

EUROPEAN ENERGY POLICY AND TURKEY'S ENERGY ROLE:  
WILL THE ACCESSION PROCESS BE AFFECTED?

A Master's Thesis

by  
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May 2010



*To My Parents*

EUROPEAN ENERGY POLICY AND TURKEY'S ENERGY ROLE:  
WILL THE ACCESSION PROCESS BE AFFECTED?

The Institute of Economics and Social Sciences  
of  
Bilkent University

by

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In

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INTERNATIONAL RELATIONS  
BILKENT UNIVERSITY  
ANKARA

May 2010

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## ABSTRACT

### EUROPEAN ENERGY POLICY AND TURKEY'S ENERGY ROLE: WILL THE ACCESSION PROCESS BE AFFECTED?

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Increasing concerns for energy security urge the European Union countries to develop common energy policies. In this respect, diversification of energy suppliers and transit routes emerges as the most feasible policy for the EU to address the problems arising out of its energy dependency. At this point, Turkey's strategic geographical position offers an energy bridge which has the potential of linking the EU with diversified suppliers. This thesis, examines European efforts to create a common energy policy and Turkey's role in European energy security strategies. Based on the views that Turkey's energy bridge position will accelerate the accession process and will bring full membership, this study questions whether energy can really be a factor for Turkey's membership. Taking into consideration the impact of the absorption capacity and negative European public support on the long candidacy of Turkey, in addition to the examination of relevant literature, the answer to this question is investigated through the analysis of European public opinion. Relying on official Turkish and EU documents, official statistics and annual Eurobarometer surveys, contrary to the expectations, the analysis reaches to the conclusion that for full membership, Turkey's energy role for Europe is an important yet insufficient factor on its own.

Key Words: Energy Security, Turkey and the European Union, European Public Opinion

## ÖZET

### AVRUPA BİRLİĞİ'NİN ENERJİ POLİTİKASI VE TÜRKİYE'NİN ENERJİ ROLÜ: ÜYELİK SÜRECİ ETKİLENECEK Mİ?

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Enerji güvenliğine dair artan endişeler, Avrupa Birliği ülkelerini ortak politikalar geliştirmeye yönlendirmiştir. Bu bağlamda, Avrupa Birliği'nin enerji bağımlılığından kaynaklı sorunlara dair uygulayabileceği en etkin politika ülke ve güzergah bağlamında enerji kaynaklarının çeşitlendirilmesidir. Bu noktada, Türkiye'nin stratejik coğrafi pozisyonu Avrupa Birliği'ni çeşitli üreticilere bağlayacak bir enerji köprüsü konumuna sahiptir. Bu tez, Avrupa Birliği'nin ortak bir enerji politikası oluşturma çabasını ve Türkiye'nin, Avrupa'nın enerji güvenliği stratejilerindeki rolünü incelemektedir. Bu çalışma, Türkiye'nin enerji köprüsü konumunun müzakere sürecini hızlandırıp tam üyelik getireceği görüşlerinden yola çıkarak, enerjinin gerçekten üyelik için bir faktör olup olmadığını sorgulamaktadır. Hazmetme kapasitesinin ve düşük Avrupa kamuoyu desteğinin, Türkiye'nin uzayan adaylık sürecindeki etkisi göz önünde bulundurularak bu sorunun cevabı literatürdeki kaynaklara ek olarak Avrupa kamuoyunun analiz edilmesi ile araştırılmıştır. Türkiye ve Avrupa Birliği'nin resmi belgelerine, resmi istatistiklere ve yıllık Eurobarometre raporlarına dayanarak yapılan analiz, beklentilerin aksine, tam üyelik için, Türkiye'nin enerji konumunun önemli ancak tek başına yetersiz bir faktör olduğu sonucuna ulaşmaktadır.

Anahtar Kelimeler: Enerji Güvenliği, Türkiye ve Avrupa Birliği, Avrupa Kamuoyu

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

- Bcf:** Billion Cubic Feet
- Bcm:** Billion Cubic Meters
- BOTAŞ:** Turkish Petroleum Pipeline Corporation
- BP:** British Petroleum
- BPS:** The Baltic Pipeline System
- BTC:** Baku – Tbilisi – Ceyhan Oil Pipeline
- BTE:** Baku – Tbilisi – Erzurum Gas Pipeline
- CEER:** Council of European Energy Regulators
- CFSP:** Common Foreign and Security Policy
- CO<sub>2</sub>:** Carbon Dioxide
- EBRD:** European Bank for Reconstruction and Development
- ECSC:** European Coal and Steel Community
- ECT:** Energy Charter Treaty
- EEZ:** Exclusive Economic Zone
- EIB:** European Investment Bank
- ENP:** European Neighbourhood Policy
- ERGEG:** European Regulators’ Group for Electricity and Gas
- EU:** The European Union
- EURATOM:** European Atomic Energy Community

**G8:** The Group of Eight

**GCC:** Gulf Cooperation Council

**GHG:** Greenhouse Gas

**IEA:** International Energy Agency

**INOGATE:** Interstate Oil and Gas Transfer to Europe

**Km:** Kilometer

**LNG:** Liquefied Natural Gas

**M & I:** Markets and Institutions

**MOL:** Hungarian Oil and Gas Company

**MoU:** Memorandum of Understanding

**NA:** Not Available

**OPEC:** Organization of Petroleum Exporting Countries

**PCA:** Partnership and Cooperation Agreement

**R & E:** Regions and Empires

**SCP:** South Caucasus Natural Gas Pipeline

**SOCAR:** State Oil Company of Azerbaijan Republic

**Tcf:** Trillion Cubic Feet

**UK:** United Kingdom

**UN:** United Nations

**UNCLOS:** United Nations Convention on the Law of the Sea

**USA:** The United States of America

**USSR:** Union of Soviet Socialist Republics

**WTO:** World Trade Organization

## **CHAPTER 1**

### **INTRODUCTION**

Since 1986, due to transition to a service oriented economy, the European Union's demand for energy has been increasing with a rate of 1-2% a year, which means that EU is increasingly consuming more energy than it can produce. If the current trends continue without precautionary measures, in the next 20 to 30 years imported products will constitute 70% of the Union's energy needs causing a worrying level of dependence in oil, gas and coal which could reach 90%, 70% and 100% respectively. This would leave all economic sectors from transport to industry susceptible to variations in international markets (European Commission, 2000: 2, 12, 20).

Consequently, the European Union has to face several challenges with respect to its vulnerability arising due to its energy dependency<sup>1</sup>. Concerning the supply of energy, military and political conflicts in the producer regions, diplomatic confrontations with supplier states such as Iran and secure

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<sup>1</sup> This thesis, by using the term "energy dependency" specifically focuses on the European Union's dependence on external oil and natural gas supplies.

transportation as well as efficient investments in the production of oil and gas dominate the EU's agenda. (Bahgat, 2006: 961).

Member states are highly interconnected and operate in an interdependent energy market not only among themselves but also in international terms. Consequently, national approaches to the energy issue and unilateral energy policy decisions of one state to meet all the mentioned challenges, automatically affects the market functioning of other members. Therefore, uncoordinated national decisions concerning energy policy seems to increase the Union's overall vulnerability in energy and a common approach to energy security emerges to be more advantageous for the EU (European Commission, 2000: 3, 10; Hoogeveen and Perlot, 2007: 503).

While the necessity to accomplish concrete achievements for unified energy policies was already present, the Russian-Ukrainian gas conflict of 2006, refreshed the awareness among member states of the importance of supply security and it highlighted how Member State's dependency on imports made them vulnerable to external events and to the decisions of non-EU Member States (Geden, et al., 2006: 14). This "wake up call" in 2006 revealed that, for the EU to be able to de-link itself from the drawbacks of its increasing energy dependence, it is an urgent and inevitable necessity to accomplish the creation of an active energy policy and to diversify its suppliers and transit routes.

The EU's need for diversification to overcome the vulnerabilities of its energy dependency, positioned Turkey at the centre of attention of EU policy makers in the sphere of energy. Situated at the crossroads of energy producers in the Middle East, Central Asia and Caspian Region, Turkey's geopolitical role represented a solution to ease the EU's energy supply risks. In that respect, the



image of Turkey as an “energy bridge” between a variety of producers and Europe attracted attention in the international arena (Nies, 2008: 85).

This thesis combines European Energy Policy and Turkey’s energy bridge position. The Fundamental aim of this study is not only to explain Turkey’s energy role in the context of European Energy Policies for achieving energy security but also to question whether this feature of Turkey can affect Turkey’s accession into the European Union.

This thesis starts with a focus on the essential elements of European Energy Policy. In this respect, chapter two clarifies what is European Energy Policy, based on its three fundamental objectives: sustainability, competitiveness and security of supply. Taking into consideration that rising energy dependency and recent gas disruptions increased concerns over energy security, the chapter continues with the definition of “energy security” in order to reveal the perspective of the EU which will be reflected on energy policies. In addition to the study of historical evolution of European Energy Policy, as an evaluation the chapter also concentrates on the reasons rendering the achievement of a common energy policy difficult for Europeans. In that section, as part of internal difficulties, the problems concerning European Energy Regulator and different preferences of member states are investigated. In order to clarify the complexities arising from the external factors a theoretical analysis is also included in this part as a way to interpret the EU energy policies floating between “market principles” and “geopolitics”.

As mentioned earlier, one of the objectives of this thesis is to study Turkey’s energy role as a transit country for the European Union. In that respect, the EU’s external energy policies to strengthen its supply security and its relations with the producers offer a significant context for the evaluation of the strategic

position of Turkey. Consequently, the third chapter focuses on the external dimension of European Energy Policy. Following the study of the EU's external energy policy strategies, the chapter provides information about the EU's oil and natural gas import patterns and its energy dependency with regards to producer states. The last sections of the chapter engage in the analysis of the EU's dialogue, partnerships and agreements with major producers namely Norway, African producers, Middle Eastern producers, producers from the Caspian Region and Russia.

In the light of the general panorama about European Energy Policy and the European Union's position *vis-à-vis* major oil and gas producers this study continues by concentrating on Turkey's role of "energy corridor" for the European Union. Accordingly, the fourth chapter initially describes Turkey's existing pipeline systems and its projects in the planning stages which will enhance Turkey's position as an energy bridge. In this part, Nabucco is given a special emphasis since it is considered as the most significant route for the diversification of energy supplies to Europe. As the purpose is to evaluate Turkey's significance for European Energy Policy, the chapter continues with the examination of the major factors which have a potential to affect the importance of Turkey's role. In this context, hurdles arising from the energy suppliers in the Middle East and Caspian Region which will influence the amounts of oil and gas transported to Europe via Turkey are analyzed briefly. Moreover, the challenge coming from the LNG trade, the critical situation of the straits in oil transits and the "Russian factor" with its South Stream Project, are also considered.

The European Union's increasing concerns about its energy dependency and its efforts for diversifying both its suppliers and transit routes offered an

opportunity for Turkey's geostrategic location to operate as a natural energy corridor. There is a general trend among the supporters of Turkish membership that this situation will start a new phase in Turkey's accession process. Therefore, the last chapter questions this claim and focuses on the link between Turkey's potential membership and European energy security.

The arguments pointing to the geopolitical importance of Turkey for the EU are significant for emphasizing Turkey's advantages in the debates concerning its membership. Nevertheless, clear-cut statements of arguments cannot offer a complete analysis of whether energy will be a factor in Turkey's accession process. Given that Turkey's long candidacy period is highly associated with the Union's absorption capacity being under the influence of European public opinion, this thesis argues that European public opinion on European energy dependency, Turkey's energy role and its membership will provide grounds to assess whether "energy" will really be a factor. To this end, the last chapter continues with a public opinion analysis and it interprets Turkey's potential membership.

All the information provided in this thesis rests on textual analysis of relevant literature, of official Turkish and EU documents and of official data extracted from Eurostat and Eurobarometer statistics. In line with the analysis conducted throughout the thesis the last chapter, the conclusion, puts forward concluding remarks and interpretations.

## **CHAPTER 2**

### **EUROPEAN ENERGY POLICY**

Energy is a fundamental factor in the construction of European Union project. The deep interaction and cooperation among the founding members of the Union crystallized around energy considerations. The European Coal and Steel Community (ECSC) Treaty and Euratom Treaty did not only establish the roots of European Community but also ensured regular supply of coal and coordination in nuclear energy. Nevertheless, despite energy's importance in our daily lives, despite the fact that EU project "took off" with the integration in economic domain concerning coal and steel and despite potential beneficial effects of integration in terms of external energy policy and action against climate change, European Energy Policy displayed an unsuccessful example of integration (Pointvogl, 2009: 5704). In developments following ECSC and EURATOM, member states remained reluctant in creating a common energy policy. To illustrate, Maastricht and Amsterdam Treaties did not include chapters on energy rather, energy issue was only mentioned (European Commission, 2000: 9). In the Treaty on European Union, "measures in the spheres of energy, civil protection and tourism"

(European Commission, 1992:6) were cited all together and only Article 129b referred to energy infrastructures together with transport and telecommunication in the discussion of trans-European networks (European Commission, 1992: 25).

Nevertheless, the fact that the EU's energy dependency has been increasing each year, and is projected to increase even more in the future, exposes EU economy and energy security to external dynamics in the world and renders energy a significant item on the agenda of European decision makers. Accordingly, the instabilities in the producer regions, hostile relations with major energy exporters and security as well as investment problems in the transit routes of oil and gas supplies are of major concerns for the EU.

The issue gets further complicated with the inclusion of worries about global warming, hazardous effects of certain energy types on health and environmental damages due to energy production, transportation and consumption, which overall require not only secure access to energy but also access to clean and efficient energy.

Even though coordination of national policies of EU member states would be influential to deal with these challenges, EU level coordination and harmonization of energy policies are just initial steps for energy security. Self-sufficiency in energy is not a feasible option for the EU in the near future, given the limited energy resources to meet the demand of its current standard of living and of its highly industrialized economy (Bahgat, 2006: 975). Hence, import dependency in energy is an undeniable reality of EU economy which the policy makers have to cope with. Although the Union has to deal with energy security through several policies such as diversification of energy mix and energy suppliers or encouragement of investments on renewable energy resources; internal, that is

EU level arrangements cannot be considered as enough for an efficient energy policy, unless they are combined with international efforts to change global energy trends in favor of environment friendly energy policies and unless they include other international actors as producers, energy-importers and international regulatory institutions.

Accordingly, in addition to European demand of energy, the EU policy-makers have to take into account increasing consumption and demand of higher amounts of energy in the world market, due to rapid increases in population combined with economic growth, especially in China and India, with the reason that, China's and India's increasing consumption urges the rivalry over access to scarce oil and gas reserves. It is expected that oil demand in China will increase by 2.9 percent per year until 2030, as opposed to 0.3 annual increase of EU's oil demand, which decreases the Union's relative importance as a customer from the perspective of especially Middle Eastern oil producers (Hoogeveen and Perlot, 2007: 494). This also means that, the efficiency and success of energy policies of these developing countries in addressing energy supply emergencies or curbing their growing energy demand directly affect the interests of European Union (International Energy Agency, 2007: 159).

With these challenges on the background, until recently, climate change and energy efficiency had started to outweigh the agenda of internal and international efforts of the European Union concerning the creation of an energy policy. However, in 2006, the disruption of supplies coming from Russia, reminded the EU members of their vulnerability concerning supply security and revealed the urgent need to create an active European Energy Policy to answer the energy related challenges.

Nonetheless the task is very difficult given that energy is a multifaceted issue with national, EU level, international requirements consisting of many chapters such as climate change, energy efficiency, investments in renewable sources, supply security, transparency in energy markets, diversification of energy mix and many others. Faced with such a complicated agenda, energy security stands as one of the most important issues to testify the strength and integrity of the European Union both internally and externally. Therefore, the solutions and accomplishments of European Union in the arena of energy attract further interest. “What is European Energy Policy?”, “What is meant by “energy security”?” “What are the EU’s current practices?” are all among the questions which require answers.

## **2.1. What Is European Energy Policy?**

Although some of the policies are still up to the individual choices of each Member State in line with their national preferences, global interdependence requires energy policy to offer a European dimension. For the benefit of all European citizens, the “European Energy Policy needs to be ambitious, competitive and long term” (European Commission, 2006b: 17; European Commission, 2007:3).

Accordingly, European Energy Policy is identified with the trinity of sustainability, competitiveness and security of supply. Major European documents constituting the milestones of European Energy policy, especially Green Paper of 2006 and The Commission’s communication “An Energy Policy for Europe” of

2007, with concrete references base their policy recommendations on these three basic objectives.

These three important objectives aim at “transforming Europe into a highly energy efficient and low CO<sub>2</sub> energy economy” (European Commission, 2007: 5). What is special about this target is that the coherence between sustainability, competitiveness and security of supply is a necessity since individually none of them provide the needed solutions for a complete energy policy (European Commission, 2007: 5-6).

Sustainability, the first element of European Energy Policy is directly linked to climate change. 80% of greenhouse gas (GHG) emission in the Union is caused by energy related activities. With existing energy and transport policies, “EU CO<sub>2</sub> emissions would increase by around 5% by 2030 and global emissions would rise by 55%” (European Commission, 2007: 3). Being aware that current policies are not sustainable, EU targets itself the reduction of greenhouse gas emissions both within the Union and worldwide, near to a limit close to the pre-industrial levels, with the intention of managing the increase of global temperature (European Commission, 2007:3). This imposes on EU the need of a twofold policy at the EU-level and international level. At the global level then, the European Energy Policy emerges as “leading” international efforts to stop climate change. At the European level, the development of renewable resources, the improvement of alternative transport fuels with low carbon and efforts to control energy demand by changing consumption habits constitute the basic policies to address sustainability (European Commission, 2006b: 17).

The second element of European Energy Policy is competitiveness. The concentration of oil and gas reserves in a few countries and companies, in addition



to the volatile prices of the international energy markets with sudden price rises, highly affect the EU due to its increasing need to foreign energy resources. This situation entails a heavy economic burden with high risks on EU citizens. “If, for example, the oil price rose to 100\$/barrel in 2030, the EU-27 energy total import bill would increase by around € 170 billion, an annual increase of €350 for every EU citizen” (European Commission, 2007: 4).

For EU citizens to fully enjoy liberalization in energy, higher level of investments in the sector and an Internal Energy Market operating with fair and competitive prices are crucial factors. Therefore, European Energy Policy is the framework to offer right policies and necessary legislations to create the circumstances for total energy liberalization (European Commission, 2007: 4). Accordingly, competitiveness aims the opening of energy markets for the benefit of EU citizens in line with latest energy technologies and investments in clean energy production (European Commission, 2006b: 17).

In this context, however, European Energy Policy is a tool to act beyond market liberalization and by stimulating investment, it is also a social instrument to create jobs as well as economic growth and promote innovations especially in energy efficiency and in the development of renewable resources. To the end of being a global leader with a knowledge based economy, European Energy Policy is, then, just another means. It is important to note that with a turnover of €20 billion and 300.000 employees, EU has already taken the leadership position in renewable technologies. This indicates that “competitiveness” by creating necessary atmosphere for investments also adds to the “sustainability” element of European Energy Policy, which in total gives the Union a privilege of leading the

world agenda in the fight against global warming. (European Commission, 2007: 4).

Last but not least, security of supply constitutes the last element of European Energy Policy. Although with sustainability and competitiveness, security of supply creates the trinity of the Union's energy policy, it differs from the two in that concerns for energy security and continuity of oil and gas flows to Europe can be considered as fundamental reasons for the creation of a common policy, since permanent supply of energy resources is part of national security understanding of Member States in the modern world circumstances.

Increasing dependency on imported hydrocarbons constitute a threat for the European Union, since the situation leaves the Union exposed to external dynamics outside its discretion power. In 2030, it is expected that reliance on imports of gas and oil will rise to 84% and 93% as opposed to 57% and 82% in 2007, respectively. When such a level of dependency is combined with uncertainty about the willingness and capacity of oil and gas exporters to invest more and increase production to meet the increasing global demand, threat of supply disruptions emerge as one of the major challenges of the century (European Commission, 2007: 4).

As a result, through highlighting security of supply, European Energy Policy confronts the Union's increasing dependency on imported energy resources by offering an integrated approach to control and reduce rising demand and to diversify energy mix, sources as well as routes of supply of imported energy (European Commission, 2006b: 18).

Even though in practice the three elements are inseparable and complete each other, security of supply requires further emphasis since EU's relations with

energy producer countries evolve around permanence of oil and gas supplies. Concerns for supply security do not only shape the EU's internal and external energy policies but also with their high relevance to the European Union and Turkey energy relationship, they require further understanding for a complete analysis. Therefore, the following part clarifies the concept of "energy security" with an emphasis on the EU's perception, since its energy policies evolve around the intention of securing energy for living, functioning of the economy and development.

## **2.2. What Is Energy Security?**

Energy is the irreplaceable part of almost every aspect of modern life from industry to transportation, heating and electricity, it is at the heart of human development and economic growth. As global energy system evolved and as perceptions about potential effects of supply disruptions improved, concerns about energy security have changed as well. While oil and over-dependence on oil imports dominated the agenda in 1970s and 1980s, today the security of natural gas supply and the credibility of international gas market have been added among the challenges to be addressed by energy policy makers (International Energy Agency, 2007: 161).

These challenges complicated by the Union's increasing import dependency in oil/gas and by the fact that most of the imports arrive from either unstable regions or incredible energy exporters, urge the EU to create a common,

integrated energy policy (Le Coq and Paltseva, 2009: 4474). Nevertheless, Member States' differing energy profiles and their diverging energy import dependencies, lead them to varied interpretations of energy security. Hence, the clarification of the concept of energy security is crucial for the creation of an efficient European energy policy. Protectionist and nationalist energy policies in Europe may prevail in the future, unless Member States unite their differing perceptions and preferences about energy security (Pointvogl, 2009: 5714).

Not only interpretations of “energy security” but also views concerning the status of “energy security” diverge within the Union. While the Commission considers Common Foreign and Security Policy as the relevant policy level, states like France or Sweden argue that the safety of production, of supply routes and the redistribution of resources in the case of international energy crisis are more related to “defence” policies. (Pointvogl, 2009: 5709). The reason for this is that traditionally, nation states are inclined to consider energy security as a matter of “high politics” requiring policies with high level of state intervention, unlike other sectors such as telecommunications. Combined with the growing concern about the negative manners of supplier states, this “high politics” nature of energy security lead national governments to argue that energy issues cannot be left simply to market forces, but requires a certain level of government intervention when necessary (Benford, 2006: 40).

For energy security the major commonly agreed fact is that the purpose in securing energy is not maximizing energy self sufficiency, nor eliminating the dependence on external sources; rather the aim is to reduce the potential risks of this dependency (European Commission, 2000: 2). Consequently, EU energy policy targets secure energy with every aspect from uninterrupted supplies to clean

energy forms, environmental precautions and competitive market. However, in the literature and in many official EU documents, “energy security” is directly linked to “energy supply security”. In fact, in the overall EU strategy for energy security, “security of supply” constitutes only one part of the trinity of “sustainability, competitiveness and security of supply”. Nevertheless, the interchangeably usage of the two concepts shall not cause any confusion. The reason is that, as further study of EU energy policies in the following sections will indicate, policies addressing sustainability, competitiveness or security of supply, all at the end target more or less the same objective: the uninterrupted access to energy both now and in the future.

Before mentioning the EU’s understanding of energy security, it would be appropriate to explore what the literature says. There are three major ways to study energy security: from the perspective of consumers (supply security), from the perspective of suppliers (demand security) and from the perspective of “insecurity” namely hurdles to energy security.

From the consumer countries’ side, with the broadest definition, energy security refers to “adequate, affordable and reliable supplies of energy” (International Energy Agency, 2007: 160). While some (Hoogeveen and Perlot, 2007) use the term “security of supply” for energy security, simply as “the access to and availability of energy at all times”, others such as Pointvogl (2009: 5706) define it in the following way: “uninterrupted, continuous and sufficient availability of all forms of energy a given entity requires”.

With every definition, scholars accentuate a different aspect of energy security. Some take the physical availability of the energy as the basis and argue: “If security of supply is the assurance of the physical availability of oil during a

supply disruption, then a country can be said to have achieved this goal if it is always able to guarantee that a given quantity of oil is available with certainty to its domestic market, independently of possible market disturbances” (Lacasse and Plourde, 1995: 6). Others like Pointvogl (2009: 5707), make a reference to a country’s level of vulnerability to potential energy crisis or to possibility of supply disruptions. Accordingly, the country’s import dependency plays an important role concerning its security of supply in the case of long term effects of physical and political supply disruptions.

Highlighting price factor with emphasis on “affordability” is another way to describe energy security. In this case, the concept is identified as “the availability of a regular supply of energy at an affordable price” (International Energy Agency, 2001:3 quoted in Costantini et al, 2007: 210, Le Coq and Paltseva, 2009: 4475). Barton, Redgwell, Ronne and Zillman also belong to this category with their definition arguing that energy security is “a condition in which a nation and all, or most, of its citizens and businesses have access to sufficient energy resources at reasonable prices for the foreseeable future free from serious risk of major disruption of service” (2004:5 quoted in Bahgat, 2006: 965). Such an approach to energy security embraces the welfare aspect of energy and highlights the necessity of accessing to commercial energy by every citizen including lower income groups (Costantini et al, 2007: 210).

When it comes to the EU, The European Commission prefers an understanding of energy security embracing all different aspects mentioned above and with the Green Paper of 2006, identifies the security of energy supply as one of the three main objectives of European Energy Policy (European Commission, 2006b: 18). In 1990, The Commission affirmed:

Security of supply means the ability to ensure that future essential energy needs can be met, both by means of adequate domestic resources worked under economically acceptable conditions or maintained as strategic reserves, and by calling upon accessible and stable external sources supplemented where appropriate, by strategic stocks (Arnott and Skinner, 2005: 23).

As the international context changed, the concern about climate change increased and environmental damages, due to production, transportation and usage of coal or oil, reached undeniable levels. The EU not only acknowledged new challenges but also assigned itself the role of leadership for effective solutions. Therefore, the EU's strategy for energy evolved around the conceptualization of energy supply security as

Ensuring, for the well-being of its citizens and the proper functioning of the economy, the uninterrupted physical availability of energy products on the market, at a price which is affordable for all consumers (private and industrial), while respecting environmental concerns and looking towards sustainable development (European Commission, 2000: 2).

Given that the EU is a major energy consumer its definition indicated the consumers' perspective. Indeed, when energy security is studied, it is common to encounter a reflection of only supply security, from the point of view of the consumers, whether as energy importing countries or as state level consumers in the households and industry. Nevertheless, energy security considerations have serious implications for producers as well and unless demand security, too, is included to the observation the comments would be biased. Since the following chapters will explore the EU, the producers such as Russia and Turkey's relationship in the context of energy, the identification of "demand security" as part of energy security is highly relevant especially for Russia being in the exporter side of the equation.

Environmental, physical and economic risks constitute severe damages to producer countries, as well and most of the time, contribute to their instability. The two oil crises in 1970s would illustrate the case. The crises highly affected Western economies. In the short term, the rise in oil prices led to economic growth and prosperity in producer countries which caused the crises; however, in the long run, disastrous results occurred. Due to the lack of producers' credibility, consumer countries pursued diversification policies which resulted in an oil demand decrease between 1979 and 1983. When in 1988, the demand returned back to the level of 1979, alternative production areas were already included in the world market with new exploration efforts. As the new developments decreased the prices, Middle East OPEC countries unsuccessfully tried to direct their economy away from oil. Combined with high birth rates and unemployment the economic downturn produced still ongoing social and political instability. This proved that economic welfare of producing countries is not provided by high oil prices but by security of demand of their oil (Hoogeveen and Perlot, 2007: 492). Put differently, high oil prices damaged global economic prosperity and encouraged consumers to switch to other fuels. In that case, from the part of producers, high prices meant "killing the goose that lays the golden eggs" (Bahgat, 2006: 965).

Accordingly, in order to achieve energy security, continuous supply and continuous demands are highly important, which means both producers and consumers need each other. The "mutual dependency" in energy security constitutes the basis of the dialogue between producers and consumers in the international arena. For achieving an international energy security, this dialogue is necessary in overcoming current dangers, instabilities and deficiencies of the



system. What is challenging is that, rightful efforts of consumer countries to secure energy supply through measures such as energy efficiency, usage of alternative energy sources and diversification of supply sources creates sensitivity among producers (Hoogeveen and Perlot, 2007: 498). Policies which may undermine security of demand for energy exporters threaten international progress towards a better energy market.

