exposed to changes in climate with steadily increasing air temperatures and declining annual precipitation. These increasing annual temperatures are accompanied by severe heat waves and droughts. Also linked to climate change in the region are already evidenced extreme weather events, such as heavy rains and unusual hail storms resulting in floods and mudslides.

In mid-June 2015 Georgia's capital Tbilisi witnessed nineteen deaths and damage estimated in the region of one hundred million dollars due to landslides triggered by heavy rainfalls. Overall the region is heading towards a warmer and drier climate leading to water shortages and desertification in all three countries, impacting all economic sectors including energy, agriculture, mining, and tourism, and will adversely affect human health and overall well-being. The most vulnerable will be hit the hardest. Regionally, this could lead to a worsening of interstate relations, exacerbating current tensions and volatilities. Yet, at the same time, the situation also represents an opportunity to unite against an all-pervading external threat to those within the South Caucasus, the people therein benefiting greatly from a coherent policy approach towards concrete climate change adaptation measures, an opportunity for conflict-resolution both recognised and realised.

Challenges

Demography

2016 was the warmest year on record, beating 2015 which in turn beat 2014. Our air was never more polluted, future demand for water will outstrip our capacity to provide it, and there are those who believe the Climate Change Targets set in Paris in December 2015 have little chance of being achieved. We would do well to accept that Climate Change is both a fact, and is happening already.

It is important to link Climate Change with Security from the viewpoint of the broader security agenda, with the effects of Climate Change putting greater pressure on already existing conflicts, stresses, tensions and difficulties. Because of the shift between High and Low Pressure zones, Climate Change effects will vary by region, some parts of the world getting warmer, others wetter.

Concurrently and already in different parts of the world, demography is also playing out differently: In the South Caucasus there is a clear trend towards a drop in birth rates, this deterioration in the demographic situation is explained by the circumstance of the countries transferring from the traditional to the contemporary type of population reproduction. A higher level of woman's education, more women in employment, and the latest

methods of contraception, can account for the decrease calculated per thousand residents. In 1990, the population was 26.3 in Azerbaijan, 22.5 in Armenia, and 17 in Georgia. In 2006, populations decreased to 17, 13, and 12, respectively.

However, overall, there are more people in the world. The 20th century began with 1.6 billion people and ended with 6.1 billion! Currently, there are 7.3 billion inhabitants, and by 2050 this number will increase to 9.7 billion. This means that there will be more people in the world with less water, food, and other resources to provide them with. Add instability and the complexity of Climate Change to this and you will have conflicts, deaths, devastation, and disease.

Consumption trends are actually as, if not more, important than demographic trends. With more people in the world, and more of them eating meat, the methane emissions from increased agriculture use will in fact do far more harm than what is currently being concentrated upon, namely the reduction of emissions from energy-plants powered by carbon fossil fuels (coal, oil, gas).

Also far more uncertain to calculate is the adverse effects of increased precipitation (more rainfall, wetter weather) but its effects are believed likely to be more adverse than those associated with global warming.

Transportation emissions are often not immediately brought to mind, our focus being concentrated on energy production, however currently in China alone there are 21 new airports being built, and it is calculated that by 2050 there will be as many cars there as are currently in the entire world today.

Time

Time is a critical factor. More people, more consumption, and less resources, logically means that this situation is not sustainable, yet there is an inherited inertia already associated with this issue. Even if the world were to completely stop pouring harmful emissions into the atmosphere today, those already existing will continue to do harm for years to come. The security challenges can also seem several steps removed from the

climate impact, first order: flood, drought, storms; second order: food, water, energy, and supply chain shortages; third order: inequality, failed governance, conflict, and migration.

Climate change is a crisis that will not stay contained within national borders. Climate change has the potential to be the greatest security threat in this century, impacting local, regional and global security environments. Climate change to be understood as a threat to our security needs to be unpacked and the security consequences of more extreme weather patterns understood. The three-year long drought in Syria caused one and half million people to flee their rural holdings and move from their communities into already overcrowded cities. The pressures became too much, the Syrian regime failed to respond. Protests commenced but were inadequately managed by an unresponsive authoritarian government. The original pressures were exacerbated, and interacted with prevailing political unrest, and divisions intensified. Conflict erupted and the Syrian tragedy resulted with industrial scale murder, state collapse and huge displacement on Europe's borders. More recently, with President Assad's regime close to the culmination point of its defence, a direct intervention by Russia, in its scale and scope took the world by surprise.

