SECURITY OF THE ENERGY SUPPLY OF THE EU: A BREAKING POINT IN INTEGRATION?

by

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Submitted to the Graduate School of Arts and Social Sciences
in partial fulfillment of
the requirements for the degree of
Master of Arts

Sabancı University
June 2008

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DATE OF APPROVAL : 11/06/2008

To my family

ABSTRACT

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Keywords: European Union, energy security, security of supply, liberal intergovernmentalism, energy corridor, diversification.

Increasing dependency of the EU on imported energy resources has been a major challenge for the EU energy security. The crisis between Russia and Ukraine in 2006 has brought the issue of security of energy supply to the agenda of the EU, which also raised questions over the reliability of Russia as the major energy supplier of the EU. Upon this background, the EU has developed various mechanisms in line with the diversification strategy of the EU energy policy. However, threats to the energy security of the Member States have led them to pursue national energy policies undermining the efforts for relieving the heavy dependency on the Russian energy resources at the EU level. Thus, in line with the theoretical framework of liberal intergovernmentalism, national preferences of the Member States rather than the supranational entrepreneurship have prevailed in the EU energy security policy. Divergence of the key interests of the leading Member States of the EU in the energy security has constituted the breaking point in further integration in the energy policy. The Caspian region energy resources are considered to be significant in the context of the diversification strategy of the EU. Energy strategies that would entail Turkey as an energy corridor between the Caspian region and the EU have significant potential to contribute to the security of energy supply of the EU.

ÖZET

AVRUPA BİRLİĞİ'NİN ENERJİ ARZ GÜVENLİĞİ: ENTEGRASYON SÜRECİNDE BİR KIRILMA NOKTASI MI?

DENİZ BAŞKAN

Avrupa Çalışmaları Yüksek Lisans Programı, Tez, 2008

Danışman: Prof. Dr. Meltem Müftüler-Baç

Anahtar kelimeler: Avrupa Birliği, enerji güvenliği, arz güvenliği, liberal hükümetlerarasıcılık, enerji koridoru, çeşitlendirme.

Avrupa Birliği'nin ithal enerjiye olan bağımlılığının giderek artması, Birliğin enerji güvenliğini tehdit eden unsurların başında gelmektedir. 2006 yılında Rusya ve Ukrayna arasında yaşanan enerji krizi, enerji arz güvenliği konusunu AB'nin gündemine getirmekle kalmamış, aynı zamanda Rusya'nın AB için güvenilir bir enerji kaynağı olup olmadığına ilişkin soru işaretlerini de beraberinde getirmiştir. Bu sorundan hareketle, AB, enerji politikasının çeşitlendirme stratejisi doğrultusunda çeşitli mekanizmalar oluşturmuştur. Fakat, üye devletlerin enerji güvenliklerinin tehlikede olması, bu devletlerin ulusal enerji stratejileri izlemelerine sebep olmuş ve dolayısıyla AB'nin Rusya'nın enerji kaynaklarına olan bağımlılığını azaltmayı amaçlayan çabalarına da gölge düşürmüştür. Sonuç olarak, liberal hükümetlerarasıcılık yaklaşımının çerçevesine de uygun olarak, AB'nin enerji güvenliği politikasında belirleyici unsuru uluslarüstü girişimler yerine üye devletlerin ulusal çıkarları oluşturmuştur. AB'nin ileri gelen üyelerinin enerji güvenliği konusundaki temel çıkarlarının çatışması, enerji politikasının bütünleşmesindeki kırılma noktasını oluşturmuştur. Hazar Bölgesi enerji kaynakları, AB'nin enerji kaynaklarının çeşitlendirmesi stratejisi açısından önemlidir. Hazar kaynakları ve AB arasında enerji koridoru olan Türkiye'nin, AB'nin enerji arz güvenliğine yapacağı katkı yüksektir.

Acknowledgements

First of all, I would like to thank my thesis advisor Prof. Dr. Meltem Müftüler-Baç for her invaluable assistance for my thesis and also for the help and guidance she provided for my professional life. This thesis could not be completed without the inspiration of my supervisor. I would also like to express my gratitude to Prof. Dr. Bahri Yılmaz who has been very supportive to me during my study at Sabancı University. I would also like to thank TÜBİTAK for the financial support it provided for my graduate study.

I would never been able to achieve my personal goals without the encouragement and support of my parents Mustafa and Suay and my dear sister Melis. I thank them for their love and faith in me and their encouragement and eternal support.

I especially want to thank Emre Başkan, whose support during the process of writing of this thesis has been the most important contribution to its realization. I am greatly thankful to him for his love and care, without his support and understanding this thesis could not have been completed.

Last but not least, I would like to express my gratefulness to my friends I have met at the Sabancı University. Among them, I want to thank to Tuğçe Öztürk, Zeynep İşcan and Sevinç Bodur for their friendship that made this journey meaningful.

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ABBREVRIATIONS

AGC:	Azeri-Chirag-Guneshli
AIOC:	Azerbaijan International Operating Company
bcm:	billion cubic meters
BP:	British Petroleum
BTC:	Baku-Tbilisi-Ceyhan
BTE:	Baku-Tbilisi-Erzurum
COREPER:	Committee of Permanent Representatives
CPC:	Caspian Pipeline Consortium
DG:	Directorate-General
EC:	European Community
ECJ:	European Court of Justice
ECSC:	European Coal and Steel Community
EdF:	Electricité de France
EEC:	European Economic Community
ENP:	European Neighborhood Policy
EP:	European Parliament
EU:	European Union
Euro-Med:	Euro-Mediterranean
FDI:	Foreign Direct Investment
GdF:	Gaz de France
IEA:	International Energy Agency
INOGATE:	Interstate Oil and Gas Transfer to Europe
ISO:	Independent System Operator
LNG:	Liquefied Natural Gas
MEP:	Main Export Pipeline
MoU:	Memoranda of Understanding
MP:	Mediterranean Partners
NATO:	North Atlantic Treaty Organization
NEGP:	North European Gas Pipeline
OECD:	Organization for Economic Co-operation and Development
OPEC:	Organization of the Petroleum Exporting Countries
QMV:	Qualified Majority Voting

SCP:	South Caucasus Pipeline
SOCAR:	State Oil Company of Azerbaijan
TCP:	Trans-Caspian Pipeline
TEN:	Trans-European Networks
TEU:	Treaty on European Union
toe:	ton of oil equivalent
UK:	United Kingdom
UNCLOS:	United Nations Convention on the Law of the Sea
US:	United States
USSR:	Union of Soviet Socialist Republics

CHAPTER ONE

INTRODUCTION

The European Union's energy policy has its roots in the early years of the European integration tying back to two of the three founding treaties of the EU. Treaties of Paris, creating the European Coal and Steel Community and Euratom were the first milestones in the evolution of the EU as well as the first initiatives to regulate the energy sector. Since then, the energy policy evolved in line with the changing conditions in energy field. The 1973-74 oil crises had marked a dramatic increase in the awareness of how developed countries were vulnerable to external oil shocks, since then the energy security started to be regarded as a serious problem. The ambitious enlargement of the EU in 2004 has increased the rate of import dependency of the EU. In addition, the fifth enlargement of the EU involving both 2004 and 2007 enlargements has increased the rate of dependency on Russian energy resources since the acceding countries have already had high levels of import dependency on Russian energy resources and their energy infrastructures are the remnants of the Soviet design. Disruptions in energy supply from Russia to Ukraine in 2006 have raised concerns over the energy security in general and over the dependency on Russian energy resources in particular in the EU. Russian energy strategy of using its vast energy resources as political leverage has exacerbated the concerns of the EU over its security of energy supply. Thus, the problem of security of supply is at the heart of the energy policy debates in the EU.

The EU is now the world's leading importer of energy and dependent on imported energy by 50%, while the ratio is estimated to reach to 70% in 2030 (European Commission, 2006a). Dependency of the EU on imported natural gas is increasing more rapidly compared to oil, which increases the anxieties about the EU

energy security since dependency of the EU on imported natural gas is more homogenous compared to oil. Moreover, natural gas is a regional energy resource meaning that transportation of natural gas through pipelines is the most common way whereas oil can be transported in the tankers through the seaways relatively easily. In this thesis, the focus of the analysis in the energy policy of the EU is the problem of security of supply of the EU arising from its import dependency. The EU energy policy covers wide range of issue areas including the internal market, security of supply, environment, climate change, energy efficiency, energy saving, etc. In this study, security of supply will be the focus point of analysis. Diversification of the energy suppliers and creation of the single energy market are the two main pillars of the EU energy security, which will be analyzed throughout the study. In the study, the concept of energy resources will refer to two fossil fuels that are oil and natural gas unless otherwise stated. Oil and natural gas constitute more than 60% of the energy consumption in the EU (European Commission, 2008a). The EU has developed various mechanisms ranging from the regional cooperation schemes to international agreements to manage the problem of its security of supply and to form a unified energy security policy. The main objective of the policies developed at the EU level for the EU energy security is diversification. Mechanisms like the Trans-European Networks and the INOGATE Programme have been established to encourage the development of alternative supply routes. In addition, acknowledging the fact that the EU would remain dependent on the Russian energy resources, the EU has also developed the mechanism of EU-Russian Energy Dialogue to form a unified front in the energy relations with Russia. However, it is not possible to argue that the EU has a unified energy security policy, which will be the starting point of the analysis in this study.

There are a number of related questions that will be analyzed in the study. The study will attempt to answer the questions of whether the EU energy security policy is intergovernmental or supranational, what are the obstacles for the creation of a common energy policy to ensure the EU security of supply and lastly what kind of a potential role can be envisaged for Turkey to play in the security of EU energy. The methodology of the study is position analysis of major players of the decision-making structure of the EU. The Commission is the major player in the evolution of the EU energy policy, while the European Council, the European Parliament and the European Court of Justice are the minor players. Thus, in the study, the role of the Commission in the

development of the EU energy policy by creating the rhetoric and drawing the framework of the decisions will be analyzed. In the study, energy security decision of the leading Member States of the EU will be analyzed to assess whether it is the supranational leadership of the Commission or the national interests of the EU Member States that prevail in the security of supply policy of the EU. The leading Member States, whose positions will be analyzed in the study, are the UK, France, Germany, Italy and also the Netherlands since it is a major actor in energy. A comparative position analysis will be conducted on the Commission's diversification policies in the energy policy to tackle the challenges of the EU import dependency on Russian resources on the one hand and the energy security policies of the Member States on the other hand. The study will attempt to distinguish whether the individual or the collective interests are prominent in the energy security policy of the EU. The reflection of the convergence and divergence points in the interests of the Member States on the energy security policy will be analyzed.

The analytical framework of the study constitutes the dynamics of policy-making in the EU. The theory of liberal intergovernmentalism developed by Andrew Moravcsik will be used to evaluate the dynamics of the security of supply policy of the EU. The reason behind choosing liberal intergovernmentalism as the theoretical framework is that although the energy policy is partly covered under the supranational decision-making of the first pillar for the issues relating to environment and competition, it remains as a highly intergovernmental formation. Moreover, liberal intergovernmentalism covers the national preference formation stage when analyzing a specific issue in the European integration process. Moreover, Moravcsik attributes a higher importance to the economic actors rather than the political actors in the national preference formation process. Since national energy companies of the EU Member States are the major domestic constituencies in the energy sector, it would be possible to assess theoretically the role of the economic actors in the analytical framework of liberal intergovernmentalism.

This thesis aims to contribute to the literature on the European integration by assessing the hypothesis that further integration is threatened when the key interests of the leading Member States diverge in a specific issue area by testing the hypothesis over

the energy security of policy of the EU that would draw upon insights for the overall European integration process.

In the organization of the study, the dynamics of policy-making in the EU will be elaborated upon in the following chapter. Liberal intergovernmentalist theory of Moravsik will be analyzed as the analytical framework of the discussion on policy-making process. An analysis of the institutionalist framework in the scholarly work on the European integration will be assessed focusing on the dichotomy between supranational versus intergovernmental theoretical perspectives. In this chapter, the actors of the decision-making in the European integration process will be described to form the background of the analysis in the following chapters. Liberal intergovernmentalist theory developed by Moravcsik will be analyzed in details since the analysis in the thesis will be based upon Moravcsik's theoretical framework. National preference formation, strategic bargaining between states and delegation of state sovereignty to supranational institutions are the essential elements for understanding international cooperation in the theory. The hypothesis of liberal intergovernmentalism will be framed in this chapter, which will state that the divergence of the key interests of the leading Member States of the EU would constitute the breaking point in further integration in the energy policy of the EU.

In the third chapter, the evolution of the EU energy policy will be discussed. Responses of the EU to developments in energy issues will be discussed through a historical perspective. Developments relating to the energy security will be focused upon that are the internal market, the Trans-European Networks and the Energy Charter Treaty. The role of the Commission in the evolution of the EU energy policy will also be analyzed in this chapter. Although the Commission does not have exclusive competence in the energy policy, the policy frameworks and the rhetoric it has created have been significant in the development of the EU energy policy. However, it will be argued that the implementation of the Commission's proposals has been constrained by the national preferences of the Member States.

In the fourth chapter, an analysis of the security of the energy supply of the EU will be provided. The figures of import dependency rates of the EU average in a comparative analysis with the energy figures of the leading Member States will be

analyzed. Moreover, the impact of the enlargement on the import dependency of the EU will be given with a specific emphasis on the dependency on Russian energy resources. The implications of the dispute between Russia and Ukraine on the security of the energy supply of the EU will be provided. It will be followed by the mechanisms developed at the EU level to combat with the challenges of import dependency on few suppliers. Regional cooperation schemes that are the Euro-Med Partnership and the Black Sea Synergy along with the INOGATE Programme and the EU-Russia Energy Dialogue will be discussed thoroughly. Main argument of the thesis will be assessed in this chapter by explaining the divergence of the Member States' energy security interests that led them to pursue individual interests ignoring the collective interests of the EU. The agreement between Germany and Russia on the North European Gas Pipeline will be analyzed as the major illustration of the diverging interests of the Member States.

In the fifth part, an assessment of the increasing significance of the Caspian energy resources for the diversification strategy of the EU will be assessed. Importance attributed to the Caspian region by the EU will be analyzed along with the investments of the major European companies in the region. The obstacles for the Caspian region to relieve the dependency of the EU on Russian energy resources will be discussed, which are the Russian interests for maintaining its position in the European market and the dispute over the legal status of the Caspian Sea. At this point, possible role of Turkey as an energy corridor between the Caspian region and the EU comes into the picture due to Turkey's strategic position between importers and exporters of energy resources. The Baku-Tbilissi-Ceyhan (BTC) oil pipeline that was opened in 2005 as the first major step for Turkey's role as an energy corridor and the Turkish- Greek Interconnector, which has recently become operational will be analyzed along with other factors making Turkey a natural energy corridor for the EU. It will be argued that the role of Turkey in the EU energy security will be enhanced to a great extent with the completion of the Nabucco pipeline. Lastly, the chapter will analyze the role of Turkey in the EU energy security in the context of the accession negotiations.

CHAPTER TWO

POLICY-MAKING IN THE EU AND THE LIBERAL INTERGOVERNMENTALIST PERSPECTIVE

Explaining the nature and the dynamics of policy-making in the EU has been a major source of scholarly debate. Cleavage between supranational versus intergovernmental approaches for explaining the EU policy-making is at the core of the theoretical debate. However, the debate derives upon the common view that institutions matter in the EU policy-making. Building upon the premise that institutions determine political behavior in the EU, supranational institutionalism highlights the role of supranational institutions in the policy-making, while rational institutionalism (intergovernmentalism) favors states as major actors of the policy-making in the EU. In this chapter, firstly, the use of "new institutionalism" perspectives in the EU studies will be briefly touched upon. Actors of the EU decision-making process will be described briefly to present the background for the analysis of influential actors in the energy policy formation. Then, opposition between supranational versus intergovernmental theoretical perspectives will be analyzed bearing in mind the theoretical approaches have been responsive to the developments in the EU integration process. Moravcsik's liberal intergovernmental account of the EU policy-making will be analyzed with a special emphasis, since the goal of the study is to assess the explanatory power of the theory on the energy policy of the EU. The central aim of the chapter is to draw upon the hypothesis of the liberal intergovernmentalism on the energy policy of the EU. The hypothesis would be although the European Commission draws the upon the general framework of the decision-making in the energy policy, further integration in energy policy would be threaten in case of a convergence in the key interests of the leading Member States.

2.1. Analysis of Institutionalism in Understanding the EU Policy-Making

Before elaborating upon the dichotomy of supranational versus rational institutionalism, the use of institutional framework in the EU studies will be shortly discussed. As Jupille and Caporaso put it (1999), use of institutional analysis in the study of the EU has significantly contributed to the EU scholarship. Three important strands of institutional analysis that are used in the EU literature are rational institutionalism (intergovernmentalism), sociological institutionalism and historical institutionalism. The three strands, which are regarded as the "new institutionalism", share the view that institutions are the source of much political behavior rather than simply transforming preferences into policies (Peterson and Bomberg, 1999). Main attempt of new institutional perspectives is to understand whether the EU institutions are independent from the Member States.

Using institutional analysis is a common feature of international relations scholars as well as comparative politics scholars. In international relations theory, main function of institutions is to minimize transaction costs, which would have occurred if the negotiations were conducted with one another (Rosamond, 2000). According to Jupille and Caporaso (1999), using institutional analysis would contribute to erosion of boundaries between comparative politics and international relations, thus rejecting the view of scholars like Hix (1994), who argue in favor of a comparative politics approach to EU studies while asserting the view that comparative politics and international relations have different empirical foundations.

Historical institutionalism emphasizes the ongoing character of policy-making, where "path-dependency" is the determinant of future policy choices meaning that once a decision is made, that decision would facilitate other decisions on the same path (Peterson and Bomberg, 1999). Sociological institutionalism, on the other hand, focuses on the impact of institutions on ideas and norms stating that institutions provide agents their identities (Checkel, 2003). Rational institutionalism aims to shed light on the reasons why the Member States create supranational institutions. According to rational choice institutionalism, institutions are created in order to provide information, minimize uncertainty and facilitate policy-making process (Chari and Kritzinger, 2006).

As stated above, both supranationalists and intergovernmentalists agree on the importance of institutions in the EU decision-making. However, the two theoretical perspectives attribute different roles to supranational institutions in the EU policy-making process. In both views, it is crucial to understand whether policy processes are initiated by supranational institutions or national institutions, since "the institutional level structures the policy processes while assigning importance, influence and power to actors" (Chari and Kritziger, 2006, p.43). Prior to the analysis of the cleavage between supranationalism and intergovernmentalism, a brief account of the actors of the EU decision-making will be presented to assess the explanatory power of the premises of the two theoretical camps over the energy policy of the EU.

2.2. Actors of the EU Decision-Making

The EU has a complex decision-making structure to balance the two opposing poles which are supranationalists and intergovernmentalists. Two major challenges of the EU decision-making have been how the make the decision-making more efficient and how to make it more democratic. Ironically, the EU decision-making mechanism is not known neither for its efficiency nor its democracy. Treaty revisions through the evolution of the EU had come as a response to short-term political needs without considering the long-term prospects.

Four important players in the decision-making of the EU are the European Commission, Council of the EU, European Parliament and the European Court of Justice. Community law/the *acquis* is formed through two paths in the EU, one of which is through the decision of the Court of Justice, and second path being the decision-making procedure of the EU in which the Commission proposes, Council and the European Parliament adopts[1]. These two paths are valid for the first pillar issues as being one of the three pillars of the Maastricht design. Supranational decision-making is

[1] Until 1990s the EU was adopting 6,000-7,000 laws every year, but the number has fallen to 1,500-1,800 due to the intention of the Commission for the implementation of the existing law, rather than creating new ones (McCormick, 2005).

processed in the first pillar issue, while in the second and third pillar issues, the decision-making structure is intergovernmental.

The Commission is the main executive body of the EU; on the other hand it is the sole body that proposes law. It is a highly bureaucratic body, which deals with first pillar issues. It is the main engine of integration, and the most supranational body of the EU that is composed of Directorate Generals (DGs) undertaking tasks related to specific policy areas. Commissioners are appointed by their national governments, but they need to swear that they will not act in accordance with their national interest. The appointment of the Commission president is through qualified majority voting in the Council. This makes the Commission president a figure who could be accepted by both the intergovernmental and supranational groups in the Council, thus decreasing the autonomy of the Commission. Commission presidents have the capacity to push for European integration, but it depends on the personality of the Commissioner, or more directly, it depends on the nature of the election process in the Council, whether they are dominated by the federalist or intergovernmental voters. The Commission is so visible in the eyes of the European public, since it is the body that oversees the execution of laws and policies once they are adopted. The Commission has the right to impose sanctions and fines in the cases where it decides that the implementation of the EU law fails. Another major role of the Commission is that it represents the EU in international arena, and conducts negotiations with countries that want to join the EU. Compared to the Council, the Commission is more accessible; however, it is more contested than the Council by the European public (McCormick, 2005). The Commission's role is significant for the energy policy of the EU, since it is the main body that draws the framework of decision taken in energy policy. The major role of the Commission on the energy policy will be dwelled upon in the following chapters.

The Council of Ministers is the main legislator body of the EU by ending the legislation process that was initiated by the Commission and shares the legislative function with the European Parliament that has become a co-legislator with the institutional reforms. Population determines the decision-making power of the countries since thanks to the treaty reforms most of the policy issues in the Council is decided by qualified majority voting (QMV), a system in which the number of votes is assigned to countries in line with their population. Other than qualified majority voting, unanimity

and simple majority are still used in the Council, however, in limited policy areas. The policy areas in which QMV is used has been extended by the institutional reforms in treaties starting from the Single European Act to the Treaty of Nice significantly. The Council of Ministers is the institution where national interests are articulated, and where the final decisions are made, however, in the eyes of the European public, it is the Commission, not the Council, which is criticized for the actions of the EU (McCormick, 2005).

Communication channel between the Commission and the Council is COREPER (Committee of Permanent Representatives) that consists of the ambassadors of each country to the EU. COREPER is a highly significant mechanism in the decision-making structures of the EU, since without the possible approval of the states, it would be time-consuming for the Commission to work on a policy proposal that would be rejected by the Member States. Although it is not a formal decision-making authority, COREPER can be named as a de facto decision-maker, since it makes decisions about which proposals should go to the Council and it has a power of "indicative vote" where COREPER decides how the proposal would be voted if it was put before the Council of Ministers (Lewis, 2002, p.287). One major criticism against COREPER is that it is not accountable to any institution, although it is a critical bridge in the decision-making mechanism of the EU. Ironically, its name is not mentioned in the discussions on how to make the EU more democratic, since there was no reference to COREPER in the Intergovernmental Council that was held in 1996 that attempted to find ways to combat with the democratic deficit of the EU (Lewis, 2002).

The European Parliament has been transformed from a sole advisory body in the Rome Treaty design to a co-legislator, although its power is still questionable when compared with other institutions of the EU. First direct elections to the EP were held in 1979 and the elections are held in every five years, which is an important aspect in the debate on the democratic deficit of the EU. Like in the Council, population is the determinant of the number of MEPs of each Member State in the European Parliament. The EP is the co-legislator in nearly 95% of the first pillar issues, assent of the EP is taken in the issues related to external relations, it is consulted in issues related to Social Charter, Taxation, Social Security and the cooperation procedure is applied in the issue

related to the Euro[2]. Co-decision and assent procedures are introduced in the Treaty of Maastricht that increases the role of the EP to a great extent. The complex decision-making system that involves the EP in varying degrees in different issue items is the result of concern of the Member States to preserve their powers over decision-making in the EU (McCormick, 2005). Role of the EP has also extended to cover the issues related to the EU budget, since it has the power to control the way budget is spent and it can reject the budget with a two-thirds majority.

The Commission is accountable to the European Parliament, however the EP does not have the power to selectively act against certain number of Commissioners, and it has the right to ask for the complete resignation of the Commission, a process which makes the Commission a whole body. The EP has also supervisory functions over the Commission by the right to debate the program of the Commission, the right to question the Commission and the right to approve the appointment of the Commissioners. This increased role of the EP on the control of the Commission is a recent institutional change came with the Nice Treaty that was put into force in 2003.

Although the Commission, the Parliament or the Council do not have equivalent bodies in national decision-making systems thanks to their unique characteristics, the European Court of Justice highly resemble to a constitutional court (McCormick, 2005). It is the independent judiciary organ of the EU, which can only decide on the issues under the first pillar. Individuals, companies, states, and the institutions of the EU have right to apply to the European Court of Justice (ECJ) and the ECJ has the right to annul a Community decision. The task of the Court is to make sure that national law of the Member States, the law of the EU and the international treaties that are signed between the EU and third parties are consistent with the EU treaties and also the EU law is applied equally through the Member States. The Member States appoint the judges to the ECJ, one judge for each Member State serve for 6 years in the ECJ.

[2] In the consultation procedure, the opinion of the EP is non-binding. In the cooperation procedure, the Parliament has the right for a second reading, whereas in the co-decision procedure, it has the right for a third reading. Assent procedure works in a way to take the approval or rejection of an issue by the Parliament by simply a yes or a no vote of the EP.

The discussion on the institutions of the EU would be incomplete without making reference to the European Council, which is the meeting of the heads of states and governments of the Member States every six months[3]. Primary function of the EC is to give a strategic direction for integration and decide key treaty revisions. One major point to underline about the European Council is that it is not accountable to any institution of the EU, the European Court of Justice cannot judge the decisions of the European Council. Decisions are taken by unanimity in the Council meetings that symbolize the dominance of intergovernmental branch in the EU.

However, decision-making structure of the EU would be altered to a significant extent with the adoption of the Lisbon Treaty. Following the rejection of the European Constitution in two popular votes conducted in France and Holland in 2005, the Treaty has been replaced by the Reform Treaty, which was signed in December 2007 in Lisbon by 27 Member States of the EU (EU Website). Lisbon Treaty keeps the institutional arrangements and the decision-making structure of the Treaty Establishing a Constitution for Europe to a great extent. Besides the changes that would be brought by the Treaty of Lisbon such as a clearer division of competencies between the Member States and the EU, appointment of a new High Representative for the Union in Foreign Affairs and Security Policy and incorporation of the Charter of Fundamental Rights into the EU law, the Treaty has major modifications over the current decision-making structure of the Union (Treaty of Lisbon).

One major institutional arrangement to ensure a more efficient EU is the replacement of the term-presidency structure of the Union by the function of President of the European Council elected for two and a half years (Treaty of Lisbon). According to the Lisbon Treaty design, a smaller Commission would be created and a stronger role would be attributed to national parliaments as well as to the European Parliament. Major change in the decision-making structure of the Union would be the re-calculation of the QMV. While extending the policy areas regulated by the QMV in the Council, the Lisbon Treaty modifies the calculation of the QMV system that would be made through a double majority system, where at least 55% of the Member States and at least

[3]Presidents and the vice-presidents of the Commission also attend to these summits that are held in June and December every year.

65% the Union's population would be needed for an adoption of legislation by QMV from 2014 onwards (Treaty of Lisbon).