Motivated by “supply concerns”, energy importing countries urge producer states to keep up with their energy security policies. For example, oil importers insist their energy exporting partners for investing in oil production capacity before world energy demand exceeds production. With their own “demand concerns”, energy exporters remain reluctant to join the request since they face the risk of investing in a production activity to meet an anticipated increase in world demand which may never materialize (Gault, 2007: 4). Given that major oil and gas importers such as EU engage in strategies to reduce their import dependency and strive to direct the consumption towards renewables and alternative energy sources, the reluctance of oil and gas producers make sense.

At this point it is interesting to find out that the notion of “security dilemma” which is traditionally linked to military preparations is also relevant to the explanation of the tension between energy importers and energy exporters. “Security dilemma” was articulated in 1950s by John Herz, when he mentioned it as:

A structural notion in which the self-help attempts of states to look after their security needs, tend regardless of intention to lead to rising insecurity for others as each interprets its own measures as defensive and the measures of others as potentially threatening (Herz, 1950: 157 quoted in Baylis, 2001: 257).

To be more precise, when countries increase their military capabilities, their counterparts remain uncertain whether the purpose is defensive “to enhance its security in an uncertain world” or offensive “to change the status quo to its advantage”. Therefore, in an environment of mistrust and uncertainty, one state’s intentions and efforts for more security means other’s increasing insecurity (Dunne and Schmidt, 2001: 153). When this dilemma is adapted to today’s energy circumstances, the efforts of EU to diversify its energy mix with renewable and nuclear energy sources, to diversify its suppliers with new trade partners and its efforts to activate new transit routes through the building of new pipelines may just target to decrease the Union’s vulnerability in energy and to increase its supply security. However, on the other side of the coin, these efforts may simply be interpreted as threat to demand security of energy exporters such as Russia.

Accordingly, when developing energy security policies, it is crucial to combine security of supply and security of demand. Finding the middle between both consumers’ and producers’ expectations would create a more secure world energy market. Especially, for the case of upstream investment mutual trust can be achieved when EU or importing countries in general, share the cost of producers’ investments and ensure transparency, for the sake of reducing uncertainty, as well as advance notice of their energy security policies which may affect the demand and may change their import quantities (Gault, 2007:6).

Last but not least, a third method to explain security of energy is to clarify the cases of its absence, namely, the features of disruptions and the nature of risks that would lead to situations under which one cannot talk about a secure energy, or differently put, situations under which one would answer the following question:

“Which conditions have to be avoided or which problems have to be solved in order to enjoy energy security?”

Several facts can lead to energy security disruptions. Political decisions of suppliers not to offer gas or oil to their customers, international military conflicts or technical break downs may cause sudden disruptions. On the other hand under-investment in production and transport activities may lead to longer term, slowly emerging disruptions (Correlje and Linde, 2006: 538). Consequently, first of all, it is appropriate to add a time dimension to the definition of the concept, by short term and long term perspectives since unanticipated disruptions or sudden rise in price would lead to short term dangers, while unavailability of necessary amount of energy in the future due to lack of investment would mean longer term security concerns (Costantini et al., 2007: 211). Short term and long term risks are interlinked in that under-investment leaves energy market more exposed to sudden disruptions and in turn, the frequency of sudden disruptions damages the sector’s credibility in supply security leading to the risk of under-investment (International Energy Agency, 2007: 161).

Moreover, it is worth mentioning different aspects of the risks being physical, economic, social and environmental. Physical disruptions which can be permanent or temporary occur due to exhausted energy sources or due to strikes, geopolitical crises and natural disasters which cease production. As temporary disruptions cause sudden effects on economy and consumers, they require energy policies which have to design responses to emergency case scenarios. Price fluctuations in the world energy market cause the second risk group, namely economic disruptions. A threat of a physical disruption of supply, as an example, may cause panic buying which in turn leads to a sharp rise in energy prices,

affecting industrial and private consumers. With oil and gas accounting for 60% of its fuel consumption, European market is highly vulnerable to this threat. Thirdly, social risks may vary from simply increasing social demands, to social conflicts by triggering chaos in already unstable countries. The instability of energy supplies or sharp increases in prices is among the potential causes of social risks. And finally, environmental risks constitute the last category of hurdles to energy security. Accidents in the production or transportation of energy, nuclear catastrophes or polluting emissions can result in environmental damages which harm ecosystem and cause global warming (European Commission, 2000: 76-77).

For policy-makers it is important to identify these different types of disruptions. Although they are highly interlinked and can be both causes and effects of each others, their different characters require differing response-mechanisms. For example, while long term supply security would require diversification of supply regions and routes, short term energy security can be achieved through emergency response mechanisms such as strategic stocks. Therefore, just like the need to define the concept of energy security, the identification of risks is important as well for the study of energy policy.

There are several other factors which affect energy security. The dependency level of an importer state to a single supplier, the composition and diversification of energy imports, political situation within the supplier country, the protection of supply routes against conflicts which may occur with third parties “on the path” of energy transit and the ease of switching between suppliers all weakens or strengthens the energy security of a country (Le Coq and Paltseva, 2009: 4475-4476). While developing its common energy policy, the EU has to consider all of these potential risks and has to address each and every one of them

if the purpose is decreasing vulnerability to external circumstances and increasing energy security.

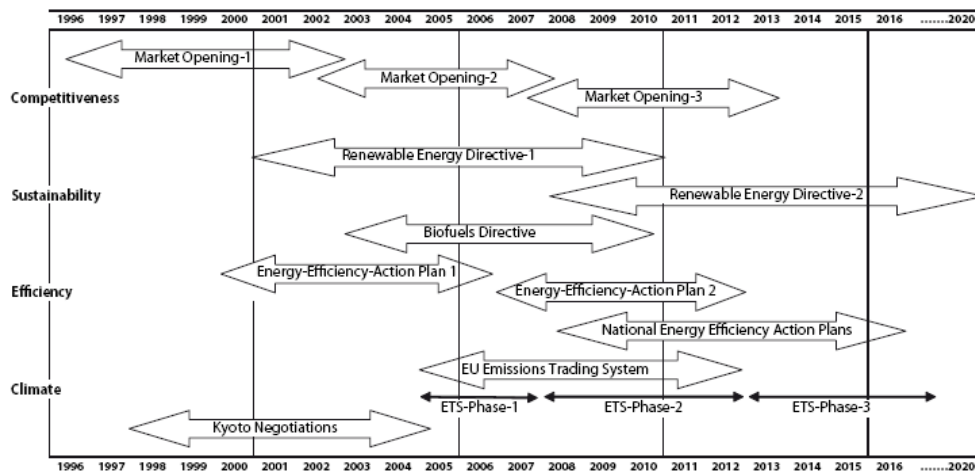
As mentioned earlier, different countries interpret energy security differently. While energy importers, because of their high dependence on oil and natural gas, focus more on the sufficient energy supply with reasonable price; exporters such as Russia concentrate on security of demand for the consistency of their export revenues (Geden et al, 2006: 9). Nevertheless, no matter how the concept is defined or no matter which interpretation is adopted, the existence of risks to supply security and global problems such as climate change is tangible and in need of urgent responses. The following parts will focus on the evolution EU's efforts to create a coherent policy to address these problems.

### **2.3. Evolution of European Energy Policy**

Due to the absence of a current common European Energy Policy, offering a clear cut chronological background for policies is not possible. Today, the European Energy Policy is just an accumulation of a complex net of proposals, initiatives, regulations and decisions of international communications. Although some specific dates and specific documents represent important milestones toward a common policy, the fact that at some point they all overlap in relation with sustainability, competitiveness and supply security pillars of European Energy Policy, renders the evolution of common energy policy a *sui generis* case, compared to other sectors such as agriculture which are subject to clear step-by-step integration. In this respect, it is problematical to talk about a general evolution

of European Energy Policy. Rather, European Energy Policy is the result of separate developments in different but related issues of energy.

To clarify this point the figure below offered by Eurostat would be helpful. As the figure indicates, different policies originate in different time periods yet their purposes are inseparable from each other, targeting access to clean and sustainable energy with affordable prices in a competitive market, both now and in the future. Accordingly, market opening for competitiveness dates back to 1996. While the liberalization of energy market continues, and the process is not fully completed even today, in early 2000s directives on renewable energy sources and biofuels come into play, as well as Energy Efficiency Action Plans, to address sustainability and efficient consumption of energy to curb excess demand. Determined to be an active global player, the European Union carries on internal developments concerning energy policies hand in hand with decisions in the international arena. The EU's close interest in international efforts to fight climate change, then, goes back to 1997 and Kyoto Negotiations offers groundwork for European Energy Policy which cannot be separated from climate change factor.



**Figure 1: Development of EU energy policies over time**

Source: Eurostat, 2009c: 3

The figure is illustrative for a general overview of the evolution of European Energy Policy. However, it does not offer a complete picture since policies in line with security of energy supply are not mentioned. The necessity to refer to every aspect of the energy “trinity” of European Energy Policy and the fact that every policy evolves in and of itself, complicates the study of the development of the European Energy Policy. To overcome this difficulty, in the study of energy policies of European Union, clarifications concerning the background of specific policies on market, efficiency, solidarity or supply security will be included into the analysis in the following sections. Nonetheless some general remarks and important reference points about the history of European Energy Policy need to be highlighted, as they constitute a foundation for current policies.

The roots of European Union originate in energy issues through ECSC and EURATOM. Nevertheless, in the evolution of the EU itself, policies concerning energy and energy security remained at the back plan. Left to national discretion of Member States, decisions and policies concerning energy security was initially excluded from the EU level integration of European countries. As the international setting changed, the Union’s energy policy started to develop and it followed an event-driven evolution. In other words, European Energy Policy initiated as a need to be capable of responding to international energy supply crises (Hoogeveen and Perlot, 2007: 486).

Major social and economic crises originating in producer regions, especially in the Middle East, shaped European Energy Policy as they intensified concerns for energy supply security. The Suez crisis in 1956, the Six Day war between Egypt and Israel in 1967, Arab oil embargo in 1973 and oil crisis following Iranian revolution in 1979, they all reminded Europeans of their

vulnerability to external crises and their need of uninterrupted availability of energy supplies. Although these specific occasions urged the EU to generate efforts concerning the decrease of import dependency, the initiatives achieved little success in the road towards a common policy (Hoogeveen and Perlot, 2007: 487).

Still, policy makers of both energy importer and exporter countries took the crises in the 1970s as a significant “reference point” in the history of energy trade. From the perspective of the EU, strengthened by the absence of cooperation and solidarity between the members, sudden oil price increases by OPEC countries in the 1970s jeopardized economic and political system of both EU and separate EU member states. This period installed two major concerns at the background of EU energy policy-making agenda for shaping policies especially about security of supply (Hoogeveen and Perlot, 2007: 488).

The first concern is related with the oil crisis of 1979 and originates in the fear that “political instability in producer countries and regional tensions will lead to a disruption in oil supply” (Hoogeveen and Perlot, 2007: 488). Accordingly, potential instabilities in producer countries or regions occurring due to domestic struggles for power became a factor which European policy-makers have to take into account while deciding on measures for securing energy supply (Hoogeveen and Perlot, 2007: 488). This fear of instability in producer countries, materialized as one of the challenges to be addressed in many European documents. Green Paper of 2006 is one of the most remarkable examples as it highlights that in the next 20 to 30 years EU’s energy needs “will be met by imported products, some from regions threatened by insecurity” (European Commission, 2006b: 3).

The roots of the second major concern for European policy makers go back to the 1973 oil crisis which led to the threat that exporter countries can



purposefully use oil and natural gas as a weapon in their foreign relations. Accordingly, EU and energy importing consumer countries in general, fear that governments, especially those of unstable countries, may threaten them with politically motivated supply disruptions and use their position as energy producing and exporting actors of the world energy market as a weapon to achieve their objectives in the international arena. In this respect, 1973 oil crisis highlighted the vulnerability of European states to Arab politics which could easily be attached to energy trade hence which would render EU's import dependence open to abuses (Hoogeveen and Perlot, 2007: 488-489).

The earliest energy policies of the Union as response to such crises which would potentially lead to supply disruptions came with emergency oil stocks. Starting in 1968, European Council issued Oil Stocks Directives to address the risks of temporary disruptions (European Commission, 2008:10). Acknowledging that difficulties, permanent or temporary, which have the potential of reducing the supply of imported oil products from the third countries would seriously disturb economic activity, and accepting also that establishment and maintenance of minimum stocks of most important petroleum products is a necessity to strengthen security of supply, on 20 December 1968, European Council imposed an obligation on Member States of the European Economic Community to maintain minimum stocks of crude oil and/or petroleum products (68/414/EEC). Accordingly, Member States were expected to adopt necessary laws, regulations and administrative provisions to preserve stocks of petroleum products to meet internal consumption for 65 days (European Council, 1968). Due to the increase in oil demand as well as growth in the imported oil supplies and due to the inconsistencies in the supply patterns from third countries, the directive was

followed by an amendment (72/425/EEC) in 1972 which required an increase in stocks to correspond 90 days (European Council, 1972). In 1973, as a response to oil crisis, International Energy Agency emerged at the global scene in order to coordinate measures in times of oil supply emergencies. Synchronizing its emergency policies with International Energy Agency (IEA), in 1973 and 1977, European Council launched two more directives (73/238/EEC and 77/706/EEC) on the same issue. The new directives asked for the establishment of a consultative body to coordinate measures among Member States, the restriction of consumption in times of shortages and the regulation of prices to prevent anomalous price increases (European Council, 1973; European Council, 1977).

In the following years, while the Union was busy with the deepening of integration and with the absorption of its new members, history witnessed another ground breaking event which influenced the evolution of European Energy Policy, just like everything else from international order to understanding of security: the end of Cold War. The end of Cold War represented also the end of ideological, political and economic divisions between eastern and western Europe. This introduced an opportunity to combine the interests of both sides and to cooperate in the energy sector. Russia's and its neighbor's rich hydrocarbon reserves were in need of investment for exploration, extraction and development of these resources. On the other hand, west European countries and private energy companies had both financial capacity to realize these investments and also the intention to diversify their energy sources by trading with new suppliers (Bahgat, 2006: 968). With the aim of encouraging economic growth and enhancing EU's security of supply, as a response to the need to create a common foundation for energy collaboration in Eurasia, in June 1990, at the Dublin European Council, the Prime

Minister of the Netherlands proposed the establishment of cooperation with the Eastern European and former Soviet Union countries. Accordingly, in December 1991, political decision for European Energy Charter was signed. In order to guarantee legitimacy of investments, trade and transits concerning energy, in 1994, 51 signatories of the Charter, together with the European Community and Euratom agreed on legally binding Energy Charter Treaty and on the Protocol on Energy Efficiency and Related Environmental Aspects, which entered into force in 1998 (European Energy Charter, 2009).

The Energy Charter Treaty set out provisions about the proper functioning of free trade in energy materials in line with World Trade Organization rules, about the protection and promotion of investments, energy transit, energy efficiency and dispute settlement. In accordance with the provisions, signatories agreed on taking necessary steps to eliminate anti-competitive market distortions both in the trade of energy products and in the procedures concerning investments. Consequently, the promotion and creation of “stable, favorable and transparent conditions for foreign investors” and the application of “the most-favored nation principle” or offering national treatment for foreign investors became major requirements of the treaty (Europa, 2007: 2). With regard to the transit of energy products, parties agreed on the facilitation of “free transit without distinction made on the origin, destination or ownership” of energy materials, “without imposing delays, restrictions or unreasonable taxation” (Europa, 2007: 2). In addition to competition, free transit, taxation and transparency, the European Energy Charter also included conditions on environment and sovereignty in order to ensure that the Contracting Parties exercise sovereignty over their resources with the right to “choose the geographical areas in their territory to be made available for

exploration and exploitation” and also to ensure that efforts are made for the reduction of environmentally harmful effects of energy related activities and for the increase of energy efficiency (Europa, 2007: 2-3).

The increasing interdependence between energy importers and exporters required a multilateral framework in order to replace bilateral agreements, for the facilitation of international cooperation in the energy sector. For this reason, European Energy Charter did not only aim to increase security of energy supply through the development of the energy potential of central and Eastern European states, but it also aimed the strengthening of the rule of law on energy issues (Energy Charter, 2009). It is important to note that as of October 2009, 46 signatories have ratified the Energy Charter Treaty, Turkey being one of them. Australia, Belarus, Iceland, Norway and Russia are parties which have signed but not ratified the treaty yet (Energy Charter Secretariat, 2009). As the European Union’s energy panorama changes and as the European Energy Policy evolves, what will be the implications of the non-ratification of the treaty especially by Russia remains as a question mark.

In the early 1990s, European Energy Charter emerged as an important milestone for the external efforts of European Energy Policy to ensure supply security. In the mean time, within the Union as well, efforts to synchronize national energy policies and develop a common internal European Energy Policy continued. The decade between 1990 and 2000 has been significant in that European Commission launched three Green Papers on energy which put forward the baselines for a common policy.

Starting with the first Green Paper in 1994, the European Union’s policy suggestions evolved around sustainability, security of supply and the need to

establish an internal market. With the Green Paper “For A European Union Energy Policy” [COM (94) 659], The Union put forward the necessity to increase its role in the energy sector. Based on the potential challenges that the Union would have to face in the coming years due to the deficiencies of import dependency, the Commission identified main objectives to pursue towards a common policy. The most outstanding feature of this Green paper was the emphasis on the necessity to harmonize national and community level energy policies in order to generate a common standing as a response to transnational energy challenges which endanger supply security, environmental protection and consumer’s access to energy. This also required cooperation between decision makers of energy policy and actors in the energy sector and called for the clear identification of the Community’s responsibilities concerning energy, with the consideration of environment, air pollution and climate change due to gas emissions being centrally important (Bulletin of the European Union, 1996).

After the adoption of the Green Paper for a European Union Energy Policy in 1995, in November 1996 the second Green Paper “Energy for the Future: Renewable Sources of Energy” [COM (96) 576] was launched. As the name suggested, this Green Paper introduced targets for the incorporation of renewable energy sources into the future Community strategy on energy and for the more widespread use of wind, solar energy, hydropower and biomass. Apart from the repetition of the need to strengthen cooperation among Member Countries, the paper differed from the previous one in that it moved one step further and offered concrete strategies in the specific issue of renewable resources. Accordingly, the Commission called for the mobilization of national and Community instruments for the development of these resources in order to increase the percentage of

renewable energy in the EU's energy mix. Taking into account high exploitation costs of renewable energy, the Green Paper 1996 also recommended emphasizing the real competitiveness of renewable resources, through internalization of external costs of other energy sources, increased research and development activities and through awareness building schemes which would highlight the contribution of renewable energy to the Union's targets about energy security, climate change, air pollution, employment and regional development (Bulletin of the European Union, 1997).

Green Papers represented important reference points in the evolution of European Energy Policy because with each of them, step by step, the Commission identified in a clearer way The Union's deficiencies, necessities and targets concerning energy consumption, environment and import dependency in energy. In that respect, the following Green Paper in 2000, "Towards a European Strategy for the Security of Energy Supply" [COM (2000) 769] became not only one of the most significant Green Papers but also turned out to be among the major documents in the EU literature on energy.

Just like the previous ones, the Green Paper 2000 as well, mentioned environmental concerns and repeated the interdependence between the Member States which required a Community dimension in the strategies dealing with energy related challenges. Nevertheless, the specialty of this Green Paper came from its emphasis on the Union's increasing import dependence. With this, the Commission declared that one of the main purposes of European Energy Policy should be to ensure the reduction of the Union's vulnerability due to its dependence on external energy suppliers, rather than the unrealistic target of maximizing self sufficiency in energy and recommended the development of a

strategy for security of energy supply. The Green Paper Towards a European Strategy for the Security of Energy Supply centrally focused on the security of supply. It offered a detailed study concerning EU's energy mixture, current and future energy challenges in relation with supply security and it sketched out main principles for a long term European energy strategy which had to "rebalance its supply policy by clear action in favor of a demand policy" through taxation measures and energy saving policies (European Commission, 2000: 3). This Green Paper also had an awareness building effect in that for the quantification of the challenges concerning energy security, it included a forecast scenario which projected oil and gas consumptions, CO<sub>2</sub> emissions and EU's import dependence in the years 1998, 2010, 2020 and 2030. With the forecasts the Commission confirmed that energy import dependency would reach around 70% in 2030, unless the policies at the time the Paper was released were replaced by more efficient mechanisms of demand and supply dependence management (European Commission, 2000).

Five years later, the Commission released another Green Paper in 2005 devoted to energy efficiency: "Green Paper on Energy Efficiency or Doing More with Less" [COM (2005) 265]. This Green Paper aimed to clarify deficiencies which prevented the Union from implementing "cost-effective savings such as the "lack of appropriate incentives, lack of information and lack of available financing mechanisms" (European Commission, 2005: 5). The Commission suggested the establishment of energy efficiency Action Plan which would be a multi-level initiative combining national, regional, community and international levels. From buildings to tyres and clean vehicles, the paper examined several measures especially in industrial and transportation sectors, which could contribute

to energy efficiency. The paper was also significant in that it made suggestions to initiate international cooperation in energy efficiency and to integrate energy efficiency into the neighborhood and development policies (European Commission, 2005). Energy savings and achievement of greater energy efficiency in the industry, transportation and household consumption have of course implications for the environment and for the Union's efforts to reduce its import dependency. Nevertheless, this Green Paper, which offered concrete strategies for international cooperation in energy efficiency, once again indicated that the European Union's desire to be an active global player which leads the international agenda, was valid not only in trade of energy products and environmental protection but also in every energy related subject matter which could lead to better practices.

Despite the lack of political consensus among Member States concerning the implementation of energy strategies, with successive Green Papers, the Commission had already started to depict how the European Energy Policy would look like and which elements it would include. However, in the meantime another important event intervened and accelerated the process toward a common energy strategy for the European Union. Although 1970s have been significant for European Member States to perceive their vulnerability to supply disruptions and installed basic fears in the energy literature which shape today's security of supply policies, there is no doubt that the real wake up call which triggered faster evolution of European Energy Policy came in January of 2006 with Russia – Ukraine gas crisis. This event has not only been instrumental in shaping European Union's current energy policies, but also became a critical point in EU-Russia relationship.



As Ukraine was the transit country where most of the pipelines transferring natural gas imported from Russia to Western Europe were located, the crisis led to the concern that Europe would face energy shortages and vulnerabilities arising due to dependence on limited suppliers and transit routes, moved at the center of the Union's agenda. The crisis refreshed memories of EU decision makers and public opinion and revitalized the fears dating back to 1970s, which originated in the possibility that major exporters could use oil and gas supplies as a political leverage. Although the Green Paper Towards a European Strategy of Energy Security was a warning regarding increasing import dependence, Member States underestimated the importance of community level actions and insisted on national regulations and on guarding their sovereignty over energy policies. Nonetheless, as the event implied, supply security consisted of a complex relationship between energy exporters, transit countries and European Union Members as importers which means that energy was not only a matter of economics but also was a part of foreign policy and national security strategies (Geden et al, 2006:9).

Following this "warning" in 2006, European efforts to strengthen energy security and its ability to stand with a common voice through common policies picked up the pace. In the wake of Russia-Ukraine gas crisis in January, in March 2006 the Commission published another Green Paper "A European Strategy for Sustainable, Competitive and Secure Energy" [COM (2006) 105].

It would not be wrong to argue that the Green Papers built one on the other and each represented important aspects of the common energy policy. While the first one in 1994 signaled the need for cooperation and common policy, Green Paper 1996 emphasized the potential contribution of renewable energy to future energy profile on Europe. In 2000 security of supply was highlighted and it was

followed by another Green Paper in 2005 which focused on energy efficiency. Currently being the final Green Paper on energy, unlike the previous ones which were usually inclined to address one specific dimension of energy, the Green Paper 2006 combined all the efforts and put forward an energy strategy which balanced each of three dimensions of energy: sustainable development, competitiveness and security of supply.

With the last Green Paper, this “trinity” of energy policy became officially the main objectives of European Energy Policy. Throughout the paper the Commission identified six key areas which needed urgent cooperation and action: competitiveness and the creation of an internal market, diversification of energy mix, solidarity between member states, sustainable development as a response to climate change, innovation and technology for the increase of energy efficiency and diversity through renewable resources, and an integrated external policy. Moreover it proposed concrete measures addressing each of them (European Commission, 2006b). These six key areas constituted the skeleton of today’s European Energy Policy.

Once the Commission determined these key areas of European Energy Policy, in 10 January 2007 the “Communication from Commission to the European Council: An Energy Policy for Europe” [COM (2007) 1] was introduced. Similar to Green Paper 2006, the document presented sustainability, security of supply and competitiveness as the main challenges for the Union. Moreover, it also declared that Millennium Development Goals and economic growth as well as job creation in the context of Lisbon Strategy were among objectives of the EU which required ambitious, long term action plans (European Commission, 2007). Apart from all, “An Energy Policy for Europe” introduced “20/20 Package” which

aimed “reducing GHG emission by 20%, improving energy efficiency by 20%, achieving a 20% share of renewable energy and a 10% share of biofuels” by 2020. This target definitely indicated “the role of the EU in leading the effort to create a climate-compatible energy system” (Eurostat, 2009c: 4). In addition to the ambitious targets that it put forth, what made the document significant in the evolution of European Energy policy is that the Commission offered a concrete action plan for the achievement of the objectives. Consequently, this Strategic Energy Review emerged as a proposal to the European Parliament, which designed the essence of European Energy Policy (European Commission, 2007:5).

Aware of the fact that the previous action plan introduced with “An Energy Policy for Europe” and the target concerning renewables and energy efficiency cover EU’s energy objectives only to a limited extent, the European Council of 15-16 October 2008 asked for a wider action plan to increase the Union’s energy security. In 13 November 2008, the Commission responded the Council’s request by Second Strategic Energy Review, “An EU Energy Security and Solidarity Action Plan” [COM (2008) 781]. This time, the Commission highlighted five main points and invited the Council and the Parliament to approve the measures proposed for each of them. The five points consisted of “infrastructure needs and the diversification of energy supplies, external energy relations, oil and gas stocks and crisis response mechanisms, energy efficiency, making the best use of the EU’s indigenous energy resources” (European Commission, 2008: 3). Different from previous reports this action plan gave a special emphasis on the infrastructure needs and diversification of both energy imported areas and transit routes. Especially in the conclusion part of this Second Strategic Energy Review measures belonging to this category were recommended as

the “first step” essential for the Union’s energy security. Accordingly the Commission identified the priorities including the realization of “Southern gas corridor, a diverse and adequate LNG supply for Europe, effective interconnection of the Baltic region, The Mediterranean Energy Ring, the need for adequate North-South gas and electricity connections within Central and South- East Europe, and the North Sea Offshore Grid” (European Commission, 2008:3-17).

As the Second Strategic Energy Review also demonstrated, in the efforts and action plans which identify European Energy Policy, international energy linkages and international dimensions of climate-oriented strategies are frequently repeated. Especially after 2006, the external dimension of diversification for the sake of increasing supply security is highly emphasized. However, despite these international ambitious efforts, the internal integration of European Energy Policy displayed an unsuccessful performance.

For the European Union, energy remained among issue areas which function with subsidiary principle since member states highlight the national character of energy policies and since they still hold the responsibility to launch procedures concerning energy. When it comes to a “common” policy, major progress is achieved on the competitiveness element of European Energy Policy with chapters on competition rules, inserted within the *Acquis Communautaire*. Although European Commission displays concrete steps towards the creation of a common policy through its reports or Green Papers and although energy is included within the constitution of Europe, as the rejection of the constitution demonstrates, the reluctance of some Member States for further integration weakens the possibility of a common energy policy in the near future (Hoogeveen and Perlot, 2007: 487). The following section questions the reluctance of Member

States to integrate in energy policies and it tries to indicate which factors render a common European Energy Policy so difficult to achieve.

#### **2.4. What Makes The Achievement of European Energy Policy So Difficult?**

In 2000 the Commission's Green Paper indicated that the EU has limited power to influence future world markets. The fact that the EU failed to create a coherent common energy policy reduces the Union's bargaining power to face geopolitical and economic challenges (European Commission, 2000). Six years later another Green Paper affirmed: "The EU leads the world in demand management, in promoting new and renewable forms of energy, and in the development of low carbon technologies. If the EU backs up a new common policy with a common voice on energy questions, Europe can lead the global search for energy solutions" (European Commission, 2006b: 4). The difference between the two Green Papers and even this short period of six years indicate that EU is very ambitious in achieving a common voice and completing its energy security policy.

