

## **Considering Pipeline Politics in Eurasia: South Stream, Turk Stream and TANAP**

Avrasya’da Boru Hatları Politikası:  
Güney Akımı, Türk Akımı ve TANAP

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### **Abstract**

After the dissolution of the Soviet Union, the newly independent Republics entered the international arena. As a result, the Caucasus-Caspian region, which possesses significant natural resources such as natural gas and oil, has become an important region of the world. The first part of this study gives a historical overview of the energy policies of Imperial Russia and the Soviet Union. The second part deals with the energy strategy of the Russian Federation. The third part examines various pipeline projects in Eurasia, especially in regards to the new projects of Azerbaijan and Russia, such as the South Stream, the TurkStream and TANAP. These projects and their effects on bilateral relations have been evaluated in the light of theories of interdependence.

**Keywords:** *Energy, Russia, South Stream, Turk Stream, TANAP*

### **Öz**

Sovyetler Birliği’nin dağılmasını ardından, bağımsızlığının kazanan devletler uluslararası arenaya katılmışlardır. Doğalgaz ve petrole sahip olan Kafkasya-Hazar bölgesi dünyanın önemli bir coğrafyası haline gelmiştir. Bu çalışmanın ilk kısmı, İmparatorluk dönemi Rusyası ve Sovyetler Birliği’nin enerji politikaları üzerinde durmaktadır. İkinci bölümde, Rusya Federasyonu’nun enerji stratejisi anlatılmaktadır. Üçüncü bölümde, özellikle Güney Akım, TürkAkım ve TANAP projelerine değinilerek, Azerbaycan ve Rusya’nın boru hattı projeleri değerlendirilmektedir. Çalışma kapsamında, boru hattı projeleri ve enerji ilişkileri karşılıklı bağımlılık kuramları çerçevesinde incelenmektedir.

**Anahtar Kelimeler:** *Enerji, Rusya, Güney Akımı, Türk Akımı, TANAP*

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## 1. Introduction

This study considers pipeline politics in Eurasia. The focus is going to be on three natural gas projects, namely, the South Stream, the TurkStream and TANAP and relevant developments.

Nye and Keohane<sup>1</sup> state that there are three types of relations between states: interstate, transnational and transgovernmental. Transnational relations are defined as contacts, coalitions and interactions across state boundaries that involve governments, non-governmental actors, transnational organizations, multinational business enterprises, revolutionary movements, trade unions and scientific networks. Transgovernmental relations could be defined as relations between governmental actors that are not controlled by the central foreign policy organs of their governments<sup>2</sup> Transnational relations and organizations could change attitudes, ensure international pluralism, increase constraints on states through dependence and independence, increase the ability of certain governments to influence others and lead to emergence of private actors with private foreign policies.<sup>3</sup>

This study examines the energy relations between Russia and the European Union (EU), an economic and political union which has got intergovernmental and supranational powers. In addition, the energy relations between Turkey and Russia established as interstate relations are also examined. The transnational and international energy relations between Turkey and Azerbaijan are also covered within the scope of this study. These different relations are studied focusing on three natural gas pipeline projects. The different types of relations developed for energy and the impact of these different approaches on the possibility of realizing such pipeline projects are investigated in this study.

## 2. The Energy Policy of the Imperial Russia and Foreign Energy Companies

The territory of today's Azerbaijan was crucial for the Tsarist Russia because of its enormous oil resources. The first paraffin plant in the world was built in 1823 to process the oil extracted in Baku. The Russian government decided to abolish the monopoly system and opened the area to competitive private enterprises at the beginning of 1870s. Oil production in the Russian Empire began in Baku, the capital city of Azerbaijan. Foreign investments in the country helped develop Russian oil reserves in the country.<sup>4</sup> Among the Europeans who entered into the energy business of the Imperial Russia was

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<sup>1</sup> Joseph Nye, Robert Keohane, "Transnational Relations and World Politics: An Introduction", *International Organization* 25, No.3, 1971 , 330-337

<sup>2</sup> Nye, Joseph and Keohane, Robert , 1971, p.xv cited in Clive Archer, *International Organizations* (London: Routledge, 1992), p.43.

<sup>3</sup> Nye and Keohane, "Transnational Relations"

<sup>4</sup> Anthony Reinsch, Igor Lavronsky, Jennifer Considine, *Oil in the Former Soviet Union: Historical Perspectives – Long Term Outlook* (Alberta: Canadian Energy Research Institute, 1992), 5.

the Nobel family and the Rothschild family. Robert Nobel, a Swedish chemist, arrived in Baku and bought a small refinery. As a result, the Nobel family entered the oil business.<sup>5</sup>

The Nobel family was so successful in oil business that in the following years, Ludwig Nobel came to be called the “Oil King of Baku”.<sup>6</sup> Daniel Yergin asserts that the Nobel Brothers Petroleum Producing Company was a multinational firm throughout the empire owning wells, pipelines, refineries, tankers, barges, storage facilities, its own railroad, and a retail distribution network.<sup>7</sup>

An Imperial Decree in 1882 made it illegal for Jews to own or rent land within the empire. However, after the Rothschilds loaned the government money allowing for the completion of the railroad from Baku in 1883, they were allowed to form the Caspian and Black Sea Petroleum Company, in 1886. The Rothschilds became the main competitor of the Nobels and soon became the second largest oil group of Russia. As a result, the rivalry among oil companies increased. It is important to note that the Standard Oil Company of the US was interested in acquiring the shares of the Nobels.<sup>8</sup>

In 1880, Baku met 97,7 percent of Russia’s oil needs.<sup>9</sup> The US percentage of the world export trade in illuminating oil fell from 78 percent in 1888 to 71 percent in 1891. The Russian shares, on the other hand, rose from 22 percent in 1888 to 29 percent in 1891. Although there was a rise in the Russian shares, the US acquired a larger share in the world oil industry.<sup>10</sup>

Political upheavals as well as ethnic and labor tensions undermined the Russian oil industry. The Rothschilds wanted to exit the Russian oil industry due to the political upheavals, strikes, and anti-Semitism. At the same time, Royal Dutch/Shell reentered the Russian market and became a major economic force in Russia.<sup>11</sup>

In the decade leading up to the World War I, the Russian oil industry around Baku continued to decline and its technology became outmoded. The 1905 Revolution increased social, political, economic and ethnic tensions. Consequently, Russia’s share of world oil exports fell from 31 to 9 percent

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<sup>5</sup> Daniel Yergin, *The Prize: The Epic Quest for Oil, Money & Power* (New York: Simon & Schuster Publication, 1992), 58.

<sup>6</sup> Yergin, Daniel, *The Prize*, 58-59.

<sup>7</sup> Industrial Revolution in Baku and the foundation of the Azerbaijan Republic, 1999. <http://www.ab.az/texts/hist4.htm> [Accessed 18.03.2001].

<sup>8</sup> Yergin, *The Prize*, 60-61.

<sup>9</sup> N. Nasibzade, Lecture at the University of California at Berkeley: The Independent Azerbaijan’s Oil Policy, 1998, <http://www.scf.usc.edu/~baguirov/azeri/nasibzade1.htm>. [Accessed 03.03.1998].

<sup>10</sup> Yergin, *The Prize*, 62.

<sup>11</sup> *Ibid*, 132-133.

between 1904 and 1913.<sup>12</sup> The shares of the foreign companies, however, remained high, to the degree that by 1914, Nobel, Royal Dutch–Shell, and the Russian General Oil Company represented 51 percent of the total oil production in the country.<sup>13</sup>

As Keohane and Nye state, multinational firms affect both domestic and interstate relations.<sup>14</sup> The energy relations in Eurasia went beyond being merely interstate relations and transformed into transnational relations with the inclusion of international companies since the 19<sup>th</sup> century. For this reason, international companies have become major players in oil exploration, production and distribution. However, it does not mean that the Imperial Period should be interpreted as a period in which the Russian government was not influential at all in conducting energy relations. The increase in ethnic problems, labor uprisings and the measures taken against these, the rise of anti-Semite practices and how these were guided are clear indicators of the fact that the state, as one of the major cornerstones, did not leave the energy game at all.

### **3. The Energy Policy of the Soviet Union**

The Bolshevik regime nationalized the oil fields in 1918. The control of the petroleum industry was given to a petroleum committee run solely by Russians. According to Rasul Quliev oil had been an important motivation for the Bolshevik Revolution.<sup>15</sup> The Russian Revolution may also have benefitted significantly from the wealth of Baku oil.<sup>16</sup>

The Bolshevik Revolution introduced a new era into the Russian oil industry. International oil companies were negatively affected by the Bolshevik Revolution. The Nobels fled the country and their properties were nationalized.<sup>17</sup> The state was the sole decision-making authority in energy during the Soviet Union. The transnational relations during the Imperial Period were not observed during this long period. Energy relations were based on interstate relations and interstate relations were observed between the East Bloc countries and the Soviet Union which was political and economic leader and primary energy supplier.

The only exception is the liberalization of the energy policies of the Azerbaijan Democratic Republic during its short period of independence. After the

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<sup>12</sup> *Ibid.*, 133.

<sup>13</sup> Reinsch et al. 1992, 5.

<sup>14</sup> Robert Keohane, Joseph Nye, *Power and Interdependence*. (New York: Longman, 2001), 22.

<sup>15</sup> Rasul Quliev, *Oil and Politics: New Relationship among Oil Producing States: Azerbaijan, Russia, Kazakhstan and the West* (New York: Liberty Publishing House, 1997), 32-33.

<sup>16</sup> Ş, Bögüt, *Caspian Oil Perspectives*. *Türkistan Newsletter* 1, no. 10, 1997, <http://www.euronet.nl/users/sota/turkistan.htm>

<sup>17</sup> Yergin, *Prize*, 37

Azerbaijan Democratic Republic declared its independence in 1918, the new government issued a decree to denationalize the oil industry and return the enterprises to their owners.<sup>18</sup> However, in 1920, the Bolsheviks recaptured Baku and nationalized the oil fields once more.<sup>19</sup> By 1930, all of the foreign companies lost their concessions, except for Standard Oil in Batumi and Japan firms in Sakhalin. Standard Oil owned its privileges in Batumi until 1935 and Japanese firms in Sakhalin until 1944.<sup>20</sup> The power of the state in the energy sector was also evident in the actions taken by the state. The Russian Five-Year-Plans also facilitated oil production in the region. The oil industry grew during the first and second Five-Year-Plans. Most of the production continued to come from Baku and the Caucasus region.<sup>21</sup> Another factor to consider is the fact that, during the World War II, Azerbaijan was the main petroleum reservoir of the Soviet Union and the main energy supplier of the Soviet army. Azerbaijan was responsible for 70-75 percent of the country's petroleum extraction, 80-90 percent of the production of the plane fuel and the fuel of the Soviet navy<sup>22</sup> Although the Russians were being supplied by Azerbaijan, they did continue to export oil. From the 1940s to the mid-1950s, most of the Russian exports were diverted to China and Russia's Eastern allies. After Stalin's death, the Soviets tried to re-enter Western markets, which was objected by Western governments and firms. Western governments feared that they would become overly dependent on and politically and militarily vulnerable to the Soviet Union. The Western European countries were suspicious about the energy collaboration to be developed.

