The more you read, and read again, the same material but with the titles changed, the more disillusioned you become. It is as if the pundits just don’t get it, even to the extent of calling the South Caucasus part of Europe. In that particular case even Wikipedia is more accurate than most:

*Transcaucasia, also known as the South Caucasus, is a geographical region on the border of Eastern Europe and Western Asia, straddling the southern Caucasus Mountains. Transcaucasia roughly corresponds to modern Georgia, Armenia, and Azerbaijan.*

This region is more than a crossroads, it is a pitch for geopolitical intrigues, and these have far-reaching consequences: events in Turkey, the Syrian civil war, refugee flows, the rise and funding of ISIS (banned in Russia), all these events swirl around and around to provide the force for political conflict with international players.

But nowhere are America’s failed intentions more obvious than in a region that few can even find on the map. The South Caucasus was effectively a part of the Middle East, at least as far as Westerners were concerned, for most of its history. From now on it may again be so, at least when it comes to the price of oil in the BIGGER scheme of things.
Maps no longer matter

Give the region whatever geographical label you like – maps no longer matter but interests do, and unintended consequences are paramount. The very parts of it where the Western powers wanted to exert the maximum influence and the ones where this tactic is working the least.

Iran was long made out to be the bogeyman, then the good guy provided the US approved its every move. No combination of stick and carrot has worked. Iran-US relations are at their lowest point ever. Not since the Iranian hostage seize have things been more difficult.

Biden at one time wanted to ease sanctions, closing ranks with those in the Trump administration. But like most of his generation he has never got over the 1979 Islamic Revolution. Iran does not want to go back to the moot nuclear deal in return for easing up, so this must as usual be evidence of some congenital Iran evil, a strain of diplomatic COVID for which there is no known cure.

The United States has now imposed more sanctions on companies in Iran, China and the United Arab Emirates for doing business with the Islamic Republic of Iran Shipping Lines, and on three Iranian entities for furthering conventional arms proliferation, as if the US has never done that.

But at the same time Iran gets the job done by using shell companies in Azerbaijan and Georgia, especially for transfers illegal under the sanctions regime, with no consequences because the West uses the same mechanisms, often at the same time, and the interest of these deals has a cross-pollinator effect.

Energy for those who don’t need it

The US and Israel are covertly arming Sunni groups in the South of Iran for a civil war that will likely never happen. The ideology behind this is less political than pragmatic, at least when it comes to the price of oil, and what regional resources can be skimmed off the top.

Aramco, the Saudi State Oil Company, wants to pay high dividends derived by riding the American wave of geopolitical meddling. Saudi Arabia will need a high oil price to pay this dividend, and this is what is driving the current dispute in OPEC with the UAE.

The UAE is the holdout against a new price agreement, and it feels that it should be able to produce at higher levels. But if the risk is that Saudi Arabia may both profit more from its association with Uncle Sam the Great Satan, and gain more political capital from complaining about the things which it gave it that advantage, the Emirates will soon be brought into line.

The now-beleaguered Aramco has turned into something of a Ponzi scheme, after falling in line with US attempts to crash oil prices against the Russian Federation under the last US administration. Through a combination of a Biden White House and high oil prices, I guess they are keeping the Ponzi scheme going and paying out dividends to friends and foes alike.

Higher oil prices (and gas exports, whose price is tied to oil) should be favourable for Russia. I see OPEC leaning toward a lower production, higher price scenario. However, things are not going all too well, and not only for Russia, it should be noted “that oil was the biggest loser in a broad market selloff after OPEC+ agreed to boost crude supply as a resurgent virus shook investor confidence in the global economic recovery.”

Historically Saudi Arabia has been the one who advocated for moderate prices whereas others have wanted higher prices, but the markets and political/economic instability is what determines the price of oil. It was first thought, assuming COVID-19 resurgence does not derail demand, a hundred dollar a barrel oil could be likely next year – but that may now be wishful thinking.

All this is being noted back in Tehran, and among its new found strategic partners. The same goes with Russia and Saudi Arabia’s tacit arrangement over oil production increases. America’s lame attempt to destabilise the Russian Federation through an oil war, in cahoots with Saudi Arabia, has been forgotten, bygones being bygones.