The Treaty of Lisbon makes a categorization of areas indicating the policy areas under the EU competence. According to the Treaty, energy policy is also considered as a policy area under the competence of the EU, which would be analyzed in details in the following chapter. Moreover, a solidarity clause that would be used in occasions like disruptions in energy supply is also added to the Treaty. The energy policy of the EU would be analyzed in accordance with the current decision-making structure of the Union, since the ratification process in ongoing at the time of the writing of this study. The objective of the European Commission is completing the ratification process before January 2009, prior to the European Parliament elections that will be held in June 10, 2009. Until the completion of this study, Ireland has been the only country that declared to have a referendum for the adoption of the Treaty, while the Treaty is already ratified by Hungary, Slovenia, Malta, Romania, France, Bulgaria, Austria, Poland, Slovakia, Denmark and Poland respectively.

2.3. Supranational Institutionalism

In supranational institutionalism, impact of political leadership of supranational institutions is key for policy formation in the EU. Supranational institutionalist perspective has the components of neo-functionalist thinking. Although neo-functionalism has turned out to be insufficient to explain the developments in the EU integration process, which is also acknowledged by the creators of the theory itself, neo-functionalist thinking has continued to shape the ideas on European integration. In neo-functionalist theory, political integration is a process where states shift their loyalties to a new centre that has a jurisdiction over national states (Haas, 2003). Although supranational institutions are created by agreements among governments, once created, the institutions start to act independently. Rule-making authority delegated to supranational institutions by national governments start to confine the policies of governments. Supranational institutions have the key role in integration process, since they facilitate the transfer of loyalties to the European level and they play the role of

"honest broker" facilitating the decision-making between governments (Haas, 2003, p. 524).

Another assumption of neo-functionalism, which attracted significant criticism in theoretical discussion, is the notion of spill-over. In functionalist view, political spill-over is a process in which interests of nation states converge as a result of the activities of supranational institutions (Cram, 1996). The process is followed by a shift in loyalties from national centre to supranational centre. As the theoretical debate on the European integration has flourished, political spill-over assumption was no longer taken for granted; and the reasons behind the choices of interest-driven actors were started to be discussed (Rosamond, 2000). Instead of taking the spill-over process as an assumption, an actor based explanation for the political spill-over by Schmitter (1970) was developed. However, all the attempts of revitalizing neo-functionalism could not prevent Haas to assess the limits of the theory when applying its basic premises to non-European issues and to declare the theory 'obsolescent' in mid-1970s (Rosamond, 2000). Nevertheless, despite the fact that students of the European integration reject the neo-functionalism theory, "most of them still continue to think in neo-functionalist terms" (Puchala, 1999, p.319); since the basic components of the theory are alive in supranationalist perspective of the EU integration.

Basic premise of supranational institutionalism is that it is necessary to understand the impact of the European institutions in order to understand the EU policy-making. In contrast to intergovernmentalist thinking, it is not the Member States' interests and bargaining that shape the integration process, but the dynamics within the supranational institutions. Interactions and discourses of the EU institutions significantly shape the Member State thinking and preferences (Sandholtz, 1998). The reason why the supranational institutions are effective in policy-making is their control of information and technical expertise. These two features of supranational institutions enable them to have better problem-solving capacity than national governments. Thus, the influence of national governments in the EU policy-making process is "analytically secondary" (O'Reilly and Sweet, 1998, p.184).

2.4. Rational Institutionalism (Intergovernmentalism)

Neo-functionalist view of the European integration did not remain unchallenged. The shared view about the relationship between real events in the EU and the integration theories is that empirical developments have shaped theory constructions. 1970s as a decade had experienced a 'Eurosclerosis' where the European integration process had slowed down. Revitalization of nationalist elements in Europe was initiated by the French president Charles de Gaulle. Double veto of the UK membership in 1963 and 1967; and boycott to participate in meetings of the EC institutions due to disagreements over budgetary and institutional issues, the so-called empty chair crisis, were the moves that challenged deepening of integration in Europe. Crisis started with De Gaulle's rejection of the increase in the power of the European Commission, the supranational institution whose implication of share of sovereignty disliked by De Gaulle. "Luxemburg Compromise[4]" that ended the French boycott facilitated the use of veto by Member States when they perceive a policy at odds with their national interest. Empty chair crisis and the Luxemburg compromise had demonstrated the major role of national interests in the decision-making process and led the European leaders to remain skeptical about further integration. An intergovernmentalist backlash in theoretical debates had coincided with the stagnant years of the European integration process. Hoffman outlined the limits of the theory of neo-functionalism and argued that the nation state is still the main actor in Western integration (Hoffman, 2003). Hoffman's differentiation between high politics (security, foreign policy) and low politics (economic issues) had constituted the main ground for his critique of neo-functionalist theory. Further integration in issues of low politics would have been suitable with the assumptions of neo-functionalism theory; however those assumptions were not valid for the issues of high politics. In essence, Hoffman argued that "Member States were more obstinate than obsolete in European integration process" (Cram, 1996, p.48).

[4] The empty-chair crisis, which was the French rejection of participating to the Council proceedings, was resolved after seven months with the signature of the Luxembourg Compromise on 30 January 1966 (EU Website). The Luxembourg Compromise provided that "Where, in the case of decisions which may be taken by majority vote on a proposal of the Commission, very important interests of one or more partners are at stake, the Members of the Council will endeavour, within a reasonable time, to reach solutions which can be adopted by all the Members of the Council while respecting their mutual interests and those of the Community" (EU Website).

Intergovernmentalism is the state-centric perspective for understanding the European integration process. Hoffman (1964) argued that the nature of integration is determined by national governments and their national interests, given that they are the only institutions with political legitimacy arising from being elected. Rational institutionalism is derived from the pluralist paradigm of international relations, where non-state actors are also important in policy-making, in addition to the inter-state relations. As a combination of realist paradigm and pluralism, rational institutionalism comes to the picture as a liberal approach, where intra-state bargaining is analyzed to understand inter-state bargaining process.

In a variant of intergovernmentalist camp, Moravcsik (1991) argued for 'intergovernmental institutionalism', where he stressed the role of domestic politics in the changing interests of states. Major elements of intergovernmental institutionalism were intergovernmentalism, bargaining over the lowest common denominator and strict limits on future transfer of sovereignty (Moravcsik, 1991, p.25). Moravcsik later developed his theory in 'Preferences and Power in the European Community' (1993), where he introduced the "liberal intergovernmentalist" approach to the European integration. Liberal intergovernmentalism builds upon "intergovernmental institutionalism" by improving its theory of interstate bargaining and institutional compliance and by adding a liberal theory of national preference formation (Moravcsik, 1993, p.480). Liberal intergovernmentalist theory will be explained in details below, since major attempt of the study is to assess the explanatory power of liberal intergovernmentalism on the energy policy of the European Union.

2.5. Liberal Intergovernmentalism

Andrew Moravcsik's liberal intergovernmentalist theory aims to explain the European integration as a two level game[5] consisting of a liberal theory of national

[5] Idea of two-level-game was constructed by Putnam (1988), where he uses the two-level-game metaphor to explain the relationship between policies at national and international levels. In Putnam's argument, executives form coalitions of support at the domestic level. At the international level, executives bargain in order to strengthen their domestic positions.

preference formation and an intergovernmentalist approach on interstate strategic bargaining (Rosamond, 2000). In his book *The Choice for Europe*, he adds a third dimension, which is institutional choice to explain the incentives for states to delegate sovereignty to a supranational institution (Moravcsik, 1998). For the patterns of national preference formation, Moravcsik argues that economic interests rather than political interests have been primary. In the second step of integration, the outcome of interstate bargaining is explained by the relative power positions of the states, rather than by the role of supranational institutions. Relative power of states is the result of asymmetrical interdependence. In the third stage, choices to delegate sovereignty to international institutions are explained as efforts of governments to constrain and control each other, so to enhance the credibility of commitments (Moravcsik, 1998). The alternative variables of each stage are shown in Table 2.1 that explains the general framework of analysis of Moravcsik. So, economic interests, relative power positions and credible commitments explain the major turning points in European integration (Moravcsik, 1998).

Table 2.1: The Liberal Intergovernmentalist Framework of Analysis

Stages of Negotiation	National Preference	Interstate Bargaining	Institutional Choice
	What is the source of underlying national preferences?	What explains the outcomes of interstate bargaining?	What explains the transfer of sovereignty?
Alternative Independent Variables	Economic interests or Geopolitical interests?	Asymmetrical interdependence or Supranational entrepreneurship?	Federalist ideology or technocratic management or credible commitment?
Outcomes of Each Stages	National Preferences →	Agreements →	Choice to delegate in international institutions

Source: Moravscik (1998).

In liberal intergovernmentalist theory, states are the main actors in international politics. The role of supranational institutions in bargaining between states is not rejected; however a secondary role to these institutions for helping states to achieve their domestic goals and to facilitate the negotiations is assigned. Rejecting the neo-functionalist premises of policy-making, Moravcsik (1998, p.4) states that "the integration process did not supersede or circumvent the political will of national leaders; it *reflected* their will". According to Moravcsik, cooperation is possible between states when their interests converge. So, there is no need for a sui generis theory to explain the European integration, as the supranationalist theory did, since the European integration is the normal outcome of rational state behaviour. Rationality of states is a major assumption of Moravcsik; however this rationality differs from the rationality as

explained in realist theories of international relations, where states have fixed preferences. For Moravcsik (1991), states are not black boxes, but entities with changing interests over time responsible to their domestic constituencies. In Moravcsik's analysis, domestic forces shape preferences and his emphasis of domestic concerns makes the theory *liberal* intergovernmentalism. According to the theory, "state behavior reflects the rational actions of governments constrained at home by domestic societal pressures and abroad by their strategic environment" (Moravcsik, 1993, p.474). Activities of the supranational institution of the EU, the European Commission, are observable in major negotiations including treaty reforms; however, activities of the institutions do not mean that they are influential (Moravcsik and Nicolaidis, 1999). In liberal intergovernmentalist perspective, the Council of Ministers compromising the national representatives of the Member States is the most influential organ of the European Union.

National preference formation, strategic bargaining between states and delegation of state sovereignty to supranational institutions are three stages of negotiation in liberal intergovernmentalist theory. Each will be analyzed below.

2.5.1. National Preference Formation

The liberal theory of national preference formation is the main element that makes the liberal intergovernmentalist theory different within the intergovernmentalist perspectives. Moravcsik focuses on the role of state-society relations in foreign policy goals of national governments following the liberal path in international relations theory. Preferences of governments, which define their positions in international negotiations, are determined according to "the identity of important societal groups, the nature of their interests, and their relative influence on domestic policy" (Moravsik, 1993, p.483). The relationship between the national governments and society has the nature of principal-agent relationship, where governments need the support of voters, parties, interest groups to be able to stay in power. Thus, national governments come to the international negotiation table through the process of national preference formation.

According to Moravcsik, the main reason why nation states support the European integration is the economic interdependence motivation (Moravcsik, 1993). Coordination of policies related to flows of goods and services and factors of production is more efficient when conducted by multilateral policies. In liberal intergovernmental theory, economic interests are more relevant than political interests in the process of national preference formation stage. Moravcsik uses the term convergence of interests, rather than harmony of interests that motivate nation states to act together in international front. When governments are negotiating a specific policy issue at the international level, they are both supported and constrained by their important domestic societal groups. Societal groups calculate their benefits and losses in the negotiated policy area and find ways to constrain the development of negotiations, even though the development of negotiations in that policy-area would be beneficial for the society as a whole. Moravcsik argues that when various societal groups are divided on a policy issue, the national governments are less constrained by interests of the groups, thus having more room to maneuver in international negotiations.

2.5.2 Strategic Bargaining

In strategic bargaining stage, liberal intergovernmentalist theory has three assumptions for the European integration (Moravcsik, 1993). First assumption is that states cooperate in a voluntary basis in the EU, thus the decision-making takes place in a non-coercive environment. Second assumption is that the environment in which states are negotiating is information-rich. And thirdly, transaction costs of these negotiations are low. In negotiations, the major determinant is the relative power of states (Moravcsik, 1993). In order to examine the applicability of liberal intergovernmentalist theory on the energy policy of the European Union, it is crucial to understand the major determinants of relative power of states in the theory. Primary determinants of bargaining power are unilateral policy alternatives, alternative coalitions (or threats of exclusion) and the potential for compromise and issue linkage (Moravcsik, 1993, p.499). One very significant implication of the first determinant is that countries with least interest in an issue may lower the level that the integration could go if they have policy alternatives to the issue at stake, so the decisions would be taken in accordance

with the lowest common denominator. If states have the possibility of forming alternative coalitions with other states, then their relative bargaining power would be greater, but on the other hand, if they face with the threat of exclusion in case they do not agree on a decision, then their relative bargaining power would be lesser. Nevertheless, interests of states on different issue areas are not always equal, thus issue linkage is a mechanism in which a state could compensate its loss in an issue by the decision taken in another issue. Issue linkage may contribute to negotiations by offering a "package-deal"; however it may have domestic costs (Moravcsik, 1993, p.505). Although issue linkage is regarded as the core of neo-functionalist theory in which the European integration is sustainable with spill-over, it is a marginal concept in liberal intergovernmentalism. Issue linkages that create significant losses to important societal actors are not sustainable.

Moreover, Moravcsik (1991, p.25) argues that inter-state bargaining between the "leading" member states has been the backbone of the European integration. Although inter-state bargaining is the second major pillar in the European integration process, the role played by every individual EU Member States is not regarded as being equal with other Member States in the liberal intergovernmentalist theory. Negotiation positions of the leading member states are crucial for the pace of the European integration. For example, Moravcsik (1991) argues that the reason why the EU could further integrated with the success of the Single European Act initiative was the convergence of the policy preferences of the UK, Germany and France[6].

2.5.3. Institutional Choice

Third stage of international cooperation is the role of supranational institutions. As stated in previous paragraphs, supranational institutions have only a secondary role in liberal intergovernmentalist theory. According to the intergovernmentalist perspective, supranational institutions are acceptable to nation states as long as they

[6] For the sake of better analysis in the study, Italy and Netherlands are also regarded as the leading Member States of the EU along with the UK, Germany and France due to their active role in international energy relations.

strengthen the positions of states at the domestic level. Supranational institutions assist to national governments for overcoming their domestic opposition, especially when the opinions of domestic actors are weak or divided (Moravcsik, 1993). In liberal intergovernmentalist theory, there are two ways for the supranational institutions to contribute to the power of national governments. Firstly, the institutions increase the efficiency of inter-state bargaining. This point is in line with the regime theory that regards the international institutions as instruments to reduce the transaction costs in inter-state negotiations, thus contributing to an effective bargaining process (Moravcsik, 1993). Secondly, the institutions help the national governments to strengthen their positions vis-à-vis domestic groups by providing domestic agenda setting power and increasing legitimacy and credibility.

As stated above, institutions have the role of increasing the efficiency of interstate bargaining by providing negotiation forum, decision-making structures and possibility to observe the compliance of other members by the mechanisms of the institution. However, this solely answers the question of why states are motivated to negotiate in an international institution. It does not attempt to explain why states may choose to pool sovereignty to a supranational institution in which some of the decisions will be taken by qualified majority voting rather than unanimity. According to Moravcsik's theory, states make a cost-benefit analysis and accept the risk of being outvoted on some issues for a more efficient decision-making system as a whole that would bring about benefits to that state on more issue areas. National governments are challenged to find a balance between a more efficient decision-making environment and political risk of uncontrolled issue linkage. States would be more likely to delegate sovereignty to supranational institutions when they have more political gains and less political risk (Moravcsik, 1993). Moravcsik has argued "…independent actions of by the Commission or outcomes that contravene the interests of a single Member State, taken in isolation, do not constitute decisive against the intergovernmentalist view that the EC is grounded fundamentally in the preferences and power of Member States" (1993, p.514). In other words, loss of sovereignty does not undermine the basic assumptions of liberal intergovernmentalist thinking (Moravcsik and Nicolaidis, 1999).

Lastly, Moravcsik views the so-called democratic deficit of the EU as the reason for its success. Domestic constituency cannot find the opportunity to ratify the decisions

taken at the EU level and intergovernmental meetings occur in secrecy. So, the governments find the chance to overcome domestic opposition by introducing a specific issue at the EU level first, and then present it to the public. Moreover, Moravcsik (2002) argues that there is neither a legitimacy problem nor a democratic deficit in the European Union. He states that scholars who claim that the EU suffers from legitimacy crisis and democratic deficit compare the EU to ideal, utopian types of democracies, while the EU is democratic and transparent with its "constitutional checks and balances, indirect democratic control via national governments, and the increasing powers of the European Parliament" (Moravcsik, 2002, p.605).

2.6. Hypothesis of Liberal Intergovernmentalism for the EU Energy Policy

Main hypothesis of the liberal intergovernmentalism is that it is the interests of the Member States, rather than the supranational institutions, which shape the decisions in the energy policy of the EU. Supranational institution of the EU decision-making, the European Commission, has an active role in the formation of the energy policy of the EU by drawing the framework of further moves to be taken under the EU energy policy. Supranational institutions enhance the efficiency of the inter-state bargaining and help the Member States to achieve domestic goals related to the energy policy by carrying the issue to the EU level. However nation states choose to delegate power to the Commission in occasions of possible political or economic gain. Moreover divergence of key interests of the Member States would form a breaking point in further integration. Since the general objective of the study is to assess the explanatory power of the liberal intergovernmentalism over the energy policy of the EU, the hypothesis will be tested in the following chapters of the study.

As a conclusion to the chapter, main cleavage in theoretical debate to explain the European policy-making is between supranationalists and intergovernmentalists. Both deriving from institutionalist paradigm, they take different actors of policy-making as the central figure. Intergovernmentalists reject the supranational view that the European integration is constructed by the supranational institutions. Instead, they emphasize the central role played by the national governments where European integration deepens

when interests of states converge accordingly. Liberal intergovernmentalism has created significant influence upon contemporary EU studies (Rosamond, 2000). Combining the liberal theory of national preference formation and intergovernmental concept of inter-state bargaining, Moravcsik argues that states delegate sovereignty to supranational institutions as long as the institutions strengthen their power positions. The relative power position of the Member States is the major determinant of the outcome of negotiations, where decisions are made according to the lowest common denominator. According to Puchala (1999), Moravcsik's liberal intergovernmentalist account will not solve the debate between intergovernmentalists and supranationalists; however, future interpretations of the EU policy-making will be compared with the credibility of his ideas.

In the next chapter, a historical account of the evolution of the EU energy policy will be presented. The hypothesis of the liberal intergovernmentalism for the energy policy of the EU, which states that divergence of key interests of the leading Member States of the EU would constitute the breaking point in further integration in the energy policy of the EU, will be assessed in the following chapters.

CHAPTER THREE

EVOLUTION OF THE EU ENERGY POLICY AND THE PROBLEM OF SECURITY OF SUPPLY

Energy policy of the EU dates back to two of the three founding treaties of the European Community. Energy is one of the oldest policy areas in Europe that is decided to be regulated at the Community level. Coal and nuclear power had been the first two areas taken under the EC competence. Policies generated at the EC/EU level have evolved in accordance with the developments in national, regional and global dimensions. In this chapter, the evolution of the EU energy policy will be analyzed. Through a historical perspective, the developments that necessitated taking action at the EC level will be discussed briefly. The evolution of the EU energy acquis will be analyzed mainly focusing on the elements of security of supply. Definitions of the terms energy security and security of supply will be provided in order to form the background of the analysis of general trends of the EU energy security in the following chapter. Energy policy of the EU covers wide-range of issues including the creation of a single market in electricity and gas, climate change, environment, energy efficiency and renewable energy resources. Although each component of the EU energy policy are interrelated, in this study areas relating to the security of energy supply will be analyzed, which are the internal market, Trans-European Networks (TEN) and the Energy Charter. The ultimate aim of the chapter is to assess the explanatory power of liberal intergovernmentalism on the energy policy of the EU and it will be concluded that although the role of the Commission in the evolution of the EU energy policy is significant, its role has been constrained and shaped by the preferences of the Member States. The evolution of the EU energy policy will be analyzed after providing two sections as a general introduction for the debate on the EU energy security.

3.1.The Challenge of Having an Energy Policy at the EU Level

Importance of energy for the economic reconstruction of Europe had been reflected in two of the three founding treaties of the EC that focus on energy. The European Coal and Steel Community and Euratom were the two European communities constituted for a common energy policy. However, energy policy was regarded as a national concern, which prevented the development of an EC energy policy with the initiation of the Commission until mid-1980s (Matlary, 1996). National monopolies and divergent national interests prevented the Commission to take action for the development of a common policy. Even the OPEC oil crisis could not be enough to motivate the Member States for taking significant collective action at the Community level. Major policies as the milestones for the EU energy policy were needed to wait for "a new thinking" on the energy policy in the EU (Matlary, 1996, p. 258). Thus, the main factor that has precipitated the development of energy policy has been the transformation of the traditional national paradigms. A major observation about the pace of deepening in the energy policy is that the development of the EU energy policy has followed a parallel line with the general EU development (Andersen, 2000b). Policies for a common energy policy have flourished during the times of speedy European integration while there has been lack of motivation for a common energy policy during the periods of stagnation of the integration process.

Since energy is the major input for industries of the Member States, it is regarded as a "strategic good", whose procurement is regarded as an issue of national security (Matlary, 1996, p.259). Besides the role or energy as an input for industrial production, it is also an industrial sector in its own right; and the EC/EU needed to have a common approach to the energy policy in order to have a complete economic union (El-Agraa and Hun, 1984). However, interests of the Member States in the energy sector are clearly defined and the room for maneuver for each Member State is extensively limited. Interests of energy producing countries are definitely different than the interests of countries that are dependent on imported energy resources. The UK as a major oil and gas producer and the Netherlands as the major gas producer would naturally have different interests compared to other leading Member States of the EU that do not produce their own energy resources. On the other hand, the difference

between compositions of energy resources of each Member State is another reason for diverging interests. Interests of Germany that still subsidizes its coal industry and interests of France that supports policies to promote nuclear power would hardly converge. "Cohesion countries", on the other hand, would opt for a common energy policy through which they can receive support for the development of their infrastructures (Matlary, 1996, p.270). In case of oil, major reasons that undermine the solidarity between the Member States are cooperative attitudes being limited to times of growth, differences in energy resources, differences in economic strength, differences in relations to oil exporters and different foreign policy choices (El-Agraa and Hu, 1984). Moreover, the most ambitious enlargement of the EU in May 2004 contributed to the heterogeneity of the Member States in terms of external dependence as well as the dependence of the EU on Russian energy resources. A general remark for the rest of the chapter is that although two of the Community Treaties were directly related to the energy sector, it is possible to argue neither for an internal energy market nor a common energy policy. As a general agreement, the contradiction is regarded as the Community's major failure (Padgett, 1992; Andersen, 2000a). Nevertheless, lack of a common energy policy has not prevented the EU from taking significant measures in energy sector (Matlary, 1997) especially with the leadership role of the Commission, which will be discussed in the following sections of the chapter. Before going into the details of the evolution of the EU energy policy, definitions of the related terms will be provided.

3.2. Definitions of Energy Security and Security of Supply and an Initial Look at the EU Energy Security

Energy security is defined as "reliable and adequate supply of energy at reasonable prices" (Bielecki, 2002, p.237). Threats to energy security covers different areas depending on the time horizon it is defined; short-term energy security involves risks of disruption of supplies due to technical problems, bad weather conditions or political problems, whereas long-term energy security covers cases in which new supplies cannot meet the growing demand (Bielecki, 2002). Energy security is a broader concept compared to security of supply, since the latter only refers to regular energy

needs of a society. Energy security has the meaning of "having access to sufficient energy resources at reasonable prices for the foreseeable future free from serious risk of major disruption of services" (security of supply), which needs to be complemented by the elements of sufficient level of investments in resource generation capacity and infrastructures as well as diversification of supply (Bahgat, 2006, p.965-66). As Stanislaw (2006) argues, recent global challenges such as the increase in energy prices, massive increase in the energy demand due to economic growth of China and India, Russian use of its dominant position in energy for political ends and the instability of the Middle East, the definition of energy security has *vastly* (my emphasis) transformed. Broad definition of energy security "encompass security in the political, environmental, infrastructure, and even terrorism senses, as well as the new concerns of sustainable development and the climate change" (Stanislaw, 2006, p.2). Moreover, threats to energy security generally have low probability with high consequences (Lieb-Doczy *et al*, 2003).

As a brief insight to the EU energy security, the first point to underline is that the EU-27 is the second largest energy consumer in the world having an energy market with approximately 500 million consumers. However, the EU struggles with the problem of security of its energy supply stemming from its dependence to third countries for primary energy resources. The seriousness of the problem of the security of supply of the EU is better understood when the forecasts of the Commission for 2030 are visited. It is forecasted that the general level of import dependence will rise to 65% in the EU; while dependence for gas would increase from 57% to 84% and dependence for oil would increase from 82% to 93% (European Commission, 2007a). The EU aims to establish itself an "energy security framework" compromising comprehensive set of rules and obligations for the Member States to challenge the growing problem of security of supply (Bielecki, 2002, p.240).

When the underlying reasons of the threats to the security of supply of the EU are analyzed from a broader perspective, factors other than external dependency come into the picture such as network failures, aging oil refineries and power stations, lack of investment, poor interconnections between European electricity and gas grids, terrorist threats to key energy installations and lack of effective European-wide mechanisms for addressing security of supply risks (Helm, 2007, p. 442). Since threats to the security of

supply stem from a wide-range of reasons, policies taken at the EU level to combat with the problem of security of supply are needed to cover wide range of areas. In the following sections, the evolution of the EU energy policy with specific emphasis on solutions to the problem of security of supply of the EU will be analyzed.

3.3. Energy Policy in the Early Years of European Integration

The European Coal and Steel Community (ECSC) was established by the Treaty of Paris signed in 1951 with the authority of reducing tariffs, abolishing subsidies, fixing prices and imposing levies on coal and steel production to create a single market for coal and steel. The European Atomic Energy Community created by the Treaty of Rome was signed in 1957 with the objective of creating a common market for nuclear energy. Although the ECSC could not fully achieve its objective of creating a single market for coal and steel and the Euratom limited its work on research, the two Communities mark the beginning of European integration on the hand and initiation of the European energy policy on the other hand (McCormick, 2005).

In the time period from the signature of the Treaties of Rome until early 1970s, energy was not considered as a major issue due to cheap imported oil replacing coal in the EC. In accordance with the general trend with the United States and the Soviet Union, a "natural" tendency to shift from coal that has rising costs and prices to oil that has stable or declining costs and prices had occurred in Western Europe (Lubell, 1961, p.400). However, Western Europe did not have the same conditions with the US and the USSR since the latter two could maintain their security of supply by the energy resources available to them within their borders. Starting from the end of the 1950s, abundant and cheap Middle East oil decreased the share of coal in energy consumption of the EC, that fell to 21% in 1973 from the share of 75% in 1950 (El-Agraa and Hu, 1984). In 1971, oil accounted for 60 percent of the energy consumption of the six founding members of the EC (Sodupe and Benito, 2001). Moreover, Europe had a relaxed attitude towards the security of its oil supply in the early years of integration due to the fact that it did not anticipate a concerted political action by Middle East producers (Lubell, 1961). Until the 1970s, the EC was completely absent from the

international scene as an actor in the energy area (Matlary, 1996). Energy sector was seen as key to economic planning by the Member States and "the strategic economic importance of the energy sectors meant that policy autonomy was guarded jealously by the Member States" (Padgett, 1992, p.55)

In the OPEC oil crisis occurred in 1973-74 security of energy supply had entered the agenda of the EC. The crisis had profound damaging effects on the global economy as well as on the European economy, "ending the earlier period of rapid growth and triggering a period of turbulence and structural adjustments" (Bielecki, 2002, p.238).[7] The crisis revealed the vulnerability of the developed nations in the external developments in energy field. Although the Member States were concerned about their dependence on imported oil, they could not agree how to tackle the problem of security of supply in a way other than bilateral agreements with the OPEC countries. The OPEC crisis created the need for a common action at the Community level; however economic recession occurred by the energy crisis led Member States having divergent national interests to pursue national objectives. Thus, the Commission's actions in the energy field confined to efforts to find objectives where national interests of the Member States may converge (Padgett, 1992). Until mid-1980s, energy policy of the EC was confined to non-binding policy recommendations reflecting the lowest common denominator between Member States interests (Matlary, 1996).

