



ENERGY SECURITY OF THE EU UNDER THE INFLUENCE OF RUSSIA: DOES SOUTHERN GAS CORRIDOR STILL HAVE CONTRIBUTION?

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ABSTRACT

Russia is the largest energy supplier of the EU; however gas dispute between Russia and Ukraine in 2006 demonstrated that Russia is not a reliable partner for the EU. Then, the EU decided to take some measures for a secure and sustainable energy supply in the future through energy supply and route diversification efforts. Most prominent alternatives have been the Caspian region; however, the problem was how to transport the Caspian energy reserves to EU. Therefore, the Southern Gas Corridor (SGC) was termed by the European Commission in 2009. The aim of this study is to discuss the fundamentals of the EU's energy security under the influence of Russia and the evolution and the role of the SGC in the EU's energy security in the future. Main findings achieved from this study that the SGC has huge potential to decrease the EU's energy dependency on Russia and securing its energy supplies in the medium and long-term if the Union shows patience to the project, continues to invest in and could solve the problems with Russia, against the construction of the SGC since it will be a threat for Russia's energy sales.

Keywords: Energy Security, Southern Gas Corridor, Caspian Region, TANAP, TAP, Russia

AVRUPA BİRLİĞİ ENERJİ GÜVENLİĞİNİN RUSYANIN ETKİSİ ALTINDA GELECEĞİ: GÜNEY GAZ KORİDORU'NUN KATKISI NEDİR?

ÖZ

Rusya'nın, AB için en büyük enerji sağlayıcı olmasına rağmen, 2006'da Rusya ve Ukrayna arasında yaşanan gaz sorunun göstermiştir ki, Rusya, AB için güvenli bir sağlayıcı değildir. Dolayısıyla, AB, güvenli ve sürdürülebilir enerji arzını gelecekte de sağlayabilmek için enerji arzını ve enerji yollarını çeşitlendirme çabalarını arttırmak gibi bir takım önlemler almaya karar vermiştir. Bu çabada en önde gelen alternatif sağlayıcı Hazar Bölgesi olmuştur. Fakat burada problem, Hazar enerji kaynaklarının nasıl AB'ye ulaştırılacağıdır. Bunun sonucunda, 2009 yılında Avrupa Komisyonu, Güney Gaz Koridoru'nu kavram olarak ortaya atmıştır. Bu çalışmanın temel amacı, Rusya'nın etkisi altındaki AB enerji güvenliğinin temellerini, Güney Gaz Koridoru'nun gelişimini ve koridorun, AB'nin enerji güvenliğinin geleceğindeki rolünü tartışmaktır. Bu çalışmadan elde edilen esas bulgular şunlardır: eğer AB proje için gerekli sabrı gösterir ve projeye yatırım yapmaya devam ederse, Güney Gaz Koridoru, AB'nin Rusya'ya olan enerji bağımlılığını azaltma, orta ve kısa vadede enerji arzının güvenliğini sağlama ve konusunda büyük bir potansiyele sahip olup Güney Gaz Koridoru'nun varlığı AB'nin Rusya ile olan problemlerini çözmesine bağlıdır. Rusya, Güney Gaz Koridoru'nun yapılmasına kendi enerji satışlarına bir tehdit oluşturacak olması sebebiyle karşıdır. Eğer AB, Rusya'nın bu projeye olan muhalefetiyle başa çıkabilirse, Güney Gaz Koridoru gerçekleştirilebilir bir proje olabilir.

Anahtar Kelimeler: Enerji Güvenliği, Güney Gaz Koridoru, Hazar Bölgesi, TANAP, TAP, Rusya

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1. INTRODUCTION

Energy security is an issue for the EU that will never end. This issue was taken into account from the economic point of view until 2006 by the European Commission. According to the European Commission, energy security was necessary in order to guarantee the welfare of the people of the Union, functioning of economy and affordable energy prices not for ensuring energy self-sufficiency and reducing the energy dependency.

The EU is dependent on energy imports and almost 80 percent oil and 60 percent gas imports come especially from the regions politically instable. However, security related problems of the EU mostly come from its high dependency on Russian energy. Although Russia is the largest energy supplier of the EU since 88 percent of Russian total oil and 70 percent of Russian gas are exported to the EU, Russia is not a reliable partner since it uses energy as leverage in political issues towards the EU, the post-soviet and transit countries (Papava and Tokmazishvili, 2010).

The issue, which demonstrated to the EU that energy security, has also political point of view occurred in 2006: gas conflict between Russia and Ukraine. Since Russia cut off the gas export to Ukraine, transit country for the gas transporting to the EU, due to a dispute over gas price and transit issues, the EU realized its high dependency on Russian energy. In order to decrease the possible security threats, the EU decided to take some measures. The most important measure for a secure and sustainable energy supply in the EU was regarded as the diversification of the EU's energy supply sources. Most prominent alternatives are Caspian and Central Asian countries; however, the EU had problems to transport the Caspian energy reserves to the EU due to Russia's dominance on energy transit routes. Besides, Russia was pursuing a monopolistic policy in the Caspian region and challenging against the EU in the Asian market. Therefore, the European Commission announced the SGC in 2009. While the EU was aiming to find new ways to secure its energy supplies, the SGC was seemed as very important part of this target since the SGC has had a potential to become major gas supply route to the EU in the medium- term and long- term. However, the Project had lost momentum since Russia promoted South Stream before the SGC in December 2012 as a reaction to the EU's search for new supply routes for the gas delivery.