As indicated above, before the war, the Caucasus region (Baku and the North Caucasus fields) comprised the main energy fields of the Soviet Union. After 1950, this role shifted to the Volga-Urals region. Rasul Gouliev states that after the exhausting signals of Volga-Urals, this role shifted to Western Siberia, which was referred to as the third Baku.<sup>23</sup> The first petroleum extraction was carried out in 1959.<sup>24</sup> By 1975, as Marshal Goldman states, the Soviet Union had become the world's largest producer and the third largest exporter of petroleum after Saudi Arabia and Iran. Simultaneously, the Soviet Union was also the world's second largest consumer of petroleum.<sup>25</sup>

At this stage, it is important to emphasize that in the 1980s there was an oil

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<sup>18</sup> Sabit Bagirov, "Azerbaijani Oil: Glimpses of a Long History," *Perceptions: Journal of International Affairs* 1, No.2, (1996), 22-28.

<sup>19</sup> Yergin, *Prize*, 237.

<sup>20</sup> Quliev, *Oil and Politics*, 36.

<sup>21</sup> Bülent Gökay, "Caspian Uncertainties: Regional Rivalries and Pipelines," *Perceptions: Journal of International Affairs* 1, No: 2, (1998), 51.

<sup>22</sup> Quliev, *Oil and Politics*, 36.

<sup>23</sup> *Ibid.*

<sup>24</sup> Reinsch et al, *Oil in the former Soviet Union*, 39-40.

<sup>25</sup> Marshal Goldman, "The Soviet Union as a World Oil Power" in *Oil, Divesture and National Security*, (ed.) Frank Trager, (New York: National Strategy Information Center Inc., 1977), 93.

crisis in the Soviet Union. One of the reasons behind this was the pricing system for the member states of the Council for Mutual Economic Assistance (COMECON), which paid no more than 60 percent of the world price for Soviet oil. This situation led to increase in dependency on the oil coming from the Soviet Union. This also contributed to further strengthening of relations within the bloc. However, after 1986, this situation changed. COMECON lost its sweet deal for oil prices. This is believed to have played an important role in the disintegration of COMECON. The Gorbachev administration enforced the Law on Enterprises, introducing the freedom of individual companies to engage in international affairs in 1987.<sup>26</sup> This new era led to an irreversible change in the energy policies of the Soviet Union. The interstate relations model, in which the state was the main actor, started to change and new transnational players started to enter stage.

Reinsch, Lavronsky, and Considine state that low technological and organizational levels of the Soviet oil industry hampered the future prospects of output stabilization by means of increased drilling activity. The low quality of the drilling equipment, the low level of automation, the mechanization of technological processes, and the poor standards of logistical support are the main reasons for the shortcomings. These factors resulted in over-expenditure on capital goods as well as high operating costs. Furthermore, the Soviet refining sector faced some additional problems like the geographical separation of the upstream and downstream sectors of the oil industry. All of these factors contributed to the decreased efficiency of the Soviet oil industry. These problems encountered in the energy sector in the Soviet Union made it clear that new players should enter the system. It was seen that technological problems could be solved by international companies who have got new technologies and investment opportunities. This also showed the inclination of the relations in the energy sector to change.

The oil policies followed by the Russian Empire and the Soviet Union were similar in many respects. There was the inclination to produce more oil to maximize revenue. Many oil wells were opened to increase production. However, there was inefficient use of technology to raise the productivity of these wells. Equipment of poor quality was another shared problem. Furthermore, the oil industry was managed poorly. The oil extracted was used as raw material and exported without processing. Neither the Tsarist Russia nor the Soviet Union regulated oil prices properly. The former allowed foreign investment, whereas the latter obstructed foreign firms from entering the sector until 1987.

#### **4. The Energy Policy of the Russian Federation**

The energy sector in Russia was liberalized and privatized after the collapse of the Soviet Union and with the onset of the new era of independence. However,

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<sup>26</sup> Reinsch, et al. *Oil in the former Soviet Union*, 63-66.

the energy sector underwent transformation in which especially the share and the control of the state grew stronger. The 2020 Energy Strategy of Russia issued by the Ministry of Energy revealed a liberal understanding of the issue. Firstly, it established the goal of reaching a new, improved quality of fuel and energy complex. Secondly, it decided upon a focus on the growth of competitiveness and openness of production and services on the global market. The Ministry indicated that the role of the state should be limited to forming market infrastructure and working as a regulator of market relationships.<sup>27</sup>

It is clear that the Russian oil and natural gas industries have played a significant role in the world energy market. President Putin believes that Russia's natural resources would not only secure the country's economic development but also serve as the guarantor of the country's international position.<sup>28</sup> The Russian Federation previously employed an authoritarian system, the government largely owned these industries and made decisions through a top-down process. Although the 2020 Energy Strategy claims to present a liberal perspective, it does not seem to be the case as the government still owns some of these industries. Moreover, there has been a tendency to control pipelines, ports, and storage facilities of Central and Eastern Europe and of the former Soviet Republics. This policy has caused concern in Central and Eastern European states that Russia could take advantage of the inherent energy dependency to interfere in domestic affairs and to force them to make foreign policy concessions. Furthermore, these states were also worried that the Russian energy companies, through the control of the regional energy infrastructure, might favour some local businessmen and politicians and influence internal political situation.<sup>29</sup>

Former President Mikhail Gorbachev lists some of the problems of the Russian Federation and one worth mentioning is that the Russian economy has been primarily based on the energy sector during a time when democratic and liberal rights were suppressed. This economic dependence on energy brought with it many problems, considering also that these resources are limited. Poor technological conditions, difficulties in drilling and authoritarian administration harm the exploration, production and exportation of natural resources. Moreover, terrorist activities, ethnic conflicts, difficulties in payment and transportation, and natural disasters all influence Russian energy policy and therefore its economy. Furthermore, poor weather conditions affecting transport and the changing prices of natural resources may hinder the development of the Russian economy. It is apparent that any negative

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<sup>27</sup> The Ministry of Energy of Russian Federation, *Energy Strategy of Russia for the Period up to 2020*, 2003, [http://ec.europa.eu/energy/russia/events/doc/2003\\_strategy\\_2020\\_en.pdf](http://ec.europa.eu/energy/russia/events/doc/2003_strategy_2020_en.pdf) [Accessed 10.02.2011].

<sup>28</sup> Martha Brill Olcott, "The Energy Dimension in Russian Global Strategy: Vladimir Putin and the Geopolitics of Oil," *The James A. Baker III Institute for Public Policy of Rice University*, (2004), 16.

<sup>29</sup> Steven Woehrel, *Russian Energy Policy toward Neighboring Countries*, Congressional Research Service, 2 September 2009, 1-2.

impact on the economy would influence and change Russian political and social life for worse.<sup>30</sup> The collapse of the Soviet Union saw the establishment of oligarchies and the privatization of the energy sector. However, when Putin came to power, the administration changed and he initiated a patriotic, authoritarian rule, waging war against the oligarchs of Yeltsin's time.

One of the issues related to the Russian energy sector was the arrest of Yukos CEO Mikhail Khodorkovsky on 25 October 2003. Yukos was one of the big oil companies of the Russian Federation that produced 20% of Russian oil until 2003.<sup>31</sup> Khodorkovsky was recently charged of stealing all the oil his company ever produced, and in 2005 was sentenced for failure to pay taxes on total oil production.<sup>32</sup> Yukos' assets were frozen and as a result, the tax debt could not be paid. Vladimir Putin stated that private property and free market economy were important. However, it should be taken into consideration that the rights of Russian citizens did not take precedence over the national interests of the Russian Federation. Putin explained this policy as "managed democracy," believing that the premature globalization of the Russian economy would lead to greater hardship for the majority of Russian people. As a result, it was deemed that wealth would be concentrated in the hands of only a few people.<sup>33</sup>

The Russian Federation is one of the world's largest energy suppliers. Russia has been the world's largest producer of crude oil. Major part of Russia's crude oil production comes from West Siberia and the Urals-Volga regions. In addition, the oil produced in the oil fields in East Siberia, Russia's Far East and the Russian Arctic continue to increase. The total amount of petroleum and other liquids spared for exports was 7,3 million b/d in 2014. 72% of Russia's crude oil exports go to Europe and especially to Germany, the Netherlands, Belarus, and Poland; 24% of exports are to the Asian countries and especially to China and Japan. The Russian economy was dependent on energy revenues; revenues from crude oil and products exported in 2013 accounted for 54% of Russia's total export revenues. Russia supplied more than 30% of European crude oil in 2014. The Russian Federation has been the second largest producer of natural gas. The state-run Gazprom has been dominant in the Russian upstream natural gas sector. Gazprom produced 73% of Russia's total natural gas output in 2013. According to Oil and Gas Journal (2014), Russia has got the world's largest natural gas reserves, with 1,688 trillion cubic feet. Russia owns one quarter of the world's proven natural gas reserves. Just like the Russian oil reserves, the majority of these natural gas reserves are located in West Siberia.<sup>34</sup>

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<sup>30</sup> Dünya Gündemi, 2010. Rusya Gerçek ve Etkili Bir Demokrasiye İhtiyaç Duymakta. December 19 – December 26, no.314.

<sup>31</sup> Olcott, M. "The Energy Dimension", 1-2.

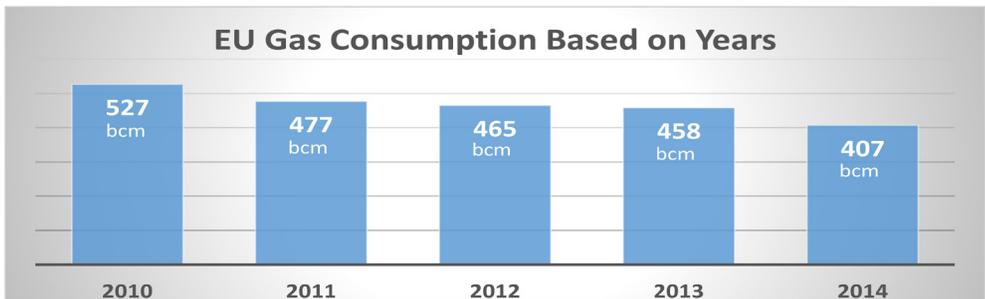
<sup>32</sup> Julia Ioffe, "The Verdict Is In," *Foreign Policy*, 30 December 2010.

<sup>33</sup> Olcott, 3-4.