The energy issue was not covered in the Treaty of Rome establishing the European Economic Community (EEC). The European Community responded to the OPEC oil crisis by a Council Resolution concerning a new energy policy strategy for the Community where the urgent need for a Community energy policy was emphasized (Council of the EC, 1974). In order to guarantee safe and lasting supplies, reduction of energy demand by measures of using energy rationally and improving security by development of nuclear power production and hydrocarbon resources in the Community were stated in the Council Resolution. The need for diversified and reliable external supplies was also underlined in the Resolution. Threats to the energy security arising

[7] Upon this background, the OECD countries decided to establish the International Energy Agency (IEA) in November 1974 in order to reduce dependence on imported oil through increased domestic production, energy efficiency measures and substitution of oil by other energy resources.

from the dependence on imported oil was seen partly as a national problem, although it was dealt with measures related to oil stocks and energy efficiency at the EC level. The measure taken at the EC level to secure the oil supply has been the obligation of Member States to maintain minimum stocks of oil at a level corresponding to at least 90 days' average daily consumption in the preceding calendar year by the Council Directive amending an older Directive obliging the Member States to establish stocks for 65 days (Council Directive 98/93/EC). The Directive also establishes a mechanism to promote solidarity between the Member States in the event of an energy crisis. Although the EC could not respond the OPEC oil crisis effectively, measures taken to reduce consumption and replace oil by alternative energy resources led to a significant fall in net oil imports of the EC. "Between 1973 and 1978, the EC net oil imports declined from 598.5 million tons of oil equivalent (toe) to 355.7 million toe due to reduced consumption and increased North Sea oil production" (El-Agraa and Hu, 1984, p.344).

3.4. Revitalization of Energy Issues at the EU Level

When the management of the energy issues in the EC is analyzed, it is seen that energy becomes the issue of low politics when there is no disruptions in security of supply, diplomatic crisis or nuclear accidents. In contrast, in occasions like a major oil or gas crisis, the energy issue dominates the agenda in the EC as a matter of high politics (Matlary, 1996). As stated above, even the OPEC oil crisis could not motivate the Member States to establish a long-lasting mechanism to ensure the security of supply. However, with the start of 1980s, perceptions to the energy sector have been altered significantly in the EC.

There were a number of factors that triggered such a change in perceptions to the energy issues. The major reason has been the UK's liberalization of its energy sector starting from the mid-1980s, which had a profound effect on the transformation of the national paradigms of the Member States. UK decided to reform its energy sector mainly through privatizations not only in the energy sector but also in other sectors previously owned by the government like telecommunications. Reform of the UK's

energy sector initiated a process where other Member States of the EU started to consider free market rules for the efficiency of their energy sectors (Matlary, 1996). In other words, "there was an emerging 'paradigm shift' in thinking about the state's role in the traditionally public sectors of the economy" (Matlary, 1996, p.258). It is significant to underline the timing of the paradigm shift; since there was neither a major energy crisis nor disruptions in the energy supplies. The time period witnessed low oil prices for much of the time and steady economic growth with increase in the oil consumption that led the net oil imports to exceed the 1973 levels (Bielecki, 2002). A second factor has been the global trend towards liberalization of energy sectors. The Energy Charter Treaty, which will be analyzed in details below, has been another reason behind the change in the dominant political and economic perspective of the major states signing the Treaty that are the OECD members as well as the former Soviet Union countries (Andersen, 2000b).

3.4.1. Initiatives for a Single Market in Energy and the Role of the European Commission

Transformation of the thinking in the Member States led the issue of energy to be considered under the single market at the beginning of 1980s. Although the energy policy was not under the competence of the European Commission, the role of the institution had been crucial especially in liberalization of the energy markets of the Member States. The reason why energy market was intended to be included in the internal market was the consensus of the Member States that "there could be no real internal market in the sense of a 'level playing field' unless the energy sector was included" (Matlary, 1996, p.263).

The relationship between the establishment of an Internal Energy Market and the security of supply is crucial. Once an effectively functioning and competitive single market in energy is created, "there would be real incentives for companies to invest in new infrastructure, inter-connection capacity and new generation capacity, thereby avoiding black-outs and unnecessary price surges; a true single market promotes diversity" (European Commission, 2007a, p.6). However, ironically liberalization of the

energy markets also brings about challenges to energy security, since roles of the actors that would take the lead in case of a disruption are not clearly defined (Bielecki, 2002). The problem arises due to the fact that energy security is a public good whose benefits are enjoyed by everyone. The issue of security of supply becomes complicated by the fact that governments are no longer single actors with responsibilities of regulation in liberalized energy markets. Lieb-Doczy *et al.* (2003) makes the point that in competitive energy markets, decisions on investment are not taken considering the overall system security but on the basis of profitability, which makes the relationship between competitive markets and the security of supply complicated. Thus, a comprehensive energy policy framework is needed for security of supply and the establishment of a competitive market should be one of the components of the framework (Helm, 2002).

First move to include the energy sector into the internal market was the Council Resolution of 1986, which emphasized the necessity of a new "market oriented approach" (Padgett, 1992, p.56). The Resolution also emphasized the necessity of increased competition as the principal mechanism for securing the Community's future energy security (Council of the EC, 1986). Besides the global trend towards liberalization and deregulation, the reason behind the motivation of the EC for a single energy market was the Single European Act that was signed in 1985 with the objective of completing the internal market. In the European Commission's report on the internal energy market published in 1988, the obstacles to the creation of an internal energy market were listed and four major solutions were prescribed, which are developing an internal energy market as a part of the single European market by removing technical and fiscal barriers, application of the Community principles such as free movement of goods, competition, state aid and state monopolies on the energy sector, integration of the energy infrastructures and protection of environment (European Commission, 1988).

As the European Commission gained competence to draw the energy sector under the rules of the single market, it proposed an energy package to bring transparency to electricity and gas prices, to maintain less restrictive rules on transit for gas and electricity and to maintain investment transparency. The Directive for price transparency was regarded as uncontroversial that was eventually adopted in 1990 (Directive 90/377/EEC); however, Directive proposals for transit rights for other operators in the electricity and gas sectors attracted criticism, nevertheless finally

adopted in 1990 (Directive 90/547/EEC) and 1991 (Directive 91/296/EEC) respectively. Electricity transit attracted manageable criticism from the Member States, while there was greater opposition to transit rights for gas compared to electricity due to the fact that gas transmission in Europe has been dominated by few companies that own the national pipeline systems (Matlary, 1996). The Member States, except for the UK, defended the interests of their national companies, thus the final Directives adopted were modified significantly in accordance with the interests of the state interests. On the other hand, the proposal aimed to maintain investment transparency could not be realized since it was rejected by the Council on the grounds that it was against the interests of the Member States.

After the initial modest steps for creating an internal market, the Commission further acted to increase the level of liberalization in electricity and gas markets. Although the Commission proposed draft Directives for further liberalization of energy markets, the issue was discussed by the Member States, which could not reach to any agreement until 1995 when the energy liberalization issue turned out to be a "deadlock" (Matlary, 1996, p.264). The ironic situation was that although the Member States acknowledged the possible benefits of a single energy market as part of the single European market, they (especially Germany and France and except for the UK) continued to defend the positions of their national companies. In other words, the Member States were struggling in order not to lose their control on the energy policy despite of the potential gains of liberalization. The Directive on electricity liberalization was adopted in 1996 and entered into force in 1997 setting the deadlines of deregulation of both production and transport of electricity by the Member States as 1999 (Directive 96/92/EC). On the other hand, the Directive on gas liberalization was adopted and put into force in 1998, in which the Member States were obliged to comply with the legislation in 2000 (Directive 98/30/EC). The content of the electricity and gas directives were different to a significant extent from the initial proposals of the Commission (Andersen, 2000a).

However, the working paper published by the European Commission revealed the fact that although the effects of the market opening had been positive, further measures are necessary to complete the internal market and reap its full benefits (European Commission, 2001). In the working paper, the Commission entailed

quantitative proposals, which are related to the degree of market opening and qualitative proposals, which are related to the minimum standards necessary for the completion of the internal energy market. In line with the proposals of the Commission, electricity and gas directives were amended. Second electricity (Directive 2003/54/EC) and gas (Directive 2003/55/EC) directives were adopted in 2003, which also included the rules for unbundling[8] as major difference from the previous Directives. The Directives laid down the rules for businesses to choose their electricity and gas suppliers freely in a competitive market by July 2004 and for households by July 2007.

3.4.1.1. The Role of the Commission

When the evolution of the attempts for creating a single energy market is analyzed, the Commission is seen as the locomotive for further liberalization of the energy sector. Besides its major role of initiation of policy proposals, the reports and sector inquiries it conducts creates the ground for further action again for the Commission itself. In other words there is a reciprocal process reinforced by the Commission for the creation of an internal market in energy. The Commission's proposals have drawn the framework of the future steps of the Member States that would be taken in the energy policy. Thus, rhetoric of the Commission has been determinant in the development of the EU energy policy. Although the Commission did not have formal competence to act on energy policy, it has used various instruments for a common energy policy, which are its powers stemming from the single market and competition policy as well as the decisions of the European Court of Justice (ECJ). The Commission mainly preferred proposing draft directives to the Council rather than the "court route" since it had more political legitimacy; however turned to the Court when negotiations failed (Matlary, 1996, p.263). ECJ decisions differ from the directive approach in the sense that the Court makes a decision on a specific case; however decisions constitute precedence for future directives.

[8] Unbundling means that energy transmission networks are needed to work independently from the production and the supply side.

One example demonstrating how anti-competitive measures (state aids in this example) can distort the functioning of the internal energy market and the role of the Commission is the case of France's energy monopoly Electricité de France (EdF). Variations between liberalization levels of energy markets have led the distortion of the competitive environment in European markets. France delayed the partial opening of its energy markets as well as of the EdF that has been tightly controlled by the government. The real trouble began when EdF started to take aggressive action in the markets of other Member States, thus distorting its advantageous situation stemming from being supported by the government. The Commission launched an investigation for EdF in 2002 since state-aid policy of France discouraged other Member States to liberalize their energy markets. Following the investigation, the French government agreed to end its state-aid policy to EdF (Baldwin and Wyplosz, 2004).

A recent example of the reciprocal process conducted by the Commission explained above is the sector inquiry it conducted for the European gas and electricity sectors in January 2007, which is followed by a third energy package proposed by the Commission in September 2007. In the inquiry, the Commission stated that the objectives of market opening have not yet been achieved and defined four actions to be taken urgently: achieving effective unbundling, removing the regulatory gaps, addressing market concentration and barriers to entry and increasing transparency in market operations (European Commission, 2007b). The negotiations for the adoption of the third package in energy liberalization are ongoing between the Member States at the time of the writing of this study.

3.4.1.2. Member States Interests as Obstacles for the Completion of the Internal Energy Market

Although the Member States have adopted their national electricity and gas markets in line with the Directives 2003/54/EC and 2003/55/EC respectively, it is not yet still possible to state that there is a single European energy market. Shortcomings of the current situation have motivated the Commission to issue a third energy liberalization package. The Commission has argued that national champions of the

Member States, in other words large integrated energy companies of some Member States, of Germany and France constitute a major obstacle for a true single European energy market. France's EDF and Germany's E.ON are the leading vertically integrated companies of the two countries, meaning that the companies own energy production, supply and transmission units. However, in accordance with the controversial plans of the European Commission for unbundling, energy transmission networks of the energy giants need to work independently from the production and supply utilities. The Commission considers liberalization of energy markets as one of the major conditions of an efficient energy sector, thus of an efficient EU economy. The Commission has proposed an alternative path for the Member States that do not opt for the option of unbundling. According to the alternative scheme of the Commission, the firms may continue to maintain transmission assets; however they need to establish an Independent System Operator (ISO) for taking decisions relating to investments and commercial activities (Euractiv, 27/11/2007)[9]. However, some countries of the EU, mainly France and Germany, opposed the plans of the Commission arguing that unbundling is not the only alternative for ensuring competitive energy markets in the EU. Nine Member States of the EU, led by France and Germany, have issued a letter to the Commission stating that they reject the Commission's proposal of unbundling (Euractiv, 27/11/2007). The opposing countries whose energy sectors are not yet fully liberalized are led by France and Germany that are Austria, Bulgaria, Southern Cyprus, Greece, Latvia, Luxemburg and Slovakia. Opposing countries' votes constitute a blocking minority in the Council. The UK and Netherlands, on the other hand, are among the leading supporters of unbundling. Thus, interests of the Member States are diverged depending upon whether they have national giant energy companies or not, which in turn led them to take different positions in the issue of unbundling.

Difference between electricity and gas sector organizations of the Member States of the EU is the major reason of the divergence of their interests. When gas and electricity markets of France, Germany and the UK are analyzed, the difference between

[9] Although the Commission has proposed an alternative to ownership unbundling, ownership unbundling is the preferred option of the Commission. The Commission thinks that ownership unbundling is necessary "to guarantee non-discriminatory access to energy grids of smaller firms wishing to compete in markets dominated by vertically integrated energy giants, such as EDF in France and E.ON in Germany" (Euractiv, 27/11/2007).

their market structures is observed that leads them to take different stances on liberalization and single market debate. French gas industry is dominated by Gaz de France (GdF), majority of whose is owned by the French government. Although GdF had monopoly on the production, distribution, transportation and importation of natural gas in France, as well as on the domestic pipeline system, recent reforms perpetuated by the EU Directives initiated the liberalization process in GdF that replaced the monopolistic structure (EIA, 2007). When French electricity market is analyzed, it is seen that France has the second largest electricity sector in the EU after Germany. As discussed above, EdF's monopoly on electricity generation and distribution has started to be challenged by the EU Directives on electricity, which led the EdF to privatize and open the electricity market to other companies (EIA, 2007). When it is looked at the German case, liberalization of the natural gas sector has started with the transposition of the EU Directives on natural gas to Germany's national legislation, whereas E.ON is still the largest wholesale distribution company that also controls most of the natural gas transport network of Germany (EIA, 2006a). Germany liberalized its energy sector in 1998 with the legislation of the Energy Industry Act that is compatible with the EU Directives. However, reluctance of Germany to establish a regulatory agency for its electricity and gas markets attracted criticism from the Commission. Criticism of the Commission led Germany to give the authority of regulation of its natural gas and electricity industry to an already existing agency (EIA, 2006a). The UK, on the other hand, started to liberalize its energy sector far before the EU Directives and has a privatized electricity and gas sector. As a conclusion to this section, the Member States agreed to the Commission's proposals for a single energy market as a result of the convergence of their interests with the realization that the single European market would be incomplete without a single energy market. However, further integration in the single energy market is challenged when the key interests of the leading Member States diverge. Disagreement on the unbundling issue and the efforts of the Member States like France and Germany to preserve the interests of their national energy companies jeopardize the creation of single European energy market in a complete sense.

3.4.2. Efforts to Take the Energy Policy under the EU Competence

As stated above, the energy policy has not been under the formal competence of the EU; since neither the Treaty establishing the European Economic Community nor the Single European Act contain a section for the energy policy. This created problems mainly for the Commission, which proposed to create a legal basis for a common energy policy in early 1990s. However a legal basis for the energy policy could not be realized due to the interests of the Member States that did not want to lose power in their national energy sectors. The issue was mainly discussed in the negotiations of the Treaty on European Union (TEU). Besides the Member States that traditionally criticized taking further action for a common energy policy, the UK which had supported actions of the Commission especially in the efforts for the creation of a single energy market, also rejected the proposal. The reason behind the rejection of the UK was its hesitation to transfer more powers to the EU level, thus supporting an intergovernmental rather than a supranational trend for the European integration process. The Commission has used the external "windows of opportunity" to enhance its competence in the energy policy (Matlary, 1996, p.267). The Commission proposed to represent the EU in the Internal Energy Agency, which would lead the EU to speak with one voice in international scene at the time of the turbulence in the oil markets after the first Gulf War. Another proposal that came in the same time period was the Commission's intention for gaining the authority to decide when to use the emergency stocks. Both proposals were rejected by the Member States, whose preferences were at odds with the willingness of the Commission to enhance its powers in the energy policy.

Nevertheless, energy found a place in the Treaty of Maastricht (TEU) indirectly as a part of the Trans-European Networks (TEN) clause. Energy is regarded as one of the activity areas of the Community in the Maastricht Treaty (TEU, Article 3t). In addition, in its article 129b, the Treaty lays the ground for the establishment and the development of trans-European networks in the areas of transport, telecommunication and *energy* (my emphasis) infrastructures in order to fully benefit from the setting up of an area without internal frontiers. The same article states that the Community aims to promote the interconnection and inter-operability of national networks as well as access to these networks. Moreover the Treaty states that the Council can take action

unanimously for the protection of the environment on "measures significantly affecting a Member State's choice between different energy sources and the general structure of its energy policy" (TEU, Article 130s).

The Treaty of Lisbon would also bring about important changes for the energy policy when would be adopted by the Member States. As stated in the previous chapter, the Treaty of Lisbon lays down a clear share of competences between the EU and the Member States to prevent confusion in the functioning of the EU. According to the Treaty, energy is one of the areas where the competence is shared between the Member States and the EU. More importantly, the Treaty establishes "a solidarity clause" where the Council may take appropriate decisions if severe difficulties arise in the supply of energy products (Treaty of Lisbon, Article 87). Solidarity clause of the Treaty of Lisbon has great significance for the EU due to its problems in security of supply arising from the import dependency on oil and gas, which will be analyzed in more details in the following chapter. In the Treaty, in addition to making reference to functioning of the internal market and protection of environment, the aims of the Union policy on energy are stated as ensuring the functioning of the of the energy market, ensuring the security of energy supply in the Union, promoting energy efficiency, saving energy and developing new renewable forms of energy and promoting the interconnection of energy networks (Treaty of Lisbon, Article 176 A). According to the Treaty, these measures could be taken in a manner that would not affect the right of the Member States to determine the choices of their energy sources and structure of their energy supplies. When adopted, the stated articles of the Lisbon Treaty would create a legal ground for the actions of the EU, especially of the European Commission, which currently coordinates the energy policy through secondary legislation.

3.4.2.1. Trans-European Networks

Trans-European Networks (TEN) is one of the major components of the EU energy policy with the ultimate objective of reinforcing the security of supply and increasing competitiveness in the electricity and gas markets. The objective of the EU by financing projects under the TEN is to maintain the effective operation of the

internal market in general and the operation of the internal energy market in particular. Many projects of the Member States as well as of third countries are financed by the TEN budget of the Community, Structural Funds and the Cohesion Fund. Loans of the European Investment Bank have also been used to finance projects that are evaluated under the TEN schemes in addition to the financial support of the EU Programmes like PHARE[10] and TACIS[11].

External dimension of the TEN is significant primarily for the security of energy supply of the EU in the sense that it allows access to energy resources of external countries meaning the diversification of energy supply. Advantages of the third countries arising from taking part in the TEN are improved operation of their energy networks, access to energy resources of the EU, more political stability and economic reforms and revenues from exporting energy products and services (European Commission, 1997b). The Commission underlined the necessity of the participation of the third countries to the TEN by pointing out the increasing external dependence of the EU for natural gas (European Commission, 1997a). The Commission stated that future development of gas networks is necessary for maintaining a high level of diversification of external gas supplies. It also pointed out the emergence of Caspian as a new resource for oil and gas whose export potential to the EU must be considered, which will be analyzed in the fifth chapter. The Commission also stated that "providing that technical/economic feasibility and environmental issues are respected, new East-West transmission networks might be developed between the Caspian Sea area and Europe" (European Commission, 1997a, p.6). In the case of electricity, on the other hand, establishment of Trans-European Networks with third countries in Europe, mainly with Eastern European countries and Balkans as well as with the Mediterranean countries would contribute to supplying the Community with electricity.

[10] Programme of Community aid to the countries of Central and Eastern Europe.

[11] Programme to promote the transition to a market economy and to reinforce democracy and the rule of law in the partner states in Eastern Europe and Central Asia.

3.4.3. The European Energy Charter

Foreign policy has been another policy area which is exploited by the European Commission for the creation of a common energy policy (Andersen, 2000a). Political entrepreneurship of the Commission has been significant for the creation of a common energy policy using foreign policy initiatives. Definitely, formation of the internal energy market and establishing the Trans-European Networks within the EU and with third countries are not sufficient for sustaining the security of energy supply of the EU. The European Energy Charter has been developed with the ultimate aim of creating the ground for European investments in oil and gas resources of the Former Soviet Union countries. The idea giving birth to the development of the Charter was proposed by the Dutch government that wanted to make investments in the Russian energy sector. Russian gas infrastructure had important problems such as leakages in the pipelines transmitting gas to the Western European markets (Andersen, 2000a). Motivating Russia for introducing market rules to its oil and gas sectors, which are major economic sectors with export potential, would lead to transformations in other sectors of the economy as well. Common rules for exploration, production and transport of energy resources were agreed by the countries in the Charter that was signed the Charter in 1991, without having legally binding powers. The Charter was conceived to reform the energy sector of the former Soviet countries and thereby contribute to the energy security of the EU.

According to Andersen (2000a), the negotiations of the European Energy Charter had witnessed a convergence of the interests of the Member States and the Commission, which was not the case for other fields of the energy policy. The legally binding Charter Treaty was signed in 1994 by 51 countries including European and former Soviet Union countries as well as Turkey, Australia, Japan and Mongolia that was put into force in 1998. Key objectives of the Treaty are facilitating East-West energy cooperation, enhancing the security of energy supply, maintaining energy efficiency and protection of the environment (Bielecki, 2002). According to the Treaty, European companies can make financial contributions for the restoration of production and transportation capacity of energy rich countries of the former Soviet Union (Sodupe and Benito, 2001).

The effects of the Treaty would be felt more in the long-term since modernization of the energy infrastructure of the former Soviet Union countries necessitates long-term projects. The Charter Treaty is very much related with the Trans-European Networks policy of the EU. Motivation for establishing the TEN for energy was the idea that security of supply of the EU is linked with the modernization of the energy transport systems of the former Soviet Union countries and construction of new gas and oil pipelines (European Commission, 1997a). Thus, the Energy Charter Treaty is a framework that complements the objectives of the TEN. The dilemma posed by the Energy Charter Treaty is that "if the Treaty is applied in its entirety, this will lead to closer energy relations, particularly where gas is concerned, and to an increase in the present rates of dependence of the EU on Russia" (Sodupe and Benito, 2001, p.172). Moreover, Sodupe and Benito (2001) concludes that although the Treaty is a valuable tool for the Member States in terms of gaining access to the abundant energy resources of former Soviet Union countries, it is far from having the effect of elimination of the EU dependence on politically unstable countries of the Middle East. Although Russia is one of the signatories of the Energy Charter Treaty, it has not ratified the Treaty yet.

3.4.4. A Multi-Dimensional Approach for the Energy Policy

Besides the increased consciousness for the necessity of a common energy policy at the European level, a multi-dimensional perspective for the EU energy policy has developed starting from the early 1990s. The White Paper entitled "An Energy Policy for the European Union" emphasized that a common energy policy will reinforce the economic integration within the EU and would contribute to the realization of a single European market (European Commission, 1995). Main components of the energy policy of the EU are defined as competitiveness, security of supplies and protection of the environment. Moreover, an energy policy for the EU is thought to complement other goals of the EU such as sustainable development, consumer protection, economic and social cohesion and job creation (European Commission, 1995).

The White Paper published in 1995 is followed by other Commission initiatives, thus opening the way for the Commission for establishing the general framework of a

common EU energy policy with a broad perspective. The European Commission published a Green Paper where it draws the attention of the Member States to the problem of increasing energy dependence of the EU and clearly underlines the lack of a political consensus on the energy policy that limits the activities of the Commission for fighting with the ever increasing energy dependence (European Commission, 2000). The long-term strategy for enhancing the security of supply has three components in the Green Paper, which are balancing demand and supply by controlling the growth of demand and promoting new renewable energy resources, assessing the contribution to be made by nuclear energy in the medium term and providing a stronger mechanism for strategic stocks and securing new routes for imports of oil and gas. The call of the Commission for dealing with the problem of security of supply has led new legislative initiatives in energy efficiency and renewable energy resources and reinforced the process of liberalization of electricity and gas markets. However, no further action has been taken for giving more authority to the Commission either for controlling the emergency stocks or for promoting the use of nuclear power as a source of energy.

The milestone for the development of a common energy policy of the EU has been the publication of the Green Paper entitled "A European Strategy for Sustainable, Competitive and Secure Energy" (European Commission, 2006a). The Commission noted that although work on the previous Green Paper published in 2000 are in progress, recent developments created the necessity for a "new European impetus" (European Commission, 2006a, p.4). The Green Paper provides an overview of the reasons why an urgent action is needed for the formation of a common energy policy in the EU, and lists six priorities for developing a common European strategy which are completing the internal electricity and gas markets, guaranteeing the security of supply through solidarity between Member States, establishing a more sustainable, efficient and diverse energy mix, developing an integrated approach for tackling climate change, encouraging innovation by a strategic European energy technology plan and finally creating a coherent external energy policy (European Commission, 2006a). The Commission has emphasized the urgency of the necessary actions depending on the reason that innovations in the energy sector cannot be realized overnight.

The Commission again used the external windows of opportunity to push for a common energy policy for the EU. The gas dispute between Russia and Ukraine has led

to the creation of a new European impetus for a common energy policy, since the crisis seriously threatened the security of gas supply of the EU given that most of the gas supply reaching Europe flows through Ukraine. The Green Paper has initiated a European wide debate on the energy policy. In other words, The Commission has achieved its objective of bringing the issue of energy on the agenda of the EU. However, red lines of the Member States persisted that come to the surface when sensitive issues such as increasing the share of nuclear power in energy mix has been discussed. Energy mix has been regarded as an issue under the sole competence of the Member States.

Following the publication of the Green Paper, the Commission set out an action plan by taking into consideration the results of the consultation period and by consolidating the objectives previously set on energy. The action plan was presented in the Communication published by the Commission in January 2007 entitled "An Energy Policy for Europe". The Commission has proposed an EU commitment to reduce greenhouse gases by 20% by 2020 noting that 80% of greenhouse gases stem from energy consumption. Other proposals of the Commission are reducing primary energy use by 20% by 2020 through energy efficiency, increasing the share of renewable energy resources in total energy mix to 20 % by 2020 and increasing the share of bio-fuels to 10 % in transport by 2020 (European Commission, 2007a). The stated objectives are regarded as the roadmap of "the new global industrial revolution" (European Commission, 2007a, p.21). The EU Member States have set a binding target for increasing the share of renewable energy resources in energy mix and increasing the share of bio-fuels, whereas the goals of the EU for energy efficiency and greenhouse gases are non-binding.