However, for European policy-makers, the creation of European Energy Policy is a challenging task in that it includes multiple issues both internally and externally. Moreover, the involvement of different players complicates the decision-making process about the nature of policies, since views diverge: Should it be integrated, national or detached from state intervention? (Pointvogl, 2009: 5705). How the responsibility of energy policies is to be divided between "EU-level actors, governments, energy companies and consumers" also comes out as one of the fundamental challenges of EU energy policy (Benford, 2006: 45).

It is interesting to observe that despite serious ambitious statements and despite the release of several directives, reviews and action plans, certain challenges render common European Energy Policy very difficult to achieve. For the internal dimension of EU's energy policy, different preferences of member states and the uncertainty about the potential European regulatory body for energy issues restrain Member States in reaching agreements over energy policies. In the external dimension, the Union's unclear strategy which contains both market norms and geopolitical considerations create inconsistency in policies, thus slow down the evolution of common external energy policy. This section will focus on these major factors which create deadlocks for further evolution of energy policies

#### **2.4.1. Different Preferences**

The European Union is undergoing a dual integration process. The internal deepening of integration containing a range of policies from market to agriculture goes hand in hand with enlargement and integration of new members to EU system. Member States' different preferences speed up or slow down the process. The creation of common energy policy too is highly affected by these different preferences since the Member States have distinctive energy supply and consumption patterns in line with the demand of their industry and their citizens, and these patterns determine their support for common energy policies (Correlje and Linde, 2006: 532). In 2006, Barroso affirmed that "The Union has the required size (surface area and population) and required instruments (legislation, budget

etc.) but it lacks the political will to forge a common European energy policy” (quoted in Geden, et al., 2006: 11).

The aim of European Energy Policy is to increase energy security and to offer feasible solutions to energy related problems. It is a fact that some Member States have acknowledged the efficiency of dealing with these problems at the EU level (Geden et al., 2006: 14). However, more than this, as the Green Papers emphasize, the European Energy Policy also targets the representation of the EU with a “single voice”. In energy forums, in relations with producer and transit countries or in international agreements concerning energy issues, speaking with a single voice is crucially important for the credibility of the Union (Andoura and Vegh, 2009:5). In theory, in line with EU-level policies, Member States seem to approve the principle of speaking with single voice. Nevertheless, when it comes to concrete policy making in energy, members hesitate to transfer their sovereignty to EU level institutions (Geden et al., 2006: 2). As Benford (2006: 40) points out: “Member states still retain the final say over key decisions, such as national energy mixes and relations with supplier states”.

Although the EU exercises serious efforts to represent a single voice in the international arena, “the European Commission is not the government of the EU and Brussels is not its capital” (Hoogeveen and Perlot, 2007: 502). In other words, even though in bilateral relations the Union stands as one participant for a total number of 27 members, it is not a “state”. This fact leads to an inconsistency between theory and practice concerning policies. In theory The European Union represents a body which can enforce binding policies upon its members. Nevertheless, in practice, the experiences especially in the sphere of energy policy indicate that the policies, far from imposing an authority upon members, can

evolve as long as the Members want them to integrate and deepen only as far as the Members want them to go (Hoogeveen and Perlot, 2007: 503).

This situation which renders the decisions over common energy policies so difficult to achieve can be explained by intergovernmental arguments. Moravcsik (1993: 485) argues that nation states tend to cooperate when coordination increase their control on the domestic policies and when coordination eliminates negative policy externalities which occur due to the costs of national policy of another government. Hence the coordination between governments aims at reducing the costs of non-cooperation. Nevertheless, it is not possible to state that nation states operate in a system where there is a harmony of interests. In some cases, even if agreements are mutually benefiting the parties, negotiations lead to conflicts arising out of differences in government preferences in terms of distribution of the benefits. In such bargains, liberal intergovernmentalism assumes that states make concessions and they settle the problem on the “lowest common denominator” which offers results closest to the national preference or to the status quo (Moravcsik, 1993: 487, 501). This also signals that cooperation or integration fails even at the decision making process when Member States observe that their individual interests will not be satisfied by the outcome (Rosamond, 2000).

Another liberal intergovernmentalist argument which would explain the Members’ attitude in energy policy making is that international institutions ameliorate the international interaction of states as they are established with the purpose of reducing transaction costs, providing necessary information which will help states in the decision making, establishing necessary rules, monitoring against free riders and sanctioning non-complying parties, reducing uncertainty (Schimmelfennig, 2004: 78). National governments favor institutions also because



they strengthen their control over domestic groups and domestic opposition serving to the liberal intergovernmentalist concept of “two-level game” (Moravcsik, 1993: 507,515). The concept means that the bargain has two faces being domestic and international. Hence, power seeking elites form and support coalitions among interest groups at the domestic level, whereas at the international level, considering the requirements and meeting the demands of domestic groups, the same actors bargain for the purpose of enhancing their domestic position (Rosamond, 2000: 136). This can directly be linked to the relationship of Member States with the EU at one side and their national energy companies on the other side.

In the focus on Members’ different preferences which affect the development of a common European Energy Policy, “contribution to EU risk exposure” is an important factor. Member Countries’ contribution to the Union’s vulnerability due to import dependence differs in line with their import amounts. States with higher energy import rates are expected to represent higher shares of the overall risks that the Union has to cope with, because of being dependent on exported energy. Additionally the risks that larger EU countries undertake also are expected to threaten EU’s energy security more than smaller countries, in line with their level of energy consumption compared with the rest of the Union (Le Coq and Paltseva, 2009: 4475-4476).

A recent study published in 2009 based its hypotheses on these assumptions and offered a classification of European countries reflecting their risks both for oil and gas imports. Accordingly for natural gas, countries like Austria, Bulgaria, Czech Republic, Hungary, Latvia, Lithuania, Romania and Slovakia emerge with high risk indexes since the gas they consume is not

produced, rather it is imported from “non EU/Norway suppliers” which are not diversified. In the same index, due to their trade with better diversified gas suppliers, Estonia, Finland, Germany, Greece, Italy, Ireland, Poland, Portugal, Slovenia and Spain represent “medium-level” risk group and the remaining Member States such as the Netherlands and UK constitute countries facing lower risks since they benefit from indigenous production or European gas suppliers. However, when the study questions the countries’ contribution to EU’s exposure to the risks of import dependence, the picture changes and Germany, Italy and Spain appear as the biggest contributors due to their high gas consumptions compared with EU’s general consumption trends. Besides, with their high reliance on non-EU gas exporters Hungary and Slovakia also join the first three, despite being smaller countries (Le Coq and Paltseva, 2009: 4479).

The study creates the same indexes for oil as well and affirms that countries with highest risk exposure are Bulgaria, Greece, Hungary, Lithuania and Slovakia as they rely on non-diversified, risky suppliers such as Russia, Iran and Saudi Arabia. This group of countries is followed by the medium level risk group which consists of Belgium, Czech Republic, Finland, Germany, Italy, Latvia, the Netherlands, Poland, Portugal, Romania and Spain. Finally, the remaining members such as UK and Denmark which domestically produce oil refer to the lowest risk group (Le Coq and Paltseva, 2009: 4479).

As the study indicates, exposure to risk linked to external energy supply does not only differ across the Member States, but also across energy types. Different risk levels without doubt lead to different preferences among the Member States. Different ranking in risk indexes for oil and gas, oblige the European countries to expect different types of policies with regard to common

European Energy Policy, which would meet their particular individual interest. Hence an objective analysis of EU countries' energy profiles is crucial, since their energy patterns would directly affect their position in energy policy making (Le Coq and Paltseva, 2009: 4480).

A common European Energy Policy would mean that Member States will have to share the risks of being vulnerable to external factors due to their dependence on oil and gas imports. Nevertheless, Members' different degrees of risk-exposure also mean different amounts of contribution to the overall energy supply risks that the Union has to face. Accordingly, a common energy policy comes out with a different form of the classical problem of "free-riding". Countries representing higher risks such as Germany, Italy and Spain in the case of natural gas, tend to benefit more from common energy security policies, at the expense of relatively less import dependent countries or at the expense of the Members whose suppliers are relatively more diversified. Following the fact that the situation decreases the motivation of some members to support common energy policy, the integration of energy policies remains unsuccessful and policies taking into account different energy patterns in order to compensate the disadvantaged members emerge as the most feasible solution to overcome this challenge which delays the integration in energy (Le Coq and Paltseva, 2009: 4481).

Nevertheless, the Member Countries' different preferences do not only originate in different energy profiles and different levels of risk exposure. Different structures of energy markets and members' different perceptions of "security risks" also determine the attitude towards a common policy. To illustrate, for many years some Member States, to increase their energy security, preferred to

diversify their energy suppliers away from Middle East and they engaged in energy agreements with Russia. On the contrary, for countries that became a member through the Eastern Enlargement, due to their historical backgrounds, being dependent on Russia represented a potential threat to their security and contradicted with their original motivation of de-linking themselves from Russia (Hoogeveen and Perlot, 2007: 503).

With regards to market structures too, the case can be illustrated. For example while the electricity market in certain states such as UK and Netherlands is liberalized, in others the process is relatively slower. The experts point at France and Germany and interpret this “slow” performance in liberalization as an effort to create “national champions” in the sector of energy which would become “European champions” once the single energy market is achieved. The fact that some Member States still favor their national energy companies over European ones reminds liberal intergovernmentalist argument about “two level game” and additionally indicates that in strategically important issues such as energy, as a result of rational interest calculations, national interests outweigh the European ones (Hoogeveen and Perlot, 2007: 503).

To sum up, nation states’ diverging interests and their reluctance to transfer “energy” from the agenda of national security to EU-level policy making stand out as important factors which should be addressed by negotiations where members’ mutual understanding and concessions are needed, if the target is to create the European Energy Policy.

### **2.4.2. European Energy Regulator**

Another difficulty that renders common European Energy Policy difficult to achieve is the puzzle of “regulatory body”. As the energy policies become more and more integrated, for the proper implementation of laws and procedures, the EU will be in need of a regulatory body for energy issues. Such an institution is of course subject to questions concerning the transfer of authority to EU level and it has implications for nation states which hesitate to deepen EU integration.

Nevertheless, further than the dilemma over the transfer of sovereignty, the real question which contributes to the slowing down of the integration in energy issues is: “What kind of body would be both appropriate and feasible”? As regards to energy issues, the Commission outstands as an influential actor both in the development of European Energy Policy and in the implementation of related policies since with its Green Papers, Action Plans and reports, it represented a serious effort for the creation of common energy policy. In that respect the Commission does not only influence European energy market but also intervenes into “national energy sectors by applying single market instruments, such as technical harmonization and competition law” (Benford, 2006: 40). The Commission already possesses formal powers over the decisions affecting energy related implementations, which can be exemplified with “community competences on the development of infrastructure in EU regions, granting aid to developing energy infrastructure in such regions and a mandate to merge environmental policies with energy policies” (Benford, 2006: 39). Therefore, one option for EU is to increase the discretion of the Commission over energy matters. It is important to note that such a decision would be again subject to objections by Members

thinking that energy issues belong to national security considerations (Benford, 2006: 39-41).

Other than empowering the Commission, European energy regulator can also be achieved with the creation of a new actor. With the Green Paper 2006, the Commission suggested to launch discussions about the “adequacy of existing forms of collaboration” and about “the need for a European energy regulator which would have decision making powers for common rules and approaches” (Benford, 2006: 41). In that case, an independent regulator could be developed and be subject to the supervision of the Parliament and Member States or current national regulatory authorities could be united under a “European system of energy regulators”. However, the same concerns about the transfer of sovereignty over energy issues would persist and hinder members’ will for further development of European Energy Policy. Consequently, taking into account the Members’ reluctance, what Europe is trying to achieve is gradually increasing the “cooperation between the Commission and national regulators” through progressive modification of existing structures (Benford, 2006: 41).

Council of European Energy Regulators (CEER) and European Regulators’ Group for Electricity and Gas (ERGEG) are perfect examples for the existing structures which can be further developed to overcome the problem of regulatory body. Both organizations are established with the objective of increasing cooperation between Europe’s independent, national energy regulators and both operate to facilitate “the creation of a single, competitive, efficient and sustainable internal market for gas and electricity in Europe”. CEER is voluntarily established in 2000 and today it consists of 29 members made up of Iceland’s, Norway’s and all the members’ energy regulators. CEER offers a “platform for cooperation,

information exchange and assistance” not only “between national energy regulators” but also “with the European Commission, in particular the Directorate General Transport and Energy (DG TREN), DG Competition and DG for Research”. Unlike voluntarily formed CEER, ERGEG is established by the Commission in 2003 as its official advisory body on energy issues (European Energy Regulators, 2009).

The question of regulatory body seems to be close to solution in that there is already some efforts to bring together separate national energy regulators. Still, until the completion of common European energy policy, EU policy makers will have to work on the invention of the most appropriate regulatory body, and the issue will remain on the agenda of nation states.

### **2.4.3. Market vs. Geopolitics**

The third factor which renders the achievement of common policy is related with the external dimension of European Energy Policy. “Market” and “Geopolitics” are the two poles that the European Union’s external energy policy stays in between. The issue is vital for EU energy security since long term development of EU energy security policy highly depends on the roadmap to be decided.

Relations with third countries constitute an important part of European Energy Policy since they assure the external dimension of energy security. In that respect the Union gives importance to international cooperation and partnerships in energy with the rest of the world, especially with important supplier and transit

countries. To this end, several agreements have been concluded with an effort to integrate energy issues into European foreign policy. Agreements with Ukraine, Azerbaijan, Kazakhstan, Algeria and Egypt, the Energy Community South East Europe Treaty signed with Balkan states, developing partnership with Africa, and Black Sea and Caspian Sea energy initiative are among the examples of these efforts (Youngs, 2007b: 1).

With its external energy policies, the tendency of EU is to “spread eastwards and southwards of internal European market rules” (Youngs, 2007b:1) and its means to this end are European Neighborhood Policy, Action Plans, Partnership and Cooperation Agreements and Association Agreements. As the Green Paper 2006 indicates, “the EU has for some time been engaged in widening its energy market to include its neighbors and to bring them progressively closer to the EU’s internal market”. Moreover, for the achievement of security of supply, the Union highlights the necessity of a “common regulatory space” for “common trade, transit and environment rules, market harmonization and integration” in energy issues (European Commission, 2006b: 16).

The above mentioned panorama does not seem to be problematic on paper. However, different preferences of Member States do not only slow down the evolution of European Energy Policy’s internal dimension, but also hinder external policies. While some members support the spill over effect which, for the case of energy refers to the expansion of internal market to international level, others hesitate to link energy security with the norms of internal market. While within the Union certain states still partially support liberalization of energy markets, and while the internal market is still not fully unified as a consequence of the lack of support, how the EU can launch an external policy based on market rules is



debatable. Far from creating a common external energy policy, the Union even fails to respond as “a single entity” to “external energy shocks” due to “the absence of both pan-European market mechanisms and sufficient physical interconnections” (Youngs, 2007b: 6).

Some Member States argue that for international dimension of energy security, instead of fully counting on liberalized free market, a more “government-led, geopolitical approach” should be adopted by the Commission. These countries such as France, Germany, Italy and Spain do not reject free market rules however, indicate that “negotiated reciprocity in producer states” is a prerequisite for the proper functioning of liberalization efforts. When this is the case Member States resort to bilateral agreements and in order to maximize their national interests, some of them go as far as denying the transparency and information sharing principles with other members. Youngs argues that: “In private many member state diplomats opine that while they feel bound to go along with the EU’s market rhetoric, such an approach is in practice increasingly unrealistic, in light of a more difficult geopolitical context” (Youngs, 2007b: 7).

However, European policy makers do not only indicate their willingness to create an “international energy market”, but also emphasize the significance of promoting shared rules and principles as well as transparent legal frameworks in producer and transit countries. This means that the market structure which the Union tries to promote is not only a means to trade oil and gas, but also a way to export and extend the Union’s energy related principles being political or economic. Accordingly, “the development of inter-connecting energy systems between different geographical areas, based on EU regulatory norms and the *acquis*” (Youngs, 2007b: 2) and the widening of the Energy Charter Treaty’s

sphere of influence are part of EU's external energy policy. For a complete energy policy then, in the external dimension, the Energy Charter due to its requirements concerning "rule of law and the role of governments" is an important means especially with regards to FDI's in the sector of energy (Youngs, 2007b:2). As the Commissioner Benita Ferrero-Waldner (2006: 139-142) indicates, good governance, respect for human rights and other market norms aligned with the European ones, they all "improve conditions for EU investment in producer states".

In fact, in order to achieve energy security in terms of uninterrupted supplies with affordable prices and also in terms of environmentally safe production as well as transit of oil and gas, the European Union does not only rely on market powers, it also wants to extend to its periphery, its rules-based principles through "enhanced legal frameworks" controlling market regulations and safety, environment standards. Policy makers stress that an international energy regime with common rules and norms would also be helpful in controlling rising demand in countries like China and India and would secure to a certain extent future supplies as these countries would be included into the same system and they would acquire same energy policies, active demand management being a crucial one (Youngs, 2007b: 5).

Consequently, today energy security requires more than simple supply diversification policies and market liberalization. Since energy market consists of a complex and global connection of several actors as producer, consumer or transit countries, "a wider approach is now required that takes into account the rapid evolution of the global energy trade, supply-chain vulnerabilities, terrorism, and the integration of major new economies into the world market" (Yergin, 2006: 70). States still consider energy security as a part of their responsibility and in many of

them oil and gas extraction as well as transit infrastructures are controlled by national governments through state companies. Therefore, “this wider approach” becomes heavily controlled by national interests and instead of market’s invisible hand, diplomatic negotiations determine the agenda (Geden et al, 2006: 10).

Taking all of these facts into account, the Commission indicates that European dependence in external supplies can be managed through the development of an energy community in the periphery of Europe including neighbors and major energy partners. Scholars agree with this “regional” strategy since the Union’s integrated structure, the existence of a common currency, namely Euro, common interest in energy security and common concern for Russia’s non aligned policies offer EU a potential realize it. This refers to a “pan-European geo-energy space” which stands for the voluntary integration of trade partners in energy, accepting common multilateral rules (Mane-Estrada, 2006: 3780, 3781, 3785).

It is clear that while the Union finds the expansion of its internal market rules as a feasible option, it cannot neglect that some Member States feel the need to override this unity and conclude bilateral agreements due to geopolitical conditions in certain regions which are crucial for energy extraction, yet which are not appropriate for market liberalization. This dilemma leads to an inconsistency in external energy policy. For a better understanding of the puzzle a theoretical analysis would be clearer.

In the literature, two approaches outstand in the analysis of the EU’s external policy which floats between “market” and “geopolitics” while trying to create an international energy system: *Markets and Institutions (M&I)* and *Regions and Empires (R&E)*. Both frameworks are based on the fact that consumer states

are reliant on oil and gas supplies of producer states. However, they evolve towards diverging directions in terms of “the extent to which states or markets are seen as the main device for coordinating industrial – and state- behavior with respect to supply and demand in the oil and gas sector” (CIEP, 2004: 85). M&I basically refers to the “continuation and intensification of internationalization of markets (globalization) and the continued co-operation in the international political and economic institutions” with multilateralism that is supposed to regulate international relations. Differently, R&E refers to “the break-up of the world in integrated political and economic blocks with satellite regions that compete for markets and resources with other blocks” (CIEP, 2004: 84).

In *Market and Institutions* (M&I) international system and global markets are further “internationalized”, multilateral relations become further integrated and multilateral rules are strengthened. M&I approach follows the assumption that the globalization of markets and globalization of social, cultural and economic values continuously deepen. The approach puts forward an expectation that political and economic institutions at the international level cooperate with each other (Correlje and Linde, 2006: 533,535). In that respect, “further liberalization of markets allows the international flow of goods, persons and capital to grow and these flows are coordinated by market forces, facilitated by strong economic institutions” such as WTO, OPEC, IMF, EU and NAFTA (CIEP, 2004: 95). M&I approach pointing at social, economic and cultural integration of countries evokes tenets of neo-liberalism and the Joseph Nye’s arguments about international regimes (CIEP, 2004: 84, 88). M&I offers a framework in which “ideology, religion, and political conflicts continue to occur at the international, the national or regional level, but effective international and regional institutions (UN, EU) manage to deal with

most of these conflicts” (CIEP, 2004: 95). This implies that, for this approach, the international institutions does not only facilitate and regulate market forces, but also intervene into cases of terrorism, international crimes as well as social and political unrest which endanger proper functioning of free market, cases of peacemaking or of development activities (CIEP, 2004: 95).

The logic put forward with arguments related to “the Market” approach is that when oil or gas become commodities of international market, traded by international or national companies, with prices determined by supply and demand balance driven by solely economic considerations, than to some extent, the security of supply would be automatically achieved through the market’s own dynamics (CIEP, 2004: 86). For example, referring to the case of oil, Marcel and Mitchell indicate that: “The crucial requisite for energy security is to get the oil on the market and to prevent any disruptions to supply. In terms of the energy security of importing states, it is irrelevant who sells the oil and who buys it. Oil is a global commodity and the price is not set in Baghdad” (Marcel and Mitchell, 2003: 2).

Within the *Markets and Institutions* framework, the external energy policy targets the creation of an energy market independent from arbitrary interventions of producer states. The idea is that competitive international energy market governed by international law can assure cooperation between exporter, importer and transit countries and can eventually bring global energy security. Energy Charter is one example for the efforts to achieve this multilateral framework. However, it should not be neglected that with M&I approach private energy companies acquire greater power in energy sector. Critics argue that this power serves to transform oil and gas extracting states into “shareholders” and transfers “the surplus from the producer states to the private companies of the sector”

(Mane-Estrada, 2006: 3776; Mommer, 2000: 23). This means that strategies, alliances, interests and missions of oil and gas companies will be crucially important for consumers. In other words The European Union's dependence will shift towards international energy companies and its energy security strategy will be vulnerable to alliances, power struggles and competition between "the great European trans-nationals" such as TotalFinaElf, Royal Dutch/Shell and their rivals in Russia or USA (Mane-Estrada, 2006: 3776).

The *Markets and Institutions* approach would help the Union to secure necessary oil and gas supply, since the strengthening of multilateral market structure would facilitate energy trade with major suppliers, especially with Russia, of course only if the approach is mutually adopted (Correlje and Linde, 2006: 535).

In the international arena, reciprocity is not only relevant to bilateral agreements. For a system to work properly the "values" of the system have to be accepted on the basis of reciprocity. Hence, the acceptance of norm-based market governance by energy producing states is crucially important for Europe, if its external energy policy will evolve around market approach. In terms of its identifying characteristics such as democracy, human rights or rule of law, EU has been trying to influence its worldwide partners and have been successful to some extent. Nevertheless, in terms of its energy policy which favors an environment open for free trade and free flow of foreign direct investments throughout the world, EU faces a resistance by producer countries to "import" its market-driven norms (Youngs, 2007b: 8).

The case with Gulf Cooperation Council made up of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates is one of the examples. The free trade area talks between Europe and GCC are far from conclusion since these

countries reject EU's pressure for market based norms. These countries argue that EU is "exporting its own model of regional integration", which is initiated first by economic integration, "without recognizing that intra-regional dynamics are quite different within the GCC" (Youngs, 2007b: 9). GCC countries indicate their need in a "broader strategic partnership" rather than simple free trade agreements and they desire energy cooperation with EU, which could balance US' influence over the region and over Arab-Israeli conflict. This means that in producer states where a geostrategic approach is clearly needed, the Union shows limited interest in political factors (Youngs, 2007b: 9).

On the contrary to M&I approach which focuses on the advantages of economic interdependence and of international energy market, the EU also includes energy ministries where policy makers argue that decreasing external energy dependency is the only way to achieve energy security. This indicates that according to some member states, energy security is still perceived as "a state-led responsibility both within and beyond Europe". These members argue that rather than relying on market mechanisms to fix the balance between demand and supply, the increase of production in supplier states seem to be a more plausible option for future energy security (Youngs, 2007b: 8).

Consequently, when the expansion of EU's internal energy market norms seems to be unsuccessful it is a fact that EU member states direct themselves immediately to bilateral agreements. Algeria is the case in point. When Algeria declared its unwillingness to accept market governance norms included in Neighborhood action plan, Spain asked from Algeria a preferential treatment and a bilateral energy partnership for being more advantageous than other European consumer states in terms of energy supplies. France also is another EU country

which has been relying on bilateral deals with Algeria. This indicates that some members “undermine both values based foreign policy and the European unity” for their own energy strategies. (Youngs, 2007a: 1 and 2007b: 9). The EU Members’ need in bilateral energy agreements for securing current and future supplies and the producers’ rejection of EU’s market norms and their declared need in deeper, more strategic energy cooperation indicate that European External Energy Policy cannot fully evolve around market principles and needs geopolitical dimensions to achieve the target of energy security. When geopolitics comes into the picture *Regions and Empires* approach also steps in.

In *Regions and Empires* (R&E), as opposed to the “international integration”, the international system is divided up in different groups of countries which compete with each other to dominate the system and to guarantee the access and control of energy resources and international markets. The assumption of this approach is that “ideology, religion and political arguments” constitute socially, culturally and economically separated blocks of countries and regions. “Political and military strategy, bilateralism and regionalism divide the world up into competing US, EU, Russian and Asian spheres of influence”, with satellite countries (CIEP, 2004: 91; Correlje and Linde, 2006: 533, 536). In such a system security concerns dominate the countries’ agenda, economic integration in the international arena remains limited and since one cannot talk about a world market for oil and gas, agreements and treaties are concluded bilaterally, which further deepens the disparity between “regions” (CIEP, 2004: 91).

R&E approach evokes tenet of “regionalism” and with its emphasis on world politics determined by power capabilities of states belonging to different blocks and competing with each other, it reminds Waltz’s neo-realism (CIEP, 2004:



84). In the energy version of the “neorealist state security centered competition for power” (CIEP, 2004:88) the power becomes directly linked to the access to oil and gas reserves. Given that proven oil and gas reserves are disproportionately located and concentrate in the Persian Gulf, Russia and the Caspian Sea, in future, major energy importers such as EU, Japan and the US will continue to rely on the same oil and gas sources. This will intensify the rivalry between different block of countries (Correlje and Linde, 2006: 533).

For *Regions and Empires* framework, economic integration is required to be accompanied with a strong political integration of countries belonging to the same “block” which would refer to a complete harmonization of foreign and security policies. As the study of different preferences of Member States indicated, for the external dimension of European Energy Policy, the major handicap is the European Union’s inability to stand with a single voice. For energy policies, since the Union’s integration remain mainly in the economic domain, than it would be appropriate to state that the EU seems to be closer to *Markets and Institutions* approach (CIEP, 2004: 89).

M&I approach requires mutual consent of countries which agree in operating with common rules of international market. However, in some countries especially in the Middle East dissatisfaction with the international economic and political order as well as rejection of integration with the world system are among outstanding features. In terms of energy supplies while some of these countries such as Iran and Iraq with their actual and potential reserves constitute important part of energy trade it is a significant fact that “war on terrorism” in that region highly constrains “the movement of goods, people and investments – or is causing a lack of trust, required to move – and inhibits the economic development and

integration of countries and regions into the world market” (CIEP, 2004: 90). When this regional instability is combined with these countries’ unwillingness to integrate with the world system, such countries remain simply as oil and gas suppliers (CIEP, 2004: 90).

When market-based norms and the target of international free energy market as part of external energy policy is mentioned, EU is subject to critics arguing that its external energy security strategy is “apolitical”. Yet in its reports on external energy policy, the Commission indicates the need to combine cooperation in energy with EU’s other foreign policy objectives including non-proliferation, promotion of human rights, and conflict resolution and prevention (Youngs, 2007b: 11). Nevertheless, in practice, Member States’ struggle to secure their own national interest in energy supplies overshadows these objectives. Javier Solana, in his speech at the EU Energy Conference in 2006 pointed to the fact that major oil and gas reserves are situated in “unstable and often undemocratic parts of the world” and highlighted that while coping with these regimes some countries would “put their energy needs above everything else” since “the scramble for energy risks becomes pretty unprincipled” (Solana, 2006: 1-2).

The unprincipled external energy policy has its setbacks. The policy of “just keep buying the oil” only serves to guarantee short term supplies and it further endangers future energy security since it gives instable producer countries the impression that they could override international norms as long as they have the privilege of being a resource rich country that the “First World Countries” depend on. Consequently, investors complaining about corruption of producer states, democratically illegitimate producer countries blocking foreign investments to increase their popular support or producers which totally override human rights

simply add new challenges ahead Europe and also jeopardize current progress concerning investments flowing into producer states to increase oil and gas production capacity, with the reason that the absence of rule of law and “social inclusiveness” is not compatible with an investment friendly country (Youngs, 2007a: 2).