<sup>34</sup> EIA, "Russia", 2016a, <http://www.eia.gov/beta/international/analysis.cfm?iso=RUS> [updated on 28.07.2015]

Almost 90% of Russia’s 7,1 tcf of natural gas exports were delivered to customers in Europe in 2014. The European Union countries do not necessarily cover all the countries in continental Europe. In this respect, Turkey, Belarus and the Ukraine considered as major buyers were taken into account as natural gas buyers in Europe. In addition to these countries, the EU members Germany and Italy are the other major consumers of the Russian natural gas imported. The remaining portion is imported as LNG by Asian countries. After the crisis, the Russian gas imported by the Ukraine, the country that had been importing the highest amount of Russian gas, was reduced to half in 2014. In addition, it was stated that the Ukraine did not buy natural gas from Russia during most of the second half of 2014. It is important to state that the total revenue made by natural gas exports accounted for 14% of the total exports revenues of Russia.<sup>35</sup>

Natural gas consumption in Western Europe countries has been on decline. The EU has aimed to build a reliable, transparent and an interconnected market. The EU has been importing over 60% of its natural gas. The Baltic States, Finland, Slovakia and Bulgaria are dependent on a single supplier, the Russian Federation, for their entire gas imports. It was stated that the EU member-states, which are extremely dependent on Russian natural gas imports, only represent 7% of the total European gas demand. The Baltic States (Latvia, Lithuania, and Estonia), Finland and Slovakia are fully reliant on Russia for their consumption. Moreover, Bulgaria, Hungary, Slovenia and Greece are dependent on Russia for more than two-thirds of their gas consumption.<sup>36</sup>The



<sup>35</sup> Ibid.

<sup>36</sup> E3G, *Europe’s Declining Gas Demand trends and Facts on European Gas Consumption*, 2015.

<sup>37</sup> European Commission, *Commission Staff Working Document: In-depth Study of European Energy Security*, (2014), 8,37.

<sup>38</sup> EIA, 2016a.

<sup>39</sup> Platts, Russian Gazprom ups October exports to Europe by 41% to 14.7 Bcm, 2015, <http://www.platts.com/latest-news/natural-gas/moscow/russian-gazprom-ups-october-exports-to-europe-26262139> [Accessed 06.05.2016].

Gazprom supplied Europe with 161,5 billion cubic meters of gas in 2013. In 2014, Gazprom sold 146,6 bcm to Europe, 217,2 bcm to Russian domestic markets, 48,1 bcm to the former Soviet Republics, 4,5 bcm to American continent and Asia-Pacific as LNG.<sup>40</sup> It should be mentioned that the U.S and EU have imposed sanctions on the Russian Federation after the Ukrainian Crisis and Russia has been planning to export 2,4 tcf to China. These two countries signed 2 pipeline deals in.<sup>41</sup>

In addition to being a major oil and gas supplier, Russia has been the third largest generator of nuclear power in the world and the fourth largest in terms of installed nuclear capacity. Moreover, Russia has sizeable coal reserves and is the world's third largest exporter of coal. Russia has owned the world's second largest recoverable coal reserves after the United States and has been the sixth largest coal producer in the world.<sup>42</sup>

The European Union's and Turkey's dependence on Russia with respect to energy is important. This dependence has got two dimensions. One thing that should not be forgotten with respect to interdependence is that a country's bargaining power over the other country is dependent upon the sensitivity and the vulnerability of the other state with respect to this interdependency relation.<sup>43</sup> The sanctions imposed by the EU and the U.S will have a negative impact on foreign investments and technology transfer in the energy sector and will increase the Russian energy sector's sensitivity and vulnerability. An important outcome of the sanctions first imposed in 2014 was that the sanctions of the United States severely obstructed Russian companies from having access to U.S. capital markets. These sanctions struck especially four Russian companies, namely, Novatek, Rosneft, Gazprom Neft, and Transneft. Moreover, the sanctions prohibited the exportation of any goods, services, or technology in support of deepwater, Arctic offshore, or shale projects to Russia.<sup>44</sup>

Before the sanctions were imposed, the tax reductions implemented by Russia made it possible to collaborate with Western companies in the Arctic offshore, low-permeability reservoirs, and shale reservoirs. Russia entered into significant projects of collaboration in the Arctic fields and development of shale reserves with numerous multinational companies including ExxonMobil, ENI, Statoil, and China National Petroleum Company (CNPC). However, all of the investments were suspended with the imposition of sanctions. With the suspension of the investment projects by Western companies due to the

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<sup>40</sup> Gazprom, 2016a. "Marketing," <http://www.gazprom.com/about/marketing/> [Accessed 12.05.2016]

<sup>41</sup> EIA, 2016a.

<sup>42</sup> Ibid.

<sup>43</sup> Kroll 1993, p.322-323 cited in Muharrem Gürkaynak, Serhan Yalçın, Gürkaynak, Muharrem. and Yalçın, Serhan, "Uluslararası Politikada Karşılıklı Bağımlılık ve Küreselleşme Üzerine Bir İnceleme", *Uluslararası İlişkiler* 6, No.23, 2009, 76.

<sup>44</sup> EIA, 2016a

sanctions coupled with decreasing oil prices, further development of the Arctic shore and shale projects as well as deep water exploration were hindered.<sup>45</sup>

Gazprom was founded in 1993 and has identified itself as the world's largest energy business engaged in natural gas, gas condensate and oil prospecting, transmission, processing and marketing, as well as power generation both inside and outside Russia. Gazprom accounts for 72% of share in total Russian gas production, also producing 17 % of global gas production. Gazprom has ensured 12 % global natural gas output and 69 % domestic natural gas output. The strategic goal of Gazprom is to become a leader among global energy companies by conquering new markets, diversifying business activities, and pursuing supply security.<sup>46</sup> It employs 459,6 thousand people. The number of Gazprom's shareholders in Russia and abroad totals several hundred thousand. Gazprom became an Open Joint Stock Company in 2015. The Russian Federation Government controls over 50% of the Company's shares.<sup>47</sup>

It has been claimed that Gazprom's key current gas fields are in decline and its infrastructure is aging, and the industry has also been facing investment challenges. Some foreign experts believe that access to foreign investment to provide expertise and capital is limited.<sup>48</sup> However, it is also worth mentioning that the new investments of Gazprom have increased its power over former Soviet Republics' gas production and transmission. The new acquisitions in the energy sector by Gazprom have increased these countries' dependency on Russia. In this respect, Gazprom increased its share in ArmRosgazprom to 100 % in 2014. This company owns gas transmission assets in Armenia and supplies gas to consumers in the Republic. Moreover, similarly, in 2014, Gazprom acquired 100% of KyrgyzgazProm. Gazprom became the sole importer of natural gas to Kyrgyzstan and owner of the country's gas transmission and distribution systems. Furthermore, Gazprom and CNPC signed the Purchase and Sale Agreement in order to deliver Russian natural gas for 30 years.<sup>49</sup>

Rosneft became Russia's top oil producer following the liquidation of Yukos assets, which Rosneft acquired.<sup>50</sup> Rosneft is an oil company mostly owned by the Russian state. Rosneft's largest shareholder (69,50% of the equity) is Rosneftegaz which is fully owned by the Russian Government. BP holds 19,75% of the shares, one share is owned by the state represented by the Federal Agency for State Property Management whereas the remaining shares are free floating. Rosneft aims to ensure production maintenance at mature fields, development of oil field service business segment and increase its offshore

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<sup>45</sup> EIA, 2016a.

<sup>46</sup> Gazprom, 2016b, "About Gazprom".

<sup>47</sup> Gazprom 2016c, "Gazprom Questions".

<sup>48</sup> Woehrel, Steven, *Russian Energy Policy*, 2.

<sup>49</sup> Gazprom, 2016d, "Company History".

<sup>50</sup> EIA, 2016a.

energy work. Rosneft has been operating in the international oil and gas sector, in Venezuela, Ecuador, Cuba, Canada, the USA, Brazil, Norway, Germany, Italy, Algeria, Mongolia, China, India, Vietnam, Turkmenistan, Belarus, the Ukraine, and the UAE. Moreover, Rosneft has considered itself as a leader in oil refining sector of Russia by owning 11 major refineries. Furthermore, Rosneft has identified itself as the biggest public company in the world in terms of reserves and production and has been enjoying a leading position in the development of the Russian continental offshore fields. Rosneft has been producing more than 40% of the Russian total oil output.<sup>51</sup>

Transneft which was founded in 1993, is a wholly state-owned oil pipeline company transporting most of Russia's oil. It has been transporting 90% of the oil extracted in Russia.<sup>52</sup> Lukoil is a prominent privately owned energy company in the Russian Federation, ensuring 16,4% of Russian oil production and 15,7% of total Russian oil refining. It produces over 2% of global oil production and owns nearly 1% the world's proven oil reserves.<sup>53</sup>

There are various criticisms voiced about the Russian energy sector. Milov asserts that the Russian Federation has increased its wealth but the heavy industry, the transport sector and the social infrastructure have deteriorated.<sup>54</sup> It was claimed that domestic gas production has been on decline, Gazprom has been increasingly reliant on the Central Asian gas imports. Another important issue that could create problems is nationalization which could cause problems for international companies. Nationalizing resources in the energy sector would impair oil and gas production as foreign investment is vital and instrumental in modernizing these sectors. Nationalizing resources was defined as a reaction to the emergent capitalism of the 1990s. Helm (2006) stated that Boris Yeltsin opened energy resources to Western firms which had, up until then, been under state control, ownership of energy resources having been the main parameter of Russia's energy policy, referred to as the Patrimonial Muscovite system.<sup>55</sup>

Before the cancellation of the South Stream Project, it was believed that the proposed South Stream gas pipelines would transport the Russian gas to Western Europe, bypassing the Ukraine. Gazprom's chief Alexei Miller mentioned that this deal meant that the South Stream project had been decided and that Gazprom would remain a supplier of gas to Europe for many decades to come. He added that Gazprom had the markets and the volume of natural

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<sup>51</sup> Rosneft, 2016, "Rosneft at a Glance".

<sup>52</sup> Transneft, 2016, "Company".

<sup>53</sup> Lukoil, 2016, "General Information".

<sup>54</sup> Vladimir Milov, "Russia and the West: The Energy Factor", Center for Strategic and International Studies, Institut Français des Relations Internationales, (2008), 9-11 [http://csis.org/files/media/isis/pubs/080731\\_milov\\_russia&west\\_web.pdf](http://csis.org/files/media/isis/pubs/080731_milov_russia&west_web.pdf), [Accessed 21.03.2011].

<sup>55</sup> Stephen Blank, *Russo-Chinese Energy Relations: Politics in Command*, (London: GMB Publishing Ltd, 2006), 16.

gas.<sup>56</sup>The Russian administration is aware of the fact that the fossil fuel sector is vital for its economy and political reach. Through its oil and natural gas production and exportation, Russia maintains its economic development, and at the same time, by using this dominant position as a foreign policy tool, is becoming an important player both regionally and globally.

According to the Energy Strategy of Russia for the Period up to 2030, issued by the Ministry of Energy of the Russian Federation in 2010, Russia provided 12% of the world's oil trade. Russia holds 23% of the world's natural gas reserves and provided 25% of the world's trade in natural gas. Additionally, Russia holds 19% of the world coal reserves. It was stated that within the period up to 2030, export of energy resources will remain the major development factor for the Russian economy. It is projected that the impact of the energy sector on the economy will decrease within this period. The main markets for Russia will be Europe and the Commonwealth of Independent states. The assumption is that, looking forward, the proportion of European energy consumption in relation to the total volume of Russian energy export will decline due to export diversification to Eastern energy markets.

