DOI: 10.2478/v10226-012-0021-y

A N N A L E S
UNIVERSITATIS MARIAE CURIE-SKŁODOWSKA
LUBLIN – POLONIA
VOL. XX, 1 SECTIO K 2013

Faculty of Political Science, Maria Curie-Skłodowska University, Lublin – Poland

JUSTYNA MISIĄGIEWICZ

# *Caspian region's hydrocarbon potential as a challenge for the energy security policy of the European Union*

ABSTRACT

Caspian region contains some of the largest undeveloped oil and gas reserves in the world. The energy field is vital to economic development and to the future geopolitical order of the region. The rivalry between different pipeline options will probably determine not only the pattern of foreign policy orientation and cooperation in the region but also the influence and position of regional and external players. The exploitation of energy resources and the future routes of pipelines from the oil and gas fields in the Caspian basin will also determine the role of the Caspian region in the contemporary international relations. Newly independent states in Central Asia and the Caucasus hoped their oil and gas resources would help them secure economic growth and political independence. The most important element of the European energy strategy is the need of diversification of the energy sources. The growing energy needs have given the European Union a strong interest in developing ties with energy-producing states in the Caspian region to build necessary pipeline infrastructure.

**Key words:** energy security policy, European Union, Caspian region.

## INTRODUCTION

The issue we would like to analyze is the specificity and evolution of energy security policy in the EU both in theory and practice in the context of the growing hydrocarbon potential of the Caspian region. The key part of this analysis is the specificity and energy potential of the Caspian region. It is not only the undiscovered reservoir of oil and gas, but also the strategic 'chessboard' with many internal and

external players, where the new great game started after the Cold War. In such perspective we can depict the role and interests of the consumers, producers and transit states on the energy market in the contemporary international relations. It is also interesting to present pipeline politics in the region which shows interdependences between energy market players.

Energy security is becoming a key issue for the European Union. The EU is one of the world's fastest growing energy markets and the biggest importer of energy resources. For the foreseeable future, the Europe's energy dependence will probably increase. Facing a shortage of energy, Europe is dependent on imports and EU member states need to diversify their energy supplies. Taking into consideration the fact that there is a deficit of the energy resources in the global market, we can anticipate that the foreign investments and transnational companies will be more active in the Caspian region.

In this paper, we would like to prove some hypothesis. First of all, the Caspian region is a challenge and the chance for the energy diversification policy of the EU. Secondly, the Caspian's future production will undoubtedly contribute to the oil and gas supplies and to the global energy security – it is maybe too optimistic, but probable thesis. Thirdly, this region is becoming an area of competition between main energy consumers. Thereby, our aim is to present the Caspian region as an area of influence and as a developing reservoir of hydrocarbons.

## ENERGY SECURITY POLICY OF THE EU

Energy security is quite a new term used in international relations a few years ago. According to most of the analysts, it means: "assured delivery of adequate supplies of affordable energy to meet a state's vital requirements, even in times of international crisis or conflict" [Klare 2008: 484]. The European Commission defines energy security as 'the ability to ensure that future essential energy needs can be met, both by means of adequate domestic resources worked under economically acceptable conditions or maintained as strategic reserves, and by calling upon accessible and stable external sources supplemented where appropriate by strategic stocs'[EUROGULF 2005: 24]. We can also describe energy security as "the reliable and affordable supply of energy on a continuing, uninterrupted basis" [Klare 2008: 485]. Energy security is strongly connected with the economy security. Sufficient supplies of energy are inherent elements of the economic development of every state and nation.

The energy security is a key determinant of EU activity on the international scene. European Commission President, José Manuel Barroso, said that "when we talk about European energy policy, security of supply is today our foremost concern" [Barroso 2009]. He confirmed that, until viable alternatives replace them, ensuring a constant flow of hydrocarbon resources is the EU's premier energy security priority [Wood 2010: 307].

The European Union is one of the world's fastest growing energy markets and one of the biggest importer of energy resources [Tekin, Wiliams 2009: 421]. According to the forecasts, by 2030 the energy resources requirement in EU will grow 26.3% comparing with 2000. The EU's energy mix is dominated by fossil fuels (Fig. 1).

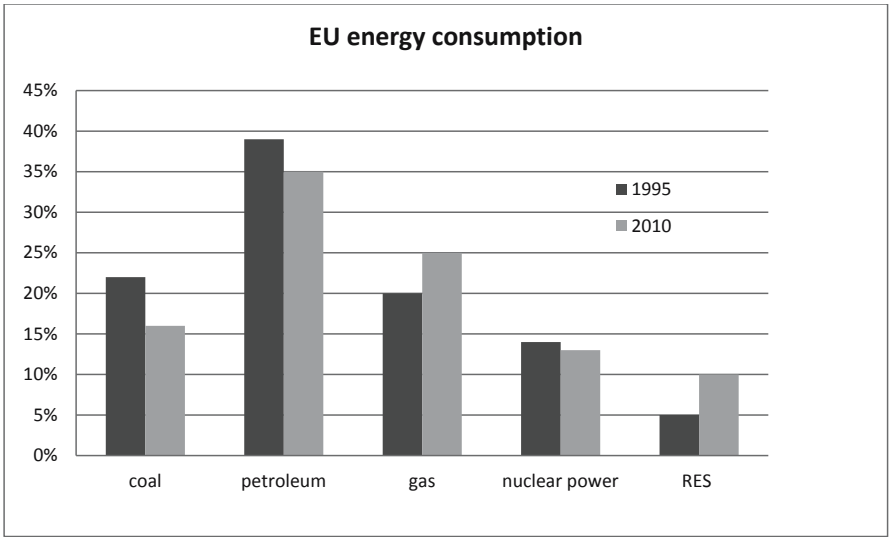



Figure 1.

Source: EU energy in figures 2012, http://ec.europa.eu/energy/publications/doc/2012_energy_figures.pdf (13.07. 2012).

