

**TURKEY'S ENERGY SECURITY AND ITS ENERGY COOPERATION  
WITH THE EUROPEAN UNION AND RUSSIA**

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Approval of the Graduate School of Social Sciences

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## **ABSTRACT**

### **TURKEY’S ENERGY SECURITY AND ITS ENERGY COOPERATION WITH THE EUROPEAN UNION AND RUSSIA**

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This thesis analyzes Turkey’s energy security and its energy cooperation with the European Union and Russia. The thesis argues that Turkey’s energy cooperation with Russia and the European Union’s energy dialogue between Russia contradict with Turkey’s claim to be an exclusive energy corridor between the Caspian Sea region and the European Union. The first part of the thesis deals with the energy security issue in terms of the diversification of energy routes and pipeline politics. In the second part, Turkey’s energy needs and its potential to become an energy corridor will be discussed. Turkey’s energy cooperation with the European Union and Russia will be explored in the following parts of the thesis. Energy cooperation between the European Union and Russia will be analyzed in the fifth chapter. The last chapter is the conclusion.

Keywords: Turkey, Energy Security, Pipeline Politics, The European Union, Russia.

## ÖZ

# TÜRKİYE’NİN ENERJİ GÜVENLİĞİ VE AVRUPA BİRLİĞİ VE RUSYA İLE ENERJİ İŞBİRLİĞİ

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Bu tez, Türkiye’nin enerji güvenliğini, Avrupa Birliği ve Rusya ile enerji işbirliği bağlamında incelemektedir. Tezde, Türkiye’nin Rusya ile olan enerji işbirliğiyle, Rusya ile Avrupa Birliği arasındaki enerji diyalogunun, Türkiye’nin Avrupa Birliği ile Hazar enerji kaynakları arasında özel bir enerji koridoru olma iddiasıyla çeliştiği savunulmaktadır. Tezin ilk bölümü, enerji yollarını çeşitlendirme ve boru hatları siyaseti bağlamında enerji güvenliği konusunu incelemektedir. Tezin ikinci bölümünde, Türkiye’nin enerji gereksinimleri ve enerji koridoru olma potansiyeli tartışılacaktır. Türkiye’nin Rusya ve Avrupa Birliği ile olan enerji işbirliği tezin ilerleyen kısımlarında incelenecektir. Beşinci bölümde ise Avrupa Birliği ve Rusya arasındaki enerji işbirliği analiz edilecektir. Son bölüm ise sonuç kısmıdır.

Anahtar Kelimeler: Türkiye, Enerji Güvenliği, Boru Hatı Siyaseti, Avrupa Birliği, Rusya.

**To my family**

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## LIST OF ABBREVIATIONS

AIOC	Azerbaijan International Operating Company
BOTAŞ	Turkish Petroleum Pipeline Corporation
BP	British Petroleum
BTC	Baku-Tbilisi-Ceyhan Main Export Crude Oil Pipeline
BTE	Baku-Tbilisi-Erzurum Gas Pipeline (also known as SCP)
CPC	Caspian Pipeline Consortium
EBRD	European Bank for Reconstruction and Development
ECT	Energy Charter Treaty
EIA	US Energy Information Administration
ENI	Ente Nazionale Idrocarburi (Italian National Energy Company)
EU	European Union
GDP	Gross Domestic Product
GECF	Gas Exporting Countries Forum
IEA	International Energy Agency
ILSA	Iran-Libya Sanctions Act
INOGATE	Interstate Oil and Gas Transport to Europe Programme
LNG	Liquefied Natural Gas
MFA	Turkish Ministry of Foreign Affairs
NATO	North Atlantic Treaty Organization
NEGP	Northern Europe Gas Pipeline
NEGPC	Northern Europe Gas Pipeline Company
OECD	Organization of Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
OSCE	Organisation for Security and Cooperation in Europe
SCP	South Caucasus Pipeline (also known as BTE)
SOCAR	Azerbaijan's State Oil Company
TCP	Trans-Caspian Natural Gas Pipeline Project
TENs	Trans-European Energy Networks
TGI	Turkey-Greece-Italy Interconnector Natural Gas Pipeline
TPAO	Turkish Petroleum Corporation

TRACECA	Transport Corridor Europe-Caucasus-Asia
UK	United Kingdom
US	United States
USSR	Union of Soviet Socialist Republics

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## CHAPTER 1

### INTRODUCTION

This thesis analyzes Turkey's energy security and its impacts on Turkey's relations with the European Union (EU) and Russia. Turkey has increasing energy needs with a rapidly growing economy. Naturally, its main energy policy is to meet its domestic energy demand. At the same time, Turkey desires to be an energy corridor to the EU through pipelines. Since energy security does not end at national borders but requires a broader perspective, Turkey's energy security can not be simply analyzed by its energy strategies. It also needs to regard both current EU and Russian energy policies related to their effects on Turkey.

The thesis firstly focuses on the importance of energy. In addition, the concept of "energy security" as the most important issue of the energy policies will be examined, in reference to Turkey's energy security. The role of energy in economic development by industrial processes is an undeniable fact. In this sense, energy is labelled as the engine of the economic development. Energy has also important implications in political terms. Moreover, there is a strong link between energy and international relations. Thus "energy security" has become a crucial issue, not only at national level, but also at international level.

It is important to study Turkey's energy security in terms of its consistency because the existing literature ignores the contradictions in Turkey's energy policy and Turkey's energy cooperation with the EU and Russia.

A prominent political economist, Susan Strange, points out that even economic dimension of energy cannot be analyzed in only quantitative terms. In that regard, she does not credit the existing theoretical barriers of economics, political science and international relations. Meanwhile, she underlines the importance of analyzing energy security from both economic and political dimensions. According to her, the structural power of a state consists of "control over security, production, finance, and knowledge" as the primary sources of global political economy. Additionally, trade, aid, energy, and international transport systems are the secondary

structures which are thought to be shaped by the primary ones.<sup>1</sup> For example, while the control of security structure provides the protector to determine, and in some cases to limit, other power's options or choices; the control over "production" determines "what is produced by whom and for whom, by what method and on what terms".<sup>2</sup>

In energy issue, such a conceptualization deserves more attention, because, energy relationships and energy issues become important in the foreign policy and security policy making processes. According to David Howard Davis, energy is also highly linked to national interest. For instance, high levels of energy imports threaten national security.<sup>3</sup> Thus, there is a direct and powerful relationship between energy security and national security. Within those frameworks, it is vital to examine highly politicized energy security not only from economic, even it is important with this sole goal, but also from political, strategical and foreign policy perspectives.<sup>4</sup>

For different countries, energy security has different meanings. However, energy security means "security of supply" for the consumer countries. "Energy security or security of supply can be defined as the availability of energy at all times in various forms, in sufficient quantities, and at reasonable and/or affordable prices."<sup>5</sup> In this sense, Jan H. Kalicki and David L. Goldwyn, the editors of "Energy & Security: Toward a New Foreign Policy Strategy", state the equal importance of availability of energy and price.<sup>6</sup> However, availability of sufficient, uninterrupted, reliable, and timely flow of energy is more significant than cheaper flow of energy. It

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<sup>1</sup> Susan Strange, *States and Markets: An Introduction to International Political Economy*, London: Pinter Publishers, 1988

<sup>2</sup> *Ibid.*, pp. 45, 59

<sup>3</sup> David Howard Davis, *Energy Politics*, New York: St. Martin's Press, 1993, p. 120

<sup>4</sup> Yuji Nakamura, "Energy Security: Strategic Viewpoints", Tokyo: *IIPS Policy Paper 289E*, IIPS (*Institute for International Policy Studies*), May 2002, pp. 1-6, p. 1; Jan H. Kalicki and David L. Goldwyn, "Introduction: The Need to Integrate Energy and Foreign Policy", in Jan H. Kalicki and David L. Goldwyn (eds.), *Energy & Security: Toward a New Foreign Policy Strategy*, Washington DC: Woodrow Wilson Center Press, 2005, p. 14

<sup>5</sup> Coby van der Linde (Project leader), "Study on Energy Supply Security and Geopolitics (Final Report)", The Hague: Clingendael International Energy Programme (CIEP), January 2004, [http://www.nog.se/files/EU\\_energy\\_strategy\\_2004.pdf](http://www.nog.se/files/EU_energy_strategy_2004.pdf), accessed on 03.01.2007, pp. 3-281, p. 37

<sup>6</sup> Jan H. Kalicki and David L. Goldwyn, "Introduction: The Need to Integrate Energy and Foreign Policy", in Jan H. Kalicki and David L. Goldwyn (eds.), *Energy & Security: Toward a New Foreign Policy Strategy*, Washington DC: Woodrow Wilson Center Press, 2005, pp. 1-16, 9, 10

is clear that this does not mean a total ignorance of the price effect. Prices of the imported resources, especially high oil and natural gas prices have a significant impact on the energy security. For instance, they both have negative effects on balances of payments and inflation, in short, economic lives of energy importing states, while rising concerns over energy security.

Ensuring security of supply has not been an easy task. Because serious difficulties related to delivery of energy supply may occur in several ways. For instance, transport of energy resources has become more vulnerable to global terrorism. Moreover, civil conflicts, accidents, extreme weather conditions and natural disasters are important for security of supplies.<sup>7</sup> Nevertheless, even avoiding these risks is not sufficient for proper responses to “energy insecurity”.

Apart from those, global energy demand rises steadily. The two-thirds of the increase in energy demand are projected to come from the developing countries with their 2.6 percent annual growth of demand. Especially China, India and Brazil need more energy to mainly continue their industrialization efforts with their increasing population. 26 percent of the increase comes from the OECD countries with their 0.9 percent annual growth of demand, and 8 percent come from other states by 2030.<sup>8</sup>

Among energy resources, fossil fuels continue to dominate total energy demand. They account for about 88 percent with their 1.6 percent annual increase. Oil and natural gas remain as the prevailing resources. This tendency seems likely to continue, particularly between 2015 and 2030.<sup>9</sup> The share of oil in total primary energy use leads the fossil resources with its 37 percent of share. That share is projected to be 40 percent with a 1.9 percent annual growth of oil.<sup>10</sup> The share of natural gas in total primary energy use is 24 percent while the share of coal is 27

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<sup>7</sup> Anthony H. Cordesman and Arleigh A. Burke, “Rethinking Global Energy Security: Geostrategic and Economic Risks”, Washington DC: *The Center for Strategic and International Studies*, 9 November 2006, [www.csis.org/burke](http://www.csis.org/burke), accessed on 06.12.2006, pp. 1-56, p. 7

<sup>8</sup> International Energy Agency (IEA), *World Energy Outlook 2004*, Paris: 2004, pp. 29, 64, 243

<sup>9</sup> Necdet Pamir, “Enerji Arz Güvenliği ve Türkiye”, *Stratejik Analiz*, March 2007, <http://www.asam.org.tr/temp/temp337.pdf>, accessed on 03.11.2007, pp. 14-24, p. 15

<sup>10</sup> IEA, *Oil Supply Security- The Emergency Response Potential of IEA Countries in 2000*, Paris: 2001, p. 15

percent.<sup>11</sup> Hence, there is a prospect of oil and natural gas depletion, and possibly scarcity. Despite the continued use of the vast amount of oil and natural gas sources, it is a clear fact that the world's energy resources are not infinite but ultimately subject to being exhausted. In those respects, availability of oil and natural gas is the main focus of this study.

Furthermore, oil and natural gas are mostly concentrated in limited and unstable geographies, especially in the Middle East, the Caspian region, Russia and North Africa. Because of this, most of the consumer countries depend on energy imports. This factor raises concerns on availability of future supplies.

For the same reason, it is generally suggested that there could be future competition or conflicts, if not wars, for energy resources.<sup>12</sup> As an undeniable fact, energy resources had and continue to have a certain impact on world politics. For instance, those resources have had an equation of “trade, power and war”, according to Philippe Le Billon, the editor of the “The Geopolitics of Resource Wars- Resource Dependence, Governance and Violence”.<sup>13</sup> In this sense, the effectiveness of the energy security policy is not only dependent on technical and operational factors; transport and import abilities; or natural catastrophes but also on the realm of the geopolitical relations. Finally, like a chess board, there are many actors in the “energy game” whose actions are shaped by a range of different interests.<sup>14</sup>

Keeping in mind all the previous factors, the energy game becomes more complex within the context of ensuring energy security. One dimension of the issue

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<sup>11</sup> Necdet Pamir, “Enerji Politikaları ve Küresel Gelişmeler”, *Stratejik Analiz*, December 2005, <http://www.asam.org.tr/temp/temp11.pdf>, accessed on 03.11.2007, pp. 68-74, p. 70 cited in *BP Statistical Review of World Energy*, June 2005

<sup>12</sup> Philippe Le Billon, “The Geopolitical Economy of ‘Resource Wars’ ”, in Philippe Le Billon (ed.), *The Geopolitics of Resource Wars- Resource Dependence, Governance and Violence*, London: Frank Cass, 2005, pp. 1-28, pp. 1, 2; Anup Shah, “Energy Security”, 3 October 2007, <http://www.globalissues.org/energy/>, accessed on 3.11.2007; Richard Heinberg, *The Party's Over-Oil, War and the Fate of Industrial Societies*, Gabriola Island (Canada): New Society Publishers, 2003, p. 191; Susanne Peters, “Coercive Western Energy Security Strategies: ‘Resource Wars’ as a New Threat to Global Security”, in Philippe Le Billon (ed.), *The Geopolitics of Resource Wars- Resource Dependence, Governance and Violence*, London: Frank Cass, 2005, pp. 187-212, pp. 201, 208; Vaclav Smil, *Energy at the Crossroads- Global Perspectives and Uncertainties*, Massachusetts: The MIT Press, 2003, p. 118

<sup>13</sup> Philippe Le Billon, “The Geopolitical Economy of ‘Resource Wars’ ”, in Philippe Le Billon (ed.), *The Geopolitics of Resource Wars- Resource Dependence, Governance and Violence*, London: Frank Cass, 2005, pp. 1-28, p. 2

<sup>14</sup> Gülay Altan (Interview with Sinan Ogan and Abdurrahman Satman), 8 January 2006, <http://www.turksam.org.tr/yazilar.asp?kat=29&yazi=718>, accessed on 28.12.2006



is the attitude of consumer countries to each other. While some consumers try to limit other consumers' accesses to the resources or to control their transport routes in their own favour, others intensify their efforts to secure their supplies. All these raise tensions and may lead to a power play even among consumer countries.

Many states are involved in wars to gain access to energy resources. Especially control of the oil resources was a fundamental reason for both the World War I and World War II. Winston Churchill, the First Lord of Admiralty of Great Britain, was one of the first officials to notice the importance of oil. He decided to convert the Royal Navy from coal to oil just before the World War I. Churchill committed himself to faster refuelling, much greater speed and more efficient use of man power.<sup>15</sup> Furthermore, oil was one of the argued reasons of dismantling the Ottoman Empire into weak states in the Middle East.<sup>16</sup>

During the World War II, Hitler ordered the commandeering of oil for the success of the "blitzkrieg", the lightning assaults, against his enemies before they became well-organized.<sup>17</sup> It was the main reason behind Hitler's objective to invade the Baku and other Caucasian oilfields.<sup>18</sup> Additionally, the British oil flow was similarly important for Germany. Therefore, Hitler tried to cut the oil flow from the US with submarine boats. Likewise, Japan invaded China and some Southeast Asian countries especially for their resources. However, those invasions made the US refrain from supplying oil to Japan. As a result, Japan faced with the severe effects of that embargo. On the other hand, from Japan's perspective, the US embargo made the Pearl Harbour Attack inevitable, because they had 80 percent of their oil supply from the US.<sup>19</sup>

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<sup>15</sup> Daniel Yergin, *The Prize- The Epic Quest for Oil, Money and Power*, London: Simon and Schuster Ltd., 1991, pp. 12, 154-156, 173

<sup>16</sup> Susan Strange, *States and Markets: An Introduction to International Political Economy*, London: Pinter Publishers, 1988, p. 195

<sup>17</sup> Roy L. Nersesian, *Energy for the 21<sup>st</sup> Century- A Comprehensive Guide to Conventional and Alternative Sources*, New York: M. E. Sharpe Inc., 2007, pp. 73, 132

<sup>18</sup> Daniel Yergin, *The Prize- The Epic Quest for Oil, Money and Power*, London: Simon and Schuster Ltd., 1991, p. 334 cited in US Strategic Bombing Survey, *Oil Division- Final Report*, 2<sup>nd</sup> ed., Washington DC: 1947, pp. 36-39; also see Sarah L. O'Hara, "Great Game or Grubby Game? The Struggle for Control of the Caspian", in Philippe Le Billon (ed.), *The Geopolitics of Resource Wars- Resource Dependence, Governance and Violence*, London: Frank Cass, 2005, pp. 138-160, p. 144

<sup>19</sup> Roy L. Nersesian, *Energy for the 21<sup>st</sup> Century- A Comprehensive Guide to Conventional and Alternative Sources*, New York: M. E. Sharpe Inc., 2007, p. 132

The other dimension of the resource competition is the attitude of producer countries. Some scholars argue that producer countries can be put under pressure by their heavy dependence on energy exports by their impacts especially on revenues, balance of payments and budgets. However, it is obvious that producer countries obtain power of using energy as a tool of sanctions by utilising other countries' energy supply dependence. This results in competition among consumers and producers, besides their cooperation.

The Organization of Petroleum Exporting Countries (OPEC) members roughly produce 40 percent of the world's oil and hold 80 percent of the world's proven oil reserves.<sup>20</sup> Being in such a strong position, OPEC used oil as a "strategic product", more conveniently as a "strategic weapon". Consequently, it caused several oil crises.<sup>21</sup> The first oil shock came after the Arab-Israeli War of Yom Kippur in 1973 against the West which supported and aided Israel. The OPEC members cut their oil production, reduced oil exports and raised the price of a barrel of oil. These resulted in inflation, economic recession and instability. Similar consequences appeared in the Iranian revolution (1979), aftermath in Iran-Iraq War (1980) and in Kuwait's occupation by Iraq (1990).<sup>22</sup>

The first OPEC embargo demonstrated to the consumers that they were vulnerable to any use of energy as a weapon. Also it made energy, not only a strategic economic commodity but also a political one. On the other hand, the embargo increased consumers' awareness and they questioned their trust on producers. All these brought the concept of "energy security" into the international agenda. Since then, the concept has become one of the main concerns of the consumers.

Furthermore, energy resources continue to be directed as a weapon. Not only does oil subject to interventions, but also natural gas. Russia's natural gas embargo to

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<sup>20</sup> "The Geopolitics of Oil", *Institute for the Analysis of Global Security (IAGS)*, <http://www.iags.org/geopolitics.html>, accessed on 03.11.2007

<sup>21</sup> Yuji Nakamura, "Energy Security: Strategic Viewpoints", Tokyo: *IIPS Policy Paper 289E, IIPS (Institute for International Policy Studies)*, May 2002, pp. 1-6, pp. 2, 3

<sup>22</sup> David L. Greene, Donald W. Jones, and Paul N. Leiby; "The Outlook for U.S. Oil Dependence", *Oak Ridge National Laboratory*, 11 May 1995, <http://pzl1.ed.ornl.gov/Ornl6873.pdf>, accessed on 30.10.2007, pp. 1-39, p. 1

Ukraine in the winter of 2006 demonstrated the danger of embargoes remains. In the light of these conditions, energy would influence both economic and political relations of energy consumer and producer countries.

Beside the use of energy as a “weapon”, other risks and concerns of energy security grow. Hence, ensuring energy security has risen as the number one topic on the policy agendas of most countries. The unstable international energy market, uncertainty about delivery of supplies and instability in some exporting nations, anxiety over resources to meet the world’s energy requirements in the decades ahead, geopolitical rivalries, the current high prices of energy and future uncertainty of oil prices, the US’ “War on Terrorism” following 11 September and Iraq’s oil exports suspension, Iran’s isolation due to its nuclear program, tensions in the Middle East, especially the Israeli-Palestinian conflict and threat of terrorism are some of them.<sup>23</sup>

Although there is not a common definition for energy security, some common strategic priorities are adopted to ensure energy flow. For instance, investment in new technologies, promotion of energy conservation and energy efficiency, production of sufficient capacity, restriction of demand and expansion of storage capacities can provide power to cope with the vulnerabilities like energy shocks.<sup>24</sup>

Additional to those, international cooperation based on “mutual interdependence” between producers and consumers is expected to create common interests and avoid energy crises. On the other hand, some countries have become more aware of the need of collaboration on energy policies among consumer countries to prevent supply disruptions. For instance, the industrialized members of the Organization of Economic Cooperation and Development (OECD) came together to create the Paris-based International Energy Agency (IEA) in response to the 1973 oil embargo. Under the IEA, an “emergency response system” was established. Among others, the system involves sharing supplies in the event of supply

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<sup>23</sup> John V. Mitchell, “Renewing Energy Security”, London: *Royal Institute of International Affairs, Sustainable Development Programme*, July 2002, [http://www.chathamhouse.org/pdf/briefing\\_papers/Renewingpercent20Energypercent20Securitypercent20Mitchellpercent20Julypercent202002.pdf](http://www.chathamhouse.org/pdf/briefing_papers/Renewingpercent20Energypercent20Securitypercent20Mitchellpercent20Julypercent202002.pdf), accessed on 04.12.2006, pp. 1-25, p. 4; Daniel Yergin, *The Prize- The Epic Quest for Oil, Money and Power*, London: Simon and Schuster Ltd., 1991

<sup>24</sup> Adam E. Sieminski, “World Energy Futures”, in Jan H. Kalicki and David L. Goldwyn (eds.), *Energy & Security: Toward a New Foreign Policy Strategy*, Washington DC: Woodrow Wilson Center Press, 2005, pp. 21-50, pp. 47-48

disruptions. Therefore, the member states hold oil stocks equivalent to 90 days of net oil imports as strategic stocks.<sup>25</sup>

Some other states continue to welcome the idea of national self-sufficiency. They believe that domestic supply replacing the imported one can solve energy security problems. This kind of effort does not always provide concrete solutions to the problem. They could easily bring additional problems.<sup>26</sup> For instance, some countries prefer to expand their own exploration, production and transport systems. On the contrary, insufficient energy resources may raise questions over cost of the investments.

The most fundamental priority is “diversification of supplies and sources”. “Diversification of sources”, in other words, development of renewable energies like solar energy or wind power, is compatible with the reduction of environmental risks and promotion of clean energy sources. However, the concern of this thesis is limited to the priority given to “diversification of supplies”. Therefore, diversification will be used in terms of supplying energy by alternative origins or routes, not diversification by resources. Instead, oil and natural gas are the focus of the thesis.

Diversification efforts are important to consumer countries. Because, multiplying sources reduces the impacts of “unwanted” or “unexpected” situations by alternative sources. Generally, diversification of supplies is the starting point of increasing flexibility of energy supplies and decreasing risks.<sup>27</sup>

The principal method for assuring dependable supplies is fostering adequate resource development by a diverse group of suppliers through the creation of efficient markets, undistorted pricing, secure frameworks for investment and transparent relations between consumers and suppliers.<sup>28</sup>

The importance of diversification has fundamentally increased the importance of energy-rich regions and countries. In the post-Cold War era, the Caspian region

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<sup>25</sup> IEA, *Oil Supply Security- The Emergency Response Potential of IEA Countries in 2000*, Paris: 2001, p. 9

<sup>26</sup> “Achieving Energy Security in an Interdependent World”, 31 August 2006, <http://www.api.org/aboutoilgas/security/achieving-energysec.cfm>, accessed on 04.12.2006

<sup>27</sup> “Energy Security”, <http://www.iea.org/textbase/papers/2002/energy.pdf>, accessed on 09.12.2006, pp. 3-16, p. 6

<sup>28</sup> *Ibid*, p. 3

and Russian resources have focused the world's attention on this area. Ensuring their flow to the necessary markets has become of great interests to all developed and developing countries. Especially, "great powers", namely the US, the EU and Russia have attributed significance to the Caspian region.

Pipelines are considered to be the most efficient and secure ways of transporting large quantities of oil and natural gas through long distances. In this regard, transport corridors are crucial for both Russia and the Caspian region states. Pipelines have also become crucial in supporting energy security, economic prosperity and national security. On the other hand, they are seen as the instruments of increasing control or at least bargaining power over the consumer countries by both the producer and transit countries. Through blocking energy supply flow that strong position can be achieved.<sup>29</sup> Therefore, deciding on pipeline routes and building them have a meaning beyond obtaining energy resources.

In regard to the background given related to the energy security in the first chapter, the thesis argues that Turkey's energy cooperation with Russia and bilateral energy dialogue between Russia and the EU contradicts with Turkey's claim to be an exclusive energy corridor for the EU.

The second chapter of the thesis focuses on Turkey's strategies of energy security. Turkey's oil and natural gas resources are too limited to meet its domestic energy needs. Naturally, it tries to find solutions to its import dependence. Since Turkey wants to diversify its energy routes, it is attracted by various pipeline projects. Turkey has constructed oil or natural gas pipelines with the Caspian countries,<sup>30</sup> Russia and Iran initially for its own energy security.

What is more, despite its own dependence on imported oil and natural gas, Turkey desires to become an energy corridor to the EU through pipelines. As Turkey

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<sup>29</sup> Emmanuel Karagiannis, *Energy and Security in the Caucasus*, London: RoutledgeCurzon, 2002, pp. 4, 8

<sup>30</sup> Azerbaijan, Kazakhstan, Turkmenistan, Iran and Russia have border to the Caspian Sea. However, to understand the regional pipeline politics well, when the term "Caspian countries" is used in this thesis, it specifically refers to Azerbaijan, Kazakhstan, and Turkmenistan. For instance, Robert Ebel differentiated the Central Asian states as "Haves" and "Have-nots" according to their significant amount of oil and natural gas reserves. In that regard, Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan are referred as "Haves", while Kyrgyzstan, Tajikistan, Georgia and Armenia as "Have-nots". See: Robert E. Ebel, *Energy Choices in the Near Abroad- The Haves and Have-nots Face the Future*, CSIS (The Center for Strategic and International Studies), CSIS Report, Washington DC: April 1997, p. 2

is at the crossroads of Central Asia and Europe, it aims to transport both oil and natural gas to the EU market. Hence, Turkey has given a special attention to its relations with the EU.

In the third chapter, Turkey's energy cooperation with the EU will be analyzed. Turkey wants to transport energy surplus to the European markets. In addition, the EU's determination to ensure its energy security with alternative energy routes to Russian-controlled pipelines is another factor for Turkey to be a natural energy bridge to the EU.

In compliance with its corridor policy, Turkey has also given importance to the Caspian region after the dissolution of the Soviet Union. Turkey has to find alternative routes to Europe against Russian ones. It is important that Russia currently continues to have a dominant position in the EU's energy market. On that ground, the pipeline projects from the Caspian region to Turkey are mentioned.

Firstly, the Baku-Tbilisi-Ceyhan Oil Pipeline (BTC) is examined. The BTC Pipeline's role between Turkey and the EU is analyzed, since it has been the first leg of the "East-West Energy Corridor". A background environment before the realization of the BTC is presented. The United State's (US) position draws attention. It has been the main force in realization of the East-West Energy Corridor's projects. According to Tuncay Babali, "Political factors are dominant in the region and at least as important as economics in determining which pipeline is to be built."<sup>31</sup>

Furthermore, Turkey's natural gas pipelines with the Caspian states and Iran are mentioned in regard to their role in Turkey's energy corridor to the EU. The Baku-Tbilisi-Erzurum Gas Pipeline (BTE) was built after a long delay. The Trans-Caspian Natural Gas Pipeline Project (TCP) has not been realized yet. Much worse, it gives no signal to come in terms on its construction because of several factors. Instead of the TCP, Turkey preferred the Iran-Turkey Gas Pipeline. The Iranian pipeline proved to be one of the main obstacles to Turkey's corridor strategy. The pipeline does not ensure energy security for Turkey or the EU. However, with the constructed pipelines, Turkey has realized the Turkey-Greece Interconnector with Greece under the EU program. Moreover, it looks forward to expanding that pipeline

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<sup>31</sup> Tuncay Babali, "Implications of the Baku-Tbilisi-Ceyhan Main Oil Pipeline Project", *Perceptions: Journal of International Affairs*, Vol. 10, No. 4, Winter 2005, pp. 29-59, p. 29

initially to Italy, and then beyond. Turkey is also interested in the Nabucco Pipeline which also has problems in order to be constructed and to be influential in natural gas transporting to Europe via Turkey.

In the fourth chapter, Turkey's energy cooperation with Russia and its energy security will be analyzed. Turkey's potential as a corridor is also related to Russia's energy politics. Russia still is a great power in terms of energy resources, if not in military terms. In this connection, Turkey's energy relations with Russia will be analyzed, especially on the Blue Stream Gas Pipeline basis. "Has the Blue Stream been an area of cooperation or competition?" will be asked. While keeping in mind that question, the Blue Stream and its priority against Turkey's other natural gas projects are analyzed.

The thesis indicates that Turkey could not benefit from this pipeline as expected, but lost some crucial economic and political advantages. If Russia continues to be the largest natural gas supplier to Turkey, the current picture seems not to change. Instead, Turkey becomes heavily dependent on Russian gas. Not only is this fact an obstacle in/to Turkey's role as an energy corridor country, but also gives the gas giant Russia a strategic hand to use its natural gas resources and pipelines as a pressure.

In the fifth chapter, energy cooperation between the EU and Russia will be examined. Russia's stance toward the EU and its members is of importance to Turkey's corridor strategy. Russia currently has a dominant position in the EU's energy market. In particular, the EU members mostly depend on Russian natural gas. What is more, it continues to perform its dominance on the Caspian region's energy-rich states. In addition, Russia has always been against any oil or natural gas pipeline projects from the region, which does not run through its territories.

With its dominance on the EU, Russia threatens European energy security, especially its natural gas security. To make this more obvious, the 2006 Ukraine-Russia Gas Crisis is examined in regard to its impacts on the EU-Russia relations. The crisis is expected to increase the EU member states' awareness on the energy security. Hopefully, the EU institutions try to set up strategies for the sake of the Union's energy security. However, several EU states have enhanced their relations with Russia, at the expense of a coherent energy market within the EU and their diversification efforts. Ironically, the recent natural gas crisis has resulted in a new

Russian pipeline to Europe. Russia and Germany have agreed on the Northern Europe Gas Pipeline (NEGP). Moreover, Germany is not the only EU member that has dealt with Russia separately. Seemingly, it will not be the last one. Because there are other states that have made bilateral agreements with Russia. As a result, the EU states cannot work on energy policies at the EU level. They seem to be far from forming a coherent energy policy against Russia's dominance. This consequence also affects the pipeline projects under the EU.

The last chapter is the conclusion. Finally, in that chapter, I will come to the conclusion that under current circumstances, it is difficult for Turkey to become exclusive an energy corridor to the EU.



## CHAPTER 2

### TURKEY'S ENERGY SECURITY STRATEGY

As Turkey's energy demand increases steadily, its energy security has emerged a significant issue for the country. Therefore, this chapter examines whether its energy policies meet its needs or not. Furthermore, Turkey has one of the most complex energy policy-making processes with its proximity to Europe, Russia and the Caspian region. In that respect, Turkey's current and future positions in global energy politics have crucial impacts in the post-Cold War era. In this regard, it is argued that Turkey's energy policy is to supply both its domestic and the EU's energy needs. Related to the EU needs, Turkey's potential to become an energy corridor to the EU will be questioned.

#### 2.1. Turkey's Energy Policy in the Post-Cold War Era

Turkey has a dynamic and rapidly growing economy with its more than 70 million population. Especially related to its urbanization and industrialization efforts, its energy needs grow. Its energy demand is expected to double between 2000 and 2010 and to quadruple between 2000 and 2025.<sup>32</sup> To put in another way, nearly only one third of Turkey's energy stems from its domestic production.<sup>33</sup> Turkey will meet its energy demands with a decreasing rate in the following years.

Turkey's total primary energy consumption is mostly met by hydrocarbon resources. In addition, oil, natural gas and coal meet between 85 and 90 percent of its total energy consumption. However, Turkey does not have any substantial amount of those resources. It only has some amounts of inefficient and environmentally unfriendly lignite coal.

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<sup>32</sup> Kamil Kaygusuz, "Oil and Gas Market Developments in Turkey", *Energy Sources*, Vol. 25, No. 3, March 2003, pp. 229-240, p. 231 cited in MENR (Ministry of Energy and Natural Resources), *General Energy Situation of Turkey*, Ankara: 2001, <http://www.menr.gov.tr/>

<sup>33</sup> Harun Kemal Ozturk and Arif Hepbasli, "The Place of Natural Gas in Turkey's Energy Sources and Future Perspectives", *Energy Sources*, Vol. 25, No. 4, 2003, pp. 293-307, p. 294

Oil consumption has the biggest share in Turkey's energy consumption in recent years. For instance, oil demand growth ranges between 3 and 4 percent. This growing trend is expected to continue in the next decade.<sup>34</sup> The fastest increases of oil consumption are in industrial, commercial, transport and residential sectors.

Turkey possesses significant oil facility capacities, like refineries, such as in Ceyhan. With that capacity, Turkey has the capability to export refined oil products to several states, mainly in Europe.<sup>35</sup> TUPRAŞ and ATAŞ refineries have the dominant storage capacity in contrast to others. When oil consumption is expected to rise to its levels of 2010, refinery output capacity in all refineries is expected to reach 32 million tons.<sup>36</sup>

The main oil reserves are located in the southeastern part of Turkey, primarily in Hakkari Basin. The rest of the reserves is also located in the Thrace region, the northwest part of Turkey. High domestic production costs, an additional factor to the limited internal reserves, make domestic production less desirable. What is more, unfortunately, is the reality of decline of the amount of oil reserves in Hakkari Basin.<sup>37</sup> It is estimated that only 300 million barrels of proven oil reserves in Turkey have remained by 2006. Consequently, Turkey's domestic production is projected to supply 1 percent of its oil demand in 2010.<sup>38</sup> As a result, Turkey meets its needs through imported energy.

On the other hand, due to resource diversification efforts, Turkey has chosen natural gas as a preferred resource. Natural gas is projected to be predominately used in the following years in Turkey, although oil remains the dominant global fuel source. Turkey uses natural gas for industrial and household consumption, as well as

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<sup>34</sup> Kamil Kaygusuz, "Oil and Gas Market Developments in Turkey", *Energy Sources*, Vol. 25, No. 3, March 2003, pp. 229-240, p. 233

<sup>35</sup> Brenda Shaffer, "Turkey's Energy Policies in a Tight Global Energy Market", *Insight Turkey*, Vol. 8, No. 2, April-June 2006, pp. 97-104, p. 99

<sup>36</sup> IEA, *Oil Supply Security- The Emergency Response Potential of IEA Countries in 2000*, Paris: 2001, p. 264

<sup>37</sup> Langdon D. Clough, "Energy Profile of Turkey", 23 July 2007, [http://www.eoearth.org/article/Energy\\_profile\\_of\\_Turkey](http://www.eoearth.org/article/Energy_profile_of_Turkey), accessed on 18.02.2008

<sup>38</sup> Mustafa Balat and Nuray Ozdemir, "Turkey's Oil and Natural Gas Pipelines System", *Energy Sources*, Vol. 27, No. 10, 15 July 2005, pp. 963-972, p. 965 cited in A. Demirbas, "Turkey's Energy Overview Beginning in the Twenty-First Century", *Energy Convers.Mgmt*, Vol. 43, 2002, pp. 1877-1887

electricity production. For instance, 55 percent of the total natural gas is generally used for electricity production.<sup>39</sup>

In Turkey, natural gas consumption began in the early 1970s with limited domestic natural gas production. It was in 1983, the first studies on natural gas were begun by BOTAS (The Turkish Petroleum Pipeline Corporation). Although Turkey agreed with the former USSR (The Union of Soviet Socialist Republics) to import natural gas to Turkey in 1984, it was just after the signing of the “First Sales and Purchase Agreement” in 1986 that natural gas demand began to grow. However, natural gas demand remained relatively low for a while due to several reasons. Inadequate infrastructure in cities and the industrial sector, insufficient knowledge about natural gas use, and uncertainties about transformation of existing systems to natural gas-fired systems were the main reasons.<sup>40</sup> Eventually, in October 1988, natural gas started to be used for residential and commercial purposes in Ankara. Then, Istanbul (January 1992), Bursa (December 1992), Izmit (September 1996), and Eskisehir (October 1996) followed.<sup>41</sup> Since then, natural gas use has been increasing rapidly.

As being the fastest growing energy resource in world energy consumption, natural gas replaces coal and oil. While the share of oil was about 42 percent, coal was more than 28 percent and natural gas was 15 percent in total primary energy consumption in 2000;<sup>42</sup> their shares were 38 percent, 27 percent and 23 percent in

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<sup>39</sup> Necdet Pamir, “Enerji Arz Güvenliği ve Türkiye”, *Stratejik Analiz*, March 2007, <http://www.asam.org.tr/temp/temp337.pdf>, accessed on 03.11.2007, pp. 14-24, pp. 17-18

<sup>40</sup> Harun Kemal Ozturk and Arif Hepbasli, “The Place of Natural Gas in Turkey’s Energy Sources and Future Perspectives”, *Energy Sources*, Vol. 25, No. 4, 2003, pp. 293-307, p. 296 cited in Natural Gas Commission of the Chamber of Mechanical Engineers, “Development of Natural Gas Applications in Turkey and Suggestions for Becoming an Association”, Special Issue on Natural Gas, Published by Chamber of Mechanical Engineers, Ankara, *Journal of Engineer and Machine*, Vol. 25, 1996, pp. 13-17 (in Turkish); G. Yardim, “Natural Gas Demand of Turkey and Activities of BOTAS”, Istanbul: Teknik Yayincilik Inc., *Journal of Natural Gas*, Vol. 58, 1998, pp. 39-52; A. Inkaya, “The Future of Natural Gas Market”, Istanbul: Teknik Yayincilik Inc., *Journal of Cogeneration World*, Vol. 4, 2001, pp. 13-18 and A. Inkaya, “The Future of Natural Gas Market”, *Proceedings of 7th International Cogeneration and Environment Conference*, Istanbul: 24-25 May 2001, pp. 23-28

<sup>41</sup> *Ibid*, p. 296 cited in World Energy Council Turkish National Committee, “Turkey Energy Report 1999”, Ankara: 1999

<sup>42</sup> Kamil Kaygusuz and Murat Arsel, “Energy Politics and Policy”, in Fikret Adaman and Murat Arsel (eds.), *Environmentalism in Turkey- Between Democracy and Development?*, Hants (The UK): Ashgate Publishing Ltd., Ashgate Studies in Environmental Policy and Practice, 2005, pp. 149-166, p. 151

2003.<sup>43</sup> The other shares were mainly composed of hydroelectric power and other renewable resources.

The choice of natural gas seems a sensible one for Turkey, due to environmental, geographical, energy security, economic and political reasons. For instance, natural gas is more environmentally-friendly, in other words, less polluting than other fossil fuels. Natural gas deposits are not concentrated in any single region which means that they can be widely available. For instance, there are huge amounts of untapped natural gas reserves in Central Asia.<sup>44</sup> In addition to those, natural gas is an efficient, easily transported and a low cost source. So natural gas is convenient for Turkey to import via pipelines.

On the other hand, this does not mean that natural gas preference has not any negative impacts on Turkish energy policy. Turkey should be aware of the problems related to natural gas consumption. Firstly, current Turkish domestic natural gas production meets a little amount, in fact only 2.8 percent, of its natural gas consumption needs.<sup>45</sup> The country's largest non-associated natural gas is located in North Marmara. Additional natural gas was discovered in the Thrace basin in late 2000, in Mersin and Iskenderun bays in July 2001.<sup>46</sup> Meanwhile, these small productions are insufficient to boost Turkey's economic growth and domestic production.