In the previous section on “energy security” it is already mentioned that supply security is highly dependent on quality and efficiency of extraction as well as transportation infrastructure, on the political motivations of producer countries which may use oil and gas as a leverage, on market dynamics which may lead to sudden price increases, and on economic and political instabilities and failures of producer states. This implies that the EU’s energy supply security cannot be separated from geopolitical dynamics in producer and transit regions. In other words, “the socio-economic and political context of the system of energy supply has an impact in the degree to which oil or gas can be made available in sufficient quantities and at affordable prices” (CIEP, 2004: 84). Accordingly, from terrorism to failed states or to economic and political disruptions which endanger oil and gas supply constitute “geopolitical risks” for the energy security of Europe (CIEP, 2004: 84). Hence, to be an effective one, European energy policy’s external dimension requires the inclusion of policies not only trying to guide international energy markets but also addressing geopolitical factors.

The Members’ diverging views over the internal market directly affect EU’s external energy strategy, some member states still doubt about the potential benefits of a common policy whereas others argue that efforts to secure energy supply should not undermine democracy and human rights. While a conclusion cannot be reached about whether the internal free market rules are to be expanded to

the international arena or whether energy policy should be included into the Union's foreign policy with its political dimensions, Europe's external policy remains limited with "apolitical, technical energy cooperation" or bilateral deals (Youngs, 2007b: 15).

With the perspective of M&I approach, the Union "should create a climate that invites market participants to invest in efficient measures of security of supply, consistent with their economic interests". On the other hand, with the perspective of *Regions and Empires*, increasing dependence on oil and gas imports would lead to polarization among "empires" and the issue of supply security would become more politicized causing national and EU level authorities to include energy security in the domain of foreign and security policy (Correlje and Linde, 2006:537). This would affect producer states position as well. To illustrate, with the implementation of M&I approach, EU market and Russian market would interact more, while with R&E, Russia would create its sphere of influence (Correlje and Linde, 2006: 536)

To sum up, it is possible to state that The EU's external energy policy remains in between market and geopolitics. The need to incorporate geopolitical aspects by focusing on political governance of producer states cannot be denied as the examples mentioned above indicate. In the long term, "backing friendly autocrats", just for the sake of supporting international market, does not promise the optimization of energy security (Youngs, 2007b: 15). Therefore, the European Union has to combine the two in order to overcome the dilemma between market and geopolitics, as both free market and politics are determinants of energy security. Thus, the best way for EU to complete its external energy policy is to

determine a strategy “that extends market principles within the scope of strategic agreements that also work to further political modernization” (Youngs, 2007a: 3).

To conclude, EU’ external policy belongs to none of the two approaches entirely. In Green Paper 2006 it does refer to the development of a pan-European Energy Community but, this community remains limited with market regulations, financing instruments, necessary infrastructures and networks and does not refer to concrete “blocks” as mentioned in the Regions and Empires approach. However, over-reliance on market principles either does not satisfy the members, since the exporting partners’ geopolitical conditions cannot be separated from hard security considerations and from political principles. As mentioned previously, this does not necessarily mean that the Union’s policy makers in energy issues have to decide on one of the approaches referring to the market or the geopolitics. Rather, the Union can only achieve a successful and credible external energy policy by inventing its *sui generis* roadmap.

## **2.5. Conclusion**

This chapter focused on the fundamentals of European Energy Policy. It started by defining European Energy Policy on basis of three main objectives officially declared by the Commission: sustainability, competitiveness and security of supply. In line with the analysis of each objective, the inseparable and complementary nature of this “trinity” led the chapter to reach to the fact that supply security constituted the fundamental concern for the very reason to create a European level energy policy, due to the EU’s increasing dependency to imports

supplied from unstable regions. This analysis led to a detailed study of energy security with different perspectives from the side of both producers and consumers, with a special emphasis on European perspective to offer a clear understanding of what the European Energy Policy targets as “secure supplies” and which problems it has to avoid.

Following the analysis of the concept of energy security, the chapter presented the historical evolution of European Energy Policy with internal and external developments, putting a special emphasis on European Energy Charter and official EU documents, namely the Green Papers and Strategic Energy Reviews. In this respect, this section concluded that each document added a new dimension to European Energy Policy by focusing on specific issues concerning renewable sources, import dependency, infrastructures or diversification policies with regards to suppliers and transit routes. Nevertheless, despite these serious efforts, some factors prevented the EU members to reach a common, synchronized European-level energy policy. Accordingly, the chapter continued with the study of factors which hindered the achievement of European Energy Policy.

As a conclusion, this chapter reveals that on principle, European Energy Policy is identified with its basic objectives and with its internal and external policies needed for Europe to reach these targets. Nevertheless, in practice, the member states’ different preferences, changing patterns of energy demands and their diverging support for representing a “single voice” in the international arena for the issues concerning energy security directly affect the institutionalization of European level energy policies.

Moreover, European Energy Policy cannot be isolated from actors other than the EU members, namely producer and transit countries, due to the Union’s

energy dependency. However, in most of the producer regions especially in the Middle East and Central Asia, political and economic instabilities prevent the EU to rely only on simple market principles based on liberalization, competitive prices and joint investments. This further complicates the task of the Union since at some point energy supply security deviates from simple supply-demand balance and acquires a political dimension. As a result, the external dimension of European Energy Policy offers new puzzles which require different solutions for different suppliers.

## **CHAPTER 3**

### **EXTERNAL DIMENSION OF EUROPEAN ENERGY POLICY**

European Energy Policy is a puzzle, with every piece being significant and meaningful. Just like a puzzle would be meaningless if one piece is missing, European Energy Policy as well would be incomplete if it neglected one aspect of energy issues. In that respect, from internal demand management to new technologies concerning renewable energy forms every single energy policy, being equally important, serves to the objectives of sustainability, competitiveness and security of supply. Moreover, their success depends on concrete achievements in each dimension of this trinity. One cannot talk about security of supply if current policies are not compatible with sustainability, since with inefficient consumption trends damaging the environment, reserves would be depleted and future supply security would be unachievable. Similarly, the absence of competitiveness factor would eliminate affordable access to energy, which would again hinder the efficiency of supply security efforts.



As these remarks indicate, internal and external energy policies cannot be separated from each other due to their complementary nature. However, as regards to the scope of this research which is targeted to study the EU and Turkey relationship in the context of energy and to the implications of Turkey's special position as an energy bridge on its membership, energy supply security and EU's external efforts to this end, require special interest. As security of supply is previously studied, this chapter is specifically dedicated to external dimension of European Energy Policy.

High import dependency trends highlight that the Union is in urgent need for a common approach to external energy policy which would shape relations and partnerships of Europe with global energy actors being consumers, producers, transit countries or major companies (European Council, 2007: 19). As the energy issue is a multi-dimensional one touching upon a wide range of spheres from politics to economics and as the policies appeal to several actors, it is crucial for Europe to develop an external energy policy which is:

coherent (backed up by all Union policies, the Member States and industry), strategic (fully recognizing the geo-political dimensions of energy-related security issues) and focused (geared towards initiatives where Union-level action can have a clear impact in furthering its interests). It must also be consistent with the EU's broader foreign policy objectives such as conflict prevention and resolution, non-proliferation and promoting human rights (European Commission, 2006a: 3).

Accordingly, the following sections examine what the Union puts forward as external energy policy with its Green Papers and Strategic Energy Reviews and they portray the EU's relationship with its major energy partners for guaranteeing its energy supply security.

### **3.1. Europe's External Energy Policies**

Global action on climate change, international trade, competitive international markets, political relations among countries, development efforts, they all include a reference point to energy and to the interdependent character of energy relations among countries. Therefore, the European Union in “its trade policy and agreements, its bilateral partnerships, cooperation and association agreements and political dialogues”, puts a great emphasis on energy issues (European Commission, 2008: 7).

Moreover, concerning its ambitious goals about sustainability, renewable resources and fight against climate change the EU is aware that the efforts of its 27 members have to be combined with the cooperation of other consumer states, developing countries or producer states in order to obtain effective outcomes. This cooperation is crucially important since in the future EU is projected to consume only “less than 10% of the world's energy” and to “account for only 15% of new CO<sub>2</sub> emissions”. Accordingly, the EU pursues the goal of creating an external energy policy based on “interdependence, cooperation and mutual trust” with its international partners and it targets to expand both the content and the geographical scope of its policies not only for its own energy security, but also for global supply security and sustainability (European Commission, 2007: 18).

In fact, the external energy policy of Europe does not only refer to supply security and to relations with major producer and transit countries. The integration of energy policies other than supply security also dominates the agenda of EU with regards to political relations with global partners. Accordingly, “climate change, energy efficiency, renewable resources, development of new technologies” and

investment for clean and sustainable energy production are also constituents of EU's external policy. In that respect, the EU encourages bilateral and multilateral cooperation and aims to widen its internal policy arrangements concerning especially CO<sub>2</sub> emissions and energy efficiency so as to encompass more countries being party to international cooperation arenas such as UN, IEA and G8 (European Commission, 2006b: 17). Additionally, nuclear safety and security standards, combination of sustainable and affordable energy policies with development goals especially in Africa (European Commission, 2002) and lastly, strategic partnerships with key countries such as Brazil on alternative energy sources notably biofuels also are issue areas that the European Union encourages cooperation.

While the European Union, as a consumer, is in need of diversity of supply sources and transit routes and of greater predictability in the international oil and gas markets, the producer countries are in need of greater security of demand to guarantee the revenues of their investments. This necessity of the deepening of mutual trust between consumer, transit and producer countries can be assured through long term legally binding agreements that can also assure the convenient environment for capital-intensive investments in the extraction and transportation of resources (European Commission, 2008: 7).

However, before the assurance of international "mutual trust", as a first step for an effective external energy policy, the Commission indicates the importance of the progress in the integration of internal market and deepening of internal energy policies, since this internal coherence between member states would be reflected to international arena as Europe speaking "with the same voice" and increase EU's credibility (European Commission, 2006b: 14). The

Commission approves “the legitimate right of individual Member States to pursue their own external relations for ensuring security of energy supplies and to choose their internal energy mix” (European Commission, 2006a: 1), however, it does not give up emphasizing that only collective, EU-level policies can assure external energy security for the whole Europe. In that respect, “An External Policy to Serve Europe’s Energy Interests” launched by the Commission, discusses how the energy security could be inserted into Europe’s wider external relations including CFSP. The conclusion is that again the “fully developed internal policy is a precondition for delivering the EU’s external energy interests (European Commission, 2006a: 1).

The Commission also proposes several objectives so as to guide and shape Europe’s external energy policy. Promotion of improved governance and transparency, improvement of production and transportation infrastructures, better relations with third countries to promote necessary environment for European companies to invest in energy activities, promotion of energy efficiency, diversification of suppliers and energy products, encouragement of joint stock holding with energy partners are all among targets for secure access to sustainable and competitive energy now and in the future (European Commission, 2006a: 2).

In the study of external energy policies of Europe as part of its common Energy Policy, it is possible to classify these policies under three major strategies. The first one is the extension of internal energy policies and internal energy market to the international arena, which is also based on the integration of energy into broader external relations, which would eventually end up with a pan-European Energy Community. Dialogue with third parties constitutes the second one. Policies under this group refer to the international agreements and energy

partnerships with energy supplier and transit countries as well as consumer countries with growing dependence on energy imports due to increasing consumption. Finally, diversification is the last major strategy as it basically indicates the strengthening of existing infrastructures and construction of new ones for alternative energy supplies. It can be argued that, while international dialogues appeal to the political dimension of diversification in producer and transit countries, adequate infrastructures complete the material side of it. Below, these policies will be studied with further clarifications.

As the Green Paper 2006 (European Commission, 2006b: 16) puts forward, as part of its external energy policy, “the EU has for some time been engaged in widening its energy market to include its neighbors and to bring them progressively closer to the EU’s internal market”. With this strategy, the Union targets to achieve supply security, economic growth, increased investments and predictable oil and gas markets through the acceptance of “common regulatory space” in other words “common trade, transit and environment rules” between the Member States and EU neighboring countries, which would lead to a “pan-European Energy Community”. In that respect, European Neighborhood Policy, Partnership and Cooperation Agreements and Association Agreements with strategic energy partners are some of the major tools of EU (European Commission, 2006b: 16).

The extension of EU’s own internal market to its neighbors and partners is the strategy that the policy makers are trying to pursue with the argument that only well functioning international market can assure affordable oil and gas supplies and encourage new investments (European Commission, 2006a: 2). As previous section on “market vs. geopolitics” indicated, the extension of EU’s internal

market refers to the extension of common trade, transit and environment rules through bilateral and multilateral agreements. This also means “reciprocal liberalization of trading conditions and investment in upstream and downstream markets and... grant of access to pipelines by countries situated along transit and transport chains” (European Commission, 2007: 19). Consequently, it is possible to observe that the principle of extension of shared trade rules and norms constitutes one of the basic elements of EU’s energy security strategy as it definitely shapes EU’s dialogue efforts with producer countries.

Referring to shared principles and norms, then, international agreements further increase EU’s coherence with the rest of the world. In that respect deepening the dialogue and relations with major energy producers, transit countries, neighbors and with other major consumers such as China, USA and India is another central external energy policy both for EU’s energy security and for global energy security.

Commission’s communication to the European Council and European Parliament “An Energy Policy for Europe” and Second Strategic Energy Review clearly indicate that in addition to international agreements such as Energy Charter Treaty or multilateral initiatives under WTO or World Bank, the Union concludes also Memoranda of Understanding on energy with several countries so as to maximize geographical diversification of energy supplies and transits. The agreements especially with producer countries emphasize energy interdependence and note that successful provisions rely on the equilibrium between demand security for producers and supply security for consumers. Encouragement of upstream investment, development of conditions for market access, for reciprocal market liberalization and policy developments, transit agreements for

uninterrupted flows of energy even during times of political tension and dispute settlement mechanisms, all constitute instruments of supply security policies achieved through successful dialogues with international partners (European Commission, 2007: 24 and 2008: 8).

Concerning the dialogue with the third parties European Neighbourhood Policy as well is a significant tool for EU in that most of its neighbors are either producers or transit countries. Hence, energy is a strategic component of ENP. In the European Neighbourhood Policy Strategy Paper, the Commission (2004: 17) indicates that “Enhancing our strategic energy partnership with neighbouring countries is a major element of the European Neighbourhood Policy”. Hence, in order to increase energy cooperation with EU neighbouring countries which are key players in the energy supply security as suppliers (such as Southern Caucasus countries, Algeria, Egypt and Libya) or as transit countries (Ukraine, Belarus, Morocco and Tunisia), ENP is a way to institutionalize external energy dialogues. In this context, energy cooperation covers a multitude of issues such as improvement of energy networks, legal and regulatory convergence of energy markets and energy policies, promotion of energy efficiency, encouragement of new technologies concerning renewable resources and mutual business opportunities. To achieve concrete progress in the energy cooperation the EU launches Action Plans<sup>2</sup> which “build on existing bilateral or regional initiatives, such as the EU-Russia Energy Dialogue, the Tacis-funded Inogate programme dealing with the Caspian basin (oil and gas pipeline systems)” or Euro-Mediterranean partnership (European Commission, 2004: 17-18).

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<sup>2</sup> For every country included in the ENP (Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, Occupied Palestinian Territory, Tunisia and Ukraine) an Action Plan is prepared. Each of Action Plans make reference to energy, convergence of energy policies and energy networks.

Similarly, Energy Community Treaty acts as a regional instrument for an integrated energy market with the Balkan states (Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Serbia and the United Nations Interim Administration Mission in Kosovo) and the extension of treaty to other neighbours such as Moldova, Norway, Turkey and Ukraine wait on the agenda of policy makers (European Commission, 2007: 24; European Council, 2006).

Promotion of necessary infrastructure to the Union's energy needs, together with broader diversification efforts, is another policy for external energy security identified within EU Energy Security and Solidarity Action Plan. Strengthening of existing infrastructure and investment in new ones is crucially important for both internal and external dimensions of energy security as the material access to oil and gas depend merely on the pipelines (European Commission, 2008: 6). Then, the extension of Trans-European Energy Networks and further promotion of new investments especially for the transportation of oil and gas to Europe is included to the process of developing previously mentioned pan-European Energy Community. This requires efficient usage of financial instruments through European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), Neighbourhood Investment Fund, twinning programs and loan subsidies for the encouragement and realization of strategically significant energy projects (European Commission, 2006b: 16; European Commission, 2007:25).

Second Strategic Energy Review offers suggestions concerning some of these significant energy projects which would contribute to the efforts of supply security. The construction of pipelines and the development of legal commitments concerning gas supplies with countries such as Azerbaijan, Turkmenistan and Iraq,



the development of a southern gas corridor carrying gas from Caspian and Middle East regions are among examples. These projects also include transit gas pipelines and urge the EU to engage in dialogues and agreements with transit countries, notably Turkey. Another illustration for the infrastructure projects is the Commission's emphasis on the completion of the "Mediterranean energy ring" which will not only diversify the Union's energy sources away from Iraq, Middle East or Sub-Saharan Africa through the connection of Europe with Southern Mediterranean, but also will "develop the region's vast solar and wind energy potential" by realizing projects "adopted by the December 2007 Euromed Energy Ministerial meeting and the Mediterranean Solar Plan adopted in Paris in July 2008" (European Commission, 2008: 5).

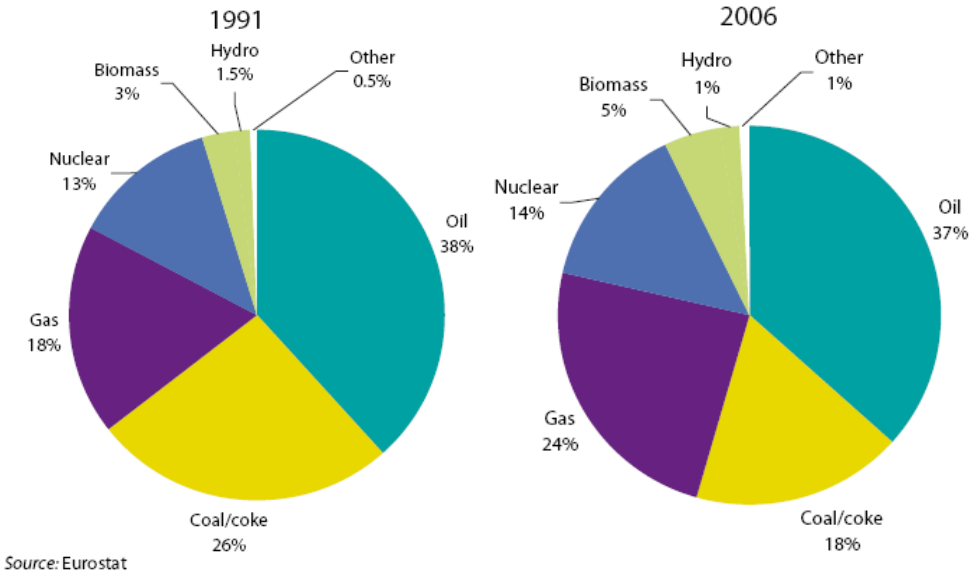
These new infrastructure projects and dialogues at the international level overall contribute to the diversification of energy sources, geographical origins and transit routes of imported oil and gas and enhance the Union's energy security. Still, the success of external energy policies highly depends on the attitudes and perceptions of the Union's energy trade partners. The following section touches upon the European Union's relations with its major energy partners.

### **3.2. Relations With Major Energy Producers**

In European Union's energy mix oil, natural gas and coal constitute the top three energy sources. The EU's internal energy policies concerning the usage of nuclear power and the increase of renewable resources within the energy mix would no doubt change the relative percentages of different sources. Especially,

the 20/20 Package offered with “An Energy Policy for Europe” which sets the target of 20% renewable resources within the EU’s overall energy mix by 2020, generates hope about a decrease in the dependency to oil and natural gas. Nevertheless, current policies and national preferences of separate Member States indicate that a radical change in favor of alternative energy resources is not feasible in the near future.

The Figure below illustrates the difference between the years 1991 and 2006, in the share of different fuels within the Union’s energy consumption (Eurostat, 2009c: 21).



**Figure 2: Gross Inland Consumption Shares by Type of Fuel, in EU-27**

The Figure indicates that throughout the years, oil remains as the major energy source of the Union. However, despite slight changes in the hydro, biomass and nuclear types of energy, the significant variations occur concerning the consumption of coal and natural gas, with the coal representing a decrease of 8% and natural gas representing an increase of 6%. Especially, the differences namely

the increase in the percentage of natural gas and the unaffected leadership of oil consumption with 37% represent significant implications. By the same data offered by Eurostat (2009b: 11), it is interesting to find out that the share of the net energy imports within the Gross Inland Consumption being 46% in 1991 jumps to 55% in 2006. In line with this information, statistics indicate that in 2006, the Union's import dependency for natural gas and oil are respectively 60.8% and 83.7% (Directorate General for Energy and Transport, 2009: 30). This dependency is projected to rise to 84% for natural gas and 93% for oil in the year 2030 (European Commission, 2007: 26).

The Union's relatively high consumption of natural gas and oil, the significant share of net imports within the consumed energy, and consequently high import dependency in oil and natural gas to external resources, locate the relations with energy exporting states at the center of common European Energy Policy. With its limited oil and gas production and increasing need to consume, EU naturally seeks to increase cooperation and favorable trade terms with energy producers.

The European Union is not equally dependent on every external energy supplier. In line with the volume of trade, for oil and natural gas different producer countries outstand as EU's major trade partners in energy. The identification of these major partners represents a critical reference point for the development of an external energy policy, since the decisions of these producers over their own energy policies or their domestic political and economic dynamics have a direct effect on the flow of oil and gas to Europe.

Concerning the oil imports, the table below demonstrates both the amount and origin of imported oil starting from 2000 to 2006. Russia, Norway, Libya,

Saudi Arabia and Iran outstand as the five major oil exporters to EU. While Russia, with a share of 33.5% is separated from other exporters, relatively smaller percentages of Kazakhstan, Nigeria and other Middle Eastern partners indicate examples of the EU's effort for diversification of energy suppliers. Still, regarding the data below, one cannot refer to a strict diversification policy, because while the dependence to a single producer that is Russia rises due to Russian oil imports steadily increasing from 112.4 to 189.0 million tones, alternative sources coming from other major partners namely, Norway and Saudi Arabia represent a constant decrease.

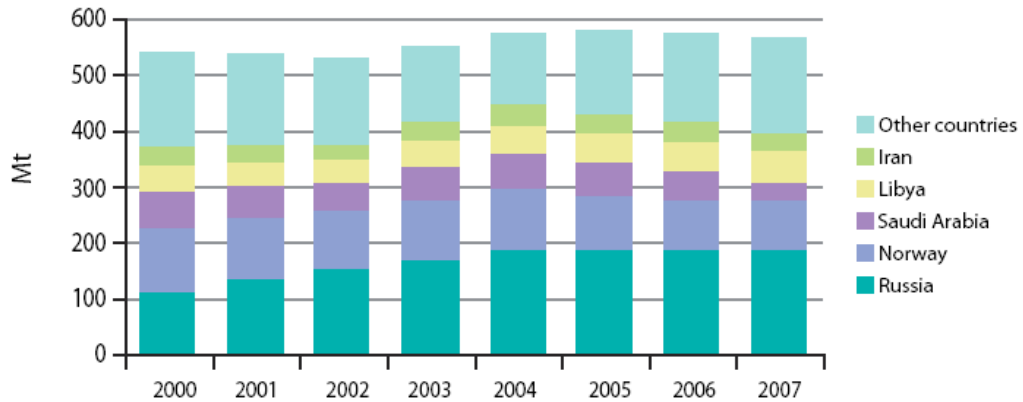
**Table 1: Crude Oil Imports into the European Union**

Crude Oil Imports into the EU-27 (in Mio tonnes)								SHARE 2006 (%)
ORIGIN	2000	2001	2002	2003	2004	2005	2006	
Russia	112.4	136.8	154.7	170.8	188.9	188.0	189.0	33.5
Norway	115.9	108.1	103.1	106.4	108.6	97.5	89.1	15.8
Libya	45.5	43.8	39.2	45.9	50.0	50.6	53.2	9.4
Saudi Arabia	65.1	57.5	53.1	61.5	64.5	60.7	50.9	9.0
Iran	35.5	31.4	25.9	34.7	35.9	35.4	36.4	6.4
Other, Middle East	54.7	48.3	43.2	27.8	28.5	30.0	32.1	5.7
Kazakhstan	9.9	9.1	13.4	15.9	22.2	26.4	26.8	4.8
Nigeria	22.4	25.7	18.4	23.2	14.9	18.6	20.2	3.6
Other Origin	54.3	54.3	64.2	56.5	56.1	66.1	66.9	11.8
<b>Total Imports</b>	<b>515.8</b>	<b>514.9</b>	<b>515.3</b>	<b>542.9</b>	<b>569.5</b>	<b>573.3</b>	<b>564.6</b>	<b>100.0</b>
In Million barrels	3 765	3 759	3 761	3 963	4 158	4 185	4 121	

Source: Directorate General for Energy and Transport, 2009: 31

The graph below further helps to the configuration of relative weights of oil exporters in the Union's oil import profile. Extending the time period from 2006 to 2007, Figure 3 demonstrates the reduction in the crude oil imports from Saudi

Arabia (-39%) and from Norway ( -27 %). While minor increases emerge in total oil import, the 65% rise in the share of Russia highlights the country’s critical position for European Energy Policy. The case of Libya requires attention too, in that with the increase of imports by 22%, starting in 2006, it overshadows Saudi Arabia in exporting oil to Europe.



**Figure 3: Imports of Crude Oil by Country of Origin**

Source: Eurostat, 2009b: 33

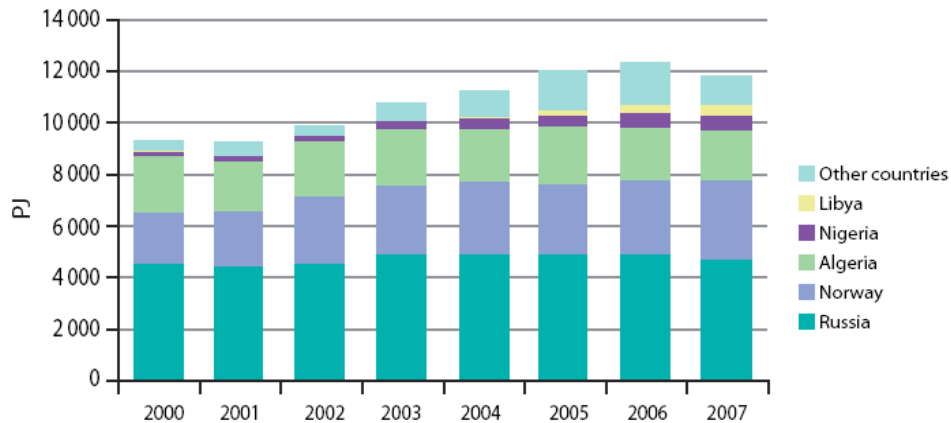
For the natural gas imports as well, Russia and Norway are the major trade partners of the EU with their shares in the imports being 42% and 24.2% respectively. 18.2% of gas imports come from Algeria which outstands as the Union’s third major oil exporter. Although its share within the overall imports is small (2.7%), imports from Libya display a considerable escalation in 2005. Similarly, by the year 2005, Egypt (2.7%) gets involved into natural gas trade with EU. In that respect, Egypt, Libya, Nigeria and Qatar with its little but constantly increasing amounts of natural gas exports to EU, represent EU’s search for alternative natural gas suppliers.