What is externally perceived as a refugee crisis resulting from extremism in Syria was in fact fuelled, in its beginning, by the effects of global warming. There is therefore a great urgency to lower emission levels to effect global warming below the 2 degrees target set in Paris as soon as it is possible. There are only 20 years left to stop completely emissions to reach the 2 degrees target, 8 years left if we want to reach the 1.5 degrees target. The driving impetus to mitigate against this critical, cause and effect dynamic, is to do so before Tipping Points are reached, where for instance the melting of the Parma Ice releases the methane gas trapped within, or changes in precipitation cause "Run Away Climate Change" to occur causing massive cascading effects.

Migration

The first and subsequent waves of the latest dramatic, acute, and irregular migration crises to arrive on European shores were explicitly linked to the escape from conflict and instability from the Middle East, Africa, and

South Asia and beyond. Climate change will become more than an unforgiving threat multiplier, in these areas of instability, the effects of which will likely see future significantly elevated migration flows into the Schengen zone. If this were not enough, Climate change will also be a relentless catalyst in its own right causing climatic shocks, stresses and strains. Rising temperatures and increasingly extreme weather will unleash many more mass movements of people. By pushing poverty-stricken regimes and already unstable governments into conflict, climate change will herald a new era of mass migrations.

Humanitarian crises will also result as a direct result of climate change. Extreme weather events stressing environments and devastating peoples' livelihoods rendering once highly arable land infertile where few plants with once healthy foliage will grow and once dense vegetation becoming scarce.

It is not only livelihoods, but actual lives, and depending on the extent of the various climate change disasters, entire communities even, that will be destroyed. Adverse severe weather and its disastrous impacts are and will pose direct security threats in the years and decades ahead. Access to water and arable food-producing land will contract and in some specific areas diminish altogether due to desertification. This loss of food-producing land and water sources occurring concurrently with population growth results in a deadly imbalance, an irreconcilable equation of decreasing supply and increasing demand.

This dwindling of essential life-supporting resources will create critical shortages triggering competition, provoking local disputes, raising tensions, escalating violence. Decreased food yields from diminished crops in areas will simply not support increasing populations. Higher demand in the same market as decreased supply results in increased food prices. Where these populations are already poverty-stricken they will become fearful and desperate and prone to unrest. Similarly for those who draw an income, whose livelihoods become increasingly endangered because of disappearing water sources, reduced grazing land for livestock, diminished yields from crops, all threatening incomes pushing people to seek employment and substance elsewhere and other how.

This will also contribute to increased Urbanisation, already fifty percent of the world's population live in cities, and this is expected to be at seventy percent by 2050. There is also a high likelihood that further waves of emigration are destined for Europe's shores. Because of the increasing frequency of this occurrence and the numbers involved, the absence of food and water, inhospitable living conditions, of one tribe fighting against another for mere survival, migration in the coming years may well dwarf that seen recently on European borders and will be a far greater challenge. This movement of peoples is likely to multiply into migration leading to instability. Some would argue that this vision may not be too far off. People will move or die, so people will move to live. Already due to economic reasons, there are large migration flows to and through all three countries in the South Caucasus region. The South Caucasus countries suffer from high unemployment rates in rural regions and former industrial towns which has led to high migration abroad. Also there are significant numbers of internally displaced persons (IDPs). Although economic development in the South Caucasus has improved in recent years, it has mostly been confined to a small number of areas, particularly the capitals. The vast majority of the population in the three countries is still employed in the agricultural sector. Climate change will cause increasing negative impact on this irrigated agriculture, the dominant user of water resources in the South Caucasus. Increased desertification, deforestation, the problem of soil erosion, and overall degradation of the land, will lead to a flight from the land. When the water stops flowing in its current quantity, much of the rural people will themselves start flowing elsewhere.

Transboundary Water

It is the coming interstate competition over river-borne water resources between countries from its basin and all along its course that will cause further conflict. Transboundary water will become a major source of tension as demand grows and climate change impacts making it less available and of inferior quality. Countries nearer the river source building dams and restricting or denying outright the usual flow to countries downriver.

