

## **The EU external energy policy: how EU's energy security and EU's relations with neighbouring energy-producer and transit-countries shape it?**

By Madalina Sisu Vicari, University of Liège<sup>1</sup>, *draft version*

### **EU's energy security contextualization: preponderance of Russian gas supplies and Central and Eastern countries vulnerability**

Energy security is a concept with various definitions, meanings and dimensions, which has evolved from “classic political economy studies of oil supplies for industrialized democracies to a field addressing a much wider range of energy sectors and challenges”<sup>2</sup>. Though the concept is “widely used, yet there is no consensus on its precise interpretation”<sup>3</sup>. The energy security's conceptualization is “highly context dependent”<sup>4</sup> and is determined by the type of the stakeholder to which it addresses (producer-, transit-, and consumer-country)<sup>5</sup>. Further, the energy security's “interconnected dimensions are shaped up by the aims and policies pursued

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<sup>1</sup> Contact email: madalina.sisu@doct.ulg.ac.be

<sup>2</sup> Cherp, A., Jewell, J., «The concept of energy security: Beyond the four As », *Energy Policy*, Volume 75, 2014, p. 420

<sup>3</sup> Kruyt, B., van Vuuren, D. P., de Vries, H. J. M., Groenenberg, H., « Indicators for Energy Security », *Energy Policy*, Volume 37, n° 6, 2009, p. 2166.

<sup>4</sup> *Ibid.*, p.2166

<sup>5</sup> Vicari, Sisu, M., « The Southern Gas Corridor and Turkey », in Çomak, H., Sancaktar, C., Yildirim, Z. (Ed.), *Enerji Diplomasisi*, Istanbul, Beta Basim Yayin, 2015, p. 521

by the stakeholders, and subsidiary by the nature of the markets<sup>6</sup>. The oil and gas markets are still different in terms of integration. While the oil market is largely a global integrated one, as “oil is produced, consumed and traded globally”<sup>7</sup>, the gas markets, though under major transformations over the past years, which have increased their competition and liquidity<sup>8</sup>, are still fragmented and regionalized.

The nature of the markets plays an important role over the risk factor involved by import dependency. The latter can be subject of “potential exposure to intentional actions or strategies of an exporting country aiming to put political pressure on an importing country in order to gain political or economic benefits, or security concessions”<sup>9</sup>. Consequently, the import dependency encompasses a “geopolitical dimension”<sup>10</sup>, determined by “the possibility to exercise power through energy dependencies”<sup>11</sup>, and which is denoted as “energy weapon”<sup>12</sup>.

Nevertheless, the energy weapon’s effectiveness greatly varies in the case of oil and gas. As Goldthau notes, nowadays the oil embargoes are “literally impossible”<sup>13</sup> and that due to several factors: oil is a fungible commodity, which is traded on global, liquid and flexible markets, the extended oil strategic reserves developed by the consuming countries and the fact that the oil price cannot be influenced “through national and even international policy intervention”<sup>14</sup><sup>15</sup>. Contrary to oil import dependency, the gas import dependency can represent a security problem, as the gas markets liberalization has been far slower than the oil ones and

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<sup>6</sup> *Ibid.*, p.521

<sup>7</sup> Turner, A., Farrimond, J., Hill, J., «The Oil Trading Markets, 2003 – 2010: Analysis of market behaviour and possible policy responses», *WPM*, n°42, The Oxford Institute for Energy Studies, Oxford, 2011, p. 12

<sup>8</sup> The gas hubs creation, the increased LNG trade and the changes in gas trading models along with the expansion of the over-the-counter (OTC) contracts are the main drivers of the global gas markets’ integration.

<sup>9</sup> Jonsson, D. K., Johansson, B., Mansson, A., Nilsson, L. J., Nilsson, M., Sonnsjo, H., «Energy security matters in the EU Energy Roadmap », *Energy Strategy Reviews*, n°6, 2015, p.50

<sup>10</sup> *Ibid.*, p.50

<sup>11</sup> *Ibid.*, p.50

<sup>12</sup> *Ibid.*, p.50

<sup>13</sup> Goldthau, A., Witte, J. M., «The Role of Rules and Institutions in Global Energy: An Introduction », in Goldthau, A., Witte, J. M. (Ed.), *Global Energy Governance: The New Rules of the Game*, Washington, D.C., Brookings Institution Press, 2010, p.5

<sup>14</sup> *Ibid.*, p.5

<sup>15</sup> In this regard, it is worth noting the failure of the most recent attempt to influence the oil price through output freezing, aimed by the OPEC and non-OPEC producers in April 2016.

“much of gas trading is tied to long-term bilateral deals entailing destination clauses”<sup>16</sup>. Consequently, “pipeline-distributed gas, exclusively from producer to consumer is more suited for an actor aiming to use the energy weapon”<sup>17</sup>.

Russia’s share in the overall EU’s energy gas imports<sup>18</sup> has been a matter of growing concern for EU after the 2006 and 2008 gas crisis, and especially after the 2014 Ukrainian crisis. Actually, the latter not only “has fundamentally changed post-Cold War political and strategic relationships between Russia and European states in ways which may not be quickly reversed”<sup>19</sup>, but it raised fears that Russia may use the energy weapon-by reducing or cutting off the gas supplies- “as a political lever in its relations with European countries”<sup>20</sup>. Some scholars claim that the validity of “the geopolitical argument that Russia may exercise its gas weapon (defined as reducing or cutting off supplies in order to force compliance with political and strategic aims)”<sup>21</sup> cannot be proved. Within the EU, it is argued, the raise of this argument would have been grounded on emotional, and not on factual factors, primarily determined by the Baltic and Central European countries’ perceptions, triggered “by their memories of Soviet dominance”<sup>22</sup>. Hence, as Dickel *et al.* argue, “the legacy of Soviet dominance in many Baltic, central, and south-eastern European countries” is the main rationale on which those countries based their stance of dependence of Russian energy supplies, particularly the gas ones<sup>23</sup>. This stance has been enhanced by “historical reasons to

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<sup>16</sup> Goldthau, A., «Energy Diplomacy in Trade and Investment of Oil and Gas », in Goldthau, A., Witte, J. M (Ed.), *Global Energy Governance: The New Rules of the Game*, Washington, D.C., Brookings Institution Press, 2010, p.40

<sup>17</sup> Jonsson, D. K., Johansson, B., Mansson, A., Nilsson, L. J., Nilsson, M., Sonnsjo, H., *op.cit.*, p. 50

<sup>18</sup> Russia is EU’s main gas and oil supplier. In 2014, the Russian gas represented 37.5% of overall EU-28 gas imports, while the Russian oil amounted for 30.4% of overall EU’s oil imports ( Eurostat, «Main origin of primary energy imports EU-28, 2004–14»). In the first 9 months of 2015, the gas imports from Russia were at the same level as for the comparable period of 2014 (European Commission, «Quarterly Report of on European Gas Markets », Volume 8, n°3, 2015, [https://ec.europa.eu/energy/sites/ener/files/documents/quarterly\\_report\\_on\\_european\\_gas\\_markets\\_q3\\_2015.pdf](https://ec.europa.eu/energy/sites/ener/files/documents/quarterly_report_on_european_gas_markets_q3_2015.pdf)

<sup>19</sup> Dickel, R. et al., «Reducing European Dependence on Russian Gas: Distinguishing Natural Gas Security from Geopolitics », *OIES Paper*, n° NG 92, The Oxford Institute for Energy Studies , Oxford, October 2014, p.74

<sup>20</sup> *Ibid*, p.74

<sup>21</sup> Yafimava, K., «European energy security and the role of Russian gas: assessing the feasibility and the rationale of reducing dependence », *IAI Working Papers 15*, , n° 54, Rome, December 2015, p.17

<sup>22</sup> *Ibid*, p.17

<sup>23</sup> Dickel, R. et al., *op.cit.*, p.70

fear invasion from the east”, revived by the 2014 Ukrainian crisis<sup>24</sup>. Nonetheless, there is relevant evidence regarding Moscow’s use of energy leverage towards some of the former Soviet countries such as the Baltic States, Georgia, Moldova and Ukraine<sup>25</sup>. In this regard, it is important to mention that while the Baltic States have not been directly a subject of Russia’s gas weapon, countries as Lithuania and Estonia were affected by a series of incidents targeting their oil sectors<sup>26</sup>.