Energy security is one of the most important components of national security. The main problems in this field are a high degree of fixed assets depreciating in the fuel and energy complex as well as a low level of investment therein. This is exacerbated by Russia's economic dependence on its energy sector and failure to match international scientific and technical levels in terms of environmental standards, and the speed of development of the energy infrastructure in Eastern Siberia and the Far East. The strategic objective of the foreign energy policy is the maximum and efficient use of the Russian energy potential for full scale integration into the world energy market in order to gain the highest possible profit for the national economy.

## 5. Examining Pipeline Projects in Eurasia

As Keohane and Victor state, states should engage in international cooperations in order to deal with energy issues successfully.<sup>57</sup> In that sense, domestic politics play a pivotal role in formulating energy policies however, energy issues have affected countries' economies as well as their foreign, security and environmental policies. It is important to note that formulation of energy policies could not be considered being only part of internal politics of states; energy security, energy markets, pipeline politics and environmental issues should be considered as part of international and global agenda.

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<sup>56</sup> The Local, "BASF Boosts Russian Gas Pipeline", March 22, 2011, <http://www.thelocal.de/money/20110322-33873.html> [Accessed 19.03.2011].

<sup>57</sup> Robert Keohane, David G. Victor, "The Transnational Politics of Energy," *Daedalus: The Journal of the American Academy of Arts & Science* 142, No.1, (2013), 97-99.

Necdet Pamir states that the Caspian energy resources currently account for 1,4% of global consumption.<sup>58</sup> The natural gas business has been significantly regionalized. Although it was claimed that the diversification of natural gas supply routes and the construction of new pipelines have contributed to energy security and lessened the risks of price volatility<sup>59</sup> it should not be forgotten that Russia still sets the rules of the game. Russia has got the largest natural gas reserves with 1.688 tcf of gas. It is the second largest producer of dry natural gas as well. Azerbaijan is ranked as 26<sup>th</sup> in natural gas reserves, with 35 tcf of gas.<sup>60</sup>

Transit pipelines are important for delivering energy resources from producer states to consumer states. The resources may pass through transit states, which are paid transit fees. Natural gas pipelines have been threatened by ethnic clashes, wars, environmental risks, accidents and terrorist attacks.<sup>61</sup> As various incidents including the Ukraine crisis and the Syrian war have shown, the gas pipeline projects are dependent on the outcomes of political situations, in other words, interstate relations and international organization (super-state)-state relations as was seen in the EU-Russia example.

Keohane and Victor define international regimes as institutions with legally binding rules the energy sector.<sup>62</sup> The opportunity to benefit from the pipeline which are formally constructed by elites who represent state interests. There are decentralized and dispersed institutions. Multinational companies, national energy companies, companies that offer infrastructure services, different actors in the government are the influential players in this field. There are also loose organizations such as the Gas Exporting Countries Forum (GECF). There is no international organization in place that could govern pipeline policies, that could set the required rules and regulations and that could bring together producers, consumers and transit countries on the same platform. Keohane states that there has been the trend of decreasing coherence of international regimes because of divergence of interests, diffusion of power and the difficulties of convincing domestic politics of democracies. Keohane states that regime complexes have been loosely coupled with arrangements of rules, norms and institutions marked by both connections between several specific

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<sup>58</sup> Ahmet Necdet Pamir, 2012. "Prospects for Resolving the Energy Security Problem: Trans-Anatolian Gas Pipeline," *TANAP Conference in Istanbul (28-29 September 2012) Proceedings Book*, ed. Sabit Bagirov, 3-24. (Baku: Qanun, 2012), 16.

<sup>59</sup> Mikkal. E. Herberg, "Pipeline Politics in Asia: Implications for the United States", *2010 Energy Conference: Pipeline Politics in Asia: The intersection of Demand, Energy Markets and Supply Routes*. NBR Special Report, no.23, (2010), 67-72. [http://www.nbr.org/publications/specialreport/pdf/preview/SR23\\_preview.pdf](http://www.nbr.org/publications/specialreport/pdf/preview/SR23_preview.pdf)

<sup>60</sup> EIA 2014a; EIA 2014b

<sup>61</sup> Paul Stevens, "Oil and Gas Pipelines: Prospects and Problems". (pp.7-16). *2010 Energy Conference: Pipeline Politics in Asia: The intersection of Demand, Energy Markets and Supply Routes*. NBR Special Report no.23. [http://www.nbr.org/publications/specialreport/pdf/preview/SR23\\_preview.pdf](http://www.nbr.org/publications/specialreport/pdf/preview/SR23_preview.pdf) [Accessed 12.10.2010].

<sup>62</sup> Keohane, Robert and Victor, David G., "The Transnational Politics of Energy", 104.

functionally related institutions and by the absence of an overall architecture or hierarchy.<sup>63</sup>

The 2009 European Commission Staff Working Document stated that nearly 80 percent of Russian natural gas had been exported to Europe through the Ukraine. The disputes between Russia and the Ukraine in 2005-2006 and 2009 about the transfer of natural gas are considered to be important examples of clashes in pipeline politics. In 2005-2006, the Ukraine used the Russian natural gas that should have been delivered to Europe for its own domestic needs. In 2009, another crisis between Russia and the Ukraine broke out when Gazprom demanded that the Ukrainian gas company Naftogaz pay its debts before gas delivery started in 2008. The Ukraine did not pay its debts, so Russia cut the flow of gas to the Ukraine and to Southeastern Europe as well. Although this conflict ended in 13 days, the outcome was so significant that Russia's reliability as an energy supplier began to be debated. After the dissolution of the Soviet Union, the Russian Federation held significant advantages in the energy businesses of the former Soviet Republics. The Soviet successor states used the Soviet pipeline system, but the newly independent states began working on building their own pipelines.<sup>64</sup>

According to the BP Statistical Review of World Energy (2015), Russia and Europe have been considered as interdependent in terms of energy politics. Europe has been dependent on Russia in order to supply its oil and natural gas. It was stated that more than 30% of European crude and natural gas supplies were provided by Russia in 2014. Russia has been dependent on Europe in order to export its oil and natural gas. In 2014, more than 70% of Russia's crude oil was exported to Europe and almost 90% of Russia's natural gas was exported to Europe.<sup>65</sup>

Numerous researches draw attention to Europe's increasing need for natural gas. However, the EU demand for natural gas has been on decline due to various reasons such as economic stagnation, alternative energy resources and climate conditions. According to the researches that put emphasis on the EU's increasing energy imports, the South Stream, TANAP and the TurkStream have been presented as important projects that would contribute to the energy security of the European Union. The South Stream was presented as the most challenging rival to the Trans-Anatolian Pipeline (TANAP). Both aimed to sell natural gas to the same region.<sup>66</sup>

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<sup>63</sup> Robert O. Keohane, "Twenty Years of Institutional Liberalism," *International Relations* 26, No.29, (2012), 129.

<sup>64</sup> E. Chow, L. Hendrix, "Central Asia's Pipelines: Field of Dreams and Reality," *2010 Energy Conference: Pipeline Politics in Asia: The intersection of Demand, Energy Markets and Supply Routes*. NBR Special Report, no.23, (2010), 29-42. [http://www.nbr.org/publications/specialreport/pdf/preview/SR23\\_preview.pdf](http://www.nbr.org/publications/specialreport/pdf/preview/SR23_preview.pdf) [Accessed 06.05.2016].

<sup>65</sup> EIA, 2016a

<sup>66</sup> Temur Huseynov, "Azerbaijan in the context of the EU Energy Matrix: Established Oil Producer

The European Commission announced its detailed action plan with respect to the Energy Union on 25 February 2015. It was stated in the press release that the purpose of the Energy Union is to provide reliable, sustainable, affordable and competitive energy to each and every European. Therefore, the very first purpose is to achieve solidarity. The European Union is against the idea of member states developing their own energy strategies based on one single supplier or their neighbors. It is also requested to make transparent the agreements signed for the purchase of natural gas from those outside the Union. The free transfer of energy among member states and the improvement of power systems for better connection are supported. The action plan shared by the Commission has emphasized once again that energy efficiency is a must. According to the plan, the objective is to give priority to renewable energy resources, to act as a leader in renewable energy technologies and to reduce carbon emissions. The action plan also emphasizes that consumer rights need to be safeguarded, energy prices should be affordable and determined in line with competition. The EU has set itself the goal of reducing greenhouse gas emissions by 40%, increasing the share of renewable energy resources in consumption by 27% and improving energy efficiency by 27% by 2030.<sup>67</sup>

The EU has been planning to develop its renewable energy sources, coal reserves, and shale gas. The Commission has supported the diversification of gas supply routes. Commissioner Oettinger stated in September 2011 that Russia should understand that the southern corridor was inevitable, and that Azerbaijan and Turkey had the right to make their own decisions.<sup>68</sup> The developments observed in the following five years have also shown the decisive approach of the EU via Commissioner Oettinger.

As was indicated in the official website (2013) of the Ministry of Foreign Affairs of the Republic of Turkey, the energy strategy of Turkey is based on four pillars. These are diversification of source country and itineraries, increasing the share of renewable energy resources in meeting energy need, paving the way to start benefiting from nuclear power and contributing to Europe's energy security. The very basis of Turkey's energy strategy is to be self-sufficient in energy. Another associated objective of Turkey is to become an energy corridor and more importantly an energy hub to transmit surrounding energy resources to Europe. Turkey aims to become part of "Southern Gas Corridor" of the European Union. The TANAP and the pipelines to be constructed to

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and Emerging Gas Powerhouse," *TANAP Conference in Istanbul (28-29 September 2012) Proceedings Book*. (ed). Sabit Bagirov, (Baku: Qanun, 2012.), 43

<sup>67</sup> European Commission, 2015. Press Release: Energy Union: secure, sustainable, competitive, affordable energy for every European. [http://europa.eu/rapid/press-release\\_IP-15-4497\\_en.htm](http://europa.eu/rapid/press-release_IP-15-4497_en.htm) [Accessed 25.02.2015].

<sup>68</sup> Giorgi Vashakmadze, "Critical Role of Caspian Gas for Achieving the Desirable Energy Mix in the EU or Why the Southern Corridor Requires two Entry Points into the EU to Reach the Needed Strategic Magnitude," *TANAP Conference in Istanbul (28-29 September 2012) Proceedings Book* (ed). Sabit Bagirov, 129-152. (Baku: Qanun, 2012). 147.

transfer the Northern Iraq oil stand out as important projects to meet Turkey's energy need. The TANAP Project is important for Turkey as the natural gas transmitted by this pipeline will free Turkey from her dependence on Russia. However, it is not possible to become an energy hub for Europe through the Azeri gas to meet the energy need of Europe.<sup>69</sup>

Robert Cox states that the multinational enterprise has been the new hero of functionalist theory. The neo-functionalist approach emphasized the roles of interest groups, elites and international pluralism. These theories focus on the fact that transnational relations could constrain governments and make their policies more cooperative. Creations of transnational organizations could contribute to internationalization of domestic politics. Multinational companies could facilitate good relations between states. They can help maintain political stability in producing countries. It was taken into account that nation states could not be ignored. It was claimed that more attention should be paid on the effects of the transnational relations on interstate relations.<sup>70</sup>

However, the insufficient transnational constraints on governments in energy as well as the lack of mechanisms and especially international institutions that could determine energy relations and the future of gas pipeline projects, that could ensure that procedures and standards are in place and that could sustain enforcement procedures and the fact that the pipelines policies were determined by the EU-the Russian Federation, different member states of the EU – the Russian Federation and the Republic of Turkey – the Russian Federation have led to the cancellation of the South Stream and the TurkStream projects. As Nye and Keohane indicate it should always be taken into consideration that there are asymmetries and inequalities in transnational relations.<sup>71</sup> Gazprom of Russia, being the sole provider and distributor of natural gas, is against the EU rules. Although the EU is criticized for not having achieved to have a “single voice” in energy policy, it has prevented the realization of these pipeline projects despite the opposite views of some of the member states and has proven that it is an organization with supranational powers.