Oil provides the largest share of all energy consumed and is predicted to retain this position in 2030, reducing slightly to 35.3% [Wood 2010: 309]. It will predominate as a fuel for road transportation. The use of natural gas, the second most prominent fuel, is growing very fast recently. Less emissions compared to oil and coal, lower cost compared to renewable energy, and flexibility compared to nuclear, encourage its use. The relative share is predicted to increase only marginally to 25.7% by 2030 [Wood 2010: 309]. It is consumed in the industrial and residential sectors and in electricity generation [Bahgat 2006: 967]. Coal, having been Europe's main non-transport fuel for centuries, cannot be rapidly replaced. It is cheaper than most alternatives and several member states have large deposits of these energy resource. Nonetheless, coal production in the EU 27 fell from 366 million tons of oil equivalent (mtoe) in 1990 to 191 mtoe in 2006 [Wood 2010: 308].

The EU has been a leading political and financial supporter of renewable energy sources (RES). Renewables Directive that became law in June 2009, prescribes that this energy source constitutes at least 20% of total EU energy consumption by 2020 [Wood 2010: 309]. The EU biofuel strategy had a target of 10% of auto fuel by 2020 [Wood 2010: 309]. At Kyoto in 1997, the EU 15 agreed to reduce greenhouse gases

(GHG emissions) of which CO2 is about 80%. In 2001, The Sixth Environment Action Programme of the European Community 2002–2012 (EAP) was adopted. It has helped ensure that environment legislation is in place to tackle most environmental challenges in the EU. CO2 emissions for the EU were 9.230 kg *per capita* in 2006 comparing to 9.290 kg in 1990 [European Commission 2009a]. Thereby, climate change has become the most conspicuous focus and a concern for the EU. In March 2007, an emissions cut of 20% by 2020, with an endorsed objective of 30%, was agreed [Council of the European Union 2007].

The EU is the world's biggest consumer of nuclear generated electricity. It is consuming 34.3% of world's nuclear energy (205.3 mtoe) [BP Statistical World Review of Energy 2012]. The nuclear energy used by EU states in 2005 constituted 30% of its electricity and 12% of its total energy consumption [Wood 2010: 310]. One of the Union's priorities was achieving a more sustainable, efficient and diverse energy mix which raised was in the prospect of nuclear energy use. The debate on the future role of nuclear energy in the EU started, especially after the catastrophe at Japan's Fukushima plant in 2011.

The economies of the member states of the European Union need energy resources and seek to improve relations with oil and gas rich states. Several economic developments in the first decade of the 21st century have influenced Europe's sense of vulnerability in respect of its energy supplies [Bahgat 2006: 961]. Nowadays, there is an increasing dependence on the energy resources in European Union (see Table 1). This is a very dangerous phenomenon because of the risk, that energy can be used as a political and economical weapon by the states that can control the energy resources, prices and the transport lines [Rogojanu 2009: 622]. That is why it is necessary to diversify the energy resources deliveries.

Table 1. EU import dependency

| | 1995 | 2000 | 2005 | 2010 |
|---|---|---|---|---|
| **Total** | 43.2% | 46.7% | 52.5% | 52.7% |
| **Coal** | 21.5% | 30.5% | 39.3% | 39.4% |
| **Petroleum** | 74.3% | 75.7% | 82.3% | 84.3% |
| **Gas** | 43.5% | 48.9% | 57.7% | 62.4% |

Source: EU energy in figures 2012, http://ec.europa.eu/energy/publications/doc/2012_energy_figures.pdf (13.07. 2012).

Thereby, Russia is the EU's biggest energy policy challenge. It provides 33.5% of EU crude oil imports, 42% of its gas imports, and 26% of coal imports. There simply is no readily available alternative to the supplies the EU receives from Russia, particularly natural gas. Unlike oil, gas is extremely difficult and expensive to ship

via tankers, pipelines are the most convenient method of transportation [Baran 2007: 132]. Russia's share of the energy supply grows ever larger. More then seven eastern European countries receive at least 90% of their crude oil imports from Russia, and six EU states are entirely dependent on Russian natural gas imports [Baran 2007: 132]. Russia has used energy resources as the instrument of an effective foreign policy. To protect future income flows, "it needs to strengthen relations with individual buyers by signing long-term contracts, invest in the exploration of new gas and oil fields, build new transport routes and maintain existing ones, proliferate into the upstream parts of the energy chain such as consumer retail and prove itself as a reliable energy supplier" [Neuman 2010: 343]. Thereby the Russian Federation articulated clear its strategy regarding energy relations with its partners, the European Union's position is less clear [Neuman 2010: 344]. Russia has further sought to increase Europe's dependence on its energy supplies by acquiring significant stakes in the energy distribution companies and infrastructure of EU member states, through the state monopolists on the energy sector, Gazprom, Transneft, and Lukoil [Cohen 2009: 92]. Those companies control the Russian oil and gas pipeline network and consequently handle all Russian and Central Asian exports, directly or through *joint venture* structures [Baran 2007: 132]. Especially, Gazprom is trying to be very influential on the European energy market [Falaleyev 1996: 14, O'Sullivan 1996: 7]. It keeps invest in Europe's strategic energy assets, thereby "locking Europe into a deeper, long-term dependence" [Baran 2007: 132]. For many years, it has owned significant shares of energy companies throughout the former Soviet Union. It is the largest or second-largest shareholder in the gas infrastructure of Estonia, Latvia, and Lithuania. Recently, Gazprom has been expanding its influence even further into the domestic gas distribution networks of western Europe. In the past two years, Gazprom has signed deals with Eni (Italy), Gasunie (the Netherlands), BASF (Germany), E.ON Ruhrgas (Germany), and Gaz de France [Baran 2007: 132].