Nevertheless, if the EU’s dependency on Russian gas supplies may be debatable if approached through the geopolitical lens, the argument regarding some European countries’ sensitivity and/or vulnerability to those supplies is more conclusive. Although “the dependency on exports and imports is the normal state of affairs in a modern world and a consequence of increased economic integration and mutual dependence”<sup>27</sup>, a country’s “sensitive” or “vulnerable” dependency on a commodity can “cause short-or long-term problems with significant changes in prices, supply, or market access”<sup>28</sup>. While the sensitivity dependency concerns especially “the risk of disruptions to existing supplies”, “in economic terms, vulnerability dependence can be represented as the potential for significant losses of output or welfare”<sup>29</sup>. In 2014, following the adoption of Commission’s European Energy Security Strategy and the endorsement of the European Council, the European Commission launched a stress test exercise aimed to assess the resilience of European gas system to cope with a severe disruption of gas supply to the EU. The stress tests were conducted in 38 countries-the EU-28 and the Energy Community’s members-and were based on scenarios that covered the disruption of the Ukrainian gas transit route and of Russian gas flows to Europe for periods of one month and six months. The conclusion of the stress tests states that “a prolonged supply disruption of the Ukraine transmission route and a fortiori of all Russian gas supplies to the EU will have a substantial impact in the EU, with the Eastern

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<sup>24</sup> *Ibid.*, p.70

<sup>25</sup> Newnham, R., «Oil, carrots, and sticks: Russia’s energy resources as a foreign policy tool », *Journal of Eurasian Studies*, N° 2, 2011

<sup>26</sup> In 2006, Lithuania witnessed the shutdown of its oil pipeline which supplied the Mazeikiiai refinery, following its selling to the Polish PKN Orlen and not to a Russian company; in 2007, after Estonia removed an old Soviet war memorial from the center of Tallinn, Russia halted the oil shipments to the country for two weeks (cf *Ibid.*, p.142)

<sup>27</sup> Austvik, O.G., «The Energy Union and security-of-gas supply», *Energy Policy*, n° 96, 2016, p.375

<sup>28</sup> *Ibid.*, p.375

<sup>29</sup> *Ibid.*, p.375

EU Member States and the Energy Community countries being affected most<sup>30</sup>. The stress tests revealed the importance of having a functional internal market-with maximized interconnectors' capacity and timely infrastructure-and the need for the enhanced regional cooperation between the Member States- aimed to improve the security of supply and to cope with the gas shortfalls<sup>32</sup>.

Apart their vulnerability to the disruptions of the Ukrainian gas transmission route, some Central and Eastern European countries<sup>33</sup> have a vulnerable dependency related to Gazprom's abuse of dominance of Central and Eastern Europeans gas supply markets, which translated into territorial restrictions in supply agreements, leverages to obtain unrelated commitments from wholesalers concerning gas transport infrastructure and unfair pricing policy in Bulgaria, Estonia, Latvia, Lithuania and Poland<sup>34</sup>.

Overall, in the context of both precedent gas and Ukrainian crisis, the EU's dependence on Russian gas supplies represents a concern of energy security. If the geopolitical argument of Russia's gas weapon may be debatable, the argument related to some Central and Eastern European countries' vulnerability is a consistent one and it regards their vulnerability to the disruptions of the Ukrainian gas transmission route and Gazprom's abuse of dominance on their markets, which produces economic outcomes.

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<sup>30</sup> European Commission, « On the short term resilience of the European gas system Preparedness for a possible disruption of supplies from the East during the fall and winter of 2014/2015 », *Communication from the Commission to the European Parliament and the Council*, COM(2014)654, Brussels, 16 October 2014, p. 15

<sup>31</sup> Bosnia and Herzegovina, Bulgaria, Estonia, the Former Yugoslav Republic of Macedonia, Greece, Hungary, Lithuania, Latvia, Poland, Romania and Serbia would be the most affected.

<sup>32</sup> Consequently, in February 2016, the Commission put forward a new legislative proposal for the security of gas supply, which proposes stronger regional coordination between the Member States.

<sup>33</sup> The countries in cause are *Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovakia*

<sup>34</sup> European Commission, « Antitrust: Commission sends Statement of Objections to Gazprom for alleged abuse of dominance on Central and Eastern European gas supply markets », *Press Release*, Brussels, 22 April 2015

## **The evolution of EU's energy security concept and its role in shaping up the Union's external energy policy**

At the EU level, there is not an all-encompassing definition of the energy security. This situation can be partly explained by the slow process of the communitarization of Member States' national energy policies, affected by several factors such as: "major differences between national energy resources, the will of Member States to take different energy pathways, to preserve their freedom on international agreements in the energy field and, above all, the will to preserve their sovereignty over their energy mix"<sup>35</sup>.

Although, after the creation of the European Coal and Steel Community (ECSC, 1951) and the European Atomic Energy Community (EURATOM, 1957), the energy sector has undergone significant changes (EU's increasing dependency on energy imports, creation of the internal market for electricity and gas along with progress in its liberalization, the rise of environmental issues), the European energy policy comes into existence only with the Treaty of Lisbon (2009)<sup>3637</sup>. Though

the legal basis of the Treaty gives plenty of room for developing the Union's energy policy, as it gives to European Commission a broad scope in areas concerning the development of the internal market, the interconnection of energy networks and the trans-European infrastructure networks, the energy policy remains a shared competence between the European Union and the Member States<sup>38</sup>. Nonetheless, the introduction of the concept of "solidarity"<sup>3940</sup> has been a critical step forward for EU's energy security, as it lays the ground for setting up energy

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<sup>35</sup> Vicari, Sisu, M., « La place de l'énergie dans la régionalisation de l'Europe », in Santander, S. (Ed.), *Concurrences régionales dans un monde multipolaire émergent*, P.I.E. Peter Lang, Bruxelles, 2016, p. 188

<sup>36</sup> *Ibid.*, p 188.

<sup>37</sup> Article 194 of the Treaty establishes four objectives for European energy policy: ensuring the functioning of the energy market; ensuring security of energy supply, promoting energy efficiency, energy saving and the development of new renewable forms of energy and promoting the interconnection of energy networks.

<sup>38</sup> Vicari, Sisu, M., « La place de l'énergie dans la régionalisation de l'Europe », *op.cit.*, p.188

<sup>39</sup> The concept of "solidarity" was introduced in the Treaty on the initiative of some Eastern European countries, affected by the disruptions occurred during the gas dispute between Russia and Ukraine in 2006

<sup>40</sup> The concept of "solidarity" covers the field of security of supply, when "serious difficulties arise" (Article 122) and touches upon the objectives of the common energy policy, which should be carried out "in a spirit of solidarity between Member States" (Article 194).

cooperation initiatives aimed to ensure that Member States can cope with shortages and supply disruptions.

The concern for energy security is born in Europe during the Suez crisis and the oil crises of the 1970s, but it was primarily intended to ensure that Member States' can deal with oil import interruptions through emergency oil stocks; further, the emergence of European producers (as the UK and Norway) and the globalization of the oil markets, eased the European countries' concerns on their dependence on oil imports from OPEC producers and on the possibility of further oil shocks<sup>41</sup>. However, from mid-1990s, in the context of EU's growing dependency on energy imports, the energy security becomes an important preoccupation for the Union. The security of supply has been, from the beginning, at the core of energy security framing, as it is indicated in the Commission's documents "An Energy Policy for the European Union" (1995) and "Green Paper" (2000)<sup>42</sup>.

The gas crisis of 2006 and 2009<sup>43</sup> shape up not only the Union's approach to energy security, but the EU's energy field as a whole, as they represented an important impetus for Commission's initiative to develop a common energy policy and an external energy policy, in parallel with the further liberalization of the internal energy market; subsequently, in the condition of EU's growing dependency of Russian energy supplies, the energy security gained an important place on the Union's political agenda.

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<sup>41</sup> Vicari, Sisu, M., « La place de l'énergie dans la régionalisation de l'Europe », *op.cit.*, p.190-91

<sup>42</sup> European Commission, «An Energy Policy for the European Union», *White Paper*, COM(95)682, Brussels, 13 December, 1995, p.4; European Commission, « Towards A European strategy for the security of energy supply» , *Green Paper*, COM(2000)769 Brussels, 29 November, 2000, p. 2

<sup>43</sup> On January 1, 2006, Gazprom cut off the gas supplies to Ukraine, following a gas price row and accusations that the Ukrainian side siphoned the Russian gas. Consequently, the gas volumes delivered to Europe significantly fell and European consumers were affected. The dispute was settled on January 4, 2006. The 2009 gas crisis was caused by a dispute on gas price. On January 1, 2009, Gazprom cut all supplies for Ukrainian consumption, while supplies to Europe continued. On January 6, after claiming that the Ukrainian side had stolen nearly 65 000 cubic meters of gas, Gazprom severely reduced the gas volumes to Europe and on January 7 the deliveries to Europe were completely cut off, heavily impacting the South-Eastern European consumers. The gas flows to Europe returned to normal on January 22, after Russia and Ukraine signed a 10-year new supply and transit contract.

Hence, the 2006 Green Paper put forward the proposals not only for a “new comprehensive European energy policy”<sup>44</sup>, but for an external energy policy as well. The security of energy supply remains the core element of EU’s energy security, but it starts to be seen, for the first time, as a component of Union’s external energy policy, aimed to pursue the following goals: the establishment of a policy aimed at securing and diversifying the energy supplies, especially the gas supplies, the setting up of energy partnerships with producers, transit countries and other international actors; the establishment of a dialogue with major energy producers and suppliers; the creation of a common regulatory space around Europe, by widening its energy market through the inclusion of EU’s neighbours and the creation of a pan-European Energy Community<sup>4546</sup>.

Further, the security of supply as the major objective of the EU’s “*new energy policy*”<sup>47</sup> is highlighted by the 2008 Energy Security and Action Plan. For the first time, it is emphasized the Union’s dependency on gas supplies-dependent on fixed pipeline infrastructure-,along with some Member States’ dependency on a single gas supplier, Russia. Hence, the document proposes the development of infrastructure aimed not only to increase the gas and electricity interconnections within Europe but to contribute to the diversification of energy supply. The development of external energy relations with producer and transit countries and the further extension of EU’s energy *acquis*, through the Energy Community (EnC), are seen as important steps in ensuring the Union’s energy security.