Greenerbacks

OPEC countries were hoping to gain a windfall from efforts to make Americans pay more for energy in the name of going green. Theoretically this should raise the importance of the South, Caucasus, that well-known transport and production hub.
However, with Iran, Russia, and other players on the same page, the long-standing geopolitical importance of the South Caucasus is diminished, and it is not even to be counted as a significant player in the New Great Game, largely because oil interests are shifting.

We have read it so many times, “the key importance of the South Caucasus lies in its crucial geographical location at the crossroads of both east-west and north-south transport and trade corridors.”

But little benefit has come to either the region or other players from all the efforts of international companies to utilise these advantages. The main function of the region has been to supply lots of oil off the books to clients like Israel.

Projects involving Western multinational companies, ostensibly about developing the oil and gas resources of Azerbaijan, Kazakhstan and Turkmenistan, have been more geopolitical than based on profit and loss statements, as the BTC pipeline project so well reflects. Regional countries are not at the table in any of these projects, except as beggars hoping the projects may lead to more support, even though the strings attached to that support render it unattainable or useless.

Instead of bringing stability the opposite has occurred. Dutch Disease is running rampant in Azerbaijan, and little has been learnt in the effort to diversify its economy. Hence the economic and political independence of the states of the South Caucasus and Central Asia is at a low point.

The flow of foreign payments has allowed authoritarian leaders to consolidate their hold on power, and buy more arms, which in turn, as in the case of the Azeri-Armenia war, has put both Russia and Turkey in a stronger geopolitical position.

The creation of the pipeline system connecting Azerbaijan’s energy resources via Georgia to Turkey and beyond did not live up to its billing. It is likely that Central Asian states are benefiting more than Azerbaijan, especially at this late stage. The oil and gas revenues paid for the weapons needed to retake much of Nagorno-Karabakh, but that money could have been better used to promote economic diversity and social programmes, if these didn’t have the habit or persuading people they also have the right to an opinion.

The transportation of energy resources is much more a joint venture now, and the West’s role has been substantially diminished. All the while, China is charting its own course in the region, starting in Central Asia and via the Turkmenistan-China gas pipeline and other projects.

The bulk of Kazakhstan’s oil and Turkmenistan’s gas resources are yet to come online, but the South Caucasus’s further potential to serve as a key corridor for these energy resources is insignificant. Considerable investments have already been made in port facilities in Azerbaijan, Georgia, and Turkmenistan, as well as in railroads across the region, and saturation is a more likely scenario than growth.

Even Iran is expanding its oil export facilities, with Iran planning to ship oil from a port in the Gulf of Omani in the near future; this will be its first crude export from outside the Persian Gulf and beyond the Strait of Hormuz.

Proving your worth to the wrong people

The stability of the South Caucasus will be less of a concern for major Western oil and gas firms from now on. However, in the void you can expect Chinese and Indian encroachment “with-and-without” the full blessing of regional partners, Russia, Turkey, Iran, and some other CIS countries. Collectively, Azerbaijan and Georgia are being brought all that much closer to the Russian Federation. So much so that they are now reorienting their foreign policies, and on a global level. Even Turkey is learning the value of location theory, and that the United States and many European countries are friends, but neighbours “better understand local and regional realities.”

It is important to mention that countries are no longer in one or another camp, at least when the price of oil is concerned, the continuity of supply, and how their business is conducted. The wars in the region and a bit beyond have served as a convenient distraction, as most recently exemplified by the civil war in Syria and conflict in Afghanistan, with Turkish footprints in both cases.

However, Iran is stronger than it has been in years, partly because of US sanctions and increased oil prices. Relations between one-time adversaries will be tempered when both can see themselves on the same plateau.

It will be interesting to see what the US can do to reduce this price and diplomatic windfall, which has occurred largely due to US policies. Maybe the Biden administration is counting on increases from Iran and perhaps Iraq and
Venezuela to balance the market, but it can’t bank on it.

The South Caucasus is now a backwater, and has been turned over to the locals, regional players to divvy up. Notice here, no mention in terms of challenges facing this region, and money tells what politicians are not willing to say openly.

It might be ‘good’ to do a reality check and graph the docking of assistance budgets from the West in the region, which show a decrease in interest. USAID spending is way down, and I am sure it is the same for other donors like World Bank, DFID, Kfw, etc.

In conclusion, The South Caucasus is effectively a part of the Middle East, and will continue to be—in spite of any Western or map maker delusion that it is somehow part of Europe. Hence it is a local affair, its future to be decided by regional players and the actual price of oil is decided by COVID and fear.

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