Russia's annexation of Crimea Peninsula, Ukraine gas supply crises and failure of South Stream and its successor, Turk Stream brought energy supply security issue and the SGC project back to the EU's agenda. All those events demonstrated that this country is not a reliable partner to build up a mutual energy security. The aim of this study is to discuss the fundamentals of the EU's energy security under the influence of Russia and the role and the evolution of the SGC in the EU's energy security. After examining new supplies and routes the EU searches for strengthening its energy security, the contribution of the SGC to the EU's energy security and main challenges of the project are also analyzed.

2. ENERGY SECURITY OF THE EU

There are indeed many definitions of energy security and they need to be highlighted in order to understand how countries interpret their energy security, and stemming from it, when does energy security become an issue between two partners. Energy security may refer to "a reliable and uninterrupted supply of energy sufficient to meet the needs of the economy at the same time, coming at a reasonable price" (Jun et al., 2009) or simply, the availability of a regular supply of energy at an affordable price (Costantini et al., 2007).

Three components are determinative in energy security: affordable energy, availability and accessibility. In terms of affordable energy, energy security is related with price and market since in the market, energy products and services should be at affordable prices for all customers. Sustainable and reasonable energy prices are important for the peace and prosperity of the EU (Lowe, 2011). In regard to the availability and accessibility of the energy, for sustainable energy, reliable energy suppliers and differentiated supply sources and transportation routes, and transparent distribution and delivery of supply to the customer are necessary (Chevalier, 2006).

Energy security is basically related with supply and pricing. The term is used in security studies frequently. Although its definition is generally referred to economic issues, it could be regarded as an effort of countries demanding energy for securing sufficient supply and purchasing energy at affordable prices (Palonkorpi, 2008).

Besides, energy security is an issue not only for energy importing countries but also for energy exporting countries since security of supply is important for countries importing energy while security of demand is important for countries exporting energy. On one hand, cutting the energy flow towards a country depending on energy import would create financial tensions on the economy and even serious economic problems in the long term. On the other hand, countries depending on energy import need continuously guaranteed energy sales for their economic welfare. Therefore, it is not interesting that an increase in oil prices is not an advantage for countries exporting energy in the long terms since high oil prices would direct importing countries to the diversification of their energy suppliers on energy sources. Nevertheless, it is not wrong to say that ultimately, importing country is in more risky situation than the exporting country.

Nowadays, increase on energy demand; instable energy prices and nationalization of energy in supplier countries have increased the importance of energy security for the states. First reason why energy security has been prominent for the EU is that the EU does not have indigenous energy sources and is dependent on energy supplier countries. Therefore, EU aims to develop market-based relations to construct stable and secure energy market in the world while energy supplier countries use energy as geopolitical tool (Doukas et al., 2008).

In addition, EU member states are industrialized and industrializing countries of the world, which means that they are dependent on oil and gas supplier countries for its energy security. Today's EU gives significant importance to energy in terms of economics and geopolitics (Delors, 2010).

From EU's point of view, ensuring the energy security has direct effect on the energy geopolitics; hence the European Commission aims to provide the solidarity between EU member states and diversify energy suppliers and transportation routes. The gas crisis of 2006 and oil crisis of 2007 were concrete examples demonstrating that the Commission and the member states needed to promote foreign policy planning for the supply security and supply diversification. They especially concentrate on the promotion of energy efficiency, renewable energy usage and alternative fuels and energy related technologies (Belkin, 2008).

EU's main challenges in energy security issue in the future are determined as unsuccessful energy diversification efforts, growing import dependency, high and unstable energy prices, increase on energy demand in the worlds and security risks related with energy producing countries, transit countries and transport routes of energy (European Commission 2006). Therefore, art. 194(1) of the Lisbon Treaty defines the four major objectives for the EU's

external energy policy: guaranteeing supply security and functioning of the energy market in the EU, increasing energy efficiency and energy saving and promoting alternative and renewable energy resources; and developing energy networks connection (Treaty of Lisbon, 2008).

Since the number of EU's member states has reached twenty-eight, the supply security of energy becomes more important for the Union. Therefore, EU's dependency on foreign energy supply especially the Russian one demonstrates that energy security related issues place into high level on the agenda of the EU. When the increase on energy demand, unstable prices of the energy and potential risks in energy supply are added to the reasons above, it became obligatory to set up a common and coherent energy policy for the EU.

Besides, energy Security concerns are also the driving motives behind the EU's will to develop its external identity since the EU was aware that it had to play more important role in energy area. Therefore, the EU has taken several legal steps to reinforce its energy security.