Further, it is a well-known fact that most of the natural gas is imported from countries with unstable economies and politics which make them "unreliable" sources and may put the consumers in a risky position of supply interruption and price-instability.<sup>47</sup>

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<sup>43</sup> Brenda Shaffer, "Turkey's Energy Policies in a Tight Global Energy Market", *Insight Turkey*, Vol. 8, No. 2, April-June 2006, pp. 97-104, p. 98

<sup>44</sup> Yuji Nakamura, "Energy Security: Strategic Viewpoints", Tokyo: *IIPS Policy Paper 289E*, IIPS (Institute for International Policy Studies), May 2002, pp. 1-6, p. 6

<sup>45</sup> Kamil Kaygusuz, "Oil and Gas Market Developments in Turkey", *Energy Sources*, Vol. 25, No. 3, March 2003, pp. 229-240, pp. 229, 231

<sup>46</sup> Harun Kemal Ozturk and Arif Hepbasli, "Natural Gas Implementation in Turkey. Part 1: Turkey's Natural Gas Demand and Supplies", *Energy Sources*, Vol. 26, No. 3, February 2004, pp. 277-286, p. 284

<sup>47</sup> Y.I. Topcu and F. Ulengin, "Energy for the Future: An Integrated Decision Aid for the Case of Turkey", *Elsevier*, Vol. 29, No. 1, January 2004, pp. 137-154

The average annual natural gas demand growth rates reached 15.3 percent between 1990 and 1998, and 18.4 percent in 1999 and almost 26 percent per year between 1999 and 2006. Growth tendency is logically expected to continue in the following 15 years.<sup>48</sup> However, it is estimated to increase by 12 percent per year. In this regard, BOTAŞ expected Turkey's natural gas demand to rise from 24 billion cubic meters (bcm) in 2003, to 32.2 bcm in 2005, 55.1 bcm in 2010, and 82.8 bcm in 2020. However, Turkey's annual natural gas consumption is around 15 bcm. Further, many analysts propose not over 40 bcm natural gas consumption by 2010 with a given economic development.<sup>49</sup> Such estimations have resulted in over-supply problems several times.

Additional to that, in contrast to its ability to store surplus oil, Turkey has natural gas storage problems. Therefore, Turkey can be forced to pay penalties under take-or-pay obligations. In this regard, storing surplus natural gas under the Sea of Marmara or the Salt Lake is discussed to be naturally possible.<sup>50</sup> However, there is no progress on that issue at the moment.

Luckily, Turkey is close to energy-rich regions. It has the opportunity to diversify its energy transport routes through these regions. With its oil and natural gas demand increase, the country especially involves itself in the Caspian region and Russia, in the post-Cold War era. Therefore, Turkey has engaged in oil and gas pipeline projects to meet its energy needs.

Turkey is a net oil importer with nearly 95 percent of oil imports.<sup>51</sup> Oil has been imported by a diversified way to Turkey, mainly from Iran, Iraq, Saudi Arabia, Syria, Libya, Algeria and Russia. It provides about 90 percent of its oil through pipelines. One of the major oil pipelines in Turkey is the Iraq-Turkey Crude Oil Pipeline. Iraq constructed a pipeline from Kirkuk to Yumurtalik, a Turkish terminal in Ceyhan to distribute oil to the Western markets. From the 1980s, but notably

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<sup>48</sup> Kamil Kaygusuz, "Oil and Gas Market Developments in Turkey", *Energy Sources*, Vol. 25, No. 3, March 2003, pp. 229-240, p. 236

<sup>49</sup> Gareth M. Winrow, "Turkey and the East-West Gas Transportation Corridor", *Turkish Studies*, Vol. 5, No. 2, Summer 2004, pp. 23-42, p. 28 cited in Author's interview with Representatives of an International Energy Company, Istanbul: March 2003

<sup>50</sup> "Turkey", July 2005, [http://www.wn.com/s/turkeyenergy\\_old1/](http://www.wn.com/s/turkeyenergy_old1/), accessed on 15.11.2006

<sup>51</sup> IEA, *Oil Supply Security- The Emergency Response Potential of IEA Countries in 2000*, Paris: 2001, p. 263

during the Iran-Iraq War, Iraq was an important oil partner to Turkey. The Iraq-Turkey pipeline system had a capacity of nearly 285 million barrels of oil per year once.<sup>52</sup> However, with the opening up of the Caspian region's resources, much of Turkey's oil is supplied from the BTC pipeline in order to supply its increasing oil demand.

Besides oil, almost all of Turkey's natural gas consumption also relies on imported supplies, since it has no significant amount of gas. Hence, diversification of its natural gas sources has become a crucial issue in Turkey's energy policy. By its great efforts, Turkey has developed its natural gas infrastructure from the East to the West of the country.

In compliance with that goal, Turkey signed many agreements to ensure its security of natural gas supply. For instance, Turkey signed long-term (from 15 to 30 years) agreements with Russia (three contracts totaling 30 billion cubic meters per annum -bcm/a-), Azerbaijan (6.6 bcm/a), Iran (10 bcm/a), Algeria (4 bcm/a) and Nigeria (1.2 bcm/a), Turkmenistan (16 bcm/a- no signs of going ahead), even Iraq (10 bcm/a) and Egypt, between 1986 and 2001.<sup>53</sup> The existing gas pipelines consist of the Blue Stream and two other pipelines with Russia, the Iran-Turkey Pipeline and the Shah Deniz Pipeline with Azerbaijan. According to the signed agreements, there are other pipelines considered to be constructed.

In 1997, 69 percent of natural gas imports came from Russia and 31 percent from Algeria. Imports started to come from Algeria as liquefied natural gas (LNG) deliveries, after the inauguration of the Marmara LNG terminal in 1994.<sup>54</sup> Currently, nearly 65 percent of imported natural gas is supplied via Russian pipelines. The remaining significant amount of natural gas comes from Iran. Only a small amount of remaining gas is imported from Algeria and Nigeria.<sup>55</sup>

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<sup>52</sup> Selma Stern, "Turkey's Energy Industry and Her International Relations", [http://www.dundee.ac.uk/cepmlp/car/html/car7\\_article20.pdf](http://www.dundee.ac.uk/cepmlp/car/html/car7_article20.pdf), accessed on 09.12.2006, pp. 1-17, p. 6

<sup>53</sup> F. Yeşim Akcollu, "Major Challenges to the Liberalization of the Turkish Natural Gas Market", *Oxford Institute for Energy Studies*, NG16, No. 286084, November 2006, pp. 1-52, p. 8

<sup>54</sup> Harun Kemal Ozturk and Arif Hepbasli, "Natural Gas Implementation in Turkey. Part 1: Turkey's Natural Gas Demand and Supplies", *Energy Sources*, Vol. 26, No. 3, February 2004, pp. 277-286, p. 278 cited in IEA, *Energy Policies of IEA Countries, Turkey 1997 Review*

<sup>55</sup> Necdet Pamir, "Enerji Arz Güvenliği ve Türkiye", *Stratejik Analiz*, March 2007, <http://www.asam.org.tr/temp/temp337.pdf>, accessed on 03.11.2007, pp. 14-24, pp. 17-18

By 2010, over 30 percent of imports are supposed to be taken from Russia via the Blue Stream, more than 25 percent from Russia via Bulgaria, 20 percent from Iran, about 13 percent from Azerbaijan, and the remaining imports from Algeria and Nigeria.<sup>56</sup> With Azeri gas, Turkey hopes to gain a stronger position against Russia and Iran. It also looks forward to buying cheap Azeri gas, because the Russian (\$243 in 2005) and Iranian (\$263 in 2005) gas remained highly expensive.<sup>57</sup>

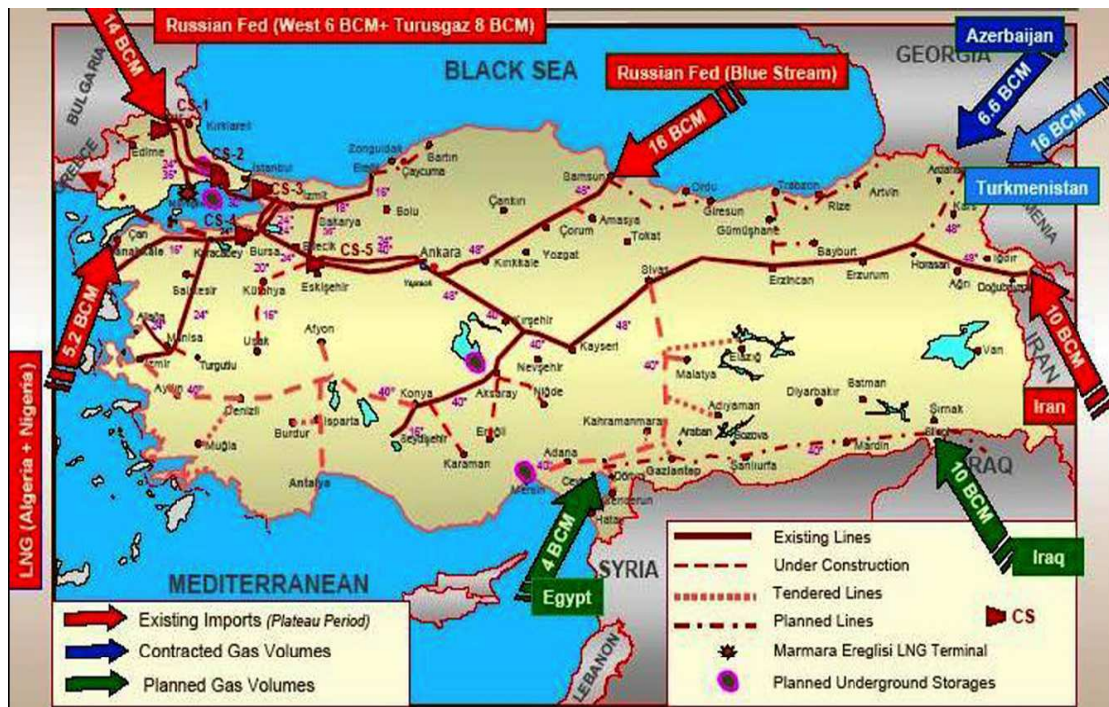


Figure 1: Natural Gas Infrastructure in Turkey

Source: Mert Bilgin, “New Prospects in the Political Economy of Inner-Caspian Hydrocarbons and Western Energy Corridor through Turkey”, *Energy Policy*, Vol. 35, September 2007, pp. 6383-6394, p. 6386 cited in BOTAŞ, “Long Term Security of Gas Supply in Liberalized Market: New Dynamics on the European Gas Market”, 2006, <http://www.unece.org/ie/se/pp/gas/rtbot1.pdf>, p. 2

As a consequence of Turkey’s oil and natural gas requirements, a substantial volume of total energy consumption is supplied from imports. Turkey’s import dependency level is more than 60 percent of its energy needs, which may rise to 70

<sup>56</sup> Mert Arslanalp, “Global Trends and Turkey’s Energy Policy Series- Demand and Supply for Energy Resources”, *TÜSİAD Foreign Policy Forum*, <http://www.dispolitikaforumu.com/demandpercent20andpercent20supplypercent20forpercent20energypercent20resources.pdf>, accessed on 18.10.2006, p. 5 cited in IEA, *Country Analysis Brief*

<sup>57</sup> “Turkey to Bargain with Iran and Russia on Natural Gas”, *Alexander’s Gas&Oil Connectins*, Vol. 11, No. 18, 27 September 2006, <http://www.gasandoil.com/goc/company/cnc63922.htm>, accessed on 01.11.2006

percent in 2010 and above 80 percent in 2030.<sup>58</sup> More seriously, Turkey imports 95 percent of its oil and 97 percent of its natural gas.<sup>59</sup> In this regard, Turkey promotes investments, especially several pipeline infrastructures, and closer ties with energy producing states in order to diversify its resources and prevent dependency, so that it can maximize its domestic energy security.

## **2.2. Turkey's Energy Security Strategy and East-West Energy Corridor**

Turkey encourages many significant investment in the energy sector. It is a fact that its domestic production cannot meet its rising energy needs. However, Turkey cannot be considered only as a significant energy consumer since it aims to become an energy corridor as an important oil and natural gas transit country. It has become interested in providing its domestic demands, as well as supplying European oil and natural gas demands. The Caspian region has taken its important place in Turkey's energy policies within this framework.

Along with the great efforts of many European countries to diversify their sources, Turkey once again wants to take advantage of its strategical location. In that regard, according to Paul B. Henze, Turkey is too important to be ignored. "...the fact that Turks have increasingly come to realize that their country need no longer be merely a passive element in international political and economic life. It can influence the world around it, not only in its own neighbourhood but in more distant regions."<sup>60</sup>

As a "natural bridge" in geographical terms, Turkey aims to act as an "energy bridge" or "energy corridor"<sup>61</sup> and to serve as an energy "distribution hub". In this

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<sup>58</sup> Mert Arslanalp, "Global Trends and Turkey's Energy Policy Series- Demand and Supply for Energy Resources", *TÜSİAD Foreign Policy Forum*, <http://www.dispolitikaforumu.com/demandpercent20andpercent20supplypercent20forpercent20energypercent20resources.pdf>, accessed on 18.10.2006, p. 4

<sup>59</sup> Agata Loskot, "Turkey an Energy Transit Corridor to the EU?", Warsaw: *Centre for Esatern Studies*, No. 17, January 2005, pp. 19-31, p. 21

<sup>60</sup> Paul B. Henze, "Turkey: Toward the Twenty-First Century", in Graham E. Fuller and Ian O. Lesser, *Turkey's New Geopolitics- From the Balkans to Western China*, Boulder: Westview Press, 1993, pp. 1-35, p. 2

<sup>61</sup> Faruk Demir, "Dangerous Curves on Turkey's Energy Policy: Jammed Between Russia and Iran", *Journal of Turkish Weekly*, August 2005, <http://www.turkishweekly.net/comments.php?id=1687>, accessed on 30.10.2006; "Turkey: An Emerging Global Energy Hub", New York: Lincoln Heritage



regard, Turkey offers to be a “natural energy bridge” by its closeness to many oil and natural gas suppliers and European consumer markets.

On the one hand, the Turkish officials have been pleased with the bridge or corridor role. From the very beginning of the Caspian region states emergence as new energy suppliers, they have strongly stated such a role’s advantages. For instance, in May 1999, the then Turkish Energy Minister Ziya Aktaş proclaimed explicitly that “Being a natural bridge between Europe and Asia throughout history, Turkey seeks to become an energy bridge of the future between East and West. Based on the facts about Turkey’s wider role in the Black Sea and Central Asia, Turkey will remain a major participant in one of the world’s greatest energy development projects.”<sup>62</sup>

Turkish politicians and commentators prefer to employ the terms “bridge” and “pivot” when referring to the importance of Turkey after the end of the Cold War. Turkey is labelled as a “bridge” between East and West, Europe and Asia. The term is used in a positive sense in Turkey to illustrate how Turkey is an influential regional power (although the concept may, of course, also denote passivity).<sup>63</sup>

On the other hand, several commentators attribute a relatively negative role to being an “energy bridge”. To illustrate, Zbigniew Brzezinski distinguishes states as “geostrategic players” which “have the capacity and the national will to exercise power or influence beyond their borders” and “geopolitical pivots” which are important because of their “sensitive location” rather than their power. In this regard, he describes Turkey as a “pivot” in Central Asia.<sup>64</sup>

Turkey is located at a very strategic place in transporting energy resources because the oil and gas rich regions of the world surround the country. It is close to

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Institute. Also see [http://www.serve.com/~Lincolnheritage2/articles/address/2004toNow/energy/2006-08-Turkey-An\\_Emerging\\_Global\\_Energy\\_Hub.htm](http://www.serve.com/~Lincolnheritage2/articles/address/2004toNow/energy/2006-08-Turkey-An_Emerging_Global_Energy_Hub.htm), accessed on 15.11.2006

<sup>62</sup> Bulent Aliriza and Seda Ciftci, “Turkey’s Caspian Energy Quandary”, Washington DC: *Center for Strategic and International Studies*, 13 August 2002, [http://www.csis.org/index.php?option=com\\_csis\\_pubs&task=view&id=1959](http://www.csis.org/index.php?option=com_csis_pubs&task=view&id=1959), accessed on 25.12.2006

<sup>63</sup> Gareth M. Winrow, *Turkey and the Caucasus- Domestic Interests and Security Concerns*, London: The Royal Institute of International Affairs, 2000, p. 2

<sup>64</sup> Zbigniew Brzezinski, *The Grand Chessboard- American Primacy and Its Geostrategic Imperatives*, New York: BasicBooks, 1997, pp. 40, 41

regions or countries which possess 72.7 percent of the world's proven oil reserves and 71.8 percent of the world's proven natural gas reserves.<sup>65</sup> However, such quantitative terms can be misleading, if some conditions are not taken into consideration.

Being at the crossroads of Russia, the Middle East and the Caspian Sea region; Nebahat Yazici and Ayhan Demirbaş argue that Turkey has an important advantage to become an “energy corridor” for Europe, the very close import-dependent market.<sup>66</sup> In their perspective, Turkey can contribute to its corridor strategy by its energy cooperation with all of them. However, the EU wants to diversify its suppliers. The European states once preferred Russia as another source of energy needs against the Middle East, especially after the world energy crises. They now need alternative routes to Russian ones because of their over-dependence on Russia. In that regard, Turkey has to offer alternative routes to the EU markets against Russian and Middle Eastern ones. Therefore, Turkey should connect Europe to the Caspian region in compliance with its goal to become an energy corridor.

The dissolution of the Soviet Union has considerably changed politics of the Caspian region. It has brought opportunities to Turkey, the EU and the Caspian states. Turkey has gained a new set of energy policies especially to become an energy corridor between Europe and the Caspian region states with its proximity to them. This is mainly because of the emergence of the Caspian region as one of the largest unexploited oil and natural gas reserves. The former Soviet Union republics, notably Azerbaijan, Kazakhstan and Turkmenistan, have also emerged as the new energy producers. Turkey has developed closer ties with them to negotiate oil and natural gas agreements, participate in explorations and to gain support for pipeline projects to transport the oil and natural gas resources from the region.

Additionally, Europe's high dependence on imported energy has been an important issue of Turkish energy strategies. Within that framework, Turkey aims to play a crucial role in the delivery of both oil and natural gas to the EU. For instance, Turkey has made long-term agreements with huge amounts of natural gas demands

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<sup>65</sup> John Roberts, “The Turkish Gate: Energy Transit and Security Issues”, *Turkish Policy Quarterly*, Vol. 3, No. 4, Winter 2004, pp. 17-44, p. 18 cited in BP Statistical Review of World Energy, June 2003

<sup>66</sup> Nebahat Yazici and Ayhan Demirbaş, “Turkey's Natural Gas Necessity and Consumption”, *Energy Sources*, Vol. 23, 2001, pp. 801-808, p. 801

on “take-or-pay obligations” basis, which force the buyers to pay whether natural gas is used or not, while both considering its and Europe’s energy needs. Under this condition, BOTAŞ has made “exaggerated” estimations. Therefore, Turkey needs to transport its surplus natural gas to European markets, not to be forced to pay penalties under those strict obligations.

Turkey wants to buy gas at low-costs and sell to European countries with some profits.<sup>67</sup> By that way, Turkey wants to economically benefit from pipelines crossing its territory. However, the pipelines from the Caspian region to Turkey need to cross many kilometers of territories to reach the European states. In this sense, it is clear that oil or natural gas supplied by those pipelines cannot be at low-costs.

Turkey also views such a strategy as an opportunity to become more influential in energy relations. By this way, it could become an important regional power, moreover, an influential player in world politics. It is mainly because pipelines do not only carry oil and natural gas, but also give control over flow of resources. Accordingly, pipelines absolutely mean both economic and political power. Therefore, energy resources and pipelines cannot only be thought of in terms of economy.

The pipeline policy is the keystone for the effort to become a major energy player, according to Yigal Schleifer. He states that with pipelines, not only producer but also transit countries have the power to influence on the energy politics.<sup>68</sup> Planning and building numerous reliable, sustainable, efficient, cheap and environment friendly energy infrastructures are indispensable elements of developing an “energy corridor” strategy. However, these kinds of infrastructures can be seen as the first step of the corridor policy.

Being at the crossroads, Turkey has tried to be an important “energy corridor” with its pipeline projects. To achieve that goal, there have been two possible routes, one of which is the Western Route, and the other is the Northern Route. The Western Route is known as the “East-West Energy Corridor”. This corridor composes of the BTC; South Caucasus Natural Gas Pipeline Project (SCP), generally known as the Shah-Deniz Natural Gas Pipeline Project or the Baku-Tbilisi-Erzurum Gas Pipeline

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<sup>67</sup> Havva Çaha, “Asya ve Avrupa’yı Birbirine Bağlayan Enerji Koridorunda Türkiye’nin Yeri”, *Akademik Araştırmalar Dergisi*, Vol. 25, 2005, pp. 21-36, p. 29

<sup>68</sup> Yigal Schleifer, “Pipeline Politics Give Turkey an Edge”, Istanbul: *Christian Science Monitor*, Vol. 97, No. 127, 25 May 2005, pp. 6-7, p. 6

Project and the unrealized Trans-Caspian Natural Gas Pipeline Project (TCP), also known as the Turkmenistan-Turkey-Europe Natural Gas Pipeline Project. There are also the Turkey-Greece-Italy Interconnector Pipeline (TGI) and the Nabucco Gas Pipeline under the EU programs.

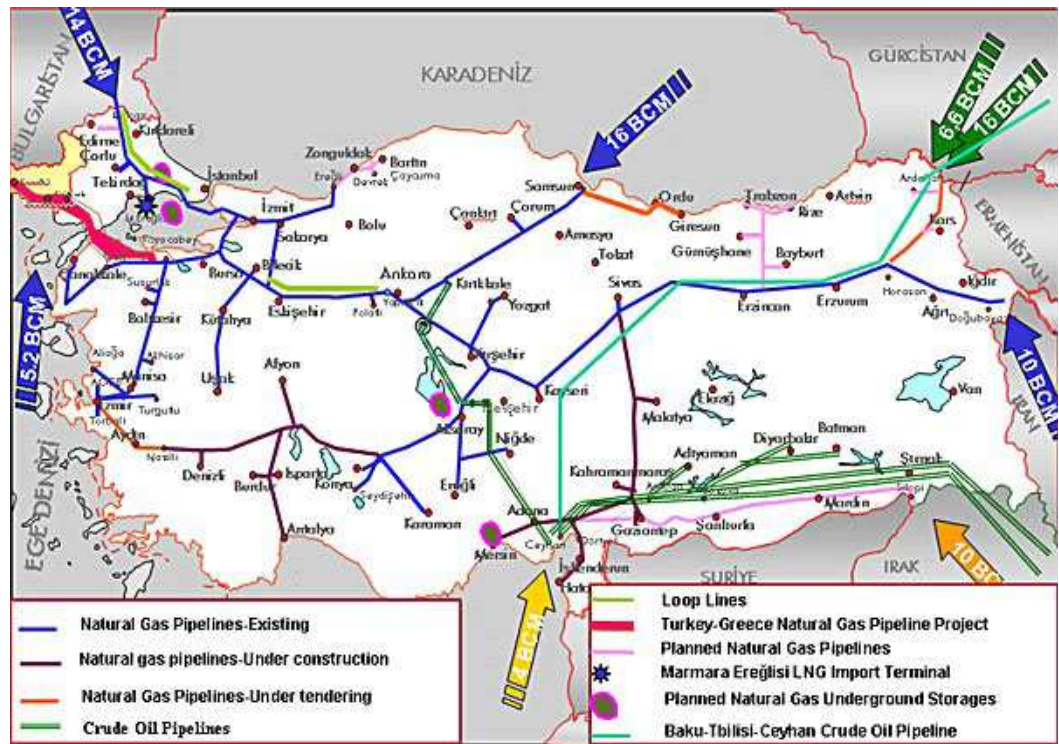


Figure 2: Pipelines in Turkey

Source: “Viewpoint: Turkey”, [http://www.generation-europe.eu.com/index.php?option=com\\_content&task=view&id=62&Itemid=50](http://www.generation-europe.eu.com/index.php?option=com_content&task=view&id=62&Itemid=50), accessed on 26.10.2006

The Northern Route is known as the “North-South Energy Corridor”. With this route, Russia has made it clear that Turkey’s involvement in the Caspian region could not exclude it from energy politics. According to Nasuh Uslu, Turkey wanted all oil carrying pipelines from the Caspian to pass through its territories to become one of the most important transit countries on which the other countries became dependent.<sup>69</sup> However, against the “Western route”, Russia has promoted the

<sup>69</sup> Nasuh Uslu, “The Russian, Caucasian and Central Asian Aspects of Turkish Foreign Policy in the Post Cold War Period”, *Alternatives: Turkish Journal of International Relations*, Vol. 2, No. 3&4, Fall&Winter 2003, pp. 164-187, p. 175 cited in Duygu Sezer, “The Black Sea Politics and Turkey” in Mustafa Aydın (ed.), *Turkey at the Threshold of the 21<sup>st</sup> Century*, Ankara: International Relations Foundation, 1998, pp. 75-76

“Northern route” through the Caucasus to Novorossisk, the Russian Black Sea port, to carry oil to world markets.

What is more, in contrary to its “East-West Energy Corridor” strategy, Turkey has also been a partner of the “North-South Energy Corridor”. It has taken place in the realization of the Blue Stream Natural Gas Pipeline Project. Moreover, it is possible to reach an agreement with Russia on the Samsun-Ceyhan Transit Natural Gas and Crude Oil Pipelines.

The emergence of the Caspian region states as independent energy producers and the EU states as pro-diversification consumers have long been argued to give Turkey an opportunity to become an energy corridor. On the one hand, it has developed good relations with the newly independent energy rich-states. On the other hand, it has given significance to integrate the Caspian region with the EU. In that regard, Turkey has also developed pipeline projects from the region. However, Turkey’s corridor success has not been based only on its abilities or failures. It is certain that there are many different factors that affect Turkey’s energy policy within the context of pipeline politics in the Caspian region.

### **2.3. The Caspian Region’s Role in Global Energy Security**

The geographical importance of Central Asia was once popularized by Sir Halford Mackinder, a British geographer, at the beginning of the 20<sup>th</sup> century. He stated that the earth will be divided into two natural spheres: “land and sea”. According to him, the global land power is the “Eurasian heartland” and added that whoever controls the heartland, will naturally dominate the entire world.<sup>70</sup> However, the region’s importance is not limited to its location with especially being a crossroad connection point.

Moreover, the region has substantial amounts of oil and natural gas resources. It has long been argued that whoever controls the Eurasia would control its resources. Further, global dominance is thought to depend on the control of the vast

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<sup>70</sup> Sarah L. O’Hara, “Great Game or Grubby Game? The Struggle for Control of the Caspian”, in Philippe Le Billon (ed.), *The Geopolitics of Resource Wars- Resource Dependence, Governance and Violence*, London: Frank Cass, 2005, pp. 138-160, p. 145 cited in N.J. Spykman, *The Geography of Peace*, New York: Harcourt and Brace, 1944, p. 43

resources.<sup>71</sup> According to the external initial projections, the region was thought to hold 200 billion barrels of oil or even more. Those figures were expected to make the Caspian region another Middle East.<sup>72</sup> The estimates of Caspian region states are also exaggerated to attract foreign investment.<sup>73</sup> The later estimations of proven oil reserves in the region were therefore reduced, however, they still remained relatively high; ranging between 40 and 75 billion barrels.<sup>74</sup>

The Caspian region is rich in hydrocarbon resources. However, it is also understood that the region's resources are not comparable to those of the Middle East as was previously assumed. Its capacity should not be exaggerated since Saudi Arabia daily exports reach 9 mb/d.<sup>75</sup> Thus, the region's resources are not huge enough to exclude the Middle Eastern international oil supply or to influence the global oil prices like OPEC does.

On the other hand, there are several reasons why the region has come the world's attention. Firstly, among other resources, oil and natural gas play a crucial role in energy politics. More or less than other regions, the Caspian region has those resources, although there are arguments over the amount of the Caspian resources. Even the conservative predictions of Caspian resources range around 2.7 to 7 percent

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<sup>71</sup> For further information see Zbigniew Brzezinski, *The Grand Chessboard- American Primacy and Its Geostrategic Imperatives*, New York: BasicBooks, 1997, p. 31; and Sarah L. O'Hara, "Great Game or Grubby Game? The Struggle for Control of the Caspian", pp. 138-160, in Philippe Le Billon (ed.), *The Geopolitics of Resource Wars- Resource Dependence, Governance and Violence*, London: Frank Cass, 2005, p. 139 cited in Halford J. Mackinder, "The Geographical Pivot of History", *Geographical Journal*, Vol. 23, 1904

<sup>72</sup> Sarah L. O'Hara, "Great Game or Grubby Game? The Struggle for Control of the Caspian", in Philippe Le Billon (ed.), *The Geopolitics of Resource Wars- Resource Dependence, Governance and Violence*, London: Frank Cass, 2005, pp. 138-160, p. 146 cited in J. A. Baker, "America's Vital Interests in the 'New Silk Road' ", *New York Times*, 21 July 1997

<sup>73</sup> Ottar Skagen, "Survey of Caspian's Oil and Gas Resources", in Hooshang Amirahmadi (ed.), *The Caspian Region at a Crossroad- Challenges of a New Frontier of Energy and Development*, London: Macmillan Press Ltd., 2000, pp. 55-74, p. 56

<sup>74</sup> Paul Belkin, "European Union's Energy Security Challenges", *CRS (Congressional Research Service) Report for Congress*, Order Code RL33636, 7 May 2007, pp. 1-28, p. 14 cited in <http://www.inogate.org>; Svetlana Tsalik, *Caspian Oil Windfalls: Who Will Benefit?*, New York: Caspian Revenue Watch, Open Society Institute, Central Eurasia Project, 2003, p. 63; Mehdi Mozaffari, "The Oil and Gas of the Caspian Sea: Regional Cooperation and Competition", in Mehdi Mozaffari (ed.), *Security Politics in the Commonwealth of Independent States- The Southern Belt*, London: Macmillan Press, 1997, pp. 198-206, p. 198

<sup>75</sup> Nicholas Birch, "Caspian Pipeline to Bring Oil, Relief for West", *The Washington Times*, 13 July 2006, [http://www.csis.org/index.php?option=com\\_csis\\_press&task=view&id=1983](http://www.csis.org/index.php?option=com_csis_press&task=view&id=1983), accessed on 25.12.2006

of the global needs.<sup>76</sup> Those predictions range between 17 and 35 billion barrels. Even these figures are crucial enough when compared to 22 billion barrels of the US and 17 billion barrels of the North Sea proven oil reserves.<sup>77</sup>

Potential of the Caspian region as a major source of oil and gas is not in doubt. In the mid 2005 it is estimated that proven oil reserves in Azerbaijan, Kazakhstan, and Turkmenistan are 7.0, 39.6, and 0.5 million barrels respectively. Put differently, their share of world's proven oil reserves are 0.6 percent, 3.3 percent and 0.1 percent.<sup>78</sup>

Secondly, it is clear that the Caspian region resources represent a huge opportunity to diversify the source of energy. They are important for ensuring the world's energy security. In particular, the region has the potential to offer strategically valuable resources as the producers are non-OPEC countries. The region's oil production can prevent energy shocks or crises and price increases by creating a balancing effect on energy issues. In this connection, the region can provide more security and stability for the world as an alternative energy source. Thirdly, those resources are key factors of the socioeconomic development of the region and also international business.<sup>79</sup> Moreover, Gökhan Bacik emphasizes the value of the Caspian region with increasing global energy demand and declining production in the North Sea and Alaska's North Slope.<sup>80</sup>

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<sup>76</sup> Amy Myers Jaffe and Edward Djerejian, "Introduction", in Yelena Kalyuzhnova, Amy Myers Jaffe, Dov Lynch and Robin C. Sickles (eds.), *Energy in the Caspian Region- Present and Future*, New York: Palgrave Macmillan, 2002, pp. 1-9, p. 2; Shirin Akiner, "Ten Years on: Achievements, New Concerns, Future Prospects", in Shirin Akiner (ed.), *The Caspian- Politics, Energy and Security*, New York: RoutledgeCurzon, 2004, pp. 365-399, p. 365

<sup>77</sup> Shannon O'Lear, "Resources and Conflict in the Caspian Sea", pp. 161-186, in Philippe Le Billon (ed.), *The Geopolitics of Resource Wars- Resource Dependence, Governance and Violence*, London: Frank Cass, 2005, p. 164 cited in EIA, <http://www.eia.doe.gov/emeu/cabs/caspian.html>, accessed on 05.04.2002; Yelena Kalyuzhnova, "Economies and Energy", in Yelena Kalyuzhnova, Amy Myers Jaffe, Dov Lynch and Robin C. Sickles (eds.), *Energy in the Caspian Region- Present and Future*, New York: Palgrave Macmillan, 2002, pp. 58-85, p. 58

<sup>78</sup> Gawdat Bahgat, "Energy Security: The Caspian Sea", *Minerals & Energy*, Vol. 20, No. 2, June 2005, pp. 3-15, p. 4 cited in British Petroleum, "BP Statistical Review of World Energy", London: June 2005, pp. 4-20

<sup>79</sup> Kirill Nourzhanov, "Caspian Oil: Geopolitical Dreams and Real Issues", *Australian Journal of International Affairs*, Vol. 60, No. 1, March 2006, pp. 59-66, p. 60

<sup>80</sup> Bülent Gökay, "History of Oil Development in the Caspian Basin", in Michael P. Croissant and Bulent Aras (eds.), *Oil and Geopolitics in the Caspian Sea Region*, Westport: Praeger Publishers, 1999, pp. 3-19, p. 16

Caspian oil is ‘non-OPEC oil’, meaning that supplies from this region are less likely to be affected by the price and supply policies applied by the oil-exporting cartel. Flows of large volumes of Caspian oil through non-OPEC lands would erode the power of OPEC, as well as its ability to maintain high oil prices and to use oil as a mode of political blackmail.<sup>81</sup>

However, Azerbaijan, Kazakhstan, and Turkmenistan are landlocked countries. In other words, they have no direct access to any open sea. They cannot ship their oil by tankers from domestic ports.<sup>82</sup> Thus, the transport of resources to the international markets has been a major problem for them. Pipelines are the best solution to transport oil and natural gas from the region to consumers. However, the existing pipeline system built during the Soviet era was not directed to global markets, but to Russian ones to link the former Soviet Union internally. Besides, those pipelines are not adequate and mostly transport the oil to Black Sea ports, despite environmental and safety concerns.<sup>83</sup>

In order to serve as a crucial alternative route, resources of this region are needed to be transported to consumer markets, especially to the EU, through pipelines other than Russia-controlled networks. In this way, control of the regional resources by a single country can be prevented. Therefore, they all require the construction of a new pipeline infrastructure to reach global markets.

Pipelines have become something of a necessary evil for Azerbaijan, Kazakhstan, and Turkmenistan. Because existing export pipe, rail, and barge routes out of the Caspian basin are overtaxed, inadequate, inconvenient, and unreliable and the open seas far away, big pipelines appear to be the only economical means of transferring Caspian crude oil from its place of origin to the place that the producer countries and foreign investors want it to be.<sup>84</sup>

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<sup>81</sup> Emmanuel Karagiannis, “The Turkish-Georgian Partnership and the Pipeline Factor”, *Journal of Southern Europe and the Balkans*, Vol. 6, No.1, April 2004, p. 21

<sup>82</sup> Mehdi Parvizi Amineh, *Towards the Control of Oil Resources in the Caspian Region*, New York: St. Martin’s Press, 1999, p. 40

<sup>83</sup> Philip D.Rabinowitz, Mehdi Z. Yusifov, Jessica Arnoldi and Eyal Hakim, “Geology, Oil and Gas Potential, Pipelines, and the Geopolitics of the Caspian Sea Region”, *Ocean Development & International Law*, Vol. 35, No. 1, January 2004, pp. 19-40, p. 20

<sup>84</sup> Jennifer DeLay, “The Caspian Oil Pipeline Tangle: A Steel of Confusion”, in Michael P. Croissant and Bulent Aras (eds.), *Oil and Geopolitics in the Caspian Sea Region*, Westport: Praeger Publishers, 1999, pp. 43-81, p. 75



Besides, the control of the energy transport routes has become as important as control of the energy resources of the region after the collapse of the Soviet Union. Hence, it has led to a struggle over the pipelines or their routes. For instance, Brzezinski has declared this competition as the emergence of a “New Great Game” in Central Asia, with reference to the old one between Britain and Russia in the 19<sup>th</sup> century.<sup>85</sup> Nasib Nasibli has especially emphasized the competition over oil by titling it as the “Cold Oil War”.<sup>86</sup> Moreover, Robert Ebel has labelled the competition as an “economic war”.<sup>87</sup> In my point, the competition has not just been for economic interests.

For some, there is a zero-sum game which one side’s gains equals to other side’s losses, as it was in the Great Game. For others, it is a win-win game in which all actors benefit from cooperation. To illustrate, Hooshang Amirahmadi, editor of “Pipeline Politics in the Caspian”, argues that economic cooperation such as in pipeline projects leads further cooperation in other areas.<sup>88</sup> However, the nature of the relations in the Caspian region is “complex” for several commentators.<sup>89</sup> I think that it is likely to be in that structure in the future for several reasons.

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<sup>85</sup> Zbigniew Brzezinski, *The Grand Chessboard- American Primacy and Its Geostrategic Imperatives*, New York: BasicBooks, 1997; Gareth M. Winrow, *Turkey in Post-Soviet Central Asia*, London: The Former Soviet South Project, The Royal Institute of International Affairs, 1995; Lutz Kleveman, *Yeni Büyük Oyun- Orta Asya’da Kan ve Petrol*, Translated by Hür Güldü, İstanbul: Everest, 2004

<sup>86</sup> Nasib Nasibli, “Azerbaijan: Oil and Politics in the Country’s Future”, Michael P. Croissant and Bulent Aras (eds.), *Oil and Geopolitics in the Caspian Sea Region*, Westport: Praeger Publishers, 1999, pp. 101-129, p. 111 cited in William E. Odom, “The Caspian Sea Littoral States: The Object of a New Great Game?”, *Caspian Crossroads*, Vol. 3, No. 3, 1998, pp. 4-7

<sup>87</sup> Robert E. Ebel, *Energy Choices in the Near Abroad- The Haves and Have-nots Face the Future*, Washington DC: CSIS (The Center for Strategic and International Studies), CSIS Report, April 1997, p. 321

<sup>88</sup> Hooshang Amirahmadi, “Pipeline Politics in the Caspian Region”, in Hooshang Amirahmadi (ed.), *The Caspian Region at a Crossroad- Challenges of a New Frontier of Energy and Development*, London: Macmillan Press Ltd., 2000, pp. 163-172, p. 164

<sup>89</sup> For further information about this “complexity” see: Dov Lynch, “Conclusion”, in Yelena Kalyuzhnova, Amy Myers Jaffe, Dov Lynch and Robin C. Sickles (eds.), *Energy in the Caspian Region- Present and Future*, New York: Palgrave Macmillan, 2002, pp. 251-259, p. 254; Stephen J. Blank, “The United States: Washington’s New Frontier in the Transcaspian”, in Michael P. Croissant and Bulent Aras (eds.), *Oil and Geopolitics in the Caspian Sea Region*, Westport: Praeger Publishers, 1999, pp. 249-273, p. 249; Bradford R. McGuinn and Mohiaddin Mesbahi, “America’s Drive to the Caspian”, in Hooshang Amirahmadi (ed.), *The Caspian Region at a Crossroad- Challenges of a New Frontier of Energy and Development*, London: Macmillan Press Ltd., 2000, pp. 187-211, p. 188 cited in P. Haas (ed.), *Knowledge, Power, and International Policy Coordination*, Columbia, South Carolina: University of South Carolina Press, 1996, p. 3; Gareth M. Winrow, *Turkey and the Caucasus- Domestic Interests and Security Concerns*, London: The Royal Institute of International

There are independent states of the region, instead of the sole power of the Soviet Union. But their emergence as newly independent states has affected the complex structure of relations. On the one hand, they should not be underestimated since they have rich energy resources. On the other hand, there are questions as to the extent they become influential to control their resources. Neither have the Caspian states enough power to develop their own pipeline systems or at least to determine the pipeline routes to their benefit. Nor have they enough patience to wait for their resources to provide them with economic benefits.<sup>90</sup> Moreover, as being newly independent, these states lack experience to make such decisions.