### **5.1. The Importance of the South Stream Pipeline**

The South Stream Pipeline was expected to transport 63 bcm of Russian natural gas annually to Europe. The system included one offshore and several onshore pipelines. According to the International Energy Agency (IAE) data, the natural gas demand of the EU would rise from 536 bcm in 2010 to 618 bcm in 2035. In line with this data, the South Stream project was meant to

<sup>69</sup> Çağla Gül Yesevi, “Türkiye'nin Güvenliği: Türkiye'nin Enerji Stratejisinin Yeniden Değerlendirilmesi” *Neşehir Hacı Bektaş Veli Üniversitesi Sosyal Bilimler Enstitüsü Dergisi* 3, No.1, (2013), 266-286.

<sup>70</sup> Joseph S. Nye, Robert O. Keohane, “Transnational Relations and World Politics: An Introduction,” *International Organizations* 25, No.3, (1971) 338-345.

<sup>71</sup> *Ibid*, 346.

supply 12 percent of EU's natural gas demand in 2020 and it was expected to be finalized by 2017 or 2018.<sup>72</sup>

The South Stream pipeline was going to start from the Berezovaya Terminal. It was going to be 900 km long at a depth of 2,200 m in the Black Sea. The northern line was going to pass through Bulgaria. The total length of this gas delivery system was going to be 2,446 km. According to construction plans, the natural gas of the Russian Federation was going to be transported through the Black Sea to Bulgaria and through Serbia, Hungary and Slovenia further to Austria. Some branches of the pipelines were going to pass through Croatia and Bosnia-Herzegovina.<sup>73</sup>

Italy's ENI and Russia's Gazprom signed their first agreement on the South Stream on 23 June 2007. Each party held 50 percent of the shares, with the agreement signed on 18 January 2008.<sup>74</sup> The shareholders of the South Stream were Gazprom (50 percent), ENI (Italy, 20 percent), EDF (France, 15 percent) and Wintershall Holding GmbH (BASF Group) (Germany, 15 percent)<sup>75</sup>. Gazprom was cooperating with Germany, France and Italy on this project.<sup>76</sup>

Gazprom's CEO, Alexey Miller, stated that the first pipeline of the South Stream system was planned to be finalized in December 2015. The total cost of the South Stream was going to be 17 billion Euros. The construction of the Bulgarian section was going to cost 3,5 billion Euros. The pipeline from the Yamal Peninsula to the Black Sea was going to cost 30 billion Euros. The total cost of this project was going to be 47 billion Euros.<sup>77</sup>

The South Stream aimed to reduce the gas supply disruptions due to the political incidents in the Ukraine. The Oxford Institute for Energy Studies in January 2012 stated that Russia would be able to export to Europe 230 bcm by 2017. According to the EU Strategy Document Energy Infrastructure Priorities for 2020 and beyond, the Southern corridor was going to supply 10 to 20 percent of the EU gas demand by 2020.

The greatest objective of Russia with respect to this pipeline was to bypass the Ukraine to transport natural gas to Europe with the construction of the South

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<sup>72</sup> The South Stream Fact Sheet, 2013.

<sup>73</sup> The South Stream White Paper, 2014.

<sup>74</sup> Gazprom, South Stream Ensuring Europe's Future Energy Security, (2008), 11.

<sup>75</sup> South Stream Fact Sheet, October 2013

<sup>76</sup> Pavel Baev, Indra Overland. 2010. The South Stream versus Nabucco Pipeline race: Geopolitical and Economic (ir)rationalities and political stakes in mega-projects. *International Affairs* 86, no.5, (2010), 1075-1090.

<sup>77</sup> Euractiv, 2014. South Stream Victim of Crimea Annexation.

<http://www.euractiv.com/sections/energy/south-stream-victim-crimea-annexation-301086> [Accessed 09.05.2016]; Mikhail Korchemkin, "Energy Security in Central and Southern Europe: TANAP vs South Stream", *TANAP Conference in Istanbul (28-29 September 2012) Proceedings Book*, ed. Sabit Bagirov, 25-35. (Baku: Qanun,2012), 29.

Stream. In order to understand the Ukrainian position in the energy business, Medvedev's speech in 2009 should be reconsidered. He stated that the two key parties in energy policy are producers and consumers. As transit states perform a service, they should not be treated as independent players. The Russians considered the Ukraine as an unreliable transit country.<sup>78</sup> Therefore, the primary benefit of this project for Russia was going to be bypassing the Ukraine altogether. Ukraine was going to be affected negatively by the South Stream. Russia was going to strengthen its energy policy.<sup>79</sup> It was planned that the construction of the South Stream would totally bypass the role of Ukraine as an energy transit country.<sup>80</sup>

Gazprom has been claiming that the South Stream project would guarantee energy security for Europe. However, it was claimed that Russia would be more powerful and influential in the Balkan politics with the completion of the South Stream Pipeline. Russia was going to have the power to intervene in the internal affairs of states in need of its energy.<sup>81</sup>

The European Commission Director for energy markets announced at an event held at the European Parliament on 4 December 2013 that the international agreements supporting the South Stream project, the construction of which began in 2012, were illegal. As an alternative solution, the European Commission proposed a pipeline from Slovakia to the Ukraine, which would have the potential to decrease the Ukraine's dependence on Russian energy. It should not be forgotten that the EU did not finance the Ukraine during its financial crisis. The EU promised to give 60 million Euros when the Ukraine demanded 20 billion Euros in that time.<sup>82</sup> The first pipe in Bulgaria was welded on 31 October 2013. The construction of the Serbian section of the pipeline began on 24 November 2013. The pipe production for the first line began in April 2014. The first pipes were planned to be delivered to Bulgaria in the summer of 2014. Offshore construction was planned to begin in September 2014. After the Ukrainian Crisis, the European Union has demanded Bulgaria to suspend the construction work on the South Stream pipeline project.

Although Turkey has been part of rival projects of the South Stream as TANAP and Nabucco, she supported the South Stream project by allowing her exclusive economic zone in the Black Sea to be used. Turkey has been dependent on Russia in energy business and this has been affecting her foreign policy decision-making. It was considered that the South Stream project

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<sup>78</sup> Baev and Overland, "The South Stream", 1080.

<sup>79</sup> Kim Younkyoo and Stephen Blank, "Russo-Turkish Divergence (Part II): The Energy Dimension," (2014) <http://www.gloria-center.org/2012/11/russo-turkish-divergence-part-ii-the-energy-dimension-2/> Gloria Center. [Accessed 18.05.2016].

<sup>80</sup> Julian Wiczorkiewicz and Arno Behrens, "On Ukrainian Gas transit and South Stream: There may be more than meets the eye," *CEPS Commentary*. (Brussels: CEPS, 2014), 3.

<sup>81</sup> Younkyoo and Blank, 2014.

<sup>82</sup> P. D. Micco, *Delays to South Stream benefit Ukraine*. (Brussels: European Parliament, 2013), 3-4.

might challenge the future of the LNG projects. The LNG projects jeopardize the safety of the Straits. In that sense, Gazprom claimed that the South Stream, Nabucco and the Turkey-Greece-Italy pipeline projects are mutually complementary projects.<sup>83</sup>

The Russian Federation has been one of the major energy suppliers of the European Union. Russia declared that the cheap hydrocarbon era has come to an end and refused to approve the Energy Charter of the EU.<sup>84</sup> The European Commission opposed the South Stream project on the grounds that it was not compatible with the EU rules related to ownership or third-party pipeline access. The European Council President Herman Van Rompuy declared that the EU leader countries had decided to decrease their dependence on energy from Russia. The EU countries plan to reduce energy demand, diversify supply routes and develop their own renewable energy resources.<sup>85</sup>

Keohane and Victor claim that Europe has been declining as an economic force, accounting for one-fifth of the world's commercial energy consumption in 2013.<sup>86</sup> It is stated that the advanced and industrialized countries have been struggling with economic stagnation and they have been trying to meet limits on emissions. Germany, Bulgaria and Italy, unlike the other EU countries, supported the South Stream project. The EU demanded that Bulgaria should suspend the construction of the South Stream. Bulgaria and Serbia agreed and suspended work on the South Stream pipeline in June 2014. Russia tried to find a way around the EU penalties that it would face due to the non-allowance of a third party access to the South Stream pipeline network. Gazprom owns the natural gas networks and infrastructure to transfer them and would contract to be the sole remitter. The EU maintained that this project would fail because it was not consistent with the laws of the union.

Eastern European states have had different positions dealing with new pipeline projects. According to EIA,<sup>87</sup> Romania has been planning to develop a shale gas industry and reduce its reliance on Russian natural gas supplies. According to Eurogas, imports of natural gas from Russia accounted for 24% of the natural gas Romania consumed. It is important to note that Russia has been the sole natural gas importer of Romania in 2012. Indeed, Romania rejected being part of the South Stream system. It was claimed that Bulgaria would become an energy hub with the construction of the TANAP and the South Stream.<sup>88</sup> which would also meet its long-term energy needs. Moreover, the pipeline within Bulgaria was going to be owned by Gazprom and Bulgarian partners.

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<sup>83</sup> Gazprom 2008, p.7.

<sup>84</sup> Baev and Overland, 2010, 1078.

<sup>85</sup> Euractiv,2014.

<sup>86</sup> Keohane and Victor, 2013, 98.

<sup>87</sup> EIA, 2016b.

<sup>88</sup> Younkyoo and Blank, 2014.

In that sense, Gazprom was again going to be influential in the pipeline politics of Bulgaria. The Bulgarian Energy Holding and Gazprom agreed on feasibility studies. The Hungarian firm MOL and Gazprom agreed on a 50-50 joint venture on feasibility plans and construction of pipelines on 28 February 2008. Greece also signed an intergovernmental agreement with Russia to be part of the South Stream project on 19 April 2008. Serbia and Russia signed an intergovernmental energy agreement on the construction of the South Stream on 25 July 2008. Austria has been cooperating on gas business with Russia since 1968. The Prime Minister of Slovenia Barut Pahor stated that Slovenia was planning to invest in the South Stream pipeline.<sup>89</sup>

Nord Stream 1 and 2 are operational and have been delivering 55 bcm to Europe. Both the Nord Stream and the South Stream pipelines will circumvent the Ukraine, cutting the flow of natural gas transited to the Ukraine. Nord Stream has been connecting the gas networks of Russia and Germany since 2011. The Yamal-Europe pipeline, with a capacity of 33 bcm, delivers Russian natural gas through Belarus to Poland and Germany. Gazprom began to control the Belarussian gas company (Beltransgaz) in late 2011. Gazprom delivers 88 bcm of gas annually to Europe through the Nord Stream and Yamal.