First of all, two Green Papers 'A European Strategy for Sustainable, Competitive and Secure Energy' of 2006 and Energy Policy for Europe of 2007 were launched by the European Commission in order to underline the necessity that the EU should provide sustainability, competitiveness and security of its energy supply (Belkin, 2008). In addition, the Energy Charter, which aimed to establish a partnership having energy security dimension (Nowak, 2010). Nowadays, the Energy Charter has evolved into a global forum for energy cooperation. The Energy Charter also demonstrates that there is collective responsibility awareness within the EU in terms of energy security. In long- term, those legal steps could contribute to the growth of the EU's external identity and could support the EU's supply security since the Union could be able to speak with one voice in its energy relations with the supplier countries in the world.

However, there is still lack of a coherent energy policy in the EU and this situation has had negative impact on energy supply security since member states follow their national interests not the ones of the Union. For instance, member states reinforce their bilateral relations with Russia by ignoring the main objective of the EU in terms of issue of energy supply: reducing its dependency on Russia's energy exports and building potential alternative pipelines.

2.1. Energy Security from the Supplier's Side: Russian Case

From supplier's point of view, energy security is to guarantee the security of demand since the supplier needs reliable markets for its energy and the continuity of the income coined from energy export (Monaghan and Jankovski, 2006). For instance, Russia, as an energy producer, aims to hold the primacy over the main pipelines and market network since Russia needs them to export its energy to international markets. Besides, giant oil and gas resources either have a prominent influence on Russia's development or give a central role to Russia in terms of energy security in the world. Geographical position of Russia also makes significant contribution to the place of Russia for energy importing countries. Besides, Caspian Sea region and Central Asia, which rich energy resources are also geographically so close to Russia and this increases Russia's importance as a transit country. Thereof, Russia is a major energy producer, consumer and significant transit state (Monaghan and Jankovski, 2006). Besides oil, Russia has the biggest natural gas reserves of the world with 47 trillion cubic meters (Tcm) proven gas reserves and potential ones in Siberia. Russia also is the biggest natural gas producer of the world with 67 bcm, which is 20 percent of the world total according to 2011 data (EIA, 2012). Russia exports its natural gas mostly to the Commonwealth of Independent States (CIS), namely Azerbaijan, Armenia, Belarus, Georgia,

Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Uzbekistan and Ukraine. Moreover, as a result of increasing gas demand of the EU, Turkey, Japan and other Asian countries, Gazprom exports much of its natural gas to these regions (EIA, 2014).

To sum up, energy is a part of geopolitical strategy of Russia; hence energy has been a political and economic tool in Russian foreign policy since 2001 (Milov, 2006). This makes energy policy a security issue for Russia since energy is used to increase Russia's sphere of influence abroad and secure its independence through non-military ways (Leijonhjelms and Larsson, 2004). More explicitly, Russia engages energy to its foreign policy for promoting its interest in various countries through different ways: usage of energy dependence of the countries especially post-Soviet ones importing energy from Russia, usage of pipeline diplomacy which means the supply expansion by launching new oil and gas pipeline projects, promotion of bilateral relations with certain energy importing countries by providing partial access of their investors and the controlling the downstream energy assets of the energy importing countries especially post-Soviet ones (Milov, 2006).

2.2. EU's Energy Security and Russia

There is a fundamental difference between the perceptions of the EU and Russia in terms of energy security. From the EU's point of view, energy security could be regarded as the possession of energy in demanded quantity at reasonable prices. Besides, delivery of energy should not damage the environment and the delivery service should be sustainable and should not be interrupted (Kirchner and Berk 2010). From Russia's point of view, in contrast, energy security, in regard to its energy relations with the EU, is relating to security of energy demand since the EU is a market which Russia exports its energy products for increasing its government revenues (Kirchner and Berk 2010).

Besides, EU has high import dependency on Russia's energy supply; hence its energy security encounters several risk possibilities, which could be categorized as short-term and long-term risks. According to Egenhofer and Legge, the example for the short-term risks could be an accident, a terrorist attack and technical problems causing to causing to the sudden supply cut off. In regard to long-term risks, Egenhofer and Legge (2001) basically classify them as economic and political ones. However, long-term risks could have deepened roots such as "imbalance of supply and demand".

Russia is main energy supplier of the EU since there is geographical proximity between the EU and Russia, having big amount of energy reserves and monopoly in the energy infrastructures. However, energy supply security for the Union is not stable and effective due to Russia since new investments for the extraction of Russian oil and gas are necessary in order not to fall into energy shortage although Russia not only has inadequate capital for new investments but also its monopolized stand does not let foreign investment in the country since companies, namely Gazprom and Rosneft, under the state control cover all energy production, exportation and transportation facilities (Mankoff, 2009).

Another reason why energy supply security is not stable and effective due to Russia is that there is a growing demand for Russia's hydrocarbons in the Asian countries besides very close relationship of Russia with China and Japan (Kuchins, 2014).