As a result, they have opened up their hydrocarbon resources to foreign investors. While trying to attract Western investments, they have also continued to transport their resources through existing Russian pipelines. In this regard, they are said to find a middle way. However, it is obvious that their emergence has created struggle for the control of their resources.

#### **2.4. Turkey and the Struggle for the Control of the Caspian Energy Resources**

The Caspian energy-rich states have opened up their hydrocarbon resources to foreign investors. Related to that a number of routes have been proposed by several governments and international companies to make energy transport feasible. Thus, international, strategical and financial considerations of several players have complicated the process of determining the pipeline routes.

It goes without saying that Russia continues to be a main player in the region. Even Brzezinski admits this fact, “it clearly remains a player, even though it has lost

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Affairs, 2000, p. 40; Zbigniew Brzezinski, *The Grand Chessboard- American Primacy and Its Geostrategic Imperatives*, New York: BasicBooks, 1997, pp. 148, 149-150; Anthony H. Cordesman and Arleigh A. Burke, “Rethinking Global Energy Security: Geostrategic and Economic Risks”, Washington DC, *The Center for Strategic and International Studies*, 9 November 2006, [www.csis.org/burke](http://www.csis.org/burke), accessed on 06.12.2006, pp. 1-56, p. 2

<sup>90</sup> Ahmet Ozturk, “From Oil Pipelines to Oil Straits: the Caspian Pipeline Politics and Environmental Protection of the Istanbul and the Canakkale Straits”, *Journal of Southern Europe and the Balkans*, May 2002, Vol. 4, No. 1, p. 67

some of its ‘pieces’, as well as some key spaces on the Eurasian chessboard.”<sup>91</sup> Moreover, the attributed significance to the “heartland” in the post-Cold War, emergence of “Near Abroad” and “Eurasianism” policies, struggle for control of the Caspian Sea region pipelines have been the most explicit clues that the region continues to be one of the major interest-areas of Russia.<sup>92</sup> Moreover, Eldar Ismailov and Vladimer Papava argue that Russia still wants to restore a modern empire which is called “Liberal Empire”.<sup>93</sup> Therefore, it has to maintain its influence in the region.

Furthermore, Russia becomes more influential in energy politics. The fall of the Soviet Union has not meant an absolute independence from Russia for energy exporting states of the region. This is mainly because of two realities. First of all, Russia had obtained the exploration, production and transport monopoly of the energy resources in the region during the Soviet era. In that era, they mostly became dependent on the existing infrastructure and to each other, but in particular to Soviet Russia. Secondly, the existing energy routes, especially the routes to export oil and natural gas to the world markets, mostly pass through Russia. At this point, İsmail Hakkı İşçan emphasizes the importance of Russia’s infrastructure and great efforts have provided Russia’s maintainance of its advantageous position and an inevitable dependence of the countries of the region on the Soviet Union.<sup>94</sup> Therefore, Russia has had the power to determine the price or transit fees, or more crucially, transport routes of the resources. It continues to force these countries to reach markets via

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<sup>91</sup> Zbigniew Brzezinski, *The Grand Chessboard- American Primacy and Its Geostrategic Imperatives*, New York: BasicBooks, 1997, p. 44; also look: Mehdi Mozaffari, “The Oil and Gas of the Caspian Sea: Regional Cooperation and Competition”, in Mehdi Mozaffari (ed.), *Security Politics in the Commonwealth of Independent States- The Southern Belt*, London: Macmillan Press, 1997, pp. 198-206, p. 206

<sup>92</sup> Sarah L. O’Hara, “Great Game or Grubby Game? The Struggle for Control of the Caspian”, in Philippe Le Billon (ed.), *The Geopolitics of Resource Wars- Resource Dependence, Governance and Violence*, London: Frank Cass, 2005, pp. 138-160, p. 153; Peter Rutland, “Oil, Politics, and Foreign Policy”, in David Lane (ed.), *The Political Economy of Russian Oil*, Ithaca (the US): Rowman and Littlefield Publishers, 1999, pp. 163-188, pp. 164, 181; Hooshang Amirahmadi, “Challenges of the Caspian Region”, in Hooshang Amirahmadi (ed.), *The Caspian Region at a Crossroad- Challenges of a New Frontier of Energy and Development*, London: Macmillan Press Ltd., 2000, pp. 1-26, p. 13

<sup>93</sup> Eldar Ismailov and Vladimer Papava, *The Central Caucasus: Essays on Geopolitical Economy*, Stockholm: CA&CC Press, 2006, p. 112 cited in Anatoli Chubais, “Missia Rossii v XXI veke”, *Nezavisimaia Gazeta*, 1 October 2003, [http://www.ng.ru/printed/ideas/2003-10-01/1\\_mission.html](http://www.ng.ru/printed/ideas/2003-10-01/1_mission.html)

<sup>94</sup> İsmail Hakkı İşçan, “Türkiye-Avrupa Birliği İlişkilerinin Geleceği açısından Avrupa Birliği Enerji Güvenliği Sorunu”, 20 September 2006, <http://www.turksam.org/tr/yazilar.asp?kat=27&yazi=1066>, accessed on 28.12.2006

Russian networks to keep its hegemony and influence over the region and to obtain advantage in energy politics. In addition, Russia refrains from opening up its own system.

It is not just Russia, but also the US who sees great interests in the Caspian region. As being the only superpower, the US prioritises to be a crucial part of the distribution of power, particularly related to energy resources. In this regard, Laurent Ruseckas and Robert E. Ebel point out that the US uses Caspian energy resources and pipelines as strategic keys to involve in the strategic vacuum of the “Eurasian Heartland” emerged after the collapse of the Soviet Union.<sup>95</sup>

Naturally, the US has promoted the diversification of energy sources and supplies. Within its policy of “diversity of supply”, the US has highlighted the importance of “multiple pipelines”, which means adding new pipelines to the existing ones, and energy corridors.<sup>96</sup> In line with this policy, the US has strongly backed regional countries against Russia. It has pursued dialogue with the region’s major oil and natural gas producing countries and worked with other consuming countries.

The US wants to break or at least diminish Russian influence over the Caspian region states and their oil and natural gas wealth. However, Russia’s strategy is to limit any access of the US, the EU or other external powers. Hence, this has been understood as a threat to US interests in the region by several American experts. It is asserted that Russia has used its pipeline monopoly as a foreign policy mechanism to hinder the development of the Caspian region.<sup>97</sup> Moreover, the US tries to prevent global dependence on Russia’s energy monopolization efforts, both in terms of energy resources and infrastructure.

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<sup>95</sup> Laurent Ruseckas, “Turkey and Eurasia”, *Journal of International Affairs*, Vol. 54, No. 1, Fall 2000, pp. 217-237, p. 225; Robert E. Ebel, *Energy Choices in the Near Abroad- The Haves and Have-nots Face the Future*, Washington DC: CSIS (The Center for Strategic and International Studies), CSIS Report, April 1997, pp. 13-15

<sup>96</sup> Eldar Ismailov and Vladimer Papava, *The Central Caucasus: Essays on Geopolitical Economy*, Stockholm: CA&CC Press, 2006, p. 110

<sup>97</sup> Enayatollah Yazdani, “Competition over the Caspian Oil Routes: Oilers and Gamers Perspective”, *Alternatives: Turkish Journal of International Relations*, Vol. 5, No.1&2, Spring/Summer 2006, pp. 51-64, p. 52 cited in E. Shirley, ‘The Iranian-American confrontation’, *The Wall Street Journal*, 23 May 1997, p. A18

In accordance with the US policy, Azerbaijani and Georgian officials have suggested NATO (North Atlantic Treaty Organization) should expand eastward and protect Azerbaijan's oil and natural gas pipelines passing through Georgia. Then, safety of the pipelines has become a NATO concern related to its "out-of-area" issues.<sup>98</sup> The US has also trained the local military units to ensure security of the pipeline.<sup>99</sup> Both Russia and Iran express such involvements of the US in the region as encirclement of their territories. Furthermore, some observers stated those attempts as a form of new "dual containment" policy of the US to prevent possible players from challenging its dominance in the light of power politics.<sup>100</sup> To illustrate, Anton Surikov, a Russian military expert, argued that "We are witnessing US intensive efforts to create a sanitary cordon around Russia in Ukraine, Georgia, Azerbaijan and the Central Asian states. The euphemism for this plan is creating a so-called 'Eurasian transport corridor'. Our duty is to counteract these plans."<sup>101</sup>

The current energy game is not led only by Russia and the US. The other key player is the EU, instead of individual states. The EU perceives the energy as one of the main "instruments" to integrate the EU market. In that regard, Russia not only faces the US involvement in the region, but also the European one. Apart from that reality, the Union also seeks for further relations with Russia, especially on energy issues, while maintaining its relations with the US. On the other hand, Russia wants

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<sup>98</sup> Bradford R. McGuinn and Mohiaddin Mesbahi, "America's Drive to the Caspian", in Hooshang Amirahmadi (ed.), *The Caspian Region at a Crossroad- Challenges of a New Frontier of Energy and Development*, London: Macmillan Press Ltd., 2000, pp. 187-211, p. 195 cited in *Interfax*, 14 February 1997; Gareth M. Winrow, *Turkey and the Caucasus- Domestic Interests and Security Concerns*, London: The Royal Institute of International Affairs, 2000, p. 57 cited in *RFE/RL Newsline*, Vol. 3, No. 103, 27 May 1999. p. 1

<sup>99</sup> Jonathan Eric Lewis, "Replace Turkey as a Strategic Partner?", *Middle East Quarterly*, Vol. 13, No. 2, Spring 2006, pp. 45-52, p. 46 cited in Fiona Hill, "The Eurasian Security Environment," testimony to the House Armed Services Committee Threat Panel, Washington DC: 22 September 2005

<sup>100</sup> Bradford R. McGuinn and Mohiaddin Mesbahi, "America's Drive to the Caspian", in Hooshang Amirahmadi (ed.), *The Caspian Region at a Crossroad- Challenges of a New Frontier of Energy and Development*, London: Macmillan Press Ltd., 2000, pp. 187-211, p. 190 cited in Richard Cheney, Address before the US-Russia Business Council, *C-SPAN*, 19 November 1997

<sup>101</sup> Bülent Aras and George Foster, "Turkey: Looking for Light at the End of the Caspian Pipeline", in Michael P. Croissant and Bulent Aras (eds.), *Oil and Geopolitics in the Caspian Sea Region*, Westport: Praeger Publishers, 1999, pp. 229-247, p. 242 cited in V. Semyonov, "Manageable Chaos", *Zavtra*, 19 May 1997, via Russian Press Electronic Courier, 17 June 1997

to involve in the EU energy market, while trying to prevent the EU's involvement in the Caspian. All these naturally make their relations more complex.<sup>102</sup>

Within this complex energy politics, it is obvious that Turkey's role as a key energy transit country has initially been supported by the US. The concepts of "multiple pipelines" and "East-West Transport Corridor" in the Post-Cold War era have repeatedly been announced by Washington's senior officials. Beside enhancing its relations with energy-rich regional states, the US has promoted cooperation with Turkey. According to Nuzhet Cem Orekli, the US has pursued such an active policy to compete with the Russian and Iranian routes and to reduce any risk of supply disruptions.<sup>103</sup> As a result, the US has helped Turkey in the "Western route" option, especially with the BTC and the BTE Pipelines.

As cooperation is the most important approach for the success of forming alternative energy transport routes, Cenk Sidar marks that Turkey has needed a "credible" partner that will benefit from the same interests.<sup>104</sup> As a result of this, according to Gökhan Bacik the Turkish system's "integration" into neighboring energy systems has been one of the main principles of Turkish energy policy.<sup>105</sup> In those regards, the EU energy system has attracted Turkey's attention. Turkey wants to be the fourth largest energy "source" for the EU.<sup>106</sup> It will be beneficial for both sides. Turkey will enhance its role as a transit country and become an influential regional power. The European states will diversify and secure their energy supply

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<sup>102</sup> Serhan Cevik, "Turkey: Biofuelling the Economy", Tel Aviv: <http://www.morganstanley.com/GEFdata/digests/20060124-tue.html#anchor5>, accessed on 26.10.2006

<sup>103</sup> Nuzhet Cem Orekli, "Turkey's Energy Strategy in a New Era: Time to Re-Look South", <http://www.tusiad.us/Content/uploaded/CEMpercent20OREKLI-TURKEY'Spercent20ENERGYpercent20STRATEGY.PDF>, accessed on 18.10.2006, p. 2, cited in The US Department of State, *Caspian Energy Development Report*, Washington DC: 1997, p. 4

<sup>104</sup> Cenk Sidar, "Turkey within the EU: Towards a Global Compromise", *Energy and Politics*, Issue 9, March 2006, <http://www.umich.edu/~mjia/issues/9march06/essays/9sidar.html>, accessed on 25.10.2006

<sup>105</sup> Gökhan Bacik, "Turkey and Pipeline Politics", *Turkish Studies*, Vol. 7, No. 2, June 2006, pp. 293-306, p. 298

<sup>106</sup> Agata Loskot, "Turkey an Energy Transit Corridor to the EU?", Warsaw: *Centre for Eastern Studies*, No. 17, January 2005, pp.19-31, pp. 21-22. The three sources for the EU are Russia, Algeria and the North Sea region.

with several pipeline networks. Additionally, Turkey's desire to become a member of the EU is expected to improve its involvement in the EU's energy issues.

However, Russia in particular is not in favour of utilising Turkey as a transit country. Because that could lessen Russia's heavy hand in controlling significant energy transport routes. As a result, Russia may firstly lose economic gains and control of the supply to global markets, especially in the EU. Furthermore, it may also lose its competition against the US.<sup>107</sup> In this regard, Gareth M. Winrow states the vitality of the Caspian resources for Russia.<sup>108</sup> Russia's political and economic influence over Central Asia should also be kept in mind. At such a point, Russia views alternative routes bypassing its territories like the BTC and BTE pipelines, not in terms of economics but a wider perspective including economics as well. Therefore, there is no surprise in Russian opposition to such pipelines.

Additionally, Iran is recognized as a potential player to some extent. For instance, Kamer Kasım states that Iran should be taken into account in regard to the transport of the Caspian resources.<sup>109</sup> On the one hand, Turkey and Iran are rivals in energy politics. Iran's proximity to the Caspian resources is another troublesome issue for Turkey to reach to the Caspian region resources. It is also in Iran's interests to search for transport routes through its territory. When it was time to decide on the route for oil transport, the shortest pipeline network was considered to be the Iranian route with shipping oil from the Persian Gulf through the Straits of Hormuz.<sup>110</sup> Some US companies initially preferred this shortest and more importantly cheapest route as the best market.<sup>111</sup>

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<sup>107</sup> Eldar Ismailov and Vladimer Papava, *The Central Caucasus: Essays on Geopolitical Economy*, Stockholm: CA&CC Press, 2006, p. 111 cited in Alexander Rondeli, "Pipelines and Security Dynamics in the Caucasus", *Insight Turkey*, Vol. 4, No. 1, 2002, pp. 13-17

<sup>108</sup> Gareth M. Winrow, "Possible Consequences of a New Geopolitical Game in Eurasia on Turkey as an Emerging Energy Transport Hub", [http://www.esiweb.org/pdf/esi\\_turkey\\_tpq\\_id\\_62.pdf](http://www.esiweb.org/pdf/esi_turkey_tpq_id_62.pdf), accessed on 01.11.2006, pp. 1-10, pp. 1, 3

<sup>109</sup> Kamer Kasım, "The Transportation of Caspian Oil and Regional Stability", *Journal of Southern Europe and the Balkans*, Vol. 4, No. 1, 2002, pp. 37-45, p. 39

<sup>110</sup> Robert A. Manning, "The Myth of the Caspian Great Game and the 'New Persian Gulf' ", *The Brown Journal of World Affairs*, Vol. 7, No. 2, Summer-Fall 2000, pp. 15-33, pp. 21, 22

<sup>111</sup> Carter Page, "US Involvement in the Business and Politics of the Caspian Sea Region", in Shirin Akiner (ed.), *The Caspian- Politics, Energy and Security*, New York: RoutledgeCurzon, 2004, pp. 263-277, p. 273

Nevertheless, the US opposed to any Iranian route. The US Congress passed the Iran-Libya Sanctions Act (ILSA) in 1996, on the grounds that Iran is a rogue state. The act imposes sanctions on large investments (more than \$20 million) in Iran's oil and natural gas sectors.<sup>112</sup> The discouraging position of the US prevented oil transit through Iran. The US governments have always insisted that the shorter Iranian route cannot be better. Such a route would increase Iranian influence over world oil supplies. Iran would have the ability to shut its pipeline off at any time or avoid tanker traffic with its control of the Straits of Hormuz, according to the US officials. Afterwards, the US companies came to terms with the State.<sup>113</sup> Therefore, the choices of pipelines and "pipeline politics" have not been solely an "economic" issue, but a complicated one, because of "spheres of influence" and political calculations. As a result, Turkey has an advantageous position against Iran when they offer rival projects.

On the other hand, both Turkey and Iran are trying to become influential in the Caspian Sea region, at the expense of Russia's reactions. Iran has enough sufficient resources to import its own resources. However, the US position plays a contradictory role at this point. For instance, Iran insists on selling natural gas to Europe via Turkey, while the US declares the Iran-Turkey natural gas pipeline as a violation of the ILSA. As a result, Turkey and Iran are far from comprising a united front against Russia. At the same time, both of them are economic partners of Russia. Furthermore, Turkey also has energy cooperations with Russia and Iran. For instance, despite its earlier competition of transporting oil from the region, Turkey transports natural gas from Russia and Iran.<sup>114</sup>

For these reasons, Turkey is faced with a complex energy game in its efforts to be an energy corridor. Therefore, I argue that Turkey's energy policy does not only be a composition of its national determinations or its foreign policy. It is also related to other powers' policies that are interested in the region. Under this

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<sup>112</sup> Nebahat Yazici and Ayhan Demirbaş, "Turkey's Natural Gas Necessity and Consumption", *Energy Sources*, Vol. 23, 2001, pp. 801-808, p. 807

<sup>113</sup> Jofi Joseph, "Pipeline Diplomacy: The Clinton Administration's Fight for Baku-Ceyhan", WWS Case Study 1/99, <http://www.wws.princeton.edu/cases/papers/pipeline.html>, accessed on 28.12.2006; Mehdi Parvizi Amineh, *Towards the Control of Oil Resources in the Caspian Region*, New York: St. Martin's Press, 1999, p. 186

<sup>114</sup> Gareth M. Winrow, *Turkey and the Caucasus- Domestic Interests and Security Concerns*, London: The Royal Institute of International Affairs, 2000, p. 40



condition, Turkey's energy cooperation with the EU and Russia are the main concerns in the analysis of its energy security and corridor strategy. Therefore, initially Turkey's energy cooperation with the EU in the context of the oil and natural gas pipelines will be examined. Then, energy cooperation between Turkey and Russia, and finally between the EU and Russia will be concerns of the thesis.

## CHAPTER 3

### **TURKEY'S ENERGY COOPERATION WITH THE EUROPEAN UNION AND ITS ENERGY SECURITY**

The analysis of Turkey's role as a corridor requires a further look to the energy cooperation between Turkey and the EU. It is a fact that Turkey looks forward to political and economic support from the EU. In this regard, not only Turkey's priorities, but also the EU's energy policies directed to make Turkey a corridor towards the EU states play an important role. Seemingly, the EU favours diversified routes. However, there are some other factors which should be considered in this context. First of all, it is commonly argued that the US has been the dominant power to determine the energy transport route in the western direction when compared with the EU's role. Moreover, significant numbers of the EU states have some doubts about Turkey's influence on their energy security issues. Therefore, I argue that the EU does not effectively support Turkey to become an energy corridor to its markets. Within this framework, the BTC Oil Pipeline and natural gas pipelines to the EU via Turkey will be examined in this chapter to better illustrate these statements.

#### **3.1. Turkey: An Energy Corridor to the EU?**

Initially, the US has determined to direct the oil and natural gas pipeline routes of the Caspian Sea in the westward direction. The US strategy has been to rely less on foreign energy supplies, especially on the Middle East and Russia. In this framework, the US has devoted itself to develop energy routes bypassing Russian routes, as well as Iranian ones.

The US has ambitiously supported "the Turkish route" as the ideal transport route for the Caspian resources. For example, the US President Bush said "Greater energy security through a more diverse supply of oil for global energy markets, these are the engines of global growth, and with this pipeline those engines can now run at

high speed.” before the construction of the BTC pipeline.<sup>115</sup> Accordingly, Turkish authorities have attributed great significance to this support.

Julia Nanay has emphasized the importance of timely management for the realization of the pipeline projects under consideration. In this regard, the US-Turkish cooperation has been successful enough to obtain the support of the Caspian region states, in time.<sup>116</sup>

Landlocked Azerbaijan, Kazakhstan and Turkmenistan have realized the necessity to develop routes for the transport of for their energy resources to international markets. For instance, they have to build up alternative routes to the existing Russian ones to reach the European markets. Furthermore, the continuation of reliance on Russian pipelines has meant a reduction of significant revenues which account between 30 and 50 percent of the government revenues, according to Kirill Nourzhanov.<sup>117</sup> The more critical point is that their reliance hinders political independence from Russia.

Therefore, these countries hope and seek for political stability, investment and economic involvement of foreign supporters to make the projects successful. They require a strong support since pipeline construction is expensive and yet, their domestic funds are not enough to finance pipeline projects themselves.

After the US’ initial efforts, the EU became interested in the East-West transport corridor. To form a unified Europe with the enlargement process, a unified network has been essential. Enlargement process has been expected to harmonize energy, in all ways, but especially in the sense of oil and gas, and serve to the market integration within the EU. Thus, the EU has created the concept of “transport corridors”. With that concept, the EU aims to integrate itself with the neighbouring regions and beyond. In light of that policy, it wants to diversify its energy supplies to contribute its energy security. These networks are called TENs (Trans-European Energy Networks). They are established by the Maastricht Treaty, the founding

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<sup>115</sup> Candace Rondeaux, “U.S. Places Large Bet on Pipeline”, New York: *San Bernardo County Sun*, 16 May 2005, <http://www.energybulletin.net/6123.html>, accessed on 14.11.2006

<sup>116</sup> Julia Nanay, “Russia and the Caspian Sea Region”, in Jan H. Kalicki and David L. Goldwyn (eds.), *Energy & Security: Toward a New Foreign Policy Strategy*, Washington DC: Woodrow Wilson Center Press, 2005, pp. 127-147, p. 137

<sup>117</sup> Kirill Nourzhanov, “Caspian Oil: Geopolitical Dreams and Real Issues”, *Australian Journal of International Affairs*, Vol. 60, No. 1, March 2006, pp. 59-66, p. 65

treaty of the EU. TENs include railways, roads, waterways and also pipeline infrastructures.<sup>118</sup>

The EU's involvement in the pipeline projects has been particularly important, since resources would be exported to that major energy consumer market. When the development of pipelines came on to the EU's agenda, the economic considerations of the EU became crucial as the development of routes depend on, among other things, its interests and cost of the pipelines. As the time to take fundamental steps has come, several analysts stated that the EU needs to move fast and be determined to promote projects in the region. It is generally thought that the EU's support for the Caspian region can accelerate the construction of the alternative routes. In that regard, Zeyno Baran, a Caspian specialist at the Hudson Institute in Washington, states that Russia cannot be entirely excluded from the European energy market. However, she also adds that the EU needs to break, or at least decrease its reliance on Russian oil and natural gas resources with non-Russian pipelines passing through the Caspian region.<sup>119</sup>

Since the mid-1990s, the EU states have institutionalized their interests in the Caspian region's resources. Development of a transport network is under supranational forces' efforts, especially under the European Commission. Its position in the establishment of the transport networks is crucial. The Commission has supported "priority projects" of TENs, regarding development of trade in Eurasia, in order to especially diversify the EU's energy supplies by pipelines. By the EU's presence in such projects, financial support for alternative routes has been received. Accordingly, the Commission has set up the Interstate Oil and Gas Transport to Europe (INOGATE) Program to promote the construction of regional pipeline systems through necessary investment and technical assistance, in return, to transport

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<sup>118</sup> Loyola de Palacio, "Reforming the Gas Market", in H. Kalicki and David L. Goldwyn (eds.), *Energy & Security: Toward a New Foreign Policy Strategy*, Washington DC: Woodrow Wilson Center Press, 2005, pp. 175-196, p. 180

<sup>119</sup> Zeyno Baran, "EU Energy Security: Time to End Russian Leverage", *The Washington Quarterly*, Vol. 4, No. 30, Autumn 2007, pp. 131-144, p. 143

oil and natural gas to Europe in a reliable and financially sensible way from the Caspian region, one of the main energy diversification choices of the EU.<sup>120</sup>

The other very important program initiated by the EU at a conference in Brussels in May 1993 is the Transport Corridor Europe-Caucasus-Asia (TRACECA) Programme. As it is also called the New Silk Road Project, this program aims to revitalize the former Silk Road. The EU is supposed to attract investors by contributing to regional trade, economy, political stability, cooperation and peace. The reason behind this motive is to gain access to the region's rich oil and natural gas wealth.<sup>121</sup> Turkey has also joined both of the programs besides many other countries. Then, the EU launched the "Baku Initiative" in November 2004, to design the integration of the energy markets of the region and the EU market. In January 2007, the EU tried to strengthen its ties with the regional states on the bases of the Neighborhood Policy, under the recommendation of its energy policy papers.<sup>122</sup> In this regard, the policy's adoption by the regional states facilitates the EU's efforts to establish the TENs.

In transporting the region's oil and natural gas to European markets, Turkey has been one of the best promising states. Turkey's proximity both to the energy-rich Caspian states and the EU markets presents an advantageous position for Turkey. Its geographical location makes the transport easy, feasible and economic.

In addition, the EU has realized the significance of Turkey's strategic location. The European Commission initially issued the November 2000 Green Paper titled "Towards a European Strategy for the Security of Energy Supply". Furthermore, the Commission issued another Green Paper on 8 March 2006. It was called "A European Strategy for Sustainable, Competitive and Secure Energy".<sup>123</sup>

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<sup>120</sup> Paul Belkin, "European Union's Energy Security Challenges", *CRS (Congressional Research Service) Report for Congress*, Order Code RL33636, 7 May 2007, pp. 1-28, p. 14 cited in <http://www.inogate.org>

<sup>121</sup> Serkan Yalcin, "Revitalizing the Eurasian Trade: Prospects from the Traceca Project", *Journal of Academic Studies*, Vol. 9, No. 33, May-July 2007, pp. 26-38, p. 28; Eldar Ismailov and Vladimer Papava, *The Central Caucasus: Essays on Geopolitical Economy*, Stockholm: CA&CC Press, 2006, p. 79

<sup>122</sup> Paul Belkin, "European Union's Energy Security Challenges", *CRS (Congressional Research Service) Report for Congress*, Order Code RL33636, 7 May 2007, pp. 1-28, p. 13

<sup>123</sup> Vince L. Morelli, "The European Union's Energy Security Challenges", *CRS Report for Congress*, Code: RL33636, 11 September 2006, pp. 1-31, p. 7 cited in EU Energy Directorate General, <http://www.ec.europa.eu/energy> and Jonathan Stern, "The New Security Environment For European

Both energy papers state Turkey's "strategic importance" as an "energy corridor" and as an energy security supplier to the EU due to increasing volumes of oil and natural gas transit through the country.<sup>124</sup> Since then, a special attention of the EU has said to be focused on Turkey's corridor role. However, the EU is generally found to be slow to recognize Turkey's importance to transport Caspian resource to the EU, despite the Commission's references to Turkey's strategic role.<sup>125</sup>

Turkish officials argue that the pipelines passing through its territories provide a "win-win situation" for all of the contributing parties. Moreover, from the Turkish perspective, its EU membership desire serves to integrate Turkey to the EU energy market. However, according to several EU authorities, Turkey sees energy politics as an attractive issue. To them, for instance, the pipelines serve as a "selling point" in Turkey's long desire to become a member of the EU.<sup>126</sup> Such strength of Turkey in providing energy needs to Europe is expected by them to lead an "ideal" position for Turkey while negotiating with the EU in order to decide the criteria and date of becoming a member of the Union.

From a Turkish perspective the energy security issue seems to be a welcome and equally useful tool in its quest to convince its European colleagues that admitting Turkey is in the union's interest. Ankara should abandon the accent on the civilizational discourse in its EU quest and underline real issues such as the potential role Turkey can play in terms of energy security...Whether

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Gas: Worsening Geopolitics and Increasing Global Competition for LNG", *Oxford Institute for Energy Studies*, NG 15, No. 286084, October 2006, pp.1-31, p. 5

<sup>124</sup> Yigal Schleifer, "Pipeline Politics Give Turkey an Edge", Istanbul: *Christian Science Monitor*, Vol. 97, No. 127, 25 May 2005, pp. 6-7, p. 7; Gareth M. Winrow, "Possible Consequences of a New Geopolitical Game in Eurasia on Turkey as an Emerging Energy Transport Hub", [http://www.esiweb.org/pdf/esi\\_turkey\\_tpq\\_id\\_62.pdf](http://www.esiweb.org/pdf/esi_turkey_tpq_id_62.pdf), accessed on 01.11.2006, pp. 1-10, p. 2 cited in Commission of the European Communities, "Annex to the Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy: What is at Stake- Background Document," COM (2006) 105 Final, XXX, Brussels – SEC (2006) 317/2, p. 37

<sup>125</sup> Meliha Benli Altunışık, "Avrupa'nın Enerji Politikaları ve Dış Politikasına Etkileri", in *Avrupa Birliği'nde Değişen Dinamikler*, Türkiye Ekonomik Ekonomi Politikaları Araştırma Vakfı (TEPAV) ve TOBB Ekonomi ve Teknoloji Üniversitesi (ETÜ) Çalıştay Raporu Dizisi- Özel Yayın 10/06/002, November 2006, [http://www.tepav.org.tr/tur/admin/dosyabul/upload/ABpercent5C'depercent20degisenpercent20dinamikler\\_percent2018Ekim06.pdf](http://www.tepav.org.tr/tur/admin/dosyabul/upload/ABpercent5C'depercent20degisenpercent20dinamikler_percent2018Ekim06.pdf), accessed on 08.05.2008

<sup>126</sup> Nicholas Birch, "Caspian Pipeline to Bring Oil, Relief for West", *The Washington Times*, 13 July 2006, [http://www.csis.org/index.php?option=com\\_csis\\_press&task=view&id=1983](http://www.csis.org/index.php?option=com_csis_press&task=view&id=1983), accessed on 25.12.2006

Turkey will be able to use this new tool wisely and turn it into a significant asset remains to be seen.<sup>127</sup>

What is more, some argue that Turkey would abuse the concerns of the EU members on energy security and the over-dependence on Russia. For example, Gareth M. Winrow has stressed that along with gaining a significant position in bringing energy to Europe, Turkey could attempt to put the pressure of the “energy card” on the EU.<sup>128</sup> According to supporters of these kinds of views, as Europe would be dependent on Turkey on the bases of the energy issues, especially the BTC, the BTE and Nabucco pipelines would make Turkey’s importance and “real” value clear. In these respects, they all warn the EU to think twice, before giving a stronger hand to Turkey in energy politics instead of Russia. Hence, they assert that the EU should not allow Turkey to use its strategic location during negotiations with the EU members.

Among the foreign policy issues, Turkey has given priority to its relations with the EU. It is widely known that Turkey pursues a policy of a full-membership to the EU. In this regard, I argue that when Turkey’s ultimate goal to join the EU is taken into account, any unreasonable policy in its long-term energy plans does not seem logical. In line with this policy, Turkey should not be expected to act against the EU interests which would endanger its goal.

Turkey’s energy plans are equate to the increasing needs of the EU. It is unlikely that Turkey would bring questions or concerns to the EU related to pipeline systems passing through its territories, while enjoying the benefits of those systems. Instead, Turkey has always looked for extra-guarantees to maintain its advantageous position. For instance, it has established good relations with Georgia to build and secure the BTC pipeline.

Turkey has never been in favour of defaming its name or giving any image of instability to even a single country. In my opinion, such concerns of using pipeline projects as a weapon directed to the European states seems to be over-exaggerated. However, it is a clear fact that Turkey will not retreat from using its position as a tool

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<sup>127</sup> Suat Kınıklıoğlu, “Turkey’s Toolbox Should Include Energy Security”, 4 April 2006, <http://www.turkishdailynews.com.tr/article.php?enewsid=39851>, accessed on 10.10.2006

<sup>128</sup> Gareth M. Winrow, “Turkey and the East-West Gas Transportation Corridor”, *Turkish Studies*, Vol. 5, No. 2, Summer 2004, pp. 23-42, p. 23

of deepening its relations with the EU. It also puts great efforts to demonstrate its importance for Europe in energy politics. Turkey aims to benefit from the pipeline systems passing through its territories. In other words, Turkey can be expected to put energy issues forward in order to enhance the dialogue with the EU. However, even this policy creates doubts on Turkey's energy role within the EU. Therefore, Russia gains a stronger position against Turkey in pipeline projects.

What is more, Turkey's ambition to join the EU has surprisingly not resulted in benefitting Turkey and its expectations to foster their energy cooperation. Firstly, the EU has doubts about the Turkish role on its energy security. Secondly, the EU cannot establish a united external energy policy even among the Union members. Therefore, the EU's effectiveness to coordinate an energy policy towards candidate states like Turkey does not seem possible. Finally, the realization of the corridors between Turkey and the EU depends on Turkey's accession to the Union. Therefore, I argue that the EU's significant contribution to Turkey's energy corridor role will only come after the country's membership to the EU.

In conclusion, Turkey and the EU have worked together on two important projects, the BTC and the BTE, and other natural gas pipeline projects; however, they are still far from being partners in the energy sector. Therefore, the pipeline projects are analyzed on that ground in the following part. Initial focus is given to the BTC Oil Pipeline. Then natural gas pipelines are examined.

### **3.2. Construction of the Baku-Tbilisi-Ceyhan Oil Pipeline**

The US administrations promoted the construction of the BTC, which runs through the US allied states towards Western Europe. With full US support, Turkey involved itself as the main Caspian oil export route with the BTC Pipeline. Thus, the US encouraged Turkey to establish closer relations with those states.

The US and Turkey realized their ineffectiveness when the construction of natural gas pipelines were on the agenda, after they failed to build the natural gas pipeline from Turkmenistan to Turkey. Instead, Russia took its steps as soon as possible to construct the Blue Stream Pipeline. In addition, it tried its best to justify that it was unnecessary to construct any other gas pipeline than the Russian pipelines ending in Turkey whose gas market was not big enough for additional gas



supplies.<sup>129</sup> Since the effects of Russia was clear on gas pipelines, the US moved more decisively in the construction of the BTC. Azerbaijan, as the main exporter of oil, and Georgia, as a transit country, and also crucial backing shareholders has provided support to the BTC pipeline.

Becoming independent in 1991 and seeking total independence from Russia since then, Azerbaijan has been regarded as one of the most significant states of the region with its own vast resources, political determination and transport route. It has proven reserves of 7.3 billion barrels of oil, 0.6 percent of the world total. Its oil production is increasing steadily; it reached 115 million barrels in 2004 and 164.2 million barrels in 2005.<sup>130</sup>

Although Georgia is not an oil-rich country, it is important for its geographical location. The Azerbaijan to Turkey transport route neither could pass through Armenia due to the conflict over Nagorno-Karabakh between Armenia and Azerbaijan, nor through Iran and Russia. In this regard, Georgia's cooperation as a transit country has been essential to transport Caspian oil to Turkey.

Along with the US-Turkish cooperation, Brzezinski unofficially went to Baku on behalf of President Bill Clinton, to meet with Azeri President Haidar Aliyev as the first step for securing access to the Azerbaijani oil fields.<sup>131</sup> Aliyev pursued an active policy to make the oil potential of his country known in order to use the country's resources for the sake of the national interests. Coming to power in 1993, Aliyev cancelled the old agreement signed by Elchibey with which he promised the exploitation of Azerbaijani oil wealth. Then Aliyev succeeded to make the \$8 billion agreement on 20 September 1994.<sup>132</sup>

Then the US made great efforts to attract the EU's attention to the Caspian region resources. After the interests of the US, Turkey, the EU, and the newly

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<sup>129</sup> Zeyno Baran, "EU Energy Security: Time to End Russian Leverage", *The Washington Quarterly*, Vol. 4, No. 30, Autumn 2007, pp. 131-144, p. 138

<sup>130</sup> Osman Emed, "The Caspian Oil And Gas in International Energy Policy: Opportunities for Turkey", An Unpublished Thesis Submitted to the Graduate School of Social Sciences of the Middle East Technical University, In Partial Fulfillment of the Requirements for the Degree of Master of Science in the Department of International Relations, Ankara: December 2006, p. 29

<sup>131</sup> F. William Engdahl, "Revolution, Geopolitics and Pipelines", 30 June 2005, [http://www.atimes.com/atimes/Global\\_Economy/GF30Dj01.html](http://www.atimes.com/atimes/Global_Economy/GF30Dj01.html), accessed on 25.12.2006

<sup>132</sup> Terence Adams, "Caspian Energy Development", in Shirin Akiner (ed.), *The Caspian- Politics, Energy and Security*, New York: RoutledgeCurzon, 2004, pp. 90-106, pp. 130-132

independent Caspian states had overlapped, they decisively conducted negotiations on the early oil route. On the other hand, Russia naturally wanted to transit oil through its own system like it did in natural gas transport. Thus, it insisted on the Baku-Novorossisk route. According to Bülent Aras and George Foster, the early oil transport decision was important because it was thought to determine the main oil pipeline route.<sup>133</sup>

Finally, Georgia and Azerbaijan signed the “early oil” agreement on 8 March 1996 to carry early oil from Baku, Azerbaijan to Supsa, the Georgian port on the Black Sea. In the light of this transport, both states understood the importance of breaking Russian dominance. Therefore, they have viewed the BTC as a great chance to accomplish their will. Eventually, the BTC pipeline gained momentum to become the first pipeline that exports oil to Western markets from the Caspian Sea while bypassing Russian territories.

After some serious negotiations, the main crude oil pipeline was approved as the BTC route and Azerbaijan and Turkey signed a “strategic cooperation” agreement in May 1997. Then, Azerbaijan, Georgia and Turkey, the participants of the BTC, signed the “Ankara Declaration” for the BTC route on 29 October 1998. They eventually signed the “Intergovernmental Agreement” (IGA) on 18 November 1999 when they gathered for the OSCE Summit in Istanbul.<sup>134</sup> At the summit, the presidents of Azerbaijan, Georgia, Turkey and Kazakhstan signed the Istanbul Declaration. The US President Clinton also witnessed the ceremony to support the BTC.<sup>135</sup> Basic engineering studies were completed by 2001. However, construction

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<sup>133</sup> Bülent Aras and George Foster, “Turkey: Looking for Light at the End of the Caspian Pipeline”, in Michael P. Croissant and Bulent Aras (eds.), *Oil and Geopolitics in the Caspian Sea Region*, Westport: Praeger Publishers, 1999, pp. 229-247, p. 234

<sup>134</sup> Necdet Pamir, “Kafkaslar ve Hazar Havzasındaki Ülkelerin Enerji Kaynaklarının Türkiye’nin Enerji Güvenliğine Etkileri”, Ankara: Türkiye’nin Çevresindeki Gelişmeler ve Türkiye’nin Güvenlik Politikalarına Etkileri Sempozyumu, 10 March 2006, <http://www.asam.org.tr/temp/temp15.pdf>, accessed on 03.11.2007, pp. 1-74, p. 20; Bradford R. McGuinn and Mohiaddin Mesbahi, “America’s Drive to the Caspian”, in Hooshang Amirahmadi (ed.), *The Caspian Region at a Crossroad-Challenges of a New Frontier of Energy and Development*, London: Macmillan Press Ltd., 2000, pp. 187-211, p. 187 cited in *Xinua News Agency*, 5 May 1997

<sup>135</sup> Yusuf İnan Çelebi, “Turkey’s Energy Policies and the Eurasian Region”, An Unpublished Thesis Submitted to the Graduate School of Social Sciences of the Middle East Technical University, In Partial Fulfillment of the Requirements for the Degree of Master of Science in the Department of International Relations, Ankara: April 2006, p. 91 cited in Zeyno Baran, “The Baku-Tbilisi-Ceyhan Pipeline: Implications for Turkey” in S. Frederick Starr and Svante E. Cornell (eds.), *The Baku-*

of the BTC Pipeline began on 18 September 2002 in Baku and on 26 September 2002 in Ceyhan four years after signing the IGA.<sup>136</sup>

Many initial oppositions and disputes were raised against the realization of the BTC because of various problems including its length, direction, oil volume (can the pipeline meet European expectations), construction deficiencies, economic infeasibility, non-secure nature and political risks that prevented its construction to begin.<sup>137</sup> There were additional problems associated with this route. The unresolved legal status of the Caspian Sea causing regional instability has been another reason.