The Nile river basin consists of more than a dozen countries with a current population of nearly three hundred million which is projected to grow to over seven million by 2050. Water is a preciously scarce resource in this

region and climate change will make the situation worse. There are fears that the building of dams in Ethiopia will result in even less water for downstream countries such as Sudan and Egypt. Human suffering will result with not enough water to meet human needs. China has built seven hydropower dams on the upper Mekong River (known as the Lancang in China), and plans to build 21 more. The Lancang crosses through Qinghai, Tibet and Yunnan before flowing into Myanmar, Laos, Thailand, Cambodia and Vietnam. There have been many concerns from the Lower Mekong communities on how these dams will impact their lives and livelihoods. Not only will in-land water disappear but coastlines will become submerged. Rising sea-levels will swamp low-lying areas and if not flooded completely these inundations will render the viability of those remaining untenable. Over time more severe storms and cyclones will further erode these landmasses. These adverse effects will of course vary from region to region.

In the South Caucasus, freshwater shortages along the course of the Kura-Aras River are already, and will become more-pronouncedly, characteristic within the region, in addition, the quality of water is low due to pollution.

In light of the conflict between Armenia and Azerbaijan such transboundary difficulties between the two states readily become politicized. Significantly, Azerbaijan has an abundance of energy resources, but not so, when it comes to water resources. As a downstream country, the greater part of Azerbaijan's water resources forms in the territory of Armenia and Georgia, by the time it reaches its territories, it arrives in far less quantity, and the quality of this far lesser supply is in a far more polluted state. This contamination contains waterborne diseases which causes health concerns.

Climate Change is expected to decrease water supply in the Kura-Aras Basin significantly by 2050, further exacerbating, by up to twenty percent, the availability of fresh water supplies in Azerbaijan, and already a semi-arid country the desertification process is likely to accelerate by twenty five percent with global warming. Indeed the region as a whole will likely experience dryer and warmer (by up to five degrees centigrade) temperatures increasing the intensity of droughts and flooding. Glacier surfaces in the Caucasus Mountains are likely to be reduced leading to problems with fresh water supply while also increasing the risk of floods. Overall these new temperatures are expected to cause new tensions, lesser water supplies con-

flicting with increasing demands for water due to the hotter, drier conditions

Solutions

Each year this decade has been warmer than the one before. With Climate Change we are entering a new era of acute uncertainty. So how to contribute towards resolving an uncertain future? No one country can solve its climate change challenges on its own. The 2015 United Nations Climate Change Conference, COP 21, or CMP 11 was held in Paris France, from 30 November to 12 December 2015. It was the 21st yearly session of the Conference of the Parties (COP) to the 1992 United Nations Framework Convention on Climate Change (UNFCCC) and the 11th session of the Meeting of the Parties to the 1997 Kyoto Protocol. The conference negotiated the Paris Agreement, a global agreement on the reduction of climate change, the text of which represented a consensus of the representatives of the 196 parties attending it. The agreement will enter into force when joined by at least 55 countries which together represented at least 55 percent of global greenhouse emissions. On 22 April 2016 (Earth Day), 174 countries signed the agreement in New York and began adopting it within their own legal systems (through ratification, acceptance, approval, or accession). According to the organizing committee at the outset of the talks the expected key result was an agreement to set a goal of limiting global warming to less than 2 degrees Celsius (°C) compared to pre-industrial levels. The agreement calls for zero net anthropogenic greenhouse gas emissions to be reached during the second half of the 21st century. In the adopted version of the Paris Agreement the parties will also "pursue efforts to" limit the temperature increase to 1.5 °C. The 1.5 °C goal will require zero emissions sometime between 2030 and 2050.