The general framework of the EU energy policy drawn by the Commission and the objectives has been debated by the Member States mainly at the meetings of the European Council. In the summit convened on March 8/9 2007, the Member States reaffirmed the objectives of the Energy Policy for Europe as increasing the security of supply, competitiveness and sustainability (Council of the EU, 2007). Although the Council has confirmed the objectives of the EU energy policy, it added the condition of "fully respecting the Member States' choices of energy mix and sovereignty over primary energy resources" (Council of the EU, 2007, p.11). The European Council has

also adopted a comprehensive energy Action Plan based on the action plan proposed by the Commission. From the view of the Council, the Action Plan has formed the "milestone" in the creation of an Energy Policy for Europe (Council of the EU, 2007, p.13). While endorsing the three main objectives of the energy policy that are increasing the security of supply, competitiveness and environmental sustainability, the Action Plan also reaffirmed the objectives set out by the Commission on energy efficiency, renewable energy resources and bio-fuels, while reminding the possible contribution of nuclear energy for the security of supply and protection of the environment.

3.5. Assessing the Explanatory Power of Liberal Intergovernmentalism

In this section, an analysis of the explanatory power of liberal intergovernmentalism over the evolution of the energy policy of the EU will be presented. Since the details of negotiations conducted for each step taken in the energy policy could not be provided in this study, in this section the evolution of the EU energy policy and the areas relating to energy security analyzed throughout the chapter will be assessed in this section. When the steps taken on the way of a common energy policy are revisited, it is seen that the role of the Commission has been crucial for the development of an energy policy at the EU level. The Commission's role is significant in the sense that it establishes the rhetoric of the energy policy by the legislation packages it proposes. The legislation packages draw the framework for the activities pf the Member States that are necessary for the development of a common energy policy. However, it is also seen that a new thinking in the energy policy or a paradigm shift has created the ground for the Commission to take further steps in the policy. While the Commission was generally having coordination activities on the basis of lowest common denominator of the Member States until early 1980s, the situation changed with the emergence of a new thinking in energy policy that involved the loosening government control and development of an energy policy at the European level. Developments in the energy policy until 1980s are in line with the premises of liberal intergovernmentalism where the activities of the Commission were confined to lowest common denominator of the Member States. Revitalization of the issues related to energy at the EU level from 1980s and the increasing role of the Commission can also

be explained with hypothesis of liberal intergovernmentalism, since the Commission is empowered by the Member States to act in the energy policy *after* the initiation of a new thinking. In liberal intergovernmentalist theory, the European integration reflects the will of the Member States rather than replacing their will, which has also been the case in the EU energy policy. The Commission, knowing that preferences of the Member States will say the last word in negotiations, has used external windows of opportunity such as oil crisis, political instability in Russia or in the Middle East (major energy suppliers of the EU) in order to create a new impetus for a common energy policy. In liberal intergovernmental theory, preferences are exogenous to international environment (Moravcsik, 1998). Upon this fact, the Commission has exploited the developments in the international environment to create the background suitable for a fruitful energy policy at the EU level.

The developments in the energy policy can be characterized as convergence of national policies for a common good rather than a common energy policy (El-Agraa and Hu, 1984). Convergence of interests has been facilitated during the times of abundant energy supply, while the relation between the Member States is characterized as a zero-sum game during the times of the energy supply crisis, where gain of a Member State was meant the loss of another. Thus, in line with the premises of liberal intergovernmental thinking, the development of the energy policy of the EU has been the story of convergence of interests of the Member States in energy. Besides lack of converging interests at the times of the supply problems, the bad mood in the EU integration process has also effected the developments in the energy policy negatively. For example, lack of enthusiasm for further European integration during the times of the ratification of the Maastricht Treaty had a negative effect on the process of formation of a common energy policy in the EU (Andersen, 2000b).

The role of the Commission is most visible in the creation of a single market in energy. However, the initial single market directives for electricity and gas were not adopted as they were proposed; directive proposals of the Commission were modified to a significant extent to meet the interests of the Member States in the Council, which constitutes the demonstration of the primacy of the Member States despite the significant role of the Commission. In line with the principles of the liberal intergovernmentalism, intergovernmental bargaining determined the pace of

negotiations for the creation of a single energy market (Padgett, 1992). The Member States agreed on the gradual opening of their electricity and gas markets in order to create an efficient ground for enjoying the full benefits of the single European market. Thus, liberal intergovenmentalism has explanatory power for creation of the internal market as well as the internal energy market. However, as seen in the discussion above, the EU is still far from having a single energy market yet. Although legislation for liberalization of electricity and gas markets of the EU Member States are initiated by the Commission and adopted by the Council and the European Parliament, transposition of the single market rules for the energy sector is not wholly implemented by the Member States. The inquiries conducted by the Commission has concluded that liberalization of the internal electricity and gas markets of the Member States is not complete and the Commission proposes further measures for ensuring a single energy market. Divergence of interests between the Member States of the EU led them to take different positions towards the proposals of the Commission related to unbundling in the third liberalization package. Member States with national energy giants such as France and Germany have opposed to unbundling whereas the UK and Netherlands, which have further liberalized their energy markets compared to France and Germany, strongly favors unbundling. France and Germany, on the other hand, still want to preserve the interests of their national champions. Liberal intergovernmentalism theory proposes that the bargaining positions of the Member States come into being after the process of national preference formation. In national preference formation process, economic actors play a more significant role compared to the political actors. Thus, giant energy companies of the Member States such as EDF of France and E.ON of Germany play a significant role in the process of national preference formation of the Member States, which in turn confines the room for maneuver for the Member States when faced with the ambitious goals of the Commission for the single energy market.

Entrepreneurship of the Commission and its efforts not only for the creation of a single energy market but also in other fields of the energy policy cannot be underestimated. Energy policy is regarded as one of the leading policy areas where the Commission has significant powers ranging from initiation and monitoring to regulation. However, in liberal intergovernmentalism, activities of the supranational institutions do not mean that their power supersede the power of the Member States. Moreover, Moravcsik argues that independent actions of the Commission do not

constitute counter evidence to the view that the EU is grounded on the preferences of the Member States. Although the Green Paper published by the Commission in 2006 sets the background for further development of the EU energy policy, the Member States do regard many areas of energy policy under their national sovereignty, especially in the decisions relating to their energy mix. Primacy of the Member States is reflected by the lack of a legal background for the energy policy in the founding Treaties of the EU as well as in treaty revisions. Only exception is the Treaty of Lisbon, which is on the process of ratification by the Member States; yet even the Treaty of Lisbon makes clear reference to the member state interests in the section on energy policy.

After analyzing the evolution of the energy policy and looking closely to the components of the energy policy relating to the security of supply, the following chapter will build upon the discussions above by examining the divergence of the interests of the EU Member States in energy security policies.

CHAPTER FOUR

TRENDS OF SECURITY OF SUPPLY OF THE EU AND DIVERGING INTERESTS OF THE MEMBER STATES

In this chapter, the energy outlook of the EU will be provided with specific emphasis on the dependence of the EU for its security of energy supplies to third countries, mainly to Russia. Enlargement of the EU in 2004 embracing ten new members, eight of which are post-Soviet countries has increased the level of import dependency of the EU on Russia, since the new comers were already dependent to Russia for almost all of their energy supplies as the remnants of the Soviet era. Energy supply crisis between Russia and Ukraine in 2006 has pushed the issue of energy security into the agenda of the EU that led to the formation of various instruments at the EU level for diversification of its energy supplies. However, when key interests like security of energy supply were at stake, the policy frameworks proposed by the Commission could not lead to a common policy between the Member States. Thus, in this chapter, the main argument of the thesis will be stated, which is the divergence of interests in security of supplies of individual Member States has been the breaking point in the process of integration in energy policy. Thus, member state preferences rather than the supranational framework of the Commission have prevailed in the issue of security of energy supplies of the Member States.

4.1. A General Look to Global Energy Market

Before analyzing the energy situation of the EU, the global trends in energy will be discussed briefly. Rising energy prices and increase in the economic growth of China and India that lead to an increase in their energy demand are the two major challenges

of the global energy market. Rise in global energy demand poses a major threat to world's energy security (IEA, 2006). Moreover, consuming countries' excessive reliance on imports of oil and natural gas from a small number of producing countries increase the probability of energy security risks. On the supply side, on the other hand, development of the Caspian Sea energy resources is a relatively new phenomenon that attracted the interests of the main actors of the world energy. In terms of types of energy resources, share of natural gas in overall energy consumption is increasing due to its clean nature and development in Liquefied Natural Gas (LNG) technologies. Although it is estimated that fossil fuels (oil, coal and natural gas) will remain as the dominant sources of primary energy, shares of coal and natural gas would increase while share of oil would decrease (IEA, 2007). India and China are expected to account for most of the increase in coal demand. For natural gas, increasingly usage of gas for power generation is the major reason behind the increase in the demand for natural gas. When the pattern of world energy consumption is analyzed, it is seen that oil constituted 35% of total primary energy supply in 2004, while gas accounted for 21%. When projections for 2030 of the same figures are analyzed, share of oil consumption would decrease to 33%, while share of gas will increase to 23% (IEA, 2006). In other words, the old "oil game" is being transformed to "oil and gas game" (Stanislaw, 2006).

The EU is a key actor in global energy market as the second largest consumer of energy following the US. According to 2006 figures, the US accounted for 21.3% of world's energy consumption, followed by the EU-25 with a share of 15.8% (BP, 2007). Table 4.1 shows the consumption amounts and shares of the world's major energy consumers.

Table 4.1 World Energy Consumption Figures (2005)

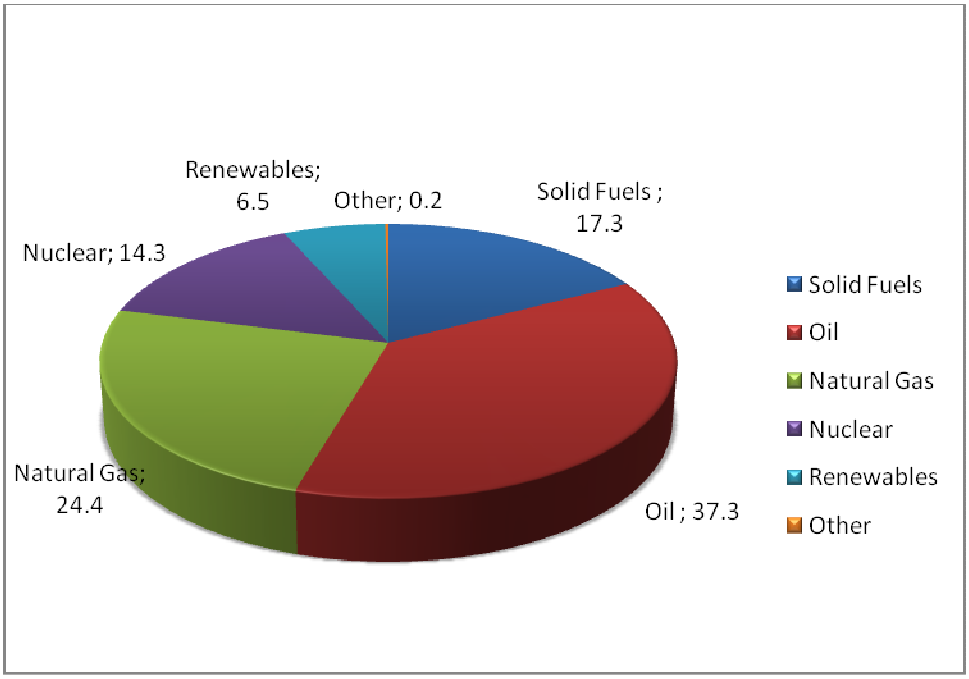
State/Region	US	EU-27	China**	Russia	India	Japan	Canada	Others	World
Consumption (Mtoe)*	2,340	1,816	1,735	647	537	530	272	3,557	11,434
Share (%)	20.5%	15.9%	15.2%	5.7%	4.7%	4.6%	2.4%	31.1%	100.0%

* Million tons of oil equivalent.
** Including Hong Kong.
Source: European Commission, (2008a). Energy and Transport in Figures.

4.2. General Trends of the Security of Supply of the EU

The EU is a major actor in the world energy market with approximately 500 million consumers. As seen in the table above, the EU is the second largest consumer of world's energy resources. Distribution of the energy consumption of the EU in terms of energy resources are shown in Figure 4.1. Although oil has the greatest share in the EU energy consumption, when the projections of EU energy consumptions are analyzed, it is seen that in 2030 the share of oil is projected to decrease to 35%, while a 6 % increase is expected in the share of natural gas that would make its share 30% (IEA, 2006). In other words, in line with the global trend, the share of natural gas in energy mix would increase in the EU. Table 4.2 shows the projections of the changes in the EU energy mix up to 2030. The projection of a significant increase in the share of natural gas is important in the context of the problem of import dependency of the EU, mainly on Russian natural gas, which will be discussed in the following sections.

Figure 4.1. EU-25 Energy Mix (2005)



Source: European Commission, (2008a). Energy and Transport in Figures.

Table 4.2. Share of Energy Resources in Total Primary Energy

%	1990	2000	2005	2010	2020	2030
Solid Fuels	27.3	18.8	17.7	17.2	17.4	16.7
Oil	37.9	38.0	36.7	36.4	35.7	35.3
Gas	17.9	23.0	24.6	24.9	25.7	25.7
Nuclear	12.3	14.2	14.2	13.2	11.3	10.3
Renewables	4.5	5.9	6.8	8.2	10.0	11.8

Source: European Commission, (2008b). European Energy and Transport, Trends to 2030.

As it is seen in the graph above, energy mix of the EU is mostly composed of fossil fuels. Limited capacity of indigenous energy production of the EU makes it dependent to third countries for imports of energy. The EU Member States possess 0.6% of the world's proven oil reserves and 2% of the world's proven natural gas reserves (EIA, 2006b). The reserves are mainly concentrated in the North Sea. Although oil and natural gas were discovered in the North Sea in 1960s, production did not start until 1980s due to high production costs. Oil production in the North Sea has peaked in 1990s, which is followed by the decline of the resource generation. Although there are efforts to increase the oil production by large investments and advances in recovery technologies, oil production from the North Sea is expected to decrease significantly, while natural gas production is projected to increase (Bahgat, 2006). Natural gas reserves of the North Sea lead Norway, Netherlands and the United Kingdom to possess most of the proven natural gas reserves of the EU. Since 1994, the EU has a legislation that aims to create a motivation for developing own resources for the EU. According to the Directive 94/22/EC on the conditions for granting and using authorizations for the prospection, exploration and production of hydrocarbons, the Member States should refrain from discriminating between entities that would exercise activities related to hydrocarbons in any EU member state. However, the EU does not aim to maximize its self-sufficiency in energy since this would not possible, but it tries to reduce the risks stemming from import dependency.

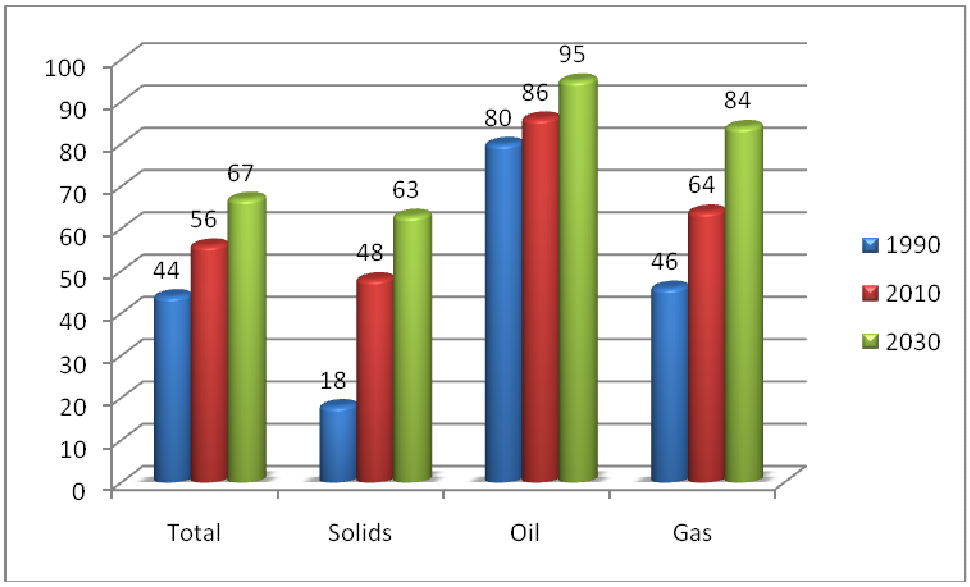
The EU imports nearly 50% of its total energy supply. According to 2005 figures, the EU-25 has imported 82.8% of its oil and 58.3% of its natural gas (European Commission, 2008a). Main origins of the natural gas supplies of the EU are Russia, Norway and Algeria with shares of 45.1%, 24.1% and 20.6% of the EU's gas imports

respectively. In case of oil, major exporters to the EU are Russia (29.9%), Norway (15.5%), Saudi Arabia (9.7%), Libya (8.0%) and Iran (5.6%). These figures are calculated on the basis of oil and natural gas imports of the EU-27 realized in 2005 (European Commission, 2008a). Thus, when the picture of oil and natural gas imports to the EU are analyzed, it is seen that Russia, Norway, the Middle East and North Africa are the major suppliers of the EU energy. However, share of Russian energy resources in the EU-27 that accounts for approximately 45% for natural gas and 30 % for oil is a major challenge to security of supply of the EU. Moreover, the energy outlook of the EU suggests that dependence of the EU will steadily increase in the upcoming decades. The figures are expected to increase significantly in 2030 when dependency on imported oil is expected to rise to 95%. As stated above, demand for natural gas is expected to increase more rapidly compared to oil, which will lead an increase in import dependency on natural gas up to 84% (Figure 4.2). Since Russia has 22 % of world natural gas production according to 2006 data (IEA, 2007), gradual increase in import dependency of the EU on natural gas would make it more dependent to Russian supplies given that the production capacity of Russia permits.

Although import dependency on both oil and natural gas is the major challenge to the EU security of supply, the IEA studies indicate that for natural gas "supply sources become more remote, transport routes more risky, and gas infrastructure less flexible than that for oil" (Bielecki, 2002, p.248). As demand for natural gas is increasing significantly due to the fact that it is relatively a clean fossil fuel and increasingly used in electricity generation in the EU, the EU needs to diversify the supply sources and means of transport. Unlike oil that can be traded relatively easily compared to natural gas in tankers through the sea, there are two ways of transporting natural gas, which are pipelines and LNG. LNG is more advantageous compared to pipelines since it provides more flexibility for security of supply, however it is more costly compared to pipelines due to the necessity of investments. Thus, unlike oil, natural gas is a regional energy source that necessitates regional cooperation (Helm, 2007). Since majority of natural gas imported to the EU are supplied through pipelines which flow from few routes, if one piece in the chain is blocked, whole system is affected and the system becomes inflexible (Weisser, 2007). According to the estimates, since share of natural gas in the EU energy mix will increase significantly, "an additional 320 billion cubic meters (bcm) per year of natural gas has to be supplied to

Europe in 2020 compared with the consumption in 2000"(Cayrade, 2004, p.3). Thus, extensions of the major energy routes and new connections of natural gas would be needed to meet the increasing demand for natural gas and also for making the system of natural gas supply more flexible.

Figure 4.2 Import Dependence of the EU



Source: European Commission, (2008b). European Energy and Transport, Trends to 2030.

4.3. General Trends of the Security of Supply of the Member States

The problem of excessive dependence for imported oil and gas vary between the Member States. Energy dependency figures of the Member States range from net exporters like Denmark with – 51.6% energy dependency to net importers like Malta with 100% energy dependence (Eurostat, 2005). As argued in the previous chapters, leading players of the European integration will be analyzed in regards to their energy policy decisions to test the general argument of the thesis states the divergence of the key interests of the Member States in a specific issue area constitutes a breaking point in the process of integration. Thus, in this section energy dependency of the leading Member States of the EU will be analyzed, namely the UK, France, Germany, Italy and also the Netherlands since it is a major player in energy sector. In Table 4.3, the

asymmetry between energy production and consumption figures of the major countries of the EU are presented along with the percentages of energy dependency.

Table 4.3 Production, Consumption and Import of Energy (2005)

	Primary Energy Production (1000 toe*)	**Gross Inland Energy Consumption (1000 toe)**	**Net Energy Imports (1000 toe)**	**Energy Dependency** (%)**
EU-27	890,026	1,811,317	974,699	52.3
France	135,232	275,438	143,600	51.6
Germany	134,858	345,451	**214,372**	61.6
Italy	**27,597**	186,766	160,475	**84.4**
Netherlands	61,834	80,963	36,912	37.8
UK	**201,037**	232,259	**32,641**	**13.9**

* tonne of oil equivalent
** Net Energy Imports/ Gross Consumption
Source: Eurostat, (2005). Energy Yearly Statistics.

As seen in the table above, general energy trends of the leading Member States are far from being homogenous. Energy dependence of the Member States are not unified, where energy dependency of the UK is 13.9%, which is lower than the EU average and the same figure for Italy is 84.4%, a rate that is much higher than the EU average. When the Table 4.3 is analyzed, key differences between the productions of the leading Member States also come into the picture. The United Kingdom, for example produces 67.3% of total oil production and 41.9% of total gas production of the EU-27 (Eurostat, 2005). The Netherlands, on the other hand, produces approximately 30% of overall EU natural gas production and is a net exporter of natural gas, which exported 54 660 Mm^3 of natural gas in 2006 (IEA, 2007). Moreover, the difference between the Member States' choices of energy resources is another source of heterogeneity as energy consumption trends of the leading Member States of the EU is shown in Table 4.4. As seen in the table below, consumption trends of the leading Member States vary to a significant extent. France places a higher share to nuclear

energy compared to Germany and the UK while Italy has completely ignored the nuclear option and nuclear energy accounted for a minor percentage in the Dutch case.

Table 4.4. Consumption by Fuel (2006)

(Mtoe)	Oil	Natural Gas	Coal	Nuclear Energy	Hydro-electricity	TOTAL
EU-25	7706.3	420.6	3305.0	219.5	71.4	1,722.8
France	992.8	40.6	113.1	102.1	13.9	262.6
Germany	1123.5	78.5	882.4	37.9	6.3	328.5
Italy	885.7	69.4	117.4	—	9.7	182.2
Netherlands	449.6	34.5	77.5	0.8	†	92.3
UK	882.2	81.7	443.8	17.0	1.9	226.6

† Less than 0.05.
Source: BP, (2007). BP Statistical Review of World Energy.

Since energy outlook of the Member States as well as third countries such as Russia are heterogeneous, the definition of energy security also vary from one state to another. For the major EU member states that are heavily dependent for imported energy resources such as Italy and Germany, energy security is related to managing the dependence on imports, while for the UK it is related to ensuring a fully competitive European single energy market. For Russia, on the other hand, energy security is related to "security of demand" for its exports and "to reassert state control over 'strategic resources' and gain primacy over the main pipelines and market channels through which it ships its hydrocarbons to international markets" (Yergin, 2006, p. 70). Thus the challenge of speaking with one voice in EU energy policy is being complicated by the fact that definition of energy security is different for the Member States. Moreover, different interests of the EU Member States and Russia prepare the ground for both cooperation (like Energy Charter Treaty or the EU-Russia Energy Dialogue that will be discussed below) and disputes that arise from Russian intentions of using the energy issue as a political leverage in its "near abroad".

4.4. The Issue of Security of Energy Supply on the EU Agenda

Challenges of being dependent to few numbers of countries for energy imports have already been acknowledged by the EU. The European Commission, with the intention of opening up an EU-wide debate on the issue, has initiated major policy instruments like the White Paper of 1995 and the Green Paper of 2006. The Commission has drawn the framework of the possible actions of the Member States to tackle the challenges of import dependency. However, energy disputes between Russia and Ukraine in January 2006 that was followed by the energy dispute between Russia and Belarus have been "awakening calls" for the EU. Two events have showed the extent to which the EU energy security has been vulnerable to external events.

4.4.1. Russian-Ukrainian Dispute and the Vulnerability of the EU Energy Security

Dependency of the EU on imported energy resources has already been regarded as a significant problem that is needed to be encountered by appropriate measures, which led to the publication of the Green Paper, A European Strategy for Sustainable, Competitive and Secure Energy, in 2006 that is analyzed in the previous chapter. Internal developments in the EU such as declining European energy production and still fragmented internal energy market in spite of the measures of the Commission for a single energy market have also raised questions related to future energy supplies of the EU. Moreover, global challenges in energy situation have exacerbated the problem of security of supply for the EU. Increasing energy prices, enduring instability in Iraq since the US intervention, Iran's insistence for its nuclear program and the dramatic increase in the energy demand caused by Chain and India have motivated the European leaders to develop measures to ensure the security of supply of the EU. However, the energy dispute between Russia and Ukraine in January 2006 due to disagreements over gas prices followed by Russian cutting of supplies has highlighted the vulnerability of the EU energy security.

High share of Russian natural gas in the gas imports of the EU, which is 45% for the EU-27, has led the EU Member States to worry about their security of energy supplies, since 80% of natural gas coming to the EU is passing through Ukraine (Umbach, 2006). The dispute between Russia and Ukraine stemmed from the intentions of Gazprom, which is the Russian state monopoly for natural gas, to revise the gas deals of Russia with former Soviet Union countries. Gazprom holds approximately one thirds of world's natural gas reserves, produces 90% of Russian natural gas and operates Russian natural gas pipeline system (Bahgat, 2005). Russia increased the price of natural gas to approximately $230 per 1,000 cubic meters in 2006 that was $50 per 1,000 cubic meters in 2005 (Bahgat, 2006). The Ukrainian rejection of paying higher prices for Russian natural gas was followed by Russian response of cutting off the supplies to Ukraine, which decreased the pipeline pressures of Austria, Italy, Poland and Germany for 30% (Belkin, 2007). Russia and Ukraine agreed for a new price for natural gas where they set $130 per 1,000 cubic meters and the flow of natural gas from Russia to Ukraine has re-started. Even though the dispute only lasted for few days, it has been more than enough for the EU to assess the vulnerability of its energy supplies.

Although the energy dispute between Russia and Ukraine seems like a problem arising from economic tensions, the dispute is regarded as being politically motivated. Russia as the world's largest exporter of natural gas and the second largest exporter of oil after Saudi Arabia has determined its energy policy basing not solely on economic interests but also geopolitical, foreign policy and security considerations (Weisser, 2007). Russia has been using its oil and natural gas resources as a mean to strengthen its foreign and security policy objectives[12]. Another widely shared view is that Moscow is using its vast energy resources as a political weapon in its "near abroad" (Smith, 2007). Nevertheless, the reason behind the Russian revision of its energy strategy towards Ukraine has been interpreted as a punishment for Ukraine that elected a pro-Western President Victor Yushchenko with the "orange revolution" in Kiev in the fall of 2004 and defeated the pro-Moscow candidate Yanukovich. Under its new president, Ukraine has attempted to make a decisive move towards the EU and NATO and move away from the Russian political influence, which led Ukraine to face with Russian political pressure.

[12] Putin himself wrote pieces on the role of energy sources for re-establishing prestige of Russia in the international scene (Helm, 2006).