The energy security becomes a very important issue for the EU especially after winter 2006, when Russia briefly suspended natural gas exports to Ukraine. This move had a knock-on effect on the rest of Europe because substantial amounts of Russian gas are transported to Europe via Ukraine and because of the fact that the European Union is dependent on Russia for its gas demand [Winrow 2010: 50]. Another significant diplomatic quarrel between the EU and Russia concerning energy deliveries took place in January 2009. Following Gazprom's decision to stop deliveries through its Ukrainian pipelines many European states experienced a massive drop in gas deliveries. This has once again demonstrated the energy vulnerability of the European Union and its eastern neighborhood and highlighted the need for a concerted approach towards the energy sector [Neuman 2010: 342].

According to P. Noel, "the most efficient solution to the Russian gas problem lies not in the development of an external energy policy, but in further restructuring of the EU's internal gas market" [Noel 2008: 8]. One of the EU important energy projects in this context, is the building of a single liberalized electricity and gas mar-

ket (SLEGM) [Kaveshnikov 2010: 591]. The main aim of liberalization is to establish a high level of competition between energy companies on the European market. It should lead to the leveling of energy tariffs in different member states and a general price reduction [Kaveshnikov 2010: 591]. It is also believed, that such a market would create a maximum degree of solidarity among the European gas consumer states and would increase collective security through redistribution of the gas flows in the case of emergency or crisis [Kaveshnikov 2010: 591]. However, in practice, the project is very problematic, because of the fact, that separate liberalized markets of the EU member states have emerged instead of a single EU market [Kaveshnikov 2010: 591]. Moreover, governments of many European states pursue an openly protectionist strategy, countering the takeover of national companies by other EU firms and encouraging the merger of national corporations [Kaveshnikov 2010: 591].

Until recently, no significant common policy had emerged in the energy security issue and energy imports in the EU. The basis for EU energy legislation is weak and in accordance with the principle of subsidiarity. Energy policy is still largely regarded as member states' own responsibility [Hoogeveen, Perlot 2007: 487]. Nonetheless, European Commission has played an active role in pushing the EU's common energy security strategy and published a Green Paper in November 2000 (*Towards a European Strategy for the Security of Energy Supply*), which underlined the necessity to security supplies and initiated a serious debate about this problem [Tekin, Wiliams 2009: 420]. Thereafter, in 2006, European Commission issued an Annex to the Green Paper (*A European Strategy for Sustainable, Competitive and Secure Energy*). It identifies security of energy supplies as one of the most important objective of a common energy policy [Hoogeveen, Perlot 2007: 487]. This document also stressed the strategic importance of Turkey for gas and oil delivering to the EU [*Annex to the Green Paper* 2006: 37]. The Green Paper also includes some other EU energy policy priorities:

- encouraging solidarity among the EU members;
- establishing a more sustainable, efficient and diverse energy mix;
- encouraging a strategic energy technology plan;
- creating an effective external energy policy that enabled the EU to speak with one voice to foreign actors [Bahgat 2006: 962].

In November 2008, the European Commission introduced the Second Energy Strategy Review as a communiqué about the energy security for the European Council and the European Parliament [Wyciszkiewicz 2008]. Taking under consideration the growing uncertainty of the security of energy resources supplies, the most important aim of this plan is encouraging the EU member states to act commonly on behalf of the energy security. Presenting the Commission's Second Energy Strategy Review package, José Manuel Barroso said that "energy prices have risen by an average of 15% in the European Union in the last year. 54% of Europe's energy is imported at a cost of 700 euros for every EU citizen. We have to address this urgently, by taking measures to increase our energy efficiency and reduce our dependence on imports.

We have to invest and diversify" [*Securing your energy future*]. In achieving the aims of the energy policy it is important to focus on energy issues in the context of EU's external relations. European Commission pointed out that more attention should also be paid to solidarity among member states in their foreign relations. EU also needs some regulations to coordinate member states' energy investments plans abroad [*Plan bezpieczeństwa energetycznego dla UE*].

In such circumstances, the oil and gas potential of the Caspian littoral states (described in detail in the next part of this paper) could be a chance for the diversification of supplies in the EU. Europe's interest in energy cooperation with the Caspian region and the Eastern European states has been institutionalized since 1995 in Interstate Oil and Gas Transport to Europe (INOGATE) [Bahgat 2006: 971]. This is an international energy co-operation program between the European Union and the partner states: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. On behalf of the European Union, the INOGATE is represented by three Directorates-General of the European Commission [INOGATE]. It aims to promote European investment in the Caspian basin or Central Asia states and to cooperate in supplying energy resources to the EU [Bahgat 2006: 971]. Another deal came into force in February 2001, known as INOGATE Umbrella Agreement. It organized an institutional and legal system to rationalize and facilitate the development of interstate oil and gas transportation infrastructure. The agreement was also designed to attract the investment necessary for their construction and operation [Bahgat 2006: 971].

The entry into force of the Lisbon Treaty has significantly expanded EU competency in the energy sector, especially in the internal dimension, but its powers in external energy strategy still remain very modest. According to the article 194 (1) TFEU "Union policy on energy shall aim, in a spirit of solidarity between member states, to (…) ensure security of energy supply in the Union (…) any measures in energy policy shall not affect a member state's right to determine the conditions for exploiting its own energy resources, its choice between different energy sources and the general structure of its energy supply" [*Consolidated version of the Treaty on the Functioning of the European Union*]. Thereby, EU states are free to regulate energy policy, and the ability of the Commission to negotiate energy issues with third countries will be based on coincidence of the member states interests and their intention to reach a consensus [Kaveshnikov 2010: 594].