The Energy 2020 reflects the key-change occurred in the EU’s energy area-the introduction of energy policy in the Lisbon Treaty-and stresses that the solidarity among the Member States cannot be exerted without an integrated internal energy market, which should mainly be achieved by legislation implementation and infrastructure development. The energy security

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<sup>44</sup> European Commission, « A European Strategy for Sustainable, Competitive and Secure Energy » *Green Paper*, COM (2006)105, Brussels, 8 March 2006, p.4

<sup>45</sup> *Ibid.*, p.15-16

<sup>46</sup> In this regard, it is worthy of mention that the Energy Community Treaty, which established the Energy Community (EnC), entered into force in July 2006. The EnC’s parties are EU and eight members: Albania, Bosnia and Herzegovina, Kosovo, and the Former Yugoslav Republic (FYR) of Macedonia, Moldova, Montenegro, Serbia and Ukraine. Armenia, Georgia, Norway, Turkey hold the status of observer.

<sup>47</sup> European Commission, « Second Strategic Energy Review. An EU Energy Security and Solidarity Action Plan » , *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of Regions*, COM(2008)78, Brussels, 13 November 2008, p.3



is framed not only with the “solidarity” principle-whose functioning depends on the integrated internal energy market-, but also within the EU’s external energy policy, which should pursue the diversification of import sources and routes by establishing partnerships with key suppliers and transit countries<sup>48</sup>. Further, market integration and regulatory convergence under the EnC framework, along with the setting up of regulatory framework between the EU and the third countries to “develop strategic routes from new suppliers”<sup>49</sup>, are mentioned as action to be further taken within the external energy policy.

The developments related to the legal framework of EU’s energy policy, primarily the adoption of the Third Energy Internal Market Package, and the efforts to develop the internal energy market, are reflected in the 2011 European Commission’s communication, which proposes new action priorities for the development of the Union’s external energy policy. Hence, “building of the external dimension of the EU internal energy market”<sup>50</sup> is considered a priority of external energy policy; that should be achieved primarily through the setting up of an information exchange mechanism on intergovernmental agreements between Member States and third countries in the field of energy, the Commission’s ex-ante assessment on the conformity of a future intergovernmental agreement with the EU law and Commission’s empowerment to negotiate, for the EU, large-scale infrastructure projects linking the Union with third countries. The security of energy supply continues to be jointly approached with the diversification of the import sources and diversification of routes, which are seen as priorities of actions for EU’s external energy policy.

The 2014 Crimea’s annexation is reflected in the European Energy Security Strategy. The security of supply stays at the core of EU’s energy security and is seen as an issue of utmost

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<sup>48</sup> European Commission, «Energy 2020. A strategy for competitive, sustainable and secure energy», *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of Regions*, COM (2010)639, Brussels, 10 November, 2010, p.19

<sup>49</sup> *Ibid.*, p.18

<sup>50</sup> European Commission, «On security of energy supply and international cooperation – ‘The EU Energy Policy: Engaging with Partners beyond Our Borders’», *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of Regions* COM (2011)539, Brussels, 7 September, 2011, p. 3-4

preoccupation, in the context of “the strong dependence from a single external supplier”<sup>51</sup>, Russia, particularly for the Union’s gas imports. Taking stock of the introduction of the “solidarity” concept in the Lisbon Treaty, the document emphasizes the necessity to develop coordinated solidarity mechanisms among the Member States, in order to enhance their security of supply, with “immediate focus on all Member States on the eastern border of the EU”<sup>52</sup>. More, the integration of the internal energy market, along with the acceleration of key interconnectors’ construction, is considered critical actions to ensure the diversification of energy supplies and, consequently, the energy security. The diversification of gas supplies, particularly through the Southern Corridor, is seen as an essential for EU’s energy security and an important direction of action of Union’s external energy policy.

The “Energy Union Package”, published by the Commission on 25 February 2015 and adopted by the European Council on 19 March 2015, represents a milestone in Union’s approach to energy security, which is tackled under the principle of “solidarity”. In fact, “energy security, solidarity and trust” is one of the five “mutually-reinforcing and closely interrelated dimensions”<sup>5354</sup> of the Energy Union strategy, which should be achieved through the implementation, in the coming years, of a range of measures included in the "Roadmap" that accompanies the "strategic framework"<sup>55</sup>. Following the frame set up, since 2008, by the abovementioned Energy strategies, the Commission’s document emphasizes the need to ensure the security of supply and the diversification of energy sources, suppliers and routes. Several measures and instruments are envisaged to achieve that, but a particular importance is given to the establishment of “strategic energy partnerships with increasingly important

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<sup>51</sup> European Commission , «European Energy Security Strategy», *Communication from the Commission to the European Parliament and the Council*, COM(2014)330, Brussels, 28 May 2014, p.3

<sup>52</sup> *Ibid.*, p. 6

<sup>53</sup> European Commission, «A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy » , *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of Regions and the European Investment Bank*, COM (2015) 80, Brussels, 25 February 2015, p.4

<sup>54</sup> The other dimensions of the Energy Union are: full integration of the European energy market; energy efficiency as a way of reducing demand; decarbonisation of the economy; research, innovation and competitiveness.

<sup>55</sup> However, it is important to emphasize that the Energy Union does not have legal basis within the Treaty and it consists of a set of common principles and objectives from which derive a number of measures. As agenda-setter, the Commission plays a critical role in the construction of the Energy Union, whose governance and policy coherence requires, nonetheless, the Member States’ significant political support and cooperation.

producing and transit countries or regions”<sup>56</sup>. Hence, following the approach reflected in the previous Commission’s documents, the diversification of energy sources, suppliers and routes is viewed as a component of the EU’s external energy policy. In the same vein, the achieving of a fully-integrated energy market, notably through interconnections, is a requisite to ensure the security of supply. Nevertheless, in this regard it is important to mention that the integration of the internal energy market greatly has not progressed satisfactorily, despite the efforts to boost the regional cooperation at EU level and to implement the infrastructure projects. More, the situation is more severe in the case of the internal gas market<sup>57</sup> and that particularly affects the Central and Eastern countries, which still have very limited options related to the cross-border trade and supply diversification.

Overall, the security of supply, particularly for the gas sector, started to be a significant matter of concern for the EU’s energy security by mid ‘90s. Later, this dimension was related to diversification of energy sources, supply and routes and, after the gas and Ukrainian crisis, has been started to be shape up into the framework of the Union’s external energy policy. As a result of the developments occurred in the energy field both at the European and international level but also in the legal framework of the EU’s energy area, the concept of energy security expanded in scope and substance. Hence, the achieving the full integration of the internal market through, particularly, an increased interconnectedness, has been related to it. Nevertheless, the integration of the internal gas market, primarily in terms of interconnectedness, is still a problematic issue and it greatly weighs on EU’s energy security. Also, especially in the context of Europe’s dependence on Russian gas supplies and Central and Eastern countries’ vulnerability, the security of gas supply, along with the diversification of energy sources, supply and routes, remain critical dimensions of EU’s energy security and have been continuing to shape up EU’s actions in the external energy policy field.

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<sup>56</sup> *Ibid.*, p. 6

<sup>57</sup> For instance, while the Road Map for the Energy Union sets up the interconnection target for electricity market at 15% by 2030, the interconnection target for gas market is not even established.

## Ukraine's importance as transit country: what EU has done to maintain it?

The post-Soviet gas relationship between Ukraine and Russia was characterized by two main factors: Moscow, through Gazprom, was Kiev's monopoly supplier, whereas Ukraine has been the largest transport corridor for Russian natural gas exports to European markets. "More than twenty years of transit disputes" determined Russia to set up a diversification policy aimed at reducing its transit dependence of Ukraine<sup>58</sup>. Hence, the existing pipelines: Blue Stream (16 billion cubic meters capacity), Yamal Europe (33 billion cubic meters capacity), and Nord Stream 1 (55 billion cubic meters capacity) are the result of Russia's determination of reducing the transit across Ukraine<sup>59</sup>, whereas the planned pipelines Nord Stream 2 (55 billion cubic meters) and Turkish Stream "clearly carried, and carry, the potential to eliminate transit via Ukraine almost completely"<sup>60</sup>. Between 2006 and 2014, the transit of Russian gas across Ukraine decreased dramatically, being reduced by half, from 128.5 billion cubic meters to 62 billion cubic meters<sup>61</sup>; in 2015, the gas transit volumes stayed at 67 billion cubic meters and in 2016 it is expected that the transit of volumes would remain stable.