Last but not the least, the European Commission and member states of the EU have different perspectives on the energy cooperation with Russia; hence the EU faces difficulties in forming a coherent multilateral stance with Russia. On one hand, the dependency of the Northern Europe on Russian gas is expected to increase in the future since its own production

will be exhausted. On the other hand, Southern Europe could be dependent on Northern African gas supplies due to cheaper delivery cost. However, the main problem is that there might not be a balance between gas demand of the EU and gas exports of Russia in the future since Russia might not be able to cover the EU's gas demand. There are mainly two reasons why Russia might not be able to cover the EU's gas demand in the future. First, Russia's gas extraction is insufficient and cost of gas extraction development is increasing. Second, Russia has oriented its export to other markets especially Asia (Yegorov and Wirl, 2008). Those are another challenges to the EU's energy security.

3. EU'S DIVERSIFICATION EFFORTS

EU's energy supply source and transit route diversification efforts aim to reduce the risks the Union's dependency on unstable energy suppliers (Mankoff, 2009). Energy crises between Russia and Ukraine; and Russia's annexation of Crimean Peninsula also demonstrated that the EU should ensure its energy by diversifying its supply sources and transit routes; hence the EU shifted its route towards new possibilities such as the Central Asia, Caspian Sea and Black Sea regions.

Based on this shift, EU started to plan building new transportation networks and increasing gas supply from Scandinavia, North Africa, the Middle East, Caspian region and Central Asia (Mankoff, 2009).

Among the alternative suppliers, the Caspian Sea region and Central Asian countries, namely Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan have rich energy reserves. Moreover, South Caucasus transit corridor in the region has emerged as an important route for the European market (Clawson, 1998).

In regard to the Central Asia, the Commission's Communication (2011) emphasizes that the EU should establish bilateral relations with the Central Asian countries in order to establish long-term economic and political relationship with those countries. Besides, the built of long-term relationship politically and economically with the Caspian region countries could contribute to the EU's interests since if these countries could be stable economically and politically, an appraisable energy relationship could be formed between energy- importing and energy- exporting parties. This also contributes to the energy security of the EU in regard to the sustainability of the energy supplies. For instance, what the EU understood from the Georgian war in 2008 is that oil pipelines could be target in the state of war (Umbach, 2010).

Therefore, mainly two projects were suggested in the region: Trans-Caspian Pipeline Project and the Southern Gas Corridor (SGC). Trans-Caspian pipeline project, carrying gas from Turkmenistan and Azerbaijan to the EU via a submarine pipeline, aims to bypass Iran and Russia. However, Russia and Iran could be an obstacle against the construction of the pipeline through using the unclear legal status of the Caspian Sea (Closson, 2009). The Southern Gas Corridor Project (SGC) prospects to bring the gas via several pipelines from the Caspian Region and the Middle East to the EU.¹

Trans-Caspian Pipeline is also planned to be the natural eastward extension of Southern Gas Corridor by filling the pipes with Turkmen gas; however, both projects have been regarded as a challenge to the energy interests of Russia in the region.

¹ The European Commission (2011) assumes that the project could meet 10 to 20 per cent of the EU's gas import demand by 2020.