Difficulties

According to some scientists and other commentators, there are problems in dealing with climate change. Worldwide, countries are unevenly susceptible to Climate change, North Africa, the Middle East, South East Asia, southern Europe and Mexico are the most vulnerable. The time to take action is short, otherwise the consequences are irreversible. Any country that owns greenhouse gas emitting fossil fuels are resistant, Poland (coal)

USA (coal and oil), Australia, Middle East and Canada (oil), there are powerful political and economic interests at play. Overall the developed world needs to slow the pace of climate change while the developing world (India, Africa and Brazil) need to use still relatively cheap (despite the OPEC Vienna agreement to cut production with effect from January 2017) and easily accessible coal in there, to be, newly-built, fossil-fuel-burning power plants. For politicians already dealing with difficulties , economic crisis, terrorism, migration, some even involved in regional conflicts, and usually on a four-year short-term cycle for re-election , how do they reconcile long term solutions with short terms in office. It is a difficulty getting countries to focus on the challenge. The declared intentions following commitments in Paris and also at COP 22 in Marrakesh were easy to adopt, hard to implement, even for developed countries. Real action is required. Collective action is required. Urgent action is required. It must be understood that the world and so mankind is potentially in grave peril. The effects of climate change will cause huge economic loss and the loss of priceless human lives. The world must decarbonise the energy system, and quickly. Climate change is an unprecedented world problem requiring an unprecedented world solution. This raises issues of global governance. Leadership is needed to make us look 'beyond Paris and Marrakesh' otherwise the world is sleepwalking into oblivion. There is no one process for seeking solutions to this problem.

Renewable Energy

A dramatic perplexing shock may have to occur before the momentum to solve this challenge is seriously put on track. But already in the South Caucasus the early indicators of signs of gradual Climate Change beginning to take effect are becoming evident. The necessary decarbonisation of the energy system throughout the region must be achieved and both the exploration of, and exploitation of, renewable energy sources, could necessarily be a part of that solution. It is time to bring Climate Change and Renewable Energy onto the agenda. The geopolitics of Energy in the South Caucasus reason dictates must lead towards a Regional Renewable Energy Community. However the current geopolitical realities, political fragmentation, splintered energy security, and protracted conflicts in the region, are militating against a framework for a regional resources regime. Man's nature is the problem, and nature's force will be the punisher. However

why not seek to investigate ways to harness the very power of nature itself throughout the region, those sources of renewable energy that nature provides, (solar power, hydro power, wind, and waves), and make them become the norm. It is time to establish the introduction of this narrative into considerations providing a framework for a regional energy resource regime, divorced from politics.

PART IV:

POLICY RECOMMENDATIONS

Policy Recommendations[1]

Regional Stability in the South Caucasus Study Group

Executive Summary

During the 14th Regional Stability in the South Caucasus Study Group, held jointly with the Security Sector Reform Working Group, the participants developed an inclusive, region-wide plan for creating an Energy Security Management agency which would be either its own multinational institution, or a part of an existing organization.

The discussions provided significant detail as to the shape and size of this agency, and provided it with a financial function to alleviate for energy market shocks, and to respond to the consequences of shortages in member states thereby purchasing stability. The institution would also have a significant incident response role in the realm of energy.

Representatives of important multinational organizations manifested deep interest in the project, which could follow on from track two diplomacy, which the RSSC SG format provides, to track-one diplomacy at the multinational and multilateral official format.

Introduction

The Security Sector Reform Working Group for Defense Institution Building (SSR-DIB) joined forces with the Regional Stability in the South Caucasus Study Group (RSSC SG) to convene its 14th workshop in Reichenau, Austria, to implement recommendations issued after the 13th workshop, held in Chisinau, Moldova.[2]

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1 These policy recommendations reflect the findings of the joint RSSC-SSR (DIB) WG's 14th workshop, "Building an Energy Security Institution for the South Caucasus", convened in Reichenau, Austria, 10-12 November 2016, compiled by Frederic Labarre and George Niculescu, with inputs from Elena Mandalenakis, Elizaveta Egorova, Elkhan Nuriyev, Patrick Larkin and Dan Harvey.

2 "The Geopolitics of Energy in the South Caucasus: Towards a Regional Energy Community."

The 14th workshop put the emphasis on breakout groups' consultation and cooperation to lay the groundwork for an Energy Policy Management institution for the South Caucasus. The discussions therefore focused on practical matters, such as functions and terms of reference (ToRs), mission statements and organizational processes, inspired by the embryonic structure created in Chisinau.[3]

Therefore, this initiative is fully keeping with the principles of Defense Institution Building which have guided the work of the Stability Track of the PfP Consortium ever since its inception in 2000. The policy recommendations found herein are therefore the continuation of that work and are in the spirit that has animated the sponsors and organizers of every workshop since then.