Furthermore, the regional instability stems from regional conflicts and other political problems. Thus, the BTC route runs through difficult and dangerous territories. Particularly, because of the conflict between Azerbaijan and Armenia over Nagorno-Karabakh, and the internal political problem in South Ossetia and Abkhazia, the BTC pipeline is vulnerable to threats. All of these issues pose security problems and may result in blockages, flow delays, sabotages, terror attacks or illegal tapping attempts.<sup>138</sup> Another problem is linked to the problems of the Iraq war since the pipeline ends in Ceyhan, the existing Iraq-Turkey Pipeline terminal.

Russia's stance, with its special energy policy, has also been against the BTC pipeline. However, instead of a definite geopolitical or strategic objection to the BTC, Russia preferred to sustain its views on the geo-economic grounds. For instance, it directed objections focusing on the enormous cost of the pipeline. Russia was thinking that such difficulties would hinder the realization of the BTC. Also it

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*Tbilisi-Ceyhan Pipeline: Oil Window to the West*, Sweden: Central Asia-Caucasus Institute & Silk Road Studies Program, 2005, p. 107

<sup>136</sup> Sinan Ogan, "Mavi Akım: Türk-Rus İlişkilerinde Mavi Bağımlılık", 2 January 2006, <http://www.turksam.org/tr/yazilar.asp?kat=29&yazi=627>, accessed on 28.12.2006

<sup>137</sup> Hooman Peimani, "Turkey and Caucasus: Pipeline Politics Play Their Course", *Asia Times Online*, 1 May 2002, <http://www.atimes.com/c-asia/DE01Ag04.html>, accessed on 16.12.2006; Mark Berniker, "Debate Continues over Viability of Baku-Tbilisi-Ceyhan Construction", *Alexander's Gas and Oil Connections (Global Energy Security Analysis)*, Vol. 7, No. 4, 12 July 2002, <http://www.gasandoil.com/goc/news/ntc22871.htm>, accessed on 25.12.2006

<sup>138</sup> Alexandros Petersen, "Turkey: Oil Pipeline Security Questions Persist", 12 July 2006, <http://www.res.ethz.ch/news/sw/details.cfm?ID=16379&nav1=1&nav2=2&nav3=0>, accessed on 10.10.2006

played for time, since any delay would discourage the future of the projects.<sup>139</sup> Further, it tried to deal with the BTC by proposing alternative projects.

Due to these problems, skeptics declared their doubts on even construction the BTC. To illustrate, Candace Rondeaux called the project the “pipe dream”.<sup>140</sup> Sooner or later, however, the BTC pipeline has become a reality as being the first leg of the East-West Energy Corridor.<sup>141</sup> Finally, on 25 May 2005, the pipeline was inaugurated at a huge ceremony with a test filling to the Sengachal Oil Station, in the Azeri section of the BTC, although the target date for completion of construction was 2004.<sup>142</sup> However, the first oil reached Ceyhan in May 2006. Then, the BTC pipeline has been proclaimed as “the Project of the Century” and “the New Silk Road”.

Despite the expectation to cost between \$2.8 and \$2.9 billion to construct the pipeline,<sup>143</sup> it cost about \$4 billion, making it one of the world’s most expensive projects.<sup>144</sup> The project was financed by the main participants, international finance institutions and commercial banks. The financing loans were mainly approved by the World Bank’s private lending arm, the International Finance Corporation; the European Bank for Reconstruction and Development (EBRD) and the US Exim Bank.<sup>145</sup> The pipeline was built by a consortium of eleven oil companies of the BTC Pipeline Company. The main backer is the UK’s BP which also includes the

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<sup>139</sup> Igor Torbakov, “Turkey-Russia Relations: Competition and Cooperation- Part III”, 27 December 2002, *Eurasia Insight*, <http://www.eurasianet.org/departments/insight/articles/eav122702.shtml>, accessed on 30.10.2006

<sup>140</sup> Candace Rondeaux, “U.S. Places Large Bet on Pipeline”, New York: *San Bernardo County Sun*, 16 May 2005, <http://www.energybulletin.net/6123.html>, accessed on 14.11.2006

<sup>141</sup> Bradford R. McGuinn and Mohiaddin Mesbahi, “America’s Drive to the Caspian”, in Hooshang Amirahmadi (ed.), *The Caspian Region at a Crossroad- Challenges of a New Frontier of Energy and Development*, London: Macmillan Press Ltd., 2000, pp. 187-211, p. 189 cited in S. Shermatova, “Money Recarving Caucasus Borders”, *Moscow News*, Moscow, No. 37, 18 September 1997

<sup>142</sup> Mark Berniker, “Debate Continues over Viability of Baku-Tbilisi-Ceyhan Construction”, *Alexander’s Gas and Oil Connections (Global Energy Security Analysis)*, Vol. 7, No. 4, 12 July 2002, <http://www.gasandoil.com/goc/news/ntc22871.htm>, accessed on 25.12.2006

<sup>143</sup> Emmanuel Karagiannis, “The Turkish-Georgian Partnership and the Pipeline Factor”, *Journal of Southern Europe and the Balkans*, Vol. 6, No. 1, April 2004, p. 20 cited in EIA, *Caspian Sea Region: Oil Export Options*, Department of Energy, Washington DC: July 2002

<sup>144</sup> Fang Bay, “The Great Energy Game”, *US News & World Report*, Vol. 141, No. 9, 9 November 2006

<sup>145</sup> Manana Kochladze, “The BTC Pipeline: Botched, Tardy, and Chilling”, *Transitions Online*, 7 February 2005, pN.PAG

American oil giant Halliburton with a 30.1 percent stake. Azerbaijan's State Oil Company (SOCAR) has a 25 percent share. Other members of the consortium are the US' Unocal (8.9 percent), Norway's Statoil (8.71 percent), Turkey's TPAO (6.53 percent), Italy's ENI/Agip (5 percent), France's Total Final Elf (5 percent), Japan's Itochu (3.4percent) and Index (2.5 percent), the US' Conoco Phillips (2.5 percent), the US-Saudi venture Amerada Hess (2.36 percent).<sup>146</sup>

Its 1766 km length makes BTC the second longest pipeline in the world, after Russia's Druzhba (Friendship) pipeline. The pipeline runs 442 km through Azerbaijan, 248 km through Georgia and 1076 km through Turkey.<sup>147</sup> It carries oil starting at Sangachal Oil Terminal near the port of Baku in Azerbaijan, passing through Tbilisi, Georgia's capital, and then exiting at the Ceyhan Terminal, on the Mediterranean coast of Turkey. In Turkey, the route runs through Erzurum, Erzincan and Sivas before ending in Ceyhan. The oil does not end there, but is shipped to global markets by tankers. Originally oil comes from the Azeri-Chirag-Gunashli field of Azerbaijan. However, the BTC pipeline linked Kazakhstan to the three countries with an eastern extension. It was an important event for the BTC to supply Kazakhstan's oil.<sup>148</sup> Because its additional oil to the pipeline will make the BTC economically more feasible.

To sum up, the BTC Pipeline was constructed despite several obstacles. However, there also lies another reality. Although Turkey insists on advantages of the pipeline, it is clear that the EU states keep on expressing their concerns on Turkey's energy corridor role in ensuring their energy security.

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<sup>146</sup> Mustafa Balat, "The Case of Baku-Tbilisi-Ceyhan Oil Pipeline System: A Review", *Energy Sources- Part B: Energy, Economics, and Planning*, Vol. 1, No. 2, 2006, p. 123. Despite initially being Azerbaijan International Operating Company (AIOC) members, both LUKoil and ExxonMobil did not participate in the BTC project. Moreover, BP shifted itself to support the project when it was convinced that laying both oil and gas pipelines would reduce costs, after substantial amounts of gas had been found in Azerbaijan's Shah Deniz field. See Gareth M. Winrow, "Turkish National Interests", in Yelena Kalyuzhnova, Amy Myers Jaffe, Dov Lynch and Robin C. Sickles (eds.), *Energy in the Caspian Region- Present and Future*, New York: Palgrave Macmillan, 2002, pp. 234-250, p. 247 cited in Ferruh Demirmen, "Baku-Tbilisi-Ceyhan: The Project Enters a New Phase- Part 1", *Turkish Daily News*, 20 October 2000

<sup>147</sup> Necdet Pamir, "Bakü-Tiflis-Ceyhan Boruhattı'nda Son Durum", *□anorama Aylık Uluslararası İlişkiler, Ekonomi ve Politika Dergisi*, No. 3, April 2004, pp. 1-9, p. 3; and John Roberts, "Pipeline Politics", in Shirin Akiner (ed.), *The Caspian- Politics, Energy and Security*, New York: RoutledgeCurzon, 2004, pp. 77-89, p. 84

<sup>148</sup> Robert A. Manning, "The Myth of the Caspian Great Game and the 'New Persian Gulf' ", *The Brown Journal of World Affairs*, Vol. 7, No. 2, Summer-Fall 2000, pp. 15-33, p. 23 cited in AIOC company officials, interview with author June 1999, October 1999

### 3.3. Politics of the BTC

The US has attributed the most significance to the BTC Pipeline. From the US side, construction of the pipeline has been “vital” for ensuring regional economic development, particularly bolstering the economies of Azerbaijan, Georgia and Turkey; strengthening Central Asian countries’ independence, changing the regional political system into a western type and promoting political reforms and democracy; maintaining regional security. Additionally, freeing those countries from Russia while bypassing the regional power, lessening the significant role of Russia in the region and increasing its own influence over these states; enhancing relations between Turkey and the US in the post-Cold War era; isolating Iran and preventing Iranian market dominance; and supporting the energy security of the US and its allies with a free flow of oil and diversifying world energy supplies have been attractive factors to the US. As a result, it has promoted the BTC as the main oil export route considered to be the “Contract of the Century”.<sup>149</sup> Therefore, this pipeline is not only related to energy policy or pipeline map, but also to the “political investment” that the US has made in the Caspian region. Besides, the US has wanted to benefit from the economic opportunities of the region, in compliance with that it has formulated the interests of the US companies, especially active in the energy sector.

As mentioned before, Turkish officials have stated that the BTC will provide advantages to the project’s participants. It is obvious that there are many advantages that the BTC Pipeline provides to Turkey. First of all, the BTC Pipeline ensures secure access to Caspian oil. Besides, Turkey’s strategic importance increases with this pipeline. The BTC has also increased Turkey’s prestige by showing its determination on building the pipeline. In this regard, Turkey has attracted the investors to launch other projects.

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<sup>149</sup> *Ibid.*, p. 21 cited in Strobe Talbott, “A Farewell to Flashman: American Policy in the Caucasus and Central Asia,” address to the Central Asia Institute, 21 July 1997; Stuart Eizenstat, testimony before the Senate Appropriations Subcommittee on Foreign Operations, 31 March 1998; Stephen Kinzer, “On Piping Out Caspian Oil, U.S. Insists, the Cheaper, Shorter Way Isn’t Better,” *New York Times*, 8 November 1998. Also see Stephen J. Blank, “The United States: Washington’s New Frontier in the Transcaspian”, in Michael P. Croissant and Bulent Aras (eds.), *Oil and Geopolitics in the Caspian Sea Region*, Westport: Praeger Publishers, 1999, pp. 249-273, pp. 255-256 cited in Voice of America, Testimony of Secretary of Energy Frederico Pena to the House International Relations Committee, 30 April 1998

Another attractive side of the BTC for Turkey is its economic benefits. First of all, the BTC Pipeline brings the Caspian oil at a low cost while crossing Turkey's territory. Secondly, the pipeline supports the Turkish economy. Turkey earns significant tariffs and transit fees from users of the pipeline. The pipeline also increases the business opportunities for Turkey in pipeline engineering and construction, refining and oil export. Related to them, unemployment is expected to decrease.

According to Leyla Ataman, Turkey has also gained an opportunity of making Ceyhan one of the important oil terminals both for national and international investments.<sup>150</sup> Ceyhan has started to be transformed as part of the Turkish energy corridor for Caspian oil export projects. In the following years, there can be a potential to export Iraqi oil via the Iraqi-Turkey Kerkuk-Yumurtalık Pipeline ending in Ceyhan.<sup>151</sup> With storage capacities, an energy business emerges in Ceyhan which is seen as an opportunity for Turkey to become an energy hub. The proximity of Ceyhan to the Middle East is expressed as an opportunity for the shipment of oil especially to the EU markets. Ceyhan is advantageous because of its location, too. In contrast to Novorossisk which must be closed up for some time due to storms and bad weather, Ceyhan has more appropriate weather and sea conditions for shipment to remain open.<sup>152</sup>

Closely linked to the benefits of using Ceyhan, Turkey has always been in favour of a route that by-passes the Turkish Straits, particularly the Bosphorus. Because the Bosphorus has been one of the world's busiest oil-shipping routes, particularly for the oil shipped from Russian and Caspian ports to the international markets. However, the Straits can no more be used as a route to Caspian oil, since it is not adequate for even the present volume of tanker traffic. On the one hand, environmental issues and safety concerns are tied to the tanker traffic of the Bosphorus. Ships must pass through two narrow, winding and one of the world's

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<sup>150</sup> Leyla Ataman, "Bir Hayal Gerçek Oldu", 3 June 2006, <http://www.turksam.org/tr/yazilar.asp?kat=30&yazi=977>, accessed on 28.12.2006

<sup>151</sup> Necdet Pamir, "Kafkaslar ve Hazar Havzasındaki Ülkelerin Enerji Kaynaklarının Türkiye'nin Enerji Güvenliğine Etkileri", Ankara: Türkiye'nin Çevresindeki Gelişmeler ve Türkiye'nin Güvenlik Politikalarına Etkileri Sempozyumu, 10 March 2006, <http://www.asam.org.tr/temp/temp15.pdf>, accessed on 03.11.2007, pp. 1-74, p. 71

<sup>152</sup> "Turkey's Interests and the U.S. Perspective on Caspian Sea Oil and Gas Pipelines", <http://www.wws.princeton.edu/wws401c/1998/sarah.html>, accessed on 03.12.2006

most difficult waterways, the Bosphorus and the Dardanelles. Then, accidents should be taken into consideration. On the other hand, if any major accident occurs, the transport of Caspian oil through the Bosphorus will be disrupted, or even worse, this route can be closed. In this regard, the BTC Pipeline would avoid tanker traffic through the already overcrowded Bosphorus and Dardanelles Straits and would be relatively more secure. Therefore, the security of supply would be increased.<sup>153</sup>

According to the Montreux Convention of 1936 free shipping of tradeships through the Bosphorus is allowed. Therefore, million of tons of hazardous cargo transit the Bosphorus. In March 1994, when the Greek Cypriot oil-tanker Nassia caused an accident, 30 people lost their lives, 20.000 tons of oil spilled into the sea and \$1 billion damage occurred. If this accident had occurred a few miles to the south, millions of people living on both sides of the Bosphorus would have faced a disaster.<sup>154</sup>

Environmental concerns are the other factor driving Turkey's support for the BTC since the pipeline diverts the dense oil tanker traffic from the Turkish Straits. Several accidents spilling tons of oil have emphasized the environmental risks of the passage. Since then, the need for a safer system has become a reality and Turkey has had the right and determination to take the necessary precautions. Turkey announced a new regulatory regime and stricter rules due to increased shipping activities. For instance, Turkey banned nighttime tanker traffic through the strait and restricted tanker displacement and allowed only one tanker to transit at any time.<sup>155</sup>

Furthermore, the BTC Pipeline has been politically crucial to Turkey. The pipeline reinforces Turkey's bilateral relations with Azerbaijan, Georgia, as well as Kazakhstan. Within that framework, it gives Turkey the opportunity to be recognized as a regional power. The BTC gathers the contributing countries of the pipeline

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<sup>153</sup> Temel Iskit, "Turkey: A New Actor in the Field of Energy Politics?", *Perceptions: Journal of International Affairs*, Vol. 3, No. 4, March-May 1996 or also available at <http://www.sam.gov.tr/perceptions/Volume1/March-May1996/TURKEYANEWACTORINTHEFIELDENERGYPOLITICS.pdf>

<sup>154</sup> Emmanuel Karagiannis, *Energy and Security in the Caucasus*, London: RoutledgeCurzon, 2002, p. 132; Bülent Aras and George Foster, "Turkey: Looking for Light at the End of the Caspian Pipeline", in Michael P. Croissant and Bulent Aras (eds.), *Oil and Geopolitics in the Caspian Sea Region*, Westport: Praeger Publishers, 1999, pp. 229-247, p. 235 cited in MFA, "Accidents in the Bosphorus", <http://www.mfa.gov.tr/grupi/maritime.htm>

<sup>155</sup> M. K. Bhadrakumar, "Russia Sets the Pace in Energy Race", *Central Asia*, 23 September 2006, [http://www.atimes.com/atimes/Central\\_Asia/HI23Ag02.html](http://www.atimes.com/atimes/Central_Asia/HI23Ag02.html), accessed on 30.10.2006



around the same purposes and mutual benefits. Apparently, Georgia and Turkey realized that both have to overcome their problems in order to focus on improving the pipeline, because the BTC route offers opportunities for both. Furthermore, both states look for further cooperation, for instance, for security, military and economic issues. In this connection, Turkey favors to provide military training and equipment to Georgia. According to Emmanuel Karagiannis, the BTC Pipeline has been a driving force of promoting stability in the region among those states.<sup>156</sup> That would be the successful way of increasing Turkey's political influence in the neighboring region of great importance for Turkey and also weakening Russian position in the Southern Caucasus, as well as in Kazakhstan. Therefore, the realization of the BTC has meant much more than economic benefits to Turkey. It can be argued that the pipeline might give the opportunity to be recognized as a regional power to Turkey.

However, only Azerbaijan has given full support to this pipeline. In those days, Kazakhstan found itself in a difficult dilemma to take decisive action. On the one side, Turkey proposed a trans-Caspian pipeline route for Kazakhstan to export its growing oil surpluses that would carry oil from Tengiz south to Turkmenbashi, and then to Baku in order to join the BTC Pipeline. Moreover, the US used pressure on Kazakhstan to support the BTC pipeline, instead of the Caspian Pipeline Consortium (CPC) pipeline to Novorossisk that runs through Russia. The US proposal has also been in the interest of Kazakhstan that needs alternative routes to Russian controlled ones to send its oil to the necessary markets. On the other side, however, Kazakhstan faced intense pressure from Russia. Finally, Kazakhstan found a middle-way. On the one hand, on 16 June 2006, Kazakh President Nursultan Nazarbayev announced that Kazakhstan had agreed to export some of its oil through the BTC pipeline to the Western markets, although the amount of the oil remained unclear. Later Kazakhstan made it clear that it will provide half of the oil when the full capacity of the pipeline

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<sup>156</sup> Emmanuel Karagiannis, "The Turkish-Georgian Partnership and the Pipeline Factor", *Journal of Southern Europe and the Balkans*, Vol. 6, No.1, April 2004, pp. 13, 14; Emmanuel Karagiannis, *Energy and Security in the Caucasus*, London: RoutledgeCurzon, 2002, p. 92, 138, 142 143, 158; Gareth M. Winrow, *Turkey and the Caucasus- Domestic Interests and Security Concerns*, London: The Royal Institute of International Affairs, 2000, pp. 23, 33; Gareth M. Winrow, "Turkish National Interests", in Yelena Kalyuzhnova, Amy Myers Jaffe, Dov Lynch and Robin C. Sickles (eds.), *Energy in the Caspian Region- Present and Future*, New York: Palgrave Macmillan, 2002, pp. 234-250, p. 242

is reached.<sup>157</sup> Kazakhstan linkage will certainly end the doubts over the insufficiency of the Azerbaijani oil reserves to match the capacity and make the project feasible or profitable. On the other hand, Nazarbayev also backed the construction of the CPC pipeline as a counterbalance of his support to the BTC pipeline.

The BTC is also important for the EU. The importance of the BTC for the EU relies on being an alternative to the existing suppliers, although oil export of the pipeline constitutes only 2.5 percent of global exports.<sup>158</sup> It is planned to pump around 1 million barrels of Caspian oil per day and 50 million tons per year to the Mediterranean Sea at Yumurtalik, Ceyhan when it becomes fully operational.<sup>159</sup> Therefore, the BTC can play a role in determining more reasonable prices for oil. Besides, Russia's influence on European countries decreases. Moreover, European countries ensure their energy security by diversification of supply resources.

However, it is noteworthy to note that the EU was not a determiner of the oil pipeline as the BTC, but it was a crucial supporter. Moreover, some of the EU states do not view Turkey's role in transporting oil to the EU markets as "vital". While not disputing Turkey's current and potential role in oil transport, they assert that the BTC has not meant much to the EU energy markets. According to them, the BTC serves the US and Turkish interests rather than their interests. Thus, the pipeline has been vital for them, not for the EU. Accordingly, John Roberts defines this oil pipeline's role as "useful" or "important" but not "vital".<sup>160</sup> As a result, the EU states are not certain about Turkey's role as a corridor. What is more, they are reluctant to enhance their dependence on Turkey as an alternative against Russian dependence.

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<sup>157</sup> Roman Kupchinsky, "Russia: Moscow Extends its Pipeline Web", 23 June 2006, <http://www.rferl.org/featuresarticle/2006/06/2106A51E-B8DB-4682-8F23-24072FCD001B.html>, accessed on 15.11.2006

<sup>158</sup> Nicholas Birch, "Will New Pipeline Ease the West's Energy Woes?", *The Christian Science Monitor*, Istanbul, 13 July 2006, <http://www.csmonitor.com/2006/0713/p07s02-woeu.html>, accessed on 30.10.2006, p. 7

<sup>159</sup> Necdet Pamir, "Bakü-Tiflis-Ceyhan Boruhattı'nda Son Durum", *Panorama Aylık Uluslararası İlişkiler, Ekonomi ve Politika Dergisi*, No. 3, April 2004, pp. 1-9, p. 3; and John Roberts, "Pipeline Politics", in Shirin Akiner (ed.), *The Caspian- Politics, Energy and Security*, New York: RoutledgeCurzon, 2004, pp. 77-89, p. 84

<sup>160</sup> John Roberts, "The Turkish Gate: Energy Transit and Security Issues", *Turkish Policy Quarterly*, Vol. 3, No. 4, Winter 2004, pp. 17-44, pp. 18-19

According to Fiona Hill and Florence Fee, such arguments are related to Russia's dominance in gas rather than oil and to the EU's high dependence on Russian gas.<sup>161</sup> Therefore, it is generally thought that if larger amounts of gas are transported through Turkey to Europe, the EU will be less dependent on the Russian gas monopoly. With the sake of the alternative gas pipelines, it will be more likely to ensure its energy security. Similarly, Suat Kınıklioğlu states that "...Turkey's weight in the energy game can only increase if the source of energy -and in this case it is natural gas- is not Russia."<sup>162</sup>

Oil is essentially a fungible commodity; it is more flexibly transported than gas (notably by sea) and Turkey's role in this context is one that concerns the global energy supply system rather than that of the European Union alone. Gas, however, is a different matter: it is more complex and, in a strictly EU context, Turkey's role, both current and potential, is much greater.<sup>163</sup>

Although it is argued that Turkey's potential energy corridor role mostly relies on natural gas transport pipelines, rather than oil pipelines; it is obvious that Turkey also faces several problems in the natural gas sector. Apart from other things, Russia's dominance on the natural gas sector should be well considered.

### **3.4. Natural Gas Pipelines Linking the Caspian Region and Iran to Turkey**

After the BTC, new projects emerged. Accordingly, the Turkish government promoted the construction of the gas pipelines. Initially, the Baku-Tblisi-Erzurum Gas Pipeline (BTE) was taken into account for the corridor project after natural gas was discovered in the Shah Deniz field of Azerbaijan in 1999. The pipeline is also known as the Shah Deniz Pipeline or the South Caucasus Pipeline (SCP).

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<sup>161</sup> Fiona Hill and Florence Fee, "Fueling the Future: The Prospects for Russian Oil and Gas", *Demokratizatsiya*, Vol. 10, No. 4, Fall 2002, pp. 462-487, pp. 462, 486

<sup>162</sup> Suat Kınıklioğlu, "Turkey's Toolbox Should Include Energy Security", 4 April 2006, <http://www.turkishdailynews.com.tr/article.php?enewsid=39851>, accessed on 10.10.2006

<sup>163</sup> John Roberts, "The Turkish Gate: Energy Transit and Security Issues", *Turkish Policy Quarterly*, Vol. 3, No. 4, Winter 2004, pp. 17-44, p. 18-19

Turkey, Azerbaijan and Georgia signed the 15-year Intergovernmental Agreement on 12 March 2001. Although researches in the Shah Deniz area started in 2001, construction of the project was officially ratified on 16 April 2002 with the signing of the final agreement in London with the heads of the consortium developing the project.<sup>164</sup>

The BTE Pipeline follows a parallel route to the BTC Oil Pipeline. However, it terminates in Erzurum, not in Ceyhan. With this opportunity, the costs have been expected to reduce. Additionally, huge amounts of reserves at the Shah Deniz field have attracted big energy companies like BP and Statoil to invest in this pipeline project.<sup>165</sup>

However, due to the increase of the estimated costs, Azerbaijan's State Oil Company, SOCAR and a significant company of the project, BP (British Petroleum) have started to review the project.<sup>166</sup> Therefore, it took a long time to deal with this difficulty. Construction of the pipeline only started in February 2003. Despite the expectation of beginning natural gas delivery in 2004,<sup>167</sup> the BTE pipeline was completed in December 2006. Then Azerbaijan agreed to deliver natural gas in 2006. However, Turkey's initial huge amounts of Azerbaijani gas demand were reduced because of the construction delay.

There has been another reality behind the natural gas projection's revision. Turkey receives more gas than it can consume. In fact, it supplies substantial amount of its natural gas from Russia and Iran. Turkey has to re-sell or re-export the additional natural gas as the best solution. Since it does not have such a natural gas re-exporting right from Russia and Iran, Turkey has looked for a re-exportable market for the Shah Deniz gas. Therefore, it tries to direct the Azerbaijani gas

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<sup>164</sup> Tuncay Babali, "Implications of the Baku-Tbilisi-Ceyhan Main Oil Pipeline Project", *Perceptions: Journal of International Affairs*, Vol. 10, No. 4, Winter 2005, pp. 29-59, p. 51 cited in *AZERBAIJAN*, No.16 (318), 18 April 2002, Azerbaijan National Democracy Foundation, <http://www.andf-az.org/>

<sup>165</sup> Necdet Pamir, "Energy (In)Security and the Most Recent Lesson: The Russia-Ukraine Crisis", Ankara: Center for Eurasian Strategies Studies (ASAM), 22 September 2006, <http://www.asam.org.tr/temp/temp111.doc>, accessed on 11.12.2007, pp. 1-26, p. 24

<sup>166</sup> Tuncay Babali, "Implications of the Baku-Tbilisi-Ceyhan Main Oil Pipeline Project", *Perceptions: Journal of International Affairs*, Vol. 10, No. 4, Winter 2005, pp. 29-59, p. 51 cited in *Dow Jones Newswires*, 4 October 2002

<sup>167</sup> Gökhan Bacik, "Turkey and Pipeline Politics", *Turkish Studies*, Vol. 7, No. 2, June 2006, pp. 293-306, p. 299

surplus to the EU states. In this regard, the US and Turkish officials have viewed the project as “a key link in a future east-west gas transportation corridor.”<sup>168</sup> The US has been in favour of the BTE, due to the similar reasons of its support to the BTC. It mainly views such projects as a guarantee of preventing Russia’s control on pipeline systems.

Under the EU Commission’s INOGATE Program, the idea of constructing the “South European Gas Ring” came onto the agenda on 7 July 2000 in Brussels.<sup>169</sup> Additional to the US support, the EU has attributed significance to the BTE pipeline. The EU made a feasibility study for exports under the INOGATE Program for the sake of this pipeline.<sup>170</sup>

Since Turkey has the right to re-export Azerbaijani gas, Europe receives natural gas with this pipeline. In this regard, the BTE Pipeline is thought to become “Turkey’s second prestigious project” after the BTC Pipeline. “That was the real beginning of Turkey becoming an energy transit country, for up to then Russian gas was not re-exportable,” says the largest partner in the BTE Pipeline, BP.<sup>171</sup> Besides, Turkey’s national company TPAO (Turkish Petroleum Corporation) has a 9 percent share in this project, as well.<sup>172</sup> This provides many advantages to Turkey, especially having a say in the project policy.

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<sup>168</sup> Gareth M. Winrow, “Turkey and the East-West Gas Transportation Corridor”, *Turkish Studies*, Vol. 5, No. 2, Summer 2004, pp. 23-42, p. 31 cited in Bruce Pannier, “Turkmenistan: Niyazov on Rare Two-day Visit to Moscow,” Boston: *Radio Free Europe/Radio Liberty*, *Energy Politics in the Caspian and Russia*, 10 April 2003

<sup>169</sup> Meliha Benli Altunışık, in “Avrupa Birliği’nde Petrol ve Doğal Gaz Piyasalarına Yönelik Politikalar ve Türkiye Uygulamaları”, Yavuz Ege, Gamze Öz, Tuğrul Arat, Sanem Baykal, Aylin Ege, Meliha Benli Altunışık and Hakan Ercan, *AB’nin Enerji Politikası ve Türkiye*, Ankara: Europa Bridges of Knowledge Programme, Ulusal Politika Araştırmaları Vakfı, May 2004, pp. 143-167, p. 163; F. Yeşim Akcollu, “Major Challenges to the Liberalization of the Turkish Natural Gas Market”, *Oxford Institute for Energy Studies*, NG16, No. 286084, November 2006, pp. 1-52, p. 6-7

<sup>170</sup> Harun Kemal Ozturk and Arif Hepbasli, “Natural Gas Implementation in Turkey. Part 2: Natural Gas Pipeline Projects”, *Energy Sources*, Vol. 26, No. 3, February 2004, pp. 287-297, p. 293 cited in Energy International Administration, “Caspian Sea Region”, 2000, <http://www.eia.doe.gov/emeu/cabs/caspfull.html>

<sup>171</sup> Michael Kuser, “Turkey Boosts Its Role as Strategic Energy Hub”, *Business Week Online*, 19 July 2006, p. 3

<sup>172</sup> Necdet Pamir, “Kafkaslar ve Hazar Havzasındaki Ülkelerin Enerji Kaynaklarının Türkiye’nin Enerji Güvenliğine Etkileri”, Ankara: Türkiye’nin Çevresindeki Gelişmeler ve Türkiye’nin Güvenlik Politikalarına Etkileri Sempozyumu, 10 March 2006, <http://www.asam.org.tr/temp/temp15.pdf>, accessed on 03.11.2007, pp. 1-74, p. 64

Contrary to the BTE, the Trans-Caspian Natural Gas Pipeline Project (TCP) from Turkmenistan could not be realized yet. However, the Turkmen pipeline was determined to follow the same route as the BTC as another leg of the East-West Energy Corridor. At the beginning, the US also backed the TCP. However, its policy priorities shifted from Turkmen gas to Azeri gas in order to keep the Eurasian Energy Corridor project alive. Although, the rapid change in the US policy seemed doubtful,<sup>173</sup> the US has criticized Turkey because of its Blue Stream priority as a natural gas pipeline. Therefore, after seeing that there is no effort for the TCP Pipeline, the US strongly started to back Azerbaijani pipeline.<sup>174</sup>

Turkey and Turkmenistan signed an agreement on 21 May 1999 to construct the TCP.<sup>175</sup> Further, Turkish officials have stated the importance of the Turkmen gas for their energy flow. However, this pipeline has had to compete against many problems, despite the previously mentioned significance of a gas pipeline from Turkmenistan. Most importantly, when the plan of a gas pipeline from Turkmenistan to Turkey was under discussion, Russia proposed the construction of the Blue Stream to Turkey as a rival project. Over-demand projections and the Blue Stream's dramatical progress have put Turkmen option's realization off the agenda. Moreover, Russia was opposed to any project under the Caspian Sea without solving the status problem of the Sea. Also, it alerted ecological reasons to avoid other projects.<sup>176</sup> Hence, Russian opposition to the TCP project has become obvious after its pipeline proposal to Turkey. However, that project has been expected to provide Turkmenistan a great chance to become independent from Russia in exporting its natural gas.

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<sup>173</sup> Bülent Aliriza, "US Caspian Pipeline Policy: Substance or Spin?", *Caspian Energy Update*, Centre for Strategic and International Studies (CSIS), 24 August 2000, [www.csis.org/turkeyCEU000117.html](http://www.csis.org/turkeyCEU000117.html), accessed on 23.12.2006

<sup>174</sup> Gareth M. Winrow, "Turkey and the East-West Gas Transportation Corridor", *Turkish Studies*, Vol. 5, No. 2, Summer 2004, pp. 23-42, p. 26

<sup>175</sup> Harun Kemal Ozturk and Arif Hepbasli, "Natural Gas Implementation in Turkey. Part 2: Natural Gas Pipeline Projects", *Energy Sources*, Vol. 26, No. 3, February 2004, pp. 287-297, p. 295 cited in A. Inkaya, "The Future of the Natural Gas" (in Turkish), *Turkish Natural Gas Journal*, Vol. 74, 2001, pp. 18-28

<sup>176</sup> Sinan Ogan, "Mavi Akım: Türk-Rus İlişkilerinde Mavi Bağımlılık", 2 January 2006, <http://www.turksam.org/tr/yazilar.asp?kat=29&yazi=627>, accessed on 28.12.2006, cited in "Status Kaspiya (Pazisiya Zainteresovannıx Gosudarstv)", No. 3, 2000, [www.caspenenergy.com/framer.html](http://www.caspenenergy.com/framer.html)

On the other hand, the discovery of the Shah-Deniz field and Turkey's agreement with Azerbaijan increased objections on realization of the TCP. Moreover, despite agreeing on equal terms with Turkmenistan before the Shah-Deniz field discovery, Azerbaijan proposed to keep 75 percent of the pipeline capacity for its natural gas.<sup>177</sup>

Instead of the Turkmen pipeline, Turkey became interested in the Iran-Turkey Natural Gas Pipeline. Accordingly, it signed a gas agreement with Iran in 1996, making Iran Turkey's second-largest natural gas supplier after Russia. Turkey believes in the necessity of this route as an alternative to Russian pipelines, although the Iranian pipeline has been one of the most controversial projects.

Iran has huge natural gas reserves, and probably it has the world's second largest reserves. However, it prefers to direct its natural gas for domestic needs. Further, Iran re-injects its gas to its oil fields to regulate the reduced pressure at certain levels. Therefore, the gas pumped through the Iranian pipeline originates from Turkmenistan. As Turkey supplies the Turkmen gas indirectly via Iran, it tries to expand that natural gas to Europe as an alternative to Russian gas. In that regard, Turkey reached on an agreement with Turkmenistan and Iran.<sup>178</sup> However, this option gives strategic leverage to Iran since Turkmen gas does not come directly to Turkey.

Moreover, the Iran-Turkey Pipeline has been involved in many delays due to economic, technical but especially political reasons. For instance, although Iran finished its part of the route, BOTAŞ could not finish the construction of its part in time. Eventually, the pipeline became active on 10 December 2001.<sup>179</sup> However, Turkey delayed imports in June 2002 blaming "Iranian gas quality".<sup>180</sup> Besides, the risk of Iran using its natural gas as a political weapon through supply disruptions

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<sup>177</sup> Mert Bilgin, "New Prospects in the Political Economy of Inner-Caspian Hydrocarbons and Western Energy Corridor through Turkey", *Energy Policy*, Vol. 35, September 2007, pp. 6383-6394, p. 6384 cited in M. S. Crandall, *Energy, Economics, and Politics in the Caspian Region: Dreams and Realities*, Westport CT: Praeger Security International, 2006

<sup>178</sup> Brent Sasley, "Turkey's Energy Politics in the Post-Cold War Era", *MERIA Journal (Middle East Review of International Affairs)*, Vol. 2, No. 4, November 1998, <http://meria.idc.ac.il/journal/1998/issue4/jv2n4a4.html>, accessed on 10.10.2006

<sup>179</sup> Gökhan Bacik, "Turkey and Pipeline Politics", *Turkish Studies*, Vol. 7, No. 2, June 2006, pp. 293-306, p. 301

<sup>180</sup> "Turkey", July 2005, [http://www.wn.com/s/turkeyenergy\\_old1/](http://www.wn.com/s/turkeyenergy_old1/), accessed on 15.11.2006

always exists. Iran reduced natural gas flows due to “technical problems or difficulties” and “cold weather” for several times. Therefore, many analysts were not surprised by Iran’s recent natural gas cut in January 2008 due to so-called Turkmenistan’s flow disruption to Iran. It was seen as another example of the Russian way of energy diplomacy. Therefore, both Turkey and the EU states could also be faced with threats by Iran, while trying to hinder any political or economic threats posed by Russia. In addition to such problems, there exists “the US opposition” fact. The US brought criticism over this pipeline for political reasons.

As a result, Turkey has only managed to build the BTE Pipeline as a route of the East-West Corridor. Further, it has agreed with Iran to transport Turkmen gas through Iranian territories. This deal clearly gives damage to the construction of the long delayed TCP. Controversially, the Iranian pipeline contributes to the insecurity of Turkey’s energy.

### **3.5. Natural Gas Pipelines between Turkey and the EU**

With the BTE and Iran pipelines, Turkey looks for the possibility of natural gas transport to Europe. In this connection, the Turkey-Greece-Italy Natural Gas Pipeline Project (TGI) is one of the major gas pipelines from Turkey to the EU countries, while by-passing Russia. The first leg of the “South European Gas Ring Project” is the Turkey-Greece Natural Gas Pipeline Project which is also known as the Turkey-Greece Interconnector Pipeline. This pipeline is planned to be linked to Italy under the Adriatic Sea by 2009, which consists of the second leg of the project. Possibly, natural gas also could be delivered beyond Italy to other EU members.

Turkey signed an intergovernmental agreement in early 2003 with Greece. They both do not want this pipeline for their domestic consumption, but to transport natural gas to the other EU countries. In other words, as well as Turkey, Greece has ambitions to become an energy transit country for the EU. Therefore, Greece is attracted by natural gas transport with Turkey.<sup>181</sup> According to John Roberts, its

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<sup>181</sup> Jon Gorrivett, “Turkey’s Blue Stream Open For Business”, *Middle East*, Issue 325, July-August 2002, pp. 28-29, p. 28



intensive attraction relies on the EU's view of Iran as a long-term natural gas supplier.<sup>182</sup>

As the South European Gas Ring Project originated by the European Commission, the both phases have long been supported and also co-financed by the EU within the framework of its TENs Projects. For instance, the EU Commission provided €4.33 million for half of the feasibility study costs related to this project.<sup>183</sup>

The TGI Pipeline has been an important step for Turkey to achieve its energy policy goal as an energy corridor in the natural gas sector. Moreover, realization of the Turkey-Greece Natural Gas Pipeline represents a turning point for Turkey and the EU in supplying gas. Because the TGI project was originally initiated by the EU.