There are different estimates with respect to the gas reserves of Russia and Azerbaijan. Russia ranks the first in the world with gas reserves of 47,7 trillion m<sup>3</sup> (tcm).<sup>90</sup> The reserves of Azerbaijan are only 991 million m<sup>3</sup>.<sup>91</sup> While Russia produced 587 bcm of gas, Azerbaijan produced only 18,2 bcm of gas in the same period. While Russia exports 201 billion m<sup>3</sup> (bcm) of gas, Azerbaijan exports only 7 billion m<sup>3</sup> (bcm) of gas.<sup>92</sup> BP declared that the proven natural gas reserves of Turkmenistan and Azerbaijan are about 26 tcm. Dealing with pipeline politics, geographical location is important. Proximity to consumer countries would lower the construction expenditures. Available amount of natural gas has been another important indicator of pipeline politics. The TANAP project was going to provide 10 bcm of gas to Europe and the South Stream was going to provide 63 bcm of gas if not cancelled. The South Stream was going to pass through Russia, Bulgaria, Hungary, Slovenia, Italy and Croatia.<sup>93</sup>

The European Union has been trying to solve its energy dependency on Russia. It is expected that the natural gas business will be different after 2050. As the European Commission declared in 2010, the natural gas demand for heating purposes will most probably decrease in North Western Europe with the help of the development of renewable energy resources as well as the application of

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<sup>89</sup> Gazprom, 2008, 15-19.

<sup>90</sup> EIA, 2016a.

<sup>91</sup> EIA, 2016c.

<sup>92</sup> EIA, 2016a; EIA, 2016c.

<sup>93</sup> M. Potapov, "South Stream Pipeline and Its Role in Energy Security of South East Europe," (*Gazprom: Lyublyana*, 2012). [http://bgc.bg/upload\\_files/Gazprom.pdf](http://bgc.bg/upload_files/Gazprom.pdf)

energy efficiency measures. The European Union will be working to diversify its supply routes, changing its transit and facility dependence.<sup>94</sup>

Change in institutional structure of a regime complex could create strong dissatisfaction (for example, price of oil) among strong actors.<sup>95</sup> This could lead to the emergence of new and efficient institutions. Powerful actors with similar interests must react to events in similar ways creating coalitions which could translate their preferences into actions. That was why the OPEC and the International Energy Agency were established and became active players in energy policies. The EU is currently working on establishing a European Energy Union. Although the issue of energy falls within the area of shared responsibility between member states and the EU, the EU has stood out as a very influential and supranational player in especially the cancellation of the South Stream pipeline project. Russia's energy revenues have decreased significantly especially due to low oil prices and the sanctions imposed by the EU and the USA have caused problems for its economy. The two pipeline projects (the South Stream and the TurkStream) cancelled due to the Ukrainian crisis and the Syrian crisis created high dissatisfaction. However, these did not have an impact on the long-term gas agreements. The decrease in EU's demand for gas will have an impact on future developments. No other new international institutions are expected to be established to resolve these conflicts in the near future.

Colgan, Keohane, Graaf, state that a coherent energy regime will not be possible because institutional inertia is strong and the preferences of major states diverge. The demand for institutional change depends on dissatisfaction. For instance, high prices cause dissatisfaction for oil importers whereas low prices and revenues cause dissatisfaction for oil exporters. Institutional change in energy politics depends on degree of homogeneity of preferences among key players in existing institutions. When there is heterogeneity in interests, dissatisfied states have to create new institutions. However, it is not expected to see the emergence of such collaboration between the EU and Russia in the near future. In addition, the Gas Exporting Countries Forum (GECF), which is an intergovernmental organization that has defined the framework for exchanging experience and information among member states, is the outcome of the partnership of gas producing countries. The GECF aims to act to achieve exchange of know-how and experience among member states on the issues of the transport of natural gas and pipelines.<sup>96</sup> However, the required basis as to how this could be achieved has not yet been established. We need to focus on the fact that GECF has identified and defined strongly that its objective is to support the sovereign rights of its member states over their natural gas

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<sup>94</sup> Caroline Dieckhöner, "Simulating Security of Supply", *Energy Policy*, 33, No.3 (2012),153-181.

<sup>95</sup> D. Colgan, Robert Keohane, T. Graaf, "Punctuated equilibrium in the energy regime complex," *The Review of International Organizations*, 7, No.2,(2011), 117-143.

<sup>96</sup> GECF, 2016a.

resources. Its purpose is to enhance its member states' ability to independently plan and manage the sustainable, efficient and environmentally conscious development of natural gas resources for the benefit of their people.<sup>97</sup> In this respect, it is not trying to become a supranational international regime with emphasis on independent policies and sovereignty rights of states. It is evident that especially the producer countries would like to set the rules of the game. However, it is clear that there are three main players in the pipeline policies: producers, consumers and transit countries. It is not expected to see the emergence of an international organization that could bring these three players together.

It is clear that Russia will need to make technological investments. Russia has had problems with its natural gas sector in the past. The depletion of its base fields has played a significant role in this situation. The fields in Western Siberia and in different places have been facing the problem of decreasing production. The natural gas production of the Volga region is expected to decline. The depletion of reserves in Western Siberia is an important factor. Yamal, for example, located in a remote area, is a more expensive field to explore for natural gas.<sup>98</sup> Russia has been trying to export the natural gas of the Yamal and Volga region to Europe through the South Stream. The pipelines were also going to be used to import both Azeri and Turkmen natural gas, and to act as a long-distance pipeline for future production centers.<sup>99</sup>

Farther north, the Arctic region contains a quarter of the world's estimated hydrocarbon resources. However, Russia needs technological development and investment in order to explore these offshore fields. This gives Russia an incentive to cooperate in technology with the European Union.<sup>100</sup>

The South Stream Project was announced to be cancelled by the Russian Federation after increased diplomatic tension with the EU. The EU adopted sanctions against Russia after its annexation of Crimea in March 2014. Russia and the European Commission did not accomplish a cooperative conclusion on the implementation of the third climate and energy package. The EU determined that gas pipeline operators should open up their networks to all suppliers. The main reason behind this rule is to obstruct investors to have priority in reserving gas transportation capacity according to their stake in the pipeline.<sup>101</sup>

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<sup>97</sup> GECF 2016b.

<sup>98</sup> Korchemkin ,2012, 32

<sup>99</sup> Dieckhöner, 2012

<sup>100</sup> Alexander B. Krylov, "Southern Energy Corridor and Prospects of EU Gas Market Development", TANAP Conference in Istanbul (28-29 September 2012) Proceedings Book, (ed.) Sabit Bagirov, 159-166. (Baku: Qanun, 2012), 160.

<sup>101</sup> Le Monde Diplomatique 2015.

Nye and Keohane explain the concept of intersocietal intercourse through the aspects of trade, personal contact and communication.<sup>102</sup> The relationship between the EU which is an international organization and the Russian Federation has not been supportive of the construction of the South Stream pipeline. The EU member-states have given support to the construction of the pipeline but the EU itself objected to it. One of the reasons why it has become difficult to find the basis for collaboration in common pipeline projects was the EU's efforts to take decisions that would provide mutual benefits and that would save its future. This had led to the situation whereby the interests of the organization conflicted with the interests of some of the member-states. The conflicts in the global system contribute further to this situation. It has been claimed that the issues related to energy should be of voluntary and decentralized nature. However, distributional issues and public goods, on the contrary, make it more difficult to create such collaboration.<sup>103</sup> In addition, a sound legal basis to regulate relations and to solve problems when necessary and a well-coordinated international organization do not exist. In other words, it should be mentioned that a harmonious international regime does not exist in energy issues and pipeline politics.

## **5.2 The TurkStream Pipeline Project Becoming Popular and Losing its Popularity**

As it was stated in the official website of Gazprom,<sup>104</sup> Gazprom and Botaş Petroleum Pipeline Corporation signed the Memorandum of Understanding on the construction of an offshore gas pipeline from Russia to Turkey across the Black Sea on December 1, 2014 during the visit of Vladimir Putin to Ankara. The Minister of Energy of Russia Alexander Novak stated that Moscow had suspended the TurkStream natural gas pipeline project in response to Turkey's shooting down a Russian jet in Syria<sup>105</sup> Later, the Turkish government announced that the project had been cancelled in December 2015.

As Nye and Keohane indicate<sup>106</sup> a good deal of intersocietal intercourse with significant political importance which takes place without governmental control has proven to be incomplete and insufficient in the energy field. This holds true especially for the TurkStream project.

Before the shooting down of the Russian jet SU-24, the economic and political relations between Turkey and Russia have been improving gradually. The foreign trade volume between the two countries was around 31 billion USD. Turkey's exports to Russia were around 6 billion USD and Russia's exports to Turkey were around 25 billion USD in 2014. Russia's share in Turkey's imports was around 10-11%.<sup>107</sup>

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<sup>102</sup> Nye and Keohane, 1971, 330.

<sup>103</sup> Ibid.

<sup>104</sup> Gazprom, 2016e

<sup>105</sup> Euractiv, 2015.

<sup>106</sup> Nye and Keohane, 1971, 330.

<sup>107</sup> Çağla Gül Yesevi, "Rus Uçağının düşürülmesi ardından Türkiye-Rusya ilişkileri,"

Russia is one of the leading energy suppliers of Turkey. Turkey's primary energy demand is met by coal with 31%, by natural gas with 32%, by oil with 26%, by hydraulic power with 4% and by other energy resources with 7%. Domestic production met 48% of Turkey's energy need in 1990. Today, only 28% of Turkey's energy need is met by domestic energy resources.<sup>108</sup> The total amount paid for energy to Russia in 2014 was 16,5 billion \$ (BBC Türkçe, 25.11.2015). Turkey imports 98% of the natural gas supply needed. Turkey's import dependency for oil is 92% and it is 30% for coal.<sup>109</sup>

Turkey imports 3,4% of its crude oil need from Russia; 606 thousand tons of crude oil have been imported from Russia to date. This figure is even higher when the imported oil products are added on. Turkey imported 49,2 billion m<sup>3</sup> of natural gas in 2014. Russia meets 54% of Turkey's natural gas imports.<sup>110</sup> 32% of Turkey's coal imports, i.e. 8,7 million tons, were imported from Russia. Turkey cooperated with Russia for the construction of the Akkuyu nuclear power plant.<sup>111</sup>

As Keohane and Nye<sup>112</sup> state, force is not an appropriate method to be used to achieve economic goals. In that sense, it is important to note that the troops sent by Russia to Syria, the bombardment of Turkmen fronts and the shooting down of a Russian jet had a negative impact on political relations. This new era getting tenser from a political and economic point of view had a negative impact on many things and ultimately led to the cancellation of the TurkStream project which was going to be an important collaboration project in the field of energy.

