

BUILDING AN ENERGY SECURITY MANAGEMENT INSTITUTION FOR THE SOUTH CAUCASUS

Policy Recommendations¹ Study Group Regional Stability in the South Caucasus

14th Workshop of the RSSC, jointly with the
Security Sector Reform Working Group

Reichenau, Austria, 10-13 November 2016



PfP Consortium of Defense Academies
and Security Studies Institutes

Executive Summary of Recommendations:

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.



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 in sync 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.

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

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

Emphasis was put on consultation and cooperation to lay the groundwork for an Energy Policy Management institution for the South Caucasus. The discussions

corruption of the South Caucasus. Some participants warned that whistle-blowing policies would be pointless without providing whistle-blowers 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, change management. As much as the Chisinau workshop aimed at de-politicizing change, here, it seems 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 on 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) 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 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 price spikes do not threaten the economic development of 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 are included.

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.

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 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.

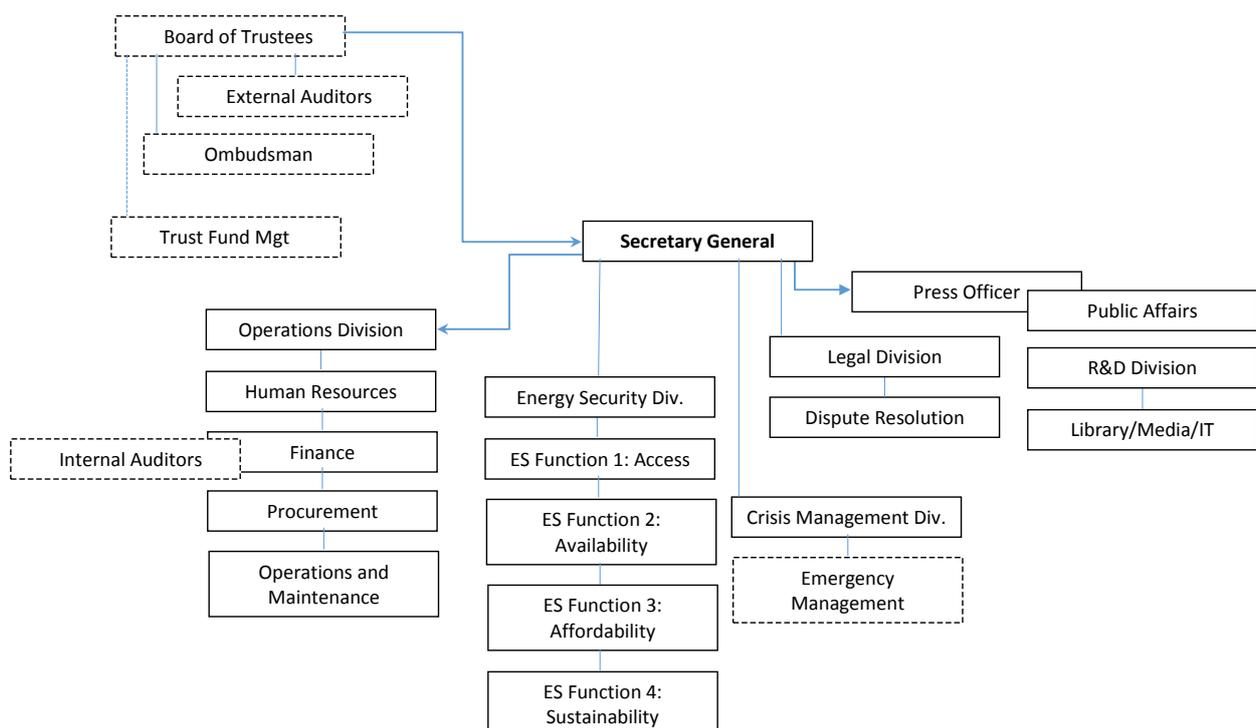
The aim of the BoT is to cement the reputation of the putative regional energy security management institution through the good standing of its members (hence a “trusteeship”). BoT members are to select a Secretary General (selected on merit by a 2/3 majority) who will have the necessary latitude to 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 Group⁶

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 consultation process to assess concerns and the willingness for engagement among stakeholders should be presented to the OSCE, the Energy Charter and the European Bank for Reconstruction and Development (EBRD). This process would enable the following;

- 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 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-2 discussion to track-1 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 Secretariat), 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.

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, 10-13 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”, 07-10 April 2016.

³ See Policy Recommendations of the 13th RSSC SG (Chisinau) p. 4 at www.bmlvs.gv.at/publikationen.

⁴ At present, however, “unresolved conflicts” hamper regional cooperation at the institutional level.

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.

⁶ Thanks to Dr. Elkhan Nuriyev 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.