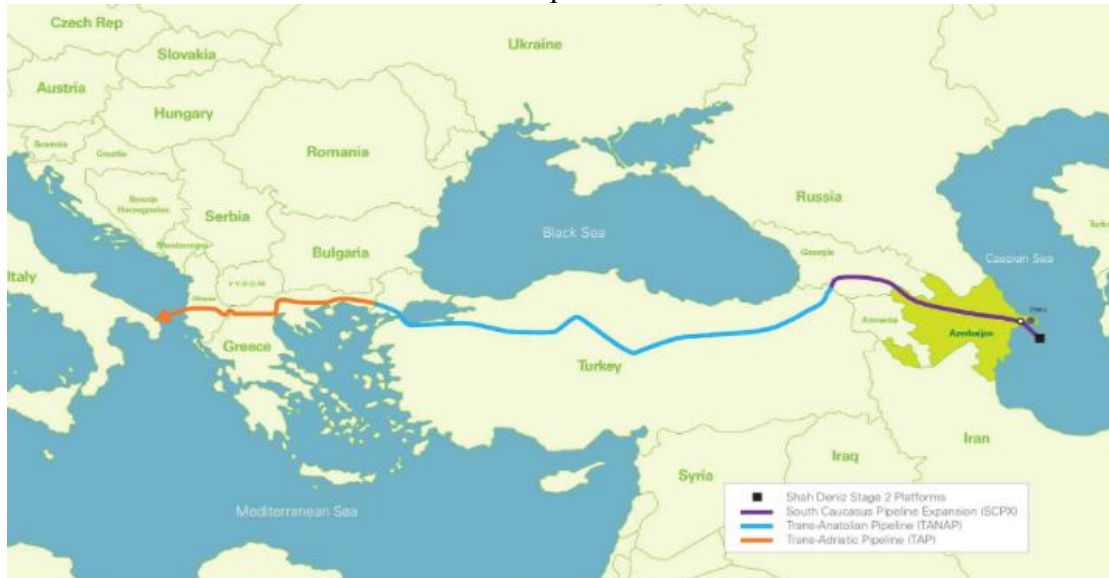
Map 1.1



Proposed Trans- Caspian Gas Pipeline

Source: Energy Delta Institute, 2011

Map 1.2



Shah Deniz Stage II Project and the Southern Gas Corridor

Source: BP magazine, Issue 1, 2014

3.1. Southern Gas Corridor Project (SGC)

The Southern Gas Corridor, termed by the European Commission, defines the infrastructure projects planning to deliver gas from the Caspian and Middle Eastern sources to the EU for the supply security of the EU. According to the Prague Summit Declaration of 2009, the Southern Gas Corridor was envisaged as the modern version of ancient Silk Road. The Prague Summit was realized to discuss the Caspian oil and gas supplies namely, the trans-Caspian energy transit projects, systems for the transit of sufficient volumes via Southern Corridor, and the formation of direct routes between the EU and Caspian Sea region for further energy cooperation (Prague Summit, 2009) .²

² For now, Southern Gas Corridor is planned to consist of six units, which are gas production wells in the

Key partners of the Southern Gas Corridor are Azerbaijan, which has natural gas and Turkey, which is the gate to the EU (Roberts, 2004). The driving force behind the EU's interest in opening the Southern Gas Corridor is rich gas reserves in Azerbaijan and Turkmenistan. Therefore, the EU aimed to bypass the Northern Corridor, which transports the gas from Russia through transit countries. The Shah Deniz is huge gas field in Azerbaijan and its prominence comes from both its size and its easy-accessibility to whole Caspian Sea reserves. The Shah Deniz consortium is aimed to design the structure of the Southern Gas Corridor.

Nabucco West and TAP were in rivalry to be the pipeline of the Southern Gas Corridor. Two projects had different advantages from each other. Nabucco West was strategically more important while TAP was economically more important. Moreover, Nabucco West was aiming to transport the Shah Deniz gas to Austria while TAP delivers the Shah Deniz gas to Italy. Both projects adopted their shareholders and objectives based on the changes on economic and geopolitical circumstances in Eurasia. For instance, in early 2012, Turkey and Azerbaijan declared a transit tariff for the Azerbaijani gas and that they planned to build TANAP, which will go through Turkey to Bulgaria and Greece in the EU (Rzayeva in Financial Times, 2012).³

3.1.1. Pipeline History of the Southern Gas Corridor

The Nabucco pipeline was the lead off pipeline project of the Southern Gas Corridor. The Nabucco pipeline was planned to transport gas of Azerbaijan, Kazakhstan and Turkmenistan by bypassing the Gazprom's channels from Turkey to Austria. Two problems were discussed in regard to the sustainability of the Nabucco pipeline. First, it was not precise whether there was adequate amount of gas in gas reserves of these three countries. Second, Russia probably would have tried to dominate those sources (Mandil, 2008). The reason why the EU as the community and most of its member states supported the Nabucco pipeline project despite its ambiguity was the political point of view of the project for the EU since the Nabucco pipeline would have been show of strength of the EU towards to Russia and the Central Asia as well (Mandil, 2008).

Caspian Sea, the offshore platforms, extension of the Sangachal Terminal, and the three pipeline projects in Azerbaijan and Georgia, which is Extended South Caucasus Pipeline (SCPX), in Turkey, which is Trans Anatolian Natural Gas Pipeline (TANAP) and in the EU, which is Trans Adriatic Pipeline (TAP) under the Shah Deniz II project.

³ The estimated capacity of the pipeline is planned to begin with 6 bcm in a 30 bcm capacity pipeline and then to add a second line in order to increase the capacity to 60 bcm in a year.

Map 1.3



Initial Nabucco Gas Pipeline Project
Source: Nabucco Gas Pipeline International GmbH, 2007

Although it was agreed on gas supply from Azerbaijan to the EU with the joint declaration signed in 2011 during the European Commission president Jose Manuel Barroso's visit to Baku, it is claimed that Azerbaijan's gas supply could not supersede Italy-Turkey-Greece-Interconnection (ITGI) and Nabucco project as well (CRS, 2012). This reality directed the European Council to negotiate with Azerbaijan and Turkmenistan on the built of Trans-Caspian-Pipeline (TCP), which would have transported gas from Central Asia to Baku and supply natural gas instead of Nabucco (Ibrahimov, 2010).

Nabucco, ambitiously supported by the EU, the US and Germany, had been in the scene until the beginning of the Southern Gas Corridor's coming into existence. It was regarded as a strategic pipeline for the energy security of the EU.⁴ Initial length of the Nabucco was 3900 kilometers for going through Turkey to Austria; however, the Nabucco had to be narrowed to the Nabucco West since Turkey and Azerbaijan declared that they decided to build TANAP (Ibrahimov, 2010 and Sartori, 2012).⁵

Map 1.4



Nabucco West gas pipeline project
Source: <http://www.nabucco-pipeline.com>

⁴ Intended aim of Nabucco was transport the Azerbaijani gas to Baumgarten, Austria with 31 bcm capacity in a year.