Since the two abovementioned Ukrainian gas crisis, the EU related the security of its gas supplies with the security of Ukrainian gas transit. Hence, the 2011 Communication on security of energy supply states that "the EU must support efforts to rehabilitate Ukraine's Gas Transmission System"<sup>62</sup> and sets up as priority the establishment of a "tri-partite cooperation at political and administrative level with Russia and Ukraine to ensure stable and uninterrupted gas supplies through the Eastern Corridor"<sup>63</sup>. As Pirani shows it, the Ukrainian Gas Transmission System (GTS) was mainly constructed between 1970s and 1980s, and though reliable, is requiring upgrading and modernization: "Naftogaz Ukrainy stated in 2004 that the life expectancy of the pipelines is 33 years, and that 21.2% of pipelines were more

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<sup>58</sup> Pirani, S., Yafimava, K., « Russian Gas Transit Across Ukraine Post-2019: pipeline scenarios, gas flow consequences, and regulatory constraints », *OIES Paper*, n° NG 105, The Oxford Institute for Energy Studies, February 2016, p.11-12

<sup>59</sup> *Ibid.*, p.12

<sup>60</sup> *Ibid.*, p.12

<sup>61</sup> *Ibid.*, p.12

<sup>62</sup> European Commission, «On security of energy supply and international cooperation – 'The EU Energy Policy: Engaging with Partners beyond Our Borders'», *op.cit.*, p.5

<sup>63</sup> *Ibid.*, p.5

than 33 years old, 65.8% of pipelines were 10–33 years old and 13% were under ten years old”<sup>64</sup>. Gazprom had several attempts to get involved in the modernization of Ukraine’s GTS in exchange of the system’s management and control, but it failed to do so, as Kiev refused to concede Russia’s requirements. On March 23, 2009, it was held the High level Investment Conference on modernization of Ukraine’s gas transit system, which resulted in a Joint Declaration signed by the European Commission, the European Bank for Reconstruction and Development, the European Investment Bank, the World Bank and the Government of Ukraine. Although the signatories acknowledge “the importance of the further expansion and modernization of Ukraine’s Gas Transit System as an indispensable pillar of the common European energy infrastructure and the fact that Ukraine is a strategic partner for the EU gas sector”<sup>65</sup> and express their intention and readiness to establish various forms of cooperation in order to ensure the modernization of Ukrainian GTS, no significant advancement occurred in this regard. The scale of financial investments required for the gas system transmission’s upgrading, coupled with domestic regulatory constraints and uncertainties related to the transit management, have been the most significant hurdles to attract foreign investments for Ukraine’s GTS. Yet, the “Law on the Gas market”, passed in April 2015 and drafted in cooperation with the Energy Community’s Secretariat, provides the integration of the Third Energy Package into the Ukrainian legislation and sets out the grounds of further integration of Ukrainian gas market with the European ones. The law breaks-up the monopolistic status of the state-owned gas and oil company Naftogaz and stipulates the unbundling of Naftogaz and Uktransgaz into separate entities; in July 2016, Ukraine’s cabinet of ministers took the decision of unbundling the gas transportation from storage and to create two new public joint stocks companies, whose implementation will be carried out during 2016-017.

The Crimea’s annexation and the military conflict in Eastern Ukraine triggered important developments, such as the EU’s economic sanctions against Russia and the severance of political dialogue between Russia and Ukraine. Furthermore, after Russia denounced the 2010

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<sup>64</sup> Pirani, S., « Ukraine’s Gas Sector », n° NG 21, The Oxford Institute for Energy Studies, June 2007, p.81

<sup>65</sup> « Joint EU-Ukraine International Investment Conference on the Modernisation of Ukraine’s Gas Transit System », *Joint Declaration*, 23 March, 2009  
<http://www.naftogaz.com/files/DECLARATION-Ukraine-EC-engl.pdf>

Kharkiv Pact and cancelled the discount that Ukraine had received as a result of this agreement, Ukraine refused to pay a USD 4.5 billion debt raised by Gazprom following the cancellation, and sought to renegotiate the 2009 gas agreement. As negotiations collapsed, Russia halted the gas supplies to Ukraine in June 2014 but EU's interest in securing its gas supplies during the winter season of 2014-2015 conduced to its implication in seven round gas negotiations with Ukraine and Russia, which culminated with a deal, denoted as "the winter gas package", covering the debt settlement between Naftogaz and Gazprom<sup>66</sup> and the issues related to gas prices and gas purchase volumes. Also, by working with the international financial institutions, the EU helped Ukraine to access financing necessary to prepay the Russian gas deliveries. In July 2015, Russia cut off the gas supplies to Ukraine for a second time, after a breakdown on pricing talks. Securing Ukrainian gas transit was also part of EU's interest in securing its gas supplies for winter season of 2015-2016. Hence, EU involved again in trilateral political negotiations to establish the basis for continued gas transit. Under the second "winter gas package" deal, Russia agreed to lower the price of the gas supplied to Ukraine by end of March 2016, whereas Kiev committed to secure the transit of the Russian gas through its territory to Europe, by injecting 2 billion cubic meters of gas into its underground storage system. In the same vein, the EU helped organizing, through European and international financial institutions<sup>67</sup>, the financing necessary for gas purchase, by Ukraine, during the winter period.

The political crisis between Kiev and Moscow, which resulted, *inter alia*, in the abovementioned rows on gas prices and the two shutdowns of gas supplies, determined Ukraine to pursue an active policy of gas imports diversification in parallel with the reduction of its gas domestic consumption<sup>68</sup>. Hence, in 2014, Ukraine's overall gas imports totalled 19, 5 billion cubic meters, of which 14, 5 billion cubic meters were Russian gas imports and

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<sup>66</sup> Nevertheless, both Naftogaz and Gazprom filled legal claims against each other in Stockholm International Arbitration Court: Naftogaz reclaims as much as USD 26 billion (rates higher than the market ones for the gas supplies and underpayment of gas transit contract), whereas Gazprom reclaims nearly USD 32 billion for matters related to the 2009 gas contract (unpaid supplies and failure to purchase all the gas under the "take or pay" clause).

<sup>67</sup> The European Investment Bank, the International Bank for Reconstruction and Development, the European Bank for Reconstruction and Development.

<sup>68</sup> The sources presenting data on Ukraine's gas consumption in 2014 and 2015 show slightly different figures, but they indicate a clear tendency of consumption decrease. For instance, in 2013, the domestic consumption reached nearly 55 billion cubic meters; in 2014, it decreased to nearly 40 billion cubic meters and last year fell to roughly 32 billion cubic meters.

5, 0 billion cubic meters were imported from the European sources<sup>69</sup>. In 2015, the Russian gas imports heavily decreased compared with 2014, reaching 6, 1 billion cubic meters (nearly 18% of domestic consumption), while the gas imports from the European sources amounted 10, 3 billion cubic meters<sup>70</sup>. Furthermore, between July 2015-June 2016, Ukraine imported only 2, 39 billion cubic meters of gas from Russia (binding obligation of the 2015-2016 “winter gas package”). Importantly, the gas imports from the European sources, assured through reverse flows from Slovakia, Poland and Hungary, led to lower import prices for Naftogaz; thus, in the first quarter of 2016, the Naftogaz’s imported gas price fell to USD 198 per thousand cubic meters, compared with USD 266 per thousand cubic meters in the third quarter of 2015<sup>71</sup>. The largest-scale reverse gas supplies, those from Slovakia, which started on September 1, 2014, have been facilitated by the European Commission.

Upgrading the Strategic Partnership on energy with Ukraine<sup>72</sup> in order to address its “importance as transit country”<sup>73</sup> should be taken into account when formulating and setting up the priorities of action of EU’s external energy policy, the Energy Union Package states. Though the EU has not yet upgraded the Strategic Partnership with Ukraine, over the past two years, Ukraine’s importance as gas transit country has been largely taken into consideration by the Union, through different actions. Hence, EU’s interest in securing its gas supplies determined its direct involvement in the political negotiations between Kiev and Moscow on gas transit, facilitation in organizing the financing for gas purchases for the Ukrainian side and support in getting reverse flows from the European suppliers to Ukraine. Furthermore, the newest Commission’s proposal on security of gas supply provides that the permanent bi-directional capacity on cross-border interconnections can be used to supply gas “both to the

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<sup>69</sup> Naftogaz, « Ukraine purchased 63% of its imported gas in Europe in 2015 », 1 February 2016, <http://naftogaz-europe.com/article/en/gasimport2015eng>

<sup>70</sup> *Ibid.*

<sup>71</sup> Naftogaz, « Naftogaz released quarterly statistics: no gas imports in Q2 2016 », 22 July 2016, <http://www.naftogaz.com/www/3/nakweben.nsf/0/5379C5676726780CC2257FF80058BA5A?OpenDocument&year=2016&month=07&nt=News&>

<sup>72</sup> In 2005, Ukraine and the EU signed a Memorandum of Understanding on Energy, which sets four road maps for cooperation in the field of energy.

<sup>73</sup> European Commission, «A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy » , *op.cit.*, p.7

neighbouring Member States and to other along the gas supply corridor”<sup>7475</sup>. In other words, the bi-directional capacity, which must be a permanent one, unless an exemption has been granted, can be further used to supply gas to Ukraine; in this regard, it is important to note the clear specification of “neighbouring Member States”, introduced in the abovementioned legislative proposal. The intensification of gas reverse flows from Europe to Ukraine would directly impact on country’s policy of reducing its Russian gas imports, and on the gas prices as well; the latter would continue to be influenced by the European hub prices.

Also, Ukraine’s membership of EnC holds the potential to advance its further market integration into the EU’s energy market. Notwithstanding Ukraine’s slow progress in implementation the *energy acquis* under the EnC Treaty<sup>76</sup>, some steps have been taken towards the transposition of the 3<sup>rd</sup> Energy Package into the national legislation. The abovementioned “Law on the Gas Market” is an illustrative example, because not only that it ensures the compliance of the gas sector with the EU’s law, but it opens the path of more transparency into the country’s GTS, a necessary element in attracting foreign investments for its modernization.