However, there are obstacles over the project. First of all, this project naturally has to compete with the Russian opposition, since it aims to build an alternative route to Europe. Secondly, Russia has a significant share on the Turkish and EU energy markets to influence them. Moreover, even this project's realization will be a "strange" state. This is because of the arrival of Russian gas to Turkey via Bulgaria and natural gas deprivation towards Europe via Greece.<sup>184</sup>

The other natural gas pipeline from Turkey to Europe is the "Nabucco Pipeline Project". The Nabucco Pipeline aims to carry natural gas from multiple sources, including Azerbaijan, Turkmenistan, Kazakhstan, Iran, Iraq, and possibly Egypt through Turkey to EU states. This natural gas pipeline will run about 3300 km from Turkey to Austria via the Balkans.<sup>185</sup>

In mid-2004, five companies formed the "Nabucco Gas Pipeline International" Consortium that includes BOTAŞ (Turkey), Bulgargaz (Bulgaria),

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<sup>182</sup> John Roberts, "The Turkish Gate: Energy Transit and Security Issues", *Turkish Policy Quarterly*, Vol. 3, No. 4, Winter 2004, pp. 17-44, p. 24

<sup>183</sup> Gareth M. Winrow, "Turkey and the East-West Gas Transportation Corridor", *Turkish Studies*, Vol. 5, No. 2, Summer 2004, pp. 23-42, p. 36 cited in "Loyola de Palacio Welcomes the Agreement on the Interconnection of Greek and Turkish Gas Networks", *European Commission Press Release*, DN:IP/03/278, Brussels, 24 February 2003

<sup>184</sup> Bulent Aliriza and Seda Ciftci, "Turkey's Caspian Energy Quandary", Washington DC: *Center for Strategic and International Studies*, 13 August 2002, [http://www.csis.org/index.php?option=com\\_csis\\_pubs&task=view&id=1959](http://www.csis.org/index.php?option=com_csis_pubs&task=view&id=1959), accessed on 25.12.2006

<sup>185</sup> Sally Morgan, *The Pros and Cons of Coal, Gas, and Oil*, New York: Wayland/The Rosen Publishing Group Inc., 2008, p. 42; F. Yeşim Akcollu, "Major Challenges to the Liberalization of the Turkish Natural Gas Market", *Oxford Institute for Energy Studies*, NG16, No. 286084, November 2006, pp. 1-52, p. 23

Transgaz (Romania), MOL (Hungary) and OMV (Austria).<sup>186</sup> The project's feasibility study was completed by the end of 2005. In June 2006, Nabucco is scheduled to be built as soon as possible, and to be implemented by 2010-2011.<sup>187</sup> The Nabucco Project offers a capacity of 25 to 30 bcm/a crossing Turkey, with natural gas deliveries to the transit countries around 8 to 10 bcm/a and to Europe's main natural gas hub at Baumgarten in Austria around 17 to 22 bcm/a at a currently estimated cost around €4.4 billion.<sup>188</sup> However, for the sake of the cost reduction, existing transit infrastructures in concerned states will initially be used.

The Nabucco Pipeline significantly promotes diversification of routes for the EU states since it has been an alternative to the Russian pipelines. In this respect, both the EU and the US have been in favor of the construction of the pipeline. Besides, its political support for Nabucco, the EU has financially supported it within the EU-TENs framework. For instance, the European Commission has released €1.5-2 million to finance a feasibility study for the pipeline.<sup>189</sup>

However, there are also doubts about the Nabucco. The first one is about the amount of natural gas. Supplying a capacity of 25 to 30 bcm/a does not seem an easy task in the short term for many reasons. First of all, one of the main natural gas suppliers of the project, Azerbaijan does not have sufficient quantity of natural gas reserves to supply the production capacity by its own. Whatever the reason, Russia has managed to control Turkmen gas.<sup>190</sup> Secondly, the TCP has been of more importance to Turkmenistan. Therefore, Turkmenistan stated that it will not

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<sup>186</sup> Mert Bilgin, "New Prospects in the Political Economy of Inner-Caspian Hydrocarbons and Western Energy Corridor through Turkey", *Energy Policy*, Vol. 35, September 2007, pp. 6383-6394, p. 6391 cited in M. Woltran, "Investing in SEE – OMV's Approach for the Region", Presentation: GIE Annual Conference, Athens, 3-4 November 2005, <http://www.gte2.be/conference/2005/materials/14percent20Michaelpercent20Woltranpercent20Athenspercent202005.11.03.ppt>, p. 7

<sup>187</sup> Vince L. Morelli, "The European Union's Energy Security Challenges", *CRS Report for Congress*, Code: RL33636, 11 September 2006, pp. 1-31, p. 16

<sup>188</sup> John Roberts, "The Black Sea and European Energy Security", *Southeast European and Black Sea Studies*, Vol. 6, No. 2, June 2006, pp. 207-223, p. 217 cited in Johan Gallistl, comments made at an Istanbul seminar in May 2004

<sup>189</sup> Gareth M. Winrow, "Turkey and the East-West Gas Transportation Corridor", *Turkish Studies*, Vol. 5, No. 2, Summer 2004, pp. 23-42, p. 36 cited in "EU Finances Caspian Gas Pipeline to Central, Western Europe via Bulgaria," *Turkish Radio Hour News*, 26 July 2003

<sup>190</sup> Kamer Kasım, "Türkiye'nin Kafkasya-Enerji Politikaları ve İç Ortamın Etkisi", <http://www.harbis.org.tr/dergi/wordler/haz07/dosya2.doc>, accessed on 10.05.2008

participate in the project, if construction of the TCP is not put on the agenda. Because of Turkmenistan's stance, the TCP is required to export Turkmen gas. Further, due to the political situation in Iraq, it is not expected to be a possible exporter in the short term.<sup>191</sup>

There are also unclear points about the Iranian supply. The initial issue about Iranian gas is the US opposition. In spite of the US support to the Nabucco, it has been strongly against Iranian involvement in the pipeline. It is stated by several US officials. "We support Nabucco as a way to help Europe diversify with Caspian gas-but not Iranian gas." stated Matthew Bryza, Deputy US Assistant Secretary of State.<sup>192</sup> The US attitude towards Iran has complicated the project. In contrast to the negative US approach, the EU has given support for Iranian gas to be carried to Europe via Turkey.<sup>193</sup> However, Iran has demonstrated that it can also use energy resources as political instruments. So far, Iran has other options for its natural gas such as China and India and those markets might be more economical for Iran.

The second problem is about customers. There is a doubt about finding customers to make them buy natural gas from the Nabucco Pipeline, as the pipeline targets to carry natural gas to Russian dependent European gas markets. The third one is about natural gas prices. Natural gas prices are expected to increase while natural gas is transported through this long-distance pipeline.<sup>194</sup>

The final problem is related to Russia factor. Firstly, because of the problems caused by the insufficiency of the natural gas, the Nabucco may unavoidably be forced to transport some Russian gas, at least its early volumes, by an expansion on

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<sup>191</sup> F. Yeşim Akcollu, "Major Challenges to the Liberalization of the Turkish Natural Gas Market", *Oxford Institute for Energy Studies*, NG16, No. 286084, November 2006, pp. 1-52, p. 24 cited in "Turkey's Gas Market Revolution Makes Halting Progress", *Gas Matters*, 28 June 2005, p. 15

<sup>192</sup> Nicklas Norling, "The Nabucco Pipeline: Reemerging Momentum in Europe's Front Yard", in Svante E. Cornell and Niklas Nilsson (eds.), *Europe's Energy Security Gazprom's Dominance and Caspian Supply Alternatives*, Singapore: Central Asia-Caucasus Institute Silk Road Studies Program-A Joint Transatlantic Research and Policy Center, 2008, <http://www.isdp.eu/files/publications/scornell/sc08europesenergy.pdf>, accessed on 08.05.2008, pp. 127-140, p. 137 cited in Judy Dempsey, "Guessing Game Focuses on European Energy", *IHT*, 21 September 2007

<sup>193</sup> Gareth M. Winrow, "Turkey and the East-West Gas Transportation Corridor", *Turkish Studies*, Vol. 5, No. 2, Summer 2004, pp. 23-42, p. 36

<sup>194</sup> Agata Loskot, "Turkey an Eneergy Transit Corridor to the EU?", Warsaw: *Centre for Esatern Studies*, No. 17, January 2005, pp.19-31, p. 25

the Blue Stream Pipeline.<sup>195</sup> It is clear that such an expansion of the project will not help the EU in its supply diversification. “If you have a Nabucco that is largely dependent on Russian gas, that defeats the purpose.” said Gareth Winrow, an energy politics expert at Bilgi University in Istanbul.<sup>196</sup> Yet this is not the darkest side of the project’s future. Furthermore, it has become more complex with Russia’s alternative route proposals. For instance, on 23 June 2007, Gazprom announced its intention to construct the 30 bcm/a “South Stream Pipeline” with the Italian company ENI (Ente Nazionale Idrocarburi) to carry its natural gas across the Black Sea directly to Bulgaria and from there to several European states, as a rival project to Nabucco. Although a line in the existing Blue Stream Pipeline is a cheaper option, Russia prefers a new route with the South Stream Pipeline. So there is the risk for Nabucco to become unprofitable.<sup>197</sup> That announcement also has been a clear sign of Russia’s opposition to the Nabucco Project. Russia’s attempt is to establish full control over the EU markets, before any alternative natural gas resources can reach Europe.

Due to the current problems and delays in the project, many energy experts have stated that the Nabucco Project is unlikely to be realized in the short term. For instance, Hungarian Prime Minister Gyurcsany showed no hesitation to clearly express his country’s stance towards Nabucco. “The Nabucco has been a long dream and an old plan. But we don’t need dreams. We need projects.”<sup>198</sup>

From the Turkish side, Turkey’s desire to become a member of the EU is expected to improve Turkey’s involvement in the EU’s energy issues. In this regard, one of Turkey’s eminent energy experts, Necdet Pamir says that Nabucco may grant

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<sup>195</sup> Michael D. Cohen, “Russia and the European Union: An Outlook for Collaboration and Competition in European Natural Gas Markets”, *Demokratizatsiya*, Vol. 15, No. 4, Fall 2007, pp. 379-389, p. 383

<sup>196</sup> Celestine Bohlen, “Turkey Uses Gas Pipe as Leverage in EU Talks”, Paris: Bloomberg News, 22 April 2008, <http://www.iht.com/articles/2008/04/22/europe/letter.php>, accessed on 08.05.2008

<sup>197</sup> Igor Tornberg, “Russian Gas Finds a New Way to Europe”, RIA Novosti, 12 July 2007, [http://www.spacedaily.com/reports/Russian\\_Gas\\_Finds\\_A\\_New\\_Way\\_To\\_Europe\\_999.html](http://www.spacedaily.com/reports/Russian_Gas_Finds_A_New_Way_To_Europe_999.html), accessed on 20.02.2008

<sup>198</sup> Nicklas Norling, “The Nabucco Pipeline: Reemerging Momentum in Europe’s Front Yard”, in Svante E. Cornell and Niklas Nilsson (eds.), *Europe’s Energy Security Gazprom’s Dominance and Caspian Supply Alternatives*, Singapore: Central Asia-Caucasus Institute Silk Road Studies Program-A Joint Transatlantic Research and Policy Center, 2008, <http://www.isdp.eu/files/publications/scornell/sc08europesenergy.pdf>, accessed on 08.05.2008, pp. 127-140, p. 139 cited in “Hungary PM Says Nabucco Pipeline Too Slow- Report”, *Reuters*, 22 March 2007

Turkey the opportunity to become a full EU member since the pipeline gives a considerable significance as a transit country after the 2006 Ukraine-Russia gas crisis. Because, Russia has proved that it could use natural gas as a political weapon.<sup>199</sup> Therefore, the existing pipelines and Nabucco are expected to increase the importance of Turkey to the EU. However, some European officials insist that it is Turkey's tactic to force the EU to adopt Turkey without negotiating several crucial membership conditions. For instance, assistant to the EU's Nabucco negotiator Jozias van Aartsen, Brendan Devlin said that "Nabucco is a demonstration project of Turkey's intent to join the European Union...By delivering on this project, Turkey would clearly underline its importance to the EU."<sup>200</sup>

By construction of the BTC and BTE, Azerbaijan has acquired the right to refuse low prices offered by Russian energy companies. If they were not constructed, Azerbaijan would not have any option other than to export its oil and natural gas at Russian determined prices. However, Azerbaijan decided not to import its resources through Russia, instead of obeying Russian rules. On the other hand, Turkmenistan and Kazakhstan almost completely depend on pipelines under Russian control. "Turkey's inability to use gas-rich Turkmenistan and oil-rich Kazakhstan between Russia and Iran shows the failure of Turkey's national energy policy."<sup>201</sup>

Consequently, the Caspian states become politically vulnerable to any use of "energy card" by Russia. They also have to export their resources to Russia at much lower prices than international market prices. For example, in 2006, Russia bought natural gas differing from \$45 to \$65 per tcm from the Caspian region and then sold it at \$230 per tcm to European markets. Therefore, the sole Russian option makes them vulnerable in economical terms.<sup>202</sup>

In conclusion, these results not only effect Turkey's energy security, but also its corridor strategy. Because being a corridor requires significant amount of energy

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<sup>199</sup> Necdet Pamir, "Avrupa Birliği'nin Enerji Sorunsalı ve Türkiye", *Stratejik Analiz*, Vol. 6, No. 67, November 2005, pp. 74-81, p. 81

<sup>200</sup> Celestine Bohlen, "Turkey Uses Gas Pipe as Leverage in EU Talks", Paris: Bloomberg News, 22 April 2008, <http://www.iht.com/articles/2008/04/22/europe/letter.php>, accessed on 08.05.2008

<sup>201</sup> Faruk Demir, "Dangerous Curves on Turkey's Energy Policy: Jammed Between Russia and Iran", *Journal of Turkish Weekly*, August 2005, <http://www.turkishweekly.net/comments.php?id=1687>, accessed on 30.10.2006

<sup>202</sup> Zeyno Baran, "EU Energy Security: Time to End Russian Leverage", *The Washington Quarterly*, Vol. 4, No. 30, Autumn 2007, pp. 131-144, pp. 136, 137

resources to be transported to the EU states. However, because of the problems, the EU states become less attracted by pipelines under Turkey's proposals. With delays to construct pipelines passing through non-Russian territories, Russia has the great opportunity to maintain its influence both on the Caspian region states and the European states, as well as Turkey. Although Turkmenistan and Azerbaijan are considered as possible natural gas sources for Turkey, huge amounts of Turkey's gas remains to be dominated by Russian gas.

## CHAPTER 4

### TURKEY'S ENERGY COOPERATION WITH RUSSIA AND ITS ENERGY SECURITY

The Turkish-Russian relations are aimed to be analyzed in the context of the question of energy security. Firstly, Russian oil and natural gas and its energy policy will be mentioned in order to understand the attitudes of Russia. Similarly, Turkey's advantages and inabilities are argued to be related to Russia's energy policy to a large extent.

It is clear that a significant role has been attributed to Russian energy resources, both in terms of economics and politics, especially in Russian foreign policy, after the collapse of the Soviet Union. In particular, natural gas gains the place it deserves in the global energy demand and supply politics. Moreover, Russia has most of the world's natural gas reserves. Accordingly, it produces most of the natural gas to the world's increasing demand, including to Turkey. In this regard, the Blue Stream Gas Pipeline will be included in the energy relations between Turkey and Russia.

Some state that their energy relations are growing with that pipeline. In contrast to such views, I argue that even a jointly built pipeline by Turkey and Russia is far from avoiding their energy competition. In this perspective, even the Blue Stream Pipeline creates differences between these two countries to transport energy resources to Europe.

#### 4.1. Role of Russia in Global Energy Politics

As most of the world's proven energy reserves are located in Russia and in the Middle East, Russia is one of the most energy-rich countries. Russia is the seventh biggest country in proven world oil reserves.<sup>203</sup> In terms of the proven

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<sup>203</sup> Fiona Hill and Florence Fee, "Fueling the Future: The Prospects for Russian Oil and Gas", *Demokratizatsiya*, Vol. 10, No. 4, Fall 2002, pp. 462-487, p. 468 cited in Statistics from "BP Statistical Review of World Energy", 2001. Russia follows Saudi Arabia (25 percent), Iraq (11

reserves, Russia has 4.7 percent of the world's oil reserves. Further, it has the biggest natural gas reserves with 32.9 percent in the world. In terms of production, Russia's natural gas share is 23.7 percent, while oil share is 8.8 percent of the world.<sup>204</sup> In this regard, Russia is the biggest natural gas producer, besides, the world's second-largest oil producer.<sup>205</sup> What is more, when oil and natural gas are taken together, it is seen that Russia is the largest energy exporter, with 32 percent of proven total world reserves.<sup>206</sup>

Crucial for all kind of developments, energy has provided a more stable Russian economy. The energy complex is seen as “the backbone of the Russian economy.”<sup>207</sup> The government's energy incomes, in general, can serve for several aims: recovery and economic modernisation of the Russian economy, stabilizing budget revenues and mounting Russia's gross domestic product (GDP), lowering taxes, the economy's ability to guarantee large foreign investments, reducing poverty, as well as providing greater political stability.<sup>208</sup> Relying on energy exports, the then Russian President Vladimir Putin had promised to double GDP by 2010.<sup>209</sup> Thanks to high oil prices, in late 2001, the Russian economy had balanced its budget, paid wages and pensions, and met its international debts.<sup>210</sup> According to “On

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percent), Kuwait (9 percent), the United Arab Emirates (9 percent), Iran (9 percent), and Venezuela (7 percent). These six states are members of the OPEC.

<sup>204</sup> Nazim Cafersoy, “Enerji Diplomasisi: Rus Dış Politikasında Stratejik Araç Değişimi”, 2 January 2006, <http://www.turksam.org/tr/yazilar.asp?kat=27&yazi=709>, accessed on 28.12.2006 cited in “Russian Federation Energy and Environment Review”, The World Bank Sector Report, June 2000, [www.worldbank.org/ru/eng/statistics/research.htm](http://www.worldbank.org/ru/eng/statistics/research.htm)

<sup>205</sup> Vince L. Morelli, “The European Union's Energy Security Challenges”, *CRS Report for Congress*, Code: RL33636, 11 September 2006, pp. 1-31, p. 10 cited in Jim Nichol, Steve Woehrel and Bernard Gelb, CRS Report RS22378

<sup>206</sup> Fiona Hill and Florence Fee, “Fueling the Future: The Prospects for Russian Oil and Gas”, *Demokratizatsiya*, Vol. 10, No. 4, Fall 2002, pp. 462-487, pp. 1-3

<sup>207</sup> E. Krivoshchekova and E. Okuneva, “Regulating Russia's Oil Complex”, Translated by James E. Walker, *Problems of Economic Transition*, Vol. 48, No. 10, February 2006, pp. 6-25, p. 6

<sup>208</sup> “Russia and the West: The End of the Honeymoon”, *Strategic Survey*, Vol. 104, No. 1, 15 May 2004, pp. 116-129, p. 121

<sup>209</sup> Sergey Blagov, “Russia's Pipeline Gambit”, *Asia Times*, 16 June 2004, <http://www.energybulletin.net/651.html>, accessed on 11.14.2006

<sup>210</sup> Fiona Hill and Florence Fee, “Fueling the Future: The Prospects for Russian Oil and Gas”, *Demokratizatsiya*, Vol. 10, No. 4, Fall 2002, pp. 462-487, p. 465



Amendments and Addenda to the Budget Code of the Russian Federation Regarding Creation of a Stabilization Fund of the Russian Federation” of 2003, all additional government revenues from oil exports goes into the Stabilization Fund starting in 2004. 695.6 billion rubles (\$23 billion), amounting to 25 percent of the Russian budget was achieved by the fund in that year.<sup>211</sup> Energy exports generally have been important for the Russian economy, accounting for about 30 percent of industrial output, 32 percent of consolidated budget revenues, 54 percent of budget revenues, 54 percent of exports,<sup>212</sup> more than 20 percent of GDP, 25 percent of tax base, and about 50 or 60 percent of total hard currency revenues.<sup>213</sup> Hence, the fate of the Russian economy is related to Russia’s vast oil and natural gas resources.<sup>214</sup>

At the same time, energy resources have become the source of making Russia an important actor in the world politics. Thus, Russia’s efforts to actively determine the pipeline routes understandably represent one of the important elements in Russia’s energy policy.

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<sup>211</sup> E. Krivoshchekova and E. Okuneva, “Regulating Russia’s Oil Complex”, Translated by James E. Walker, *Problems of Economic Transition*, Vol. 48, No. 10, February 2006, pp. 6-25, p. 23 cited in the Russian Federation Ministry of Finance

<sup>212</sup> *Ibid.*, p. 6

<sup>213</sup> Amy Myers Jaffe and Robert A. Manning, “Russia, Energy and the West”, *Survival*, The International Institute for Strategic Studies, Vol. 43, No. 2, Summer 2001, pp. 133-152, p. 134 cited in Peter Rutland, “Lost Opportunities Energy and Politics in Russia”, *The National Bureau of Asian Research*, Vol. 8, No. 5, 1997 presentation by Matt Sagers to a conference on world oil supplies at Florida International University, 16 November 2000

<sup>214</sup> Some commentators discuss the risks of over-reliance on revenue from energy resources, in some cases from a single commodity. Therefore, they have called the serious negative effects of the revenue-reliance “paradox of plenty”, “Dutch disease” (Name was given given after the discovery of natural gas in the 1960s in Holland which led foreign exchange earning from natural resources and raised the value of country’s currency.), “economic indention”, and in words of Juan Pablo Perez Alfonzo, Venezuela’s founder of the OPEC, “devil’s excrement”. See: Svetlana Tsalik, *Caspian Oil Windfalls: Who Will Benefit?*, Caspian Revenue Watch, Open Society Institute, Central Eurasia Project, New York: 2003, pp. 1, 5; Philippe Le Billon and Fouad El Khatib, “From Free Oil to ‘Freedom Oil’: Terrorism, War and US Geopolitics in the Persian Gulf”, in Philippe Le Billon (ed.), *The Geopolitics of Resource Wars- Resource Dependence, Governance and Violence*, London: Frank Cass, 2005, pp. 109-137, p. 111 cited in T. L. Karl, *The Paradox of Plenty: Oil Booms, Venezuela, and other Petro-States*, Berkeley: University of California Press, 1997, p. 4; Shirin Akiner, “Ten Years on: Achievements, New Concerns, Future Prospects”, in Shirin Akiner (ed.), *The Caspian-Politics, Energy and Security*, New York: RoutledgeCurzon, 2004, pp. 365-399, p. 371; Lutz Klevevan, *Yeni Büyük Oyun- Orta Asya’da Kan ve Petrol*, Translated by Hür Güldü, İstanbul, Everest, 2004, p. 296 cited in David Hoffmann, “The Politisation of Oil”, in Robert Ebel and Rajan Menon (ed.), *Energy and Conflict in Central Asia and the Caucasus*, Oxford: Rowman and Littlefield, 2000, p. 67

The collapse of the Soviet Union, anyway, was the declaration of Russia's ideological and military failure. This reality and the change of the international structure have forced Russia to find other "instruments" to regain its influence in international politics. Russia has made many policy shifts, one of which is related to its energy perceptions which takes precedence among other policies in the post-Cold War era. As the Russian authorities increasingly understand the importance of energy sector, they "instrumentalise oil and gas". Hence, this strategy provides a comparative advantage in international competition to Russia.<sup>215</sup>

Russia has begun to see energy as a key foreign policy tool, since it has been looking for a more active role in international politics. Therefore, instead of being a military force which was one of the main targets of the Soviet Union, Russia now prefers to use its energy sources as a foreign policy tool. Therefore, some are talking about "economisation of Russian foreign policy". For instance, according to Peter Bonin, "Energy is the last sphere in which Russia indeed remained a Great Power."<sup>216</sup> Thus, it is acknowledged that Russia needs to be active and play the energy card in the international arena. From coming to power in 2000 to the end of his term, Putin perceived energy politics as the "last chance" for Russia to become a "real" world power again. Therefore, he pursued policies in accordance with this perception.<sup>217</sup> So Daniel Yergin stated that "Putin believes that energy security is about retaking control of the 'commanding heights' of the energy industry and extending that control downstream..."<sup>218</sup>

When we take the importance of natural gas into account in the global energy market, and the increase of natural gas demands; Russia's role becomes more

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<sup>215</sup> Sadek Boussena and Catherine Locatelli, "Towards a More Coherent Oil Policy in Russia?", *Organization of the Petroleum Exporting Countries Review*, Vol. 29, No. 2, June 2005, pp. 85-105, p. 97 cited in Y. Komarov, "It's a Long Time Since We Have Been Analysing Implications of Gas Market Liberalisation in Europe", Gazprom, 20 January 2004, p. 5

<sup>216</sup> Peter Bonin, "The Last Reserves of the Imagined Great Power: On the Significance of the Balkans for Russian Political and Economic Actors", Mannheim Center for European Social Research, 23 January 2001, [http://www.newbalkanpolitics.org.mk/OldSite/Issue\\_2/bonin.eng.asp#avtor](http://www.newbalkanpolitics.org.mk/OldSite/Issue_2/bonin.eng.asp#avtor), accessed on 03.01.2007

<sup>217</sup> Taras Wozniak, "What is Putin Trying to Achieve? The Geopolitics of Russia's Gas Counter-Offensive", <http://www.eurozine.com/articles/2006-03-15-wozniak-en.html>, accessed on 08.03.2006

<sup>218</sup> Paul Belkin, "European Union's Energy Security Challenges", *CRS (Congressional Research Service) Report for Congress*, Order Code RL33636, 7 May 2007, pp. 1-28, p. 10 cited in Daniel Yergin, "What Does Energy Security Really Mean?", *Wall Street Journal*, 11 July 2006

obvious. It is mainly because Russia is the largest natural gas producer of the world. Therefore, it is generally argued that its natural gas has a more advantageous position than its oil. This is the reason behind Russia's absolute prevention of foreign companies that want to invest in the Russian gas sector. In the same context, it gives an opportunity at a certain point to oil companies. Also, Russia warns against attempts to block Russia's plans to invest in foreign energy markets or to buy stakes. To illustrate, Gazprom's CEO Alexei Miller said that "attempts to limit Gazprom's activities in the European market...will not produce good results...it is no coincidence that competition for energy resources is growing...and it should not be forgotten that we [Gazprom] are actively seeking new markets such as China..."<sup>219</sup>

Although Russia cannot replace Saudi Arabia or other OPEC members from the global oil markets, it may have the possibility to organize such a cartel in the natural gas sector. There exists a discussion focusing on the Gas Exporting Countries Forum (GECF) and whether its creation can be considered as the realization of "Gas OPEC" or not. The GECF is generally stated as a "loosely defined" grouping organisation in many aspects. It lacks forceful grouping, stable membership, well-defined membership rules, mission or objectives, headquarters, budget and staff; since its creation in 2001.<sup>220</sup> On the other hand, if a chance was given to such a cartel of the world's important suppliers including Russia, Iran, Turkmenistan and Algeria, it would have had the ability to determine gas prices, including in European markets.

Moreover, even debating the possibility of a gas cartel has been an important development concerning whole global energy policies. In this regard, the EU's concerns related to even the "idea" of Russia's ability to become "Gas OPEC" or in other words "Gaspec" is understandable, because of the Russian gas monopoly in the EU and the EU's vulnerability on gas issues. In connection with these concerns, the "Gas OPEC" idea was flamed in the wake of a Russia-Ukraine prices crises,

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<sup>219</sup> *Ibid.*, p. 11 cited in Gazprom CEO Miller in a speech to EU Ambassadors in Brussels as reported by BBC News, 4 April 2006

<sup>220</sup> Jonathan Stern, "The New Security Environment For European Gas: Worsening Geopolitics and Increasing Global Competition for LNG", *Oxford Institute for Energy Studies*, NG 15, No. 286084, October 2006, pp. 1-31, p. 16; Sergey Blagov, "Russian Moves Spark 'Gas OPEC' Fears", Moscow: *International Relations and Security Network Security Watch*, 10 June 2006, [www.isn.ethz.ch/news/sw/details.cfm?id=16364](http://www.isn.ethz.ch/news/sw/details.cfm?id=16364), accessed on 09.12.2006; Daniel Yergin, "Energy Security and Markets", in Jan H. Kalicki and David L. Goldwyn (eds.), *Energy & Security: Toward a New Foreign Policy Strategy*, Washington DC: Woodrow Wilson Center Press, 2005, pp. 51-64, p. 59

although Putin said that “There is no talk of a ‘Gas OPEC’,” after the reactions from consumers, especially the European states.<sup>221</sup>

Russia might not form a gas cartel and would not have directed that cartel in compliance with its foreign policy. However, the Russian government has considerably increased its connections with Russian energy companies. In fact, being important actors in the energy sector, energy companies, particularly enables the implementation of Russian foreign policy. In this manner, Russian energy companies are one of the most efficient tools of Russian state policies. For example, the EU member states which have strong ties with those companies are hardly expected to maintain anti-Russian foreign policies. Hence, being a part of setting up energy policy, the main energy companies, in particular, the gas company Gazprom and the oil company Lukoil, are far from acting independently. Instead they are mostly influenced, more accurately controlled, by the government. For instance, Gazprom’s 38.37 percent stake is owned by the Russian government. It controls 70 percent of Russian gas reserves, more than 94 percent of natural gas production,<sup>222</sup> and 100 percent of Russian gas flow to the EU.<sup>223</sup> Gazprom is the largest earner of hard currency in Russia and as the country’s largest tax payer, accounting for around 25 percent of federal tax revenues.<sup>224</sup>

In many cases, Gazprom has shown too much effort for the sake of Russia, notably during the 1998 crisis. It controls more than one-fifth of the world’s proven natural gas reserves and natural gas output. Its annual revenues are estimated to generate \$20 to \$25 billion which also accounts 7 or 8 percent of Russian GDP, and

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<sup>221</sup> Sergey Blagov, “Russian Moves Spark ‘Gas OPEC’ Fears”, Moscow: *International Relations and Security Network Security Watch*, 10 June 2006, [www.isn.ethz.ch/news/sw/details.cfm?id=16364](http://www.isn.ethz.ch/news/sw/details.cfm?id=16364), accessed on 09.12.2006

<sup>222</sup> Nazim Cafersoy, “Enerji Diplomasisi: Rus Dış Politikasında Stratejik Araç Değişimi”, 2 January 2006, <http://www.turksam.org/tr/yazilar.asp?kat=27&yazi=709>, accessed on 28.12.2006 cited in “Russian Federation Energy and Environment Review”, *The World Bank Sector Report*, June 2000, [www.worldbank.org/ru/eng/statistics/research.htm](http://www.worldbank.org/ru/eng/statistics/research.htm) and [www.gazprom.ru](http://www.gazprom.ru)

<sup>223</sup> Paul Belkin, “European Union’s Energy Security Challenges”, *CRS (Congressional Research Service) Report for Congress*, Order Code RL33636, 7 May 2007, pp. 1-28, p. 10

<sup>224</sup> Fiona Hill and Florence Fee, “Fueling the Future: The Prospects for Russian Oil and Gas”, *Demokratizatsiya*, Vol. 10, No. 4, Fall 2002, pp. 462-487, p. 470 cited in Section on Gazprom in IEA, *Russian Energy Survey 2002*, March 2002, pp. 109-148

its profits to \$6 billion.<sup>225</sup> Thus, natural gas has been the main source of improvements in Russia's economy.

Beside its huge size in the global energy market and benefits to the Russian economy, Gazprom is supported by the state to expand its natural gas supply by both investment and production for the consuming energy markets. It is due to this fact that Russia seeks to influence the international relations by its energy monopolization efforts.

Thus, Gazprom has re-established its control over the gas-rich Central Asian countries. By that effort, Russia prevents natural gas exports through alternative routes to the world markets. For instance, Gazprom has already signed a 25-year agreement with Turkmenistan and buys nearly all Turkmen gas. Furthermore, for the sake of a similar end, Kazakhstan has been strongly pressured to give a significant share in its rich oil and natural gas fields.<sup>226</sup>

Gazprom is active in many countries, like Uzbekistan, Tajikistan, Kyrgyzstan, India, Iran, Libya, Algeria, Venezuela and Vietnam. However, its main export market is Europe and will continue to be Europe in the foreseeable future, as the company seeks to expand its influence. It meets most of the EU's natural gas demand. It dominates the natural gas demand of Ukraine, Moldova, Belarussia, Estonia, Latvia, and Lithuania. It has also a very huge share in Turkey's gas imports. Furthermore, Gazprom continues to separately sign agreements with Germany, Italy, France, the Netherlands and so on, both to be influential across Europe and to easily play them against each other.

In addition to its significant reserves, Russia effectively tries to control the energy export routes. On the one hand, it takes advantage of its monopoly on the existing infrastructure. Accordingly, it is determined to control other energy-producer states. In that regard, it shows great interests in the Caspian region's

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<sup>225</sup> Elnur Soltanov, "A Political Economy of Russian Foreign Policy: The Effects of Natural Resource-Financial Sectors on the Formation of Russian Foreign Policy in the Context of the International Market", An Unpublished Thesis Submitted to the Graduate School of Social Sciences of the Middle East Technical University- In Partial Fulfillment of the Requirements for the Degree of Master of Science in the Department of International Relations, Ankara: January 2004, p. 26 cited in Jan S. Adams, "Russia's Gas Diplomacy," *Problems of Post-Communism*, May/June 2002, p. 14

<sup>226</sup> Mehmet Oğütçü, "Eurasian Energy Prospects and Politics: Need for a Fresh Perspective", *Cahiers d'études sur la Méditerranée Orientale et le Monde Turco-Iranien*, No. 19, 14 May 2006, <http://cemoti.revues.org/document1705.html>, accessed on 05.12.2006, cited in Steve LeVine, "Kazakhs accuse Moscow of Stopping Oil Exports", *Financial Times*, 28 June 1994

resources. Therefore, it tries to prevent any export route from the Caspian region that bypasses Russia or is not under its control. On the other hand, it expands its energy market, especially in the EU, in order to increase Europe's dependence on its supplies and further to apply influence over the EU states. Under these circumstances, Russia no longer needs to justify its power by missiles but by pipelines which exports oil and natural gas. Therefore, many scholars do not hesitate to state that Russia has been invading different borders, especially in Europe, with those pipelines.<sup>227</sup> Despite the lack of any reference to oil and natural gas, in June 2001 published Russia's official foreign policy,<sup>228</sup> it is obvious that the key role attributed to energy resources has affected its relations with Turkey, the EU, former Soviet republics and also the US.

#### **4.2. Energy and Development of Turkish-Russian Cooperation after the Cold War**

This part of the thesis examines how relations between Turkey and Russia have changed in the post-Cold War era. Along with that change, some issues have kept on "untouched" for the sake of their cooperation on several remaining areas. Apart from other things, energy has become a driving factor in increasing "competition" rather than "cooperation".

As they belonged to two opposite systems, the relations between the two regional powers, Russia and NATO member Turkey, had been shaped by Cold-War perceptions. Therefore, they only received threat posed by the other side and their relations were based on competition. But, the collapse of the Soviet Union and the emergence of the Russian Federation give an opportunity of "normalization" of Turkish-Russian relations. Signing "The Action Plan of Cooperation between Turkey and the Russian Federation in Eurasia" in New York on 16 November 2001 has

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<sup>227</sup> Zeyno Baran, "EU Energy Security: Time to End Russian Leverage", *The Washington Quarterly*, Vol. 4, No. 30, Autumn 2007, pp. 131-144, p. 131

<sup>228</sup> Amy Myers Jaffe and Robert A. Manning, "Russia, Energy and the West", *Survival*, The International Institute for Strategic Studies, Vol. 43, No. 2, Summer 2001, pp. 133-152, p. 133 cited in "The Foreign Policy Concept of the Russian Federation", Moscow: 28 June 2000, [www.mid.ru/mid/eng/enconcept](http://www.mid.ru/mid/eng/enconcept)

marked a new era of this relationship.<sup>229</sup> Furthermore, the visit of Turkish Prime Minister Recep Tayyip Erdoğan to Moscow in December 2004 was followed by the visit of Russian President Vladimir Putin to Ankara in January 2005.

Due to the significant turning points in Turkish-Russian relations, Bulent Aras describes their bilateral relations as “rapprochement”.<sup>230</sup> Likewise, but more optimistically, one of Turkey’s leading Russia scholars, Duygu Sezer Bazoglu, describes their relations as “virtual rapprochement”.<sup>231</sup>

Virtual rapprochement refers to a state of bilateral relations in which public manifestations of state-level adversity and hostility have nearly completely disappeared; the importance of cooperation in a range of fields for furthering respective national interests is mutually perceived and publicly articulated; governments desist from using inflammatory rhetoric so as not to arouse public hostility; and officials keep the lines of communication open in order to safeguard relations against the impact of sudden crisis. On the other hand, hard kernel of mutual fear, mistrust, and suspicion remains in the minds of the decision makers and political elites.<sup>232</sup>

Shireen Hunter has indicated that Turkish-Russian relations need not be competitive, but be complementary.<sup>233</sup> Semih Idiz, a journalist from Milliyet, has argued that Turkish-Russian relations have grown to affect the entire region,

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<sup>229</sup> Selma Stern, “Turkey’s Energy Industry and Her International Relations”, [http://www.dundee.ac.uk/cepmlp/car/html/car7\\_article20.pdf](http://www.dundee.ac.uk/cepmlp/car/html/car7_article20.pdf), accessed on 09.12.2006, pp. 1-17, p. 7 cited in Turkish Ministry of Foreign Affairs (MFA), “Turkish Foreign Policy”, 15 January 2003, <http://www.mfa.gov.tr>, accessed on 04.04.2003

<sup>230</sup> Bulent Aras, “Turkish-Russian Relations: Implications for Eurasia’s Geopolitics,” *Power and Interest News Report (PINR)*, [http://www.pinr.com/report.php?ac=view\\_printable&report\\_id=265&language\\_id=1](http://www.pinr.com/report.php?ac=view_printable&report_id=265&language_id=1), accessed on 16.12.2006

<sup>231</sup> Duygu Bazoglu Sezer, “Turkish-Russian Relations: The Challenges of Reconciling Geopolitical Competition with Economic Partnership”, London: *Turkish Studies*, Vol. 1, No. 1, Spring 2000, pp. 59-82, p. 62 cited in Duygu Bazoğlu Sezer, “Turkish-Russian Relations in the 1990s: From Adversity to Virtual Rapprochement”, in Alan Makovsky and Sabri Sayan (eds.), *Changing Dynamics of Turkish Foreign Policy*, Washington DC: Washington Institute for Near East Policy Press, Spring 2000

<sup>232</sup> *Ibid.*, p. 62

<sup>233</sup> James W. Warhola and William A. Mitchell, “The Warming of Turkish-Russian Relations: Motives and Implications”, *Demokratizatsiya*, Vol. 14, No. 1, Winter 2006, pp. 127-143, p. 128 cited in Shireen T. Hunter, *Islam in Russia: The Politics of Identity and Security*, New York: M. E. Sharpe, 2004, p. 370

although the relationship may not be called “strategic partnership”.<sup>234</sup> Additional to these, once General Tuncer Kılınç, Secretary General of the Turkish National Security Council, talked about determining Russia as a new ally, because of the frustration at the EU policies at the “How to Establish a Peace Belt around Turkey” Conference held by the Military Academies Command.<sup>235</sup>

Some argue that it is the diminishing threat of Russia after the Cold War that made Turkish-Russian cooperation possible. However, this can only be the first step (a prerequisite) to develop a bilateral relationship, but not sufficient cooperation between the two states.<sup>236</sup> Therefore, more than a diminishing threat is required to analyze the intensified cooperation between Russia and Turkey. So, when it comes to determine the current relations between the two countries; domestic political considerations, regional security concerns, growing mutual economic and financial interests are seen as crucial factors.<sup>237</sup>

The increasing military cooperation has been important in the improvement of relations. Meanwhile, Russia participated in the modernisation of Turkey’s military, and purchase of military equipment is also a factor. What is important to note is the purchase of helicopters that had been embargoed by some NATO countries.<sup>238</sup> For instance, Turkey, Russia, Romania, Bulgaria, and Georgia formed the Black Sea Force in April 2001.<sup>239</sup> Moreover, as Igor Torbakov noted, Turkey and Russia seek to maintain the “geopolitical status quo” in Central Asia not to face with

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<sup>234</sup> Igor Torbakov, “Russia and Turkey Forge New Ties on Security, Trade”, 8 August 2005, <http://www.eurasianet.org/departments/insight/articles/eav080805.shtml>, accessed on 25.12.2006

<sup>235</sup> Şener Aktürk, “Turkish-Russian Relations after the Cold War (1992-2002)”, *Turkish Studies*, Vol. 7, No. 3, September 2006, pp. 337-364, p. 337 cited in all major Turkish newspapers, among others, *Hürriyet*, *Milliyet*, *Cumhuriyet*, and *Yeni Şafak*, 9 March 2002

<sup>236</sup> *Ibid.*, pp. 337, 338

<sup>237</sup> James W. Warhola and William A. Mitchell, “The Warming of Turkish-Russian Relations: Motives and Implications”, *Demokratizatsiya*, Vol. 14, No. 1, Winter 2006, pp. 127-143, pp. 127, 128

<sup>238</sup> Robert O. Freedman, “Putin and the Middle East”, *Middle East Review of International Affairs (MERIA) Journal*, Vol. 6, No. 2, June 2002, <http://meria.idc.ac.il/journal/2002/issue2/jv6n2a1.html>, accessed on 03.12.2006, cited in Robert O. Freedman, “Russia and the Middle East Under Yeltsin”, in Robert O. Freedman (ed.), *The Middle East and the Peace Process*, Florida: University Press of Florida, 1998, p. 404

<sup>239</sup> Şener Aktürk, “Turkish-Russian Relations after the Cold War (1992-2002)”, *Turkish Studies*, Vol. 7, No. 3, September 2006, pp. 337-364, p. 345 cited in “A New Organization is Born,” *Turkish Daily News*, April 3, 2001



the uncertainty of any turmoil of so-called revolution. Along with this, their attempts to prevent the war against Iraq point out that “Neither Moscow nor Ankara is happy to see US forces in the region.”<sup>240</sup>

On the other hand, rapidly growing trade has been another area of cooperation. Turkey has become one of Russia’s main trading partners. Turkish businessmen have made huge investments in Russia, mainly in the construction sector. For instance, the Duma damaged by the fighting in 1993 was repaired by them.<sup>241</sup> Also, Russian businessmen have become interested in Turkey’s privatization processes and improved economic ties with Turkey. Additional to those, a large number of Russian tourists visit Turkey every year, especially Istanbul and Antalya. Their improved relations notably stem from energy. That is why; they both aim to enhance their energy relations by investing in the energy sector. Hence, the proliferation of common interests in the energy sector, more definitely in natural gas transport, seemingly is the most “cooperative” dimension of their bilateral relations.