A similar supply crisis has occurred in the beginning of 2007 between Russia and Belarus contributing the anxiety in Europe over being too much dependent on Russian energy resources. The reason of the dispute between Belarus and Russia was the intention of Russia to double the gas prices it sold to Belarus and to control half of the pipeline infrastructure of Belarus despite the close political relations between the two countries. When Belarus reacted to unfriendly steps of Russia by announcing a duty of $45 per ton of Russian oil transported through Belarus, Russian response has been firm (Smith, 2007). Russian oil operator Transneft, which is the state-owned pipeline monopoly of Russia with exclusive jurisdiction over oil imports, shut down the Druzhba pipeline for three days. The dispute especially affected German oil imports since Germany received 20% of its oil imports through Druzhba pipeline (Belkin, 2007). Druzhba is the largest oil export pipeline of Russia to Europe which splits into two sections, first running through Belarus, Poland and Germany; and the second section flowing through Belarus, Ukraine, Slovakia, the Czech Republic and Hungary (Bahgat, 2006). Although not related with the energy security of the EU, Russia has also cut gas and electricity supplies to Georgia in 2006 by arguing that the latter supported terrorism. The incidents that caused disruptions in the energy resources transported to the EU have led the EU and the Member States to question the reliability of Russia as an energy supplier. In addition to raising questions on Russian reliability, the crisis, especially the one between Russia and Ukraine, has demonstrated the failure of the Commission to play any significant role using the institutions of the EU-Russia Energy Dialogue and the EU-Ukraine summits (Honoré and Stern, 2007).

4.4.2. The Fifth Enlargement of the EU and Import Dependency on Russian Energy

The fifth enlargement of the EU in 2004 and the second part of the fifth enlargement in 2007 increased the overall import dependency levels of the EU. Most of the new members of the EU have already established strategic energy relations with Russia as remnants of the Soviet era. Countries like Estonia that acceded to the EU in 2004 and Bulgaria that acceded in 2007 are 100% dependent for imported Russian natural gas. While the new Member States acceded into the EU account for only one-

tenth of the GDP of the EU, their import dependency is far greater than the EU average (Kalyuzhnova, 2005). When share of the Russian natural gas in total natural gas imports of the EU-25 and the EU-27 are analyzed, it is seen that the figures are 32.2% and 33.6% respectively (Eurostat, 2005). Thus, Russian natural gas accounts for a higher percentage of the natural gas imports of the EU with the accession of Bulgaria and Romania in 2007. Moreover, enlargement of the EU has increased the energy demand of the EU. Energy demand of the EU would increase faster compared to the pre-enlargement era, since the growth of the energy demand of the accession countries are faster than the EU-15. Another reason why the enlargement process of the EU is contributing to the increase in import dependency rates of the EU is that new member states mostly have energy-intensive industries. In addition to these, dependency on Russian gas is expected to increase with the closure of nuclear power plants that produce electricity in several new members. However, there are potential benefits of the enlargement process in terms of contributing to the energy security of the EU. Positive aspect of the enlargement of the EU in regards to the security of supply is that major transit routes for energy from Russia, Central Asia and the Middle East have been included under the EU territory.

Table 4.5 shows the import dependency rates of the selected EU member states on Russian natural gas. The UK and the Netherlands are not included in the table since they do not import natural gas from Russia. It is seen in the table that the rate of the dependence on Russian gas varies between the EU Member States ranging from 19.5% (France) to 41.7% (Germany) and to 100% (Estonia, Finland). Differences in the level of the dependency on the Russian gas have been the underlying reason of the divergence of the energy security policies of the leading Member States, which undermines the creation of a sound energy policy of the EU.

Table 4.5. Dependence of Selected EU Member States on Russian Natural Gas

Country	Dependence on Russian Natural Gas*
Austria	70.0%
Czech Republic	76.0%
Estonia	100.0%
EU-27	33.6%
Finland	100.0%
France	19.5%
Germany	41.7%
Italy	31.7%
Poland	65.9%

* Imports from Russia / Total Imports
Source: Eurostat, (2005).

4.5. External Energy Policy Mechanisms of Diversification of EU Energy Suppliers

A coherent external energy policy of the EU would enhance the security of supply. The EU aims to play an effective role as an international actor in international energy relations. However, speaking with common voice is the most important criterion for the EU to be a major player in the international scene. Besides internal efforts for the formation of a single energy market, the management of energy demand through energy efficiency and energy saving measures and obligation of minimum stocks; external mechanisms would complement efforts for security of energy supplies. On the previous chapter, Trans-European Networks and the European Energy Charter were presented as measures for securing supplies. Faced with the challenges of the vulnerability of import dependency on few energy resources and suppliers, the EU aims to diversify its energy resources and its energy suppliers. As an attempt to diversify its energy resources, the EU has announced the target of increasing the share of renewable energy resources up to a minimum of 20% in the 8-9 March 2007 European Council decisions, which was analyzed in the previous chapter (Council of the EU, 2007). In this chapter, main focus will be on the attempts of the EU for diversification of its energy suppliers.

Diversification of energy suppliers has been stated as one of the priorities of the EU energy policy in Green Paper published in 2006 presenting "A European Strategy for Sustainable, Competitive and Secure Energy". Necessity of new oil and gas pipelines as well as new LNG terminals is stated in the document by adding that possible origins of supply could be the Caspian region, North Africa and the Middle East (European Commission, 2006a). Moreover developing partnerships with producers and transit countries as well as developing dialogue with major energy suppliers are also regarded as a priority of the energy policy of the EU. Another energy policy objective is defined as developing a pan-European Energy Community to bring the neighbors of the EU closer to the internal energy market. The Green Paper also makes the point that "creating a 'common regulatory space'[13] around Europe would imply progressively developing common trade, transit and environmental rules, market harmonization and integration" (European Commission, 2006a, p.16). Priorities of the external energy policy of the EU that are stated throughout this section are also reiterated in the Communication of the Commission for the period 2007-2010 (European Commission, 2007a).

In another Commission Paper, the guidelines of "An External Policy to Serve Europe's Energy Interests" were stated, in which diversification has been considered to be one of the two building blocks of energy security along with functioning markets (European Commission, 2006b). Diversification of geographical origin and transit routes is considered to be vital for energy security of the EU which faces with the great risk arising from increasing dependence on imports from producers that uses energy as a political lever. Although the Commission paper does not reveal the name of the country, it is obvious that it refers to the energy security risks related to import dependency on Russian sources. In the paper, diversification of especially natural gas suppliers is deemed to be necessary, where new gas projects that would supply resources from North Africa, the Middle East, the Caspian region, Russia and Norway are regarded as

[13] Energy Community Treaty is the major mechanism of the EU to create a common regulatory space for energy. It was signed in October 2005 by the European Community and nine Contracting Parties from South East Europe that entered into force in July 2006. Contracting parties, which are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Montenegro, Macedonia, Romania, Serbia and Kosovo, are committed to implement major parts of the related EU acquis with the ultimate aim of creation of a single energy market, operating networks and a stable ground for investment.

means for increasing the security of energy supplies of the EU (European Commission, 2006b). In the paper, there is a special emphasis to possible oil and natural gas projects that would transfer Caspian resources to the EU, an issue that will be discussed in more details in the following chapter. Regional cooperation schemes for enhancing the EU energy security that have been created for the Mediterranean, Black Sea and Russia will be discussed below along with the INOGATE Programme of the EU.

4.5.1. Energy in the Context of the Euro-Mediterranean Partnership

The Euro-Mediterranean Partnership was initiated in 1995 between the EU-15 and 12 Mediterranean countries of North Africa and Eastern Mediterranean with the ultimate aim of creating an area of peace, stability, shared prosperity and developing a Free Trade Area by 2010. With the enlargement of the EU, the number of the countries that are members of the Euro-Med Partnership has increased to 37, which now includes the EU-27 and 10 Mediterranean Partners (MPs).[14] Energy issues constitute one of the major pillars of the Partnership, where the objective of the EU is creating a stable environment for energy investments and facilities to access the energy resources of the region. The Euro- Mediterranean Energy Forum has been launched in Brussels in 1997, where countries participating in the Partnership agreed on an action plan with three major objectives that are security of supply, competitiveness of the energy sector and environmental protection (Kagiannas et al., 2003).

When all the MPs are considered together, a net energy exporter region comes to the picture. However, energy situation of individual MPs vary significantly where Algeria, Egypt and Syria are net energy exporters having rich hydrocarbon resources and others being net energy importers of which Lebanon, Jordan and Palestine do not have proven local energy resources. According to Kagiannas et al. (2003), Turkey is a distinct case compared to other MPs, although it is not a major energy producer, it is a major player in international energy relations due to its location at the crossroads between the energy thirsty EU and energy producers that are the Middle East, Central

[14] Mediterranean Partner countries are Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria, Tunisia and Turkey.

Asia and to some extent Russia. From the EU perspective, besides the energy resources of the MPs, geographical proximity is a major motivation for energy partnership with Mediterranean countries, since the countries play the role of transit for energy resources of the Gulf and the Caucasus (Kagiannas et al., 2003). Given the increasing demand for energy in MPs, the region is expected to turn into a net importer of energy in 2020 (Kagiannas et al., 2003). Thus, possibility of the Euro-Med partnership in terms of ensuring the security of energy supply of the EU seems to be unrealistic given the increasing energy demand of the region. However, "development of energy production and transmission interconnections is a priority in terms of the security of supply" (Kagiannas et al., 2003, p.2682). Members of the Euro-Med Partnership has agreed on a six-year Action Plan for energy issues with the ultimate aim of creating a common Euro-Mediterranean energy market (Euractiv, 19/12/2007). 37 members of the partnership has agreed to create a common energy market on the grounds of free competition and reciprocal access to energy markets of each other through improving gas and electricity interconnections. Diversification of energy resources and harmonization of energy policies were also decided by the ministers of the Euro-Med Partners, thus constituting a major step in energy relations in the context of the Euro-Med Partnership (Euractiv, 19/12/2007).

4.5.2. Cooperation with the Black Sea Region for the Security of Energy Supply

Significant potential of the Black Sea region as an energy production and transmission area motivated the EU for establishing a new regional cooperation initiative with the region. Energy security is not the sole area of motivation behind establishing an initiative with the region. Other cooperation areas covered by the Black Sea Synergy- A New Regional Cooperation Initiative are democracy, respect for human rights and good governance, managing movement and improving security, finding solutions to frozen conflicts of the region, transport, environment, maritime policy, fisheries, trade, research and education networks, science and technology, employment and social affairs and finally regional development (European Commission, 2007c). According to the perspective of the EU, the Black Sea region provides significant

potential for energy supply diversification. Developing relations with the Black Sea region to enhance energy security of the EU is very much related with other EU initiatives such as the EU-Russian Energy Dialogue, which will be analyzed below.

In the context of energy relations between the EU and the Black Sea countries[15], the EU helps the countries to conduct measures for energy saving, energy efficiency and developing alternative energy resources in order to contribute to overall energy security of the region. More importantly, the EU aims to diversify its energy resources and to ensure energy security "through upgrading of existing and the construction of new infrastructure" (European Commission, 2007c). The Commission is already working on several technical projects to bring natural gas from the Caspian region to the EU through the Black Sea region.

Black Sea Synergy is one of the initiatives proposed by the Commission in order to strengthen the European Neighborhood Policy (ENP). ENP is a mechanism developed by the EU for establishing closer ties with the neighbors of the EU without providing a membership perspective. ENP covers policies to promote economic development, stability and good governance in the countries in the countries that are neighbors of the EU. In the Commission document establishing the framework for strengthening the ENP instruments, energy security is regarded as an area in which there is growing interdependence between the EU and its neighbors (European Commission, 2007d). The Commission states that "the ENP brings together producer, consumer and transit countries, which have to gain from closer cooperation and integration" (European Commission, 2007d, p.7). Energy cooperation activities conducted under the Euro-Med are also integral parts of the ENP since the Euro-Med Partnership already involves countries that are southern neighbors of the EU.

[15] Black Sea countries involved in the cooperation scheme are Greece, Bulgaria, Romania, Moldova, Ukraine, Russia, Georgia, Armenia, Azerbaijan and Turkey.

4.5.3. The INOGATE Programme

INOGATE, which stands for Interstate Oil and Gas Transfer to Europe, is a major instrument of the EU for diversification its energy suppliers and enhancing the security of its energy supply. Participating countries of the Programme are mainly countries of Eastern Europe, Caucasus and Central Asia that are involved in a dynamic relationship to ensure energy supply of all parties concerned. 21 participating countries of the Programme[16] have signed the Umbrella Agreement, where an institutional and a legal framework to facilitate the establishment of oil and gas pipelines are stated along with the mechanisms to attract necessary investment for the construction and operation of the pipelines (Bahgat, 2006). The INOGATE Programme is significant for transporting natural gas since it is generally transported via pipelines and the LNG option for transporting natural gas is more capital-intensive than pipelines. Moreover, although transportation of oil is also possible with relatively small costs and the EU prefers importing oil mainly through sea way, this trend is projected to change due to security of supply and environmental risks arising from transporting oil through the seaway. The Commission has strengthened the measures taken for maritime safety after the accident of "Erika" ship in the Atlantic coast in 1999 that spilled oil and caused serious environmental damage. Thus, importance of pipelines would increase to a major extent due to both new pipeline projects for diversification of energy suppliers and also the environmental reasons. The INOGATE Programme is one of the key facilitator for investments in new pipeline projects, thus a major mechanism for diversification of the EU energy supplies.

Although the establishment of pipeline infrastructures has been the sole aim of the INOGATE Programme when it was launched in 1995, the mandate of the Programme has now been expanded to cover electricity, renewable energy resources and energy efficiency along with oil and natural gas (The INOGATE Website). Most significant contribution of the INOGATE Programme for the security of energy supply of the EU is that it aims to develop new alternative transit routes for transporting the

[16] Participating countries of the INOGATE Programme are Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Croatia, Georgia, Greece, Kazakhstan, Kyrgyzstan, Latvia, Macedonia, Moldova, Romania, Slovakia, Tajikistan, Turkey, Turkmenistan, Ukraine, Uzbekistan, and Yugoslavia.

Caspian energy resources to the EU. Institutionalization of the energy partnership between the EU and the Caspian region is significant in the sense that the Caspian resources are becoming increasingly important for the EU energy security due to its potential for reducing the import dependency of the EU on Russian oil and natural gas. The possible role of the Caspian region in enhancing the security of energy supply of the EU will be the subject of the next chapter, where the importance of Turkey as a transit route between the EU and the Caspian region will also be analyzed.

4.5.4. The EU- Russia Energy Dialogue

Although diversification of energy supply has been one of the main pillars of the EU energy policy, the EU acknowledges the fact that the EU and Russia would remain interdependent in the energy sector. It established a mechanism, the EU-Russian Energy Dialogue, where the EU aims to manage its dependency especially on Russian natural gas. In the Commission's point of view, establishing a unified front against Russian policies would contribute to enhancement of supply security. From Russian point of view, developing relations with the EU would secure foreign investment as well as access to the EU energy market and sustain the energy demand in the EU for Russian energy resources. Interdependence between the EU and Russia in issues related to energy has motivated the initiation of the EU-Russia Energy Dialogue in 2000 to cooperate in the areas where the two parties have common interests. According to Bahgat (2006, p.16), "the EU-Russia dialogue is based on a simple bargain; Europe's investment in return for Russia's oil and gas". Major objectives of the EU-Russia Energy Dialogue have been to secure both energy demand and supply, facilitating investments and developing relations between producer and consumer countries.

Russian reluctance for the ratification of the Energy Charter Treaty makes the energy relationship between the EU and Russia complicated. The EU firms face with difficulties in accessing to the energy resources and investments in Russia, while Russian firms, mainly Gazprom, enjoy the benefits of the measures of the EU taken for liberalization of energy markets in electricity and gas. To combat with the challenges of Russian's single-sided enjoyment of access and investment rights, the Commission has

proposed a legal instrument for ensuring reciprocity with third countries, a move that is usually referred as "the Gazprom clause". The reciprocity clause has been one of the proposals contained in the third legislation package of the EU for energy liberalization, which was analyzed in the previous chapter. Reciprocity clause foresees that third country firms that want to enjoy the benefits of unbundling of the EU firms need to play the same rules in their home country. The proposed legislation by the Commission states that "…in the event that companies from third countries wish to acquire a significant interest of even control over an EU network, they will have to demonstrate and unequivocally comply with the same unbundling requirements as EU companies" (EC Memo/07/361, 2007).

Attracting European investment is also in the interest of Russia that wants to secure the EU demand for Russian natural gas and oil. According to the figures of the IEA (2003), Russian energy sector will need a total of $328 billion investment per year in 2001-2030 period, most of which ($308 billion) will be necessary for exploration and development activities. For natural gas, study of the IEA (2003) shows that necessary investment is projected to be $333 billion per year, which will be allocated as investments for exploration and development ($187 billion), transmission and storage ($109 billion), LNG ($5 billion) and distribution ($32 billion). The UK has been the largest investor in Russia. British trade and investment official Andrew Cahn, in an interview he gave to Russian state news agency RIA Novosti, has underlined the steady increase in the British investment to Russian economy, mainly to oil and gas sectors (RIA Novosti, 16/04/2008). According to latest figures provided by Cahn, British investment has risen to $26.3 billion with the grant investments of the energy companies like BP and Shell in Russia.

Bahgat (2005) argues that there are several factors which will shape the future of the EU-Russia Energy Dialogue. One major factor will be the capability of Russia for maintaining its oil and gas production and increasing its export capacity. Second important determining factor in future EU-Russia energy relations would be the willingness of Russia to reform its energy sector. Finally, attempts of the EU for diversifying its energy suppliers through transit routes by-passing Russia would constitute a challenge for the relations between the sides. Until now, main achievements of the EU-Russia Energy Dialogue can be stated as the establishment of the EU-Russia

Technology Center in 2002, signing and ratification of Kyoto Protocol by Russia in 2005 and improvement of the measures for maritime safety by Russia. North European Gas Pipeline (NEGP) is also considered to be one of the successful outcomes of the EU-Russian Energy Dialogue (Bahgat, 2006), which will link Russia and Germany via Baltic Sea bypassing new members of the EU when completed in 2011 (Nord Stream Website). However, agreement between Germany and Russia for building the NEGP, which would increase import dependency of Germany thus of the EU for Russian natural gas, has not been reacted without criticism. Moreover it is regarded as the breaking point for European integration in energy policy. The following sections of the chapter discuss the failure of the EU in speaking with a common voice in the issues relating to security of supply and the implications of this failure for the overall European integration.

4.6. Energy Security Decisions of the Member States as the Breaking Point in the EU Energy Policy

The EU has been developing various mechanisms for the security of energy supply, most important of which are being the single energy market and diversification of energy suppliers. However, when energy security interests of the Member States are at stake, speaking with common voice in energy issues has been difficult. Relations of the Member States with Russia have been the breaking point on the way to common energy policy. As discussed throughout the chapter, import dependency on Russian energy resources, mainly on natural gas, has been a major challenge for the European energy security. The EU has established various mechanisms to diversify the transport routes of energy reaching to the EU through the Trans-European Networks, the INOGATE Programme and the Energy Charter Treaty. In addition, coordination mechanisms with the Mediterranean countries through the Euro-Med Partnership, with the Black Sea region states through the Black Sea Synergy as well as other policy instruments to enhance energy cooperation with the Middle East and Africa have been major attempts of the EU to create the ground for diversification of energy supplies. Moreover, the EU has attempted to manage its energy interdependency with Russia through mechanisms like the EU – Russian Energy Dialogue with the ultimate aim of

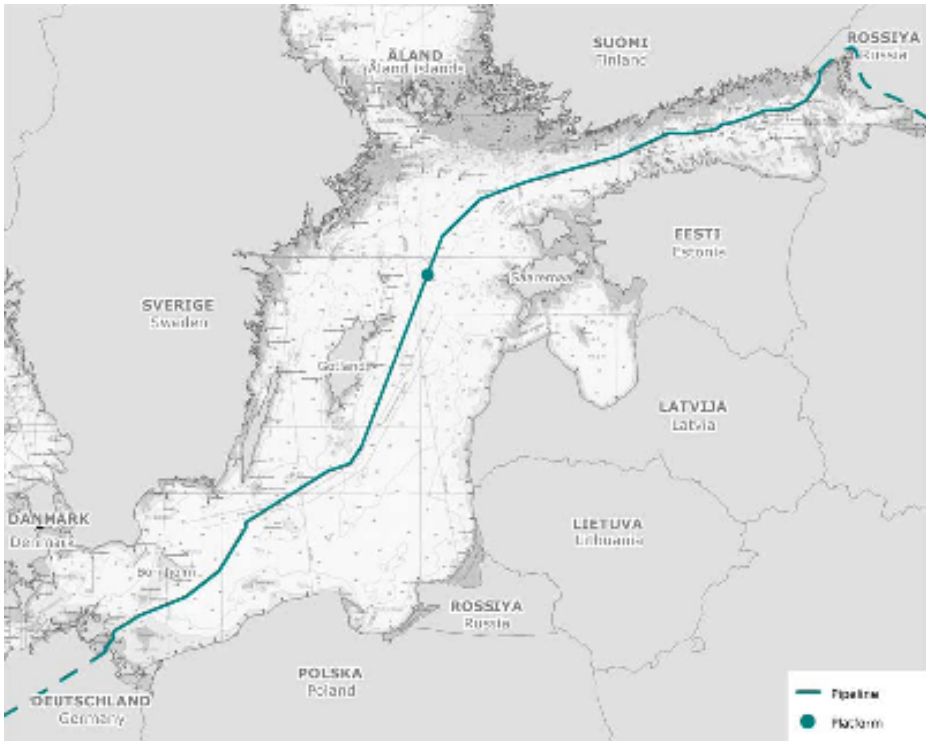
creating a unified front against Russia. Energy Commissioner Andris Piebalgs has underlined the necessity of single-minded policies to face the challenges of energy dependency (Speech/08/96, 2008). While reminding that the EU needs more diversity for its natural gas supply, the Commissioner states that the EU needs a common voice in energy policy to be a major player in international collaboration. However, the Member States have been reluctant to transfer powers to the EU level for a strategically important issue like security of energy supply and have preferred to have bilateral relations with Russia undermining the joint policy efforts of the EU. The "special relationship" between Germany and Russia has been the most important illustration of this trend (Helm, 2006) enhanced by the decision of the two countries building the NEGP, along with other bilateral deals of different EU Member States with Russia.

4.6.1. North European Gas Pipeline

The EU has realized the vulnerability of its energy security with energy crisis between Russia and Ukraine and Russia and Belarus. However the major incident that has illustrated the need for a common action in energy security strategy of the EU has been the decision of Germany to sign a bilateral agreement with Russia for a natural gas pipeline that would transport natural gas from Russia to Germany through the Baltic Sea bypassing Accession countries. Route of the pipeline is presented in Map 4.1 Russia has been interested in making Germany as the energy hub for its natural gas exports to the EU, which makes Germany the key country for the Russian energy strategy (Smith, 2007). Although Germany has stated that the NEGP would contribute to German and European energy security, various Member States like Poland and Lithuania that will be by-passed by the project have opposed to the pipeline. Opposing countries also state that they were not asked to participate to the negotiations of the pipeline project and the failure of Germany to coordinate with other EU Member States in negotiations with Russia poses a major threat to European energy security (Belkin, 2007). Poland and Lithuania are also worried about the threat posed to their gas supply since Russia would be able to export directly to Western Europe by-passing the Eastern Europe (Dw-World, 10/12/2005). The North European Gas Pipeline, which is also called Nord Stream, has the length of 1220 km and is projected to be completed in 2012 with an estimated

investment of €7.4 billion (Nord Stream Website). Bearing in mind the fact that EU demand for natural gas is increasing rapidly, the Nord Stream is expected to meet a quarter of the additional natural gas demand of the EU (Nord Stream Website). Nord Stream Company, which is established in 2005 for the construction of the Nord Stream pipeline, is a joint venture, in which Gazprom has 51% share and BASF/Wintershall and E.ON Ruhrgas having an equal share of 24.5%.

Map 4.1. The Nord Stream through the Baltic Sea



Source: Nord Stream (2006). Project Information Document: Offshore Pipeline through the Baltic Sea.

Debates on energy security have been limited to dispute between proponents and opponents of nuclear energy in Germany whereas possible outcomes of dependency on Russian energy resources have been discussed to a lesser extent (Umbach, 2006). When the decision of Germany to totally abandon nuclear energy by 2021 is taken into account, German demand for natural gas for electricity generation would increase significantly in the near future. As shown in Table 4.5, Russia accounts for 41.7% of Germany's gas imports and "those figures are threatening to rise to a level ranging between 60 and 70 percent" (Umbach, 2006, p.67). Smith (2007), on the other hand, states that dependency of Germany on Russian natural gas is projected to increase to 80

percent from its current rate of 41.7 percent with the completion of NEGP project. Decision of constructing the Nord Stream would increase import dependency levels of Germany, thus increasing the vulnerability of Germany to possible disruptions of supply risks. Umbach (2006) argues that decision of building a pipeline passing under the Baltic Sea has been made in order to avoid transiting through Ukraine, the Baltic countries and Poland in accordance with geopolitical considerations, which eventually led a project that is two or three times more expensive compared to a land-based pipeline. Thus by making a bilateral deal with Russia for the NEGP, Germany increased its energy dependency on Russia that has the potential of using its energy resources as a mean for foreign and security objectives and made a decision illustrating the failure of the common energy security policy of the EU.

Disagreement between the EU Member States on how to manage the issue of energy security has come into the surface with the debates on the "special relationship" between Germany and Russia in energy. Along with the warnings of the European Commission, France and the UK have also criticized Germany for its actions that lead to increasing dependency on Russian energy exports (Umbach, 2006). As Table 4.5 illustrates, France has a much lower dependency on Russian natural gas with at a level of 19.5% compared to Germany's 41.7% dependency level. The position of the UK has been described as the EU needs a common energy policy for enhancing its energy security; however without necessarily by transferring more powers to the Commission or by adding a chapter on energy into the EU Treaties (House of Lords, Fourteenth Report, 12/02/2002). The UK also argues that the liberalization of energy markets should be the priority for securing the energy supplies of the EU, rather than seeking for long-term contracts with producer countries.

4.6.2. Bilateral Agreements of the Major Member States with Gazprom

Russia has been pursuing its "divide-and-rule" tactics on the EU by negotiating separate deals with major EU Member States (Smith, 2007, p.2). Thus Nord Stream has not been the unique example for bilateral relations between Russia and the Member States. For the case of natural gas, Gazprom seeks for bilateral contracts in the EU for

directly reaching the European market with the ultimate aim of increasing its market share in the EU Member States (Umbach, 2006).Since demand for natural gas is increasing rapidly, the EU Member States are also seeking for bilateral long-term contracts with Russian natural gas monopoly Gazprom, ignoring the diversification objectives of the European Commission. Moreover, The EU Member States have been more interested in helping their national companies to gain investment access in Russia compared to conducting a common energy security policy (Smith, 2007). Leading Member States of the EU have sought for bilateral deals with Russia to secure their energy supplies. According to Correlje and Linde (2006, p.541), "if security of energy supply becomes uncertain for (some of) the member states, the urge to implement national energy policy may become stronger". This has been the case for the EU Member States, since they urged to sign deals with Gazprom undermining the common EU efforts for diversification.