The future of Ukraine’s transit route post-2019, when the gas transit contract with Gazprom would expire, is yet marked by many uncertainties, most of them mainly related to Gazprom’s intention and capacity to build the Nord Stream 2 and Turkish Stream pipelines on one hand and the Commission’s further decisions on OPAL’s pipeline cap lifting and the regulatory regime of Nord Stream 2.

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<sup>74</sup> European Commission, «Proposal for a Regulation of the European Parliament and of the Council concerning measures to safeguard the security of gas supply and repealing Regulation (EU) No 994/2010 », COM(2016) 52, Brussels, 16 February 2016, p.16

<sup>75</sup> More, the benefits gas supply through bi-directional capacity needs “to be seen (...) in a spirit of solidarity and enhanced cooperation” (cf. *Ibid.*, p.16)

<sup>76</sup> Energy Community, «Annual Implementation Report 2014/2015 » Energy Community Secretariat, 1 September 2015



## **The Southern Gas Corridor- active role of EU to achieve it, but yet a limited part in EU's energy diversification**

As it was mentioned above, the security of supply, along with the diversification of energy sources, suppliers and routes are important dimension of EU's energy security, particularly with regard to its energy dependence on Russian supplies. Therefore, the Union has been actively seeking "to establish a new supply route in addition to the three existing ones, from Norway (Northern Corridor), Northern Africa (Western Corridor) and Russia (Eastern Corridor)"<sup>77</sup>. The aforementioned 2008 Energy Security and Action Plan acknowledges the Southern Gas Corridor as one of the European Union's "highest energy security priorities"<sup>78</sup>.

EU's diplomatic efforts concretized, a year later, into the "Declaration of the Southern Corridor Summit", signed in Prague by the EU, Azerbaijan, Egypt, Georgia and Turkey. The Southern Corridor's main aim is to "establish direct connections between both sides of the Caspian Sea as one of the main important elements of the effective energy cooperation and favour the interconnection of the Southern Corridor with the EU through strategic infrastructure projects necessary for carrying natural gas by pipelines or ships"<sup>79</sup>.

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<sup>77</sup> Linke, K., Viëtor, M., « Introduction », in Linke, K., Viëtor, M., (Ed.), *Beyond Turkey The EU's Energy Policy and the Southern Corridor*, International Policy Analysis, Friedrich Ebert Stiftung, November 2010

<sup>78</sup> European Commission, « Second Strategic Energy Review. An EU Energy Security and Solidarity Action Plan », *op.cit.*, p.4

<sup>79</sup> According to « The Declaration-Prague Summit, Southern Corridor », "the Southern Corridor concept is a synergy of the following documents": the Partnership and Co-operation Agreements between the EU and Azerbaijan, the EU and Georgia, the EU and Kazakhstan, and the EU and Uzbekistan; the Association Agreement between the EU and Turkey and the EU and Egypt; the European Neighbourhood Policy, including the Action Plans, the Eastern Partnership, EU-Central Asia Strategy and the Black Sea Synergy; the Memoranda of Understanding on strategic energy partnership between the EU and Egypt, EU and Kazakhstan, EU and Turkmenistan and EU and Azerbaijan; the Declaration of the Budapest Nabucco Summit of 27 January 2009; the Declaration of the Sofia Energy Summit of 24-25th April 2009; the Baku Initiative and the Energy Road Map endorsed on the occasion of the Astana Ministerial Conference of 30 November 2006; the Baku Energy Summit Declaration of 14<sup>th</sup> November 2008; the Ministerial Statement on the Nabucco gas pipeline project of 26<sup>th</sup> June 2006; Agreements on transportation of oil and gas through the Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum oil and gas pipelines of 1999 and 2001 respectively; Agreement among the Republic of Turkey, the Hellenic Republic and Italian Republic concerning the development of the Turkey, Greece, Italy Transportation Corridor of 26 July 2007 in Rome; the European Council Conclusions of 8-9 March 2007, 16 October 2008 and 20<sup>th</sup> March 2009; the European Commission's Second Strategic Energy Review of 13 November 2008; Decision No 1364/2006/EC of the European Parliament and of the Council concerning trans-European energy networks (TEN-E); Commission Decision granting financial aid for an action of 2.12.2008 in the field

The 2009 Ukrainian gas crisis, which was more severe than the 2006 one, triggered the necessity to speed up the Southern Gas Corridor implementation; hence, the European Commission asked for the opening of “the Southern Corridor as a matter of urgency”<sup>80</sup>.

The Commission had initially envisaged that nearly 10-20 percent of the EU’s gas demand by 2020 might be supplied through the Southern Gas Corridor. It also identified as possible suppliers Azerbaijan, Turkmenistan, Iraq “and others, notably in the Central Asian region”<sup>81</sup>, letting room for Kazakhstan and, possible, Iran. Three years later, in the 2014 European Energy Security Strategy, the Commission reduces the estimations related to the gas volumes and foresees that by 2020, only 10 billion cubic metres of the gas produced in Azerbaijan will reach the European market. Though, it mentions that the infrastructure in Turkey could be able to transport up to 25 billion cubic metres of gas to Europe and that, on longer term, other suppliers could be added to the Southern Gas Corridor: Turkmenistan, Iraq and Iran (if case of the sanctions lifting)<sup>82</sup>. At the same time, the Trans Anatolian Gas Pipeline (TANAP) and the Trans Adriatic Pipeline (TAP) - are designated “key security supply infrastructure projects”<sup>83</sup>. Finally, the 2015 Energy Union Package calls for the “intensification” of the work on the Southern Gas Corridor<sup>84</sup>. Therefore, currently the Southern Gas Corridor is considered by EU one of its “highest energy security priority”, whereas TANAP and TAP pipeline projects are regarded as “key security supply infrastructure”.

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of the trans-European energy networks (TEN-E); the EU-financed INOGATE technical feasibility studies on the Trans-Caspian-Black Sea Gas Corridor as well as the feasibility study on the Caspian Development Corporation (CDC); the European Commission's Communication on the extension of the major trans-European transport axes to the neighbouring countries, of 31 January 2007; the transport cooperation and initiatives involving the EU and the countries of the Southern Corridor [https://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/misc/107598.pdf](https://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/misc/107598.pdf)

<sup>80</sup> European Commission, «On security of energy supply and international cooperation – ‘The EU Energy Policy: Engaging with Partners beyond Our Borders’ », *op.cit.*, p.6

<sup>81</sup> *Ibid.*, p. 5

<sup>82</sup> European Commission, « European Energy Security Strategy », *op.cit.*, p.16

<sup>83</sup> *Ibid.*, p.22

<sup>84</sup> European Commission , « A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy », *op.cit.*, p.4

Nevertheless, securing the supplies for the Southern Gas Corridor has been a challenging matter. Along with the high financial costs, and Russia's strategy to maintain its controls over the Caspian gas supplies to Europe<sup>85</sup>, the failure to secure the gas volumes was also a main reason which triggered Nabucco's cancellation<sup>86</sup>. Initially, the Southern Gas Corridor's infrastructure consisted in three main pipelines: the Interconnector Turkey–Greece–Italy (ITGI), with a transport capacity of 10 billion meters per year, the Trans Adriatic Pipeline (TAP), with a capacity of 10 billion meters per year and the Nabucco pipeline, with a transport capacity of 31 billion meters per year<sup>87</sup>. In 2011, the TANAP pipeline entered the Southern Gas Corridor competition, while the Nabucco pipeline was significantly reduced to a smaller project, Nabucco West. As the latter did not succeed in becoming the Shah Deniz's consortium preference for the transport of gas volumes to Europe, the architecture of infrastructure of the Southern Gas Corridor significantly changed. Now it consists of three projects: the existing South Caucasus Pipeline (SCP), which will be expanded in order to accommodate larger volumes and the TANAP and TAP pipelines projects<sup>88</sup>. TANAP's length is projected to be 1,950 km-long and the pipeline will run from the Georgian-Turkish border to the Turkish-Greek border. It is planned to transport a capacity of 18 billion cubic meters per year: 6 billion cubic meters will be supplied to Turkey by 2018 and 10 billion cubic meters will be delivered to the European markets by 2019. TANAP<sup>89</sup> will be linked to and will further receive gas from the SCP pipeline, which will be expanded to accommodate up to

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<sup>85</sup> In 2007, Russia announced the construction of the South Stream pipeline, which was projected to become fully operational in 2015, by supplying up to 15 billion cubic gas meters. It was projected to achieve full capacity at the end of 2018, by supplying 63 billion cubic meters to European markets. The South Stream project was cancelled in December 2014 and replaced with Turkish Stream.

<sup>86</sup> The Nabucco pipeline was a project initiated in 2002 and was designated to construct a gas corridor which would have brought the gas mainly from the Caspian region, but also from other potential suppliers (Iraq, Egypt, Iran) via Turkey, Bulgaria, Romania, Austria, to the Western European markets. The project was considerably backed by the European Union. With high costs estimations for its building, Nabucco project failed in securing the suppliers for the pipeline and in 2012 was scaled down to Nabucco West, with a shorter route and a smaller capacity pipeline. Nonetheless, as the Shah Deniz consortium preferred TAP (considered less complex and less costly) over Nabucco West, the Nabucco project was completely cancelled.