**Table 2: Natural Gas Imports into the European Union**

Gas Imports into the EU-27 (in TJ, terajoules)								SHARE 2006 (%)
ORIGIN	2000	2001	2002	2003	2004	2005	2006	
Russia	4 539 709	4 421 515	4 554 744	4 895 252	4 951 044	4 952 879	4 927 552	42.0
Norway	1 985 231	2 136 379	2 601 569	2 699 473	2 801 723	2 671 779	2 844 269	24.2
Algeria	2 203 075	1 957 181	2 132 477	2 158 803	2 042 137	2 256 826	2 134 886	18.2
Nigeria	172 020	216 120	217 882	335 929	410 260	436 319	560 986	4.8
Libya	33 442	33 216	25 536	30 390	47 809	209 499	321 562	2.7
Egypt						202 419	317 420	2.7
Qatar	12 443	27 463	87 952	80 414	160 170	195 713	245 158	2.1
Trinidad and Tobago	36 334	24 498	19 120	1 365		29 673	154 244	1.3
Other Origin	112 810	199 256	125 425	100 023	313 245	409 387	223 232	1.9
<b>Total Imports</b>	<b>9 095 064</b>	<b>9 015 628</b>	<b>9 764 705</b>	<b>10 301 649</b>	<b>10 726 388</b>	<b>11 364 494</b>	<b>11 729 309</b>	<b>100</b>
In Mio Cubic meters	240 610	238 509	258 326	272 530	283 767	300 648	310 299	

Source: Directorate General for Energy and Transport, 2009: 31

Figure 4 better illustrates the inclusion of alternative partners into EU's natural gas imports. With the figure it is possible to observe the rise in natural gas of Nigeria, Libya and other countries which include Egypt and Qatar, within the energy mixture of Europe. Additionally it should also be noted that, unlike oil imports continuing at consistent amounts, for natural gas it is possible to observe an upward trend. This further underlines growing tendency towards natural gas consumption.



**Figure 4: Imports of Natural Gas by Country of Origin**

Source: Eurostat, 2009b: 33

In the light of different import amounts of oil and gas, and in the light of differing dependencies with regards to producer states, the EU shapes its external energy supply security strategies. In return, trade agreements, partnerships or dialogues for the enhancement of cooperation in energy security determine future profile of energy security.

### **3.2.1. Norway**

Norway is the second major natural gas and oil supplier to the European Union. It is not only a significant energy partner for Europe, but also within the world trade for oil and gas too it has a considerable contribution, since Norway is the “third largest exporter of natural gas and the sixth largest exporter of oil” (Energy Information Administration, 2009a: 1). June 1971 is the beginning of the production in the Norwegian continental shelf, and since then twenty billion barrels of oil have been extracted from the area (Market Observatory for Energy, 2009a: 2).

Norway differs from other energy suppliers to the Union because it is a member of European Economic Area. The legislation concerning EU’s internal energy market and related policy arrangements about competition law, environmental regulations, consumer rights and new technologies are already implemented by Norway (European Union Press Releases, 2009a). This leads to an intense trade partnership between Norway and the EU. Among trade items energy leaves other products such as agricultural products, machinery, chemicals, textiles and clothing way behind and within the imports of EU from Norway which values

92.036 millions of euro in 2008, 56.204 accounts for mineral fuels giving a share of 61.1% of total imports to energy products (Directorate General for Trade, 2009e). This creates a mutual dependence on the trade of energy products. Not only the EU needs Norway as a reliable oil and gas supplier but also Norway needs the EU since EU Members namely, Germany, United Kingdom, France, Belgium, Netherlands account for the majority of Norway's natural gas exports in 2008 (Energy Information Administration, 2009a: 5).

This high volume of trade in energy is the result of a bilateral energy dialogue between Norway and the EU which dates back to 2002. On 6 July 2005, by the Energy Commissioner Andris Piebalgs and the Norwegian Minister of Petroleum and Energy Thorhild Widvey this dialogue is agreed to be further strengthened. The coordination of energy policies, cooperation in the research and development of new technologies and collaboration in the relations with other energy exporting countries constitute the agenda of the EU-Norway Energy Dialogue (European Union Press Releases, 2009a). Accordingly, EU- Norway partnership is not limited to oil and gas trade. Norway "shares European Union objectives on climate change and sustainable development and it is particularly committed to the deployment of cost efficient carbon capture and storage technologies" (Market Observatory for Energy, 2009a: 2).

Norway and EU act together to further develop their partnership. The Commission as well emphasizes the potential of Norway in the maximization of Europe's energy security and suggests the promotion of common exploration projects in the Norwegian continental shelf and the promotion of alternative energy production such as offshore wind in the North Sea (European Commission, 2008: 7).



### 3.2.2. Africa

Concerning EU's dialogue with Africa, energy is incorporated within the development and governance issues. Poverty reduction projects and improvement of energy delivery systems to rural areas attracts the Union's interests and to this end, initiatives and aid funds are offered, The EU Initiative for Poverty Eradication and Sustainable Development launched in 2002 being one example (Youngs, 2007b: 4).

In the region, the EU policy makers associate the Union's energy interests with broader political and security considerations. Still, due to high instability in the region, EU's efforts remain insufficient in the implementation of development projects. To illustrate despite being the fourth major natural gas supplier of the EU, Nigeria remained as the Africa's "most under-funded state" since corruption and lack of transparency hindered investment efforts. Instead of rule of law, oil contracts and government positions were used as political means to "buy off" militants (Youngs, 2007b: 14).

Nevertheless, Africa, more specifically North Africa has a significant potential not only in hydrocarbons but also in renewable energy sources. Despite the inconvenient conditions for investments, secure extraction and transportation of resources, Algeria, Egypt, Libya and Nigeria outstand as important suppliers after Russia and Norway, especially in natural gas imports. Projects such as the Trans-Sahara Gas Pipeline offer opportunities for alternatives routes to Europe. Hence, the intensification of the dialogue with these suppliers is crucially important for the diversification strategies of the Union. Accordingly, as the Commission indicates in the Second Strategic Energy Review, "the Africa-EU

Energy Partnership with the African Union together with the African Regional Economic Communities will be instrumental in developing a deeper energy dialogue and concrete initiatives” (European Commission, 2008: 9).

Being a feasible alternative source of oil and gas supplies, Africa plays a non negligible role in the future of Europe’s energy security. Aware of this potential, as part of its external energy policy, the European Union offers several instruments to Africa, through bilateral cooperation, the European Neighbourhood and Partnership Instrument, the European Development Fund and the European Investment Bank (European Commission, 2008: 9).

### **3.2.3. Middle East**

Middle East is the world’s important energy producing region and world’s richest proven oil and natural gas reserves belong to the region. Naturally, seeking ways to guarantee its energy security, EU aims to institutionalize its energy relations with the region, especially with the Persian Gulf countries some such as Iraq, Kuwait, Qatar, Saudi Arabia and United Arab Emirates being member of Organization of Petroleum Exporting Countries (OPEC) (Bahgat, 2006: 974). Nevertheless this dialogue is not only the effort of an international consumer to secure its supplies, rather it “is the recognition of the fact that producer and consumer countries have common interests in encouraging regular supply at affordable prices” (European Commission, 2008: 9).

As the data between the years 2000-2007 indicated, Middle Eastern producers cannot be defined as Europe’s major oil and natural gas suppliers, with

comparison to Russia or Norway. To illustrate, mineral fuels imported from Iraq and Saudi Arabia account for only 2% and 4% among the total of EU imports. However, the fact that imported mineral fuels correspond to 84.9% for imports from Saudi Arabia and 99.9% for imports from Iraq, indicate the significance of energy products in trade relations with these countries (Directorate General for Trade 2009c and 2009g). Consequently, as Bahgat (2006: 975) points out as well, despite the Union's intense energy dialogues with Russia or Caspian region, Middle East remains as a "critical player in energy policy" especially due to its rich resources, geographical advantages and its potential to stabilize world market prices in line with its oil supply capacity (Bahgat, 2006: 974). This urges EU to further develop its dialogue with Iraq and the Gulf Cooperation Council in the context of its energy security strategies (European Commission, 2008: 9).

Nevertheless, the EU's basic challenge of external energy policy emerges for the GCC countries as well: energy dialogue divorced from politics. The energy dialogue with GCC countries does not include the region's security and political dynamics. Ironically, according to the European diplomats, despite the Union's emphasis for rule of law and democracy, authoritarian Gulf states and their internal politics do not create concerns for European supply security, as long as stability prevails and the country is "well run". However, the Gulf countries' internal political dynamics directly affect future energy security considerations since potential regime failures would lead to uncertainty about oil supplies. For example, in Saudi Arabia, unpredictable decision making of the royal family, lack of accountability concerning the flow of oil revenues into the royal budget and consequent public unrest due to popular anger bring energy related consequences, the reduction of market opening and the reluctance concerning liberalization with

the fear of further political instability, being the cases in point. Hence, for GCC countries as well internal social and political trends require to be incorporated into the energy dialogue (Youngs, 2007b: 11-12).

Concerning the region, EU's effort to achieve international cooperation in energy is not limited to the dialogue with the GCC. The Euro-Mediterranean Energy Partnership is another platform for EU to pursue its goals of energy security and sustainability. The partnership consists of EU Member States and Mediterranean and Middle Eastern partners (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria, Tunisia and Turkey) and its origins date back to 1995 the Euro-Mediterranean Conference of Ministers of Foreign Affairs (Directorate General for Energy and Transport, 2008). The Barcelona Declaration adopted at the conference offered three main spheres of partnership (political and security dialogue, economic and financial partnership and social, cultural and human partnership) with the target of creating a common, secure area of peace and stability, a free trade area with economic opportunities where intercultural dialogue and mutual understanding would prevail between religions and people (Barcelona Declaration, 1995).

The Euro-Mediterranean Partnership refers to energy under the Economic and Financial Partnership and concentrates on harmonization of energy markets in the Euromed region, promotion of sustainable development and on infrastructure extension, investment financing, as well as research and development programs (Final Statement of Marseille Meeting of the Euro-Mediterranean Ministers of Foreign Affairs, 2008: 9). Accordingly, the priorities of EUROMED Energy Partnership evolve around these principles and aim to:

- “Accelerate reform in the countries on the southern shore of the Mediterranean with a view to the gradual integration of the Euromed electricity and gas markets
- Increase security and safety of energy supplies, infrastructure and oil shipping
- Strengthen energy interconnections (both South-South and North-South)” (Directorate General for Energy and Transport, 2008: 5).

In 17 December 2007, at the Euromed Energy Ministerial Conference, in line with the identified objectives, the participants of the Partnership decided on an Energy Action Plan covering the period between the years 2008-2013. The process is still ongoing.

#### **3.2.4. Caspian Region**

Caspian region refers to five Caspian littoral states namely, Azerbaijan, Iran, Kazakhstan, Turkmenistan and Russia. Due to its critical position in EU’s energy security, the relations with Russia will be separately examined in the following section. However, researches indicate that, in total the proven oil reserves of these five countries reach to 259 billion barrels and gas reserves are approximately 2,888.6 trillion cubic feet (Amineh and Houweling, 2007: 366).

The critical point about the region is the legal status of the Caspian Sea. With the disintegration of the Soviet Union, the determination of official sea boundary between the states emerged as a question. No agreement has been reached between the littoral states concerning the debate on whether the subject matter is a “lake or sea”. This identification is necessary because, if the Caspian is a sea, in line with the United Nations Convention on the Law of the Sea

(UNCLOS), bordering countries will be able to claim “12 miles from the shore as their territorial waters and beyond that a 200-mile exclusive economic zone (EEZ)” and this will cause an “uneven distribution of oil and natural gas resources in the basin”. Consequently without a concrete decision, a “de facto regime” is emerging in the area with international oil and gas companies engaging in agreements with littoral countries. Apart from the legal status of the potential reserves, the fact that Azerbaijan, Kazakhstan and Turkmenistan are landlocked states, the construction of oil and natural gas transit routes create a further challenge for the region (Bahgat, 2006: 972).

The institutionalization of the European Union’s energy relations with this group of countries dates back to 1995, to the INOGATE, Interstate Oil and Gas Transport to Europe program. INOGATE targets the promotion of “European investment in Caspian Sea/Central Asian states in return for their cooperation in supplying energy to the EU member states”. In February 2001, the INOGATE Umbrella Agreement came into force in order to systematize institutional and legal settings of the circumstances necessary for “the development of interstate oil and gas transportation systems” and for the encouragement of “the investment necessary for their construction and operation” (Bahgat, 2006: 971). In 2004 Baku Initiative was launched in order to develop “regional energy markets and network interconnections in the Caspian and Central Asia”. The initiative was in fact a bargaining which traded European funding and investments in return for guaranteed energy supplies to Europe. Similarly, the Black Sea initiative in 2006 as well addressed the region and proposed “sub regional energy markets in the Caspian Basin, Caucasus and Central Asia through a EU-Black Sea-Caspian Sea Common Energy House”. With these initiatives, the Union planned to create a

region which operated on the basis of Europe's internal market principles (Youngs, 2007b: 3-4).

Additionally, the Union concluded Memorandum of Understanding with Azerbaijan in 2006, with Kazakhstan in 2006 and with Turkmenistan in 2008 for the encouragement of cooperation in the field of energy. The European Union intends to cooperate with these Central Asian countries for the development of Caspian Sea- Black Sea- EU energy transport corridor. In that respect, MoUs refer to the supply-demand correlations and to the common energy security challenges for the EU and these countries which can be addressed through diversification of export routes. In that respect "the deepening of energy market reforms, the development and modernization of energy infrastructures, energy efficiency, energy savings, the use of renewable energy sources" and environment friendly technologies to combat climate change constitute the key concerns addressed in MoUs. Consequently, new investments in the region emerge as a necessity and the creation of "attractive, stable equitable and transparent" conditions with related legal and financial arrangements are mutually accepted preconditions to boost investment (European Union, 2006a; 2006b; 2008).

The success of the dialogue with these states depends on the future supply, demand and investment trends in the region. Still, energy outstands as the main item among the imports from the region. According to 2008 data, mineral fuels stand for 99% among the imports from Azerbaijan (Directorate General for Trade, 2009a), 60.5% for imports from Turkmenistan (Directorate General for Trade, 2009i), 86.2% for imports from Kazakhstan (Directorate General for Trade 2009d) and 88.2% for imports from Iran (Directorate General for Trade 2009b). Nevertheless, mineral fuels imported from the region represent very small shares

among total imports of EU from the world market. Azerbaijan, Turkmenistan, Kazakhstan and Iran correspond to only 2.3%, 0.3%, 3.4 % and 2.8% of EU's total imports, respectively. Compared with the region's oil and gas reserves, these results indicate that the potential of these countries is not being efficiently used, yet.

As Youngs (2007b: 12-13) points out as well, it should be noted that, unlike agreements under the European Neighbourhood Policy, bilateral energy agreements, especially the ones with Azerbaijan and Kazakhstan “delink” energy from democracy and human rights clauses. EU programs, which focus on governance, security and trafficking issues, being limited; broader EU policies addressing the Region's political and security requirements are needed for better results in the context of future energy security.

### **3.2.5. Russia**

According to 2008 data, Russia accounts for 12.3 % of world's total oil production with 485 Mt, being second major oil producer after Saudi Arabia. For natural gas, Russia is the world's number one gas producer with 657 bcm which equals to 20.9% of world's total natural gas production (International Energy Agency, 2009: 11, 13). Besides, for European Union, Russia represents largest amounts of oil and natural gas supplies. As Tables 1 and 2 indicate, in 2006, imports from Russia cover 33.5% of total oil imports and 42% of total natural gas imports. The EU's efforts for diversification do not seem capable of changing Russia's special energy supplier status for Europe. As Solana (2006: 3) pointed out



as well, “Russia will be the mainstay of (EU) energy imports”. This distinguishes Russia from other energy partners and urges the Union to develop a special partnership with it, as part of EU energy security strategy.

It is also worth noting that, apart from EU’s high dependency, another related feature that distinguishes Russia from other suppliers is its catalyzing effect on European Energy Policy. In January 2006, Russia and Ukraine involved into a gas dispute due to Gazprom’s intention to increase gas prices and apply “market rules” to former Soviet countries, which previously enjoyed subsidized prices. This price crisis between the supplier and transit country, led to a decrease of 14-40 % in Gazprom’s deliveries to Hungary, Austria, Slovakia, Romania, France, Poland and Italy. For European officials this did not only damage Russia’s reliability as an energy supplier but also raised doubts about Russia’s intentions of using energy supplies as a political weapon (Bahgat, 2006: 961-962; BBC News, 2006). Diverging views on whether Russia’s motivations are purely economic or political are subject of a deeper discussion about the issue. However, what is for sure is that this crisis definitely accelerated the EU’s efforts for creating a European Energy Policy which would lead Europe to energy security. As Lynch (2006: 5) pointed out: “Crises are salutary moments. They reveal distinct trends that were difficult to highlight beforehand”. Consequently, January 2006 remained as a milestone in the evolution of European Energy Policy, where the Union acknowledged its vulnerability.

When Russia’s internal energy sector is examined the most outstanding feature is state’s control over resources. Russia’s oil exports are under the jurisdiction of Transneft which is Russia’s state owned pipeline monopoly. Concerning the oil exports to European countries, Druzhba Pipeline, the Baltic

Pipeline System (BPS) and Adria Pipeline link the two regions. Druzhba pipeline consists of two sections: “one running through Belarus, Poland and Germany; the other through Belarus, Ukraine, Slovakia, the Czech Republic and Hungary” (Bahgat, 2006: 969). BPS which became operational in 2001 carries oil from “Russia’s West Siberian and Timan-Pechora oil provinces” to Primorsk in the Russian Gulf of Finland. Adria pipeline, situated between Croatia and Hungary was finished in 1974 with the initial aim to bring Middle Eastern oil to Yugoslavia and Hungary through Croatia. Nevertheless, the flow of the pipeline was reversed due to its interconnection with Russian system with increasing production. This gave Russia a “new export outlet on the Adriatic Sea” (Energy Information Administration, 2008b: 5-6).

Concerning the natural gas sector, again a state run monopoly, Gazprom accounts for almost 90% of Russian natural gas production and controls the country’s gas exports. Russia has an increasing trend for natural gas exports to European Union, Turkey, Japan and some Asian countries. For the westward exports, Yamal-Europe pipeline (from Russia to Poland and Germany via Belarus) and the Blue Stream (from Russia to Turkey via the Black Sea) are among the significant export routes (Bahgat, 2006: 970). Moreover, a new pipeline, namely Nord Stream is under way and planned to deliver gas by the year 2011. The pipeline will connect Russian Baltic Sea coast with the German Baltic Sea shore and will transport gas to energy markets of Germany, Denmark, the United Kingdom, the Netherlands, Belgium, France and the Czech Republic (Nord Stream, 2008: 1-3).

The institutionalization of EU-Russia relationship concerning energy can be identified by three main legal grounds: European Energy Charter, EU-Russia

Energy Dialogue and “Four Common Spaces”. However, the initial move which transformed this relationship into a “partnership” is the ten year bilateral treaty Partnership and Cooperation Agreement (PCA) which came into force in 1997 (Kausch, 2007: 2). The Agreement made legal arrangements concerning “political dialogue, trade and cooperation in economic matters, justice and home affairs and bilateral cooperation” (Hadfield, 2008: 233). Article 65 of the Agreement directly addresses energy and offers cooperation in issues such as supply security, infrastructure, energy efficiency and formulation of energy policy (European Commission, 1997).

Concerning the external dimension of European Energy Policy, The Energy Charter is one of the major platforms for the Union to institutionalize its energy relations with third parties. However, Russia’s non-ratification of the treaty renders its provisions inapplicable for energy trade with the country. On 20 August 2009, Russian Federation officially declared that it does not intend to become a contracting party to the ETC (Energy Charter Secretariat, 2009). The ECT regulates energy transit matters and it would allow European importers to buy oil and gas from independent suppliers (other than Russia’s state owned monopoly Gazprom) such as Novatek, Lukoil or Rosneft, which would gain access to pipelines if Russia had ratified the treaty (Geden et al., 2006: 17).

Due to Russia’s non-ratification of Energy Charter Treaty, the relationship between EU and Russia has to be conducted in another platform. EU-Russia Summits compensated this deficiency and helped to increase the coordination between the parties. On the sixth EU-Russia Summit realized in Paris on the 30<sup>th</sup> of October 2000, the parties agreed on engaging into an Energy Dialogue for better identification and arrangement of EU-Russia Energy Partnership. The main

objective of the dialogue is “to enhance the energy security of the European continent by binding Russia and the EU into a closer relationship” through the emphasis of the strong mutual dependency. Accordingly, areas of common interests in the energy sector are identified within the context of energy dialogue and with the targeted partnership developments are expected to be achieved concerning energy efficiency, energy savings, opening up of energy markets, improvement of environmentally friendly technologies and most importantly enhancement and expansion of energy production, transportation and investment conditions in Russia. To these ends, EU-Russia Energy Dialogue constitutes a forum for the participation of several actors such as Russian government representatives, the Commission, EU members, EIB, EBRD and EU/ Russian energy companies (European Union Press Releases, 2009b).

Despite the Energy Dialogue and high volume of energy trade which renders the two parties highly interdependent, Russia outstands as a challenging international partner for EU. To illustrate, in addition to its firm stance against ECT, unlike EU’s other neighbours, Russia rejected also becoming a part of European Neighbourhood Policy. EU’s efforts to incorporate Russia into the ENP, was conceived “as a step that made Russia feel once again like a mere object of the CFSP, whereas it saw its role as that of a proper strategic partner” (Spetschinsky, 2007: 157 quoted in Hadfield, 2008: 245). This signaled the reality that the EU’s strategy of treating Russia like “just another state” would remain fruitless due to Russia’s expectations of special treatment. After ENP was rejected by Russia, in order to supplement PCA, in May 2003, EU and Russia decided to set a framework for cooperation. As the name suggested the new framework “Four Common Spaces” focused on four main areas: economy, foreign and security

policy, justice and home affairs, and culture, information and education” (Kausch, 2007: 2, 9), energy being included under the economy section.

Unfortunately, PCA, Energy Dialogue or Four Common Spaces did not succeed in totally eliminating energy related tensions between EU and Russia. Moreover, the two Ukraine-Russian supply crises in 2006 and 2009<sup>3</sup> contributed to EU’s concerns for energy security.

As a consequence, in line with the vital importance of uninterrupted energy supplies and with the need to minimize negative consequences of potential supply crises, during the EU-Russia Summit held in Khabarovsk on 21-22 May 2009 the participants discussed ways to deal with crises (European Union Press Releases, 2009c). On 16 November 2009, Coordinators of EU-Russia Energy dialogue signed a Memorandum on an Early Warning Mechanism. The Memorandum targets the “early evaluation of potential risks and problems related to the supply and demand of natural gas, oil and electricity”. Moreover, the parties also agreed on preventing and rapidly reacting concerning the threat of emergency situation which was further clarified as “a situation with a significant disruption/ physical interruption of supply of natural gas, oil and electricity from the Russian Federation to the Territory of the European Union, including supplies transiting through third countries” (European Union, 2009: 1). The President of the European Commission, Barroso interpreted the Memorandum as a “clear evidence of the goodwill of both sides to work together in a trustworthy and mutually beneficial manner, building ways to prevent and solve problems even before they happen” (European Union Press Releases, 2009d).

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<sup>3</sup> Due to a commercial disagreement between Gazprom and Ukraine’s Naftogaz, between 6 and 20 January 2009, Russia’s gas supplies to Europe via Ukraine were interrupted. EU Members were deprived of 20% of their natural gas supplies (European Commission, 2009).

Unfortunately, the case with Russia is more complicated than just simple management of energy dependency and energy cooperation, since “the fact that Russia is investing heavily in future leverage and not enough in future production” creates a deeper challenge for energy supply security (Solana, 2006: 3). Experts argue that Ukrainian gas disputes distorted EU’s attention from the deeper problem. As Kausch (2007: 2) argued: “Europe’s major problem is much less Russia’s willingness to supply energy than its future ability to do so due to lack of investment in opening up new fields, transport links and general infrastructure”. There is growing concern that Russia risks to fail covering both domestic consumption and rising export commitments with its current capacity, because of decaying infrastructure, rapidly declining oil fields and lack of development of new gas fields (Bahgat, 2006: 970; Grant and Barysch, 2003: 2). Besides, the Russian pipeline export capacity as well, remains limited to meet the increased production of the country as well as to meet the growing demand of importers.

Accordingly, for natural gas, in order to be capable of supplying necessary amounts, Gazprom<sup>4</sup> needs to invest in the development of new fields to compensate for declining production in its “Big Three” (Yamburg, Urengoy and Medvezh’ye) which offers at least 60% of Russia’s total production (Goldthau, 2008: 689). According to International Energy Agency (2003, quoted in Bahgat, 2006: 969), Russia’s oil industry is in need of an investment of \$328 billion and its natural gas sector requires \$330 billion for the time period between 2001 and 2030. To cover the necessary investments, Russia needs the capacity to attract European

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<sup>4</sup> Gazprom’s projected production for 2020 is 580-590 bcm. To meet the demand, this amount has to be complemented with the increase in non-Gazprom production with an amount of 140-150 bcm in 2020. Nevertheless, since only Gazprom has the access to export pipelines, producing only for domestic market does not offer enough profit and incentives for independent gas producers, which are discouraged to invest more and increase their production (Goldthau, 2008: 689).

oil and gas companies and Europe, to cover its oil and gas demands, needs for secure pipeline systems and uninterrupted energy supplies of Russia. Consequently, the relationship between EU and Russia can be defined as a “simple bargain: Europe’s investment in return for Russia’s oil and gas” (Bahgat, 2006: 969). Still, there is a mismatch between EU’s market liberalization and Russia’s monopolist, “controller state” point of view. Despite the need for heavy investments, Russia’s hostility to foreign direct investment is outstanding. Russia applies a quota on foreign shareholder value which strictly limits the control of assets by foreign investors (Kausch, 2007: 5).

To conclude, EU-Russia energy relationship is made up of both cooperative achievements and discouraging hurdles. The interdependence between the Union and Russia is may be the unique point where the two sides are in agreement. Benford (2006: 45) argues that: “Gazprom’s need for revenue from European gas exports constitute the single most important factor in guaranteeing European energy security”. As indicated by the Commission (2008: 8) too, what remains for the Union to do as part of its external energy policy is then, to emphasize this interdependence and to deepen legally binding procedures which lead the way towards joint energy projects with Russia.

### **3.3. Conclusion**

The majority of the Union’s energy consumption is covered by imported oil and natural gas. Moreover, this import dependency is projected to further increase in coming decades, rendering the EU more vulnerable to external dynamics which

affect energy supplies. Accordingly, this chapter analyzed the external dimension of European Energy Policy. It discussed EU's major policies in order to deal with external supply challenges and achieve the objective of supply security. The chapter emphasized that external dimension of energy security cannot be attained through unilateral efforts and it is highly affected by energy policies of oil and gas supplier countries. Consequently, special focus was dedicated to EU's energy relations with its major energy suppliers.

In the overall evaluation of EU's external energy policy, market liberalization and extension of EU's internal market principles to supplier and transit states emerge as crucial policy options to reach the "trinity" of sustainability, competitiveness and security of supply. However, as the case with Russia indicated as well, these efforts are not always welcomed by energy supplying states and EU's efforts for market liberalization are not always counter balanced by reciprocal policies. As response to these "uncooperative" suppliers, the most feasible solution for EU is to increase its ability to diversify its suppliers and energy transit routes, which could both decrease the dependency on single supplier and by-pass problematic regions through alternative transit pipelines.

Russia, being the number one oil and gas supplier to the EU and leading actor of two major gas crises in 2006 and 2009, is the biggest source of anxiety for Europe's energy security consideration. Nevertheless, both exporter and importers operate in an international energy market where competition and uncertainty (about supply and demand security) prevails the environment. It is true that this urges the EU to search for other suppliers and energy suppliers, notably Russia, to seek new markets (Hadfield, 2008: 243). What is important to acknowledge is the fact that, the EU's potential as an energy market lowers the incentives of major



suppliers to de-link themselves from European energy consumers (Spanjer, 2007: 2891). In that respect, minimizing transit risks and establishment of alternative transit routes require special interest both for the part of EU and for suppliers which want to protect and increase their share in the European markets.

To sum up, diversification of suppliers does not only refer to increased cooperation with suppliers and investment in extraction and production activities. Just like perfect circulation of blood vessels is the crucial component of health, uninterrupted transmission of oil and natural gas is the vital element of energy security. Consequently, transit countries turn out to be as important as suppliers, in the efforts to create an effective energy policy. Taking these remarks into account, one clear conclusion is that Europe stands as a large market in need of new oil and gas supplies; Russia, Central Asian and Caspian Countries, as well as potential suppliers in the North Africa and Middle East stand as exporters which have the potential to diversify Europe's energy profile. The picture is clear yet incomplete, until there is clear reference to the "bridge" that will link the "demand and supply". At the map, in the middle of these "blocks", Turkey winks at European policy makers as a potential solution for European energy security concerns.