Panel 1: Examples from the Field: Setting up New Institutions

Multinational institutions are born to bring competing national interests within the realm of the public good, especially in conflict situations. The panelists tried to address this conundrum in the details. One panelist cautioned against the risks of graft and corruption engendered by an institution funded from many parties. Comparatively to the region as a whole, remuneration would be much higher than the regional average, which could cause problems. To guard against this eventuality, the institution and its officers should adopt a clear anti-corruption policy to overturn the "tradition" of corruption of the South Caucasus. Some participants warned that whistle-blowing policies would be pointless without providing whistleblowers with some guarantees for their safety. Others suggested that "whistle-blowing" was also a (post-) Soviet habit that had become a tradition, and so worried that a culture of defamation and denunciation might hamper operations.

For the second panelist, a burgeoning institution is tantamount to security sector reform; at the base of this process is a political decision for change, and thereupon, the process becomes one of change management. As much as the Chisinau workshop aimed at de-politicizing change, here, it seems

[3] See Policy Recommendations of the 13th RSSC SG (Chisinau) p. 4 at http://www.bundesheer.at/wissen-forschung/publikationen/index.shtml.

that change management has inevitable political implications. At the root of such an effort is a definition of purpose which, the second panelist noted, is predicated upon a clear purpose. To clarify that purpose, a discussion on the meaning of risk versus security should reconcile definitions and support a mission statement for the institution. Following from that, a planning analysis should be carried out to determine the structure and functions of the organization.

Panel 2: Enabling Functions: Budgeting and the Law

One panelist based his presentation from pre-existing structures, arguing there was no need to reinvent the wheel. The Energy Charter is aimed at ensuring continuous transit of energy and safety of investment in the oil and gas sector. So the addition of a new function dedicated to energy security management would not be superfluous. The advantage of the Energy Charter is that non-national entities (in this case the EU and the UN) have a seat at the table, which, in a post-conflict situation, could be extended also to Abkhazia, South Ossetia and Nagorno-Karabakh. With this advantage in view, it was argued that perhaps a new function within the Energy Charter could be created to oversee energy security management.

The Energy Charter is a useful starting point; it already embraces legally-binding dispute resolution mechanisms. However dispute mitigation is equally useful, making resources (economic and operational) to alleviate market volatility for supply and demand would be required.

The second panelist spoke to the topic of common funding to feed the common budget and the putative trust fund. Common funding principles should be equitable. In the South Caucasus, a corresponding understanding of what is "fair" has to be agreed upon. Three options were proposed;

1) equal funding regardless of wealth or demographics;
2) contributions according to relative GDP, and;
3) a combination of relative GDP and in-kind contribution.

The purpose of a common budget is two-fold: first, the creation and occasional replenishment of a trust fund for socio-economic volatility alleviation. Second, for the operations and maintenance of the institution. The

trust fund would be used primarily to mitigate inflation or deflation that would affect stakeholders. The aim is to balance the cost of supply and demand, so that price crashes do not affect adversely the stability of resource-rich countries, and so that price spikes do not threaten the economic development energy-dependent markets. Operations and maintenance is straightforward; salaries, capital expenditures, procurement, and maintenance costs, including operations for response and recovery from emergencies affecting delivery infrastructure.

Panel 3: Establishing and Managing Crisis Coping Mechanisms

The first panelist described CRISHOPE – a regional model for modern institution building for consequence management and early recovery in the aftermath of disasters in the Black Sea – as a potential blueprint for the South Caucasus Incident Prevention and Response Mechanism (IPRM) proposed in Chisinau.

Most regional actors could hardly handle the consequences of major energy disasters. Capabilities, resources, and practical experience are unequally distributed. Therefore, a regional institution pooling resources and sharing capabilities with an integral IPRM capability for energy-related disasters would create synergies.[4]

The CRISHOPE research identified key principles (KP) on disaster relief and disaster risk reduction (DRR), and Standard-Objectives (SO) for the development of effective and efficient emergency management institutions. A regional Process of Planning and Continuous Improvement should foster dialogue, exchange of experience and practical cooperation on implementing the SOs. At the institutional level, "variable geometry" would enable participation of regional actors while avoiding political sensitivities among neighbours. At non-institutional level, participation of civil society organizations, industry, and media should be envisaged.