⁵ The Nabucco West was designated as a pipeline with 1300 kilometers length and 23 bcm capacity in a year to go through Bulgaria, Romania, Hungary and Austria in the EU and to be connected to TANAP in the border between Turkey and Bulgaria. Its shareholders were OMV, FGSZ, Transgaz, Bulgargaz Holding, and RWE.

The Nabucco project was always criticized both in geopolitical and economic terms. In economic terms, it was claimed that Shah Deniz gas was not enough for filling up Nabucco, which is enormous pipeline (Roberts, 2010). In geopolitical terms, Nabucco was a threat for Russia since Russia aims to supply gas to South Eastern European states, especially Bulgaria through Gazprom.

On one hand, the initially planned Nabucco was not feasible since it was not so possible to supply gas from Iraq and Iran at that time. On the other hand, on 28 June 2013, Shah Deniz Consortium decided on Trans Adriatic Pipeline (TAP), planning to deliver the gas from Shah Deniz II field in Azerbaijan to South Italy and then the rest of the EU through Greece, Albania and Adriatic Sea, was selected as the transit route of Caspian gas to the EU. Therefore, the Nabucco West pipeline became obsolete.

Although introduced in 2003, the 2010 were the year TAP project gained momentum.

Map 1.5



Adriatic Pipeline-TAP

Source: <https://www.trans-adriatic-pipeline.com>

In order to take the advantage against the Nabucco West in terms of gaining the transit of the Azerbaijani gas, TAP used its advantage of commerciality since TAP is claimed to be the most viable pipeline with the lowest cost and the fastest most efficient route to EU for the Shah Deniz gas. Therefore, TAP got more political support. Actually, TAP is much more important to Greece than to Italy since TAP will be an international pipeline delivering the Azerbaijani gas, be a part of the Southern Corridor and develop Greece both geopolitically and economically while Italy already has several international pipelines such as the Green Stream, which delivers the Libyan gas (Livanios, 2013).

First construction works of TAP started on July 2015. Furthermore, gas sale is estimated to start to Georgia and Turkey at the end of 2018 and to the EU at the end of 2019 (TAP-AG, 2016).

Finally, TAP is planned to have connections to several existing and proposed pipelines which means that facilitate the access of the SGC to many different energy markets and the Caspian gas could be able to be delivered to South Eastern, Central and Western Europe. Therefore, it could strengthen the EU's energy security in the long-term.

Trans Anatolia Natural Gas Pipeline (TANAP), planning to transport the natural gas from Shah Deniz to the EU via Turkey, has created a deep impact on the Southern Gas Corridor's pipeline rivalry (Rzayeva, 2012). On 24 December 2011, Turkey and Azerbaijan signed the Memorandum of Understanding in Ankara, Turkey. Both parties also decided to form a joint consortium including the companies, namely State Oil Company of Azerbaijan (SOCAR), Petroleum Pipeline Corporation of Turkey (BOTAS) and/or Turkish Petroleum Corporation

(TPAO).⁶

On one hand, Azerbaijan is rich in natural gas and an alternative European supplier for the EU. This country is expected to increase the energy efficiency and security of the EU by delivering its gas from Shah Deniz to the Union's territories through TANAP. On the other hand, Turkey, with rich route advantages to carry natural gas many countries in the region, is main partner of Azerbaijan and the EU in developing TANAP.

Map 1.6



TANAP and TAP

Source: Hurriyet Daily News

The construction of TANAP started in 2015 and first gas is expected to reach Turkey in 2017 and to Europe in 2019 (RT, 2016).

TANAP is the project making the Turkish part of initial Nabucco Project nonfunctional. Therefore, Nabucco Project narrowed its route to the EU land only and was planned to connect with TANAP at Turkey-Bulgaria border to deliver the Shah Deniz gas to Baumgarten in Austria. However, since the Shah Deniz Consortium has decided to continue with TAP project, for now, TANAP seems to be connected with TAP instead of Nabucco.

The decision of Azerbaijan and Turkey to establish TANAP lies on their historical strategic partnership. There are several reasons why Turkey established this partnership with Azerbaijan. First of all, there is long-lasting trustful between Turkey and Azerbaijan. Second, by enhancing its relationship with Azerbaijan, Turkey aims to be a part of a formation determining the future energy policy of Eurasia. From another point of view, this is exactly the reason why Russia has failed in the construction of the South Stream Pipeline, which envisaged transporting the gas to Italy through Greece. Moreover, TANAP project is profitable for Turkey since the pipeline going through Turkey will bring transit fees, taxes, job opportunities, more geopolitical influence and enhanced gas supply security to Turkey.

From Azerbaijan's point of view, Azerbaijan aims to become key transit country of the Caspian Sea's other side in the long-term. In other words, Azerbaijan has geopolitical and economic interests in transporting the Turkmen gas to the EU. Therefore, Azerbaijan aims to have strategic gas transit routes.