<sup>87</sup> Kuszniir, J., « The Southern Gas Corridor: Initiated by the EU , Completed by Others? TANAP, TAP, and the Redirection of the South Stream Pipeline », *Caucasus Analytical Digest*, n° 69, January 2015, p. 6

<sup>88</sup> *Ibid.*, p. 6

<sup>89</sup> TANAP 's stakeholders are the Southern Gas Corridor Closed Joint Stock Company (58%), Turkey' BOTAS (30%) and BP (12%).Worhy of note, the Southern Gas Corridor Closed Joint Stock Company was established by Azerbaijan and is 51% state owned and 49% SOCAR owned.

25 billion cubic meters per year. In the future, the TANAP's capacity is expected to increase, totaling up to 31 billion cubic meters per year. The TAP pipeline will be 870 km-long and will run from Turkey-Greece border to Italy, via Greece, Albania and the Adriatic Sea. The project is expected to be operational in 2019 and to have a transport capacity of 10 billion cubic meters per year, which may be further expanded to 20 billion cubic meters<sup>90</sup>.

As it was mentioned above, the Southern Gas Corridor is considered by the European Union a "highest energy security priority". SCP's expansion (SCP-(F)X), TANAP and TAP are included in the EU's key infrastructure energy projects and become Union's Projects of Common Interest. Though, would this corridor succeed in reducing EU's dependence on Russia and diversify its energy supplies? Not on short term, as the 10 billion cubic meters per year supplied by the Southern Gas Corridor would not "radically change the overall EU gas security of supply architecture, as it will basically represent less than 3% of the EU gas import requirements"<sup>91</sup>.

However, through a network of interconnectors which "should facilitate reverse flows between Turkey and Bulgaria, Bulgaria and Greece, Bulgaria and Serbia, Bulgaria and Romania, Romania and Hungary, Croatia and Slovenia, Austria and Italy"<sup>92</sup>, the Southern Gas Corridor could reach Southern, Central and Eastern Europe, ensuring the diversification of supply for the countries in these regions and, further, greater security of supply and the integration of regional markets"<sup>93</sup>. On longer term, if additional gas volumes will be added to the Southern Corridor either from Azerbaijan or other potential suppliers, not only the Southern, Central and Eastern European markets could diversify their supplies, but, through the reverse flow capacities, the Western and Northern European markets, too<sup>94</sup><sup>95</sup>.

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<sup>90</sup> TAP's stakeholders are Azerbaijan's SOCAR (20%), BP (20%), Italy's Snam (20%), Belgium's Fluxys (19%), Spain's Enagás (16%) and Switzerland's Axpo (5%).

<sup>91</sup> Hafner, M., « The Southern Gas Corridor and the EU Gas Security of Supply: What's Next? », *Caspian Report*, Caspian Strategy Institute, Fall 2014, n° 08, 2014, p.25

<sup>92</sup> Sabadus, A., « Southern Gas Corridor and the Potential for Genuine Diversification », *Caspian Report*, Caspian Strategy Institute, Spring 2014, n° 07, 2014, p.37

<sup>93</sup> *Ibid.*, p.37

<sup>94</sup> Hafner, M., *op.cit.*, p. 31

<sup>95</sup> In this regard, it is worth mentioning that construction of the Nord Stream 2 pipeline would hamper the diversification of Western and Northern European markets. Hence, the pipeline would expand

Therefore, on longer term, it is expected that the Southern Gas Corridor would enhance the EU's energy security. It could importantly contribute to both supply security and supply diversification of the Southern, Central and Eastern European gas markets, which are largely dependent on the Russian gas imports<sup>96</sup>. Though, that requires the achieving of a network of interconnectors which would enable the reverse flows between the countries of these regions and supplementary gas volumes which would be transported through the corridor. Under the same conditionalities-reverse flows capacities (though at a smaller scale than in the case of the Southern-Eastern flank) and additional gas volumes-, the Southern Gas Corridor could contribute to the Western and Northern European markets' diversification of supply. However, in this case, the diversification of supply through the Southern Gas Corridor would be driven mostly by further price competitiveness and less by the vulnerability on a single external supplier. Nonetheless, the prospects related to further additional volumes that may flow through the Southern Gas Corridor to Europe on longer term may be too optimistic; as it would be shown below, not only the availability of more gas volumes from Azerbaijan is uncertain, but the Trans Caspian Pipeline project faces significant challenges as well.

### **Turkey's role in the Southern Gas Corridor**

Turkey's location, at the intersection regions rich in oil and gas resources (Caspian, Middle East, Mediterranean), has been a significant factor in shaping the country's energy policy over the past decade. The country's strategic location, seen by the former Turkish energy minister "at the centre of energy geopolitics, especially in the context of national and international

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Gazprom's domination in Germany, which is currently the first market for Russian gas exports; further, following the 2016 exports trend, the pipeline project presents a great potential to increase the Russian company's presence in the Northern Western Europe gas markets. For instance, between January-May 2016, Gazprom's gas exports to Denmark grew by 139.3%, to Netherlands by 103.8%, to France-by 35%, while gas exports to Italy grew, between January-June 2016, by 5.3%, outpacing Turkey in terms of purchased volumes.

<sup>96</sup> In the same vein, the implementation of Nord Stream 2 would strengthen Gazprom's dominant position in the Central and Eastern European gas markets, as most part of Nord Stream 1's and Nord Stream's gas volumes could be sent to Czech Republic and Slovakia and further to Austria, from where they could reach the Italian, Central, Eastern and Southern European markets.

energy transportation issues”<sup>97</sup>, has been highlighted in a wide flow of academic studies and official documents. Ankara’s high ambitious to play a major role in the energy transit corridors is triggered not only by its quest to gain significant transit revenues and diversify its energy supplies, but also by the aim to increase its influence in the region and get a political leverage in Europe<sup>98</sup>. The Southern Gas Corridor represented such an opportunity for Turkey, which initially looked “to link approval for Nabucco to the opening of the energy chapter in its EU accession talks”<sup>99</sup>. Though initially the country supported the Nabucco project, as a way to gain transit revenues and enhance its geopolitical importance through the energy-corridor position, Ankara also attempted to maximise its leverage by raising high stakes over issues related to the taxation and the purchasing of the gas that would have been transported through the pipeline<sup>100</sup>. But Nabucco’s intention, “to buy up all the available gas from Azerbaijan”<sup>101</sup>, clashed with Turkey’s interest of ensure its gas needs and access Azeri gas to satisfy its domestic market. At the same time, “the EU’s failure to secure additional gas supplies for the Southern Gas Corridor (from Iraq and Turkmenistan) left Azerbaijan as the only secure supplier for the whole project, which increased Azerbaijan’s bargaining power enormously”<sup>102</sup>. As Azerbaijan was emerging as the key-supplier of the Southern Gas Corridor, Turkey seized the opportunity and moved towards a close cooperation with Azerbaijan over the Southern Gas Corridor by signing the agreement allowing the transit of 10 billion cubic meters of Azeri gas to Europe<sup>103</sup>. Furthermore, through the TANAP’s intergovernmental agreement signed on June 26, 2012, Turkey practically re-framed the corridor’s architecture.

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<sup>97</sup> Yildiz, T., « Turkey’s Energy Policy, Regional Role and Future Energy Vision », *Insight Turkey*, Volume 13, n° 3, 2010, p.37

<sup>98</sup> Coskun, B.B., Carlson, R., « New Energy Geopolitics: Why does Turkey Matter? » , *Insight Turkey*, Volume 12, n° 3, 2010, p.214

<sup>99</sup> Erdogdu, E., « Bypassing Russia: Nabucco project and its implications for the European gas security » , December 2010, p.14, [https://mpra.ub.uni-muenchen.de/26793/1/MPRA\\_paper\\_26793.pdf](https://mpra.ub.uni-muenchen.de/26793/1/MPRA_paper_26793.pdf)

<sup>100</sup> *Ibid*, p. 19

<sup>101</sup> *Ibid*, p. 19

<sup>102</sup> Erdogdu, E., « Turkey’s Energy Strategy and its Role in the EU’s Southern Gas Corridor » , *IAI Working Papers*, n° 14, 1 February 2014, p.11

<sup>103</sup> The agreement was signed on October 25, 2011 and it was the outcome of nearly two years of talks between Azerbaijan and Turkey.

From EU's side, Turkey role for the Union's energy security was widely highlighted over the past years. Thus, the 2006 Green Paper, the 2008 Second Strategic Energy Review, the Energy 2020, the 2011 EU Energy Policy address the role of Turkey in the Union's energy security in relation with the extension of Energy Community Treaty. It is considered that Turkey's membership into the Energy Community would lead to market integration and convergence of rules with the EU.

Turkey's strategic role in the Southern Gas Corridor is acknowledged in the 2008 Second Strategic Energy Review, in the 2011 EU Energy Policy-which upgrades the role that Turkey may play in this regard-as it could become a major gas hub and gas transiting country for the EU-, and the 2014 European Energy Security Strategy. The latter specifically estimates that Turkey's energy infrastructure could accommodate up to 25 billion gas cubic meters to the European market. The opening of the energy chapter in the accession negotiations is addressed in only one document, the 2011 EU Energy Policy, and it is made in a rather elusive note, which reflects both sides' political sensibilities with regard to the issue.

The developments related to Turkey's membership into the Energy Community and to the energy negotiations chapter are reflected in the 2015 Energy Union Package's approach to Turkey. As Turkey limited its participation to the Energy Community to observer status and the energy negotiations chapter is frozen since 2009, the 2015 Energy Union Package makes no reference to them; it only states that EU will establish a strategic energy partnership with Turkey, an important transit country.