[4] At present, however, "unresolved conflicts" hamper regional cooperation at the institutional level.

International donors would play a key role in implementing this model by embedding the SOs in their cooperation instruments, and by using CRISHOPE as assistance and performance management platform.

The second panelist provided an all-hazards approach to emergency management and operations based on best practices carried out in the field, and by large international organizations. The intention of a response and recovery mechanism is to enable the institution, on behalf of its members, to respond to the proximate consequences of an emergency, thereby mitigating the long term effects on the stakeholders' societies. The presentation described policies and approaches that translate into operational capability, including planning and procuring equipment and resources for consequence management. The speaker provided a basic plan of action to manage emergencies whether natural or man-made, with a view to strengthening response and recovery regardless of the nature or location of an emergency.

Discussion Groups and Plenary

The co-chairs provided generous interactive discussion time in plenary, as well as in two breakout groups (San Francisco and Dumbarton Oaks, precursor venues of the United Nations).[5] The outcome of the discussions, presented below, act as policy recommendations for the 14th SSR-RSSC workshop.

A) San Francisco Breakout Group

This breakout group developed the structure of the regional institution, defined a mission statement, assigned roles and functions, and discussed staff selection processes.

Immediately, the discussion focused on the setting up of a Board of Trustees (BoT). How this BoT would come into being and its officers selected

[5] The names evoke the spirit of functionalist institutionalization which have led regions in conflict to settle their differences by putting in common strategic resources, much akin to the European Coal and Steel Commission, and Euratom, which have spilled over into creating the European Union.

was not discussed. It was argued that the BoT would be geographically and functionally inclusive; welcoming not only national (irrespective of official status) representatives of the South Caucasus, but also representatives of civil society, NGOs and industry. It could also extend to representation in the Caspian Sea basin and the Black Sea area. The aim of the BoT is to cement the reputation of the putative regional energy security management institution through the good standing of its members (hence a "trusteeship"). BoT members are to select a Secretary General (selected on merit by a 2/3 majority) who will have the necessary latitude to shape the institution beneath him/her.

A mission statement was also defined by the breakout group. It reads:

> "Balance the stakeholders' interests in order to ensure the health and prosperity of constituents. We created this energy security management organization with the aim of balancing stakeholders' interests through the management and the diversification of supply and demand, the implementation of energy efficiency measures and to mitigate the environmental and social impacts of energy crises."

It incorporates the four meanings of energy security; access, availability, affordability, and (environmental) sustainability. The San Francisco breakout group then proceeded to elaborate a potential structure, (Fig. 1, below) presented in plenary without objections. Lastly, it was suggested that the function of a regional trust fund be replaced by a regional bank (not unlike the European Bank for Reconstruction and Development, EBRD), lest a trust fund be used as a subsidy mechanism, against World Trade Organization rules.