Recently, Turkey's Energy and Natural Resources Minister, Berat Albayrak has repeated that

⁶ Turkey and Azerbaijan signed the Intergovernmental Agreement of TANAP project on 26 June 2012 in Istanbul, Turkey. TANAP is aimed to start from the border between Georgia and Turkey and go through Turkish cities, namely Ardahan, Kars, Erzurum, Bayburt, Gümüşhane, Erzincan, Sivas, Yozgat, Kırıkkale, Ankara, Eskişehir, Bilecik, Kütahya, Bursa, Balıkesir, Çanakkale, Tekirdağ and Edirne (TANAP, 2014).

Turkey is continuing to support the project politically, financially and technically to ensure Europe's supply security (AA, 2016).

Finally, the EU has started to be interested in the project again to reduce its dependence on Russia and Ukraine after Russia suspended the South Stream gas pipeline project and announced the Turk Stream project. However, after Turkey's shooting down of Russian warplanes, the future of Turk Stream project became unclear as well.

3.1.2. Contribution and Challenges of SGC for the EU's Energy Security

When the SGC is completed, it will make a concrete support to the diversification efforts of the EU towards the Caspian gas supplies. Main reason is that with 11 per cent proven world gas reserves, the Caspian region has strategic importance to the EU's long-term energy security.

The strategic importance of the SGC mainly comes from being a fourth major natural gas corridor after Norway/ North Sea, North Africa, Russia not only for Europe but also the transatlantic alliance. The SGC will be new route to transport natural gas from the Caspian Sea, which is very important for the future of the EU's energy security. Even, if the SGC is expanded later, it will be third route for Azerbaijan and Turkmenistan, having rich natural gas reserves, to access the European energy market after routes to Russia and China. It is the same for Eastern part of Mediterranean region, Iraq and possibly Iran (Koranyi, 2014).

Moreover, the SGC means that there is new energy transit route for the EU, which is not affected by monopolistic behavior of Gazprom such as fixing the prices through long-term contracts, while importing natural gas.

It is expected that the EU's gas demand will not decrease except for temporary declines as a result of developing new storage types of gas such as LNG, exploring new gas reserves such as shale gas and changing energy preferences towards coal, nuclear or renewables (Barroso, 2013). Therefore, the importance of the SGC is undeniable for the future energy security of the EU.

Even though LNG imports will contribute to the EU's energy security in the medium-term and long-term, the SGC could still be preferable since the transportation and storage of the LNG is more expensive than pipeline's gas.

By the way, newly emerging Mediterranean area is receiving an attention of the EU since gas reserves extracted from the Mediterranean could contribute to the energy security of the countries in this area like Israel, Cyprus, Lebanon, Syria and the Palestinian territories and of the EU via the SGC as well.

Finally, the SGC is believed to contribute to the stabilization of the South Caucasus by integrating Azerbaijan to the Euro- Atlantic Community since same thing happened after the construction of the Baku- Tbilisi-Ceyhan Pipeline, which contributed to the integration of Azerbaijan and Georgia to the West. The SGC also could decrease the gas dependence of Turkey to Iran and Russia, and this decline could decrease the dependence of European states neighboring Turkey on Russian gas (Koranyi, 2014).

Besides the contribution to the EU's energy security, there are several challenges in the

realization of Southern Gas Corridor. To begin with, postponing the construction of the project connecting the Shah Deniz in Azerbaijan to Europe could lead to economic and geopolitical losses, which menace the European energy security.

Second, Russia's promotion of South Stream, which was ahead of the Southern Gas Corridor Project since Gazprom launched it in December 2012, could have also been risky if Russia did not cancel the project since its route was in accordance with the transit of the Azerbaijani gas to the EU through the Southern Gas Corridor. Instead, Russia proposed the Turkish Stream; however, its future is also unclear due to the deterioration of the relations between Russia and Turkey. If one day Russia builds one of those pipelines, Gazprom will sign new gas supply agreements with the South Eastern European countries and try to undermine the SGC both geopolitically and economically. This is a possible threat for the EU's energy security.

In addition, Russia's strategy to prevent the Central Asia from exporting the gas to the EU was applied on the construction of Trans Caspian Pipeline, which would deliver gas from Turkmenistan to Azerbaijan and then to Turkey and Georgia via TANAP (Cohen, 2014). Russia uses 'legal status of Caspian Sea' card to block the project.

Another security risk related with Russia is the country's point of view towards the region. The Caspian region is accepted as sphere of influence by Russia. Hence, the EU's involvement attempts to the region disturb Russia. Moreover, the importance of the Caspian region for Russia is related with maintaining the EU's energy dependency on Russia (Nanay, 2009). Besides, Russia is dependent on Turkmen gas in order to meet its domestic energy needs (Feklyunina, 2008). Therefore, energy interests of the EU and Russia in the Caspian region clash each other and then the diversification policy of the EU faced with the counter attack of Russia, proposed South Stream, North stream and Turk Stream pipeline projects. The reason of Russia's counter attack goes back the Russian main objective since 2000: being an energy superpower (Papava and Tokmazishvili, 2010).

Moreover, economic crisis in Europe is a threat for the future of the Southern Gas Corridor since gas infrastructure is costly and this could decrease the political will of the Southern Gas Corridor. For instance, the debt crisis in Greece has additional cost on the Eurozone. Besides, Gazprom aims to get a share from the privatization of the Greek gas industry, namely DEPA and DESFA. If Gazprom becomes successful, Russian gas monopoly will hold the Greek gas industry in its hands. Another point here is that Greece has strategic position in regard to the transit of Azerbaijani gas to the EU since it has two entries for the pipelines.