The Russian natural gas monopoly Gazprom has signed a long-term gas contract with German E.ON Ruhrgas AG, extending agreement between the two companies until 2030 (Gazprom Website). Ruhrgas is the leader in German energy market and one of the leading natural gas companies of the EU. Moreover, E.ON Ruhrgas AG and Gazprom signed a Memorandum of Understanding in June 2004 to enhance the cooperation between the two companies by conducting joint projects on gas deliveries as well as production, transmission, marketing and power industry (Miccinilli, 2007). The bilateral agreement between Germany and Russia has constituted examples for other EU members to pursue similar objectives. Italian ENI, the largest oil and gas company in Italy, has been another European company that has been negotiating long-term natural gas deal with Gazprom, a move that would increase the dependency of Italy on Russian gas exports. Agreement that was signed between Gazprom and ENI in 2006 creates the ground for the increase in the rate of Russian natural gas exports to Italy since it allows Gazprom to directly sell gas in the Italian market (International Herald Tribune, 14/11/2006). Moreover, the agreement foresees that Gazprom would start selling natural gas to Italy in 2007 and increase its sales gradually that would reach to 3 billion cubic meters in 2010. Another issue on which Gazprom and ENI has reached to an agreement is the commitment of Gazprom to supply gas to Italy until 2035 instead of the previous deadline of 2017 (International Herald Tribune, 14/11/2006).

Although not as ambitious as the deals of German E.ON Ruhrgas and Italian ENI, Gaz de France, which is the largest distributor of natural gas in France, has also renewed the term of its natural gas contract with Gazprom. In an agreement signed between Gaz de France and Gazprom in December 2006, the two companies have decided to renew the natural gas contacts until 2030 that currently supplies 2.5 billion cubic meters of natural gas to France (Gaz de France Website, 19/12/2006). Moreover, the natural gas contract signed between Gaz de France and Gazprom is expected to cover 2.5 billion cubic meters of additional natural gas per year from the year 2010 that would be carried through the Nord Stream Pipeline. Common feature of the agreements signed between German, Italian and French companies with Gazprom is that they are bilateral and are signed for long time periods, deadlines of which are ranging from 2030 to 2035. The long-term natural gas contracts signed between the Member States of the EU and Gazprom do not involve a second Member State in the agreement undermining the efforts of the Commission for creating a single front against Gazprom's monopoly. Besides securing its relations with the largest Member States of the EU with bilateral deals, Gazprom has also announced its intentions to enter the UK energy market. Gazprom declared that it intends to acquire 15% of the UK gas market by 2011, which is ten times greater than Gazprom's current share in the UK gas market (Euractiv, 30/01/2008).

4.6.3. Positions of the Central European and Baltic States

As seen in the previous section, the largest EU Member States Germany, France and Italy have been more willing to support their national companies having long-term energy deals with Russia, rather than working in coordination to tackle with the challenges of dependency on Russian energy exports. Agreement on building the Nord Stream natural gas pipeline has been regarded as the major breaking point on the way to a common EU energy policy since it not only enhances dependency of Germany, thus the EU on Russian natural gas, also completely ignores the energy and security interests of the new Member States of the EU that are bypassed by the Nord Stream project. What is more, the Nord Stream has been considered as one of the Trans-European Networks, thus considered as one of the official transport routes of energy resources

supported by the EU. In other words, the significance of the Nord Stream pipeline has also been acknowledged by the EU. By directly connecting Russia and Germany, the European Commission has argued that the pipeline is projected to diversify the natural gas supplies of the EU. It is also considered as one of the milestones of the EU-Russian Energy Dialogue. Energy Commissioner Piebalgs stated his views on the Nord Stream as "Nord Stream is definitely a project of European interest and it would enhance the EU's security of supply bringing additional gas through a new route" (EUobserver, 30/01/2008). Support of the NEGP by the European Commission which has been negotiated without the participation of Baltic, Central and Eastern European countries has raised the question of whether the common EU energy policy is limited to the interests of the Old Europe (Smith, 2007). Poland, as one of the major opponents of the project, has started working on an alternative plan that would transport natural gas from Russia to Germany. Polish government announced that they are preparing a report on transport of gas via a land route, which is simpler, less expensive and more secure (EUobserver, 30/01/2008). The alternative plan suggested by Poland foresees a construction of a land-based pipeline passing through Estonia, Latvia, Lithuania and Poland. However, the alternative plan does not likely to attract interest neither from Russia nor from Germany. Another illustration of the Commission's disregard the interests of the new members of the EU has been the Commission's rejection of the Polish proposal suggesting that the ratification of the Energy Charter Treaty by Russia should be a condition for the new EU-Russia Partnership and Cooperation Agreement[17] (Smith, 2007). Leaders of the Central European and Baltic states have made a declaration together for greater diversification of EU energy supplies and a united EU foreign policy towards Russia (EUobserver, 12/10/2007). The leaders have emphasized the threat stemming from the intentions of Russia to use its massive energy resources as a political weapon and urged the EU leaders to act in the way expected from members of a "Union".

[17] The current EU-Russia Partnership and Cooperation Agreement was signed in 1997 and expired in December 2007 with the completion of the initial ten year period. Negotiations for the renewal of the agreement s ongoing between the Member States at the writing of this study, which is delayed by the oppositions of Poland and Lithuania.

4.6.4. Energy Security Interests as the Breaking Point of the Common EU Energy Policy

The failure of the EU for presenting a coherent and credible European energy strategy towards Russia would not matter much, if Russia had the intention of liberalizing its energy market (Helm, 2006). However, reluctance of Russia for ratifying the Energy Charter Treaty and its unwillingness for opening up the pipelines of its gas monopoly company Gazprom make the interdependent relations between Russia and the EU complicated. Bilateral natural gas contracts between the leading energy companies of the EU like EON, ENI and Gaz De France with Gazprom encourage Russia to continue its single-sided policy towards the EU, which enjoys the benefits of liberalization of the EU energy market; however without providing the same conditions for the EU companies that wants access to Russian energy market. Thus, lack of a unified front against Russian monopolistic energy market is making difficult to pressure Russia for giving up its monopolistic behaviors. The IEA warned the EU by making a direct connection between Gazprom monopoly and European energy security. The IEA warned especially the EU Member States, which have long-term energy contracts with Gazprom stating that "the IEA is worried about the increasingly monopolistic status of state-controlled Gazprom. Europeans cannot import gas from Russia unless Gazprom agrees. This restriction undermines European energy security" (Honoré and Stern, 2007, p.238). Moreover, the IEA also warns that the Member States can face a gradually increasing supply shortfall in few years time unless necessary investments to new fields in Russia are made (Honoré and Stern, 2007). The necessity in the EU for taking further steps to manage its dependency on Russian energy imports is obvious. However, in order to achieve the objective of decreasing import dependency on Russian energy resources, the necessary steps are needed to be harmonized and coordinated among the Member States. Urgency to establish a common front against Russian energy policy has three major motivations (Helm, 2006). A common external policy towards Russia in energy issues would constitute solidarity between the EU-15 and the Accession countries, since the latter would directly experience the benefits of the EU membership on their position vis-à-vis Russia. Secondly, solidarity among the Member States would constitute a real bargaining power to Russia to relax its control on its monopolistic energy market and leave aside its divide-and-rule policy towards the EU Member

States. Lastly, in case of conducting a unified energy policy among the Member States, the significant role played by the Commission would be appreciated by the Member States (Helm, 2006).

Besides undermining the common energy policy of the EU, separate deals of the EU Member States with Russia raise doubts on the objectives of the Common Foreign and Security Policy of the EU as well. High Representative for the Common Foreign and Security Policy Javier Solana stated that the EU has a long way to go for a credible external energy policy and clearly stated that the EU does not have one yet (Euractiv, 06/02/2008). Solana continued his comments on the energy policy of the EU by stating that "in Europe, we have seen real progress on tackling climate change; some progress on the internal energy side; but rather less progress on the external side. Too often, we see mixed messages and the defence of narrow, national interests at the expense of broader, European interests" (Euractiv, 06/02/2008). Solana also touches upon the bilateral deals of the EU Member States stating that fragmented negotiations with external parties damages the cooperation among the Member States and urged the Member States to behave with “more discipline and loyalty” in their bilateral relations with third countries on energy issues (Euractiv, 06/02/2008).

Divergence of the key interests of the Member States in energy security has undermined further integration towards a common energy policy. In accordance with the hypothesis of liberal intergovernmentalist theory, integration of the EU energy policy has moved further until the stage where the energy security interests of the leading Member States have diverged. Taking action in the issues relating to the internal market has been more successful since the Member States have supported liberalization policies and internal market rules for their energy sectors in principle. However, as the previous chapter has concluded, although the Member States have agreed upon Directives on electricity and gas markets, it is not yet possible to argue that there is single energy market in the EU. Moreover, although the Third Liberalization Package for the EU energy sector has been proposed by the Commission, the Member States like France and Germany are reacting to the unbundling requirements of the package in order to protect the interests of their national championship.

Divergence of the key interests of the Member States as an obstacle for the formation of the common energy policy is more obvious in the external energy relations

of the Member States. Separate energy deals of the Member States with Russia and the agreement on the Nord Stream despite the fact that the pipeline threatened security of the new Member States have been major breaking points of the integration in energy policy. Although collective interests of the EU have necessitated diversification of the energy supplies of the EU, individual interests pursued by the Member States have undermined the collective interests of the EU. The theory of liberal intergovernmentalism also predicts that the decisions would be taken in accordance with the lowest common denominator in the EU given that the Member States have policy alternatives to the issue at stake. In line with this premise, the EU Member States have preferred having bilateral energy deals with Russia as policy alternatives to a unified policy towards Russia. In addition, energy security policy of the EU is developed on the lowest common denominator of the Member States, thus lacked any binding power.

Bargaining between the leading Member States of the EU has determined the pace of policy formation in the EU rather than the supranational leadership as argued by the supranational institutionalism. In Moravcsik's theory, key interests of the Member States are developed through the process of national preference formation in which economic interests are more important than the political ones. National championships of the Member States in energy, in other words the leading energy companies of the largest Member States, have been influential actors in national preference formation process. Bargaining of the Member States to preserve the interests of their national energy companies against the Commission's policy proposals were most visible in the limitations to formation of a single energy market.

In liberal intergovernmentalist theory, national preference formation is followed by the strategic bargaining stage in which relative power positions of the Member States are the main determinants of the negotiation outcomes. Intergovernmentalist theory states that small states support the supranational authority to gain more power and competence in the EU integration process, since the small states would enhance their relative power positions in an environment where supranational authority rather than the intergovernmental bargaining is the major determinant of the policy outcome. However the role of the small Member States of the EU would be minor in the policy-making arising from their minor power positions. Hypothesis of Moravcsik's theory, which foresees the relative power positions of the Member States would determine the policy

outcome, is supported in the analysis of the energy policy of the EU, since the interests of the small states have been ignored to a major extent. The most important case illustrating the minor role of the new Member States has been the Commission's support for the Nord Stream pipeline, despite the fact that the pipeline project has seriously threatened the energy security and foreign policy objectives of the new Member States. Scholars looking at the EU integration process through the lens liberal intergovernmentalist have preferred the term "convergence of interests", rather than "harmony of interests". Differences of the Member States in their energy mix, import dependency levels and external energy relations have been the major reasons underlying the divergence of the interests of the Member States, which led them, pursue different energy security policies. The general argument of the study, which states that further integration in a specific policy area in the EU fails when key interests of the leading Member States diverge despite the supranational leadership, is verified when applied to energy security policy of the EU. A general lesson for further integration in energy policy is that a successful common energy policy needs to take into account the differences between the energy realities of the Member States.

CHAPTER FIVE

THE CASPIAN REGION FOR THE DIVERSIFICATION OF THE EU ENERGY SUPPLY AND THE ROLE OF TURKEY ON THE EU ENERGY SECURITY

Faced with the challenges of import dependency for its major energy resources, the EU has been taking actions for the diversification of its energy supplies. The Caspian region has been a major alternative to the EU for securing its supplies from a region different than Russia and the Middle East. Construction of new oil and natural gas pipelines would facilitate importation of the energy resources of the Caspian region, thus improving security of supply by diversifying geographical origins of supply. Turkey, as being located between the major energy producers and the major energy consumers, has significant potential to play role the transit role for carrying the Caspian energy resources to the EU. In this chapter, after providing the figures for oil and natural gas reserves of the Caspian region, the importance attributed to the region by the EU in the context of its diversification policy will be presented. Secondly, transport routes of Caspian energy resources to the EU will be discussed, where the disagreement related to the legal status of the Caspian and Russian interests in the region will be analyzed as the two major obstacles for the Caspian region to realize its full potentials. Then, Turkey's role as the major energy corridor between the consumers and producers of energy will be analyzed with specific emphasis on the Nabucco gas pipeline project. Lastly, it will be argued that the opening of the Trans-European Network chapter in the accession negotiations of Turkey is an indication of the importance attributed to Turkey for the EU energy security and membership of Turkey to the EU would enhance the EU energy security.

5.1. The Caspian Region Energy Resources

Interest of the EU Member States and the Western companies for the energy resources of the Caspian region is increasing. Although the Caspian region is unlikely to be another "Middle East" in terms of its energy supplies, the region is expected to contribute to the EU Member States diversification of their energy suppliers, thus enhancing the energy security of the EU. According to the report published by the International Energy Agency in 1998, countries that have significant oil and natural gas resources in the Caspian region are listed as Kazakhstan, Turkmenistan, Uzbekistan and Azerbaijan. The report notes that the break-up the Soviet Union had created a fruitful ground for foreign investments in oil and gas sectors of the countries (IEA, 1998). According to the estimates of the report, proven oil reserves in the Caspian region vary between 15 and 40 billion barrels and about 70 to 150 billion barrels are estimated as additional possible reserves of the region (IEA, 1998). For the natural gas resources of the region, proven reserves of natural gas are between 6.7 and 9.2 trillion cubic meters and additional 8 trillion cubic meters of natural gas reserves are possible (IEA, 1998). When the figures of oil and natural gas of the region are compared with other regions of the world, it is estimated that the share of Caspian region in the world's proven oil reserves is between 1.5% and 4%, while it has 6% of the world's proven natural gas reserves. The IEA report concludes that the figures may increase to a significant extent due to the increase in exploration activities in the region. When the figures of the IEA are compared with the figures of the BP Statistical Figure of World Energy (2007), the energy reserves of the region are seen to be compatible in the two sources. BP (2007) states that proved oil and natural gas reserves of the four countries are equal to 47.9 billion barrels and 9.08 trillion cubic meters respectively at the end of the year 2006.

Oil production in the Caspian region has been 2.37 million barrels per day in 2006 where Kazakhstan has the highest share compared to other three major energy producing countries of the region, with a 1.7% share in world oil production (BP, 2007). When natural gas production figures of the Caspian region are analyzed, the four countries have produced 147.8 billion cubic meters of natural gas in 2006, where Turkmenistan has the highest share with 62.2 billion cubic meters of natural gas and with a share of 2.2% in world's natural gas production (BP, 2007). If investments made

to the Caspian region is continued at its current pace, the IEA (1998) estimates that oil production of the region would be 3.9 million barrels per day in 2010, while natural gas production would reach to 201 billion cubic meters in 2010 depending on various factors such as the level domestic consumption in the region, new export pipeline constructions and accessibility to Russian pipelines that are currently under the control of Gazprom (IEA, 1998). Energy resources of the Caspian region are estimated to have the same magnitude with the energy resources of the North Sea region (IEA, 1998). However, the Caspian region faces with major obstacles to enhance the security of energy supply of the EU. First obstacle is related to the export transport routes of the region, almost all of which pass through Russia as inherited from the Soviet era. Second major obstacle is the disagreement on the legal status of the Caspian Sea between the littoral states of the Caspian Sea, which are Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan. The two problems will be discussed briefly. Before analyzing these problem areas, importance attributed to the Caspian region by the EU for the enhancement of its energy security will be discussed.

5.2. Importance of the Caspian Region for the Diversification of the EU Energy

Although there are significant problems regarding the issue of transportation of the Caspian oil and natural gas to the EU, the region has been regarded as a major source of energy that would reduce the dependence of the EU on Russian energy resources to some extent. Major policy of the EU to develop secure energy transport routes from the Caspian region has been the INOGATE Programme, which was discussed in the previous chapter. The aim of the INOGATE is to secure energy supplies from the Caspian region accompanied by enhancing investments of the EU in the region for the region to develop its energy resources as well as the transportation infrastructure. In the Green Paper published in 2006 that lays down "A European Strategy for Sustainable, Competitive and Secure Energy", the Caspian region is referred as a priority region for securing and diversifying energy supplies of the EU (European Commission, 2006a). The region is considered to be significant for both oil and natural gas supplies to the EU. The Green Paper emphasizes the need for the

construction of independent gas pipelines supplying the Caspian energy and also for the construction of Central European pipelines that would transport oil from the region to the EU through Ukraine, Romania and Bulgaria (European Commission, 2006a). Role of the Caspian region is also underlined as the component of "An External Policy to Serve Europe's Energy Interests", which is a paper published by the Commission in order to point out the possible role of the external policy of the EU to ensure reliable flows of energy to the EU (European Commission, 2006b). Besides the need for developing bilateral energy cooperation relations with the energy producer and transit countries of the Caspian region, significance of creating new energy corridors from the Caspian region have been emphasized in the document.

The EU developed an energy cooperation mechanism called the "Baku Initiative" with the countries of the Caspian Sea and the Black Sea regions in November 2006 (EC Press Release IP/06/1657, 2006). The participants[18] of the Baku Initiative have agreed on a new Energy Road Map to facilitate the gradual integration of the energy markets of the participating countries and to ensure the transportation of oil and natural gas resources of the Caspian region to the EU enhancing its energy security. The participants have identified four priority areas for the common energy strategy they develop, which are "converging of energy markets, enhancing energy security, supporting sustainable energy development including energy efficiency, renewable energy resources and demand side management, and finally attracting investments towards energy projects of common interests" (EC Press Release IP/06/1657, 2006). In addition, transportation of the Caspian energy resources to the EU is one of the priorities of the EU International Energy Policy that would be implemented for the years 2007-2010, published in the Communication of the Commission laying down the action plan to achieve the objectives of the EU Energy Policy (European Commission, 2007a). The action plan sets the priorities regarding the Caspian region as fully implementing the Memoranda of Understanding (MOU) signed with Azerbaijan and

[18] Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkey, Ukraine, Uzbekistan and the Russian Federation (observer).

Kazakhstan[19] and moving to establish cooperation schemes with the Central Asian energy producer countries like Turkmenistan and Uzbekistan (European Commission, 2007a). External Relations Commissioner of the EU Ferrero-Waldner underlined the increasing importance of Central Asia as an energy partner of the European bloc and argued that the EU sees "huge scope of cooperation" with Central Asia (Euractiv, 11/04/2008). Bearing in mind the fact that Kazakhstan, Turkmenistan and Uzbekistan have some of the world's biggest oil and gas resources, the Commissioner stated that Central Asia is a key partner in diversifying supply routes of the EU (Euractiv, 11/04/2008).

5.2.1. Investments of the EU Companies in the Caspian Region

Activities of European energy giants in the Caspian region have been the major indication of the importance attributed to the region for enhancing the EU energy security. Major EU companies are involved in transport projects for carrying oil and natural gas resources of the region to the EU and as well as in extraction activities (Kalyuzhnova, 2005). Main investors in the region are Britain (BP), Italy (Agip-Eni), the Netherlands (Shell) and France (Total). When the allocation of the Foreign Direct Investment (FDI) in the Caspian region by sectors is analyzed, it is seen that energy sector has major share amongst other sectors. For example, approximately 90% of the European FDI in Kazakhstan is allocated to the energy sector (Warkotsch, 2006). Eni is the operator of Agip KCO consortium project along with Shell and Total as partners and the aim of the project is extracting oil resources of the Kashagan field in Kazakhstan (Kashagan Project, Eni Website). Eni is also the co-operator of Karachaganak oil, gas and condensate field in Kazakhstan along with British Gas, which has a share of 32.5% in the project (Karachaganak Project, Eni Website).

[19] Memorandum of Understanding with Azerbaijan was signed in November 2006 with the objective of developing energy partnership between the parties. Enhancing the EU energy security thanks to the energy supplies of the Caspian basin has been the major point of the cooperation with Azerbaijan. Kazakhstan also signed a MOU with the EU at the same time with Azerbaijan. Objective of the MOU signed with Kazakhstan is setting the framework of the energy relations between the two parties.

Azerbaijan is another major destination of the European energy companies in two major projects, first of which being the project for developing oil in the Azeri-Chirag-Guneshli (AGC) fields and second one being the Shah Deniz project for extracting natural gas from the field. AGC oil field is the largest oil field under development located about 120 kilometers off the coast of Azerbaijan that is operated by a consortium led by BP along with nine partners (BP, 2003). AGC oil field is developed by the Azerbaijan International Operating Company (AIOC), which was set up as the part of the Production Sharing Agreement with the objective of exploiting the richest oil reserves of Azerbaijan. The Agreement is mostly referred as the "Contract of the Century" due to its groundbreaking nature (Aras and Foster, 1999). Besides developing the offshore AGC oil fields of Azerbaijan, AIOC also coordinates the oil export pipeline projects originating in Azerbaijan (IEA, 1998). BP has a share of 34.1% as the operator of the AIOC with Unocal (USA) having 10.3% share, State Oil Company of Azerbaijan (SOCAR) having 10% share, Inpex (Japan) with 10%, Statoil (Norway) with 8.6%, ExxonMobil (US) with 8%, TPAO (Turkey) with 6.8%, Devon (USA) with 5.6%, Itochu (Japan) with 3.9% and lastly AmeradaHess (USA) with 2.7% (BP, 2003). The Shah Deniz, on the other hand, is the natural gas field located in the South Caspian Sea, development contract of which was signed in 1996 (Mavrakis et al, 2006). Involved companies for the development of the field are BP (25.5%), Statoil (Norway) (25.5%), State Oil Company of the Azerbaijan Republic (SOCAR) (10%), NICO (Iran) (10%), TotalFinaElf (10%), LUKAGIP (10%) and TPAO (9%) (Mavrakis et al, 2006). Investments of the energy giants of the EU to the Caspian region signify the growing interests of the EU Member States in the region that seek alternative energy suppliers to lessen the gravity of the problem of dependency on few energy suppliers.

5.2.2. The EU Energy Outlook and the Caspian Region

As stated in the previous chapter, energy demand of the EU is increasing due to decreasing domestic production and enlargement of the EU compromising new members with energy intensive economies. Increase in the energy demand for natural gas would be higher than the demand for oil, due to increasing share of natural gas for electricity generation replacing coal and to its more environment-friendly nature.

Therefore, it can be argued that developing energy relations with the Caspian region would matter more for the security of natural gas supply of the EU compared to oil. Moreover, since dependence on Russian natural gas is a major challenge for the EU energy security, the EU attributes high importance to diversification of its natural gas suppliers. According to Cayrade (2004), in the scenario which foresees an increase in the share of natural gas in the energy mix upto 33% in 2020, the EU would need additional 320 billion cubic meters (bcm) natural gas per year in 2020 compared to the energy consumption of 2000. This means that an increase in the import flows to the EU, basing on the estimation that domestic production of the EU would be limited to 196 bcm and Norwegian exports of natural gas would reach to 100 bcm in 2020. Since the EU demand is projected to be 819 bcm, the difference would be needed to be compensated with import flows (Cayrade, 2004). Although Russia would remain the major supplier of natural gas to the EU, additional new supplies from the Caspian region that equals to the amount 80 bcm would be needed. Cayrade (2004) adds that 400 bcm of 525 bcm natural gas has not been contracted yet, which means that new pipeline connections for transporting the Caspian oil along with the natural gas to the EU would be necessary. Bearing in mind the great distance between the Caspian region and the European markets, long pipelines would be necessary that would pass through several states. Since existing pipeline infrastructure in the Central Asia was designed to supply the internal market of the Soviet Union, export of oil and natural gas from the Caspian region requires construction of new export systems (Degermenci, 2001). The pipelines of the former Soviet Union are technically limited and unsuitable for accommodating additional export volumes (Degermenci, 2001). However, the issue of transporting oil and natural gas from the Caspian region to the EU has lead to intensive pipeline diplomacy mainly between Russia and Turkey and to a lesser extent Iran. In this chapter, the focus would be on the rivalry between Turkey and Russia, since the argument of the chapter is that Turkey has a strategic role to play in the EU energy security to lessen the dependence of the EU on Russian energy exports. Before going into the analysis of the transportation routes of the Caspian energy resources to the EU, the major obstacle for both production and transportation of the resources, which is the dispute on the legal status of the Caspian will be presented briefly.

5.3. Dispute on the Legal Status of the Caspian Sea

Littoral states of the Caspian Sea that are Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan disagree on the definition of the Caspian whether it is a sea or a lake. Disagreement on the legal status of the Caspian Sea makes the agreement between the parties on how to share the energy resources under the Caspian Sea impossible. Disagreement stems from the fact that potential oil and natural gas reserves are distributed unevenly under the Caspian that are at least in six different locations beneath the Caspian Sea. Agreeing on the legal status as a sea or a lake would determine the rules on how to share the resources beneath the Caspian Sea. If it is defined as a sea, the rules of the United Nations Convention of the Law of the Sea (UNCLOS) would apply according to which, littoral states would claim 12 miles from the shore of the sea as their territorial waters and 200 miles exclusive economic zones. Agreement on the Caspian body of water as a sea would divide the sea and energy resources under the sea as equally to national sectors (Bahgat, 2006). However, if the Caspian body of water is defined as a lake, then the energy resources of the region would be developed jointly in accordance with the approach referred as "the condominium approach" (Bahgat, 2006, p.971).

Russia has sided with the lake classification which foresees that a communal division of the resources of the water body. Iran also sided with Russia in its former stance for the lake classification. Taking the same stance with Russia on the issue of Caspian's legal status has been an incentive for Iran to align its regional policy with the interests of Russia (Aras and Foster, 1999). Iran then changed its position and argued that the Caspian Sea resources should be shared in a equitable manner, where each littoral state would have a 20% share of the surface waters and the seabed (Bolukbaşi, 2004). Azerbaijan, on the other hand, has refused the classification supported by Iran and Russia and opted for sharing the resources beneath the Caspian Sea territorially rather than communally. Azerbaijan is the country, which would gain or lose most depending on the decision of the legal status of the Caspian. "From the perspective of Azerbaijan, something approaching an equal distribution of the Caspian's resources would mean giving up its ambitions of becoming a player in world energy markets…" (Aras and Foster, 1999, p.244). Despite the ongoing debate on the issue, according to

the IEA (1998) report, the disagreement over the legal status of the Caspian Sea has not significantly slowed the investments in the region. The reason why the uncertainty about the legal status of the Caspian Sea has not discouraged the companies involved in the region is that the companies are confident that the agreements will be honored since they are signed by a large number of companies coming from variety of states (IEA, 1998).