Following the EU's aforementioned aim, on 17 March 2015, the European Union and Turkey settled the High Level Energy Dialogue- a political dialogue, based on ministerial meetings-, aimed at improving the political dialogue in the energy sector and their energy cooperation. The document sets out that "Turkey and the EU are promoting as partners the development of the Southern Gas Corridor" and will continue their cooperation for TANAP's implementation, which is of "vital importance for the EU's and Turkey's security of supply and for the realization of the Southern Gas Corridor"<sup>104</sup>. This document ascertains Turkey's importance

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<sup>104</sup> European Commission, « EU-Turkey High Level Energy Dialogue and Strategic Energy Cooperation », *Statement*, Kars, Turkey, 16 March, 2015

for Europe's energy security, by naming it "contributor to the EU's energy security"<sup>105</sup>. At the same time, the document cautiously approaches the issue of Turkey's accession to EU by stating that it is not a substitute to the accession process. It also mentions that Turkey is a candidate country, currently engaged in accession negotiations with EU, which made significant progress in aligning its legislation with the *acquis communautaire*.

The Southern Gas Corridor Advisory Council intends to continue bilateral and multilateral working level consultations between Azerbaijan, Albania, Bulgaria, Greece, Italy, Turkey, United Kingdom, the United States and the European Commission, "to address all outstanding matters as they may emerge during the implementation of the project in the most practical and timely way"<sup>106</sup>. Turkey's "special role in supporting long-term stable and reliable oil and gas deliveries aimed to improve the energy security in the region"<sup>107</sup> and to "assure successful functioning of the energy projects and transportation corridor from the Caspian to Europe"<sup>108</sup> was highlighted in the official statements which followed the two meetings of the Southern Gas Corridor Advisory Council. More importantly, Turkey engaged recently in a deep process of cooperation destined to develop the Southern Gas Corridor project by making Turkmenistan as potential supplier for Europe. In this regard, Turkey will jointly work with Azerbaijan, Turkmenistan and the EU on several objectives, such as: the preparation of the legal Framework Agreement draft on natural gas supply from Turkmenistan to Europe, the establishment of the Caspian Development Corporation, the gas transport infrastructure and all other "organizational, legal, commercial, technical" issues related to the natural gas supply from Turkmenistan to Europe<sup>109</sup>.

Nevertheless, through the recent revival of the Turkish Stream<sup>110</sup> gas pipeline project, Turkey may play a significant role in enhancing Russia's dominant position in the South Eastern

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<sup>105</sup> *Ibid.*

<sup>106</sup> Southern Gas Corridor Advisory Council, « Joint press statement of the Advisory Council on the Southern Gas Corridor », *Joint Press Statement*, Baku, 12 February, 2015

<sup>107</sup> *Ibid.*

<sup>108</sup> Southern Gas Corridor Advisory Council, «The Second Ministerial Meeting of the Southern Gas Corridor Advisory Council », *Joint Declaration*, Baku, 29 February 2016

<sup>109</sup> European Commission, « Ashgabat Declaration » , 1 May, 2015

<sup>110</sup> The Turkish Steam was announced on December 1, 2014, during the visit of Russian President Vladimir Putin to Ankara, as a replacement for the South Stream pipeline, abandoned due to EU's opposition. Though Turkey's BOTAS and Russia's Gazprom signed a Memorandum of Understanding



European market, where Southern Gas Corridor is supposed to make the difference on supply diversification. So far, only the first line, destined for Turkish market appears as feasible, and its construction should be finalized by end of December 2019<sup>111</sup>. A second line may be built as well and it may either be linked to the Interconnector Turkey–Greece–Italy (ITGI)<sup>112</sup> at the Turkish-Greek border-though the route is still unclear-, or even to TANAP, through which the Russian gas would be exported to Europe, as the Turkish Foreign Minister recently proposed<sup>113114</sup>.

### **More Caspian gas for Southern Gas Corridor: how that could happen and when?**

The outcome of competition between Nabucco West and TANAP positioned Azerbaijan, along with Turkey, as a “key- decision-maker in the EU's Southern Corridor initiative; a position that Brussels may have preferred to retain for itself”<sup>115</sup>. Currently, the Southern Gas Corridor is, at this stage, a project with a single certain supplier, Azerbaijan, which, through its shares into TANAP and TAP projects, holds a critical role in the construction and further

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over the project, there is not yet an intergovernmental agreement between Turkey and Russia over the pipeline project. Initially, the Turkish Stream was planned to comprise four lines, each with the capacity of 15.75 billion cubic meters. The shot-down of a Russian bomber by Turkey over the Syrian territory, in November 2015, severely damaged the relations between Turkey and Russia; consequently, the implementation of the Turkish Stream project was suspended. Following the re-normalization of the relations between Moscow and Ankara, the revival of the project was announced after the meeting between the presidents of the two countries, Vladimir Putin and Recep Tayyip Erdogan, on August 9, 2016.

<sup>111</sup> TASS, « Erdogan: Turkish Stream gas pipeline project will be implemented », August 9, 2016

<sup>112</sup> In this regard, it should be mentioned that Turkey and Greece have a Memorandum of cooperation on the construction and operation of Turkish Stream on the Greece's territory, signed on June 18, 2015; Also, on February 24, 2016, Gazprom signed with Italy's Edison and Greece's DESPA a Memorandum of Understanding on natural gas deliveries across the Black Sea from Russia via third countries to Greece and from Greece to Italy; the scope of this agreement is to establish a southern route to deliver Russian natural gas to Europe.

<sup>113</sup> Trend News Agency, « Ankara offers to connect Turkish Stream, TANAP », August 10, 2016

<sup>114</sup> This position is in line with Turkey's initial aim of playing a more active role in the Turkish Stream project, which implied the goal of not being only an energy transit country for the Russian gas deliveries, but also that of becoming a regional hub, which would have sold the Russian gas.

<sup>115</sup> Stegan, Smith, K., Kuszniir, J., « Outcomes and strategies in the ‘New Great Game’: China and the Caspian states emerge as winners », *Journal of Eurasian Studies*, N°6, 2015, p.98

management of the two pipelines. Yet, “the European market is a priority market for Azerbaijan”<sup>116</sup>, as for the country “it is important not to limit itself to and depend on one single market (Turkey), thus increasing risks of demand security and weakening its negotiation position”<sup>117</sup>.

The Azerbaijan’s economy is heavily dependent on mineral products, which account for roughly 93% of goods exports, 70% of fiscal revenue and nearly 45% of GDP<sup>118</sup>. The fall in oil price severely affected the country’s economy, which in 2016 “entered in economic recession for the first time in 20 years”<sup>119</sup>. The slump of oil price, coupled with the economic crisis, affected SOCAR’s investments in the gas sector<sup>120</sup>, and that has had severe consequences on Azerbaijan’s gas production and, further, on the prospects of exporting its gas to Europe. Actually, a recent and extensive study argues that, apart from the volumes committed to Turkey and Europe from Shah Deniz II (6 billion cubic meters to Turkey and 10 billion cubic meters to Europe) and the 2.2-2.5 billion cubic meters of gas for Georgia, it is very unlikely that by 2025 Azerbaijan would have 10 billion cubic meters per year or more available for export <sup>121</sup>. Given that those volumes would be small, and also their transport costs, “it is unlikely that substantial new volumes will reach Europe’s larger markets. Azerbaijani gas could make a significant difference to the small markets in south-eastern Europe, particularly in cases where diversifying away from Russian supply is a policy priority”<sup>122</sup>. This situation would heavily affect the Southern Gas Corridor project, as during the 2020s, larger gas volumes should be provided from other sources than Azerbaijan<sup>123</sup> - which would be very difficult to realize-, and it would also significantly affect EU’s plans for supply diversification and, consequently, its energy security’s prospects.

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<sup>116</sup> Rzayeva, G., « The Outlook for Azerbaijani Gas Supplies to Europe: Challenges and Perspectives », *OIES Paper*, n° NG 97, The Oxford Institute for Energy Studies , June 2015, p.69

<sup>117</sup> *Ibid.*, p.

<sup>118</sup> Euler Hermes Economic Research, « Country Report. Azerbaijan », 2016, p.2

<sup>119</sup> Pirani, S., «Azerbaijan’s gas supply squeeze and the consequences for the Southern Corridor », *OIES Paper*, n° NG 110, The Oxford Institute for Energy Studies , July 2016, p.1

<sup>120</sup> *Ibid.*, p.2

<sup>121</sup> *Ibid*, p.12

<sup>122</sup> *Ibid.*, p.14-15

<sup>123</sup> *Ibid*, p.15

Turkmenistan holds significant natural gas reserves, which were recently estimated at nearly 17.5 trillion cubic meters, totalling 9.4% of the overall world's proven gas reserves<sup>124</sup>.

The relations between EU and Turkmenistan are yet governed only by the Interim Trade Agreement (1998) and ratified by the European Parliament only in 2009, whereas the Partnership and Cooperation Agreement (PCA, 1998) is still pending the ratification. Actually, because of concerns over Turkmenistan's poor human rights, which have impeded the PCA's ratification so far, the country is the only one of the five Central Asian states which does not hold a PCA with EU. In 2008, following the country's efforts to look for new customers for its gas, and after China's entry into the Turkmen market, EU and Turkmenistan signed a Memorandum of Understanding and Cooperation on energy, which focus, *inter alia*, on the development of energy transport infrastructure.