## **CHAPTER 4**

### **TURKEY'S ROLE AS A TRANS-EUROPEAN ENERGY CORRIDOR**

Diversification of supply sources stands at the core of European policies offered to manage the potential vulnerabilities due to the EU's high reliance on oil and gas imports. Nonetheless, despite efforts for greater diversification, Caspian Region, Middle East, North Africa and Russia remain as the major oil and gas suppliers for the European Union. This fact highlights the significance of diversification of transit routes to bypass problematic regions and renders alternative transit routes more attractive assigning a strategic importance to the transit countries. In this context, with its strategic location situated between European energy markets and major energy producers, Turkey offers an advantageous energy corridor for Europe (Nies, 2004; Tekin and Walterova, 2007). Particularly, concerning EU-Russian energy relations, in order to import non-Russian energy supplies, Turkey's potential value as a relatively secure and independent route is acknowledged by the Union (Tekin & Walterova 2007). This

chapter analyses the geostrategic role of Turkey as an energy transit corridor for alternative energy supplies to Europe.

Turkey's potential to become an important energy import route for Europe which would increase the Union's energy security through diversified pipeline systems originates in its "ability and willingness to develop major transit systems" for both oil and natural gas coming from various regions such as Caspian, Central Asia, The Gulf and Eastern Mediterranean. To be more specific Turkey is situated near regions which possess 71.8% and 72.7% of world's proven gas and oil reserves, respectively (Roberts, 2004: 18). Moreover, according to the report of Energy Information Administration (2009b: 6) for natural gas, Turkey's transit potential reaches 3.359 Tcf<sup>5</sup>. Thus, Turkey's special location "from which the EU can play a larger role in ensuring energy security not only in relation to Persian Gulf, but also *vis-à-vis* the Caspian Basin and indirectly Russia" (Tekin and Williams, 2009b: 422) offers a feasible opportunity for supply security in the context of European Energy Policy.

#### **4.1 Turkey's Existing and Planned Pipeline Systems**

Its geographical position in the middle of large European markets on the one side and a variety of suppliers on the other side, provide Turkey the function of a "natural corridor" which can be developed to operate as an energy bridge. Accordingly, becoming a pipeline-based transit country is an active strategy of

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<sup>5</sup> 1.659 Tcf from Russia, 1.024 Tcf from Iran, 254 Tcf from Saudi Arabia, 113 Tcf from Iraq, 109 Tcf from Kazakhstan, 102 Tcf from Turkmenistan, 56 Tcf from Caspian Sea and 42 Tcf from Egypt.

Turkey as indicated by Roberts (2004:19) too: “with the EU already in receipt of large volumes of gas from the three main sources—Russia, the North Sea and North Africa—Turkey’s goal is to become Europe’s fourth main artery.” Nevertheless, this position cannot be attained unless necessary infrastructure capable of transferring required amount of gas and oil (needed for both the country’s domestic consumption and for the export to European markets) is established. Accordingly, the following section describes the existing and planned pipeline systems in Turkey.

#### **4.1.1. Existing Pipeline System**

The East-West corridor and North-South corridor constitute Turkey’s two major corridors of energy transport system<sup>6</sup>. The East-West corridor originates from the Caspian, Iranian and Iraqi energy producing areas and passing via Turkey it transfers oil and gas to locations in Europe. It specifically aims to transport energy resources from these diverse suppliers to consumers in the Western markets, through the activation of alternative routes which bypass Russia (İpek, 2006: 2-3).

An essential component of the East-West corridor is **the Baku-Tbilisi-Ceyhan (BTC) Oil Pipeline**, which connects Azerbaijan through Georgia to the Mediterranean port of Ceyhan in Turkey. With its length of 1.768 kilometers, in June 2006 the pipeline became operational to transfer crude oil extracted from offshore oil fields in the Caspian Sea to the world market (British Petroleum). BTC Pipeline is the first pipeline which transports oil from Caspian to the

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<sup>6</sup> Turkey’s existing pipeline system is illustrated by a map which can be found on page 170, Appendix A.

Mediterranean coast without going through Russian soil or without passing through the Turkish Straits. Concerning the dynamics of the region, security overweighed as a key aspect in the design of the project and as a precaution to potential sabotage activities, entire pipeline was buried (Energy Information Administration, 2009b: 3). While Russia opposed the project, it was politically supported both by the United States and the European Union. The BTC Pipeline, did not only demonstrate Turkey's determination to become an energy bridge but also it represented a strategic step for the East-West energy corridor as it connected land-locked Azerbaijan to Western energy markets through Georgia, enhancing the political and economic confidence of these countries (İpek, 2006: 2-3).

An additional route in the East-West energy corridor is **the Kirkuk-Ceyhan Oil Pipeline** transporting oil from Iraq to the Ceyhan (Yumurtalık) Marine Terminal. The first phase which became operational in May 1977, extends 986 kilometer long and was Iraq's largest crude oil export pipeline with an annual capacity of 35 Million tons. This capacity was enhanced to reach the total of 70.9 million tons per year, through the construction of an additional, parallel line in 1987. After the Kuwait war in 1990 the pipeline's operation was suspended (BOTAŞ, 2008). Since the year 2003, the pipeline has been used only sporadically due to sabotage attacks which gained momentum with the Iraq War (Energy Information Administration, 2006: 3). The functioning of the pipeline will be automatically affected by the future political stability in the region. The extraction activities as well as supplies are projected to gradually increase as the violence in Iraq decreases (Energy Information Administration, 2009b: 3).

In the East-West energy transit system, these oil pipelines are accompanied by three gas pipelines. **The South Caucasus Natural Gas Pipeline (SCP)** or Baku-Tbilisi-Erzurum (BTE) Pipeline is one of them. It is owned by the South Caucasus Pipeline Company led by a consortium of BP, Statoil and other companies including Gazprom. It extends parallel to the BTC pipeline until it transmits gas from the Shah Deniz gas field of Azerbaijan, situated in the south of the Caspian Sea, into Turkey's national gas grid in eastern town of Erzurum. The initial capacity of the pipeline is 8.8 bcm of gas per year, but the total capacity could reach 20 bcm per year after 2012, thus becoming the most noteworthy route of export from gas rich Caspian region (Alekperov, 2004: 120). The gas delivery commenced by the end of 2006. Currently the pipeline provides gas for Georgia and Turkey, but in the long run the aim is to connect it with the European markets too, through the planned Nabucco project.

The second gas pipeline is **Iran-Turkey natural gas pipeline**, which has been in operation since 2001. The pipeline delivers gas from Iran's north-western city of Tabriz to Turkey's capital Ankara. The flow of gas supplies from the pipeline has been subject to several disruptions due to disputes between the two parties or due to unilateral decision by Iran especially in winter, in line with Iran's own demand increases (Energy Information Administration, 2009b: 7). Through this pipeline the Iranian gas is envisioned to become a supply source for the planned Nabucco project. However, the improvement of Iran-West relations is considered as a precondition for such a possibility.

In the East-West corridor is **Turkey-Greece-Italy Interconnector** is the third natural gas pipeline. The agreement for the construction of the first phase of the project was signed in 2003 between Turkey and Greece and the pipeline was

brought into being between 2005 and 2007, and inaugurated in 2007. The pipeline is 300 km long, 209 of which being situated in the Turkish territory and its current capacity is 7 billion bcm of gas per year (BOTAŞ, 2008). As the second phase connects Greece and Italy by 2012, the capacity will be expanded to 11 billion. The Turkey- Greece- Italy Interconnector has been envisioned as an essential part of the Southern European Gas Ring Project, which was designed for bringing natural gas originating from Caspian Basin, Russia, Middle East and Southern Mediterranean countries into the European energy markets (BOTAŞ, 2008). The pipeline represented an important stepping stone for the plans to deliver gas from the Caspian area via Turkey to Europe.

In the East-West direction, these pipelines are instrumental for energy transits. However, Turkey also has important energy routes in the North-South corridor. Concerning natural gas, one of them is **The Blue Stream Gas Pipeline**. This pipeline with a length of 750 miles, carries natural gas from Russia to Turkey, reaching to the port of Samsun and extending to Ankara. 246 miles of the project passes underneath the Black Sea. With an estimated cost of \$3.2 billion, Russia's Gazprom, Italy's Eni and Botaş conducted the project and in November 2005, the accomplishment of Blue Stream Pipeline was celebrated. Although the original aim of Blue Stream is to serve to the Turkish domestic needs, the project can be extended and can offer a "ready-to-use gas transmission corridor" for new projects. In that context Blue Stream 2 is under consideration as an additional transit route to Middle East, Israel and other countries (Energy Information Administration, 2006: 7; Gazprom, 2009).

In the North-South corridor, there is also an oil pipeline project in the construction phase: **Trans Anatolian Pipeline** or **Samsun-Ceyhan Pipeline**. The

project is based on the construction of an oil transportation line from the Black Sea Turkish Coast near Samsun to the Mediterranean oil terminal in Ceyhan. The project is carried out by Italian Eni and Turkish Çalık Enerji, which acquired license for construction in 2006, from the Turkish Government. This is a 550 km-long pipeline with an estimated capacity of 1.5 million barrels per day. The fundamental reason which led to the construction of this pipeline is to by-pass the straits. Since the oil tankers' traffic in the straits constitutes serious environmental threat, there is growing concern on the part of Turkish officials. Accordingly, this project is considered as a solution which could decrease the traffic in the straits (International Energy Agency, 2006).

The aforementioned pipelines constitute North-South and East-West energy pipeline system of Turkey. Turkey's ambitious purpose of becoming Europe's forth energy artery is directly related to the functioning of these pipelines with necessary capacities. Nevertheless, the increase of oil and gas outputs passing through Turkey towards Europe can be achieved only through the reinforcement of existing pipeline system with several projects designed with the purpose of bringing natural gas to Turkey and transporting it from Turkey (Roberts, 2004: 23). The following section will focus on new pipeline projects which will be instrumental in strengthening Turkey's position as an energy bridge, linking the EU to diversified energy supplies.



#### **4.1.2 Projects in the Planning Stages**

The projects in the planning stages consist of Trans Caspian Pipelines, Arab Gas Pipeline, and Nabucco. The first two projects are designed to connect energy producing countries with the Turkish pipeline grid whereas Nabucco is planned to link Turkey's energy transit system with the European energy markets for consumer countries.

##### **4.1.2.1. Trans Caspian Pipeline Projects**

Trans Caspian Pipeline Projects can be both evaluated as an oil or natural gas pipeline. The Projects are supposed to link Kazakhstan or Turkmenistan to Azerbaijan passing underneath the Caspian Sea. From there, a potential oil pipeline is planned to be linked to the Baku- Tbilisi- Ceyhan Pipeline in order to reach the Mediterranean Coast. On the other hand, a natural gas pipeline, in the context of these projects, is considered for transporting gas through the South Caucasus Gas Pipeline into Erzurum in Turkey, by passing Russia and Iran and for reaching European markets via the Nabucco pipeline which will be examined in the following sections (Fishelson, 2007). In October 1998, between Turkey and Turkmenistan, a Framework Agreement was signed in order to implement the Turkmenistan- Turkey- Europe Natural Gas Pipeline Project. Consequently, 30 bcm of Turkmen gas would be supplied through this pipeline: 16 bcm for Turkey and the remaining amount for Europe. One year later in May 1999, this projected

capacity of 16 bcm/year supply of natural gas for Turkey has been guaranteed for 30 years by Natural Gas Sale and Purchase Agreement (BOTAS, 2008).

Nevertheless, the progress concerning the project stopped due to the lack of political and economic reforms in Turkmenistan which resulted in the financial withdrawal of Western firms (İpek, 2006: 4). To illustrate, while in 1990s Shell and BP were active firms in Turkmenistan, due to the protectionist government regulations, they have lost their enthusiasm to increase their investments. Accordingly, the need for initial investment for the Trans Caspian Pipeline Projects stands as a major handicap. Additionally, because of the unresolved legal status of the Caspian Sea also the project has never gained momentum (Fishelson, 2007).

#### **4.1.2.2. Arab Gas Pipeline Project**

The Arab Gas Pipeline connecting El Arish in Egypt and Kilis in Turkey is another planned project. Originally the pipeline constitutes an export route between Egypt, Jordan and Syria. The opening of the first phase of the pipeline dates back to 2003, linking Egypt to Aqaba in Jordan. An additional part with a length of 393 kilometer traversing Jordan and reaching near the Syrian border constitutes the second phase (MEED, 2005). The third phase of the project, completed in 2008, refers to Jordan- Syria section which extends for 324 kilometers. With these already constructed parts, Egypt projects to export between 32.2 and 77.3 bcf of natural gas by the year 2013 (Energy Information Administration, 2008a:5).

The Arab Gas Pipeline gained a significant European interest when Energy Ministers of Egypt, Syria, Jordan, Lebanon, Turkey and Deputy Trade Minister of Romania signed an agreement in March 2006. Accordingly, the parties decided to extend the Arab Gas Pipeline to Turkey in order to linking it with the Nabucco project, which would allow transporting Egyptian natural gas to European markets (Alexander's Gas and Oil Connections, 2006). The project gained impetus when in 2008 another agreement between Turkey and Syria was signed for the construction of the final stage of Arab Gas Pipeline which would connect Aleppo in Syria and Kilis in Turkey with an extension of 63 kilometers (Euro- Arab Mashreq Gas Cooperation Centre, 2007: 1). The agreement built on the previous one of 2006 and indicated that by the year 2011, Arab Gas Pipeline would be connected to the Turkish natural gas grid, and would export gas to Austria via Bulgaria, Romania and Hungary (Energy Information Administration, 2008a: 5; Çimen, 2009: 12).

It should also be noted that in 2004, Iraq has been accepted to join the project with Egypt, Jordan, Syria and Lebanon in order to export Iraqi natural gas to Europe via Arab Gas Pipeline (Gulf Oil and Gas, 2004). With the inclusion of Iraq and Turkey, the potential of the project in contributing to European energy security was acknowledged by the European Commission as well. On May 2008, the Commission released a press declaration indicating its support to the project (ABHaber, 2008). Nevertheless, Egypt's eagerness to develop LNG systems and its interest to export its gas as LNG will be instrumental in the future success of the project concerning gas supplies to Europe (Ramsay, 2006: 8).

#### 4.1.2.3. Nabucco

Nabucco project differs from other planned pipelines. Trans Caspian Pipeline and Arab Gas Pipeline Projects are designed to link Turkey to producers in Caspian and Middle Eastern regions. Nevertheless, unless these projects are somehow connected to European natural gas grid, they would remain insignificant in the context of European energy supply security. In that respect, Nabucco is the crucial project that creates this connection and strengthens Turkey's position as an energy corridor for Europe<sup>7</sup>. As Aras and İşeri (2009: 3) highlight as well, once completed Nabucco will become a vital component of the East-West energy corridor and it will be instrumental in diversifying supplies to Europe away from Russia to alternative producers.

The project refers to the construction of a new pipeline which will connect Caspian region, Middle East and Egypt via Turkey, Bulgaria, Romania and Hungary to Austria and from there to other central European gas markets<sup>8</sup>. The pipeline starts from the Georgia- Turkey and/ or Iran- Turkey borders and terminates in Baumgarten, reaching to 3.300 km in total<sup>9</sup>. Market studies indicate that the maximum transport capacity of the pipeline will reach 31 bcm/year by the year 2020, which is a competitive amount for the project to be preferred for covering increasing European gas demand (Nabucco Gas Pipeline International GmbH, 2010b: 2, 4). By officials, Nabucco is identified as “unique” for Europe's supply security since it is argued that “no other project” can deliver a gas transport

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<sup>7</sup> The map on page 172 (Appendix A) demonstrates international gas pipeline projects and it clearly indicates how Nabucco operates as the key linkage between energy producers and European markets.

<sup>8</sup> Please see the map “Nabucco Pipeline” on page 171, Appendix A.

<sup>9</sup> Separate sections of the pipeline are as the following: Turkey 2000km, Bulgaria 400 km, Romania 460 km, Hungary 390 km and Austria 46 km.

volume of 31 bcm by combining diverse resources in the Middle East and Caspian region, into the heart of European markets (Nabucco Gas Pipeline International GmbH, 2010a: 5). With this capacity, Nabucco pipeline will be capable to supply 5 to 10% of the Union's projected gas consumption in 2020 (Aras and İşeri, 2009: 6).

The project is conducted by Nabucco Gas Pipeline International GmbH and is scheduled to become operational in 2014 with an estimated cost of 7.9 billion euros (Aras and İşeri, 2009: 2). The shareholders, each holding 16.67% share, are OMV (Austria), MOL (Hungary), Transgaz (Romania), Bulgargaz (Bulgaria), BOTAŞ (Turkey) and RWE (Germany) which joined the project in February 2008. Therefore, Nabucco project operates on the basis of “multicultural cooperation” firstly between these six countries but more importantly with upstream countries holding large energy reserves (Nabucco Gas Pipeline International GmbH, 2010b: 1, 8). This has a potential to lead to further dialogue with Caspian and Middle Eastern countries which could spill over towards greater stability in their relations with the EU.

The main strategic goals of Nabucco Project are officially declared as the following:

- Opening a new gas supply corridor for Europe and for the countries involved in the project, for very cost effective gas resources.
- Raising the transit role of the participating countries along the route.
- Contribution to the security of supply for all partner countries, and also for Europe as a whole.
- Strengthening the role of the gas pipeline grids of all Nabucco partners in connection with the European gas network (Nabucco Gas Pipeline International GmbH, 2010b: 3).

In line with these objectives it is possible to conclude that, Nabucco can potentially lead to positive effects both for Europe and for supplier countries. For Europe, the project will not only increase supply security and strengthen competition but also being an alternative transit route, it will mitigate risks related to existing transit pipelines and it will increase the interconnectivity of energy markets in south east Europe. On the other hand, for suppliers in the Central Asia and Middle East, Nabucco will serve to create a broader export portfolio in addition to enhanced business activities with Europe and exchange of know-how in the gas production and supply chain (Mitschek, 2009).

On July 13<sup>th</sup> 2009, in Ankara an Intergovernmental Agreement was signed by Turkey, Austria, Hungary, Romania and Bulgaria in order to identify legal and political framework of gas transits between Turkey and EU members (Nabucco Gas Pipeline International GmbH, 2010b: 7). At the ceremony, European Commission President Jose Manuel Barroso described Nabucco as "a truly European project that will provide energy security to Turkey, to Southeast Europe, and to Central Europe" (Lobjakas, 2009).

Although the project is evaluated with many positive aspects, sometimes it is also criticized with skepticism. To illustrate, the major cause of skepticism is based on unclear gas supplies for Nabucco. The unresolved legal status of the Caspian Seabed obscures the developments concerning the Trans Caspian Pipeline which consequently limits supply capacities of Shah Deniz field of Azerbaijan, hence decreasing also sufficient supplies for Nabucco. Additionally, Russian plans for the construction of South Stream as well leads to question marks since two projects in the same region would create an excessive pipeline capacity (Milov, 2007).

Since Nabucco is the major project which transforms Turkey's "natural corridor" position into an active "energy bridge" for Europe, factors affecting Nabucco's success will be automatically instrumental in Turkey's position. The next section will be focusing on these supply-side factors, as well as other elements which have the potential to influence Turkey's role as an energy transit corridor, from the perspective of the European Union.

#### **4.2. Major Factors Effective on Turkey's Energy Bridge Position**

Existing and planned pipelines will serve to interconnect Turkey with both producer countries in an array of regions and with consumer countries in Europe. While this offers Turkey a geostrategic advantage, both the EU's and Turkey's ability to benefit from this energy bridge position, in the context of EU energy security, highly depends on the success and amounts of gas and oil transmissions into European markets. This section focuses on factors which have a potential to affect the success of Turkey's oil and gas transits. Firstly, supply side factors will be clarified since with regards to the producer states in the Caspian region and the Middle East there exist an array of problems. Secondly, the challenge coming from LNG trade, which can influence producers export preferences, will be explained. Thirdly, the issue of Bosphorus will be mentioned and lastly, the Russian question will be analysed.

#### **4.2.1. Supply Side Hurdles**

Supply side hurdles are, as the name suggests, problems originating from major producers which supply gas and/or oil to Turkey to be transported to various markets beyond Turkey. These problems are merely related with Turkey's international pipelines in the planning or construction phases. Since both Trans-Caspian and Arab Gas Pipeline projects are projected to be linked to Nabucco at some point, it is possible to argue that supply side hurdles are highly relevant to Nabucco. When Nabucco project is accomplished, it will be an important undertaking that brings gas from the borders of Turkey to the heart of Europe, bypassing Russia. The project is also highly supported in Europe as an alternative conduit to Russia. However, "Who will supply gas to Nabucco?" is a question which still requires an answer and which leads to controversial debates. Therefore, since Nabucco is considered as the major project of Turkey which will serve to European energy security through offering diversity, its supply problems require a closer look.

One of the major challenges ahead Turkey coming from the supply side is the legal status of the Caspian Sea. As in the previous chapter the part concerning the EU's external energy relations with the Caspian region already mentioned, Iran and Russia share the legal position that the Caspian Sea is an inland lake rather than a sea, allowing only joint control by the littoral states while their position is challenged by the joint Azeri, Turkmen and Kazakh view that the Caspian is a sea, requiring the implementation of the United Nations Convention on the Law of Sea. Since no resolution of the issue has been in sight, efforts of the energy rich Azerbaijan, Turkmenistan and Kazakhstan to build Trans-Caspian energy routes



are effectively prevented. The endurance of the problem ensures Russia and Iran leverage in their strategies of obstructing cross-Caspian energy transit projects. This reduces the likelihood of a compromise between the parties, which could bring potential resolution of the issue.

Ethnic conflicts in the Caucasus also constitute supply-side concerns since pipelines coming from the Caspian region can be subject to sabotages in the transit states (Winrow, 2005: 89). Ongoing and frozen conflicts in the area have a potential to delay the construction of energy transit projects via Turkey. The conflicts of the region include, but not limited to, the Chechen bid for independence from Russia, multiple ethnic conflicts within Georgia, Ngorno-Karabakh conflict between Azerbaijan and Armenia and conflicts between Russia and Georgia, which complicate the stability and security in the region. This situation influences the strategic calculations of the Caspian states regarding extraction activities and export routes of their resources. Additionally, the insecure environment causes reluctance among energy companies to invest significant sums of money in the area (International Energy Agency, 2008:46-51).

Another hurdle from the supply side arises out of the increasing Asian (mainly Chinese) demand for energy resources from the Caspian Sea. In the recent decade, the rapid economic growth in Asia led to a significant rise in demand for energy resources coming especially from the Caspian Sea. India, Japan, South Korea and China are growing energy importers in Asia. Among these countries, specifically China has become a critical energy actor in the Caspian region and Central Asia for two basic reasons. Firstly, the country has a direct access to the

region<sup>10</sup>. Secondly, for Caspian energy producers, China stands for a vital energy market with a huge capacity of consumption that rivals the Russian and European ones. In 2007, China concluded an agreement with Turkmenistan to import 30 bcm of gas per year for a period of 30 years. The agreement was complemented by another deal among China, Turkmenistan, Uzbekistan, and Kazakhstan to build the necessary gas pipeline for the transit of the contracted amount of gas. In accordance with the agreed volumes of gas, studies indicate that Turkmen gas is able to satisfy most of China's gas import needs by 2020 (International Energy Agency, 2008: 21-22). However, due to future uncertainties concerning energy supply security, just like the EU, it is normal to expect China to increase its efforts for the diversification of suppliers. This intensifies the rivalry over the resources of the Caspian region, which will potentially give the producer states of the area a bargaining leverage with the consumers.

Another factor which will affect the diversity and amount of natural gas transported via Turkey is Iran-Western relations. Iran possesses the world's second largest proved natural gas reserves after Russia and ranks the 5<sup>th</sup> in gas production. However, despite its large reserves, Iran is only 29<sup>th</sup> in gas export (CIA, 2009b). With this potential, Iranian natural gas is evaluated as a considerable alternative source for Nabucco. However, increase in the Iranian gas production is a prerequisite. Iran targets to produce 500 bcm gas per year by 2017. Yet such a goal is an optimistic one since it entails almost the doubling of the existing average growth rate in the gas sector, which necessitates investment amounts that domestic

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<sup>10</sup> China is increasingly becoming a competitor for European gas not only coming from the Caspian Region but also coming from Russia, as well. As Russia's current production resources are decreasing, studies indicate that its future production will materialize in Western Siberia. It is suggested that this gives China an advantage over Europe, since its location is better placed for Russian exports from these new production areas (Spanjer, 2007: 2896-2897).

and foreign investors are not likely to provide (International Energy Agency, 2008: 26)

Iran poses as a risky country for investors and this risk mainly emerges out of Iran's tense relationship with the West. Dating back to the 1996 Iran-Libya Sanctions, which later became Iran Sanctions Act in 2006, the USA imposes sanctions on foreign and domestic firms which invest more than \$ 20 million in Iranian petroleum resources, which would contribute to the development of the country's energy sector. Additionally, Iran's refusal to conform with the international law concerning nuclear programs also leads to international pressures. In this context some restrictions over the country's financial transactions are implemented by the UN Security Council. Overall, increasing tension in Iran's external relations results in a decrease of Western companies' investments. For example, due to increasing political risks in the country, foreign firms which have investments in the South Pars region, such as Total, Statoil Hydro, Shell, and Repsol have affirmed in 2008 that they would not invest further (International Energy Agency, 2008: 27). Concerning the supply of Iranian gas via Turkey into Europe, there is strict opposition from the USA. However, as the state of affairs changes, the inclusion of Iran into the Nabucco project will be under consideration, as the Turkish Prime Minister Recep Tayyip Erdoğan affirmed: "when conditions allow" (EurActiv, 2010).

The last factor which will affect supplies is the future of Iraqi energy. Iraq's natural gas has the potential of becoming another additional source for Nabucco. Iraq holds the world's 4<sup>th</sup> largest proven oil reserves after Saudi Arabia, Canada and Iran. The country also has the 11<sup>th</sup> largest proven natural gas reserves in the world, which reaches to an amount of 3.17 trillion cubic meters. Iraq's gas

reserves rank higher than those of Kazakhstan (14<sup>th</sup>), Norway (16<sup>th</sup>), Egypt (18<sup>th</sup>), Azarbaijan (19<sup>th</sup>), Uzbekistan (20<sup>th</sup>), Kuwait (21<sup>st</sup>) and Canada (22<sup>th</sup>). Despite this potential, Iraq ranks only, by 2009, 58<sup>th</sup> in production, and 168<sup>th</sup> in export (CIA, 2009a).

Nevertheless, there are concrete efforts in the country to utilise its natural gas reserves. To illustrate, in 2009, The United Arab Emirate's Crescent and its affiliate Dana Gas reached an agreement with two Nabucco shareholders MOL (of Hungary) and OMV (of Austria), in order to materialize a project of \$ 8 billion which is designed for developing gas fields in northern Iraq and exporting gas to Europe via Nabucco. However, although Baghdad expresses its willingness to cooperate with Nabucco project, Iraq's internal disputes over the control of oil and gas reserves and over the control of the money generated from the exports lead to uncertainty (Reuters, 2009).

The international agreement concerning the construction of Nabucco pipeline is a significant achievement for Turkey determined to become an energy bridge. However, these supply-side factors require attention since they will be instrumental in assuring necessary amounts of natural gas which will render Nabucco meaningful. Consequently, as Necdet Pamir (Euractiv, 2009d) affirmed as well, supplementary agreements with supplier states concerning their commitments in the purchase of natural gas is a necessity in order to minimize the risks arising from uncertainties.

#### **4.2.2. The LNG Challenge**

It should be noted that Turkey's role as an oil-transit country is important rather than vital for global importers because of oil's greater fungibility (Roberts 2004, p.19). By contrast, concerning exports for natural gas, Turkey's "crossroad" position in pipeline systems is fundamental for securing alternative supplies. However, the LNG factor may threaten this position in the long run.

Pipelines and liquefied natural gas (LNG) are the two methods used for the transportation of natural gas from suppliers to several markets over the world. Due to Turkey's geographical position, in the energy relationship with the EU, pipelines are more relevant than LNG. Nevertheless, the significance of Turkish pipelines connected to the EU markets is projected to be influenced by the EU's ability and willingness to import LNG (Roberts, 2004: 21).

Once initial investments in liquefaction plants and in purpose-built tankers are realized, gas converted to liquid becomes available for sea transport and for distances of 3.000 km and more, LNG outstands as a competitive alternative to the pipeline transportation. To the disadvantage of Turkey, LNG projects overweight the agenda of some suppliers such as Egypt and Qatar, compared to the plans for extension of pipelines to Turkey. Supplier's choice between LNG and pipelines via Turkey is significant in that the region (more specifically states at the border of Persian Gulf) hold 35% of world's proven natural gas reserves. This is an amount that could strengthen Turkey's position in the energy market if producers do not shift to LNG projects that bypass Turkey (Roberts, 2004: 23).