Another security risk is related with the gas reserves itself. According to Aalto, although the EU aims to penetrate the Caspian region in order to diversification its gas suppliers and maintain its energy security, the Caspian energy reserves could only be complimentary to the Russia's energy supplies (Aalto, 2009). Therefore, the EU has to continue establish cooperative relations with Russia. Moreover, the EU's energy supplier diversification efforts could lead to Russia's search for new energy importers apart from the EU.

The Caspian region is always consisting of possible conflict threat inside due to long-lasting ethnical disputes in Caucasus. Those threats could be increased by Russia's escalation the conflicts in the region and could be risky for the EU's energy security. Moreover, Azerbaijan, key partner of the SGC, is heavily dependent on oil and gas revenues for the continuation of the stabilization. However, the Nagorno- Karabakh conflict between Azerbaijan and Armenia

is a threat for Azerbaijan since if the conflict is escalated, Baku- Tbilisi- Ceyhan oil pipeline and the South Caucasus gas pipeline could be sabotaged. If those conflicts causes to the decrease on energy revenues of Azerbaijan, the country could not follow a western oriented policy easily and the SGC will negatively be affected by the conflict (Koranyi, 2014).

Another instable energy-rich region is Northern Iraq. Turkey is expecting gas delivery from this region and it means that this gas will come to the EU through the SGC. However, both the conflict in Syria, next to Iraq and the unrest situation in Iraq are threatening the energy security of the Union.

Like Russia, China has historical ties in the region and aims to keep the Central Asian under its sphere of influence geopolitically and economically. China is already importing big amount of gas from the region and is investing in new pipelines, and oil and gas fields (Lelyveld, 2014). However, the Central Asian countries especially Turkmenistan aims to export energy resources to the West in order not to be limited with Russia and China. Therefore, a clash in interest between China and the EU is also another risk for the EU's energy security.¹⁴

Finally, very recent developments are taking place in the Mediterranean and Iran. First, the discoveries of large offshore fields in the Mediterranean means that the SGC could be the route of Mediterranean gas deliveries to the EU. Second, diplomatic normalization in the relations between Iran and West means that Iranian gas could also be delivered through the SGC. However, in both cases, the EU's relations with those suppliers are fragile. In the Mediterranean, gas resources are in instable countries like Israel, Cyprus, Lebanon and Turkey. There is a Cyprus problem between Turkey and Greece. Besides, Israel and Lebanon are a part of the Middle East, a boiling spot. In regard to Iran, its relations with West are not always in the same level due to the state regime in the country. Therefore, the SGC and the EU's energy security accordingly could face with challenges in the future.

4. CONCLUSION

The EU energy policy aims to ensure the security both for supply and demand since the Caspian gas resources very important for the energy security of the EU. The EU is needed to establish a strong leadership and the effective decision making mechanism in the region in order to guarantee its future energy security.

Since there is the lack of coherent energy policy in the EU in energy supply security issues and member states follow their national interests not the Union, Russia's could find a place to dominate the energy market in the EU. Even, member states reinforce their bilateral relations with Russia by ignoring the main objective of the EU in terms of issue of energy supply: reducing its dependency on Russia's energy exports and building potential alternative pipelines. More precisely, the EU's main problem is the lack of a common energy policy therefore member states do not work in harmony while developing energy diversification policies for the Union. In addition, new natural gas supplies are emerging in the world such as LNG, shale gas and natural gas researches in the Mediterranean therefore unintended change happen in the supply and demand balance of the energy market. All these changes also affects the energy security.

Basically, the EU's energy security is depending on parameters such as price, availability,

¹⁴ Turkmenistan is exporting 50 per cent of all Chinese imports (Aoun, 2015).

reliability and geopolitics. Although LNG imports will contribute to the EU's energy security in the medium-term and long-term, the SGC could still be preferable since the transportation and storage of the LNG is more expensive than pipeline's gas.

Therefore, the reason why the SGC could contribute to the EU's energy security is that gas from the SGC will not only be more stable but also make the EU more competitive in lucrative energy markets.

Finally, since the EU is reshaping its energy security strategy through diversification of energy suppliers and routes, the SGC has been very prominent part of this reconstruction. Although the EU is anxious about Russia's reliability on energy supply issue, the Union should behave realistically and see that the SGC is not a short-term solution but a medium-term and long-term for the EU's energy security. On one hand, the SGC has huge potential to decrease the EU's energy dependency on Russia and securing its energy supplies in the medium and long-term if the Union shows patience to the project and continues to invest in.

However, the presence of the SGC for the EU's energy security is mainly relating to solve the problems with Russia. Russia is against the construction of the SGC since it would be a threat for Russia's energy sales. Since Russia is against any project bypassing its pipelines, it is probably going to continue announce new pipelines projects like South Stream and Turk Stream.

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