Nevertheless, the EU has so far failed to launch an efficient coordination and a comprehensive energy security policy. The European Union with 27 member states is gradually becoming one of the greatest energy consumers in the world. That is why the security of energy sources and routes or the creation of a common energy policy must be discussed much more than ever before [Rogojanu 2009: 622]. In such circumstances, Turkey will make possible for the European Union to avoid the energy transmission through Russia. The EU will probably systematically include Turkey in developing its energy strategy. Emre Engür, deputy head of the business department of

the Turkish Petroleum Corporation (BOTAŞ, *Boru Hatları İle Petrol Taşıma Anonim Şirketi*), says that Turkey has a unique geostrategic location because areas around Turkey account for 73% of the world's gas reserves [Winrow 2010: 50]. According to Engür's estimates, 15% of the EU's gas imports will be transported via Turkey by 2020 [Winrow 2010: 50]. Turkey is a challenge and a chance for European energy security as a natural bridge to the oil and gas rich Caspian region. That has been its bargaining power in the process of accession negotiations with the EU since 2005. Transit routes via today's Anatolia territory were an important part of the historical Silk Road. Nowadays, the idea to restore the Silk Road connecting Eastern Asia with Western Europe via the post-Soviet republics in the Caucasus and Central Asia has been gaining importance [Łoskot 2005: 19]. In this context, very significant and perspective was the Eurasian Energy Corridor Project which concerned the transportation of Caspian oil and gas as a resurrection of the historic Silk Road [Soysal, Aslantepe 2001: 47].

## ENERGY POTENTIAL AND THE SPECIFICITY OF THE CASPIAN REGION

The end of the Cold War changed the geopolitical situation in the Caspian region. Because of its position between East end West of Eurasia, the region plays a special role in the contemporary international relations. It opened the doors for external actors and the world energy market. "Caspian region is becoming internationalized to an extent not seen before, and a major reconfiguration of power and influence is taking place" [Chufrin 2001: 11]. New states appeared on the wreckage of the Soviet Union in the Caucasus and Central Asia. The security of the region is very vulnerable. The USSR drew up the borders of the Central Asian and Caucasus republics arbitrarily and artificially. This explains why the newly independent states are ethnically heterogeneous. While this policy ensured unity for the Soviet Union, it made the republics ethnically fractious [Gungormus 2006: 188]. After the communist era, there was a visible rise in the national awareness and nationalist feelings in the region. It was connected with the state-building process. There was also a lack of clearly defined mechanisms for preventing regional conflicts, instability within the new states, and tensions among them. It created a serious risk of international military clashes and widespread civil war in the heart of Eurasia.

Nowadays, five states share the Caspian basin: Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan. Their common aim is to explore and develop the region's hydrocarbon resources [Bahgat 2006: 961–968]. The perspectives for the exploitation of oil and gas have raised the stakes of external actors [Chufrin 2001: 11]. The Caspian states, assisted by foreign actors, tried to limit their dependence on Russian dominated infrastructure at the heart of Caspian geopolitics [Chufrin 2001: 11]. The tensions in the region following from the larger international engagement have been interpreted as a consequence of a geopolitical situation, which is characterized mainly in terms of strategic rivalry between powers [Chufrin 2001: 11].

Thereby, the European Union is not only one external player in the region. We have to mention about its main competitor – China. This state is also becoming a much more active external power in the Caspian energy market as the main world importer of the hydrocarbon resources. Satisfying its energy needs is the country's number one energy security issue. Since 1980, energy consumption in China has increased approximately by 250% [Hall, Grant 2009: 124]. Chinese government directed its oil companies to acquire interests abroad [Hall, Grant 2009: 124]. Energy security, and the availability of oil in particular, has become an increasingly important concern for this state since the 1990s. China has given the Caspian region geopolitical importance. Hence, China has been looking for ways to build pipeline infrastructure to export Caspian oil reserves eastwards and competing with the European Union which is looking to export Caspian energy westwards. China's interests in the Caspian region are part of its overall Silk Road strategy to diversify energy dependence on the unstable Gulf region and build overland routes to hedge against maritime supply disruptions from the Gulf. Over the past few years, China has poured investments into Kazakhstan and Turkmenistan with two main projects: the Kazakhstan – China oil pipeline and the Turkmenistan – China gas pipeline (also known as Central Asia – China gas pipeline) [Lin 2010: 9]. Those projects are part of China's attempts to secure more energy sources worldwide [Misiągiewicz 2012: 112].

Another important external player in the region are the United States. The Caspian region's geostrategic value for this country is not restricted to energy security issues only, but it has implications for the US "grand strategy" in the 21st century. The United States are not energy-dependent on hydrocarbons from the Caspian region, their interests go beyond the country's domestic energy needs. In that regard, the US not only aim to control regional energy upstream and downstream sectors, but also compete with potential geopolitical challengers such as China and Russia [Iseri 2009: 26]. The political objective of this state is to ensure the flow of regional energy resources to US-led international oil markets without any interruptions [Iseri 2009: 35]. American interests and policies in the Caspian region are part of a larger strategy to strengthen US regional hegemony there as a security and stability umbrella [Iseri 2009: 35]. According to Z. Brzeziński, "what happens with the distribution of power on the Eurasian landmass will be of decisive importance to America's global primacy and historical legacy" [Brzeziński 1998: 223].

The Caspian basin is often estimated to be the world's third largest source of oil and natural gas after Persian Gulf and Russia [Ghafouri 2008: 81]. The United States Department of State estimated that Caspian oil potential is over 30 billion tons, which is very similar to the potential of Saudi Arabia [Rasizade 2004: 129–135]. Such optimistic projection was a consequence of the political requirement and lack of knowledge about the Caspian energy reservoir. It is difficult to give the exact data about the Caspian energy potential, because there are many sources: made by Soviets, local authorities or international organizations and companies. Is the Caspian basin an alternative source of energy after the Persian Gulf ? – it is still the open question.

According to the British Petroleum (BP) Statistical Review of World Energy, Caspian oil potential (without Russian and Iranian resources) represents about three percent of the world oil production, and Caspian gas potential is over five percent in relation to the world [BP 2011]. According to International Energy Agency (IEA), the Caspian region is the world's largest undiscovered reservoir of energy resources [IEA 2010]. In the World Energy Outlook it is estimated that Caspian oil production will grow from 2.9 million barrels per day (mb/d) in 2009 to 5,4 mb/d between 2025 and 2030 [IEA 2010]. Caspian natural gas production is also projected to grow, from an estimated 159 billion cubic meters (bcm) in 2009 to nearly 260 bcm by 2020 and over 310 bcm in 2035 [IEA 2010] (see also Table 2). The Caspian region has the opportunity to make a significant contribution to ensuring energy security not only in Europe, but in the global dimension.