EU has been eyeing Turkmenistan as potential gas supplier, which may contribute to its energy diversification and that is highlighted in some of the aforementioned official documents. Hence, as Turkmenistan is seen as a possible component of the Southern Gas Corridor, which can contribute to its enlargement<sup>125</sup>, “the EU will use all its foreign policy instruments to establish strategic energy partnership”<sup>126</sup> with the country. The EU-through its officials-the former president of European Commission, Jose Manuel Barroso (who visited Turkmenistan in January 2011 and June 2014) and the Vice-President of European Commission, in charge of Energy Union, Maros Sefcovic (who visited the country in April 2016)-engaged in political dialogue with the authorities from Ashgabat for Turkmen gas supplies to Europe, but so far the energy cooperation between the EU and Turkmenistan has been limited and principally framed under the abovementioned Ashgabat Declaration.

Turkmenistan has a landlocked geographical position, which currently makes the prospects for gas exports to Europe difficult, especially in the context of the dispute over the legal status

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<sup>124</sup> BP, « Statistical of Review of World Energy 2016 », 2016, p.20

<sup>125</sup> European Commission, «On security of energy supply and international cooperation – ‘The EU Energy Policy: Engaging with Partners beyond Our Borders’», *op.cit.*, p. 5; European Commission , «European Energy Security Strategy», *op.cit.*, p.16

<sup>126</sup> European Commission, «A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy», *op.cit.*, p.6

of the Caspian Sea and of its offshore natural gas and oil fields<sup>127</sup>. As Vasánczki shows it, there are three ways to transport the Turkmen gas, via Azerbaijan, to Europe<sup>128</sup> : 1) via LNG or CNG, but this project seems unfeasible, due to high costs and low volumes; 2) through a link between existing Azeri and Turkmen offshore platforms, via a 100 km sub-sea pipeline; 3) through a 300 km shore-to-shore pipeline, which is denoted as Trans-Caspian Pipeline (TCP). TCP project was initially supported, at the end of '90s, by the US as a project aimed to bring the Turkmen gas to Turkey and, at the same time, to prevent Iran's gas exports to Turkish market<sup>129</sup>. The discovery of the Shah Deniz gas field in Azerbaijan (1999), stalled the TCP, but the project was revived by EU, after the aforementioned gas crisis. Hence, in September 2011, the Commission was mandated by the Council of the EU to negotiate a legally binding treaty between the EU, Azerbaijan and Turkmenistan to build the TCP, which has been further included in the PCIs list. More, EU took a step further in securing the Turkmen gas supplies and, together with the World Bank and the European Investment Bank set up a mechanism-denoted as Caspian Development Corporation (CDC) - for the purchase of the Caspian gas, with focus on the supplies from Turkmenistan. But this project encompasses significant liabilities (financial, competition, demand-related, etc.)<sup>130</sup> and the prospects of its implementation do not look clear. Though, the CDC was included in the aforementioned Ashgabat Declaration, which also aims at preparing the draft of a legal framework agreement on natural gas supply from Turkmenistan to Europe.

Nonetheless, TCP's implementation is fraught with some challenges, as the unresolved legal status of the Caspian Sea, the abovementioned project's liabilities- especially the financial ones- and the ongoing dispute between Azerbaijan and Turkmenistan over three offshore hydrocarbon fields: Azeri, Chirag and Kyapaz-Serdar.

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<sup>127</sup> The core of this dispute has been persisting since the dissolution of the Soviet Union. The contentious issue of the five bordering countries -Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan-, endorsed by their competing political and economic interests, is whether the Caspian Sea is a sea or a lake. It is expected that the Convention of the legal status of the Caspian Sea to be signed next year.

<sup>128</sup> Vasánczki, L. Zs., « Gas Exports in Turkmenistan », *Note de l'Ifri*, Paris, November 2011, p.18-19

<sup>129</sup> Central Intelligence Agency, « Trans-Caspian Gas Pipeline Facing Growing Challenges », *Intelligence Report*, 17 June 1999

<sup>130</sup> IHS CERA, « Caspian Development Corporation », *Final Implementation Report*, Cambridge, December 2010

## Conclusion

“Energy security” is a wide concept, which encompasses various definitions, meanings and dimensions and whose conceptualization is “highly context dependent” and determined by the type of the stakeholder to which it addresses (producer-, transit-, and consumer-country), the aims and policies pursued by the stakeholders, and subsidiary by the nature of the markets. The import dependency encompasses a geopolitical dimension, as it triggers the possibility to exert power through energy dependencies. Due to the nature of the gas markets, the gas import dependency can represent a security problem, as the pipeline-distributed gas may be used as energy weapon. After the 2006 and 2008 gas crisis and the 2014 Ukrainian crisis, Russia’s overall share in EU’s energy gas imports has been a matter of growing preoccupation for the Union, as it raised the fears that Russia, by reducing or cutting off the gas supplies, may use the energy weapon as a political lever in its relations with the European countries. Though EU’s dependency on Russian gas supplies may be debatable if approached through the geopolitical lens, the vulnerable dependency of some Central and Eastern European countries to the disruptions of the Ukrainian gas transmission route and Gazprom’s abuse of dominance is a factual one.

At the EU level, there is not an all-encompassing definition of the energy security, a situation which can be explained through several factors, among which the most important is the slow process of the communitarization of Member States’ national energy policies: for instance, the European energy policy was established only with the Treaty of Lisbon (2009). The security of supply, particularly of the gas supply, started to be a significant matter of concern for EU’s energy security by the mid ‘90s. Subsequently, the dimension of security supply was related, under the energy security’s frame, to the diversification of energy sources, supply and routes. In the context of Europe’s dependence on Russian gas supplies and of Central and Eastern countries’ vulnerability those dimensions of energy security-security of supply, diversification of energy sources, supply and routes-continue to remain the most critical features of EU’s energy security. Later, as a result of the developments occurred in the energy field, the full integration of the internal market through, particularly, increased interconnectedness, become part of EU’s energy security’s dimension. However, the integration of European gas market is still highly problematic, and that particularly affects the

Central and Eastern countries, in terms of vulnerability to the disruptions of the Ukrainian gas transmission route and supply diversification.

The gas crisis of 2006 and 2009 shaped up not only the Union's approach to energy security, but the whole EU's energy field, as they represented an important impetus for Commission to develop a common energy policy and an external energy policy. Further, the 2014 Ukraine crisis accentuated EU's preoccupation on its gas dependence from Russian gas supplies and determined the Union to intensify the actions falling under the scope of both external energy policy and internal market, aimed at ensuring the security and diversification of its gas supplies.

Hence, in this regard, Ukraine's importance as gas transit country has been largely taken into consideration by the EU through different actions such as: direct involvement in the political negotiations between Kiev and Moscow on gas transit; facilitation of the reverse flows from the European suppliers to Ukraine; support to organize the financing for gas purchases for Ukrainian side; legislative proposal that includes the opportunity that permanent bi-directional capacity on cross-border interconnections to be used to supply gas to Ukraine; the expansion of *energy acquis* and assistance for its implementation.

EU's diplomatic efforts to enhance its energy security through diversification of energy sources, suppliers and routes concretized so far only in the Southern Gas Corridor, whose implementation is seen by the Union as a "highest energy security priority". Nevertheless, on short term, the Southern Gas Corridor would not significantly contribute to reduce EU's overall dependence on Russian gas imports and to enhance the Union's diversification of energy supplies. The 10 billion cubic meters per year supplied by the Southern Gas Corridor would represent less than 3% of EU gas import requirements. However, the gas volumes transported across the Corridor can play a broader role in terms of supply security and supply diversification, especially if a network of interconnectors would be achieved, for Southern, Central and Eastern European gas markets, which are heavily dependent on the Russian gas imports.

Turkey is the most important transit country of the Southern Gas Corridor and its role in this regard, acknowledged by the EU since 2008, played an important part in establishing the High Level Energy Dialogue, which stresses the importance of political dialogue between the EU and Turkey on the development of the Corridor. The Southern Gas Corridor's current

architecture is largely the result of the cooperation between Turkey and Azerbaijan, which did make of the latter not only a key-decision maker but also the single supplier at least in the short-term. There is a strong likelihood that Azerbaijan would not have considerable new gas volumes for export by 2025 and, consequently, new large volumes would not reach European markets. This situation may greatly affect the EU's plans for supply diversification and, consequently, its energy security's prospects. Consequently, if during the 2020s, the EU would wish to access substantial gas volumes transported through the Southern Gas Corridor, it should find out other sources than Azerbaijan. Another potential supplier for the Southern Gas Corridor is Turkmenistan, which, since 2015 is involved in a trilateral energy cooperation process with the EU, Turkey and Azerbaijan, which deals with the organizational, legal, commercial and technical issues related to the transportation of the Turkmen gas to Europe.

Nonetheless, the prospects related to the Southern Gas Corridor's further expansion, implying the flow of additional, substantial gas volumes to Europe may face significant hurdles on longer term. As it was shown above, not only the availability of large gas volumes from Azerbaijan is uncertain, but the project of Turkmen gas transportation to Europe faces important challenges as well.

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