However, numerous areas of tension have remained in the relationship, even after the end of the Cold War. For instance, Russia signed agreements with Armenia allowing Russian military bases in Armenia, and backed the Armenian occupation of the Azeri territory; remained Syria’s main military supplier; sold arms and S-300 missiles to Greek Cypriots; supported the separatist PKK and interested in the establishment of Confederation of Kurdish Organisation in Moscow (1 November 1994); and acted with Iran against any Turkish presence on Caspian Sea issues. Turkey has competed against Russia over the claimed “Near Abroad” of Russia, especially in the Caucasus and Central Asia. It has denied any of official Chechen assistance that has threatened Russia’s territorial integrity, but did not welcome Russia’s attitudes to Chechenya in 1999.<sup>242</sup>

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<sup>240</sup> Igor Torbakov, “Russia and Turkey Forge New Ties on Security, Trade”, 8 August 2005, <http://www.eurasianet.org/departments/insight/articles/eav080805.shtml>, accessed on 25.12.2006, cited in Semih Idiz, *Milliyet*

<sup>241</sup> Robert O. Freedman, “Putin and the Middle East”, *Middle East Review of International Affairs (MERIA) Journal*, Vol. 6, No. 2, June 2002, <http://meria.idc.ac.il/journal/2002/issue2/jv6n2a1.html>, accessed on 03.12.2006, cited in Robert O. Freedman, “Russia and the Middle East Under Yeltsin” in Robert O. Freedman (ed.), *The Middle East and the Peace Process*, Florida: University Press of Florida, 1998, p. 404

<sup>242</sup> *Ibid.*

Meaningfully, Nasuh Uslu stated that “It is too early for Turkish policy-makers to say that Russia is no longer a potential threat for Turkey”. Some analysts added that if the threat perceptions were to emerge again and “return to history” was on the agenda, the Turkish-Russian relations would be damaged, despite the existing interests.<sup>243</sup>

In this regard, Turkish-Russian relations are and seemingly will focus both on cooperation and competition in the post-Cold War era. One of Europe’s leading Turkey scholars, Heinz Kramer, describes it as a “cold peace”.<sup>244</sup> Additionally, Ziya Onis marks it as “dualism” that causes complexity: “Turkish-Russian interactions highlight how the relationship between two key regional powers in the post-Cold War context can be characterized by significant cooperation and conflict at the same time.”<sup>245</sup>

However, some argue that their energy relations are cooperative. Since Turkey is the second largest natural gas market for Russia, after Germany, this is not only proof of Turkey’s dependence on Russia, but also Russia’s dependence on Turkey. Therefore, while Turkey fears that natural gas can be used as a tool of pressure, Russia is worried about losing such a huge natural gas market that is beneficial for its economy. For instance, Russia needs investments, funds, or aids to modernize its existing infrastructure or to build new ones in order to transport its energy sources to the global markets. In this regard, according to Şener Aktürk, their interdependence will force them to cooperate.<sup>246</sup> According to the supporters of such views, energy cannot be used as a “weapon” or even an instrument of “pressure” by Russia.

However, in this thesis, I argue that Turkish-Russian energy relations remain to be competitive more than any other areas. As mentioned before, in globalized

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<sup>243</sup> Alan Makovsky, “Turkey’s Perspective”, *Washington Institute for Near East Policy* (US National Intelligence Council), <http://www.invest2russia.com/makov.html>, accessed on 26.10.2006

<sup>244</sup> *Ibid.*

<sup>245</sup> Ziya Onis, “Turkey and Post-Soviet States: Potential and Limits of Regional Power Influence”, *Middle East Review of International Affairs (MERIA) Journal*, Vol. 5, No. 2, June 2001, <http://meria.biu.ac.il/journal/2001/issue2/jv5n2a6.html>, accessed on 01.11.2006

<sup>246</sup> Şener Aktürk, “Turkish-Russian Relations after the Cold War (1992-2002)”, *Turkish Studies*, Vol. 7, No. 3, September 2006, pp. 337-364, p. 353 cited in Natalya Ulcenko, “The Role of Energy Exports and Imports in Russia’s and Turkey’s Strategic Security,” *Avrasya Dosyası*, Vol. 6, No. 4, Winter 2001, p. 148

world, energy requirements have to be taken into account in a broader context. Energy has a crucial place in the international and regional relations and affects those relations not only in economic, but also political terms. Generally, it is not energy's economic dimension that causes competition or conflict, whereas it is energy's political dimension that results in a competitive manner. However, this never makes energy's economic advantages less important.

To illustrate, there have been significant conflicts over the BTC Oil Pipeline leading them to competition. This pipeline has been an apparent obstacle for them to cooperate on the transport of Caspian energy to the Turkish market. On the other hand, Turkey and Russia have worked together to increase their energy relations with the Blue Stream Gas Pipeline. However, energy's precedence in Russian politics should be well-considered, especially in its use as a threat or reward. Within that context, it becomes clear that the Blue Stream Pipeline cannot be excluded from those politics. The Blue Stream will be analyzed as a driving force of understanding the Turkish-Russian relations in a broader energy context.

Moreover, they continue to compete with each other on several energy issues. For instance, Turkey wants to see stable energy-rich states in the Caspian region for the sake of its diversification efforts in its oil and natural gas sector: "In many cases, the issues in the Caucasus and Central Asia are closely related to new energy infrastructure projects where Turco-Russian interests are often believed to be conflicting."<sup>247</sup> Furthermore, Turkey desires to become an energy corridor to the EU and to be a major actor in both regional and international energy relations. Therefore, it supports several pipeline projects like it did for the realization of the BTC.<sup>248</sup> However, Russia wants to take control over energy-rich Caspian states and the EU market while increasing concerns over Russian monopoly.

Within this framework, Turkey and Russia have more competitive energy issues rather than cooperative ones. Yet, when the issue is natural gas, Turkey's reliance mostly on Russian gas should always be kept in mind. Moreover, there is no

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<sup>247</sup> Gökhan Bacik, "The Blue Stream Project, Energy Co-operation and Conflicting Interests", *Turkish Studies*, Vol. 2, No. 2, Autumn 2001, pp. 85-93, p. 87 cited in "Kafkas Paktı Rusya'ya Karşı", *Zaman*, 18 January 2000

<sup>248</sup> Igor Torbakov, "Turkey-Russia Relations: Competition and Cooperation- Part III", 27 December 2002, *Eurasia Insight*, <http://www.eurasianet.org/departments/insight/articles/eav122702.shtml>, accessed on 30.10.2006

guarantee that Moscow would not use natural gas supplies against Turkey as a “threat”. Although it is thought to be the most crucial factor of supporting cooperation, energy issues are structurally competitive in the Turkish-Russian relations. The Blue Stream Pipeline will also be analyzed in this respect in the following part.

### **4.3. Turkey-Russia Blue Stream Natural Gas Pipeline Project**

Firstly, there has been the Russian Federation-Europe-Turkey Natural Gas Pipeline. Its agreement was signed on 28 September 1984 between Turkey and Soviet Russia. The first part of the pipeline was finished in 1987. Then, the pipeline started to bring Russian gas to Turkey via Ukraine, Moldova, Romania, and Bulgaria.<sup>249</sup> However, Russia has doubts on effective roles of the transit countries on Russian pipeline networks. Meanwhile, such an active energy policy coincides with Gazprom’s strategy to develop a natural gas chain in order to take control of transport routes.<sup>250</sup> In those regards, construction of various routes has become an important goal in the Russian energy policy. Therefore, it also proposed to construct a direct pipeline to Turkey.

Meanwhile, the reality that Turkey has traditionally been a major natural gas purchaser from Russia had given acceleration to Gazprom’s intention to promote Russian-Turkish relations. Thus, Gazprom supported the project to come into effect. In those days, analysts were questioning Gazprom’s potential of constructing new pipelines. Because Gazprom has failed to expand its pipeline networks several times before.<sup>251</sup> In this manner, skeptics called the pipeline “Blue Dream”, instead of “Blue Stream”.<sup>252</sup>

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<sup>249</sup> Gökhan Bacik, “Turkey and Pipeline Politics”, *Turkish Studies*, Vol. 7, No. 2, June 2006, pp. 293-306, p. 300

<sup>250</sup> John Roberts, “The Turkish Gate: Energy Transit and Security Issues”, *Turkish Policy Quarterly*, Vol. 3, No. 4, Winter 2004, pp. 17-44, pp. 31, 32

<sup>251</sup> Fiona Hill and Florence Fee, “Fueling the Future: The Prospects for Russian Oil and Gas”, *Demokratizatsiya*, Vol. 10, No. 4, Fall 2002, pp. 462-487, p. 472 cited in “Gas Deal Could be Russia’s ‘Magic Wand’ in Central Asia: Analysts,” *Agence France-Presse*, 14 February 2002

<sup>252</sup> Peter Reina, “Italian Team Goes Deep to Move Gas from Russia to Turkey”, *Engineering News-Record (ENR)*, Vol. 248, No. 3, 28 January 2002

On the Turkish side, the 55<sup>th</sup> government of Turkey, led by Mesut Yılmaz, leading members of the Motherland Party and the Turkish Energy Ministry had shown great interests to this project. They especially emphasized commercial and economic reasons.<sup>253</sup>

Eventually, Turkey and Russia signed an agreement for the Blue Stream Project on 15 December 1997. Turkey agreed on buying natural gas at 16 bcm/a for 25 years on “take-or-pay” basis.<sup>254</sup> On 17 December 1997, the then Prime Minister Viktor Chernomyrdin came to Ankara to promote the pipeline. Chernomyrdin’s visit was significant in view of the fact that it was the first visit by a head of Russia’s government to Turkey in the post-Soviet period. This has made clear the extent of the importance it has given to the project by Russian officials. Chernomyrdin, for instance, mentioned that “If Turkey shakes the hand extended by Russia, we shall become strategic partners in the economy in the twenty-first century...We shall be able to do much together in third countries and contribute to the insurance or stability and tranquility in the region.”<sup>255</sup> However, Moscow’s powerful position in controlling natural gas has seen Russia to take precedence in natural gas projects, like in the Blue Stream Pipeline.

Completing onshore sections were under the responsibility of Russia’s natural gas giant Gazprom, and its Turkish counterpart BOTAŞ. Furthermore, Italy’s energy major ENI was involved in the project for the construction of the underwater section of the pipeline with Gazprom.<sup>256</sup> So, construction of the pipeline was undertaken by Turkey, Russia and Italy.

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<sup>253</sup> Nasuh Uslu, “The Russian, Caucasian and Central Asian Aspects of Turkish Foreign Policy in the Post Cold War Period”, *Alternatives: Turkish Journal of International Relations*, Vol. 2, No. 3&4, Fall&Winter 2003, pp. 164-187, p. 180 cited in Mustafa Aydın, “Kafkasya ve Orta Asya’yla İlişkiler (1999-2001)” in Baskın Oran (ed.), *Türk Dış Politikası: Kurtuluş Savaşından Bugüne Olgular, Belgeler, Yorumlar*, Vol. 2, İstanbul: İletişim, 2001, p. 438

<sup>254</sup> Sinan Ogan, “Mavi Akım: Türk-Rus İlişkilerinde Mavi Bağımlılık”, 2 January 2006, <http://www.turksam.org/tr/yazilar.asp?kat=29&yazi=627>, accessed on 28.12.2006

<sup>255</sup> Duygu Bazoglu Sezer, “Turkish-Russian Relations: The Challenges of Reconciling Geopolitical Competition with Economic Partnership”, London, *Turkish Studies*, Vol. 1, No. 1, Spring 2000, pp. 59-82, p. 66 cited in Ivan Navikov, “Russia: Chernomyrdin Previews Upcoming Trip to Turkey”, Moscow: *ITAR-TASS*, 11 December 1997

<sup>256</sup> Sinan Ogan, “Mavi Akım: Türk-Rus İlişkilerinde Mavi Bağımlılık”, 2 January 2006, <http://www.turksam.org/tr/yazilar.asp?kat=29&yazi=627>, accessed on 28.12.2006, cited in Mihail Çıganov, “Golubaya Meçta vo Ploti”, <http://www.wep.ru/arhiv/2002/5/639.shtml>

The Blue Stream was completed in December 2002. Natural gas started to arrive in Turkey by twin pipelines laid under the Black Sea in February 2003. Then, Gazprom completed the final stage of the pipeline in November 2005. The then Russian President Vladimir Putin, Turkish Prime Minister Erdoğan, the then Italian Prime Minister Berlusconi, the Gazprom Management Committee Chairman and the Turkish BOTAŞ Company CEO attended the inauguration in Samsun to celebrate the success of the project on 17 November 2005.<sup>257</sup>

The more than \$3.2 billion Blue Stream pipeline brings natural gas from southern Russia and runs to Dzhugba on the Black Sea, then by underwater pipelines across the Black Sea bed to the Durusu Terminal near the Turkish port of Samsun, and ending in Ankara, a distribution point.<sup>258</sup> The Blue Stream connects the Russian system to Turkey through 1213 km, of which 373 km is the Russian section, 309 km is the Black Sea section from Dzhugba to Samsun, and about 501 km is the Samsun-Ankara section.<sup>259</sup> The pipeline is unique with pushing offshore pipelaying to new limits by delivering natural gas 2150 meters under the Black Sea water, 30 percent deeper than every known underwater pipeline in the world.<sup>260</sup> The project was introduced as a solution to Turkey's energy problems. However, it has faced several problems and thus has been criticized publicly.

The case of the Blue Stream Project well illustrates the interplay between energy, regional problems and potential solutions that often generate new disputes...The project has faced problems from the start, ranging from technical challenges to political issues, from geopolitical concerns to corruption charges.<sup>261</sup>

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<sup>257</sup> <http://eng.gazpromquestions.ru/page12.shtml>, accessed on 14.11.2006

<sup>258</sup> F. William Engdahl, "The Emerging Russian Giant- Plays its Cards Strategically", 20 October 2006, [http://www.engdahl.oilgeopolitics.net/Geopolitics\\_\\_\\_Eurasia/Russian\\_Giant/russian\\_giant.html](http://www.engdahl.oilgeopolitics.net/Geopolitics___Eurasia/Russian_Giant/russian_giant.html), accessed on 25.12.2006

<sup>259</sup> "Economic Brief: The Blue Stream Gas Pipeline", 22 November 2005, [http://www.pinar.com/report.php?ac=view\\_report&report\\_id=403&language\\_id=1](http://www.pinar.com/report.php?ac=view_report&report_id=403&language_id=1), accessed on 01.11.2006

<sup>260</sup> <http://eng.gazpromquestions.ru/page12.shtml>, accessed on 14.11.2006

<sup>261</sup> Gökhan Bacik, "The Blue Stream Project, Energy Co-operation and Conflicting Interests", *Turkish Studies*, Vol. 2, No. 2, Autumn 2001, pp. 85-93, p. 85

Before signing the Blue Stream agreement, there was a highly stated concern about a potential energy deficit in Turkey, with a rapidly growing economy and population. Therefore, projections of those days, which expected a huge amount of requirement of both natural gas and oil, were made in that climate. Understandably, one side of the criticism is related to the over-demand projections. In those days, between 9 and 13 percent natural gas demand increases were expected in two or three years. Further, those percentages are projected to reach up to 20 percent by 2010.<sup>262</sup> Therefore, natural gas demand was expected to reach 55 bcm/a in 2010 and 82 bcm/a in 2020.<sup>263</sup> Meanwhile, Turkey's take-or-pay obligation based agreement has always seemed to put Turkey in a difficult position. For instance, it is a well-known fact that Turkey quite frequently has to release its purchased natural gas to air, due to its unreliable gas projections and take-or-pay agreements.<sup>264</sup>

BOTAŞ' projections were done on the basis of converting most of Turkey's natural gas into powerhouses, some plants, and nearly all residences into natural gas. However, it has been so obvious that changing the powerhouses using Turkey's own water resources cannot be a strategic step when those powerhouses are planned to use almost all imported natural gas.<sup>265</sup> In this regard, the signature of the Blue Stream was strategically criticized.

As the project runs below the Black Sea, it was once technically criticized sharply. Because it was thought that complex engineering and high costs would have made the project impossible to be constructed. Moreover, there have also been environmental concerns related to the pipeline. Nebahat Yazici and Ayhan Demirbaş

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<sup>262</sup> Theodore George Tsakiris, "The Strategic Framework of the Russian-Turkish Relationship: Geopolitical Rivalries and Geoeconomic Uncertainties", <http://www.ekem.gr/pdf/tsakiris.pdf>, accessed on 06.12.2006, pp. 1-7, p. 4 cited in Merrill Lynch, "Russia Targets Investments in Turkey's Fuel Sector", *FSU Oil and Gas Monitor*, 19 January 2005, p.11

<sup>263</sup> Gökhan Bacik, "The Blue Stream Project, Energy Co-operation and Conflicting Interests", *Turkish Studies*, Vol. 2, No. 2, Autumn 2001, pp. 85-93, p. 87

<sup>264</sup> Sinan Ogan, "Mavi Akım: Türk-Rus İlişkilerinde Mavi Bağımlılık", 2 January 2006, <http://www.turksam.org/tr/yazilar.asp?kat=29&yazi=627>, accessed on 28.12.2006, cited in "Rusya'nın Yeni Uzantısı: Türkiye'ye Doğalgaz Boru Hattı", *The New York Times* (BYE translation), 9 June 2002

<sup>265</sup> *Ibid.*, cited in <http://www.eia.doe.gov/bookshelf/service.html>, accessed on 27.10.2002

have stressed this fact because of the high amounts of hydrogen sulfide at the bottom of the Black Sea.<sup>266</sup>

Corruption has also become a significant factor in the Blue Stream project that affected the pipeline negatively. The pipeline officials refuted those charges of corruption. Many energy bureaucrats, and even the then Energy Minister Cumhur Ersümer, were determined to be investigated in their alleged improper relationships with the “white energy” scandal.<sup>267</sup>

Another reason that affects Turkey is the country’s natural gas storage problem. Turkey has purchased natural gas since 1987, and since then has not built underground natural gas depots, although they are essential. Therefore, this problem remains unsolved.

Moreover, Russia plans to be influential in solving this problem. Therefore, it exerts pressure to extend internal natural gas distribution facilities in Turkey. Gazprom intensively expresses its intention of building a \$1 billion underground natural gas depot beneath the Salt Lake, along with the construction of a \$1.5 billion LNG liquefaction facility in Ceyhan.<sup>268</sup> However, it did not agree to re-arrange the volumes of delivered natural gas to Turkey.

Apart from those, Turkmen President Saparmurad Niyazov publicly accused of the Turkish authorities because of their selection of the Blue Stream as the major initial natural gas pipeline. He stated that the Blue Stream has been the reason behind the collapse of the Turkish-Turkmen gas agreement and TCP project. He also added that Turkey has to buy expensive Russian gas with the Blue Stream, instead of cheaper Turkmen gas.<sup>269</sup>

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<sup>266</sup> Nebahat Yazici and Ayhan Demirbaş, “Turkey’s Natural Gas Necessity and Consumption”, *Energy Sources*, Vol. 23, 2001, pp. 801-808, p. 807

<sup>267</sup> Robert O. Freedman, “Putin and the Middle East”, *Middle East Review of International Affairs (MERIA) Journal*, Vol. 6, No. 2, June 2002, <http://meria.idc.ac.il/journal/2002/issue2/jv6n2a1.html>, accessed on 03.12.2006, cited in Douglas Franz, “Turkey: Gas Deal Signed”, *New York Times*, 13 March 2001

<sup>268</sup> Theodore George Tsakiris, “The Strategic Framework of the Russian-Turkish Relationship: Geopolitical Rivalries and Geoeconomic Uncertainties”, <http://www.ekem.gr/pdf/tsakiris.pdf>, accessed on 06.12.2006, pp. 1-7, pp. 4-5 cited in “Natural Gas Projects Dominate Putin’s Economic Agenda in Turkey”, *MosNews*, 6 December 2004

<sup>269</sup> Bulent Aliriza and Seda Ciftci, “Turkey’s Caspian Energy Quandary”, Washington DC: *Center for Strategic and International Studies*, 13 August 2002, [http://www.csis.org/index.php?option=com\\_csis\\_pubs&task=view&id=1959](http://www.csis.org/index.php?option=com_csis_pubs&task=view&id=1959), accessed on 25.12.2006



The US top officials have warned Turkey about Russia's monopolisation efforts over natural gas supplies.<sup>270</sup> They have publicly announced their doubts about the Blue Stream. Furthermore, Turkey's energy cooperation with Russia has questioned by especially the US commentators. According to some, Turkey has a purpose to play various energy actors, especially the US, the EU and Russia against one another. At that point, Zeyno Baran states that Turkey is not favoring Russia against the US and the EU. However, she also adds that "It's simply that Ankara thinks it can play along with both."<sup>271</sup>

According to Russian officials, the most important feature of this project is the lack of any connecting points or transit countries other than Russia and Turkey. In other words, the Blue Stream directly supplies Russian gas to Turkey. Therefore, Turkey is stated to receive 12 percent cheaper natural gas by the Blue Stream than it takes from the two other Russian pipelines coming via Ukraine and Bulgaria.<sup>272</sup> However, even this gas is not cheap for Turkey, so obtaining 12 percent cheaper natural gas does not mean that it will not affect the trade balance in favour of Russia.<sup>273</sup> That's why Turkish energy officials are pressing the Russians, in order to attain price reductions and ease take-or-pay obligations done under over-demand projections.

Turkish leaders stated that the main concern was not the project or natural gas demand, but the price structure: "There is no problem with the project, but there is with the price formula." added Turkish Energy Minister Hilmi Güler.<sup>274</sup> In order to avoid deepening the dispute, Gazprom accepted a solution to lower the price.

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<sup>270</sup> Igor Torbakov, "Turkey-Russia Relations: Competition and Cooperation- Part III", 27 December 2002, *Eurasia Insight*, <http://www.eurasianet.org/departments/insight/articles/eav122702.shtml>, accessed on 30.10.2006, cited in *Sabah*, 30 May 2006

<sup>271</sup> Nicholas Birch, "Will New Pipeline Ease the West's Energy Woes?", *The Christian Science Monitor*, Istanbul, 13 July 2006, <http://www.csmonitor.com/2006/0713/p07s02-woeu.html>, accessed on 30.10.2006

<sup>272</sup> Sinan Ogan, "Mavi Akım: Türk-Rus İlişkilerinde Mavi Bağımlılık", 2 January 2006, <http://www.turksam.org/tr/yazilar.asp?kat=29&yazi=627>, accessed on 28.12.2006

<sup>273</sup> Dilek Karakaya and Fatih Koraş, "Enerji Bağlamında Türkiye-Rusya İlişkileri", 7 July 2005, <http://www.turksam.org/tr/yazilar.asp?kat=27&yazi=411>, accessed on 28.12.2006

<sup>274</sup> Mevlut Katik, "Blue Stream Pipeline's Future in Doubt Amid Russian-Turkish Pricing Dispute", *Business&Economics*, 2 June 2003, <http://www.eurasianet.org/departments/business/articles/eav060203a.shtml>, accessed on 05.12.2006

Gazprom also agreed to lower the amount of natural gas purchased by Turkey. Also Turkey will reduce its natural gas demand during the summer months.<sup>275</sup>

Controversially, Turkey claims that its natural gas demand will grow dramatically, that's why it is trying to increase its suppliers. As a result of this, Turkey sees the Blue Stream pipeline as a keystone of its diversification strategy. However, needless to say that Turkey is dependent on Russia, while it meets more than 65 percent of its natural gas demand through Russia. It makes Turkey the second-largest natural gas consumer after Germany.

Surprisingly, BOTAŞ suspended natural gas imports from Blue Stream for six months on 12 March 2003, citing a clause in the contract that allows either party to stop deliveries for six months, to force Moscow to lower prices.<sup>276</sup> While doing so, a BOTAŞ official stated that they “don't need the gas right now.” What is more, this suspension happened less than three weeks after Turkey had received Blue Stream gas. Interestingly, in April 2003, Turkish Energy Minister Güler spoke of a “strategic goal” of sharply reducing Russia's natural gas share to 30 percent within five years.<sup>277</sup> In this connection, Turkey should reduce its dependence on a single country to the 35-40 percent levels of NATO and the EU standards.<sup>278</sup> Apparently it is almost impossible for Turkey to achieve that goal, while it cannot promote construction of pipelines from the Caspian region by its own efforts. What is more, Turkey cannot attract the EU's attention to those pipeline routes instead of Russian projects.

The main objection to the pipeline is related to the increase of Turkey's dependence on Russia's gas supply. This reality is stated as “Ankara's strategic

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<sup>275</sup> “Relations with Russia,” <http://www.turkishpress.com/specials/2003/yir/Russia.asp>, accessed on 16.12.2006

<sup>276</sup> Michael D. Cohen, “Major Russian Oil and Natural Gas Pipeline Projects”, *Russia Country Analysis Brief*, January 2005, [http://www.eia.doe.gov/emeu/cabs/russia\\_pipelines.pdf](http://www.eia.doe.gov/emeu/cabs/russia_pipelines.pdf), accessed 06.12.2006, pp.1-6, p. 3

<sup>277</sup> Gareth M. Winrow, “Turkey and the East-West Gas Transportation Corridor”, *Turkish Studies*, Vol. 5, No. 2, Summer 2004, pp. 23-42, p. 30 cited in Michael Lelyveld, “Turkey: Ankara Cuts Russian Gas, Courts Iran,” *Radio Free Europe/Radio Liberty*, “Energy Politics in the Caspian and Russia”, Boston, 29 April 2003

<sup>278</sup> Sinan Ogan, “Rusya ve Ukrayna arasındaki Gaz Savaşı Türkiye'yi Etkiler mi?”, 2 January 2006, <http://www.turksam.org/tr/yazilar.asp?kat=29&yazi=707>, accessed on 28.12.2006

fault”.<sup>279</sup> On the one hand, this dependence is against Turkey’s initial goal of diversification of suppliers. On the other hand, the project is also politically criticized. Some experts believe that Russia does whatever it can in order to apply its dominance as a giant natural gas supplier. Nicholas Birch states that according to Necdet Pamir “Increasingly, Russia is dictating its terms.”<sup>280</sup> “...this new arrangement would give Moscow a virtual monopoly on the product. Military circles and even the Foreign Ministry have put forward some reservations and objections about the national security implications of such a deal.”<sup>281</sup>

This dependency makes Turkey too fragile to counter any “threat” that would be posed by Russia. According to many of the Turkish officials, it is not the issue for now. Furthermore, to them, there is not even a signal of such a situation. However, there always appears the risk of natural gas being used as a threat, along with Russia’s adaptation of energy as a foreign policy tool. Therefore, Turkey at least has to live with this kind of doubt.<sup>282</sup> What is more, Turkey saw what happened to Ukraine, during its gas crisis with Russia. Apparently, the Russia-Ukraine gas crisis has given a clear proof of Turkey’s diversification need related to its natural gas demand.

To sum up, I argue that Turkey does not benefit from the Blue Stream to ensure its energy security. As Turkey has given its initial efforts to build the Blue Stream with Russia, it cannot diversify its gas suppliers. This is mainly because of Russia’s dominance on Turkish gas sector.

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<sup>279</sup> Sinan Ogan, “Mavi Akım: Türk-Rus İlişkilerinde Mavi Bağımlılık”, 2 January 2006, <http://www.turksam.org/tr/yazilar.asp?kat=29&yazi=627>, accessed on 28.12.2006, cited in *Trud Gazetesi*, 9 July 2002

<sup>280</sup> Nicholas Birch, “Will New Pipeline Ease the West’s Energy Woes?”, Istanbul: *The Christian Science Monitor*, 13 July 2006, <http://www.csmonitor.com/2006/0713/p07s02-woeu.html>, accessed on 30.10.2006

<sup>281</sup> Gökhan Bacik, “The Blue Stream Project, Energy Co-operation and Conflicting Interests”, *Turkish Studies*, Vol. 2, No. 2, Autumn 2001, pp. 85-93, p. 89

<sup>282</sup> Sinan Ogan, “Mavi Akım: Türk-Rus İlişkilerinde Mavi Bağımlılık”, 2 January 2006, <http://www.turksam.org/tr/yazilar.asp?kat=29&yazi=627>, accessed on 28.12.2006, cited in “Rusya’nın Yeni Uzantısı: Türkiye’ye Doğalgaz Boru Hattı”, *The New York Times* (BYE translation), 9 June 2002

#### **4.4. Effects of the Blue Stream Pipeline on Turkey's Energy Security Strategy**

In the previous part of this chapter, I have examined the Blue Stream to put forward that the pipeline has contributed Turkey's energy insecurity. I will focus on how energy cooperation between Turkey and Russia affects Turkey's corridor aim.

Azeri and Turkmen gas remain important when the efforts of "diversification" and becoming an "energy corridor" for natural gas transport from Turkey to the European market are taken into consideration. However, as mentioned before, Turkey's precedence given to the Blue Stream Project has long delayed the Shah Deniz Project and putting the realization of TCP out of the agenda. It was stated that Turkey's energy market was big enough to develop pipelines and to consume such amount of natural gas from those pipelines together.<sup>283</sup> These events have increased disappointments between Turkmenistan and Turkey.

Nevertheless, with the signature of the Blue Stream, Turkey had chosen to use Russian gas, instead of other natural gas sources: "The Blue Stream pipeline...allowed Russia to 'win the race' to supply Turkey with gas, against competing projects from Azerbaijan, Turkmenistan."<sup>284</sup> This has been evaluated as a strategic fault by many analysts. Not surprisingly, Turkey's pipeline preference has slowed down Turkey's relations with the Central Asian countries, especially with Turkmenistan.

Uncertain Turkish approaches towards Turkmen gas seem to make Turkmenistan so nervous that it has preferred to sell gas to Russia, instead of Turkey. In fact, after its alternative of selling natural gas to Turkey had disappeared, Turkmenistan was forced to come into terms with Russia. This situation combined to increase Russia's monopoly on the gas sector. Therefore, Turkmenistan signed an agreement to sell a large amount of its natural gas to Russia. From another point, questions have been raised over the sufficiency of the Turkmen gas to Turkey and then Europe due to the long-term agreement with Russia and Turkmenistan's big

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<sup>283</sup> Zeyno Baran, "EU Energy Security: Time to End Russian Leverage", *The Washington Quarterly*, Vol. 4, No. 30, Autumn 2007, pp. 131-144, p. 138

<sup>284</sup> Jerome Paris, "Ukraine vs Russia: Tales of Pipelines and Dependence", *European Tribune*, 29 December 2005, <http://www.energybulletin.net/11933.html>, accessed on 20.12.2006

Asia market, especially China.<sup>285</sup> Indeed, this has meant continuation of its dependence on Russia.

Clearly, Russia benefits from this dependence both in terms of economics and politics. It gets cheap Turkmen gas, but sells at much higher prices to world natural gas consumers, especially to well-paying European markets. In this way, Russia makes a considerable amount of profits from this trade. At the same time, it hinders Turkmenistan to gain significant amount of income. For this reason, Turkmen authorities, understandably, criticized their Turkish counterparts for delaying the TCP Project. At the same time, Turkey has given up the opportunity of buying cheaper Turkmen gas. Furthermore, it currently imports Turkmenistan originated natural gas via the Russian pipeline. What is more, Russia becomes more dominant in the global energy market, as it has the power to manage the price of natural gas.<sup>286</sup> As a consequence of all these, Turkey cannot expect a high benefit from Turkmen gas; even it buys related to its diversification efforts, because that gas has already been put under the control of Russia, mainly by Russian gas dominance and partly Turkish energy policy failures.

The Blue Stream was initially supposed to enhance Turkish-Russian relations in a positive way. However, Turkey has become more dependent on Russia, while importing nearly 65 percent of its natural gas after the Blue Stream was constructed. Such a high dependence on a single source does not only put pressure in Turkey's economic development, but also creates security problems for Turkey. Furthermore, in fact, the pipeline has served for the strategic Russian energy policies as it currently excluded the other projects bypassing Russian territory. However, those projects have been initially important for Turkey's energy corridor goal of diversification. In this regard, the Blue Steam has created a dilemma between Turkey's goal and the reality. In a broader context, the Blue Stream has undoubtedly enhanced the Turkish-Russian relations, putting Russia in a more advantageous position.

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<sup>285</sup> Necdet Pamir, "Kafkaslar ve Hazar Havzasındaki Ülkelerin Enerji Kaynaklarının Türkiye'nin Enerji Güvenliğine Etkileri", Ankara: Türkiye'nin Çevresindeki Gelişmeler ve Türkiye'nin Güvenlik Politikalarına Etkileri Sempozyumu, 10 March 2006, <http://www.asam.org.tr/temp/temp15.pdf>, accessed on 03.11.2007, pp. 1-74, p. 34

<sup>286</sup> İsmail Hakkı İşçan, "Türkiye-Avrupa Birliği İlişkilerinin Geleceği açısından Avrupa Birliği Enerji Güvenliği Sorunu", 20 September 2006, <http://www.turksam.org/tr/yazilar.asp?kat=27&yazi=1066>, accessed on 28.12.2006

Additionally, Turkey's high gas dependence on Russia has been an obstacle in front of its desire to become an energy corridor to European countries, since its dependence avoids multiple pipelines passing through Turkey.<sup>287</sup> In this way, Russia's gas has been a potential "threat" or a political tool. According to Turkish officials, Russia is currently not considering to use it against Turkey. Therefore, they are also interested in Russian projects. However, such steps should be thought out in more detail, because Russia has used its significant power over several countries, for instance, recently in the 2006 Russian-Ukraine gas crisis. Turkey has to take some precautions to prevent the potential risks to occur. Meanwhile, it should take steps to give a chance to other projects which Russians are determined to effectively block.

The Russians, meanwhile, fearful that the trans-Caspian line might doom the Blue Stream, voiced geological and environmental objections to the proposed line. But the Turkish government insists that the two pipelines are not mutually exclusive, as estimated future demand in Turkey could sustain both.<sup>288</sup>

Additional to all the advantages which Russia has obtained with the Blue Stream, Turkey has another troublesome point: Turkey cannot re-export Russian gas that comes through the Blue Stream Pipeline to third countries without Russian permission (Article 4),<sup>289</sup> despite having a great desire to transport energy to third countries. This means that Turkey's ability to become an energy corridor is restricted with such a legal binding, and selling natural gas to Europe is under Russia's approval.

As Turkey has given priority to the Blue Stream Pipeline, it could not take advantage of the Caspian gas resources. Moreover, it cannot export its unused Blue Stream gas to Europe. However, Turkey and Russia have agreed on re-exporting the Blue Stream gas to Lebanon, Syria and Israel by an undersea pipeline, on the one hand; and to Southern European countries, especially Greece and Italy, on the other

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<sup>287</sup> *Ibid.*

<sup>288</sup> Duygu Bazoglu Sezer, "Turkish-Russian Relations: The Challenges of Reconciling Geopolitical Competition with Economic Partnership", London: *Turkish Studies*, Vol. 1, No. 1, Spring 2000, pp. 59-82, p. 74

<sup>289</sup> Dilek Karakaya and Fatih Koraş, "Enerji Bağlamında Türkiye-Rusya İlişkileri", 7 July 2005, <http://www.turksam.org/tr/yazilar.asp?kat=27&yazi=411>, accessed on 28.12.2006, cited in Fırat Gazel, *Mavi Akım: Avrasya'da Çözumsuzlüğün Öyküsü*, İstanbul: 2003, p. 158

hand.<sup>290</sup> Thus, there seems to appear a possibility of re-exportation of Russian gas to Europe via Turkey. However, Turkey should exercise caution and not be too optimistic because, it is a fact that no agreements have been reached yet. Moreover, Gazprom continues to insist on deciding the third countries which will receive natural gas.<sup>291</sup> In my opinion, such Russian involvements should be regarded as Russia's measures not to allow Turkish and the EU markets to break its monopoly. Thus, they comply with Russia's energy dominance over Turkey and the EU states.

Additional to these proposed natural gas pipelines, Russia has already offered construction of oil pipelines. For instance, Putin suggested a second Black Sea pipeline, the Blue Stream 2, which would link Samsun and Ceyhan. Despite the US objections of Russian oil projects, Turkey has shown interest in participating in that pipeline. Because Turkey hopefully wants to be an energy corridor for Black Sea resources, too. Related to that, it desires Ceyhan to become an important energy hub.<sup>292</sup> Finally, Italy's ENI and Turkey's Çalık Energy signed a deal to construct the Samsun-Ceyhan Pipeline in June 2006. the Turkish government has not demanded a share to make the project more attractive. The pipeline is expected to be operational by 2009 to carry 1.5 million barrels of Russian and Caspian oil per day from the Black Sea, the Russian port of Novorossisk, to Samsun by tankers and then to the Mediterranean port of Ceyhan by pipeline.<sup>293</sup>

Yet, such a project will enhance Turkey's dependence on Russia, not only in terms of economics but also politics and be a "direct competitor" to the BTC in

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<sup>290</sup> M. K. Bhadrakumar, "Russia Sets the Pace in Energy Race", *Central Asia*, 23 September 2006, [http://www.atimes.com/atimes/Central\\_Asia/HI23Ag02.html](http://www.atimes.com/atimes/Central_Asia/HI23Ag02.html), accessed on 30.10.2006

<sup>291</sup> Gareth M. Winrow, "Turkey and the East-West Gas Transportation Corridor", *Turkish Studies*, Vol. 5, No. 2, Summer 2004, pp. 23-42, p. 30 cited in Fırat Gazel, "Doğalgazda Rusya'dan Reexport Tavizi", *Dünya*, 18 June 2003, p. 8

<sup>292</sup> "Economic Brief: The Blue Stream Gas Pipeline", 22 November 2005, [http://www.pinar.com/report.php?ac=view\\_report&report\\_id=403&language\\_id=1](http://www.pinar.com/report.php?ac=view_report&report_id=403&language_id=1), accessed on 01.11.2006

<sup>293</sup> Osman Emed, "The Caspian Oil And Gas in International Energy Policy: Opportunities for Turkey", An Unpublished Thesis Submitted to the Graduate School of Social Sciences of the Middle East Technical University, In Partial Fulfillment of the Requirements for the Degree of Master of Science in the Department of International Relations, Ankara: December 2006, p. 96

which the US is also concerned.<sup>294</sup> At the same time, Gazprom officials have been trying to speed up the Blue Stream 2 Project, because the Nabucco has taken crucial steps to be realized. In the context of being an energy corridor, Russia is mainly “a competitor rather than a conduit” to Turkey.<sup>295</sup> Moreover, Turkey’s high dependence to Russian energy should be considered carefully in relation to its own energy security. Because, Russia has demonstrated that its energy has been more than just a threat.