There is an important role of the transnational companies in developing the Caspian energy resources. BP and Statoil took a pioneering role in development of Azeri, Chirag and Guneshli oil fields. BP also participated in finding the Shah Deniz gas fields in Azerbaijan. Kazakhstan also attracted serious interest. The American Chevron Texaco company together with ExxonMobil, agreed to develop the Tengiz oil field [Newman 2008: 96]. Kashagan is another source of oil, which offers a certain potential to become perhaps the world's largest oil field. That is why many corporations like: BP, Statoil, Agip, British Gas, Total Fina Elf, were interested in investments there [Newman 2008: 96].

Table 2. Oil and gas potentials of Caspian littoral states (2011)

| | Oil proved reserves (billion barrels) | Oil proved reserves share of total | Oil production (thousand b/d) | Oil production share of total | Gas proved reserves (trillion cubic meters) | Gas proved reserves share of total | Gas production (billion cubic meters) | Gas production share of total |
|---|---|---|---|---|---|---|---|---|
| **Azerbaijan** | 7.0 | 0.4% | 931 | 1.1% | 1.3 | 0.6% | 14.8 | 0.5% |
| **Kazakhstan** | 30.0 | 1.8% | 1841 | 2.1% | 1.9 | 0.9% | 19.3 | 0.6% |
| **Turkmenistan** | 0.6 | ? | 216 | 0.3% | 24.3 | 11.7% | 59.5 | 1.8% |
| **Iran** | 151.2 | 9.1% | 4321 | 5.2% | 33.1 | 15.9% | 151.8 | 4.6% |
| **Russia** | 88.2 | 5.3% | 10280 | 12.8% | 44.6 | 21.4% | 607.0 | 18.5% |

Source: BP Statistical Review of World Energy June 2012, http://www.bp.com/assets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2011/STAGING/local_assets/pdf/statistical_review_of_world_energy_full_report_2012.pdf (13.07. 2012).

There are also some potential barriers to the development of the energy resources in the region. The complexities of financing and constructing pipeline infrastructure passing through several states, or uncertainty of the investment climate and export demand, could effectively constrain the expansion of the Caspian energy market [IEA 2010]. The lack of consensus on the legal status of the Caspian basin is the main obstacle of the energy market development in the region. The problem with boundaries in the Caspian basin appeared with the dissolution of the Soviet Union in 1991 [Rasizade 2004: 129–135]. Nowadays, we have three new Caspian littoral states: Kazakhstan, Turkmenistan and Azerbaijan. The largest hydrocarbon resources are situated in the Azeri and Kazakh sectors and to a lesser extent in the Turkmen sector of the Caspian. Russia and Iran are estimated to have fewer deposits [Bahgat 2006: 961–968]. Developing energy resources is considered crucial to the economic and political survival of the newly independent states [Bahgat 2005: 3–12]. Thereby, there is a heated debate on the legal status of the Caspian basin. The question is whether it is a sea or a lake and how to divide it. International law does not definitively settle the geographic status of the Caspian basin. According to the Guive Mirfenderski, "whether sea or lake, it is up to the littoral Caspian states to negotiate their respective boundaries on the water" [Lee 2005: 39]. The legal status of the Caspian basin has become a key issue not only for the littoral states but also for the international companies especially after the agreement (contract of the century) between Azerbaijan and BP-led consortium (Azerbaijan International Operating Company) in 1994 [Bahgat 2006: 961–968]. Since then, Azerbaijan began maritime drilling and according to the agreement, divided the output with foreign oil companies [Cherniavskii 2002: 87]. The dispute between Azerbaijan and Turkmenistan over oil fields in the sea is crucial for the energy resources development in the region. Turkmenistan, initially signed the agreement with Azerbaijan to divide the Caspian seabed, but both countries still could not get the consensus, where to draw the line. Without the agreement between Turkmenistan and Azerbaijan, it will be impossible to build the trans-Caspian pipeline infrastructure which could be crucial for the energy security for not only those states, but also for the external players, like the European Union.

Since 1992, the five littoral states have met on many occasions, at the presidential, ministerial and expert levels, but it ended without any progress. The legal status of the Caspian basin is still uncertain. It is also a risk that investors have to consider in doing business in the region.

## PIPELINE CONNECTION BETWEEN THE CASPIAN REGION AND THE EU

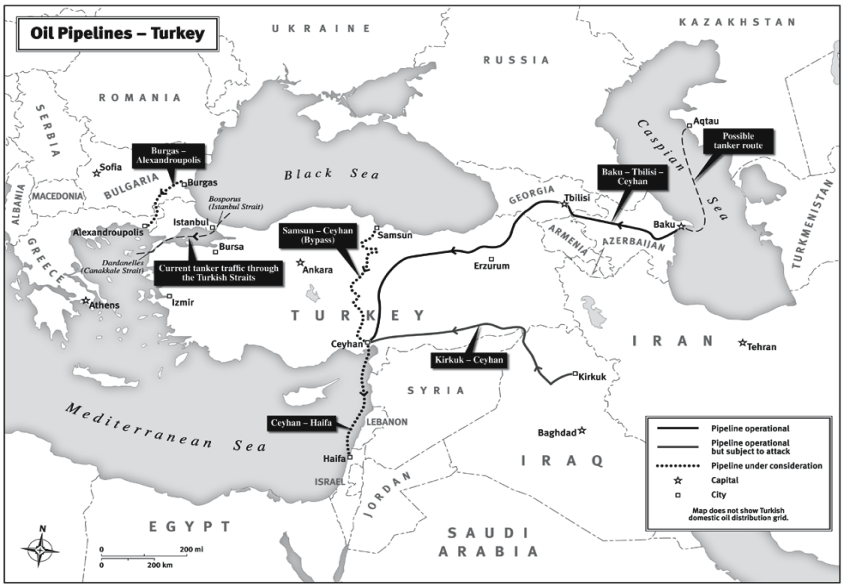
There are many options of transporting Caspian resources on the world energy market. Caspian basin is landlocked, that is why a fundamental question is how many pipelines will become operational in the near future and which direction will be the most convenient transit option for Caspian oil and gas.