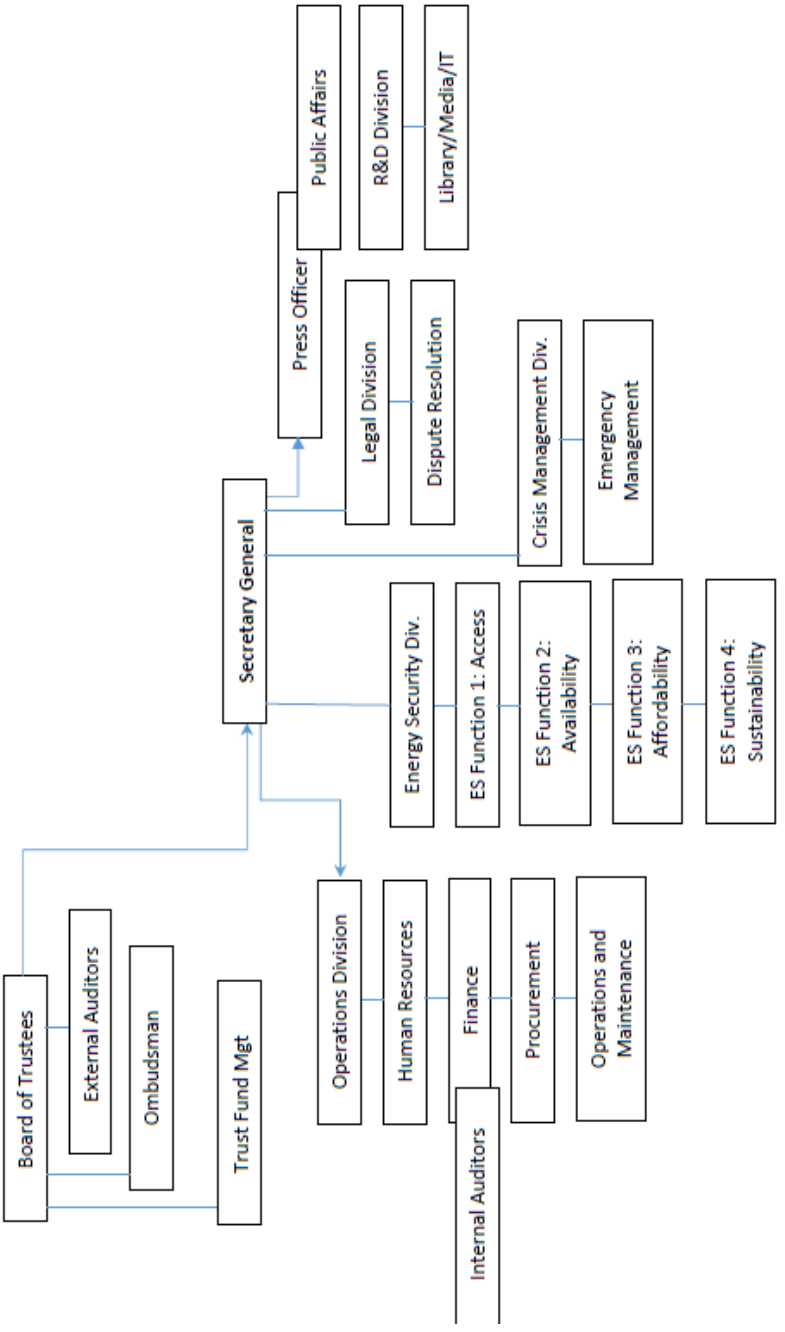

Fig. 1: Institutional structure

B) Dumbarton Oaks Breakout Group[6]

This breakout group discussed functional terms of reference (ToRs) for all hazards management policy-making and capability generation. The necessity for such an organization would arise from the uncertain future of the energy sector due to demographic problems, climate change, terrorism, cyber-attacks, etc. A step-by-step process through which the concerns and interests of the participants would be identified, and the willingness for engagement and cooperation among stakeholders would become evident was recommended. In support of this, specific functions were elicited, among which

1) Strengthening regional capability by enhancing coordination on energy issues, including disaster response legislation, policies and strategies in the South Caucasus;
2) Facilitating intra-regional energy trade through power-grid interconnection;
3) Promoting regional energy efficiency and conservation as a means to manage demand;
4) Developing long term energy stability by promoting new and sustainable power sources;
5) Providing a regional and global energy information exchange platform;
6) Enhancing regional expertise in energy development and management;
7) Promoting private sector investment in energy activities in the region;
8) Supporting regional energy disaster response and recovery, as well as energy disaster preparedness and disaster risk reduction (DRR). It could provide training and design exercises on prevention of, and response to, energy disasters.

These functions would be implemented by a "Black Sea-Caspian Sea Energy Security Centre" which would be supported by a Foundation capable of

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[6] Thanks to Dr. Elkhan Nuryiev for his substantive contribution to the discussion in this Group, and to Dr. Elena Mandalenakis for her comprehensive notes on the proceedings of this breakout group. Some of her notes are reproduced verbatim here.

mitigating regional energy and political risks, and thus, increase mutual respect and confidence. Stakeholders of this Foundation would rely on a Permanent Secretariat, and on the work of prominent experts far and wide.

These proposals were encouraged by all Dumbarton Oaks group participants. There would be a need for a "South Caucasus Regional Dialogue" to assess feasibility, enable stakeholders to define and harmonize their interests, policies and strategies. This dialogue could also include participation from outside the South Caucasus.