Although Blue Stream 2 could assist Turkey in becoming what Turkish Energy Minister Hilmi Guler described as “Europe’s energy bridge”, the Russian venture poses a difficult dilemma for Ankara. Turkish policy-makers are not keen to see Gazprom expand its share of the EU gas market, but they can’t at the same time be seen as obstructionist.<sup>296</sup>

But acting in a proper way is not an easy task. Turkey signed agreements with other gas-rich states, especially in the Caspian region as an initial measure. However, it still has to deal with several problems. While doing so, Turkey has to be careful enough not to be trapped by the over-supply projections of natural gas demand. Because those projections may lead Turkey to make various natural gas deals. Moreover, that may cause natural gas abundance if Turkey cannot consume the imported natural gas. Therefore, Turkey initially needs true natural gas projections. Then, to go ahead, the present natural gas agreements should be re-evaluated, both considering the natural gas demand volumes and take-or-pay obligations. Thirdly, though building storage depots is an expensive activity, Turkey has to begin its efforts to find solutions to that problem as soon as possible, because nothing else can be more expensive than natural gas being used as a political threat against itself. Eventually, if countered with an over-supply situation, re-exporting that surplus to the EU states comes out to be very crucial in line with Turkey’s corridor idea.

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<sup>294</sup> Asım Oku, “Russian-Turkish Relations in the field of Energy and Power in the Post-Soviet Era”, *A/A Turkish Section*, 14 May 2005, <http://www.axisglobe.com/article.asp?article=78>, accessed on 01.11.2006

<sup>295</sup> John Roberts, “The Turkish Gate: Energy Transit and Security Issues”, *Turkish Policy Quarterly*, Vol. 3, No. 4, Winter 2004, pp. 17-44, p. 22

<sup>296</sup> “Russian Pipeline Poses Dilemma for Turkey”, 28 September 2006, <http://www.today.az/news/business/30737.html>, accessed on 01.11.2006



In conclusion, Turkey's gas sector is full of great dilemmas in regard to its energy relations with Russia. For instance, on the one hand, Turkey wants to buy natural gas from various suppliers. However, it cannot consume more natural gas. Consequently, it prevents the realization of big projects other than the Blue Stream. On the other hand, Turkey wants to be a transit country for Europe to supply natural gas other than the Russian gas. However, it puts itself into a position that results in buying more Russian gas.

## CHAPTER 5

### ENERGY COOPERATION BETWEEN THE EUROPEAN UNION AND RUSSIA

In this part of the thesis, energy cooperation between the EU and Russia will be analyzed. The EU is particularly dependent on Russian gas which imports a significant amount of oil and gas from Russia. The EU needs to diversify its routes in order to secure its energy flow, while Russia wants to maintain its position in the EU-area. In this context, the recent natural gas crisis between Russia and Ukraine will be examined. In contrast to expectations of the EU's strong support to alternative routes, the EU and Russia energy cooperation have been enhanced. Further, Russia and Germany made an agreement to build a new natural gas pipeline which directly connects these two states. Within this framework, their energy policies also affect Turkey's energy corridor strategy. Because, it is clear that Turkey needs both political and economic support from the EU to realize that strategy. However, the EU states have not come into terms even within the EU. Energy issues continue to be dominated by the individual EU-member states, instead of the EU's institutional structures. Thus, the EU as a whole cannot be influential to support the alternative pipeline projects of Turkey, since its members agree on pipeline projects individually with Russia for their own energy securities.

#### 5.1. Energy Security of the EU vis-a-vis Russia

Currently, the EU is the second energy consumer in the world. It consumes approximately 17 percent of world's total energy consumption, after the US with 25 percent.<sup>297</sup> It has an increasing and likely to increase energy demand. It is projected

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<sup>297</sup> Necdet Pamir, "Avrupa Birliği'nin Enerji Sorunsalı ve Türkiye", *Stratejik Analiz*, Vol. 6, No. 67, November 2005, pp. 74-81, p. 77

that the EU's total energy demand will rise 0.5 percent per year by 2030,<sup>298</sup> with an estimated annual growth rate of 2 percent.

The total EU energy consumption amounts to 37 percent of oil, 24 percent of natural natural gas, 18 percent of coal, 15 percent of nuclear, and 6 percent of other sources (4 percent of hydroelectric and 2 percent of renewables).<sup>299</sup> That means approximately 80 percent of the energy consumed within the EU is supplied from hydrocarbon resources. If not reversed, this heavy European dependence on oil and natural gas will dominate the EU's energy demand. Despite its relative reduction in demand, oil will remain the foremost resource. On the other hand, natural gas is expected to have the fastest growth. It is estimated that oil will account for 35 percent and natural gas 27 percent of total energy consumption by 2030.<sup>300</sup> This is mainly because of the transition from nuclear and coal to natural gas for power generation in relation to social resistance, environmental concerns and climate change.

The EU as a whole does not have so rich hydrocarbon resources. The EU members have approximately 0.6 percent of the world's proven oil reserves and 2 percent of proven natural gas reserves.<sup>301</sup> Moreover, European oil and natural gas productions are expected to decline. Thus, the EU cannot satisfy its energy demands domestically. These limited natural gas and oil reserves which are mainly in the North Sea are largely possessed by only several EU countries. Norway (57 percent), along with the United Kingdom (UK- 30 percent), Germany, the Netherlands and Denmark have the significant amount of the oil reserves. Norway, the UK and the

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<sup>298</sup> Mehmet Efe Biresselioğlu, "Turkey: Europe's Emerging Energy Corridor for Central Eurasian, Caucasian and Caspian Oil and Gas", 20 January 2007, <http://www.balkananalysis.com/2007/01/20/turkey-europepercentE2percent80percent99s-emerging-energy-corridor-for-central-eurasian-caucasian-and-caspian-oil-and-gas/>, accessed on 20.02.2008

<sup>299</sup> Mert Bilgin, "New Prospects in the Political Economy of Inner-Caspian Hydrocarbons and Western Energy Corridor through Turkey", *Energy Policy*, Vol. 35, September 2007, pp. 6383-6394, p. 6391, 6390 cited in ECSW (European Commission Staff Working Document), "Annex to the Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy, What is at Stake-background Document", Brussels: SEC 2006, 317/2, p. 8

<sup>300</sup> Vince L. Morelli, "The European Union's Energy Security Challenges", *CRS Report for Congress*, Code: RL33636, 11 September 2006, pp. 1-31, p. 7 cited in Andris Piebalgs, "What Are the EU Energy Challenges," speech to the Offshore Northern Sea Conference, August 2006

<sup>301</sup> Gawdat Bahgat, "Europe's Energy Security: Challenges and Opportunities", *International Affairs*, Vol. 82, No. 5, October 2006, pp. 961-975, p. 963

Netherlands hold the largest amounts of the natural gas reserves. Despite new technologies, production levels seem not to rise primarily due to the limited resources and production capacity. For instance, the North Sea's oil is projected to end in 2050 if current consumption rates continue.<sup>302</sup>

As a result, Europe's oil and natural gas demands are met by sources outside the EU. The EU imports roughly 50 percent of its energy needs.<sup>303</sup> Presently, oil is the mostly import dependent resource. The EU imports 76.6 percent of its oil needs. European dependence on oil imports, if current trends continue, will probably reach 86 percent by 2020. Besides oil, the EU imports substantial amount of its natural gas needs. Nearly 50 percent of its natural gas consumption is also imported. On the other hand, European dependence on natural gas imports is estimated to reach 55 percent by 2010, 70 percent by 2020 and 80 percent by 2030.<sup>304</sup> It is worth noting that Estonia and Finland import 100 percent of their natural gas needs. Similarly, the Czech Republic and France also import 98 percent of their natural gas. Not much less than them, Austria's import dependence on natural gas is 88 percent, Italy's is 85 percent, Germany's is 81 percent, and Poland's is 70 percent.<sup>305</sup>

Due to the current figures, in approximately 20-30 years time, the EU's dependence on external energy suppliers is thought to range between 60 and 70 percent of the total demand.<sup>306</sup> The situation will deteriorate with the production

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<sup>302</sup> Meliha Benli Altunışık, "Avrupa Birliği'nde Petrol ve Doğal Gaz Piyasalarına Yönelik Politikalar ve Türkiye Uygulamaları", in Yavuz Ege, Gamze Öz, Tuğrul Arat, Sanem Baykal, Aylin Ege, Meliha Benli Altunışık and Hakan Ercan, *AB'nin Enerji Politikası ve Türkiye*, Ankara: Europa Bridges of Knowledge Programme, Ulusal Politika Araştırmaları Vakfı, May 2004, pp. 143-167, p. 152

<sup>303</sup> Meliha Benli Altunışık, "Avrupa'nın Enerji Politikaları ve Dış Politikasına Etkileri", in *Avrupa Birliği'nde Değişen Dinamikler*, Türkiye Ekonomik Ekonomi Politikaları Araştırma Vakfı (TEPAV) ve TOBB Ekonomi ve Teknoloji Üniversitesi (ETÜ) Çalıştay Raporu Dizisi- Özel Yayın 10/06/002, November 2006, [http://www.tepav.org.tr/tur/admin/dosyabul/upload/ABpercent5C'depercent20degisenpercent20dinamikler\\_percent2018Ekim06.pdf](http://www.tepav.org.tr/tur/admin/dosyabul/upload/ABpercent5C'depercent20degisenpercent20dinamikler_percent2018Ekim06.pdf), accessed on 08.05.2008

<sup>304</sup> Mert Bilgin, "New Prospects in the Political Economy of Inner-Caspian Hydrocarbons and Western Energy Corridor through Turkey", *Energy Policy*, Vol. 35, September 2007, pp. 6383-6394, p. 6391 cited in D. Finon, A. M. Silvana, C. Denise, C. Michel, C. Locatelli, "World Energy under the Pressure of the Emerging Countries: The Asian Energy Thirst and its Consequences for Europe", The Shared Analysis Project, Economic Foundations for Energy Policy, Vol. 3, 2003, IEPE, Grenoble, p. 163

<sup>305</sup> Vince L. Morelli, "The European Union's Energy Security Challenges", *CRS Report for Congress*, Code: RL33636, 11 September 2006, pp. 1-31, p. 9 cited in IEA; Eurostat; British Petroleum

<sup>306</sup> Mehmet Efe Bireselioğlu, "Turkey: Europe's Emerging Energy Corridor for Central Eurasian, Caucasian and Caspian Oil and Gas", 20 January 2007,

decline in the North Sea fields, even if the North Sea depletion will not occur in two or three decades. Overall, these projections address the importance of the energy security issue to the EU. The EU's energy security is strongly influenced by a combination of its limited domestic resources, ongoing limited production with increase in demand and economic growth rates. Also, heavy dependence on imported energy will also be one of the main problems for the EU, in the following years. Thus, the EU needs to adopt an energy diversification policy, since its sensitiveness to energy delivery delays or disruptions and vulnerability to volatility of energy prices become obvious. However, its import dependence is only one side of the problem. What is more, the EU imports its energy needs increasingly from one supplier, Russia.

The EU receives more than a quarter of its oil and natural gas, in total, from Russia. Specifically, the EU imported 26 percent of oil demand, accounting more than 55 percent of Russian total oil exports; 29 percent of its natural gas demand from Russia, in 2004.<sup>307</sup> Those figures are projected to rise in the very near future. However, it is strongly believed that the EU's natural gas dependence on Russia will be more dramatical. The EU is the world's biggest natural gas importer. Presently, the EU's natural gas import is concentrated in three countries; Russia, Algeria and Norway. Moreover, Russia takes the precedence to export natural gas to the EU. The EU seems to be the main market for Russia to export its natural gas and receive considerable amounts of revenue from the natural gas trade. According to the European Commission, nearly half of the EU's natural gas will come from Russia by 2020,<sup>308</sup> and roughly 60 percent by 2030.<sup>309</sup>

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<http://www.balkananalysis.com/2007/01/20/turkey-europepercentE2percent80percent99s-emerging-energy-corridor-for-central-urasian-caucasian-and-caspian-oil-and-gas/>, accessed on 20.02.2008

<sup>307</sup> Paul Belkin, "European Union's Energy Security Challenges", *CRS (Congressional Research Service) Report for Congress*, Order Code RL33636, 7 May 2007, pp. 1-28, p. 10 cited in European Commission Document SEC, 12, 10 January 2007

<sup>308</sup> Sinan Ogan, "Rusya ile Ukrayna Anlaştı: Çıkarmamız Gereken Dersler", 5 January 2006, <http://www.turksam.org/tr/yazilar.asp?kat=29&yazi=713>, accessed on 28.12.2006

<sup>309</sup> Ariel Cohen, "Gas Pipeline Threatens Europe's Energy Security", *The Heritage Foundation*, 30 October 2006, <http://www.speroforum.com/site/article.asp?idCategory=33&idsub=124&id=6335&t=Gas+pipeline+threatens+Europe's+energy+security>, accessed on 15.11.2006 cited in Jeremy Page and Anthony Browne, "Summit Set for Angry Clash over Energy", *The Times*, London, 25 May 2006, [www.timesonline.co.uk/article/0,,5-2196245,00.html](http://www.timesonline.co.uk/article/0,,5-2196245,00.html), accessed on 01.08.2006

Germany, Italy, France and Poland have been the largest consumers of Russian gas. Meanwhile, several EU member states are totally, and a significant number of others are nearly totally, dependent on Russian gas, especially the Central and Eastern European states. In particular, Estonia, Latvia, Lithuania, Slovakia, Finland and Bulgaria are nearly 100 percent dependent on Russia. Roughly 90 percent of Hungary and Poland's natural gas comes from Russia. Belarus and the Czech Republic import nearly 75 percent and Austria imports 60 percent of their natural gas from Russia. Ukraine is not much less dependent as it receives around 40 percent of its natural gas from Russia. Furthermore, Russia supplies 36 percent of Germany's, 27 percent of Italy's, 25 percent of France's natural gas. Also, Turkey receives more than 65 percent of its natural gas from Russia.<sup>310</sup>

Whatever the rate of the dependence of the European states on Russian energy, it reflects the obligatory good relations with their main energy supplier, especially in natural gas. For example, Finland with its almost 100 percent dependence on Russian gas and 70 percent dependence on Russian oil always refrains from any anti-Russian foreign policies, and in several cases it has tried to harmonize the interests of the EU and Russia. Moreover, despite the discussions on Finland's NATO membership in 2004, Finland found withdrawing more agreeable, after Russia had clarified its negative reaction against the possible deployment of NATO troops on its northern border.<sup>311</sup> The situation is clarified by an executive from Gazprom while stating that there was "no need to worry about the expansion of NATO to the East since was to be more than compensated for by the enlargement of Gazprom to the West."<sup>312</sup>

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<sup>310</sup> Judy Dempsey, "Europe Worries over Russian Gas Giant's Influence", *New York Times / International Herald Tribune*, 4 October 2004, <http://www.energybulletin.net/2389.html>, accessed on 01.12.2006; Keith C. Smith, "Security Implications for Russian Energy Policies", Brussels, CEPS (Centre for European Policy Studies), Policy Brief No. 90, January 2006, [shop.ceps.be/downfree.php?item\\_id=1293](http://shop.ceps.be/downfree.php?item_id=1293), accessed on 01.11.2007, pp. 1-4, p. 2

<sup>311</sup> Necdet Pamir and İlyas Kamalov, "Rus Gazı ve Enerjide Bağımlılığın Bedeli", *Stratejik Analiz*, February 2006, <http://www.asam.org.tr/temp/temp9.pdf>, accessed on 03.11.2007, pp. 17-28, pp. 20-21 cited in Aleksey Kraşakov, "Rossiya Perekrayivayet Ekonomičeskuyu Kartı Mira", *Nezavisimaya Gazeta*, 18 Aralık 2005

<sup>312</sup> Elnur Soltanov, "A Political Economy of Russian Foreign Policy: The Effects of Natural Resource-Financial Sectors on the Formation of Russian Foreign Policy in the Context of the International Market", An Unpublished Thesis Submitted to the Graduate School of Social Sciences of the Middle East Technical University- In Partial Fulfillment of the Requirements for the Degree of Master of Science in the Department of International Relations, Ankara: January 2004, p. 77 cited in David

High dependence rates on Russia combining with Russia's efforts to develop new projects and to build new pipelines for the EU market; make the importance of Russia's role in energy security of the EU more explicit. Therefore, the more Russia's energy policy becomes active, the more pressure is put on the EU states. In this respect, Russia's dominance on supplying natural gas to the EU is generally believed to "threaten" European energy security. On the one hand, this energy insecurity issue is related to the increasing influence of the state-run companies, especially Gazprom's efforts to monopolize natural gas pipeline routes and supplies. On the other hand, it is related to Russia's routine use of energy as a political tool to manage its energy politics.

For many countries especially Ukraine, Georgia, and Moldova, Russian-led crises have been an old problem. It originally dates back to the 1990s as a futile attempt to hinder the independence movement of the Soviet Union countries. For instance, when the Baltic States demanded that Russia remove its remaining military forces from the region, in response, Russia cut its supplies against the Baltic States in 1992. Then in 1993 and 1994, it reduced natural gas supplies to Ukraine to pressure Kiev to be under more Russian control.<sup>313</sup> Such cuts have also come after Russian companies failed to gain control over the energy infrastructures of the former Soviet Union states, like Georgia, Latvia and Lithuania. For instance, between 1998 and 2000, Transneft, one of the biggest companies in Russia, ceased the flow of oil to Lithuania nine times to keep non-Russian companies, in particular a US company, out of the race of buying Lithuania's Mazeikai Nafta Refinery, Butinge port facility and pipeline.<sup>314</sup>

President Putin promised cheap natural gas to Belarusian leaders, however, a dispute similar to the Ukrainian one occurred between Russia and Belarus, its most loyal neighbour, in early January 2007. This crisis also affected the flow of the

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Hoffman, "For Yeltsin, Business Prospects Outweighed NATO Threat," *Washington Post*, 27 May 1997

<sup>313</sup> Keith C. Smith, "Security Implications for Russian Energy Policies", Brussels: CEPS (Centre for European Policy Studies), Policy Brief No. 90, January 2006, [shop.ceps.be/downfree.php?item\\_id=1293](http://shop.ceps.be/downfree.php?item_id=1293), accessed on 01.11.2007, pp. 1-4, p. 1 cited in Paul J. D'Anieri, *Economic Interdependence in Ukrainian-Russian Relations*, Albany, NY: State University of New York Press, 1999, p. 78

<sup>314</sup> *Ibid.*, p. 2 cited in Valeria Korzhagina, "Kazakhstan Fume over Lithuanian Oil Deal", *Moscow Times*, 21 November 2005

supply to Europe through the Druzhba oil pipeline.<sup>315</sup> The dispute originated from Russian concerns about a repetition of another coloured revolution in Belarus that Russia wants to unite with.<sup>316</sup> Although the reasons of suspension of the flows have differentiated, the prices, debt arrangements, technical difficulties, sabotage against pipelines; the consequence of Russian discontent has never changed: Russia has repeatedly cut energy supplies as a sign of warning.

All these are stated to raise questions in the EU member states over Russia's reliability as an energy supplier. They are hopefully thought to increase awareness of the EU. Further, the recent natural gas crisis between Ukraine and Russia has been a classic example why the EU should take energy security into account. In light of this crisis, I argue that such crises do not lead the EU states to diversify their suppliers. But instead, they seek for additional "cooperative" grounds with Russia in order to guarantee their energy flows from Russia.

## **5.2. 2006 Ukraine-Russia Natural Gas Crisis and Europe's Energy Security**

The Ukraine crisis was not the first example of Russia's use of energy as a political weapon. Also, it may not to be the last one. Russia has always cut natural gas or oil as an expression of its discontent with the other countries' foreign policies. In this respect, this recent natural gas crisis does not reflect a policy change in Russia.

Russia sold its natural gas less than \$50 per tcm to Ukraine until the crisis. It demanded such a low price in view of its historical ties with Ukraine. It is clear that Russia has a desire to form a Slav Union among Russia, Ukraine and Belarus.<sup>317</sup> In fact, Ukraine is looking for alternative directions while cooperating with Russia,

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<sup>315</sup> Paul Belkin, "European Union's Energy Security Challenges", *CRS (Congressional Research Service) Report for Congress*, Order Code RL33636, 7 May 2007, pp. 1-28, p. 5

<sup>316</sup> Necdet Pamir and İlyas Kamalov, "Rus Gazı ve Enerjide Bağımlılığın Bedeli", *Stratejik Analiz*, February 2006, <http://www.asam.org.tr/temp/temp9.pdf>, accessed on 03.11.2007, pp. 17-28, p. 24

<sup>317</sup> *Ibid.*, p. 19 cited in Anton Nefedov, "Ukrayna Poluçayet Gaz Nije Tsenı, Kotoruyu Za Nego Platyat v Rossiyi", *Komsomolskaya Pravda*, 10 December 2005



despite “Catholic marriage” descriptions, which partners argue all time, but never get divorced.<sup>318</sup>

In the 2005 Ukrainian presidential elections, the Ukrainians decided to vote for the Washington-backed Viktor Yushchenko of the Orange Revolution, one of the coloured revolutions, instead of the Russian-backed candidate Viktor Yanukovich. This resulted in a deterioration of Russian-Ukrainian relations. The Yushchenko government pursued a pro-western foreign policy and firstly promised Ukraine to be a NATO and EU member. Then, announced its plans to build a pipeline system to export oil and natural gas from the Caspian to Ukraine and then Poland in order to decrease dependence on Russian supplies. That policy coincided with the US energy policies. One of the main reasons of Washington’s support for Yushchenko was to reverse the flow of the Brody-Odessa pipeline from the Black Sea port into Poland, clinging Ukraine to the European markets. After that, the Ukrainian government announced another project that is under discussion with France in order to transport Iranian gas. However, such projects would also affect Russian interests by threatening Russian dominance in the energy sector.<sup>319</sup> Thus, “wait and see” policy has not suited Russia and it has preferred to take action to eliminate the current and potential risks of such kinds of opposing efforts against Russian dominance.

Russia had a long-lasting intention to raise the prices on its resources. On the one hand, it was determined to target such a policy to its less friendly neighbours. So Russia and the state-controlled Gazprom expressed their plans of significantly increasing the price of Russian gas to the pro-western government of Ukraine, while accusing Ukraine of stealing Russian gas from the transit pipelines.<sup>320</sup> Gazprom initially demanded higher prices for its natural gas. Although Ukraine imports most of its natural gas from Russia, it did not back away from the dispute and refused to pay higher prices, throughout 2005. Because such a huge increase in natural gas price

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<sup>318</sup> Peter Rutland, “Oil, Politics, and Foreign Policy”, in David Lane (ed.), *The Political Economy of Russian Oil*, Iaham (the US): Rowman and Littlefield Publishers, 1999, pp. 163-188, p. 168 cited in Terrence Hoffman, Stephen Shenfield, and Dominique Arel; *Integration and Disintegration in the Former Soviet Union*, Watson Institute, Brown University, Occasional Paper No. 3, 1997

<sup>319</sup> F. William Engdahl, “Revolution, Geopolitics and Pipelines”, 30 June 2005, [http://www.atimes.com/atimes/Global\\_Economy/GF30Dj01.html](http://www.atimes.com/atimes/Global_Economy/GF30Dj01.html), accessed on 25.12.2006

<sup>320</sup> Gawdat Bahgat, “Europe’s Energy Security: Challenges and Opportunities”, *International Affairs*, Vol. 82, No. 5, October 2006, pp. 961-975, pp. 961-962

would harm the economy which accordingly could easily affect both the public and Parliament support. It was clear that Russia did not welcome the great deal of credits for Ukraine from the West to develop energy projects aiming at shifting the existing Russian routes. In response, just one year after Yushenko came into office, Russia, temporarily cut natural natural gas exports to Ukraine in January 2006, following the dispute on gas prices, knowing that Ukraine had no alternatives for gas supply. According to Necdet Pamir, the crisis was an Ukrainian choice, not a Russian one, from Russian perspective: “In fact what he really wanted to say was something like ‘You preferred to be in the Western Bloc and left our backyard. That is O.K. Then you have to pay my gas the same amount that the Europeans pay. This was your choice. Take it or leave it.’”<sup>321</sup>

Due to the increased complaints and pressure of Europe and the US, Russia did not maintain its position in the dispute. Then both Russia and Ukraine decided to negotiate on the issue and consequently reached a settlement a few days later. Ukraine agreed to pay Gazprom’s demand of \$230 per tcm for natural gas. After they came to terms, natural gas flows to Europe were turned to normal after declining by nearly 30 percent during the crisis.<sup>322</sup>

Firstly, it can be thought that Russia only wanted to get higher prices on gas. Russia is keen on maximizing its profits by higher energy prices. Russia continues to enjoy substantial revenues as long as high prices remain. Although Russia won a 450 percent price increase for its gas, it cannot be understood by only economic terms. It is more complicated than that. Therefore, this crisis should be considered in political terms as an element of Russia’s foreign policy.

The crisis has been obviously related to the context of Russian relations with Ukraine. By this crisis, Russia has applied pressure on the Ukrainian government when it moved away from its political influence. Although the publicly announced reason was “price”, it was clear that the real fact behind Russia’s position had political orientations: the recent “Orange Revolution” in Ukraine and its intention to

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<sup>321</sup> Necdet Pamir, “Energy (In)Security and the Most Recent Lesson: The Russia-Ukraine Crisis”, Ankara: Center for Eurasian Strategies Studies (ASAM), 22 September 2006, <http://www.asam.org.tr/temp/temp111.doc>, accessed on 11.12.2007, pp. 1-26, p. 11

<sup>322</sup> F. William Engdahl, “Ukraine Gas Dispute - Has Putin Gone Nuts?”, [http://www.engdahl.oilgeopolitics.net/Geopolitics\\_\\_Eurasia/Putin\\_s\\_Gas/putin\\_s\\_gas.html](http://www.engdahl.oilgeopolitics.net/Geopolitics__Eurasia/Putin_s_Gas/putin_s_gas.html), accessed on 25.12.2006

join the NATO and the EU.<sup>323</sup> Those approaches have been viewed as a declaration of a sharp break from Moscow's "orbit" by Russia. However, the Russian government has made it clear that it wants Ukraine in its political and economic orbit.

To do so, Russia has used energy in accordance with its politics. Firstly, Russia has differed among its energy partners. Then, it has started to use Gazprom and its energy resources as tools of politics. For instance, in 2003, Putin himself declared that Gazprom is a "powerful political and economic lever of influence over the rest of the world."<sup>324</sup> After that Russia exerted pressure on several countries that have been dependent on supplies. Some said that energy policies, for the most crucial example, controlling the pipelines and gas prices have been used by Russia as the tools of "blackmail". For instance, Ukraine has accused Russia of trying to destabilize the country; the US and the EU have accused it of using its gas as blackmail to independent-minded former members of the Soviet Union.<sup>325</sup> However, the Ukraine crisis has recently made it clear that those tools have more meaning than just being "blackmail": they are instruments of a political power struggle of Russian politics. Thus, Russia's political attitudes towards long dominated Ukraine can be viewed as a motivation to punish Ukraine for its policy changes.

Russia has previously used its energy power in its foreign, economic, political, and security policies. Its energy resources remain to be essential on issues from negotiations to border problems; from military bases to bilateral trade and from integration to economic relations. Sometimes Russia has convinced the energy dependent countries by the threat or at least blackmail of its energy card. Sometimes it has preferred to cut the supply of energy seemingly due to technical reasons or

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<sup>323</sup> Suat Kınıklıoğlu, "Russia, Ukraine and Turkey Energy Security", *Turkish Daily News*, 1 March 2006, [http://www.gmfus.org/publications/article.cfm?parent\\_type=P&id=167](http://www.gmfus.org/publications/article.cfm?parent_type=P&id=167), accessed on 30.10.2006

<sup>324</sup> Paul Gallis, "NATO and Energy Security", CRS (Congressional Research Service) Report for Congress, Order Code: RS22409, 21 March 2006, pp. 1-6, [http://www.usembassy.at/en/download/pdf/nato\\_energy.pdf](http://www.usembassy.at/en/download/pdf/nato_energy.pdf), accessed on 30.10.2007, p. 3-4 cited in "EU's Barroso Demands Natural Gas Supply Assurances from Russia," *Bloomberg News*, 16 March 2006

<sup>325</sup> Sergey Blagov, "Russian Moves Spark 'Gas OPEC' Fears", Moscow, *International Relations and Security Network Security Watch*, 10 June 2006, [www.isn.ethz.ch/news/sw/details.cfm?id=16364](http://www.isn.ethz.ch/news/sw/details.cfm?id=16364), accessed on 09.12.2006

even cut directly without any meaningful reason.<sup>326</sup> Whether there is a reason or not, the targeted countries have always been the ones that have followed policies against Russian interests. Specifically, the Putin Administration demonstrated that particularly gas and oil have been the instruments of projecting its influence not only regionally but also internationally. In brief, Russia's energy resources and its control over the pipeline routes are instruments of Russia's political power struggle.

From this dimension, this crisis has not only been a problem between Ukraine and Russia. The crisis is also about Russia's relations with the US. Hence, the crisis followed Ukraine's efforts to loosen its ties with Russia while strengthening ties with the US. As the US has started to gain a powerful position in Russia's historically tied neighbour, Russia has become determined to counter, at least indirectly, with the current and possible US influence.

What is Russia doing with its gas price policy demands and supply cut-off to Ukraine? The move is one part of a complex series of Russian moves in the ongoing Grand Chess Game. That game is between Washington as sole global superpower and Russia as a reconstructing nuclear power...Russia, which holds far the world's largest known reserves of natural gas, is playing its own energy card with Ukraine as the momentary field of that battle.<sup>327</sup>

From another dimension, the crisis has also been related to the EU. Several European states, whose gas passes through the same pipeline as Ukraine's, have also been affected by this cut. Russia delivers nearly 80 percent of its gas to Europe via pipelines passing through Ukraine. More importantly, this pipeline system is not connected to any other source while transporting substantial amounts of Russian gas.<sup>328</sup> When Ukraine was faced with the natural gas shortage, it found the solution by cutting off some gas from Europe. As a result of those factors, particularly Austria, Italy, Poland, Slovakia, Hungary and Germany were interrupted by this gas crisis, although they were not directly involved. In a matter of hours they reported

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<sup>326</sup> Necdet Pamir and İlyas Kamalov, "Rus Gazı ve Enerjide Bağımlılığın Bedeli", *Stratejik Analiz*, February 2006, <http://www.asam.org.tr/temp/temp9.pdf>, accessed on 03.11.2007, pp. 17-28, p. 20

<sup>327</sup> F. William Engdahl, "Ukraine Gas Dispute - Has Putin Gone Nuts?", [http://www.engdahl.oilgeopolitics.net/Geopolitics\\_\\_\\_Eurasia/Putin\\_s\\_Gas/putin\\_s\\_gas.html](http://www.engdahl.oilgeopolitics.net/Geopolitics___Eurasia/Putin_s_Gas/putin_s_gas.html), accessed on 25.12.2006

<sup>328</sup> Sergey Blagov, "Russian Moves Spark 'Gas OPEC' Fears", Moscow, *International Relations and Security Network Security Watch*, 10 June 2006, [www.isn.ethz.ch/news/sw/details.cfm?id=16364](http://www.isn.ethz.ch/news/sw/details.cfm?id=16364), accessed on 09.12.2006

substantial drops in their flows. “Had the dispute between Gazprom and Ukraine lasted more than a few days, those European countries may have had a difficult time replacing that gas with a backup supply.”<sup>329</sup>

The crisis has also had significant impacts on Turkey. It has created an apprehension over Turkey’s over-dependence on Russia and sustainability of Russian gas to the Turkish market. Furthermore, it has caused a debate over the Russian gas price. Gazprom officials declared that Turkey would pay \$260 per tcm gas by 2006, after Ukraine claimed that Russia had given gas to Turkey at a lower price than Ukraine. Apparently, it has been one of the most expensive gases supplied by Russia.<sup>330</sup> However, according to Gazprom officials, Turkey was “lucky”. Because, it has started to receive most of its natural gas via Blue Stream but not via Ukraine.<sup>331</sup>

Although this crisis did not last too long to put more pressure on various countries by Russia, it has sent clear messages not only to Ukraine, but also to the rest of Europe. The Ukraine crisis is not important for being the first target to be cut off from energy resources by Russia and its Gazprom. It is important because European states have been affected by this interruption so much so that they have realized that lessons have been learned that will be useful for future assessments. In this regard, the dispute between Russia and Ukraine is generally stated to have had a “sobering” impact on the EU as a whole.

First of all, the European countries voiced loudly their complaints to Russia, not to Ukraine. Russia’s reputation as a “reliable” energy supplier has eventually begun to be questioned by the European leaders. However, all the Russian authorities refused to accept those objections. They declared that Russia had never failed to fulfill its energy commitments, even in the Cold War era.<sup>332</sup>

Secondly, they have seen that they could be affected by such disputes and unprecedented interruptions, as a result of this crisis. Because of the perceived

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<sup>329</sup> Vince L. Morelli, “The European Union’s Energy Security Challenges”, *CRS Report for Congress*, Code: RL33636, 11 September 2006, pp. 1-31, p. 25

<sup>330</sup> Necdet Pamir and İlyas Kamalov, “Rus Gazı ve Enerjide Bağımlılığın Bedeli”, *Stratejik Analiz*, February 2006, <http://www.asam.org.tr/temp/temp9.pdf>, accessed on 03.11.2007, pp. 17-28, pp. 19-20 cited in Seçkin Ürey, “BOTAŞ’ın Rakamları da Bakanı Doğrulamıyor”, *Milliyet*, 6 January 2006

<sup>331</sup> Suat Kınıklıoğlu, “Russia, Ukraine and Turkey Energy Security”, *Turkish Daily News*, 1 March 2006, [http://www.gmfus.org/publications/article.cfm?parent\\_type=P&id=167](http://www.gmfus.org/publications/article.cfm?parent_type=P&id=167), accessed on 30.10.2006

<sup>332</sup> Nina Kulikova, “A Shifting Security Paradigm”, 26 December 2006, <http://global-energy-security.blogspot.com/2006/12/shifting-security-paradigm.html>, accessed on 27.10.2007

vulnerability of the crisis, the European states continue to fear a repetition of such interruptions of supplies. Therefore, this crisis has forced European leaders to re-think their energy policies.

Moreover, they have started to question Russia's role in their energy politics. Russia's actions have raised the awareness of European states about the energy security as their vulnerability of the supply dependence has become apparent. Then, critics of such an over-dependence on Russian energy resources, especially on natural gas, have been expressed. In response to Russia's monopoly, the appropriate policies for a concrete solution have begun to be discussed. The EU Energy Commissioner Andris Piebalgs stated that Europe needed "a more cohesive policy on security of energy supply." He also added that it was time for Europe to "undertake a major review of European energy policy."<sup>333</sup>

The success of such a fundamental challenge basically depends on several efforts to increase energy security of the EU and enhance sustainability. Firstly, the long-term security of supply and diversification of routes have to be the foremost priority. Related to that policy, developing strong partnerships with energy producing and transit regions are needed. Secondly, the EU-member states have to foster common energy objectives and establish an internal system to provide dependable and secure energy supplies. Thirdly, they should improve diversification of energy sources. Finally, a particular importance has to be paid on the development of indigenous energy sources.<sup>334</sup>

This event has also made Turkey's vulnerability to Russian threats more obvious. Thus, most analysts emphasized a rethinking of Turkish energy diversification needs. "We all saw what happened in Ukraine," says Yalım Eralp, a retired diplomat. "By offering an alternative energy corridor, Turkey can both help Europe and increase its own attractiveness in European capitals."<sup>335</sup> Since both Turkey and the EU are highly dependent on Russian resources, their similar

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<sup>333</sup> Vince L. Morelli, "The European Union's Energy Security Challenges", *CRS Report for Congress*, Code: RL33636, 11 September 2006, pp. 1-31, p. 5 cited in Andris Piebalgs, speech before the European Fossil Fuels Forum, 19 October 2005

<sup>334</sup> Paul Belkin, "European Union's Energy Security Challenges", *CRS (Congressional Research Service) Report for Congress*, Order Code RL33636, 7 May 2007, pp. 1-28, p. 8

<sup>335</sup> Nicholas Birch, "Caspian Pipeline to Bring Oil, Relief for West", *The Washington Times*, 13 July 2006, [http://www.csis.org/index.php?option=com\\_csis\\_press&task=view&id=1983](http://www.csis.org/index.php?option=com_csis_press&task=view&id=1983), accessed on 25.12.2006

situations are expected to close up the EU and Turkey on a mutual problem. In this respect, Turkey and the EU's common concerns over Russia's monopolization efforts are claimed to enhance their cooperation on diversification of their routes. Accordingly, they are expected to form a common strategy toward Russia to prevent its dominant position. It means that they should come together to engage in projects alternating and bypassing the Russian routes on the interdependence ground. This alliance might serve Turkey's and the EU's interests. Hence, Russia's energy policies would not be as influential as it had been.

In contrast to the expectations, the EU states keep on improving their energy cooperation with Russia instead of diversifying their routes with several pipelines passing through Turkey. In order to make this reality more obvious, it is appropriate to take the EU's energy policies into consideration.

### **5.3. The EU's Response to Russia's Assertive Natural Gas Diplomacy**

Under current conditions, the EU needs to address a set of energy policies. It marks the importance of reducing energy demands to its members, since it cannot discover new European energy fields to supply a significant amount of demand by domestic production. The EU also emphasizes importance of renewables in relation with its energy resource diversification efforts. Accordingly, it calls for the protection of the environment, especially by combatting carbon emissions, accordingly for use of environmentally friendly renewables. It promotes energy conservation and efficiency. It also tries to create energy stock systems and energy sharing plans in an emergency, like under the IEA.<sup>336</sup> Among other energy policies, creating a unified internal energy market, diversifying European supply sources and setting up energy security policies are expressed as the most important EU energy policies. However, providing energy security through strong energy partnership with Russia has attracted greater efforts in the EU.