Roberts (2004:23) argues that the success of projects such as Nabucco that connect Turkey to European markets, Turkey's potential as a new "artery" for

larger markets and increasing possibility of uninterrupted, secure connection of this highly fragile region to Turkey will be effective in urging the producers to prefer Turkey as a transit route, alternative to their LNG exports.

#### **4.2.3. The Bosphorus Issue**

Both for Turkey, determined to become an energy corridor and for the European Union, determined to achieve supply security through sustainable policies the Bosphorus requires special attention.

In 2005, 3.1 billion barrels per day passed through the straits and it was reported that half of the passing oil tankers lacked modern standards of oil transportation. With the dissolution of USSR and with Russia's increasing Black Sea exports, the traffic in the straits increased as well, resulting in a growth by a 60 million tones of hazardous cargo passing through the Bosphorus (Nies, 2008: 87; Roberts, 2004: 42). To be more specific, throughout the years, number of tankers passing through the Bosphorus demonstrated a steady increase. While in 1996 4248 tankers used the Bosphorus as a transit destination, this number reached to 10054, 9303 and 9567 for the years 2007, 2008 and 2009, respectively (Undersecretariat for Maritime Affairs, 2010). Since the right of free passage for trade through the Bosphorus, without any restrictions, is guaranteed by the Montreux Convention<sup>11</sup> (İnan, 2004: 164), Turkey becomes directly subject to the

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<sup>11</sup> Article 2 paragraph 1 of the Montreux Convention signed in 1936, specifically indicates the passage of merchant vessels which "enjoy complete freedom of transit" (İnan, 2004: 164). Further analysis of the regime of the straits and an evaluation of the Convention's provisions can be found in the article "The Turkish Straits" by Yüksel İnan.

risks of a potential incident<sup>12</sup> in the straits (Nies, 2008: 87). As Roberts (2004: 42) points out as well, “the prospect of an environmental disaster in the Turkish straits” renders the issue more than just an energy transit problem, and adds an environment dimension too, which is obviously related to European Energy Policy which highlights environmental sustainability as one of three inseparable energy security objectives.

Nevertheless, energy transit projects planned to bypass the Bosphorus remain uncompetitive compared with the free passage through the straits. As mentioned earlier Turkey for its part, plans to reduce the oil traffic in the straits up to 50% through the Samsun Ceyhan oil pipeline which will transport Russian oil to the Mediterranean (Nies, 2008: 90). However, for the part of the EU the issue requires more strategic calculations since the Union will have to determine “whether it can risk an environmental disaster in wither the Turkish Straits or the Aegean” or “whether its own energy security is better served by the maintenance of the existing concentration of oil tanker shipping through the straits” (Roberts, 2004: 45).

#### **4.2.4. The Russian Question**

Another factor effective on Turkey’s position as a transit country is Russia’s attitude towards Turkey and producers in the Caspian region. As Russia borders the EU, it has its own direct pipeline route delivering exports into the EU

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<sup>12</sup> The accidents of Independenta in 1979 and Nassia in 1994 are the major examples for the threats faced by the passage of oil tankers. For more information please see “Tarihe Geçen Deniz Kazaları ve Önlemler” by Jale Nur Ece.

markets. Consequently, it is suggested that Russia is not particularly interested in considering Turkey as a transit country for its own natural gas. Therefore, Turkey is evaluated as a competitor with Russia in transporting Caspian exports to Europe (Roberts, 2004: 21; Tekin and Walterova, 2007: 89), as some argue that the EU considers Turkey as an alternative transit route to get access to the Caspian sources, bypassing Russia. This triggers the rivalry between Turkey and Russia in the field of energy transport and leads Russia to calculate Turkey's role in its regional geopolitical considerations (Tekin and Walterova, 2007: 90).

The EU affirms that Nabucco and other pipelines transiting Turkey are “intended to complement, rather than compete with, Russian pipeline supplies” (Roberts, 2004: 21). However, when Turkey's special geographic position situated close to gas producers other than Russia is combined by the willingness of the ten<sup>13</sup> producers holding 35.5 % of the world's total reserves, Turkey emerges as the perfect piece of the puzzle needed for Europe to diversify its energy supplies away from Russia (Roberts, 2004: 21-22). This creates some challenges ahead for Turkey concerning Russia. Turkey's “competitor” status with Russia, causes a disadvantaged position due to Turkey's high natural gas dependency on Russia which in turn, weakens its competitiveness (Tekin and Walterova, 2007: 89; Tekin and Williams, 2009b: 425). Additionally, this situation urges Russia to promote alternative projects which could diminish Nabucco's significance, namely the South Stream, and to approach potential gas suppliers for Nabucco in the Caspian with competitive prices.

For the EU, it would be unrealistic to argue that imports from diversified sources via Turkey can totally substitute the gas imported from Russia, rather, it is

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<sup>13</sup> Azerbaijan, Kazakhstan, Iran, Egypt, Turkmenistan, Iraq, Qatar, Uzbekistan, Saudi Arabia and Syria.



true that the amounts transported via pipelines passing through Turkey can only complement it. Yet, this complementary but alternative route would still lead to a competitive market environment causing Gazprom to replace its monopoly with more commercial strategies (Roberts, 2004: 39-40), which is in fact, considered as the main geostrategic concern causing Russian opposition to projects like Nabucco: the fear of losing control over the energy resources of the region.

It is supposed that, Caspian states' hands are empowered by planned projects which will create alternative transit routes for the Caspian oil and gas exports headed to Europe and China. This view suggests that this allows Caspian producers to negotiate better deals with Russia (International Energy Agency, 2008:44). From another perspective this "price factor" is also considered as a deliberate Russian policy to make Nabucco less attractive for the Caspian producers by offering higher prices for the region's gas resources in recent years. To illustrate, in March 2008, Russia, Turkmenistan, Kazakhstan, and Uzbekistan decided that the gas trade among them would materialize on the basis of the 'European-level prices,' which is calculated to be what Europe pays for Russian gas minus the transportation costs and a Gazprom margin (International Energy Agency, 2008:44). Similarly, in 2009 another agreement was signed between Russian Gazprom and Azeri SOCAR concerning long-term gas supplies of Caspian gas to Russia at market prices. Experts argue that these gas purchases of Russia undermine Nabucco project, as these Caspian countries, especially Azerbaijan, are the most likely gas suppliers to Nabucco (Euractiv, 2009c).

Apart from Russia's concrete attempts to "gather" Caspian gas, what leads to greater concerns for Turkey's position and for the success of Nabucco is Russia's efforts to construct a new pipeline headed to European markets. In the

mid-2007, Gazprom revealed its decision to construct an offshore pipeline, namely the South Stream, in the Black Sea, with Italian ENI. The South Stream project, with a length of 900 kilometers, starts from Russia Beregovaya compression station and reaches to Varna in Bulgaria. The pipeline continues with two branches: the southern branch is headed to southern Italy via Greece, and the northern branch is linked to northern Italy via Serbia, Hungary, Slovenia and/ or Austria (Nies, 2008: 77).

It is important to note that concerning the EU members almost the same countries, such as Bulgaria, Hungary and Austria, are involved in both Nabucco and South Stream projects<sup>14</sup>. Experts, such as Necdet Pamir, affirm that these two projects are “rivals” and indicate that once one of them is constructed, due to both financial and supply/demand dynamics the other would be postponed for 15 years or would be totally cancelled (Euractiv, 2009d). Consequently, according to Nies (2008: 79-80), this situation destabilizes the credibility of both the Union and Nabucco project: “If a project is declared to be Community priority yet the participants join with the opposing camp, the credibility of the aforementioned common project is lost, which hurts Europe’s energy policy”.

Being world’s number one gas producer on the one side, and being a top ranked gas consumer on the other side, Russia and the EU are highly interdependent and they have to “determine how they can best serve each other’s requirements” (Roberts, 2004: 31). Therefore both Russian efforts to construct a new pipeline and EU’s interest in this potential new route make sense. The real question is where does Turkey fit into this equation?

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<sup>14</sup> Please see the map “Nabucco vs. South Stream” on page 171, Appendix A.

First of all, it is possible to argue that the EU-Russia and Turkey triangle is made up of a strong economic interdependence, indicating that rather than rivalry, cooperation would be the real solution in the relations within the scope of this triangle. The table below indicates trade partnerships of Turkey, Russia and the EU and it deliberately represents only the ranking and percentages of the relevant three partners for the sake of emphasizing their significance in each other's external trade. The EU countries, Russia and Turkey are each other's high ranking trade partners. More than half of Russia's exports are headed to the EU (Market Observatory for Energy, 2010) and 68.1% of these imports account for mineral fuels and related materials (Directorate General for Trade, 2009f). For Turkey the EU and Russia constitute the first two trade partners, except in exports where Russia comes after United Arab Emirates. Again, just like the EU for Turkey too, the main items imported from Russia outstand as natural gas and crude oil (Dış Ticaret Müsteşarlığı, 2009: 7). Consequently, cooperation in the energy sector is to the advantage of the three parties.

**Table 3: The EU- Turkey- Russia Trade Relations**

MAJOR TRADE PARTNERS 2008								
EU			RUSSIA			TURKEY		
3	Russia	9.7%	1	EU 27	51.5 %	1	EU 27 <sup>15</sup>	41.7%
7	Turkey	3.5%	4	Turkey	4.5%	2	Russia	11.4%
MAJOR IMPORT PARTNERS 2008								
EU			RUSSIA			TURKEY		
3	Russia	11.2%	1	EU 27	45.4%	1	EU 27	37.4%
7	Turkey	3.0%	9	Turkey	2.2%	2	Russia	15.7%
MAJOR EXPORT PARTNERS 2008								
EU			RUSSIA			TURKEY		
2	Russia	8.0%	1	EU 27	55.2%	1	EU 27	48.3%
5	Turkey	4.1%	2	Turkey	5.9%	3	Russia	4.9%

Sources: Directorate General for Trade, 2009f and 2009h

<sup>15</sup> When the EU countries are evaluated separately, Russia takes the first rank. In that case, among the first 30 trade partners for Turkey 13 of them are member of the EU. These countries are: Germany, Italy, France, UK, Spain, Romania, the Netherlands, Belgium, Bulgaria, Greece, Poland, Sweden and Austria (Dış Ticaret Müsteşarlığı, 2008).

Secondly, there are diverging views about whether Nabucco and South Stream are in competition or whether they can be merged (Nies, 2008: 71) and the answer of these questions requires further technical evaluations of both projects. However, recent developments indicate that Turkey's total exclusion from the so called "rival" project is out of question since both Nabucco and South Stream will pass through Turkish territory (Ibrahimov, 2009). During the visit of Russian Prime Minister Putin, on 6 August 2009, a series of agreements and protocols on natural gas, oil and nuclear power were signed between Turkey and Russia (Republic of Turkey Ministry of Foreign Affairs, 2010). One of these agreements, concerned Turkey's acceptance of feasibility studies for the South Stream pipeline projected to pass through Turkish territorial waters in the Black Sea (Adamowski, 2009; Ibrahimov, 2009). With this agreement, while Putin emphasized Turkey's position as an important transit country (Euractiv, 2009g), Turkey demonstrated once again its determination to become a key country in Eurasian gas trade<sup>16</sup> (Ibrahimov, 2009) and highlighted that the South Stream is not a rival for Nabucco. Turkish Foreign Minister Ahmet Davutoğlu affirmed: "South Stream creates a North-South energy corridor, similar to the East-West corridor of Nabucco and the two pipelines are not substitutes for each other" (Adamowski, 2009). The agreement also received support from the EU. Martin Selmayr from the European Commission evaluated The South Stream and Turkey's signature for the relevant feasibility research as supplementary for the European energy security (Euractiv, 2009f).

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<sup>16</sup> According to Zeyno Baran, Nabucco is not only significant for diversification of supplies to Europe, but is also instrumental for Central Asian and Caspian countries to get out of Russian influence in the energy sector. She argues that with this signature Turkey demonstrated that it was only interested in becoming an energy bridge and that it was "indifferent" towards these countries (Euractiv, 2009e).

Thirdly, it should be noted that Russia also can consider cooperating with Turkey as a conduit in order to transfer its gas to new markets (apart from Europe) beyond Turkey. In that respect the Blue Stream pipeline would be illustrative since it can serve to export Russian gas into the Middle East, to be more specific to Israel, via Turkey (Roberts, 2004: 22). Similarly, although the Nabucco Project's official website clearly identifies the Caspian Region, the Middle East as well as Egypt as potential gas suppliers, it also specifies that it does not rule out Russia as a potential supply source. The Nabucco Pipeline Company is "open for Russian gas as 'add on' to other sources." And "Nabucco will treat all sources equally" (Nabucco Gas Pipeline International GmbH, 2010b).

To sum up, the "Russian factor" over energy transitions via Turkey is dependent on Russia's future moves concerning its natural gas deals with Caspian producers and on the future of South Stream Project. Nevertheless, high economic interdependence between Russia, the EU and Turkey, especially in the field of energy and Turkey's strategic position which requires its inclusion even to the "rival" South Stream Project will be instrumental in future dynamics related to Russia.

### **4.3. Conclusion**

The Managing Director of Nabucco Gas Pipeline International GmbH, Reinhard Mitschek (2009) indicated in one of his speeches that in order to realize an energy hub there are some prerequisites, "a broad portfolio of suppliers" and "high number of domestic and international buyers" are the first two them. In line

with this clarification, he argued that “Turkey’s position is favourable to establish an energy hub” if “a gas pipeline like Nabucco with huge transport capacity to connect Turkey and South East Europe” is constructed.

This chapter analyzed why Turkey is “favourable” for undertaking the role of an energy bridge for Europe. To this end it firstly identified Turkey’s role as an energy corridor through the discussion of Turkey’s existing energy pipeline system as well as the projects in their planning or early construction phases. A special focus was dedicated to Nabucco, which has the potential to become Europe’s fourth main energy artery, in order to examine strategic and technical dimensions of Turkey’s energy bridge role for Europe’s energy needs today and in the future. Then the chapter focused on major factors which have the potential of weakening or strengthening Turkey’s position in this context and it concentrated on several challenges emanating from Russia, the LNG trade, the Bosphorus and hurdles arising from the suppliers. These factors are significant for strategic calculations concerning Turkey, since, as Roberts (2004: 23) indicates too, the precondition for Turkey to become the EU’s “fourth artery” lies in the completion and success of international projects passing through Turkish territory, Nabucco being the most significant one.

After these analyses, it is possible to conclude that Turkey is a crucial partner of Europe in assuring European energy security through energy transport from the producers in Turkey’s vicinity to Europe. This suggestion can be basically based on two main assumptions. Firstly, Turkish territory offers a relatively cost effective destination for the transmission of oil and natural gas from the East to the West. Secondly, Turkey will be influential in diversifying supplies to Europe in line with the objectives of European Energy Policy, once and if it

becomes a transit corridor capable of supplying necessary amounts of energy sources (Tekin & Walterova, 2007: 92).

In this respect, Turkey's role within the external dimension of European Energy Policy cannot be underestimated. Turkey's willingness and capacity as a transit country can progressively increase when its conditions allow deepening energy trade with problematic suppliers in the Caspian and Middle East Regions (Nies, 2008: 93). At this point one key question emerges: Will the energy factor be effective on Turkish accession into the European Union? While Jose Manuel Barroso (Euractiv, 2009a) and Egemen Bağış (Euractiv, 2009b) affirmed that Nabucco will start a new phase in the Turkey-EU accession process, the real answer of the question seems more complicated as it only depends on the EU's "internal" perception about the candidates and enlargement in general.

## **CHAPTER 5**

### **TURKEY'S ENERGY ROLE AND ITS POTENTIAL MEMBERSHIP**

Turkey's geopolitical importance has been “upgraded” as new challenges emerged for the EU due to its raising concerns about the energy security (Rada and Rada, 2008: 18). Turkey's proximity to producer regions with significant oil and gas reserves rendered current as well as planned pipelines passing through Turkish territory, the major access route for supplies coming from diverse regions, especially from the Middle East (Güney, 2005: 307).

This strategic role of Turkey in the energy supply security opened up new debates which fundamentally based their arguments on the view that Turkey's energy bridge position strengthened by the Nabucco project will start a new phase in the EU accession process of Turkey. Yet the Turkish candidacy is a *sui generis* case and its accession process has been subject to several rises and falls which make such predictions difficult to achieve.



In principle the EU enlargement, conceived as an automatic process, based on rule following is subject to a routine application procedure and candidates are assessed with their appropriateness to the Copenhagen membership criteria. Nevertheless, throughout the history EU enlargements revealed that some applicants are prioritized over others, which means that some intervening factors other than the criteria, such as norms, identities, ideologies or geopolitics are influential. Therefore, the aim of this chapter is to question whether Turkey's energy role can really be a factor which will accelerate the accession process.

### **5.1. Energy Security and Turkish Membership**

Turkey is a natural corridor which offers the perfect opportunity to transfer gas to Europe from diverse suppliers such as Azerbaijan, Egypt, Iraq, Iran, Qatar, Turkmenistan and Russia, which renders the country's role in energy imports "vital" in the European Energy Policy which foresees supply diversification as a *sine qua non* (Balcer, 2009: 27). Especially for natural gas supply diversification, as indicated in the Energy Security and Solidarity Action Plan (European Commission, 2008) too, the EU is in need of developing a southern corridor which would link its energy markets with the producers in the Middle East and Central Asia and also in need of linking Europe with the Southern Mediterranean gas interconnections, which is difficult to achieve without the Turkish collaboration (Balcer, 2009: 28). In that respect it is anticipated that "Turkey's importance will rise in parallel with Europe's energy hunger" (Rada and Rada, 2008: 21).

Accordingly, cooperation becomes inevitable between the EU, in need of alternative routes and sources, and Turkey willing to become an energy bridge for Europe. This EU- Turkey energy cooperation can be identified with two main aspects. The first one consists of joint material, concrete efforts to assure energy security, which are joint pipeline projects such as Nabucco, which have been already studied in the previous chapter. The second aspect refers to institutional dimension (Balcer, 2009: 27). In order to intensify and facilitate energy cooperation with Turkey, the EU has been insisting on Turkey to join the Energy Community Treaty. Although Turkey engaged in negotiations concerning the Energy Community Treaty in the autumn 2009 following the governmental agreement launching Nabucco project concluded in July, Turkish politicians firmly affirmed their position indicating that Turkey would align its energy regulations and policies with the Union, only if the energy chapter is opened to negotiations (Barysch, 2010: 10). Yet, from the perspective of the European Union, the institutionalization of Turkey-EU energy cooperation does not directly imply a full EU membership for Turkey (Font, 2006: 204).

The EU official documents put emphasis on the significance of Turkey in achieving energy security objectives put forward by the European Energy Policy. Partnership Documents and Progress Reports concerning Turkey point to Turkey's role for the EU in the diversification of suppliers and well as transit routes of oil and gas. Moreover, they refer to projects such as Nabucco as being "priority projects of common interest". However, when it comes to the membership of Turkey, they use "a guarded language in linking energy security issues to the Turkish accession process" (Tekin and Williams, 2009a: 351).

The EU's "guarded language" gives way to negative arguments concerning Turkish membership and energy linkage. There are also those who argue that Turkish membership will not enhance the Union's security of supply, rather it will increase the overall import dependency since Turkey's own import dependency (%74.4 for 2007) is higher than the EU average (%53.1 for 2007). Accordingly, Hooegeveen and Perlot point to the view that on the basis of long-term partnership between the EU and Turkey, Turkey would transit oil and gas to Europe in any case, without becoming a member, since the amount to be transported is already contracted and that refusing to export it would be non-economical for Turkey (Hooegeveen and Perlot, 2007: 496). However, it should be noted that a total suspension of membership negotiations with Turkey would lead to severe consequences in EU-Turkey relationship. The EU needs a "stable, peaceful and prosperous Turkey to foster stability in the region" mainly because of its worries over the future supply and transit of energy to meet European energy demands. Therefore, "most people believe that the best way to achieve this is to keep Turkey engaged in the process" (Akçakoca, 2006: 13).

Consequently, unlike the guarded language of official documents, the researchers, diplomats or ministers of EU members who argue that Turkey should become a member, do not hesitate to link Turkey's position for the European energy security with its membership process. As an example Tekin and Williams (2009a: 351) refer to a conference in İstanbul, in June 2007, which focused on "common challenges and opportunities for the EU and Turkey in the energy field". During the conference Turkish and Commission leaders repeatedly mentioned the necessity of cooperation and the advantages of Turkey's geographic situation for increasing European energy security.

These arguments highlight that geostrategic importance of Turkey for European Union firstly arises from its location which borders the Middle East, the Black Sea and the Caucasus, the gate to the Central Asia. As already mentioned, situated between Europe and these regions, a stable, friendly and democratic Turkey aligned with the EU's external interests and policies is evaluated as an asset for the EU in its relations with third parties in a range of issues, energy security being on the top of the list (Hughes, 2006: 38). Secondly, the arguments go on to suggest that this asset for the EU also originates from Turkey's military capabilities and cultural<sup>17</sup> features which would offer leverage to Europe in dealing with the problems arising in the Caucasus and the Middle East. As the EU is highly dependent on the energy coming from these fragile regions, their potential instabilities would affect the EU's energy supply security. As a result, arguments in favor of Turkish membership point to the fact that "Turkish membership would enhance European Security" (Rada and Rada, 2008: 32).

Consequently, the supporters of the view that energy will be a factor in the Turkish membership argue that as long as Turkey is recognized as a "secure and independent" transit route for energy supplies headed to Europe, this role will contribute to Turkey's accession process (Tekin and Williams, 2009a: 352). Turkey is already referred as a significant energy crossroads. Laçiner (2004: 114-115) believes that this feature of Turkey will be fortified with its membership to the EU. His arguments indicate that in the 21<sup>st</sup> century, Turkey will play a vital role in transferring secure and steady energy flows required to meet Europe's energy demand and that Turkish Membership will render energy security

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<sup>17</sup> Sedat Laçiner (2004, 115) argues that Turkey's similarity in terms of culture, religion and race, with the energy producing countries in the Central Asia and Middle East, will offer leverage to the EU in its relations with suppliers.

multiplied and stable. Accordingly, Turkey is considered as the “actual, physical piece needed to complete the pan-European energy map”, especially after the memberships of Bulgaria and Romania which opened new doors towards Central European energy markets. Hence, Turkey’s incorporation into the European Union is argued to be the main factor in creating a “geo-energy” space in favor of European energy Security (Mane-Estrada, 2006: 3783).

Similarly, the advantages of Turkey in the energy security issues have also been indicated in the EU Council’s internal debates by those who support Turkish membership (Tekin and Williams, 2009a: 350). The Minister of Foreign Affairs of Sweden, Carl Bildt and the previous foreign minister of Italy, Massimo D’Alema indicated in their joint article Turkey’s advantageous features for Europe and they affirmed: “Let us not forget that Turkey is a key actor in the realm of energy security. Given the uncertain state of energy markets, and the stakes involved, it is our shared interest to incorporate Turkey in a functioning integrated system”, pointing to the full membership (Bildt and D’Alema, 2007). Likewise, at a High Level Conference about European Energy Policy, taken place in Istanbul, highlighting the benefits of cooperation between Turkey and the EU on energy strategy, Olli Rehn, the Commissioner for Enlargement said: “The EU and Turkey share essential strategic interests e.g. in security, economy and dialogue of civilizations. That is one of the reasons why the EU decided to open negotiations for membership with Turkey” (Joint Press Release, 2007).

These arguments function in favor of Turkey in the debates concerning its membership. However, based on my personal perception of Turkish membership, this thesis suggests that together with instrumental “for and against” arguments about Turkey, European public opinion is also a factor identified as highly relevant

to the long Turkish accession process. The reason for this is the fact that some researchers such as Barysh (2007: 2) clearly indicate: “Turkey is unlikely to join the EU as long as a majority of EU citizens and many politicians remain opposed”. Accordingly, this research argues that the analysis of Turkey’s energy role and its affect on the accession process would remain incomplete unless European public opinion is included in the study. Therefore, the following sections will offer a snapshot concerning the EU public opinion, Turkey’s energy role and its potential membership.

## **5.2. European Public Opinion**

In the EU enlargement, both the acceptance of candidacy and the “wait and see” policy are related to member’s interests which are threatened/strengthened with Turkey’s reluctance or willingness in complying with the accession preconditions determined by the EU. Accordingly, the situation of Turkey has been subject to changing interests and concerns of the member states. For example, by some, the acceptance of Turkish candidacy in 1999 was directly linked to the strategic and military interest of the EU and to the military capabilities of Turkey, since the “headline goal<sup>18</sup>” and candidacy offered at the same year was considered as a purposeful “coincidence”. Now the popular puzzle for the decision-makers is whether energy security can be the new factor which will carry Turkey one step closer to the membership. Although future developments will present the real

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<sup>18</sup> In December 1999, Helsinki European Council indicated the “headline goal”: “by 2003, the EU should be able to deploy within sixty days, and sustain for at least one year, military forces of up to 50.000-60.000 persons capable of the full range of Petersberg Tasks” (Smith, 2003, p: 239).

answer to this puzzle, EU public opinion will offer clues for coming up with a conclusion.

### **5.2.1. Why Public Opinion Matters?**

The significance of EU public opinion is directly related with the “Absorption Capacity”. The Turkish membership is a controversial and challenging case for Europe. Unlike the previous enlargements of the EU, the debates concerning the Turkish accession go further than the country’s appropriateness to Copenhagen criteria, and refer to the “absorption capacity” as an additional criterion for membership. Some argue that the absorption capacity operates as an excuse for the EU to reject the candidates which are not welcomed by the EU citizens even when they fulfill Copenhagen criteria<sup>19</sup>. Its different components, public opinion and identity being the most challenging ones, slow down the accession process especially for Turkey, being a highly debatable candidate.

The concept stands for negative perceptions about the enlargement. That’s why it is commonly associated with “enlargement fatigue” and “EU’s final frontiers” (Emerson, Aydın, Clerck-Sachsse and Noutcheva, 2006: 1). With the famous Copenhagen Membership Criteria, a reference to the absorption capacity was included in the official document: “The Union’s capacity to absorb new members, while maintaining the momentum of European integration, is also an

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<sup>19</sup> This is exactly the case for Turkey. When the Europeans are asked: “Once Turkey complies with all the conditions set by the European Union would you be in favor or against Turkish Membership to the EU?”, 45% answered that they were opposed (Eurobarometer 69, 2008: 29).

important consideration in the general interest of both the Union and the candidate countries” (European Council, 1993: 13). Later, in 2006 this open-ended clause has been declared as an official criterion by the European Parliament (Emerson, Aydın, Clerck-Sachsse and Noutcheva, 2006: 4).

While different components of the concept touches upon the EU’s capacity to absorb new members in several aspects concerning goods and service market, labor market, the budget, the institutions, strategic security and society; the public opinion in EU member states outstands as one of the most challenging and determining factor of absorption capacity (Emerson, Aydın, Clerck-Sachsse and Noutcheva, 2006: 9). Public opinion emerges as an interesting aspect since it is both a result of the absorption capacity (as negative arguments about budget, labor, security or functioning of the Union affect the opinion of citizens) and a part of it since while all other arguments may indicate positive outcomes, public opinion may still remain negative.

The public opinion matters in shaping the position of EU decision-makers’ position about Turkish membership. Therefore this thesis argues that a complete analysis of the link between EU energy security and Turkish membership should definitely include European public opinion in this issue. To be more specific, a strong argument indicating that Turkey’s energy bridge position will accelerate the accession process, must be based on (in addition to justifications referring to Turkey’s geostrategic position and how it will enhance European energy security) public opinion too.

In that respect, if energy will be a factor in Turkey’s acceptance to the Union, one would expect a parallelism between European’s concerns about their energy dependency and their support for Turkish Membership. It would be



misleading to suppose that there is a direct cause and effect relationship between energy dependency and support for Turkey, since several intervening factors are valid for Turkey (such as its population, religion, culture, democracy or economy). Rather, unlike the conventional literature which states arguments in favor of Turkish energy role and membership and conclude the research with the result that Turkey should be a member, this study tries to go one step further and questions if it can be the case.

### **5.2.2. What The Public Opinion Says?**

The following table brings together the EU's energy dependency, the EU public opinion concerning energy issues and concerning Turkish membership. In the table below the Union's energy dependency<sup>20</sup> and the support of EU citizens for Turkish membership are indicated on a yearly basis as far as the Eurobarometer and Eurostat data allows. The table demonstrates that there is a constant increase in the total energy dependence of the EU. On the other hand, for public support of Turkish accession it is not possible to observe a similar trend parallel to the energy dependency, despite the fact that increasing energy dependency also increased Turkey's geostrategic importance for EU energy security. Despite the belief that candidates' potential benefits results in increased EU public support, those who were in favor of Turkish membership remained at the constant percentage floating between 30-35%.