5.4. Export Transportation Routes from the Caspian Region

Existing oil and natural gas pipelines were constructed to transport energy resources from energy producer states of the Soviet Union to energy consuming ones. Thus, energy transportation routes from the Caspian Sea area go either to Russia or through Russia to the EU and most of the energy routes terminate at the Russian port of Novorosiisk in the Black Sea. Land-locked countries of the region have needed resources to export their oil and natural gas resources. Since oil and natural gas pipelines of the region had been transferred through the Russian pipelines, Russia has the market power to determine the price of oil and natural gas it pays to the Caspian region states and to set transit fees for the energy resources passing through its pipelines (Belkin, 2007). Russian monopoly on the pipelines prevents the Caspian region countries to be viable alternative energy suppliers for the EU. One major illustration of the situation is the issue of transportation of natural gas resources of Turkmenistan. Russia buys the Turkmen gas for low prices and sells it to Turkey and the EU with higher prices, thus enjoying the benefits of 44% share of Gazprom in Turkmenneftgaz, which is the state-owed company of Turkmenistan. Thus, Turkmen gas becomes the Russian gas after entering into the Russian borders. Besides its dictation of the price it pays for the energy resources originating from the Caspian region, market power of Russia also enables it to decide whether to transport the region's energy sources or not. This has been evident in the rejection of Transneft, the Russian monopoly on oil, the oil supplies of Kazakhstan to be shipped through its pipeline system to Lithuania for refining (Belkin, 2007). Thus, along with the EU, the countries in the region also have significant incentives to construct alternative transport routes to Russian routes in order to directly export their energy resources to the EU. However, Russian interests in the

region are clearly defined. Caspian energy resources are vital for Russian natural gas monopoly Gazprom to maintain its "global presence strategy" for the global oil and gas market, which is defined as the activities of Gazprom in hydrocarbon exploration, extraction, transmission and marketing projects in third countries (Gazprom Development Strategy, 2008). Utilizing natural gas originating in the Central Asian countries by adding the resources of the region to Gazprom's resource portfolio is one of the main pillars of Gazprom's business strategy. In other words, Russia has a dual interest in the Caspian region energy resources both for transporting the oil and natural gas originating from the region and also for conducting a strategic relationship with the countries of the region to secure the supplies it is transporting to the European markets. Thus, in accordance with its strategic interests in the Caspian region, Russia continuously rejects and tries to undermine any alternative projects for transporting the energy resources of the Caspian region to the EU bypassing Russia.

The Caspian region countries have four alternatives to transport their energy resources to the world markets. Two of which are headed to the Pacific through China and to Indian Ocean through Afghanistan, India and Pakistan. The two routes for the Caspian region states to export their energy resources to the EU market is either through Russia from the north of the Caspian Sea or through Turkey to Mediterranean from the south of the Caspian Sea. Turkey and Russia have been advocating the route passing through their respective territories for the transport of the Caspian energy resources to the European markets. Turkey, as an alternative energy transportation route to the EU, has a strategic role for the EU that wants to reduce its dependence on Russian energy resources and on Russian transport routes. Role of Turkey for enhancing the security of supply of the EU will be the topic of following sections of this chapter. Competition between the neighboring countries of the Caspian region to transport the energy resources of the region, which is referred as the "pipeline diplomacy", has been the major development in international relations of the region. The power struggle for having control over the Caspian hydrocarbon resources has been called the "New Great Game" referring the great game between the British Empire and the Russian Empire for superiority in Central Asia (Moradi, 2006, p.174). "To advocate for particular routes on the basis of a policy that excludes some players and includes others in the so-called great game has ensued in the wake of the oil and gas rush in the Caspian basin…"(Amirahmadi, 2000, p.163). The underlying motivation for the neighboring

states to compete for being the energy transport route is the fact that the state through which the pipelines originating from the region runs would have significant economic and political benefits, "including access to oil or natural gas for domestic needs; foreign investment and jobs; substantial transit fees; and political leverage over the flow of oil and gas" (Bahgat, 2006, p.972). Amirahmadi (2000) argues that pipelines offer more than economic benefits since "they form the strategic cores of power along which communications, transportation, and other infrastructure corridors develop" (p.164). Thus, the underlying motivation of the rivalry between Turkey and Russia for being the territory through which the Main Export Pipeline (MEP) transporting the Caspian energy resources would pass through is more than solely economic benefits.

5.5. Turkey as an Energy Corridor

Located between the energy producers of the Caspian region and the energy-thirsty Member States of the EU, Turkey is a viable alternative energy transport route. Turkey is a major transit route through which the additional volume of natural gas that would be needed by the EU in the upcoming decades would pass through (Cayrade, 2004). Since its geographical location provides the opportunity to bypass Russia when transporting the non-Russian energy resources to the EU, Turkey has a strategic importance for the EU energy security. Pipelines passing through Turkey can be classified in two groups, which are on the east-west energy corridor and on the north-south energy corridor (Fink, 2006). In the north-south corridor the Russian energy resources, while on the east-west route the Caspian and Persian Gulf energy resources are carried. Thus, Turkey's role as the east-west energy corridor is more significant for the EU. Turkey has a significant role for the EU energy security which is challenged by the increasing dependency on Russian energy resources. According to the forecasts, if all pipeline connections that will be discussed in the following sections would be operational, 10% of world's oil and 15% of world's natural gas will be passing through Turkey to the EU (Kara, 2005). The figures are more than enough for demonstrating the role of Turkey for the EU energy security. One of the main routes for the security of the EU energy supply would be the route supplying gas from the Caspian region through Turkey (Cayrade, 2004). In this section, pipelines which are operational along with the

pipelines that are under consideration will be presented to demonstrate the role of Turkey for enhancing the EU energy security. The Baku-Tbilisi-Ceyhan (BTC) oil pipeline is the first direct connection between the land-locked states of the Caspian region and the Mediterranean. In other words, the BTC is the milestone of Turkey's ambition for being an energy corridor. Nevertheless, the main project which would contribute more to the EU energy security would be the Nabucco natural gas pipeline project, which will be analyzed in details in the following sections.

5.5.1. Turkey as the Corridor for the Caspian Oil: The Baku-Tbilisi-Ceyhan Oil Pipeline

The pipeline, which is 1,770 kilometers long with the potential of carrying approximately a billion barrels of oil a day, has become operational in May 2006. The BTC pipeline would carry the oil produced in the Azeri-Chirag-Guneshli (ACG) fields of Azerbaijan to Georgia and finally to Mediterranean through the Turkish port of Ceyhan. The route of the pipeline can be seen in the Map 5.1. In the future, Kazakhstan may also provide oil to the BTC pipeline. Although the leaders of Kazakhstan voiced interest for supplying Kazakhstan's oil resources to the Baku-Ceyhan pipeline, the country did not commit specific volumes to the project (Roberts, 2004). The project has been realized with the $ 3.6 billion investment of the BTC Pipeline Company, in which BP has played the leading role with a share of 30.1%. Shares in the BTC Pipeline Company are distributed as the following; SOCAR with 25%, Unocal with 8.9%, Statoil with 8.71%, TPAO with 6.53%, ENI with 5%, TotalFinaElf with 5%, Itochu with 3.4%, ConocoPhillips (USA) with 2.5%, Inpex with 2.5% and finally Amerada Hess with 2.4% shares (BP, 2003).

The pipeline has strategic importance for Turkey as well as the energy security of the EU. Decision on the most viable route for transporting the Caspian region's oil resources to the European market depends on main economic elements ranging from cost, available financing and security. In addition to economic factors, political and environmental considerations are also evaluated (Aras and Foster, 1999). The BTC pipeline has been decided as the optimum route depending on various reasons. First

reason is that the route of the BTC would prevent increasing oil traffic through the Turkish Straits. Although the Straits is protected with high-tech navigation systems and appropriate safety measures, oil tankers that maneuvers in the Bosphorus pose a great challenge to Istanbul's security since no technology can completely eliminate the risk of oil spill (Barysch, 2007). The EU favors pipelines rather than tankers transporting oil through the seaway due to environmental reasons as well as for the energy security reasons. In the "Towards a European Strategy for the Security of Energy Supply" Green Paper, the reason for preferring the pipelines is stated as the following:

> "*The way in which energy is transported is of fundamental importance for the security of supply. For instance, the European Union imports 90% of its oil by sea. Consequently, it is committed to strengthening the rules and regulations on ships (ban on single hull) and should restore its supply balance by shifting the emphasis towards oil pipelines*" (European Commission, 2000).

Thus, the BTC pipeline is in line with the framework drawn by the Commission for oil transportation. The IEA (1998) also states that the increase in the export potential of the Caspian oil would lead to an increase in the tanker traffic of the Straits, thereby raising the risk of serious accidents, which would pose great danger to human and marine life in the region. Thus, the IEA (1998) underlines the necessity of constructing alternative oil pipelines originating from the Caspian region that bypass the Turkish Straits. In other words, the BTC is also compatible with the concerns of the IEA.

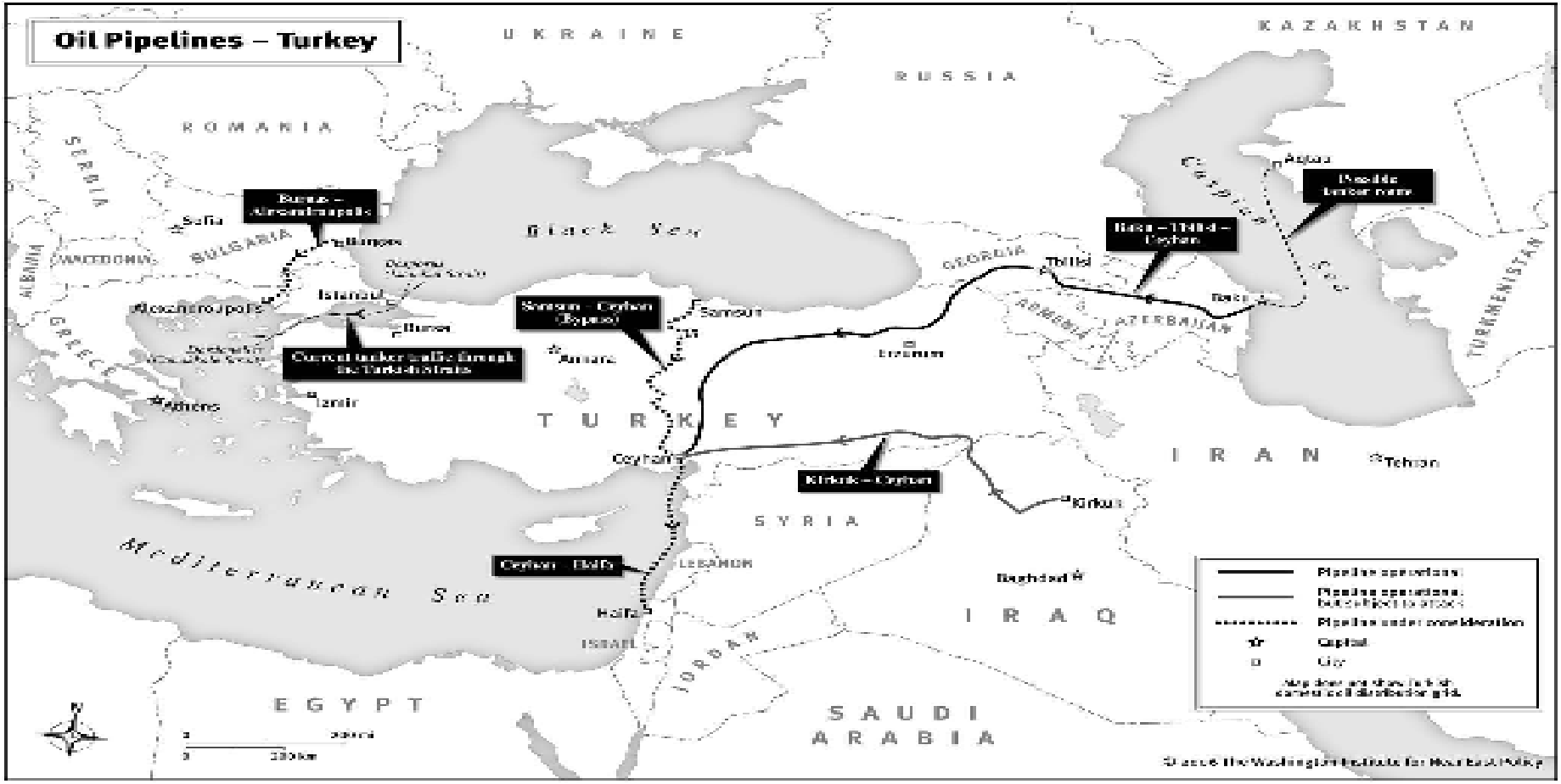
Before choosing for the route of the BTC oil pipeline as the MEP of Azerbaijani oil resources, reviving the Baku-Novorossiysk pipeline that transports the Azerbaijani oil to the international markets through the northern route since 1997 was considered. The second pipeline carrying the Azerbaijani oil is the Baku-Supsa pipeline that runs from Georgia. However, at the end the BTC was chosen as the main route since it would carry the Caspian oil directly to an open-water port without any need for tankers to pass through the Bosphorus (Roberts, 2004). There is already a major pipeline that carries the Caspian oil to Novorossiysk. The pipeline of the Caspian Pipeline Consortium (CPC) transports oil resources in the Tengiz filed of Kazakhstan to the Russian Black Sea port of Novorossiysk, from where the oil is carried by tankers passing through the Bosphorus Straits. CPC was formed in 1996 with the aim of

constructing the pipeline from Tengiz to Novorossiysk. CPC pipeline system is the largest investment project with foreign participation on the territory of the former Soviet Union[20] (CPC Website). The pipeline, which is 1,510 kilometers long, carries 650,000 barrels of oil per day. The CPC aims to expand the capacity of the pipeline system by adding new pump stations, storage tanks, loading system and replacing some pipeline connections, which would increase the amount of oil carried by the pipeline to 1.4 million barrels per day that would generate over $2 billion a year (CPC Website).

Second factor that makes the BTC oil pipeline strategically important is the fact that it bypasses Russia when carrying the oil resources of Azerbaijan and possibly of Kazakhstan to the international markets. By taking the exports routes of the Caspian oil away from Russia as well as from Iran, the BTC oil pipeline has gained the support of the US from the beginning. "The United States, which wants to encourage the independence of former Soviet republics, provided the diplomatic leverage and commitment for the project" (Fink, 2006, p.2). Since the late 1990s, the US has supported the construction of the BTC oil pipeline as the major export pipeline (MEP) (Bahgat, 2006). The BTC oil pipeline is also strategically important for the EU, since it provides the opportunity to diversify the suppliers and energy transport routes of the Member States with non-OPEC and non-Russian oil resources. The BTC is the major component of the east-west energy corridor, which connects the resources of the Central Asia and Transcaucasia with the European energy market through Turkey.

[20] According to Caspian Pipeline Consortium's website, shareholders of the CPC is Russia (24%), Kazakhstan (19%), Oman (7%), Chevron Caspian Pipeline Consortium Co. (15%), LOKARCO B.V. (12.5%), Mobil Caspian Pipeline Co. (7.5%), Rosneft-Shell Caspian Ventures Ltd. (7.5%), Agip International (N.A.) N.V. (2%), Oryx Caspian Pipeline LLC (1.75%), BG Overseas Holdings Ltd. (2%) and Kazakhstan Pipeline Ventures LLC (1.75%). Within these shareholders, Agip, BG, BP (LUKArco) and Shell are the EU companies.

Map 5.1. Oil Pipelines Passing Through Turkey



Source: The Washington Institute for Near East Policy, (2006).

Turkey wants to strengthen its role in the energy security of the EU by constructing pipelines that pass through its territories but also bypassing the Bosphorus. Samsun-Ceyhan Pipeline, which is also called the Trans-Anatolian Pipeline, would transport oil from the Black Sea to the Mediterranean as an alternative for transporting the oil resources of Russia and Kazakhstan through the Bosphorus and Dardanelles. The pipeline, which would be 560 kilometers long is expected to decrease the tanker traffic in the Straits by 50% when completed (Fink, 2006). Ceyhan's role as en energy center, which is already enhanced by the BTC oil pipeline, would be strengthened when the Samsun-Ceyhan oil pipeline is completed in 2010 (Turkish Daily News, 19/04/2008). Ceyhan is pointed as the "new Rotterdam", which is a Dutch municipality being the largest port of the EU (Kara, 2005). However, Russia is also developing projects bypassing the Straits with the objective of undermining the importance of the Samsun-Ceyhan pipeline. Russia has already signed agreements with Bulgaria and Greece for the Burgas-Alexandroupolis Oil Pipeline, which would run from the Black Sea coast of Bulgaria to the Greek port of Alexandroupolis on the Aegean cost to transport Russian and Caspian oil bypassing the Turkish straits.

5.5.2. Turkey as the Gas Corridor

As stated throughout the study, the share of natural gas in the energy mix of the EU is increasing more rapidly compared to the demand for oil. Dependency of the EU on imported natural gas is projected to increase to 84% in 2030. If the EU does not take appropriate measures for the diversification of its natural gas imports, the EU would be dependent on the Russian gas to a major extent, which currently has a share of 45% in total gas imports of the EU. Thus, it can be argued that Turkey's role as an energy corridor in the EU energy security is greater for transiting natural gas compared to oil. Turkey is already a major gas corridor due to the Blue Stream Pipeline pumping Russian gas to Turkey since 2003, which is scheduled to reach its full capacity of 16 billion cubic meters of gas in 2010 (Barysch, 2007). However, since diversification is one of the major pillars of the EU energy policy, Turkey's role in the energy security of the EU would be strengthened more by transporting non-Russian gas supplies to the EU. The South Caucasus Pipeline (SCP) or the Baku-Tbilisi-Erzurum Pipeline (BTE)

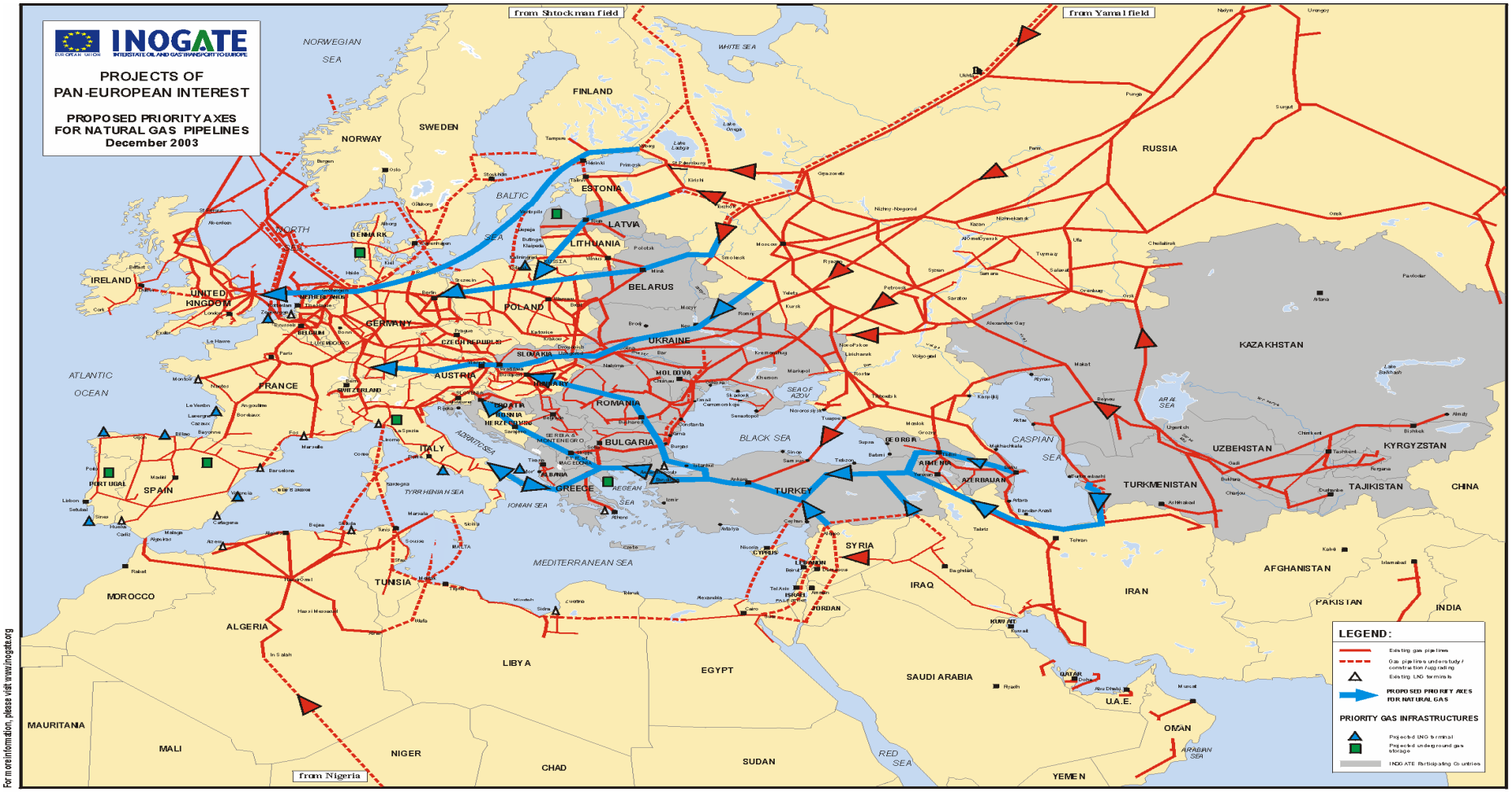
has been constructed parallel to the BTC oil pipeline that carries gas from the Shah Deniz field of Azerbaijan to Turkey. BP has the leading role in the operation of the SCP (BP, 2003). If the planned Trans-Caspian Pipeline (TCP) is constructed, which will be discussed below, the SCP pipeline would also be supplied with the natural gas produced in Turkmenistan (Mavrakis et al, 2006). Gas deliveries through the SCP have started with a minimum of 2 billion cubic meters (bcm) per year, which would gradually increase to 6.6 bcm. However, Mavrakis et al. (2006) argue that there are concerns about the absorption capacity of Turkey unless the proposed energy corridors to the EU are operational, referring to Turkey-Greece-Italy Gas Pipeline and Nabucco pipelines. Before analyzing the situation of these pipelines, the prospects of the Trans-Caspian Gas Pipeline will be discussed. The TCP is projected to be an alternative route for Turkmenistan to export its natural gas bypassing Russia. The proposed project is the 1640 km long pipeline that would transport gas from Turkmenistan under the Caspian Sea to Azerbaijan, Georgia and finally to Turkey (Mavrakis et al, 2006). Turkey and Turkmenistan signed an agreement for gas sales from Turkmenistan in 1999 for the Trans-Caspian Pipeline, which would deliver 16 bcm of natural gas per year starting in 2002 (Bolukbaşi, 2004). However, while negotiations were on track between the two countries, Turkmenistan has signed a separate deal with Russia in 2000 raising doubts about the feasibility of the Trans-Caspian Pipeline since Turkmen gas reserves would not be enough for fulfilling the two commitments at the same time (Bolukbaşi, 2004). Disagreement over the legal status of the Caspian Sea is another challenge for constructing a TCP that would run under the Caspian Sea. Russia insists that it would not be possible to construct a TCP as long as the disagreement between the littoral states on how to share resources under the Caspian seabed is resolved (Barysch, 2007).

Turkey-Greece Interconnector pipeline is significant in the sense that it is the first pipeline that would deliver Caspian gas to the EU without crossing Russian territories (Barysch, 2007). Turkey-Greece Interconnector will be linked with Italy, when the construction of the pipeline between Greece and Italy that would connect the two countries under the Adriatic is completed. Turkey-Greece-Italy Pipeline Project is the first step for the realization of the South European Gas Ring Project with aims transporting natural gas from the energy producers of the Caspian region as well as from the Middle East to Greece and Italy via Turkey. First protocol of the Turkey-Greece Interconnector and the Umbrella Agreement was signed in 2000 under the

framework of the INOGATE Programme (INOGATE Website). Feasibility studies of the Turkey-Greece Interconnector were financed by the EU funds allocated to the projects conducted under the Trans-European Network (EC Memo/07/219, 2007). Turkey-Greece Pipeline, which is approximately 300 kilometers long, was opened in November 2007 (Euractiv, 19/11/2007). The initial delivery of the pipeline would be 750 million cubic meters per year; however the capacity of the pipeline would increase to 12 billion cubic meters per year in 2012, 8 billion cubic meters per year of which would go to Italy when the inter-connection with Italy would be completed (Secretariat General for EU Affairs, Screening Chapter 21, 2006). Turkey-Greece-Italy Interconnector is significant for the EU energy security in the sense that it would partly relieve the heavy dependence of the EU on the Russian natural gas supplies. The Map 5.2 illustrates the natural gas projects that are conceived as in the interests of the EU[21]. The blue arrows follow the route that is identified as the priority axes for the gas projects that would supply gas to the EU. As seen in the map, half of the priority axes pass through Turkey illustrating the central role of Turkey for the EU energy security. When it is considered that the projects of Pan-European Interest have been projected in 2003, it is seen that Turkey-Greece-Italy Interconnection and the BTE pipeline that are shown as the priority axes have already been realized. The EU also prioritizes natural gas resources of Turkmenistan for its diversification strategy, which would be carried to the EU via Turkey. Another priority axis in accordance with the EU interests is the Turkey-Bulgaria-Romania-Hungary-Austria Gas Pipeline, the Nabucco pipeline, which will be discussed in the following section.

[21] The map does not illustrate the detailed technical routing of the pipelines.

Map 5.2 Projects of Pan-European Interest



Source: INOGATE Website.