The western route through Azerbaijan, Georgia and Turkey to the EU is the most important in these analyses. Major pipeline projects realized and others under construction will inevitably contribute to EU's energy security interest. They are enhancing Turkey's role as an important transit country and energy hub in the Eurasia. Turkey has concentrated its efforts on the transportation of Caspian oil and gas reserves to Western markets, which was often referred to as the 'Silk Road of the 21st Century' [Soysal, Aslantepe 2001: 47].

The Turkish Straits of Bosporus and Dardanelles that connect the Black Sea with the Mediterranean, serve as one of the most important transit routes in Eurasia [Łoskot 2005: 6]. Every year, some 10,000 tankers pass through the Bosporus Strait. Traffic keeps growing rapidly there. Because of the weak capacity of the Turkish Straits, shipping of energy resources is very difficult and problematic not only technically but also taking into consideration the ecological issues. That is why there is a need of alternative solutions. The key project in this context, is the 1,768 kilometers long Baku–Tbilisi–Ceyhan (BTC) pipeline (Map 1). It is a very valuable venture not only economically but also politically for Turkey, the European Union and the Caspian states. In April 1998, Presidents of Turkey, Georgia, and Azerbaijan declared the official support for the BTC project. Officially, the pipeline has operated since 13 July 2006. It can transport up to one million barrels of oil per day (approximately 1.5 percent of the world's oil supply), and it is the second longest pipeline in the world. On 16 June 2006, Kazakhstan has officially joined the BTC oil pipeline project. According to the agreement between the Presidents of Azerbaijan and Kazakhstan, Kazakh crude oil will be shipped to Baku across the Caspian Sea, and then pumped through the BTC pipeline to Ceyhan (Aktau – BTC Project). The BTC pipeline is located in a very unstable environment: between the Caucasus and the south-eastern part of Turkey. In August 2008, Kurdish militants in Turkey bombed the pipeline, forcing to halt shipments briefly. Fighting between Russia and Georgia days later cast further doubt on the security of the pipeline. Turkey stands to lose millions of dollars in transit fees if crude flows stop.

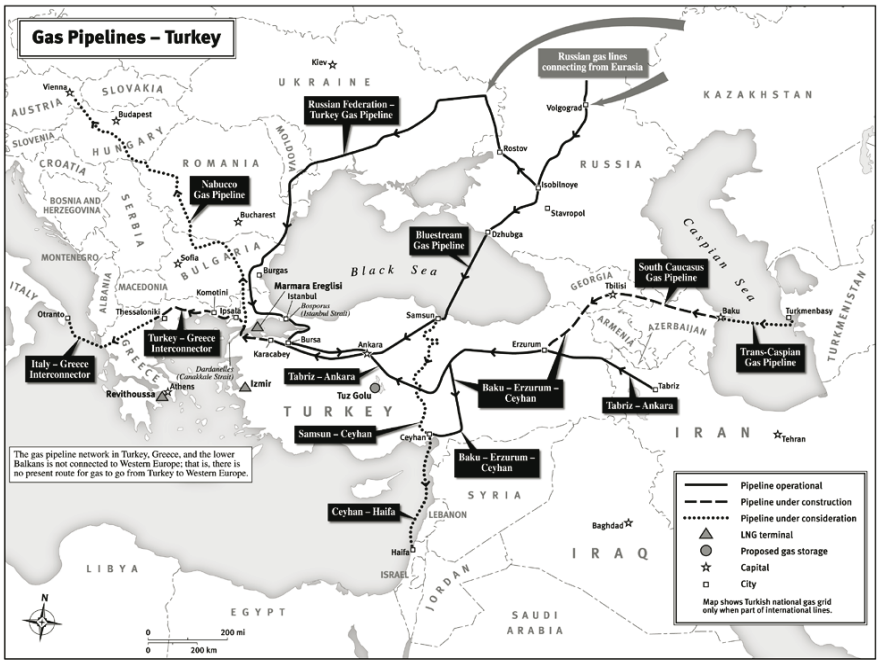
It is anticipated that six to seven percent of global oil supply will be transported via Turkey by 2012 and that Ceyhan will become a major energy hub and the largest oil outlet terminal in the Eastern Mediterranean. The Ceyhan terminal has already been designed to receive the crude oil reaching from Kirkuk, Baku, and Samsun.

Natural gas, as the most strategic resource in the EU' energy mix, is transported through the Baku–Tbilisi–Erzurum (BTE) and Turkey–Greece–Italy Interconnector pipelines from Shah Deniz gas fields in Azerbaijan (Map 2). Both pipelines are crossing the Turkish territory, reaching Greece, and from there it is to be extended toward Italy via underground pipeline crossing the Adriatic Sea. The future extension of the Turkey–Greece–Italy Interconnector is scheduled for 2015 [Rogojanu 2009: 622]. The capacity of the pipeline is approximately 250 million cubic meters per year [Rogojanu 2009: 622].




Map 1. BTC pipeline.

Source: D. Fink, 2006. *Assessing Turkey's Future as an Energy Transit Country*, "Research Notes", no 11, p. 3.




Map 2. BTE, Turkey–Greece–Italy Interconnector, Nabucco.

Source: D. Fink, 2006. *Assessing Turkey's Future as an Energy Transit Country*, "Research Notes", no 11, p. 3.

The European Union has been exploring various options for accessing Central Asian and Caspian energy without relying on Russia. The Presidents of Turkey, Austria, Bulgaria, Hungary, and Romania signed an agreement about the construction of the Nabucco gas pipeline on 13 July 2009 (Map 2). According to this decision, the gas from Central Asia, the Caucasus and the Middle East will be transported to Europe via Turkey. The 3,300 kilometers long Nabucco pipeline will go from Azerbaijan (Shah Deniz field), Egypt, Iraq, and Turkmenistan through Turkey, Bulgaria, Romania, and Hungary to Austria. There are many companies which are also interested in building the pipeline, for example: BOTAŞ (Turkey), BulgarGas (Bulgaria), Transgas (Romania), MOL (Hungary), OMV (Austria) and RWE (Germany).