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<sup>20</sup> Eurostat defines energy dependency as "the extent to which an economy relies upon imports in order to meet its energy needs. The indicator is calculated as net imports divided by the sum of gross inland energy consumption plus bunkers" (Eurostat, 2009a).

**Table 4: Public Support for Turkey and EU Energy Dependency**

		2000	2001	2002	2003	2004	2005	2006	2007	2008
SUPPORT FOR TURKISH MEMBERSHIP	IN FAVOUR (%)	30	34	32	NA	NA	35	28	NA	31
	AGAINST (%)	47	46	49	NA	NA	52	59	NA	55
ENERGY DEPENDENCY	EU TOTAL (%)	46,8	47,5	47,6	49	50,3	52,6	53,8	53,1	NA

Sources: Eurobarometer 53, 56, 58, 63, 66, 69 and Eurostat

To get more idea concerning the issue, the table on Appendix B<sup>21</sup> offers more detailed information and presents several factors which would be helpful in evaluating the significance of energy factor on public opinion and consequently on the support for membership.

The first column of the table indicates the EU members' energy dependency, in which the average EU percentage is 53.1%. It's worth noting that 16 members are already above the EU average, Malta, Luxembourg and Cyprus being the top three. The second column represents the EU citizens' view concerning common European Energy Policy. The column stands for the percentage of citizens who answered as "European Level" when they were asked about the most appropriate level of decision making in order to respond to new energy challenges. This is a significant factor since support for European level decision making in the energy issues, implicitly means a support for the majority of policies already identified by European Energy Policy, diversification being the most important one for the case of Turkey. The European average in favor of EU level policy making is 39%. The highest support comes from Italy (55%), Denmark (52%), Netherlands (55%) and Belgium (50%). Nevertheless, making a general argument about the relationship between this element and energy dependency is not possible since the data is not consistent with each other: while

<sup>21</sup> Please see pages 173-174: Public Opinion Overview

the energy dependence of Denmark (-25.4%) and of Netherlands (38.6 %) are relatively low, those of Italy (85.3 %) and Belgium (77.2%) are quite high. The last included element concerning energy is the citizens' view about the likelihood of gas disruptions, as future threats. This is taken into consideration with the possibility that the more EU public fears of a potential gas supply disruption, the more they could be inclined to be positive towards Turkey which would increase supply security through secure and stable supply routes. Here, the EU average is 47% and Poland (78%), Latvia (67%) and Lithuania (67%) are the top three countries which think that gas disruptions are likely threats in the future.

Other elements directly refer to Turkish membership. The two following columns indicate whether Turkish membership is considered in the interest of the EU or Turkey. If Turkey's energy role is a strong argument, it is sensible to expect that it will contribute to the increase in the percentages saying that the membership is in the interest of the Union. Nevertheless, it is not the case. 52% of European believes that it will be on the advantage of Turkey, as opposed to only 7% who answered "in the advantage of the EU"<sup>22</sup>. The table also includes data on percentages which represent citizens in favor and against Turkish membership. Net support stands for supporters minus opponents and the countries in the table are ranked in accordance with their net support.

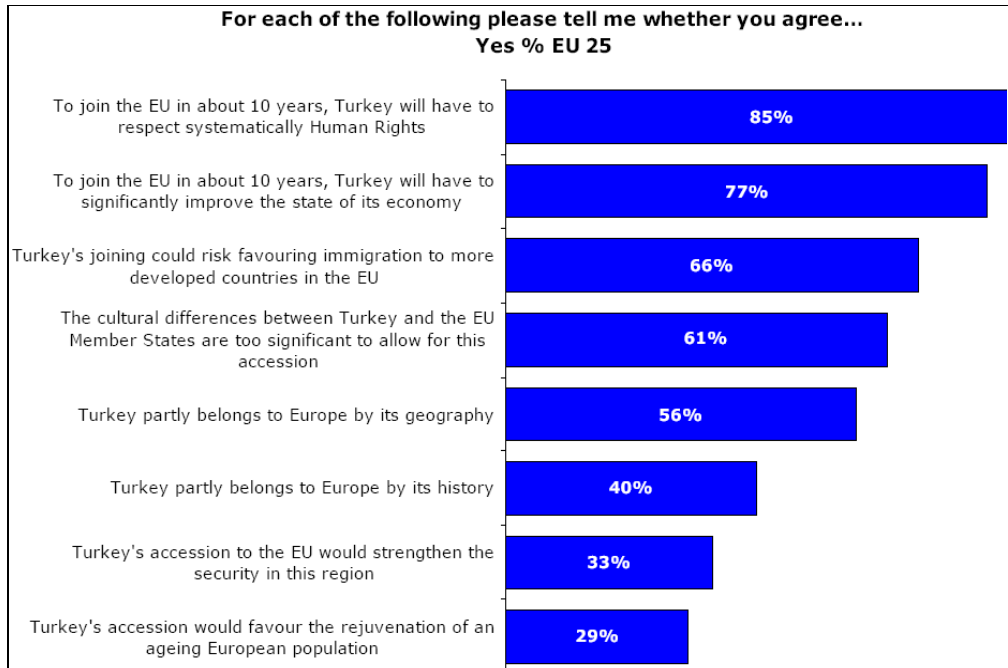
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<sup>22</sup> Studies indicate that the way enlargement and the candidate country are presented to the public through the media or through the leaders highly affect citizens' perceptions. EU society tends to support or oppose enlargement depending on the representation of potential benefits and risks of enlargement. Therefore, biased information remains as a big obstacle to engage in "frank" debates on enlargement (Emerson, Aydın, De Clerck-Sachsse and Noutcheva, 2006, p: 8). Eurobarometer surveys too indicate that EU citizens get "one-way" information about the candidates. For example a large majority of EU citizens indicate that they are more informed about "the problems that could be caused by the EU enlargement", while they know little about the benefits of it. Similarly, they know much more about "How future member states would benefit from European Union accession" while their knowledge about "How the European Union would benefit from European Union accession of future member states" is limited (Special Eurobarometer 255, 2006).

Questions and answer options do not directly include statements concerning Turkey and European energy security. However, today, energy supply security has become an important component of security considerations. The European Security Strategy clearly mentions the Union's import dependence as "special concern for Europe" and identifies it as one of the important threats for the future of the EU (European Security Strategy, 2003: 3). Moreover, the EU's capacity to assure its strategic security is described among the components of the absorption capacity and in this context Turkey-EU partnership in energy supply security and energy transits is argued to influence the Union's capacity to absorb Turkey (Emerson, et al., 2006: 20). Accordingly, the option saying that "Turkey's accession to the EU would strengthen the security in this region" (Eurobarometer 66, 2007: 225) is the closest argument to Turkey's energy role<sup>23</sup>. While 33% of EU citizens agree that Turkish accession will enhance the region's security, security argument remains as the 7<sup>th</sup> statement after respect for human rights (85%), improvement of economy (77%), immigration (66%), cultural differences (61%), geography (56%) and history (40%) as the figure below illustrates clearly.

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<sup>23</sup> At this point, as a weakness, it must be stated that how the EU public opinion defines the concept of "security" and whether or not they include energy security in it, is not clarified by the relevant Eurobarometer. Hence the assumption comes from the relevant literature and European Security Strategy.



**Figure 5: Arguments about Turkey**

Source: Eurobarometer 66, 2007: 225

As a result, what the overall public opinion says concerning the relationship between Turkey's energy role and its membership? The first and may be the most significant remark is that unlike popular clichés about Turkey related to population, cultural differences or immigration, the energy factor is not even included in the surveys, unlike those who argue that Turkey's energy transit country position is an important factor/advantage for Europe to offer full membership, would expect.

Secondly, despite the absence of a general parallelism, it is interesting to find out that in countries where net support for Turkey is very low, the energy dependency is above the average or the vice versa. To illustrate, Denmark is the country least dependent on energy imports (-25%) and its net support for Turkey is among the high percentages (19%). On the contrary, in Austria and in Luxembourg net support has the lowest percentages with -63% and -32%

respectively, while their energy dependency is as high as 69.1% and 97.5%. In fact, the position of Austria is ironic since it is the gate to Central European gas markets, for the Nabucco project which is depicted as the very reason for Turkey to become an energy bridge. When it comes to other Nabucco partners, for Germany a similar position to Austria emerges with -28% net support and high energy dependency from the EU average. However, the positive support coming from Bulgaria (6%), Hungary (18%) and Romania (49%, the highest support), increase the chance of energy being a factor to support Turkish membership in these countries.

Lastly, with regards to Turkish membership and strengthened security, Turkey is the only country where the highest majority of the public argues that the security will be enhanced with its membership (64%). Yet, still, among the EU members there is a positive relationship between the net support for Turkey and agreement for strengthened security: in countries where net support is high, such as in Romania (49%), Sweden (46%) or the Netherlands (36%) agreement with the security clause is also high (45%, 59% and 37 % respectively). In line with the argument, in Austria and Luxembourg, as examples, both factors stand at the lowest ranks.

### **5.3. Conclusion**

The Eastern Enlargement revealed that factors other than accession criteria highly determine the candidates' roads towards the membership. In deed for the case of Eastern European countries, security considerations and kinship based duty on the basis of same European identity are argued to operating as the real causes of

their membership despite their fragile structure concerning the Copenhagen Criteria. With such an example, it is normal to expect that for Turkish membership as well, some special criteria will be influential over arguments in favor or against the candidate. Nevertheless, since the Association Agreement signed in Ankara in 1963, despite its acceptance of candidacy for full membership with the Helsinki Summit of December 1999, Turkey still waits at the door.

The Eurobarometer surveys put forward the public opinion concerning Turkey which indicated that the majority of EU citizens do not consider Turkey as part of the European Union even if Turkey fulfills every criterion and reform required by the Union. In line with that, Turkey's long candidacy period clearly means that even though a candidate offers several advantages to the EU, it cannot achieve membership unless the support of EU citizens demonstrates a positive trend. One of the reasons for this is that citizen's hostility towards Turkey discourages the EU politicians to speak in favor of Turkey leading to the "lack of positive political leadership (Barysch, 2007: 1).

With such a background, this chapter questioned the arguments indicating that Turkey's position as an energy bridge for the European Union will have a positive effect on Turkey's accession to the EU. While Turkey's geostrategic position and willingness to become a transit country which will enhance Europe's energy security supported this claim, the analysis of Eurobarometer surveys did not encounter such a perception of EU citizens. In other words, there is no clear evidence that energy is perceived as an advantage important enough to create public support for Turkish membership.

For today and the near future, is it possible to argue that the understanding of "security" has changed. If it is so, then the energy security would be among the

major security considerations for countries and citizens now and in the future. In the context of energy security, the more supply disruption threats increase, the more the lives of citizens, the industry and economy of European members will be affected. Given that Turkey stands as an energy corridor ready to ease the European problems concerning the diversification of supplies, this geostrategic position is considered to potentially offer Turkey a bargaining power for full membership. Yet, would this be an element which could change public opinion in favor of Turkey? As the public opinion analysis offered in this chapter revealed, the possibility is low.

The major reason for this is that, Turkey already acts as a positive and cooperative partner in the area of energy security. As long as the country finds accurate financial support and international partners required for the investments on necessary infrastructure projects to transfer energy to Europe, Turkey is already willing to become Europe's energy bridge towards the Middle East and Central Asia. It is true that Turkey demonstrates a guarded position towards the Energy Community Treaty and suggests the view that further institutionalization of EU-Turkey energy cooperation should be in the context of "Energy Chapter", in the accession process. Nevertheless, it does not attempt to use membership as a precondition for undertaking the role of energy bridge for Europe, which would be economically irrational and which would further increase negative sentiments for Turkey among the EU citizens.

Given these circumstances, as a remark concerning whether EU energy security and Turkey's role in this context are determining factors for Turkish membership or not, it is possible to conclude that the feature of "energy bridge" would not offer any leverage for Turkey, on its own. This factor is an important



yet insufficient element. If Turkey would only rely on this factor to promote its membership, it would not be surprising to see that no progress is achieved in favor of membership. The underlying causes for this could be that transit roads are already contracted, such as Nabucco and that Turkey is already a partner in energy supplies. Accordingly, with reference to membership Europeans can easily think “why should we offer more?” and may support options other than full membership such as keeping the status quo or special partnership. Consequently, unless Turkey can use energy security as a factor to “win the hearts and minds” of EU citizens and can modify public opinion in its favor, the accession process would not be effected by the goodwill of Turkey in offering secure and stable energy supplies to Europe.

Since, an aggressive policy of Turkey requiring full membership in exchange of uninterrupted supplies to Europe would be illogical and would irreversibly damage the bilateral relation between Turkey and the EU, the most feasible option for Turkey would be to “improve Turkey’s image” in Europe by adding the energy security factor in it, instead of “selling Turkish membership outright”. Perceptions and prejudices are not easy to change but it is a fact that Europeans cannot indicate surely why they oppose Turkish membership. This is an advantage for Turkey because the lack of strict reasons for opposition, offers it a chance to create a change in its perception by highlighting its potential contributions to the EU concerning economic growth, young population, foreign policy or energy security (Barysch, 2007: 5).

To conclude, for the present there is no evidence that Turkey’s energy role will create a positive step towards full membership. There no evidence that the benefits of Turkey in the context of EU energy security is reflected to the

European public opinion for Turkey, either. It is even uncertain whether the EU citizens are fully informed by this strategic position of Turkey. However, it is for sure that the energy role is an asset for Turkey which could contribute to promote its image in Europe. Consequently, it is possible to conclude that energy would operate as a factor when Turkey will engage more in managing its “brand” as an irreplaceable EU member.

## **CHAPTER 6**

### **CONCLUSION**

Energy security has become the rising concern for especially the European Union countries, due to their heavy reliance on external supplies coming from particular exporting countries. In 2030, the overall imports of oil and gas of the Union is projected to increase to 84% and 93%, respectively (European Commission, 2007). However, the EU's chance for self-sufficiency is limited and until now, the efforts to create a common policy have been fruitless due to different preferences of the member states. Still, throughout the years, the European Commission identified the basic objectives and basic policies to be pursued. In that respect, security of supply that is uninterrupted, affordable and sustainable availability of energy (European Commission, 2000) is the fundamental cause for the evolution of European Energy Policy.

Concerns for supply security gives a special emphasis on the EU's external relations with major producer states and the external dimension of European Energy Policy becomes of crucial importance to assure current and future oil and gas availability. Nevertheless, different social, economic and political features of

exporters prevent the EU to pursue a uniform external energy policy. In this context, one significant remark is that externally, European Energy Policy demonstrates an “uncertain” trend between liberal market principles on the one hand, and political interaction on the other hand. In view of that, this thesis reaches to the conclusion that geopolitics is an integral part of energy security and it supports that the Union has to create its *sui generis* strategy which combines market principles and geopolitical considerations, by pursuing the goal of economic and political alignment or at least rapprochement with strategically important countries for its energy security.

Accordingly, one dimension of the EU’s external energy policies includes market liberalization and the extension of its internal market principles to producer and transit countries. With this, the Union targets to base the supplies on uninterrupted economic deals and aims to create investment opportunities for extraction and transit infrastructures. These policies are successful only when they are reciprocated by the producers. However, the EU’s suppliers are not always willing to enforce European-like energy policies, Russia being one example. In this case, diversification of suppliers and transit routes emerge as the most feasible option for the Union in order to overcome its weakness because of being dependent on one major supplier and because relying on insecure supply paths.

Given that the location of proved world energy reserves offers an obligatory dependence on certain regions, especially Middle East and Caspian Region, for diversification policies of the Union, transit countries, with secure and friendly regimes, end up as the major assets to reach to a variety of alternative sources. This thesis argues that this is the point where Turkey’s geostrategic importance comes to the surface.

With its large portfolio of suppliers, Turkey's location is favorable to transport large capacities of oil and natural gas to Europe. In that respect the Nabucco project offers the necessary infrastructure to link Turkish pipeline system to European markets. It is possible to argue that the plans to connect Arab Gas Pipeline and Trans Caspian Pipeline to Nabucco will strengthen Turkey's position of energy crossroads. Nevertheless, the challenges which will affect the success of Turkey's international pipeline projects require to be acknowledged both by Turkey and the European Union in order to generate necessary strategies to cope with them. In addressing challenges especially coming from major suppliers and other consumers such as China, the significance of international cooperation, dialogue and diplomacy have to be appreciated and mutual trust between the EU, producing countries and Turkey have to be established for investment friendly environment and uninterrupted supplies.

In line with the literature, it is revealed that Russia and its South Stream project is generally perceived as a rival to Nabucco, thus the Russian policies to contain its influence over the Caspian resources are considered as damaging Turkey's energy role. To some extent, it is true that Russia, with new price policies towards the Caspian producers and its long term gas purchases from potential suppliers of Nabucco, modified its policies in order to compete with the increasing geopolitical role of Turkey. Nevertheless, as Russia is Europe's major gas supplier, supplies passing via Turkey towards Europe would not substitute, but would only complement Russian gas and oil. Given Turkey's own energy dependency on Russia, for Europe totally by-passing Russia would be a fruitless effort. On the other side, strong economic interdependence between the EU, Turkey and Russia prevents Russia to enjoy a complete leverage in its relations

with Europe, either. Thus, cooperation emerges once again as the key to energy relations. In that respect, although criticized by some experts Turkey's acceptance of feasibility studies for the South Stream Project in its territorial waters in the Black Sea represent a significant step. This thesis concludes that this is a strategic move in favor of Turkey which emphasized its good will, willingness and determination in becoming a key transit country.

In accordance with Turkey's willingness and capability to become a major transit for the EU, strong arguments have been raised indicating that this feature of Turkey will start a new phase in the accession process and will offer a leverage for Turkey in favor of its membership. With the analysis of Turkey's capacity, strengths and weaknesses as a transit country, this thesis acknowledges Turkey's vital importance for Europe in energy security. Nevertheless, based on the assumption that the public opinion is a determinant factor in the evaluation of Turkish candidacy, this study argues that Turkey's role in the context of European energy security can be identified as being a determining factor for the full membership when the argument is tested by positive or negative public opinion.

As a result of a public opinion analysis, despite the appreciation of Turkey's advantages for European energy security by ministers, commissioners, and academicians, this research did not encounter such a perception of EU citizens. Accordingly, there is no clear evidence that energy factor causes a public support for Turkish membership. Moreover, it is even questionable whether this strategic role of Turkey is fully acknowledged by the EU citizens.

For the sake of objectivity towards the candidates, in the part of the European Union, unbiased debates are important during the accession process. This requires equal representation of both advantages and weaknesses of the

candidate countries. Therefore, if the EU defines Turkey as a major transit country and as a major partner for its energy security, than this advantage should be stated in the debates concerning Turkish membership. Just like there are separate clauses and questions concerning immigration, demography, human rights, religion, multiculturalism and cultural differences of Turkey, Turkey's energy bridge position as well has to be inserted in Eurobarometer surveys. Although whether this would increase public support for Turkey or not cannot be known beforehand, such a move would at least inform EU citizen of one more advantage of Turkey.

To conclude, this thesis argues that energy factor is an important but insufficient element to bring membership for Turkey on its own. The reason is that, ironically, the analysis of public opinion does not offer positive outcomes in most of the countries where energy dependency, concerns for supply disruptions are high, while support for Turkish membership and agreement with the argument that Turkey will enhance security in the region is low. However, as the circumstances change and European Energy Policy evolves, optimistically it can be expected that negative perceptions of Turkey can leave the scene to the advantages of this "old" candidate. The more EU citizens become sensitive to energy security threats, the more its special role as an energy bridge might help Turkey to strengthen its image in the European public.

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## APPENDIX A

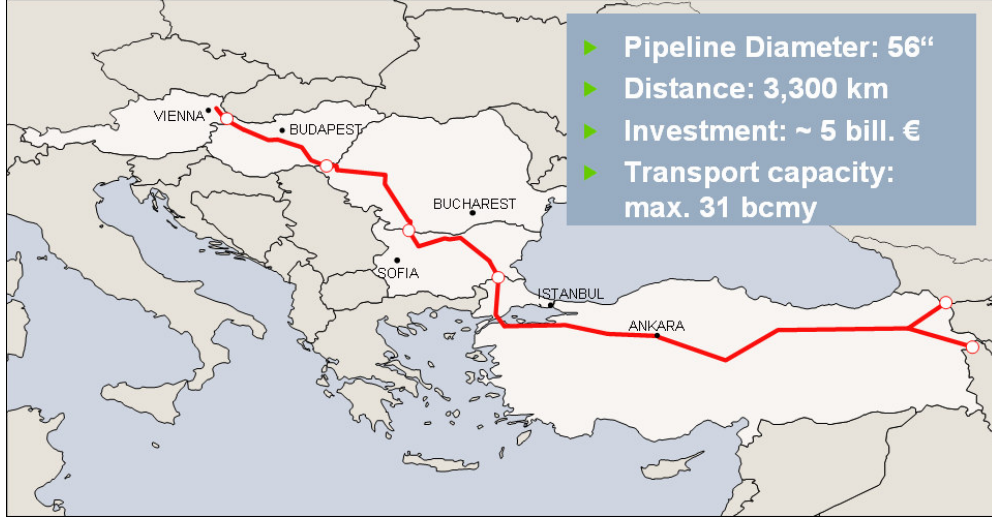


Turkey's Existing Pipeline System

Source: BOTAŞ<sup>24</sup>

<sup>24</sup> For an enlarged version of the map please visit <http://www.botas.gov.tr/index.asp>.





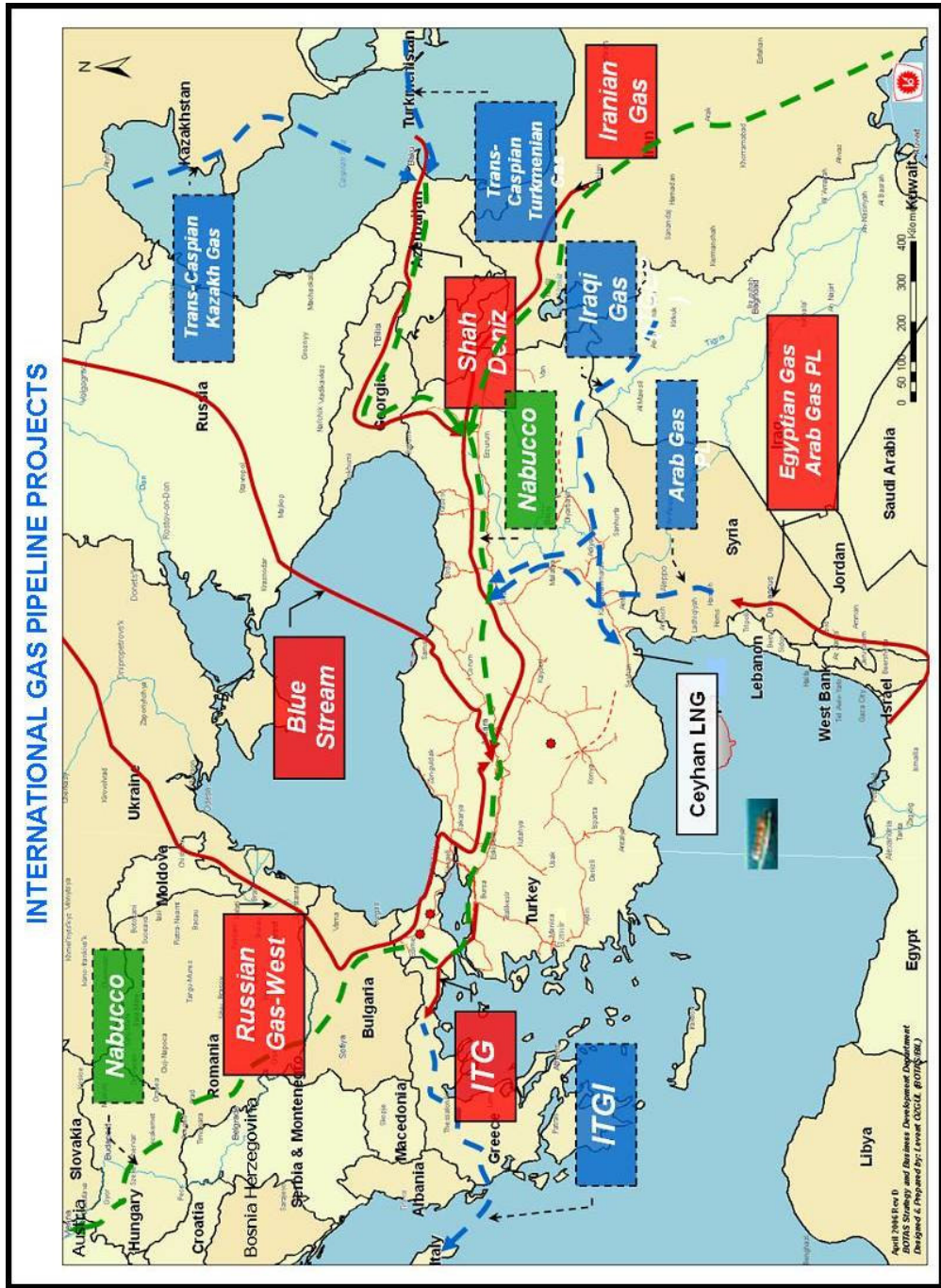
**Nabucco Pipeline**

Source: Nabucco Gas Pipeline International GmbH



**Nabucco vs. South Stream**

Source: BBC



Source: BOTAS

### PUBLIC OPINION OVERVIEW

COUNTRY	Energy Dependency (%)	Energy Policy at the EU Level (%)	Future Threats: Gas Supply Disruptions	Accession in the Interest of the EU (%)	Accession in the Interest of Turkey (%)	In Favour of Turkish Membership (%) <sup>1</sup>	Against Turkish Membership (%)	Net Support (%)	Strengthened Security (%)
Austria	69,1	31	38	8	42	16	79	-63	18
Luxembourg	97,5	41	41	5	62	32	64	-32	19
Germany	58,9	40	28	5	68	35	63	-28	22
France	50,4	39	53	6	56	35	60	-25	30
Slovakia	69	34	52	12	48	35	55	-20	31
Latvia	61,5	34	67	12	50	41	48	-7	37
Greece	67,3	49	48	6	57	47	53	-6	41
Italy	85,3	55	65	8	46	40	46	-6	42
Czech Republic	25,1	36	31	9	51	43	49	-5	33
Finland	53,8	15	34	4	73	47	50	-3	33
United Kingdom	20,1	23	62	7	55	42	45	-3	31
Cyprus	95,9	35	21	2	51	48	49	-1	30
<b>The EU</b>	<b>53,1</b>	<b>39</b>	<b>47</b>	<b>7</b>	<b>52</b>	<b>45</b>	<b>45</b>	<b>0</b>	<b>33</b>
Belgium	77,2	50	38	4	66	49	49	0	34
Malta	100	20	51	10	39	38	35	3	26
Ireland	88,3	28	48	10	46	39	35	4	31
Estonia	29,9	21	56	5	53	48	43	5	41
Lithuania	62,3	34	67	11	39	45	40	5	34

**APPENDIX B**

<sup>1</sup> The remaining percentage from the total of “in favor” and “against” views stands for those who answered as “Don’t Know” which is not included in this table.

COUNTRY	Energy Dependency (%)	Energy Policy at the EU Level (%)	Future Threats: Gas Supply Disruptions	Accession in the Interest of the EU (%)	Accession in the Interest of Turkey (%)	In Favour of Turkish Membership (%)	Against Turkish Membership (%)	Net Support (%)	Strengthened Security (%)
Bulgaria	51,9	21	NA	12	33	45	39	6	43
Hungary	61,4	31	55	9	48	53	35	18	36
Denmark	-25,4	52	20	4	56	59	40	19	39
Slovenia	52,5	40	46	11	44	57	38	19	33
Portugal	82	40	46	9	43	51	31	20	40
Poland	25,5	31	78	9	44	57	29	28	42
Spain	79,5	41	29	6	26	55	25	30	30
Netherlands	38,6	55	27	6	56	67	31	36	37
Sweden	36,1	24	17	5	50	71	25	46	59
Romania	32	25	NA	18	18	64	15	49	45
Turkey	74,4	13	NA	34	13	55	32	23	64

Sources: Eurostat, Eurobarometer 255, Eurobarometer 258, Eurobarometer 262, Eurobarometer 66, Eurobarometer 69