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<sup>336</sup> Anthony H. Cordesman and Arleigh A. Burke, "Rethinking Global Energy Security: Geostrategic and Economic Risks", Washington DC: *The Center for Strategic and International Studies*, 9 November 2006, [www.csis.org/burke](http://www.csis.org/burke), accessed on 06.12.2006, pp. 1-56, p. 13, 54-56; Meliha Benli Altunışık, "Avrupa Birliği'nde Petrol ve Doğal Gaz Piyasalarına Yönelik Politikalar ve Türkiye Uygulamaları", in Yavuz Ege, Gamze Öz, Tuğrul Arat, Sanem Baykal, Aylin Ege, Meliha Benli Altunışık and Hakan Ercan, *AB'nin Enerji Politikası ve Türkiye*, Ankara: Europa Bridges of Knowledge Programme, Ulusal Politika Araştırmaları Vakfı, May 2004, pp. 143-167, p. 153-154

The EU Commission's "regulatory role" in energy policy has been visibly increasing with its support, energy associations, recommendations, and measures.<sup>337</sup> It recognizes energy security as the determining factor of the EU's energy policy regulations. In this regard, the Commission issued Green Papers in 2000 and 2006. Both Green Papers emphasize energy security.<sup>338</sup> Accordingly, they put forward several prior options and suggestions for both the EU and its members to pursue a common and coordinated European energy strategy. The Green Papers call for opening the energy markets both economically and politically, dismantling protectionist policies, and adopting a coherent external energy policy to provide energy security through a single internal energy market. To achieve that goal, the 27 membered EU has to support a common energy policy within the Union. On that ground, the European Commission launched a document titled "An Energy Policy for Europe" on 11 January 2007.<sup>339</sup>

The EU also aims to improve its energy security through the process of "dual integration" which involves both the eastward enlargement of the EU and the European market integration.<sup>340</sup> According to Loyola de Palacio, energy policy will be influential in creating an integrated single European market. In this respect,

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<sup>337</sup> Francis McGowan, "Energy Policy in the EU- Diversity or Convergence?", in Francis McGowan (ed.), *European Energy Policies in a Changing Environment*, Heidelberg: Energy Economics and Policy, ENER (The European Network for Energy Economics Research), Physica-Verlag, 1996, pp. 1-20, p. 15, 16

<sup>338</sup> Vince L. Morelli, "The European Union's Energy Security Challenges", *CRS Report for Congress*, Code: RL33636, 11 September 2006, pp. 1-31, p. 7 cited in EU Energy Directorate General, <http://www.ec.europa.eu/energy> and Jonathan Stern, "The New Security Environment For European Gas: Worsening Geopolitics and Increasing Global Competition for LNG", *Oxford Institute for Energy Studies*, NG 15, No. 286084, October 2006, pp.1-31, p. 5

<sup>339</sup> Mamuka Tsereteli, "The Black Sea/Caspian Region in Europe's Economic and Energy Security", in Svante E. Cornell and Niklas Nilsson (eds.), *Europe's Energy Security Gazprom's Dominance and Caspian Supply Alternatives*, Singapore: Central Asia-Caucasus Institute Silk Road Studies Program-A Joint Transatlantic Research and Policy Center, 2008, <http://www.isdp.eu/files/publications/scornell/sc08europesenergy.pdf>, accessed on 08.05.2008, pp. 41-56, p. 53

<sup>340</sup> Coby van der Linde (Project leader), "Study on Energy Supply Security and Geopolitics (Final Report)", The Hague: Clingendael International Energy Programme (CIEP), January 2004, [http://www.nog.se/files/EU\\_energy\\_strategy\\_2004.pdf](http://www.nog.se/files/EU_energy_strategy_2004.pdf), accessed on 03.01.2007, pp. 3-281, p. 29



interconnected energy infrastructure and network systems within Europe are supposed to contribute to the EU's energy dialogue among its members.<sup>341</sup>

On the EU side, it is clear that the EU is unlikely to sponsor all the pipeline projects to come to reality. Due to the requirement of expensive construction processes, the realization of the network projects depends on the EU's financial capacity and its persuasion of member states. However, from the EU members' side, there are doubts on the EU's ability to create an internal market and to make its members act coherently at the EU level. Instead, the EU members largely act individually in accordance with their own energy interests, while making the cooperation among the EU members almost impossible.

This is mainly because of the substantial number of national sovereignty rights of the member-states on this area. They refrain from leaving some of their rights especially on sensitive areas like economy, trade and energy, in favor of the EU's institutions. In short, they want to maintain their sovereignty on energy issues. Hence, issues related to the energy policy, including oil and natural gas agreements, development of energy infrastructures, the use of natural gas and oil; mainly are taken by each member at national levels. This results in energy policy differences within the EU. Therefore, it is generally stated that "convergence on energy policy in the EU" is not a reality yet.<sup>342</sup>

In the aftermath of the Ukraine-Russia gas crisis, the EU has thought to become more conscious not to rely on a single source and not to label Russia as a reliable energy partner. Since then, diversification, in terms of alternative transport routes, has become one of the major concerns of the EU to ensure its supply security.

The EU needs alternative energy suppliers in addition to Russia. Due to the increased importance of diversification of routes, pipeline politics have also gained

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<sup>341</sup> Loyola de Palacio, "Reforming the Gas Market", in H. Kalicki and David L. Goldwyn (eds.), *Energy & Security: Toward a New Foreign Policy Strategy*, Washington DC: Woodrow Wilson Center Press, 2005, pp. 175-196, pp. 175, 176, 184

<sup>342</sup> Dominique Finon and John Surrey, "The Future of EU Energy Policy", in Francis McGowan (ed.), *European Energy Policies in a Changing Environment*, Heidelberg: Energy Economics and Policy, ENER (The European Network for Energy Economics Research), Physica-Verlag, 1996, pp. 165-183, pp. 166, 167. For further information: Francis McGowan, "Energy Policy in the EU- Diversity or Convergence?", in Francis McGowan (ed.), *European Energy Policies in a Changing Environment*, Heidelberg: Energy Economics and Policy, ENER (The European Network for Energy Economics Research), Physica-Verlag, 1996, pp. 1-20, pp. 1, 5; Paul Belkin, "European Union's Energy Security Challenges", *CRS (Congressional Research Service) Report for Congress*, Order Code RL33636, 7 May 2007, pp. 1-28, pp. 1, 13

acceleration. Accordingly, there are several energy-rich suppliers from the Middle East, North Africa and the Caspian Basin capable of providing additional energy to Europe that would bypass Russian territories. For instance, the Middle East has high levels of political instability that results in unreliable supplies. Moreover, the EU once turned its face towards Russia when the EU understood that it could not only depend on the Middle Eastern supplies as the region defamed its name with the oil disruption in early 1970s. On the other hand, the LNG options need undersea pipelines to be developed. Therefore, they are more costly than transporting natural gas by pipelines and less economical for short distances. Supplying natural gas from Algeria, for instance, requires more investment than creating pipeline networks from the Caspian region.<sup>343</sup>

Among others, the Caspian energy resources particularly attract attention of the EU in diversifying supplies. The Caspian region enjoys many advantages against the others; the region has a relative political and financial stability and it is close to Europe with its sufficient amount of oil and natural gas resources.<sup>344</sup> The 2000 Green Paper especially focuses on uninterrupted energy flow through the Caspian Sea region. In this respect, the Paper supports the political and economic cooperation with the region's energy-rich states to obtain energy in a more diversified way. However, Europe has to face up to the massive investment needed in oil and natural gas pipeline infrastructures in a timely manner.

At the point of deciding the possible routes to carry natural gas from the Caspian region to the Europe, Turkey has an extremely unique role with its proximity to both regions. Turkey wants to be an important energy corridor to the EU. In this regard, it needs substantial support from the EU, both in economic and political terms. However, even providing those supports, do not eliminate additional difficulties for cooperation among the Caspian region countries, Turkey and the EU.

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<sup>343</sup> Ariel Cohen, "Gas Pipeline Threatens Europe's Energy Security", *The Heritage Foundation*, 30 October 2006, <http://www.speroforum.com/site/article.asp?idCategory=33&idsub=124&id=6335&t=Gas+pipeline+t+reatens+Europe's+energy+security>, accessed on 15.11.2006, cited in Jeremy Page and Anthony Browne, "Summit Set for Angry Clash over Energy", *The Times*, London, 25 May 2006, [www.timesonline.co.uk/article/0,,5-2196245,00.html](http://www.timesonline.co.uk/article/0,,5-2196245,00.html), accessed on 1.08.2006

<sup>344</sup> Mehmet Efe Biresselioğlu, "Turkey: Europe's Emerging Energy Corridor for Central Eurasian, Caucasian and Caspian Oil and Gas", 20 January 2007, <http://www.balkananalysis.com/2007/01/20/turkey-europepercentE2percent80percent99s-emerging-energy-corridor-for-central-urasian-caucasian-and-caspian-oil-and-gas/>, accessed on 20.02.2008

The situation becomes more complex when Russian interests are taken into account. In order to continue to be a natural gas giant, Russia tries to maintain its control over the Caspian region's resources and pipeline routes.

Furthermore, several EU member states are concerned about their domestic markets. They are reluctant to act against Russia, since that may endanger their own interests. They insist on forming closer relationships with Russia, as a first step to take measures for the sake of their security of supply acquired mostly from Russian gas. Meanwhile, they agree on bilateral deals with Russia that will provide long-term supply of natural gas and oil, while others try to resist Russian control. Russia also prefers separate deals with the EU members in order to maximise greater benefits. Zeyno Baran describes Russia's bilateral energy agreements with the EU states as a "divide and conquer" tactic.<sup>345</sup> What is more, not only individual EU states, but also the EU institutions support "dialogue" with Russia on energy issues. The EU's initial measures against Russia's dominance on energy were stricter than its following efforts. The EU has been very passive to accurately respond Russian energy dominance in the EU. Nevertheless, the EU's measures on Russia have not been adopted by Russia.

In 1991, the EU launched the Energy Charter Declaration with a framework of rules and agreements designed to promote energy cooperation. Then the Energy Charter Treaty (ECT) was signed in 1994 and came into legal force in 1998. Since 1994, the EU has pursued a plan to promote energy cooperation among the member states, provide non-discriminatory and market-based conditions for trade and transit, and diversify Europe's energy supply by strengthening legally binding rules which covers non-discriminatory conditions mainly for trade, transit, investment and arbitration of disputes on energy issues.<sup>346</sup> As an initial step, Brussels has wanted to set clearer rules and accordingly has urged Russia to ratify the Energy Charter that

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<sup>345</sup> Zeyno Baran, "Developing a Cohesive EU Approach to Energy Security", in Svante E. Cornell and Niklas Nilsson (eds.), *Europe's Energy Security Gazprom's Dominance and Caspian Supply Alternatives*, Singapore: Central Asia-Caucasus Institute Silk Road Studies Program- A Joint Transatlantic Research and Policy Center, 2008, <http://www.isdp.eu/files/publications/scornell/sc08europesenergy.pdf>, accessed on 08.05.2008, pp. 155-166, p. 155

<sup>346</sup> Vince L. Morelli, "The European Union's Energy Security Challenges", *CRS Report for Congress*, Code: RL33636, 11 September 2006, pp. 1-31, p. 3 cited in "The Energy Charter Treaty: An Introduction", Energy Charter Organization, <http://www.encharter.org>

provides a basis of competition in the energy sector and has attempted to regulate the practices of Gazprom. Also, the EU wants Russia to allow European energy companies to invest in Russia's energy industry.<sup>347</sup> Additionally, according to the Treaty's Transit Protocol, Russia should agree to implement a number of treatments, including opening up access to the pipeline systems in Central Asia, for the sake of the foreign investors have been underlined by the EU. However, Russia has long refused to ratify the Charter and to meet the EU demands. Moreover, the then Russian President Putin has rejected the EU proposals, noting that Russia has not been offered fair arrangements in return. Indeed, in many cases, it has put efforts to protect its monopoly and continue to buy Central Asian resources cheaply, also to exclude foreign investors from the energy sector.<sup>348</sup> Thus, the EU's failure of avoiding the Ukraine crisis hardly surprised anyone.

Furthermore, the 2000 Green Paper focuses on an "energy partnership" between the EU and Russia. The Paper states that "Specific measures should be carefully studied...These measures should be finalized within the framework of a cooperation and partnership agreement between European Union and Russia."<sup>349</sup> The partnership was formalized with the EU-Russia Energy Dialogue, in other words with the Putin-Prodi Initiative, on 30 October 2000 in Paris. The Dialogue involves cooperation on energy, long-term agreement, modernising infrastructures, development of transport routes to Europe, mobilizing European investments and environmentally friendly technology.<sup>350</sup> Additionally, the March 2006 Green Paper emphasizes enhancing the existing energy partnership with Russia.<sup>351</sup>

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<sup>347</sup> Ariel Cohen, "Gas Pipeline Threatens Europe's Energy Security", *The Heritage Foundation*, 30 October 2006, <http://www.speroforum.com/site/article.asp?idCategory=33&idsub=124&id=6335&t=Gas+pipeline+t+hreatens+Europe's+energy+security>, accessed on 15.11.2006

<sup>348</sup> "EU Presses Russia to Accept New Rules in Energy Sector", *EUbusiness Ltd.*, 20 October 2006, <http://www.eubusiness.com/Energy/061020173446.wttwbx7g>, accessed on 25.10.2006

<sup>349</sup> John Roberts, "The Turkish Gate: Energy Transit and Security Issues", *Turkish Policy Quarterly*, Vol. 3, No. 4, Winter 2004, pp. 17-44, p. 30-31 cited in "Green Paper- Towards a European Strategy for the Security of Energy Supply", The European Commission, Brussels, November 2000, p. 74

<sup>350</sup> "EU-Russia Energy Partnership", <http://europa.eu.int/scadplus/leg/en/lvb/l27055.htm>, accessed on 26.12.2006

<sup>351</sup> Vince L. Morelli, "The European Union's Energy Security Challenges", *CRS Report for Congress*, Code: RL33636, 11 September 2006, pp. 1-31, p. 7 cited in EU Energy Directorate General, <http://www.ec.europa.eu/energy> and Jonathan Stern, "The New Security Environment For European

Amy Myers Jaffe and Robert A. Manning argue that “Russia needs Europe just as Europe needs Russia.”<sup>352</sup> Thus, they benefit from the interdependence and the two sides will determine the future of their relations in compliance with this result in energy politics. It is a fact that Europe is the most consuming and well-paying market for Russia. Meanwhile, since Russian infrastructure is decaying, it needs a significant amount of investments. Not only does the EU provide investments in terms of finance, but also technology and knowledge. On this ground, some scholars state that this will pressure Russia to set good relations with the EU member states.<sup>353</sup> However, I argue that Russia, with oil and natural gas, has a more advantageous position than the EU has against itself.

There are also several alternative markets for Russia’s oil and natural gas. Many of the Gazprom officials have warned the EU leaders not to forget about the competition for energy resources and new markets. They especially threaten to look eastward, for example China and India, for their future oil and natural gas exports.<sup>354</sup> Furthermore, Russian Foreign Minister Igor Ivanov has not refrained from publicly stating that “Europe needs Russia more than Russia does...Oil and natural gas pipelines are blood vessels to the economic body of Europe. But by no means the whole organism.” at one of the OSCE (Organisation for Security and Cooperation in Europe) meetings.<sup>355</sup>

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Gas: Worsening Geopolitics and Increasing Global Competition for LNG”, *Oxford Institute for Energy Studies*, NG 15, No. 286084, October 2006, pp.1-31, p. 5

<sup>352</sup> Amy Myers Jaffe and Robert A. Manning, “Russia, Energy and the West”, *Survival*, The International Institute for Strategic Studies, Vol. 43, No. 2, Summer 2001, pp. 133-152, p. 140 cited in Haig Simonian, “Russia Seeks to Strengthen Ties with EU”, *Financial Times*, 27 November 2000, p.7

<sup>353</sup> Elnur Soltanov, “A Political Economy of Russian Foreign Policy: The Effects of Natural Resource-Financial Sectors on the Formation of Russian Foreign Policy in the Context of the International Market”, An Unpublished Thesis Submitted to the Graduate School of Social Sciences of the Middle East Technical University- In Partial Fulfillment of the Requirements for the Degree of Master of Science in the Department of International Relations, Ankara: January 2004, p. 9, 66 and Cohen, Ariel Cohen, “Gas Pipeline Threatens Europe’s Energy Security”, *The Heritage Foundation*, 30 October 2006, <http://www.speroforum.com/site/article.asp?idCategory=33&idsub=124&id=6335&t=Gas+pipeline+treatens+Europe's+energy+security>, accessed on 15.11.2006

<sup>354</sup> Ahto Lobjakas, “Russia: EU Maintains Codependent Energy Relationship”, Brussels: 11 May 2006, <http://www.rferl.org/featuresarticle/2006/05/ff605d50-df88-46a9-9f0f-86b88350d1c1.html>, accessed on 04.12.2006

<sup>355</sup> Amy Myers Jaffe and Robert A. Manning, “Russia, Energy and the West”, *Survival*, The International Institute for Strategic Studies, Vol. 43, No. 2, Summer 2001, pp. 133-152, p. 140 cited in Haig Simonian, “Russia Seeks to Strengthen Ties with EU”, *Financial Times*, 27 November 2000, p.7

While being aware of its superiority to the EU, Russia is not expected to leave its dominance in the energy sector. Hence, seemingly the EU much depends on the decisions of Russia, since the EU is short of the ability to act collectively. The European states generally would not hesitate to make additional investment in Russian projects to meet their increasing energy demands. Ironically, this will make them more insecure, not solely in energy terms, but by all means. A dependent energy partnership with Russia will make Russia's hand stronger in the EU's future political approaches.

Likewise, it seems unlikely that Russia is ready to accept the EU conditions, while its oil and natural gas are the only tools signaling Russia as one of the main actors in the world politics. It is impossible for the EU to have Russia's support to get access to the Caspian region, since Russia also relies on cheap Central Asian energy resources. Therefore, the EU's energy dialogue policy with Russia to ensure its energy security has been reversed by Russian initiatives and attempts.

In order to at least partially compensate for the collapse of the ECT as an instrument to secure Russian energy supplies, the EU succeeded in achieving an "energy partnership" with Russia...But, in sum, it has to be acknowledged that both policy initiatives, the Charter Treaty and the Energy Partnership, fall short of guaranteeing energy delivery from Europe's most important energy supplier.<sup>356</sup>

If this continues, those European countries will provide Russia more and more influence in their internal political decision-making processes. Therefore, the individual dependence of those states will increase. Much more significantly, they risk the EU approach to apply collective pressure on Russia. As a result of that, a common strategy on energy policies cannot be presented at the EU level, despite the Commission's regulatory role in energy policy. Eventually, they cannot diversify their routes, since such decisions firstly requires political coherence on energy issues within the EU. Furthermore, it is clear that great investments are needed to realize the pipeline projects for the sake of diversification.

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<sup>356</sup> Susanne Peters, "Coercive Western Energy Security Strategies: 'Resource Wars' as a New Threat to Global Security", in Philippe Le Billon (ed.), *The Geopolitics of Resource Wars- Resource Dependence, Governance and Violence*, London: Frank Cass, 2005, pp. 187-212, p. 206

Apparently, the current situation continues. Germany, the EU's biggest Russian gas importer, largely perceives deals with Russia as a safer way of ensuring its energy security. Such deals are not merely limited to Germany. Italy, France, Belgium, Austria, Slovenia and Hungary have also recently negotiated with Russia to build pipelines or to extend the existing pipelines. For those states, Russia's role as a key supplier makes it "a vital strategic partner who cannot be ignored or antagonized".<sup>357</sup>

The following part of the thesis will focus on the new pipeline agreed on between Germany and Russia. By that pipeline, the EU states' emergence as energy "partners" of Russia is aimed to be explained. Despite diversification and anti-Russian monopolization expectations within the EU, enhanced cooperations with Russia undermine other pipeline projects. What is more, such interests to ensure their own energy security hinder coordinated energy EU approaches. This new pipeline reveals how Russian energy policy has been successful to manipulate the EU states. As a result, it becomes more and more difficult for Turkey to transport Caspian energy to the EU.

#### **5.4. Emerging Significance of the Northern Europe Gas Pipeline in the EU-Russia Energy Cooperation**

Ukraine relatively enjoyed the power of being a transit country, despite its weakness in obtaining huge amounts of natural gas from Russia during the 2006 Ukraine-Russia natural gas crisis. In this respect, the crisis has prompted Russia to deal with the transit country problem. Russia has long wanted to diminish the influence of all transit countries, including Ukraine. Therefore, it has focused on direct routes to transport Russian energy supplies to Europe. By excluding transit countries from its energy routes, Russia will have economic and political benefits. This will also make Russia's hand stronger against transit countries by eliminating their potential influences on Russian energy routes. Additionally, those countries will be deprived of substantial transit revenues or other profits that being a transit country provides.

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<sup>357</sup> Vince L. Morelli, "The European Union's Energy Security Challenges", *CRS Report for Congress*, Code: RL33636, 11 September 2006, pp. 1-31, p. 12 cited in William Drozdiak, "Russia: More Awkward, But Still Indispensable," *European Affairs*, Spring/Summer 2006

The recent natural gas crisis has accelerated Russia's efforts in this way. Not surprisingly, Russia has given priority to the development of the new export routes. The focus has especially been on construction of the Northern Pipeline or commonly known as the Northern Europe Gas Pipeline (NEGP) with Germany. The agreement was signed by the then President Vladimir Putin and Chancellor Gerhard Schroeder, just before Schroeder left office, in Berlin in 8 September 2005.<sup>358</sup>

The pipeline will begin from northwest Russia, go under the Baltic Sea and end in northern Germany. While directly linking the two countries, the pipeline will be a very strategic gain for Russia, since it bypasses the third countries, especially Ukraine, Belarus, and Poland. Thus, the pipeline reduces Russia's dependence on transit routes.

The partners have agreed to start up the Northern Europe Gas Pipeline Company (NEGPC), a Russian-German joint venture under an agreement in late 2005. The Russian state-controlled and world's natural gas monopoly Gazprom owns 51 percent of the shares as well as the exclusive right to export natural gas through the pipeline. The largest German natural gas companies BASF and E.ON each own 24.5 percent.<sup>359</sup> Further, it is announced that a third partner, Gaz de France and Dutch Gasunie could obtain a stake in the project.

The construction of the NEGP began on 9 December 2006. The whole project is generally estimated to cost \$5.7 billion, despite the Gazprom estimation of \$4.7 billion.<sup>360</sup> The first supply line of the pipeline is planned to begin operation in 2010 with an annual capacity of 27.5 bcm of natural gas. After completion of the second supply line in 2013, the pipeline's capacity will reach up to 55 bcm, depending on the operation mode.<sup>361</sup> The 1200 km long pipeline will bring Russian gas to a northeast German port. From there it could continue to provide natural gas to

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<sup>358</sup> Nina Kulikova, "Trans-Baltic Pipeline Moves Ahead", 28 November 2005, <http://www.russiaprofile.org/business/2005/11/28/804.wbp>, accessed on 09.12.2006

<sup>359</sup> *Ibid.*

<sup>360</sup> Ariel Cohen, "Gas Pipeline Threatens Europe's Energy Security", *The Heritage Foundation*, 30 October 2006, <http://www.speroforum.com/site/article.asp?idCategory=33&idsub=124&id=6335&t=Gas+pipeline+t+hreatens+Europe's+energy+security>, accessed on 15.11.2006 cited in "German, Russian Officials Launch Work on Controversial Baltic Pipeline", Agence France-Presse, 9 December 2005

<sup>361</sup> *Ibid.*, cited in Owen Matthews and Anna Nemtsova, "Rolling the Baltic Waters", MSNBC.com, 23 January 2006



Sweden, Finland, the Netherlands, the UK, and other countries.<sup>362</sup> Therefore, construction of the NEGP will expand the natural gas transport system of Russia in Europe and diversify its supply flows.

For Germany, the pipeline will create interdependence between them and foster their relations. Besides its political benefits, Germany sees the NEGP as a solution to diversify its energy routes. Germany aims to secure its energy supply by this pipeline, since it is Russia's largest trading partner by consuming more than 35 percent of natural gas from Russian supply.<sup>363</sup> If the pipeline will transport natural gas to the rest of Europe, it will also be advantageous to Germany since it will be the main distributor of Russian gas.<sup>364</sup> Moreover, it is argued that Germany has no interests from the involvement of other states in the project as the directly linking pipeline means a cheaper supply for Germany. Additional to that, the transit countries could have the ability to make Germany dependent on their policies.<sup>365</sup>

However, a significant number of EU member states, particularly Poland and Lithuania are vehemently opposed to this pipeline project. For instance, Kwasniewski, the former President of Poland, compared this German-Russian cooperation to the one established between Stalin and Hitler before World War II which came to an end with the Molotov-Ribbentrop Pact (1939), sharing Europe between them.<sup>366</sup> Romania's President Basescu went further than that by stating

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<sup>362</sup> Nina Kulikova, "Trans-Baltic Pipeline Moves Ahead", 28 November 2005, <http://www.russiaprofile.org/business/2005/11/28/804.wbp>, accessed on 09.12.2006

<sup>363</sup> Judy Dempsey, "Winter Chill from Russia- Again", 9 January 2007, <http://global-energy-security.blogspot.com/2007/01/winter-chill-from-russia-again.html>, accessed on 27.10.2007

<sup>364</sup> Nina Kulikova, "Trans-Baltic Pipeline Moves Ahead", 28 November 2005, <http://www.russiaprofile.org/business/2005/11/28/804.wbp>, accessed on 09.12.2006

<sup>365</sup> F. William Engdahl, "Ukraine Gas Dispute - Has Putin Gone Nuts?", [http://www.engdahl.oilgeopolitics.net/Geopolitics\\_\\_\\_Eurasia/Putin\\_s\\_Gas/putin\\_s\\_gas.html](http://www.engdahl.oilgeopolitics.net/Geopolitics___Eurasia/Putin_s_Gas/putin_s_gas.html), accessed on 25.12.2006

<sup>366</sup> Necdet Pamir and İlyas Kamalov, "Rus Gazı ve Enerjide Bağımlılığın Bedeli", *Stratejik Analiz*, February 2006, <http://www.asam.org.tr/temp/temp9.pdf>, accessed on 03.11.2007, pp. 17-28, p. 26 cited in Robert Leicht, "Şreder I Gazprom- Ostayetsya Zagadkoy, Pocemu Kançler ne Uşel v Otstavku 22 Maya", 19 Aralık 2005, <http://www.inosmi.ru/print/224392.html>

“Europe’s dependence on Russian gas monopoly Gazprom...could be the biggest threat to the region since the former Soviet Union’s army.”<sup>367</sup>

These reactions are firstly because of such a project would undermine their importance. For instance, Russia delivers its natural gas via Belarus that passes through Poland. It is clear that Poland benefits from this existing pipeline network passing through the Baltic States. The pipeline strengthens Poland’s role in the energy politics while supplying energy to the country. Beside its political and geographical benefits, it provides economic gains. Thus, Poland’s negative reaction is understandable as the pipeline directly constructed between Russia and Germany give damages to its economic interests. Among other things, Poland will lack considerable transit revenues. Moreover, especially transit countries fear the possible future disruptions as they will not be connected to the new project. This situation will make them more vulnerable and they could encounter more pressure or shocks since Russia could cut off their natural gas without disturbing the rest of the European states.<sup>368</sup> So they believe they could not ensure reliable energy supplies from Russia. It is particularly a crucial consequence for Poland, a country which Russia cannot come to an agreement with. Therefore, they want to be included in the NEGP project. In my opinion, it is interesting to note that even Poland is not against a Russian gas pipeline, but its exclusion from the new project.

In addition, Swedish officials have expressed their concerns that Russia will increase its military presence in the Baltic Sea with the help of the pipeline.<sup>369</sup> Apart from those objections, the Baltic States voiced their serious environmental objections related to the negative ecological impact on the Baltic Sea having a unique and sensitive ecosystem.<sup>370</sup>

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<sup>367</sup> Vince L. Morelli, “The European Union’s Energy Security Challenges”, *CRS Report for Congress*, Code: RL33636, 11 September 2006, pp. 1-31, p. 13 cited in Traian Basescu, in a speech to the Jamestown Foundation, Washington D.C., July 2006

<sup>368</sup> “EU Economy: Energy Relations with Russia”, 18 October 2006, [http://www.viewswire.com/index.asp?layout=VWArticleVW3&article\\_id=341293619](http://www.viewswire.com/index.asp?layout=VWArticleVW3&article_id=341293619)

<sup>369</sup> Paul Belkin, “European Union’s Energy Security Challenges”, *CRS (Congressional Research Service) Report for Congress*, Order Code RL33636, 7 May 2007, pp. 1-28, p. 4 cited in “Sweden Afraid of Russian Spooks,” *Spiegel Online*. November 15, 2006

<sup>370</sup> Ariel Cohen, “Gas Pipeline Threatens Europe’s Energy Security”, *The Heritage Foundation*, 30 October 2006, <http://www.speroforum.com/site/article.asp?idCategory=33&idsub=124&id=6335&t=Gas+pipeline+threatens+Europe's+energy+security>, accessed on 15.11.2006 cited in “The Baltic Sea Designated as a

Gazprom named former Chancellor Schroeder as the chairman of the NEGP consortium in March 2006 in order to decrease the number and effectiveness of such objections and to gain support in the EU. Moreover, the Russian oil company Rosneft's proposal of the chairman seat to the former US Trade Minister Donald Evans has reflected identical policy of the Russian companies.<sup>371</sup> In regard to their energy cooperation with Russia, some European leaders have referred Europe's supply diversification to the Caspian Sea as needless. To illustrate, with his close relationship with Gazprom, Schroeder has declared Nabucco's construction as "nonsense".<sup>372</sup>

To conclude, Germany's actions affect the future relations of Germany and Russia. The pipeline is supposed to make Germany more dependent on Russian energy. On the other hand, Germany's deal with Russia also threatens the efforts of the EU to find alternative routes, especially in the Caspian region. What is more important, there are other EU states that search for bilateral agreements with Russia. In this regard, the monopoly of Russia within the EU will increase political influence on the decision-making processes of the Union.

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<sup>371</sup> Necdet Pamir and İlyas Kamalov, "Rus Gazı ve Enerjide Bağımlılığın Bedeli", *Stratejik Analiz*, February 2006, <http://www.asam.org.tr/temp/temp9.pdf>, accessed on 03.11.2007, pp. 17-28, p. 26 cited in Gennadiy Sisoyev, "Voorujeni Do Kubov", *Kommersant*, 30 December 2005

<sup>372</sup> Nicklas Norling, "The Nabucco Pipeline: Reemerging Momentum in Europe's Front Yard", in Svante E. Cornell and Niklas Nilsson (eds.), *Europe's Energy Security Gazprom's Dominance and Caspian Supply Alternatives*, Singapore: Central Asia-Caucasus Institute Silk Road Studies Program-A Joint Transatlantic Research and Policy Center, 2008, <http://www.isdp.eu/files/publications/scornell/sc08europesenergy.pdf>, accessed on 08.05.2008, pp. 127-140, p. 132

## CHAPTER 6

### CONCLUSION

Energy has become an important component in international relations, both in terms of economics and politics. Thus, ensuring energy security issues has obtained crucial places at the policy priority lists of each country.

Turkey only has limited reserves of oil and natural gas, despite its growing energy demand with a developing economy and increasing population. Therefore, it needs to import considerable amounts of energy resources to satisfy its domestic energy demand. In this regard, Turkish energy policy emphasizes the security of supply. To do so, Turkey has focused on the diversification of energy in terms of the energy coming from alternative routes.

Furthermore, along with its energy needs, Turkey has sought to use the advantage of its strategic location, labelled as a “natural energy bridge”, to become an important and a safe energy corridor. Turkey has been supporting consumer countries of the EU to diversify their supply sources while encouraging producer countries of the Caspian region to reach the EU markets via its territory. In this regard, this thesis has shown a special interest to several pipelines.

It is generally stated that who controls the transport routes, controls oil and natural gas even it does not have those resources of its own. What is more, pipelines not only carry oil or natural gas, but also give economic and political power. Thus, pipeline politics, one of which is Turkey’s energy corridor policy, have played an important role in the Caspian region. In this connection, there are many actors looking forward to being influential in the region. Therefore, the success of Turkey’s energy corridor policy depends not only on internal, but also external factors. Turkey’s location, interest and determination in energy security, including its goal to join the EU have influenced Turkey’s initial steps. The policies and strategies of other actors who are involved in the region have also to be taken into account. Hence “only” Turkey’s great efforts have not been sufficient to achieve its ultimate aim to become an energy corridor, even if they are led successfully.

It is obvious that the EU is an important drive behind Turkey's efforts as the main consumer market. Turkey has considered energy needs of the EU in its energy estimations. The pipelines must be directed to the EU states in order to counter over-supply situations. In this regard, pipelines from the Caspian are concerned with both Turkey's and the EU's intentions. Therefore, only Turkey's determination is not enough to make the country an energy corridor.

Turkey requires substantial support from the EU. However, initially the US has supported Turkey in its corridor aim. For instance, the US has insisted that the BTC Pipeline should be the main oil route from the region. Furthermore, it has also been very active during the BTE Pipeline. Therefore, it is clear that it is the US and not the EU which has backed Turkey to take its further steps in its effort to become a crucial player as a major energy corridor.

As a combination of its and the EU's needs, Turkey has introduced and supported several pipeline projects. Especially the BTC Oil Pipeline and BTE Gas Pipeline have become milestone projects in securing energy supply to the European markets. However, these two pipelines are beneficial, but not sufficient to serve Turkey's corridor goal. On the one hand, they can only transport a small amount of the Azerbaijani and Kazakh oil, and Azerbaijani gas. Turkey's efforts to transport other significant amounts of the Caspian region's oil and natural gas to the European markets remained unclear. If Turkey wants to be the fourth largest energy "source" for the EU, it needs to make its importance clear to the EU states. Therefore, building additional pipelines from the Caspian region to the EU market is not necessary, but vital. As a priority, the TCP should be given significant emphasis to make the projects more sufficient in supply volume and reliable. However, under current circumstances, the TCP seems unlikely to be realized.

Moreover, Turkey has found itself in a more complex energy agenda after the dissolution of the Soviet Union. First of all, Turkey does not view actors as it did in the Cold War years. The Turkish officials do not evaluate Russia and its energy policies in previous terms of the Cold War. In this regard, Turkey also wants to be an important energy partner of Russia. Accordingly, it does not refrain from energy cooperation with Russia even after long period on the other side of the political front during the Cold War. With its Blue Stream Pipeline, Russia has demonstrated that Turkey will not exclude Russia to diversify its suppliers. According to Turkish

officials, the Blue Stream has increased Turkey's energy security. However, it is generally criticized when the terms of that cooperation are taken into account. Ironically, it has resulted in Turkey's overdependence on Russian gas which is not desirable for Turkey's energy security efforts.

Therefore, Turkey's dependence on Russia should be avoided, firstly for the sake of its own energy security. Turkey should diversify its transport routes, if possible. If alternative projects are built, Turkey may change its energy position into an advantageous one. Accordingly, it could have a stronger hand in determining conditions against the dominant Russian terms.

Secondly, Russian energy policy priorities on Turkey have to be additionally considered with its impacts on Turkey's aim to become an energy corridor to the EU. For some, along with Turkish economy's dynamic structure and "triangular partnership" of Turkey with the EU states, Russia and Central Asian states would offer advantages both for Turkey and the others.<sup>373</sup> However, it is obvious that Turkey competes with Russia in transport of Caspian energy resources to Europe.

When it comes to supply energy to the European states, Russia does not want to give up its monopoly in the EU markets. In fact, Russia has made an agreement with Turkey in order to be an important natural gas supplier to Turkey, and not beyond. In other words, Russia has no plans to transport its natural gas to Europe through Turkey. Therefore, it puts Turkey's re-export of Russian gas to the EU under reservation. However, Russia tries to re-export its Blue Stream gas to Lebanon, Syria and Israel through Turkey, in order to reach those markets. Understandably, it suggests a pipeline from Samsun to Ceyhan which will be a real competitor of the BTC Pipeline. Later, it has opened the opportunity of re-exporting its natural gas through Turkey by TGI Pipeline. If Russia achieves that goal, it will create an ironical situation. On the one hand, Turkey prioritises to carry diversified suppliers' energy resources; on the other hand, it will make European states become more dependent on Russian gas.

Nevertheless, the EU wants to diversify its suppliers. The European states once preferred Russia as another source of energy needs against the Middle East. However, they now search for alternative routes to Russian ones. There are many

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<sup>373</sup> Mehmet Oğütçü, "Eurasian Energy Prospects and Politics: Need for a Fresh Perspective", *Cahiers d'études sur la Méditerranée Orientale et le Monde Turco-Iranien*, No. 19, 14 May 2006, <http://cemoti.revues.org/document1705.html>, accessed on 05.12.2006

producer countries other than Russia in the region. Therefore, determining the rules is generally supposed to be out of Russia's monopoly. In contrast to such expectations, Russia continues to be influential in the Caspian region. Hence, Turkey needs to pursue an active energy policy to become an important player in the region. In this regard, Turkey's cooperation with Russia in the energy sector constitutes a major obstacle in front of Turkey's efforts to build alternative pipelines to the Russian ones. The Blue Stream pipeline delayed the Shah Deniz pipeline for a long time and also impeded the TCP. Within this framework, with the Blue Stream Pipeline it seems Turkey has weakened its position as an energy corridor.

By its efforts, Russia has long prevented Turkey's alternative projects. Thus, it has had time to re-gain its dominant position in energy politics. Also, it tries to control pipeline routes from the Caspian region. On the other hand, it has become the largest natural gas supplier to the EU states. Hence, the arrival of especially Caspian natural gas to European markets via Turkey will be difficult in the foreseeable future, despite the current projects between Turkey and the EU.

Not only do Turkey's relations with significant players make "energy affairs" and Turkey's position in energy relations in the Caspian energy transport complex, or even complicated in some cases, but also the other players' relations among themselves. Therefore, each player's perceptions of the other should also be kept in mind, since energy issues cannot be separated from politics and foreign policy. In this regard, the current energy game in the Caspian region has a complex structure, not only between Turkey and Russia but also between the EU and Russia.

It is noteworthy to note that any of the great powers could not exclude the other from the Caspian region. That means the EU or even the US could not exclude Russia, while the opposite is also true. As a result, none of them could be merely influential in the Caspian region. Under these conditions, it is reasonable to assume that Turkey cannot exclude Russia in energy politics. As being a middle power, Turkey cannot confront the Russian projects without any support from the EU or the US. Moreover, with its limited ability, it is difficult for Turkey to attract the Caspian region states' attention. To this end, the EU is expected to give more support to Turkey to diversify its energy sources.

However, Russia acts more decisively than the EU in the energy sector. It takes measures to counter any potential "threat" towards its interests. Those

measures do not have to be “coercive”. Instead of using military power, Russia prefers to use its energy power as an instrument to control the global economy and politics. Then, it successfully takes advantage of the existing pipelines. In addition, it is attempting to build new pipelines.

To illustrate, Russia uses its energy resources as instruments of political pressure. Due to the so-called natural gas price disputes in 2006, Russia cut off Ukraine’s supply. It has once again demonstrated that it could use its oil and natural gas as a source of “punishment” in the case of “anti-Russia” or “despite-Russia” events. Additionally, Ukraine cut a great deal of natural gas to Turkey and the EU. Understandably, the crisis has thought to increase both Turkey’s and the EU’s energy security concerns and accordingly, Turkey’s importance as another significant energy source. Within this framework, Turkey and the EU states have expected to cooperate on diversification of the Russian routes.

However, the crisis has not achieved that aim. It is clear that Turkey could not benefit from the crisis to obtain support from the EU and contribute to its role as an energy corridor. More strikingly, many of the EU member states seem to ignore the danger they face. After the crisis, the EU was expected to give priority to other pipeline projects other than Russian ones. In contrary, many of the EU members are unlikely to resist the EU’s main energy supplier. What is more, they have preferred to enhance their relations with Russia. According to this perception, several of them have agreed on bilateral energy agreements. At the same time, Russia has had an opportunity to bypass the several transit states with that crisis. For example, Germany has agreed on creating the NEGP project with Russia which directly links the two states. That simply means even the major economies of the EU keep on developing energy policies in line with their own interests, rather than taking the EU institutions’ energy integration advice and its energy security policy into account.

Since EU-member states maintain their dominance on their own energy policies, they have enhanced cooperations with Russia in energy sector. Their energy cooperations encourage Russia to remain as the main energy supplier to the EU in the long term, particularly with its natural gas supplies. Complete exclusion of Russian supplies is impossible, but becoming more dependent on Russia will not benefit the EU states. Moreover, if the current situation continues, not only the Union-members will be affected individually by this high dependence, but also the



EU's integration efforts, especially in energy policies. Also, there appears the risk of Russian involvement in Europe's decision making processes. Critically, this dependence has been an obstacle in front of the EU's necessary support for Turkey and the Caspian states in order to transport great amount of resources to the European markets.

As a result of Turkey's, the EU states' and Russia's positions, Turkey currently cannot become an exclusive energy corridor to the EU. Turkey's own dilemmas and inabilities to develop a more consistent energy strategy are the initial handicaps in front of the country's own policy. With its limited resources and capacity to transport Caspian resources, Turkey is unlikely to overcome its problems in energy sector on its own. Secondly, although the EU seeks to diversify its energy routes, the EU states do not support Turkey through the establishment of alternative pipeline projects. Instead, they find enhanced cooperation with Russia a more secure way of supplying their energy. What is more, Russia is dominant both in Turkish and the EU markets. It also transports a great amount of Caspian resources from the region. Hence, as a combination of these three actors' energy policies, Turkey is far from being an exclusive energy corridor to the EU.

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