Keohane and Nye state that military force is not used by governments on other governments within the region when complex interdependence prevails.<sup>113</sup> Military force could be irrelevant for resolving disagreements on economic issues among members of an alliance. Unfortunately, the concept of interdependence suffered seriously due to the developments in the Ukraine and Syria. Keohane and Nye state that even for countries whose relations approximate complex interdependence, drastic social and political changes which would cause force to be used could become important policy instruments. The bombardment of Turkmen fronts in Syria by Russia led to a situation whereby Turkey threatened Russia by using force. Russia, in return, blamed Turkey for helping the terrorist organization ISIL.

27.11.2015, <http://www.21yyte.org/tr/arastirma/orta-asya-arastirmalari-merkezi/2015/11/27/8347/rus-ucaginin-dusurulmesinin-ardindan-turkiye-rusya-iliskileri> [Accessed 27.11.2015].

<sup>108</sup> Burcu Tiftikçigil, Çağla Gül Yesevi, *Türkiye'nin Enerji Görünümü: Stratejiler ve İlişkiler*. (İstanbul: Der'in Yayınevi, 2015).

<sup>109</sup> Yesevi, Çağla Gül, "Rus Uçağı..."

<sup>110</sup> EMRA, 2015; EIA, 2015.

<sup>111</sup> Tiftikçigil and Yesevi, 2015.

<sup>112</sup> Keohane and Nye, 2001.

<sup>113</sup> Ibid

As Keohane and Nye state military force could be important for the same alliance's political and military relations with a rival bloc. However, it has become evident that the relations between Turkey and Russia have never developed into a strategic bloc. According to Keohane and Nye under complex interdependence, military force could be devalued and militarily strong states could find it difficult to use their overall dominance to control outcomes on issues. In the absence of hierarchy, dominant states may try to secure the same results by using their economic power. Russia's intervention in Syria and the shooting down of the Russian jet upon violating the Turkish air field did not yield any military power outcomes on the Russian side. This situation is actually an important indicator. Despite threats and despite declining economic relations, the Russian side did not respond back with a military response. The response was diplomatic, social, cultural and especially economic. This is coherent with the impact of improving mutual dependency. This has resulted in the cancellation of the TurkStream project, cancellation of no visa requirements, suspension of tourism activities, suffering of trade relations and suspension of investments. Therefore, it seems correct to assess relations from the perspective of complex interdependence. In this respect, the fact that less vulnerable states would try to use asymmetrical interdependence should be emphasized.<sup>114</sup> One of the issues that need to be discussed is the existing asymmetrical interdependence between Turkey and Russia and it indicates that Russia is stronger.

As Keohane and Nye<sup>115</sup> strongly emphasize, relationships of interdependence might be affected by rules, norms, procedures which could be called as international regimes that shape and affect the behaviors and conducts of nation-states. The need for the establishment of an international regime that would facilitate cooperation between two states, i.e. the neoliberal institutionalism, is another important suggestion of Keohane and there is evident need for this. The fact that corporate framework cannot function fully indicates that such problems could emerge again in the future. The relations between Turkey and Russia have been shaped by state-owned companies and this has made it more difficult to resolve problems and led to blocked channels of communication.

Therefore, the structure of state systems has got an impact on the future of relations. As Keohane and Nye<sup>116</sup> state, opportunities and costs from increased transnational ties might be greater for certain groups. Considering the Turkish-Russian energy relations, various national energy companies and those companies that are collaborating with the energy sector and that would be responsible for carrying out infrastructure activities would be influenced more by any issues related to opportunities and costs. It is an expected development that these companies become influential during the course of the improvement

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<sup>114</sup> Keohane and Nye, 2001, 20-26.

<sup>115</sup> Ibid

<sup>116</sup> Ibid, 29.

of the process. In addition, as Keohane and Nye state, the importance of multiple channels of contact is evident. Therefore, contacts between governmental bureaucracies, i.e. transgovernmental relations, stand out as aspects that would facilitate reaching a solution. Keohane and Nye refer to these by discussing “which self and which interest”. According to them, “national interests will be defined differently on different issues, at different times and by different governmental units.”<sup>117</sup>

When the pipeline policies are explained based on complex interdependence rather than the dependence relationship led by asymmetrical power relations, although parties display different types of behavior and at different levels, it is expected to see them display the willingness and the efforts to ensure the continuation of these relations<sup>118</sup> After the recent incidents, no problems have been encountered in Turkey’s energy imports from Russia but the TurkStream project has been cancelled and trade relations, investment activities and tourism areas were harmed by these developments.

In fact, the idea of interdependence in energy is not a new one mentioned at the state level. The former Energy Consultant of the Office of the President Prof. Volkan Ediger (2008) defended the idea that the natural gas pipelines would help increase interdependent relations and efforts to find common solutions to problems and would bring more peace to the world. Energy security is based on issues such as energy supply, production, demand and transmission and countries such as Turkey and the Ukraine that transmit energy are, thus, very important. Countries that offer energy supply need these countries. If you are not a “good and reliable energy transit country”, such as the Ukraine, then you could be bypassed and suddenly become a null element in the energy game. However, although Turkey wants to become an “energy hub”, the country lacks sufficient infrastructure, an energy stock exchange, “re-exportation agreements” and sufficient storage capacity.<sup>119</sup> It is a fact that countries with oil and gas supply could also find themselves new routes and suppliers. For this reason, transit countries should not build high hopes on their pipelines.

Keohane and Nye emphasize the significant role of international organizations in world politics. They claim that governments must organize themselves to cope with the flow of business generated by international organizations.<sup>120</sup> Robert Gilpin states that governments dealt with regional international organizations as defense mechanisms against global transnationalism.<sup>121</sup> In 2012, Turkey’s former Prime Minister Erdoğan stated especially that he would like to see Turkey as a member of the Shanghai Five (Shanghai Cooperation

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<sup>117</sup> Ibid, 29-30.

<sup>118</sup> Wagner 1988, 468-470 cited Gürkaynak, Yalçınar, 2009, 75

<sup>119</sup> Winrow 2013 and Bilgin 2010 cited in Yesevi 2013.

<sup>120</sup> Keohane and Nye, 2001.

<sup>121</sup> Nye ve Keohane 1971, 338.

Organization) and this indicates that it is one of the platforms that could support the pipelines cancelled. International organizations serve as a meeting place and a forum that could strengthen collaboration between states and that could provide the code of conduct between states. Turkey was admitted to the Shanghai Five in June 2012 as the “dialogue partner” of the Shanghai Cooperation Organization. Prime Minister Erdoğan attended the TV program called “Sansürsüz” (“Uncensored”) presented by Yiğit Bulut on 25 January 2013 on Channel 24 and stated that “he had discussed with President Putin the possibility of including Turkey in the Shanghai Five and if that happens, Turkey would, in return, say farewell to the EU. It is meaningless to have been kept waiting for such a long time.” In addition, former Prime Minister Erdoğan also defined the Shanghai Five as a better and stronger organization with which common values are shared. For this reason, the EU accession process and the structure of the Shanghai Cooperation Organization and its role in the international system have become topical issues then.<sup>122</sup>This platform of which Turkey is a dialogue partner could become a forum that could support pipeline policies and joint energy projects.

### 5.3 The Importance of TANAP

The Caspian region could help with the diversification of supply routes to Europe.<sup>123</sup> Azerbaijan has the potential to become a transit country for Central Asian countries. This plan could give harm to the Russian energy strategy.<sup>124</sup> Russia wants to control the pipeline politics of Central Asian states. Moreover, there have been problems between Azerbaijan and Turkmenistan about the legal status of the Caspian region. They have not agreed upon the division of the Sardar/Kapaz field.<sup>125</sup>

There are some threats imposed on Azerbaijan’s energy sector. Armenian politicians and members of the military have threatened to strike against Azerbaijan’s energy infrastructure if the Karabakh issue worsens. Iran can also be regarded as a threat to Azerbaijan’s energy facilities if the political situation changes and a military attack against Iran’s nuclear programs takes place.<sup>126</sup>

The Russian Federation has been eager to use old and new political conflicts in the South Caucasus region. Armenia has been supported by Russia both

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<sup>122</sup> Çağla Gül Yesevi, “Avrasya’da Güvenliğin İnşası: Şangay İşbirliği Örgütü”. İçinde Mensur Akgün, Çağla Gül Yesevi, Sylvia Tiryaki (Eds.) *Küreselleşen Dünyada Farklı Sorunlar Farklı Perspektifler 2014*, 105-122. (Istanbul: İstanbul Kültür Üniversitesi Yayınları, 2014).

<sup>123</sup> Korchemkin 2012, 34.

<sup>124</sup> Krylov, Alexander, “Southern Energy Corridor and Prospects of EU Gas Market Development,”

<sup>125</sup> Nasb Nasibli, “Kapaz or Sardar? Energy Dilemmas in Azerbaijani-Turkmen Relations,” TANAP Conference in Istanbul (28-29 September 2012) Proceedings Book, ed. Sabit Bağirov, 169-175. (Baku: Qanun,2012).

<sup>126</sup> Rasim Musabayov, “Political Risks for the Region within the context of Trans-Anatolian Project TANAP,” *Conference in Istanbul (28-29 September 2012) Proceedings Book*. ed. Sabit Bağirov, 55-59. Baku: Qanun, 2012), 56-57.

economically and militarily. This has given harm to Azerbaijan, which disagrees with many Russian policies. There has been another threat that Russia could use the Lezgi or Avar minorities in Azerbaijan to intervene in the internal affairs of Azerbaijan which is detrimental to the stability of the country. Azerbaijan has also chosen to grant Russia a share of its natural gas. The conflict in Nagorno-Karabakh has also had important effects on both the military and energy policies of Russia and Azerbaijan.<sup>127</sup>

Azerbaijan's natural gas production is expected to reach 50-55 bcm by 2025. 20-25 bcm of this amount will be exported.<sup>128</sup> Pipelines need available supply of energy sources in order to be efficient. It is important to note that Russian exports exceeded 175 bcm in 2010. Azerbaijan's export was estimated to be 7 bcm in 2010.<sup>129</sup> In this respect, when the natural gas reserves of both countries are compared, Russia's reserves are far ahead of those of Azerbaijan.

The Trans-Anatolian Natural Gas Project (TANAP) will deliver natural gas from the Shah Deniz II and other fields in Azerbaijan through Turkey to Europe. To this end, Turkey and Azerbaijan signed a Memorandum of Understanding on 24 December 2011. This pipeline will begin from the Georgia-Turkey border.<sup>130</sup> It will carry 16 bcm by 2018, 23 bcm by 2023, and 31 bcm by 2026. 6 bcm of this gas will be allocated to Turkey and 10 bcm will be delivered to Europe.<sup>131</sup>

The percentage of shares in the TANAP is as follows: Southern Gas Corridor Closed Joint Stock Company (SGC) 58 percent, BOTAS 30 percent, and BP 12 percent<sup>132</sup> Jervalidze claims that TANAP was made possible by the fact that SOCAR has the largest stake in this project. SOCAR has also proposed that other producers in the Shah Deniz field, namely BP, Statoil and Total, should join in this project. SOCAR has been seeking to enter EU markets. It has signed important agreements to enter the wholesale markets and distribution networks in Georgia and Turkey. BP, Statoil and Total have been eager to enter into such agreements.<sup>133</sup>

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<sup>127</sup> Baev and Overland 2010, 1078.