The step-by-step approach preconized by the Dumbarton Oaks breakout group could proceed as following: a) establish a regional dialogue with the aim of producing a Final Declaration at Ministerial level expressing stakeholder buy-in and commitment to creating a Black Sea-Caspian Sea Energy Security Centre and a corresponding Foundation; b) drafting a Memorandum of Understanding (MoU) establishing the relations between the Centre and the Foundation; and c) throughout, engage through an OSCE platform to facilitate interaction on launching and implementing this project. The Energy Charter's experience would be invaluable here.

Policy Recommendations

1) South Caucasus governments, authorities and interested parties from civil society and industry are invited to join under the aegis of the OSCE to elaborate a post-conflict regional energy security institution, according to the step-by-step approach provided above.

2) We recommend the appropriate agency within the OSCE to facilitate the process described above by providing a platform for discussion aiming to gradually elevate the track-two discussion to track-one diplomacy.

3) It is recommended to create a Foundation or a regional bank dedicated to the mitigation of environmental and social crises due to energy supply-demand fluctuations rather than create a trust fund.

4) The structure in Figure 1, above, is recommended to the putative institutional leadership (either Secretary General, or Permanent Sec-

retariat), either as a single institution or as part of a multi-agency organization to support the energy security functions of access, affordability, availability and sustainability.

List of Abbreviations

BoT	Board of Trustees
BSEC	Working Group on Cooperation on Emergency Assistance of the Black Sea Economic Cooperation Organization
BTC	Baku-Tbilisi-Ceyhan
CBRN	Chemical, Biological, Radiological and Nuclear
CEEAS	Centre for East European and Asian Studies
CMCP	Community Mechanism for Civil Protection
CSTO	Collective Security Treaty Organization
DCAF	Geneva Centre for the Democratic Control of Armed Forces
DIB	Defence Institution Building
DRR	Disaster Risk Reduction
EADRCC	Euro-Atlantic Disaster Response Coordination Cell
EC	Energy Charter
ECT	Energy Charter Treaty
EMAC	US Emergency Management Compact
EMAP	Emergency Management Accreditation Program
EU	European Union
EU CMCP	European Union Community Mechanism for Civil Protection
GATT	General Agreement on Tariffs and Trade
GBSA	Greater Black Sea Area
GDP	Gross Domestic Product
HFA	Hyogo Framework for Action
IDPs	Internally Displaced Persons
IEA	International Energy Agency
IPRM	Incident Prevention and Response Mechanism
KP	Key Principles
MES	Ministry of Emergency Situations

MoI	Ministry of Interior
MoU	Memorandum of Understanding
NATO	North Atlantic Treaty Organisation
NSC	National Security Council
OECD	Organization for Economic and Cultural Development
O&M	Operations and Maintenance
OPEC	Oil Producing and Exporting Countries (OPEC)
OSCE	Organisation for Security and Cooperation in Europe
PEEREA	Energy Charter Protocol on Energy Efficiency and Related Environ-mental Aspects
PfP	Partnership for Peace
PPCI	Process of Planning and Continuous Improvement
PPRD	Preparedness and Response to Natural and Man-made Disasters
RSSC	Regional Stability in the South Caucasus
RSSEE	Regional Stability in South East Europe
SAR	Search and Rescue
SGI	Study Group Information
SO	Standard-Objectives
ToRs	Terms of Reference
UNDP	United Nations Development Programme
US	United States
WHO	World Health Organisation
WTO	World Trade Organisation

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Band 7 / 2017

Energy security is a vital component for general security and economic development. The 14th RSSC SG publication focuses on an institutional approach to the issue and examines questions such as the following: Which institutions could be set up to improve energy supply? How can countries in the region best work together for energy security and economic development? What specific projects could be implemented?

A special emphasis was on the design of energy networks and institutions in the region, covering everything from the structure, to legal frameworks and funding. The Energy Charter Treaty is an important basis for these ideas and discussed in some detail. The publication also comprises a special contribution on the challenges of climate change.

ISBN: 978-3-903121-19-5

14th Workshop of the PfP Consortium Study Group
Regional Stability in the South Caucasus

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