5.5.2.1. The Nabucco Gas Pipeline Project as the Milestone of the EU Diversification Strategy

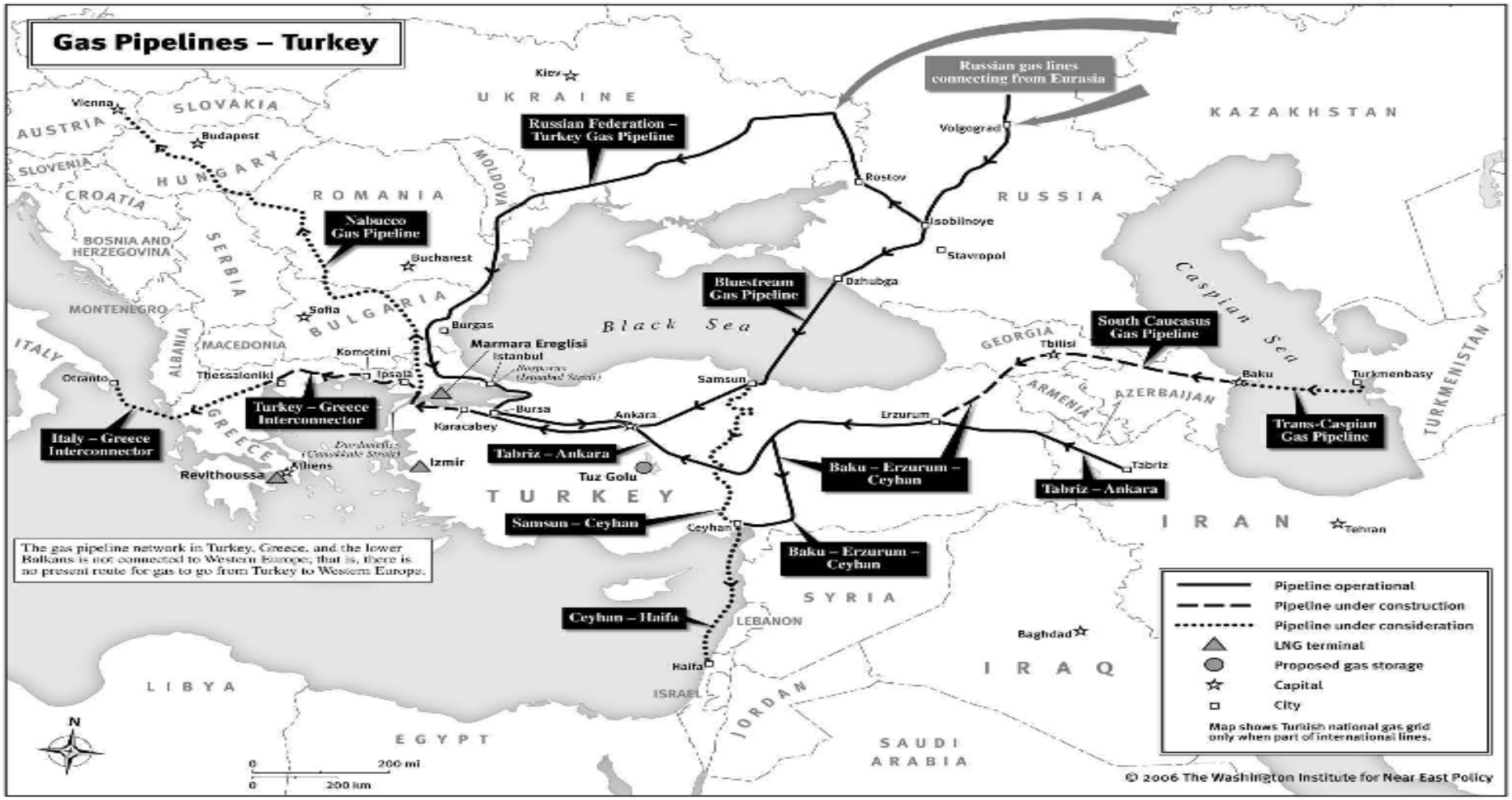
The second pipeline that Turkey plans to transport the Caspian gas resources to the EU following the realization of the Turkey-Greece Interconnector is the Nabucco Gas Pipeline Project. Turkey-Greece Interconnector is the initial step for the EU accessing Central Asian and the Caspian energy bypassing Russia; however Nabucco project would make a bigger difference to the energy security of the EU by diminishing Europe's dependence on Russian gas and to Turkey's role as an energy hub (Barysch, 2007). It is projected that Turkey-Greece Interconnector would not be sufficient to transport the additional natural gas resources originating from the Caspian region, thus another route reaching to the European market would be needed in the near future (Secretariat General for EU Affairs, Screening Chapter 21, 2006). Nabucco is projected to transport natural gas from the Caspian region through Turkey, Bulgaria, Romania and Hungary to Austria. The Cooperation Agreement was signed between the five countries in October 2002. The consortium, Nabucco Gas Pipeline International, was founded in 2004 with the objective of constructing a new pipeline connecting the Caspian region, the Middle East and Egypt as a new supply route for Europe (Nabucco Pipeline Website). The investment for the pipeline, which has the length of approximately 3,300 kilometers, would be around €5 billion in 2004 prices. Potential suppliers of the pipeline are the Caspian states that are Azerbaijan and Kazakhstan and also Turkmenistan, Iran if possible as well as the Middle Eastern countries of Egypt and Iraq. Major supplier for the initial stage of the Nabucco pipeline is Shah Deniz fields of Azerbaijan. The pipeline is projected to be completed in two stages. The first stage, in which a new route from the Turkish borders (Turkish borders with Georgia and/or Iran) would be constructed to Baumgarten, Austria will start in 2010 and operation of the pipeline is expected to start in 2013 carrying 10 billion cubic meters of natural gas annually (Nabucco Pipeline Website). Since Austria is already the center of distribution of energy, natural gas reached to Baumgarten would further be transported to other states in Central and Western Europe. The route of the pipeline can be seen in Map 5.3 below. The second stage of the Nabucco pipeline project would be completed in 2018 that covers activities for further increasing the capacity of the pipeline to a maximum of 31 billion cubic meters of natural gas per year (Nabucco Pipeline Website). Partners of the

Nabucco Pipeline International are Austria's OMV, Hungary's MOL, Romania's Transgaz, Bulgaria's Bulgargaz and Turkey's Botas. The five companies are the founding shareholders of the consortium. In February 2008, Germany's largest energy company RWE joined the consortium, increasing the credibility of the project even further (Energy Business Review, 07/02/2008). Six shareholders of the Nabucco Pipeline Consortium have equal share in the project, each holding 16.67%. Along with the RWE, Gaz de France has also wanted to join the consortium; however it faced with the Turkish opposition due to the stance of France on the so-called Armenian genocide and the French objection to Turkey's bid to join the EU. However, Gaz de France has achieved to enter the consortium through the green light of Romania, which announced that Romanian government would offer Gaz de France a share in the Romanian section of the consortium (Socor, 2008). Thus, France has gained an opportunity to join the consortium indirectly. Although Sarkozy opposes to Turkey's membership to the EU, France is keen to join into a project that would greatly enhance the significance of Turkey for the EU energy security illustrating how material interests rather than political considerations shape the decisions of France in the Nabucco case.

Nabucco pipeline has been supported by the EU since it would relieve heavy dependence of the EU on Russian gas by transporting non-Russian gas to the EU through non-Russian territories. Energy Commissioner Piebalgs underlines the importance of the progress made in the Nabucco project and states that there is a need for coordinating political, regulatory, legal and economic aspects sensitively to move forward in the project, which is a unique opportunity for the diversification strategy of the EU (Speech/08/96, 2008). The Nabucco pipeline would enable Turkey to become the "fourth artery" of the EU for natural gas supply (Speech/07/368, 2007) after Russia, Norway and the North Africa. Further EU action for the development of the Nabucco pipeline has also been stated as necessary in the Action Plan that outlines the priorities of the EU energy policy in the period 2007-2010 (European Commission, 2007a). The Nabucco pipeline is one of the mechanisms of strengthening the European Neighborhood Policy as well (European Commission, 2007d). Half of the funding necessary for the feasibility study of the project is financed by TEN program of the EU (Secretariat General for EU Affairs, Screening Chapter 21, 2006). The EU has appointed a special coordinator for the Nabucco gas pipeline project, former Dutch Foreign Minister Jozias van Aarsten, who considers the Nabucco project as a "stepping

stone" towards Turkey's EU membership (Kyiv Post, 18/02/2008). The Nabucco pipeline is conceived to supply 10 – 15% of the gas supplies of the EU by 2025 (EC Press Release IP/06/842, 2006). Dependence of the EU on Russian gas supplies would diminish considerably given the Nabucco and Trans-Caspian Pipeline projects are completed along with the increasing capacity of the South Caucasus Pipeline. Turkey is the major transit country for the three projects, making it a major actor in the energy relations of the region. However, increasing strategic importance of Turkey as the energy corridor is not progressing without problems. Russia wants to keep the lucrative European energy market by undermining alternative projects mainly through attempts of developing alternatives to the Nabucco pipeline project.

Map 5.3 Gas Pipelines Passing through Turkey



Source: The Washington Institute for Near East Policy, (2006).

5.6. Turkey as an Energy Corridor versus Russian Interests in the Region

Russian interest in the Caspian region is to maintain its monopoly on the transportation of the Caspian energy resources to the EU, which regards the Caspian region as its "area of strategic interest" (Malek, 2006). One of the policies of Russia to challenge the feasibility of the Nabucco pipeline is signing separate deals with Turkmenistan and Kazakhstan to control the transportation of their energy resources to the EU, thus to decrease the amount that would be carried by the Nabucco pipeline. Gazprom aims to pressure the Caspian region states to agree to gas supply and transit agreements that would provide the opportunity to Russia for keeping its lucrative European market. The strategy of Gazprom is clear since "Gazprom has indicated that it does not want Central Asian gas to compete with Russian gas in the lucrative European market" (IEA, 1998, p.36). Gazprom already signed an agreement for 25 years with Turkmenistan, which is a key country for Gazprom to maintain its gas monopoly, for much of its natural gas supply (Belkin, 2007). Moreover, Russia agreed to give in to the demands of Turkmenistan by paying higher prices for Turkmen gas, which would pay $130 per 1,000 cubic meters of natural gas in the first half of 2008 and $150 in the second half (International Herald Tribune, 20/11/2007). The strategy of Russia is to undermine the role of Turkmenistan as one of the major suppliers of the Nabucco. Moreover, Turkmenistan's agreement with China for a pipeline that would supply 30 billion cubic meters gas per year to China raises the question whether there would be enough gas left for the Nabucco pipeline after supplying Turkmen gas to Russia and China. Another Russian move to prevent the natural gas supplies of Turkmenistan to be transported to the European markets bypassing Russian territories is the preliminary agreement it signed with Turkmenistan and Kazakhstan for a new pipeline that would run from Turkmenistan to Russia through Kazakhstan (Barysch, 2007). Besides Russian policies for undermining the feasibility of the Nabucco pipeline, another obstacle faced in the Nabucco project is the uncertainty over the suppliers of the pipeline. Azerbaijan will be the supplier for the first stage from its Shah Deniz gas fields; however the country has been involved in a dispute with Gazprom over the increasing price of the Russian gas delivered to Azerbaijan. Thus, Azerbaijan would need the gas it produced from the Shah-Deniz pipeline for its domestic use, thereby decreasing the amount of gas

it would provide to Nabucco pipeline. The dispute over the gas prices with Gazprom can be regarded as indirect move from Russia to undermine the Nabucco project. However, the biggest blow to the Nabucco pipeline has been the South Stream project developed by Russia and supported by the transit countries of the Nabucco pipeline as well as the European energy companies.

The Memorandum of Understanding on the execution of the South Stream pipeline project was signed between Russian gas monopoly Gazprom and Italian ENI in June 2007 (Gazprom Website). The South Stream pipeline is planned to be constructed under the Black Sea to Italy through Bulgaria, Greece, Serbia and Croatia bypassing Ukraine that would cost approximately $14.8 billion with the capacity to supply 30 billion cubic meters of natural gas per year (Los Angeles Times, 23/11/2007). South Stream is projected to supply natural gas to the markets that are already potential markets of Nabucco, thus challenging the commercial viability of the Nabucco pipeline (Barysch, 2007). In other words, Russia pursues two interrelated strategies to undermine the viability of the Nabucco pipeline project firstly by signing separate deals with the energy producer countries to decrease the amount that would be allocated to Nabucco and secondly by conducting agreements with the transit countries of Nabucco to decrease the demand for the gas that would be supplied by Nabucco. Although the special coordinator for the Nabucco Pipeline of the EU Van Aartsen stated that he did not regard the South Stream as an alternative to Nabucco but another mean for diversification, Russian separate deals with Bulgaria and Serbia, former of which is already a shareholder in the Nabucco pipeline, raises doubts about the future of the Nabucco (Kyiv Post, 18/02/2008). The most recent development in the South Stream gas pipeline has been the agreement between Kostas Karamanlis, the Greek Prime Minister, and Russia to initiate the construction of the South Stream pipeline (Euractiv, 30/04/2008).

5.7. Role of Turkey in the EU Energy Security in the Context of the Accession Negotiations

Accession negotiations with Turkey has started in October 3rd 2005, however negotiations are continuing with a slow pace since only six out of 33 chapters have been

opened to negotiations. Within the chapters opened to negotiations that are Science and Research, Statistics, Enterprise and Industrial Policy, Trans-European Networks, Consumer and Health Protection and Financial Control, only Science and Research chapter has been provisionally closed (Secretariat General for EU Affairs Website). Trans-European Networks is one of the chapters on which negotiations with the EU has started in December 19, 2007 along with the chapter on Consumer and Heath Protection. The EU aims to establish Trans-European Networks within its territories as well as in its neighborhood in order to have integrated energy and transport networks. By creating Trans-European Networks of energy, the EU aims to increase competitiveness in the electricity and gas markets, enhance security of supply and protect the environment (European Commission, 1997b). It can be argued that having Trans-European Networks of energy within the EU as well as with the candidate countries is compatible with the overall objectives of the EU energy policy. As discussed in the previous sections, Turkey-Greece Interconnector and the Nabucco pipeline are regarded as priority projects for the EU and both of the projects are partly financed by the TEN Programme[22]. It can be argued that the decision of the EU for starting negotiations in the TEN chapter with Turkey is a major illustration of the intention of the EU to deepen cooperation with Turkey in energy area. In addition, in its report on Turkey's 2007 Progress Report, the European Parliament suggested that opening of negotiations in the energy chapter by pointing out Turkey's contribution to the energy security of the EU (European Parliament, 2008).

The EU has underlined the importance of Turkey for the EU energy security in various occasions. In the document published by the Commission covering the "Issues Arising from Turkey's Membership Perspective", energy is stated as a prominent area to which Turkey's accession would contribute in a significant extent (European Commission, 2004). The document states that the EU would have access to better energy supply routes with Turkey's accession. From the Commission's perspective, the impact of the accession of Turkey to the energy security of the EU is described as the following:

[22] The Nabucco Gas Pipeline Project has received 1.682.700 € from the TEN budget whereas the TEN financed 4.330.000 € for the technical and environmental studies of the Turkey-Greece Gas Interconnector (TEN-Energy Website).

> "*Turkey would have a major role to play in the security of energy supply of the enlarged EU, since it would have on its borders the most energy-rich regions on the planet. Turkish accession could help secure access to these resources and their safe transportation into the EU single market. It would diversify possible EU supply lines offering alternative export outlets both for Russia, the Middle East and the countries around the Caspian. Turkey is expected to develop further as a major oil transit country as, in addition to the Bosphorus and the northern Iraq-Ceyhan pipeline, the Baku-Ceyhan pipeline comes into operation. For gas, Turkey will become an increasingly important transit country between the enlarged EU and the Caspian producers as well as the Middle East"* (European Commission, 2004, p. 9).

Turkey is part of the regional energy cooperation schemes developed by the EU for enhancing its security of energy supplies such as the Euro-Med Partnership and the Black Sea Synergy. "Help Turkey to make full use of its potential to become a major energy transit hub" is one of the priorities of the Commission as stated in the Commission document titled "An External Policy to Serve Europe's Energy Interests" (European Commission, 2006b, p.3).

In the high-level conference "Turkey and the EU: Together for a European Energy Policy" held in Istanbul in June 2007, the role of Turkey for the energy security of the EU is emphasized. In the conference, it is underlined that both Turkey and the EU can gain from deeper cooperation in their energy strategies (EC Press Release IP/07/748, 2007). Main theme of the conference was the key role of Turkey in the diversification of energy supply routes for the EU (EC Press Release IP/07/748, 2007). Significance of Baku-Tbilisi-Ceyhan oil pipeline, Baku-Tbilisi-Erzurum gas pipeline and Turkey-Greece Interconnector for the energy security of the EU is underlined along with the statement that realization of the Nabucco gas pipeline would further enhance the EU security of energy supply. Energy Commissioner Piebalgs stated that Turkey and the EU have a great potential to gain from deeper cooperation in energy since Turkey can help the EU to secure its energy supplies, while Turkey's integration to the single energy market of the EU would lead to Turkey to build its domestic energy market and the infrastructure, which would then precipitate its economic growth. Moreover, cooperation in the energy issues between Turkey and the EU would support Turkey for facing the challenges of its import dependency, which has a level of 70%,

even higher than the EU average that is approximately 50% by sharing experiences (Speech/07/368, 2007). Thus, mutual interdependence is the most appropriate term to describe the relationship between Turkey and the EU in the energy issues (N.Pamir, personal communication, 18/04/2008).

Turkey is on the process of aligning its electricity and gas sectors with the EU acquis in the context of the accession negotiations with the EU. Turkey however has not signed the Energy Community Treaty that aims to integrate the South East European region with the internal market of the EU. Promoting Turkey's integration into the Energy Community Treaty is one of the priorities of the external policy of the EU to serve the energy interests of the EU (European Commission, 2006b). Turkey is an observer to the Energy Community Treaty. Turkey has passed two framework laws on electricity and gas markets to align its internal energy market with the EU acquis concerning the rules on the internal energy market and established the Energy Market Regulatory Authority for monitoring the energy sector in its process of harmonization with the EU energy acquis. Although the laws that have passed in 2001 foresee the liberalization and the privatization of the Turkish energy market, implementation of the legislation has been progressing slowly, thus leading the adoption with the EU acquis to be limited.

As conclusion to analyzing the role of Turkey on the EU energy security, Turkey has significant potential to enhance the security of energy supply of the EU by relieving the heavy dependence of the EU on Russian energy resources. As the Caspian region resources provide a viable alternative for the EU to diversify its energy suppliers, Turkey has a key role as a transit country for transporting the Caspian resources to the EU. Growing interest of the EU companies for developing and transporting the Caspian energy resources illustrates the potential of the region as a key energy supplier. Major challenge to gain access to the energy resources of the region is that existing pipeline connections were originally designed to supply the internal market of the Soviet Union. Hence, majority of the Caspian energy resources are transported to the European market through Russia. Russian monopoly on the transportation of the Caspian energy resources hinders the EU to benefit from the diversification of its energy suppliers. Dependence of the EU on Russian gas is more severe, thus the EU favors alternative

routes that transport Caspian gas to the EU bypassing Russia. The BTC oil pipeline is the initial step for demonstrating the key role of Turkey for the energy security of the EU. Recently completed South Caucasus Pipeline and Turkey-Greece Interconnector are the first projects enhancing the transportation of the Caspian gas directly to the EU. Importance of Turkey for the energy security of the EU would be maximized when the Nabucco gas pipeline project would be completed. Nevertheless, there are various obstacles on the realization of the project stemming from the Russian policy of preventing alternative routes carrying the Caspian resources that bypass its territories. Italian company ENI's agreement with Gazprom for the South Stream pipeline is an illustration of how individual interests can prevail over the collective interests in the EU policy-making. The South Stream pipeline is projected to undermine the potential benefits of the Nabucco pipeline that is supported by the EU for decreasing import dependency to Russian gas. However, this does not discourage Italy from pursuing its individual interests for the security of its energy supply and from being the major partner of Gazprom in the project that would increase import dependency of the EU on Russian gas. Key role of Turkey for enhancing the EU energy security could reach to its full potential with the accession of Turkey to the EU. While accession negotiations are going on, the decision of the EU to start negotiations for the TEN chapter has indicated that energy is a strategic area in the relations between Turkey and the EU, both of which could gain from deeper cooperation.

CHAPTER SIX

CONCLUSION

Energy policy of the EU has its roots in the early years of the European integration process. However, the reason why the energy policy is not under the complete competence of the EU is that the Member States have regarded energy as a strategic area that must be under the national control. Even the repercussions of the OPEC oil crisis could not motivate the Member States to establish an effective mechanism to tackle with the challenges to the energy security. Reluctance of the Member States for delegating power to the supranational level in the energy policy had constrained the Commission that could only developed policies on the lowest common denominator of the Member States. However, attitudes of the Member States have modified in early 1990s acknowledging that the single European market would not function properly without the creation of a single energy market. Global trends for the liberalization of the energy markets and the ambitious steps taken by the UK to liberalize its energy sector had transformed the perspective of the Member States. The change in the national paradigms has created the ground for the Commission to take further steps for the establishment of the single energy market. Thus, in line with the hypothesis of the liberal intergovernmentalism, the Commission could act further for the creation of the single energy market following the change in national preferences of the Member States. Although the Commission had the initiation powers in the EU decision-making mechanisms, it is not the supranational leadership, but the national preferences that determine the policy outcomes.

The role of the Commission in the evolution of the EU energy policy is most visible in the creation of the single energy market in electricity and gas. The

Commission regards the creation of a competitive and functioning single energy market as a prerequisite for the energy security. By including the Member States as well as the neighboring states through mechanism like the Energy Community Treaty and the Trans-European Networks, the EU aims to create a single energy market. However, it is not possible to argue that there is a functioning single energy market in the EU. National energy champions of the largest Member States like France and Germany are pressuring their countries in order them to react the Commission's push for unbundling requirements of the large energy companies. In liberal intergovernmentalism theory, domestic economic actors are significant in the national preference formation. Moravcsik's theory is chosen for the main analytical framework in the study since it combines the liberal theory of national preference formation with the intergovernmental concept of strategic bargaining. In the case of the energy sector in the EU, preferences of the Member States are shaped in accordance with the economic actors within the Member States, which are the vertically integrated energy companies. Moreover, the debate on unbundling requirements is an illustration of how integration in energy policy is threatened when the key interests of the leading Member States diverge in a specific issue area.

Security of energy supply of the EU has been challenged by increasing import dependency on few suppliers. The dependence of the EU on imported oil is projected to increase to 95% whereas dependence on important natural gas is expected to increase to 84% in 2030. The share of Russian natural gas in total imports in the EU is 33.6%, however projected to increase due to increasing demand for natural gas. The crisis between Russia and Ukraine has revealed the vulnerability of the EU energy security. Moreover, the strategy of Russia for using its energy resources for political leverage in the Central and Eastern European countries as well in the Central Asia has led the EU to question the reliability of Russia an energy partner. Thus, diversification of energy suppliers has been the central objective of the energy security policies developed at the EU level. Regional cooperation schemes as the Euro-Med Partnership and the Black Sea Synergy as well as mechanisms like the Trans-European Networks and the INOGATE Programme have the ultimate objective of developing relations with the energy producer and transit countries to relieve the heavy dependence on Russian energy resources. Moreover, the EU has also developed a cooperation mechanism with Russia

to manage the interdependency between the two sides efficiently. The ultimate aim of the EU-Russia Energy Dialogue is to establish a unified front against Russia to pressure it for liberalizing its energy market.

Despite of the diversification policy supported by the EU, the Member States have pursued their individual interests, thus undermining the policies developed at the EU level for diversification. The major illustration of the breaking point in integration in the energy policy of the EU is the agreement signed between Germany and Russia for the North European Gas Pipeline that would connect the two sides with a pipeline passing under the Baltic Sea thus bypassing the new members of the EU. The pipeline is projected to increase German import dependency on Russian energy resources as well as increase the dependency of the EU. The pipeline would be completed in 2012 despite the oppositions of Poland and Lithuania, energy security of which are threatened with the pipeline. In line with the theory of liberal intergovernmentalism, relative power positions of the Member States determine the outcome of inter-state bargaining. Relative power positions of the small Member States are minor compared with the largest Member States, which led them to have minor positions as illustrated in the issue of Nord Stream pipeline. Central and Eastern European countries were not even invited to the negotiations of the pipeline. Moreover, final blow to the concerns of the Member States came from the Energy Commissioner Piebalgs, who state that the Nord Stream pipeline is in the interest of the EU since it would enhance the security of supply of the EU. In addition to the pipeline agreement, the so-called special relationship between Russia and Germany is reflected in the agreement between the two sides for long-term natural gas contract until 2030. Having bilateral deals with the Russian natural gas monopoly Gazprom is not limited to Germany since Italy and France also pursue bilateral deals with Gazprom to secure their gas supplies. The common feature of the agreements signed between the individual Member States is their long-term nature since contact between Italian ENI and Gazprom would last until 2035 while the termination date of the contract signed between the EU and Gaz de France is 2030. Having a share in the gas exports of Russia is a zero-sum game between the Member States since an increase in the share of a Member State would be equal to decrease in the share of another. Moreover, when the security of energy supply become uncertain for the Member States, they are more likely to pursue national energy policies.

The central argument of the thesis is that when key interests of the Member States in a specific issue area diverge, the divergence constitutes a breaking point in the process of European integration. The theoretical framework of the analysis has been the liberal intergovernmentalism that emphasizes the role of the Member States rather than the supranational institutions in the European integration process, in which the pace of the integration is depended upon the possible convergence of the Member States interests. In this thesis, individual interests of the Member States are analyzed versus the collective interests sponsored by the Commission in the security of energy supply area. Whereas policy framework drawn by the Commission foresees diversification of the energy suppliers of the EU in order to relieve the heavy dependence of the EU on Russian energy resources, the Member States sign bilateral deals with Russia either for construction of new pipelines connecting the Western Europe with Russia directly or for long-term gas contracts. In line with the hypothesis of liberal intergovernmentalism, independent action of the Commission do not constitute a counter-evidence to the view that the EU policy-making is built upon the national preferences of the Member States rather than the supranational leadership of the Commission. Lack of a unified front against Gazprom would also undermine the efforts of EU to pressure Gazprom for leaving aside its divide-and-rule tactics.

In this thesis, the role of the Caspian region energy resources in the security of energy supply of the EU is also analyzed. Oil and natural gas production in the Caspian region is increasing thanks to the interests of the major energy companies of the EU in the extraction activities of the region. Although the Caspian region would be another Middle East, the reserves of the region are estimated to compensate the decrease in the North Sea production. The region is regarded as significant for the diversification strategies of the EU, which is reflected by the creation of the INOGATE Programme for supporting the construction of alternative pipeline routes. However, transportation of the Caspian energy resources to the EU is currently through Russia as the infrastructure of the region was constructed in accordance with the internal demand in the Soviet Union. Moreover, Russia develops policies to undermine alternative projects that would transport the Caspian resources to the EU bypassing the Russian territories. Interests of Russia for maintaining its monopoly on the transportation of the Caspian energy

resources clash with the interests of Turkey that wants to enhance its position of being an energy corridor between the Caspian resources and the energy thirsty EU.

The BTC pipeline is significant since it connects the energy resources of the Caspian region with the international energy markets without crossing through Russian territories. Turkey's position for the energy security of the EU is further enhanced with the Turkey-Greece Interconnector natural gas pipeline that has completed recently and will be connected with Italy when the construction of the Greece-Italy Interconnector pipeline would be completed. Moreover, the South Caucasus Pipeline, or the Baku-Tbilisi-Erzurum pipeline, that is constructed in parallel with the BTC would be supplied with the natural gas produced in the Shah Deniz field of Azerbaijan. Although Turkey has currently a strategic role for the EU energy security, its role would be maximized when the Nabucco pipeline would be operational. The pipeline is projected to be the milestone of the diversification strategy of the EU. The pipeline would increase the role of Turkey in the energy security by decreasing the heavy dependence of the EU on the Russian natural gas. The Nabucco is one of the priority projects of the EU, importance of which is underlined in various occasions and also by the financing of the feasibility studies of the project from the Trans-European Networks budget. However, Russia aims to challenge the increasing importance Turkey for the EU energy security through various mechanisms. First strategy of Russia is signing long-term contracts with the Caspian region countries in order to undermine their capability to supply resources for the Nabucco pipeline. Moreover, Russia has developed the South Stream pipeline project that would be constructed under the Black Sea and heading to Italy. Italian ENI is the major contractor with Gazprom for the construction of the South Stream, which also illustrates that individual interests rather than the collective interests prevail in the energy security policies of the Member States. The Nabucco pipeline project is a unique opportunity both for the EU and Turkey for decreasing the dependency rates on Russian gas, however the project is undermined by the South Stream that would make the EU more dependent on the Russian gas. The thesis argues that the energy strategies that would entail Turkey have significant potential to contribute to the security of supply of the EU. When energy relations between Turkey and the EU are analyzed within the context of the accession negotiations with Turkey, opening negotiations in the Trans-European Networks chapter is the indication of the importance attributed Turkey for the

energy security of the EU. Moreover, the latest European Parliament report suggested that opening negotiations in the energy chapter would contribute further to the role of Turkey for the EU energy security.

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