The central issue for the Nabucco project is not who will buy the gas. As noted, natural gas demand across Europe is expected to rise dramatically in the coming years. Rather it is the question of where the gas will come from to fill the pipeline. The main planned gas source for the Nabucco pipeline is Shah Deniz field in Azerbaijan, but some experts say that Nabucco will have to wait until Shah Deniz goes into its second phase of development, expected in 2013 and warn that other sources would be needed to fill Nabucco in the long term [Barysch n.d.]. There was a plan to include the Iran to the Nabucco pipeline, because it has the world's second largest gas resources. Iran was also interested to participate in the project, but nowadays it is impossible because of the strong US opposition caused by the Iranian nuclear program. In such circumstances, Turkmenistan becomes a much more important player with its four percent world's gas resources.

Russia is the most significant Turkey's rival in the Caspian region. Both states compete as a transit areas for energy resources to Europe. The Central Asian states have been providing Russia with cheap gas, which has enabled Gazprom to export Russian gas to Europe at a much higher price. That is why Russia is against the attempts of the Central Asians to transport and sell their gas to European markets. Thereby, the serious challenge for the realization of the Nabucco pipeline is the antagonistic Russian attitude. Moscow tries to convince the EU members and the potential suppliers to give up the Nabucco project. On 15 May 2009 in Sochi, Gazprom and its counterparts from Serbia, Bulgaria, Greece and Italy signed series of agreements related to the realization of the South Stream gas pipeline project. The pipeline will run under the Black Sea from the Russian coast (Beregovaya) to the Bulgarian coast. It is planned to operate in 2015. This project is an element of the gas pipeline competition in Europe and bipolar energy policy in the EU. Some of the European states supported both Russian and Nabucco projects.

Today the future of Nabucco is in doubt. The problem is that Russia's Gazprom has signed long-term gas contracts with all the potential suppliers of gas for Nabucco. In July 2009 Russia's President D. Medvedev and Gazprom CEO (Alexei Miller)went to Baku and signed a contract to buy all the gas from the Azeri Shah Deniz-2 offshore field, the same that Nabucco hopes to fill its pipeline with. Azerbaijan seems to be playing a game with both Russia and EU–Washington, to play one off against the

other for the highest price. Gazprom agreed to pay an unusually high price of 350 USD per 1,000 cubic meters for their Shah Deniz gas, it was referred to as a "clear political not economic decision by Moscow that owns controlling interest in Gazprom" [Akdemir 2011: 75].

## CONCLUSIONS

Nowadays, energy is an important part of the international security. The interdependency in the energy field is a key dimension of the contemporary relations between states and transnational corporations. Upstream and downstream investments have no borders or limits. Thereby, there is a necessity to improve a dialogue between producers, consumers and transit states to ensure the energy security. Nowadays, transnational companies are very influential actors in producing and delivering energy to consumers.

The Caspian region becomes an important source of the energy production, especially during the political instability in the Middle East. The hydrocarbon resources in the Caspian basin are substantial and important for future diversification policies of the EU. In this context, Turkey remains important for the EU member states as a corridor or even an energy hub in the Mediterranean region. Multiple export routes for Caspian oil and gas would increase the energy security not only for consumers, but also for producers and the transit states [Bahgat 2005: 3–12]. In many cases, the decision to choose the most convenient transit route reflects a competition between strategic interests of the participating states and their economic benefits. The capacity and availability of these pipelines will depend on the political, economic and ecological stability in the region. Most pipelines are built and operated by international corporations. It is the phenomenon of the contemporary latewestphalian international system which is determined by the activity of the non-state actors.

## BIBLIOGRAPHY

Akdemir, I. O. 2011. *Global energy circulation, Turkey's geographical location and petropolitics*, "Procedia Social and Behavioral Sciences", no 19, p. 75.

*Annex to the Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy: What is at Stake – Background Document 2006*, COM (2006)105 Final, XXX, Brussels – SEC 317/2 (2006), p. 37.

Bahgat, G. 2005. *Energy Security: The Caspian Sea*, "Minerals & Energy", no 2, pp. 3–12.

Bahgat, G. 2006. *Europe's energy security: challenges and opportunities,* "International Affairs", no 82, pp. 961–968.

Baran, Z. 2007. *EU energy security: time to end Russian leverage*, "Washington Quarterly", no 30 (4), p. 132.

Barroso, J. M. 2009. *European Energy Policy for the 21st Century*, Berlin, 24 June.

Barysch, K. *Turkey's role in European energy security*, http://www.cer.org.uk/pdf/essay_turkey_energy_12dec07.pdf, (access 12. 05. 2010).

*BP Statistical Review of World Energy 2011,* http://www.bp.com/sectionbodycopy.do?categoryId=7500&contentId=7068481 (access 12. 02. 2011).

*BP Statistical Review of World Energy June 2012,* http://www.bp.com/assets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2011/STAGING/local_assets/pdf/statistical_review_of_world_energy_full_report_2012.pdf (access 14.07.2012).

Brzezinski, Z. 1998. *The Grand Chessboard*, Politeja, Warszawa, p. 124.

Cherniavskii, S. 2002. *Problems of the Caspian*, "Russian Politics and Law", no 40 (2), p. 87.

Cohen, A. 2009. *Russia: the flawed energy superpower*, [in:] *Energy Security Challenges for the 21st Century*, ed. G. Luft, A. Korin, Greenwood Publishing Group, Santa Barbara, p. 92.

*Consolidated version of the Treaty on the Functioning of the European Union*, http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:115:0047:0199:en:PDF (12.06.2012).

Council of the European Union (2007) *Presidency Conclusions*, 8–9 March, pp. 10–14 and Annex I.