<sup>128</sup> Vladimir Socor, "Aliyev, Erdogan Sign Intergovernmental Agreement on Trans-Anatolia Gas Pipeline to Europe," *Eurasia Daily Monitor* 9, no.22, 27 June 2012

<sup>129</sup> Radu Arghir, "TANAP and Energy Security: How will the construction of the Pipeline affect Gas Market Security", TANAP Conference in Istanbul (28-29 September 2012) Proceedings Book, ed. Sabit Bagirov, 233-243. (Baku: Qanun, 2012), 237.

<sup>130</sup> TANAP, 2014a.

<sup>131</sup> Socor, 2012

<sup>132</sup> TANAP, 2016a

<sup>133</sup> Liana Jervalidze, "Transportation Options for Azerbaijani Gas Through the South Corridor-Expansion of the SCP and TANAP.", TANAP Conference in Istanbul (28-29 September 2012) Proceedings Book. ed. Sabit Bagirov, 153-157. Baku: Qanun, 2012), 154-155.

As Keohane and Victor state creation of an effective energy policy is hard because it often requires effective international coordination. They suggest that solutions related to energy issues, for example stockpiles of oil, will be much more efficient if relevant states work in small groups. They also state that successful cooperation is based on finding incentive-compatible commitments that align with national interest and mutual gains. They mention that the important result of such cooperation will be likely to be decentralized complexes of networked institutions.<sup>134</sup> This situation constitutes an important reference point for the Turkey-Azerbaijan pipeline partnerships. Both parties have got common interests and gains with respect to the pipelines. Both states aim to further develop and deepen their partnerships in the field of energy. Therefore, the institutions and the working groups established to this end contribute positively to relations. The project is promoted with the following words on the official web site of TANAP<sup>135</sup>:

**TWO STATES, ONE NATION** The brother states of Turkey and Azerbaijan working together to realize this grand Project which aims to meet the natural gas needs of Europe and Turkey, as well as to provide gas supply options to the region.

The leaders, senior officials, ministers, energy companies, think tanks and civil society organizations of both states draw attention to the political, economic, social and cultural aspects of this relation and support “their friend and brother countries in this grand partnership in energy”. In this respect, it is clear that the collaboration between Turkey and Azerbaijan in the field of energy and pipelines is not only based solely on strong interstate relations but is also supported strongly through transgovernmental and transnational relations.

Theory of Interdependence focuses on the economic dimension of relations and the concept of mutual gain. Therefore, interdependence theories go beyond interstate relations and focus also on further enhancement of transgovernmental and transnational relations. Multinational companies and banks also play a role in shaping relations.<sup>136</sup> Another point that needs to be stressed is that even if we talk of harmony in relations, cooperation between states is not an automatic process. They strongly emphasize that effective collaboration must involve states, multilateral institutions, firms and non-state actors.<sup>137</sup> European Bank for Reconstruction and Development’s (EBRD) Energy Director Puliti indicated that they would like to invest in the TANAP Project as the EBRD.<sup>138</sup> Indicating that financing energy will be the priority area that they will be focusing on this year upon Turkey’s request, European Investment Bank’s Vice President

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<sup>134</sup> Keohane and Victor, 2012, 97.

<sup>135</sup> TANAP, 2016b.

<sup>136</sup> Keohane, Nye, 2001, 21.

<sup>137</sup> Keohane, Victor 2013, 99-101.

<sup>138</sup> Finans Gündem, 2015.

Pim Van Ballekom also stated: “The Trans Anatolian Natural Gas Pipeline Project (TANAP) is currently on our agenda. A financing support of 1 billion Euros has been requested for this grand and strategic project the total cost of which is going to be more than 8 billion USD. We are not going to provide this financing in one go but in various phases”.<sup>139</sup> It was also stated that the capital provided by the European Investment Bank would be used to finance the share of BOTAŞ (the company representing Turkey in the TANAP Project). The World Bank officials also indicated that they would like to be involved in the TANAP Project and that they would be providing 1 billion USD of finance to BOTAŞ. The World Bank is working together with the European Investment Bank in this project. It has been mentioned right from the very beginning that the project would be financed especially by its partners. Socar Turkey Vice President Samir Kerimli stated that the whole project would be financed by equity and the total cost would be around 10 to 12 billion USD The project is currently underway and has received the support of the EU, Azerbaijan, Republic of Turkey, BOTAŞ, SOCAR, BP and international banks. According to Saltuk Düzyol, the CEO of TANAP, the project provides added value for Turkey and offers goods and services to many SMEs. Currently, there are more than five thousand people working for the project.<sup>140</sup>

TANAP could be an alternative route for the transmission of Turkmen gas to Turkey and the EU countries. However, this has not yet been realized. The EU states and Turkey will benefit from its reasonable price and quantity.<sup>141</sup> Turkey has been supporting the contribution of Turkmen gas to the TANAP project, which will meet 1/6 or 1/7 of Turkey’s gas needs and could easily meet the needs of Bulgaria. It has been claimed that Turkey’s dependence on natural gas will diminish from 60 percent to 50 percent and to 40 percent later with the construction of the TANAP. Turkey will begin to import natural gas from Azerbaijan This project would also give both Turkey and the EU the opportunity to diversify their suppliers. This pipeline will not affect Georgia and Romania since they have got low domestic consumption and high domestic production.<sup>142</sup>

Azerbaijan will become part of the Southern Gas Corridor with the construction of the TANAP. TANAP is strongly supported by Azerbaijan, Turkey, the UK, the USA, EU, the TAP and Nabucco consortiums, and BP.<sup>143</sup> The Turkish government has been trying to develop relations between Turkmenistan and Azerbaijan in order to ensure contribution of Turkmen gas to TANAP.

<sup>139</sup> Finans Gündem, 2016.

<sup>140</sup> Enerji Enstitüsü, 2016. TANAP, Ekonomiye büyük katkı sağlıyor. <http://enerjienstitusu.com/2016/05/19/tanap-ekonomiye-buyuk-katki-sagliyor/> [Accessed 20.05.2016]

<sup>141</sup> Kenan Yavuz, “Importance of Azerbaijan-Turkey Collaboration in Terms of Turkey’s Energy Sector.” TANAP project. *TANAP Conference in Istanbul (28-29 September 2012) Proceedings Book*. ed. Sabit Bagirov, 47-51. (Baku: Qanun, 2012), 49.

<sup>142</sup> Arghir, 2012, 241.

<sup>143</sup> Gülmira Rzayeva, Burcu Gültekin, Metin Göknel, *TANAP Raporu*. (Istanbul: HASEN, 2012).

## **Concluding Remarks**

The Bolshevik Revolution benefitted from the oil wealth of Baku. After the Bolshevik Revolution, the Soviet Union nationalized its oil fields. During the Second World War, Azerbaijan served as the main oil reservoir of the Soviet Union. By 1975, the Soviet Union had become the world's largest producer and the third largest exporter after Saudi Arabia and Iran. Despite this prominence, the Soviet Union had low quality drilling equipment, automation and logistical support which hampered its energy output. The Russian Federation is an energy superpower and aims to control distributional networks in addition to energy exploration and exportation.

This study focuses on the main features and main energy policies with respect to the construction of the South Stream, the TurkStream and the TANAP from the perspective of the concepts of complex interdependence and liberal institutionalism. The original idea was to transport 63 bcm of natural gas through the South Stream pipeline, another 63 bcm of natural gas through the TurkStream and 10 bcm of Azeri gas through TANAP to Europe. Construction had already begun in some parts of the South Stream project in Serbia and Bulgaria. However, the EU demanded the cancellation of its construction. Moreover, the TurkStream was cancelled after the shooting down of a Russian plane by Turkey. After the normalization of the relation between Russian Federation and Turkey. On Aug. 9, 2016 Turkish President Tayyip Erdoğan and Russian President Vladimir Putin met in St. Petersburg. Following those talks, the decision to resume work on the TurkStream. It was planned that the marine section of the TurkStream will consist of four lines, each with a capacity of 15.75 billion cubic meters. The pipeline is to stretch by 660 kilometers along the old corridor of the SouthStream and by 250 kilometers along the new corridor in the direction of the European part of Turkey.<sup>144</sup> The TANAP project currently continues in line with plans.

In addition to secondary reasons such as bypassing the Ukraine as a transit country, the South Stream project has been cancelled due to reasons such as reinforcing the EU's excessive dependence on Russia and due to the failure to establish especially a corporate and legal infrastructure. The problem with respect to the legal basis has prevented the construction of the pipeline. The failure to materialize the project is closely linked with the lack of a sound legal and organizational basis between the Russian Federation and the EU. An international regime has not been established between the Russia Federation and the EU for energy. The EU expects Russia to follow the rules, standards and procedures set by the EU itself. Russia is not a member of the EU and has, therefore, not accepted to bind itself with these rules.

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<sup>144</sup> Daily Sabah (30.12.2016). Construction of Turk Stream under Black Sea to Start in 2017. <https://www.dailysabah.com/energy/2016/12/31/construction-of-turkstream-under-black-sea-to-start-in-2017>. [Accessed 20.02.2018]

This study shows that the EU that has got supranational features has prevented the materialization of the South Stream project. The EU forced Russia to follow its own rules and the relations got only tenser when Russia declared that the rules of the EU would not be followed. The political incidents in this given picture contributed further to the cancellation of the South Stream Project. The energy relations between Russia and the EU are not based on any legal or corporate basis. The interstate cooperations that Russia has got with various EU member-states were terminated after a while based on the decisions taken by the EU.

In addition to the relations between Russia and Turkey getting tenser, the TurkStream Project was also suspended due to the failure to find a legal basis to solve the gas distribution problem between the EU and Russia which was also the main reason for the cancellation of the South Stream Project. This is a clear indicator of the fact that there is need for an international regime to be in place especially in energy relations that require special emphasis and especially during the construction of a pipeline. However, it would be extremely optimistic to expect it to happen in the near future.

The TANAP Project, which will become part of the Southern Gas Corridor of the EU, will help with the diversification of suppliers of the EU and Turkey. It was indicated that the EU had opposed both the South Stream and the TurkStream Projects but has been supporting the TANAP Project strongly. At the end of the day, interdependence does not resolve interstate conflicts completely. As was indicated in this study, the EU has got supranational power to influence interstate energy relations with the decisions it takes and is against gas deals that would provide cheap gas. The EU has accelerated its efforts to transform itself into an EU Energy Union. A pipeline project that has not yet been constructed is a project for which no money has been spent and that has not generated any revenues to date. Therefore, it is much easier to discard. It does not create any dissatisfaction and could be put aside easily as a collaboration project that failed. The lack of an international regime results in the cancellation of pipelines.

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