Chufrin, G. I. 2001. *The Security of the Caspian Sea Region*, Oxford University Press, Oxford, p. 11.

*EUROGULF: An EU-GCC Dialogue for Energy Stability and Sustainability*, http://ec.europa.eu/energy/green-paper-energy-supply/doc/studies/2005_04_eurogulf_kuwait_en.pdf, p. 24, (access 2. 02. 2010).

European Commission (2009a). Energy and Transport in Figures (Luxembourg).

Falaleyev, I. 1996. *Gazprom: Leveraged to European Growth*, "Salomon Brothers", no 18, p. 14.

Fink, D. 2006. *Assessing Turkey's Future as an Energy Transit Country*, "Research Notes", no 11, p. 1.

Ghafouri, M. 2008. *The Caspian Sea: Rivalry and Cooperation*, "Middle East Policy", no 2, p. 81.

Gungormus, G. 2006. *The Social, Political and Economic Problems Central Asian Republics Face and the Role of Turkey in the Central Asian Region*, "Turkish Review of Eurasian Studies", no 6, p. 188.

Hall, G. Grant, T. 2009. *Russia, China and the Energy – Security Politics of the Caspian Sea Region after the Cold War*, "Mediterranean Quarterly', no 2, p. 124.

Hoogeveen, F. Perlot, W. 2007. *The EU's Policies of Security of Energy Supply Towards the Middle East and Caspian Region: Major Power Politics?*, "Perspectives on Global Development and Technology", no 6, p. 487.

*INOGATE*, http://www.inogate.org/index.php?lang=en, (03.03.2011).

Iseri, E. 2009, *The US Grand Strategy and the Eurasian Heartland in the Twenty-First Century*, "Geopolitics", no 14, p. 26.

Kaveshnikov, N. 2010. *The issue of energy security In relations between Russia and the European Union*, "European security", no 4, p. 591.

Klare, M. T. 2008. *Energy Security*, [in:] *Security Studies: an Introduction,* S. D. Williams (ed.), Routledge, London–New York, pp. 484–487.

Lee, Y. 2005. *Toward a new international regime for the Caspian Sea*, "Problems of Post-Communism", no 52 (3), p. 39.

Lin, C. 2010. *The Caspian Sea: China's Silk Road Strategy Converges with Damascus*, "China Brief", no 17, p. 9.

Łoskot, A. 2005. *Turcja – korytarz tranzytowy dla surowców energetycznych do UE?*, "Prace OSW", no 17, p. 6.

Misiągiewicz, J. 2012. *Energy security in the Caspian region*, [in:] *Globalization and Security in Black Sea and Caspian Seas Region*, International Black Sea University, Tbilisi–Batumi, pp. 102–117.

Neuman, M. 2010. *EU–Russian Energy Relations after the 2004/2007 EU Enlargement: an EU perspective*, "Journal of Contemporary European Studies", no 3, p. 342.

Newman, S. 2008. *The Final Energy Crisis*, Pluto Press, London, p. 96.

Noel, P. 2008, *Beyond dependence: how to deal with Russian gas*, "ECFR Policy Brief", p. 8.

O'Sullivan, S. 1996. *Gazprom: A Strategic Assessment*, "MC Securities", London, p. 7.

*Plan bezpieczeństwa energetycznego dla UE*, http://www.wprost.pl/ar/144349/Plan-bezpieczenstwa-energetycznego-dla-UE/, (13.11.2008).

Rasizade, A. 2004. *The mystery of the Caspian oil boom. Part one*, "Contemporary Review", no 1664, pp. 129–135.

Rogojanu, D. 2009. *The role of Turkey in the energy security environment of the European Union*, "Philobiblon", no 14, p. 622.

*Securing your energy future: Commission presents energy security, solidarity and efficiency proposals,* http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/1696&format=HTML&aged=0&language=EN&guiLanguage=en, (02.01.2010).

Soysal. I, Aslantepe, S. 2001. *Turkish Views on Eurasia*, Isis Press, Istanbul, p. 47.

Tekin, A. S. Wiliams, A. 2009. *Turkey and EU energy security: the pipeline connection*, "East European Quarterly", no 4, pp. 421–430.

Winrow, G. 2010. *Possible consequences of a new geopolitical game in Eurasia on Turkey as an emerging energy transport hub*, "Turkish Policy Quarterly", no 2, p. 50.

Wood, S. 2010. *Europe's Energy Politics*, "Journal of Contemporary European Studies", no. 3, p. 307.

*World Energy Outlook 2010 IEA*, http://www.worldenergyoutlook.org/docs/weo2010/WEO2010_ES_English.pdf (access 2. 06.2011).

Wyciszkiewicz, E. 2008. *Drugi strategiczny przegląd energetyczny – nowe propozycje KE w dziedzinie bezpieczenstwa*, "Biuletyn PISM", no 59 (527), http://www.pism.pl/biuletyny/files/358.pdf, (access 13. 01. 2010).

## BIOGRAPHY

**Justyna MISIĄGIEWICZ**, Assistant Professor at the Faculty of Political Science, Department of International Relations, Maria Curie-Skłodowska University, Lublin – Poland. She is the author of many scientific articles, for example: *Turkey and the United States: competition or strategic partnership?*, *NATO in Foreign Policy of Turkey*, *Foreign Policy of Turkey in Central Asia*, *Islam in Turkish political system*, *Turkey as an energy hub in the Mediterranean Region*, *The Kurdish minority issue in the context of integration of Turkey with the European Union*, *EU and the energy security challenges*, *Energy security in the Caspian region*. She also wrote a book: *Foreign Policy of Turkey after the Cold War.* Justyna Misiągiewicz cooperates with some international research institutions: Center for Eurasian Strategic Studies (ASAM), Ankara; Foreign Policy Institute, Ankara; The German Marshall Fund of the United States; The British Association of Slavic and East European Studies; International Black Sea University, Tbilisi; Middle East Technical University, Ankara.